

# PATENT INCOME TAX EXEMPTION

## EXEMPTION FOR PATENT-DERIVED INCOME

### DESCRIPTION

Certain income derived from qualified patents and earned by a taxpayer are exempt from taxation.

The Tax Exemption for Patent-Derived Income defines qualified patents to include only utility patents and plant patents. The total amount of exemptions claimed by a taxpayer in a taxable year may not exceed \$5 million.

The exemption provides that a taxpayer may not claim an exemption for income derived from a particular patent for more than 10 taxable years. The exemption percentage begins at 50 percent of income derived from a qualified patent for each of the first five taxable years, and decreases over the next five taxable years to 10 percent in the 10th taxable year.

It also specifies that a taxpayer is eligible to claim the exemption only if the taxpayer is domiciled in Indiana and is either an individual or corporation with not more than 500 employees including employees in the individual's or corporation's affiliates or is a nonprofit organization or corporation. The Tax Exemption for Patent-Derived Income is established by IC 6-3-2-21.7.

The patent-derived income that is exempt under the bill includes:

- » Licensing fees or other income received from the use of a patent
- » Royalties received from the infringement of a patent
- » Receipts from the sale of a patent
- » Certain income from the taxpayer's own use of the qualified patent to produce the claimed invention

### CLAIMING THE EXEMPTION

A taxpayer may claim the exemption for 10 years with respect to a particular patent. The total amount of exemptions for patent-derived income that a taxpayer may claim in a taxable year is \$5 million.

Year the exemption is Claimed for a Particular Patent	Percent of Patent-Derived Income Exempt
Years 1-5	50%
Year 6	40%
Year 7	30%
Year 8	20%
Year 9 and 10	10%