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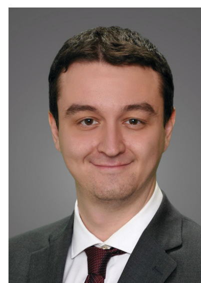
IP Frontiers: Knowing your entity status: Reduced fees carry increased penalties for honest mistakes

■ **Jake M. Goldsmith** SPECIAL TO THE DAILY RECORD

Just before the New Year, President Biden signed into law the Unleashing American Innovators Act of 2022 (the "Act"), with the goal of addressing disparities in the U.S. patent system and expanding access to patents among underrepresented communities. The Act modifies the responsibilities of the USPTO to maintain and establish satellite offices, requires the USPTO to set up community outreach offices, updates the USPTO patent pro bono programs, demands the USPTO establish a pilot program to assist first-time prospective patent applicants in assessing the viability of a potential patent, and reduces fees for small and micro entities.



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With respect to the fee reductions for small and micro entities, small entities are now entitled to a 60% discount (previously 50%) and micro entities are entitled to an 80% discount (previously 75%). However, these increased discounts are not without risk, as the Act includes language modifying when penalties are imposed on entities who wrongly classify themselves as small or micro entities.

Previously, "[a]ny attempt to *fraudulently* establish status as a small entity, or pay fees as a small entity, shall be considered as a fraud practiced or attempted on the office." *(emphasis added)* This meant that applicants attempting to claim small entity status or pay fees as a small entity "improperly, and *with intent to deceive*" *(emphasis added)* are practicing fraud. On the flip side, applicants who *inadvertently* (meaning, without the intent to deceive) classified themselves as a small entity in good faith were permitted to correct such an error by informing the USPTO of the mistake and paying whatever fees would have been due had the entity been correctly classified in the first instance.

The new language makes no such allowance for mistaken classifications. This is because the Unleashing American Innovators Act added a new section to 35 U.S.C. § 41 (Patent fees; patent and trademark search systems), stating that "[i]n addition to any other penalty available under law, an entity that is found to have *falsely* asserted entitlement to a fee reduction under this section shall be subject to a fine, to be determined by the Director, the amount of which shall *not be less than 3 times the amount that the entity failed to pay as a result of the false assertion*, whether the Director discovers the false assertion before or after the date on which a patent has been issued." *(emphasis added)*

The distinction between "fraudulently" and "falsely" is significant. The new language penalizes any false assertion of entitlement to a small or micro entity reduced fee, without regard to whether the assertion was inadvertent or fraudulent, and increases the penalty for such an assertion to at least three times the amount the entity would have been required to pay had they been properly classified in the first instance. No more are the days where an entity could merely inform the USPTO of an error and pay the difference due, as now the amount due to the USPTO under similar circumstances will be trebled, at a minimum. The increased costs of correcting entity status places a new burden on applicants, attorneys, and patent agents to investigate an entity's status prior to making filings.

These penalties should be on the radar of any applicant, attorney, and patent agent claiming small or micro entity status, as entity status is generally a matter of self-certification. The USPTO sets out the standards for when an entity qualifies as a small or micro entity, and it is the applicant's responsibility to classify themselves accordingly.

An applicant may qualify as a small entity in three ways:

1. As an individual person;
2. as a small business, having less than 500 combined employees and affiliates; or
3. as a nonprofit, which could be an institution of higher education, a 501(c)(3) tax exempt organization, an entity designated as a nonprofit by a state statute, or a foreign organization which would qualify as a nonprofit if located in the United States.

Additionally, a small entity must not have assigned, granted, conveyed, or licensed any rights in their invention (and must not have any obligation to do so) to any entity which itself would not qualify as a small entity.

An applicant may qualify as a micro entity if, in addition to qualifying as a small entity under the above-listed criteria, the applicant and any inventor or joint inventor have **not**:

1. been named as an inventor on more than four previously filed applications; or
2. reported a gross income from the year prior which is more than the "Maximum Qualifying Gross Income" (three times the median household income).

Additionally, a micro entity must not have assigned, granted, conveyed, or licensed any rights in their invention (and must not have any obligation to do so) to any entity which itself does not meet the same "Maximum Qualifying Gross Income" limit.

As noted above, improper self-certification of entity status may result in an entity which previously qualified as a small or micro entity paying out at least three times what they would have been required to pay under the previous framework. The new law therefore has the potential to create substantial expenses in instances where changes in operations or other circumstances subtly shift the applicant from one entity status to another.

For example, imagine a small entity in the form of a business having 498 employees and no affiliates (qualifying it as a small entity having less than 500 employees or affiliates). To file an application, the entity will need to pay at least the basic filing fee, utility search fee, and utility exam fee. Under the old fee schedule, filing a utility application as a small entity would therefore require $910 in fees (a 50% discount compared to $1,820 in fees for a regular-sized entity). Under the new schedule, the same applicant would pay $728 in fees (a 60% discount, again compared to $1,820 in fees for a regular-sized entity). Filing under the new system therefore saves the small entity an extra $182 in filing fees.

However, let's say the example entity then experiences circumstances pushing them over the threshold of 500 employees, rendering them a regular-sized entity which is not entitled to a fee reduction. Because there are likely no internal systems set to automatically alert the entity of its loss of small entity status for the purpose of USPTO fees, the entity fails to recognize its shift in status, claims itself as a small entity, and files an application in which it pays the small entity fee it expects is due, rather than the $1,820 which is actually due.

Under the previous framework, upon recognizing its mistake, the entity would merely inform the USPTO of the error and pay the remainder of the $1,820 in fees which should have been paid — another $910. Under the Act, however, the *minimum* due is $3,276 (three times the $1,092 the entity failed to pay). The word "minimum" is important, as the Act merely sets the low end of what the Director may determine as the appropriate fine, and the Director may choose to exceed those penalties. Note that the $3,276 is in addition to the $728 the applicant already paid, bringing the total to **$4,004** for the filing of an application — over twice the cost of filing as a regular-sized entity. It is easy to see how mistakes under the new language could add up quickly, especially in situations such as those where an applicant simultaneously makes multiple filings.

Other subtle changes in circumstances may similarly shift an entity's status, in particular, micro status, such as the naming of an inventor on a fifth patent, a change in income which puts the applicant above the "Maximum Qualifying Gross Income," or a shift in operations which discloses a foreign company from qualifying as a nonprofit. Due to the increased penalties, taking note of these risks has increased importance for applicants, attorneys, and patent agents alike. While it is always paramount that attorneys and patent agents perform their due diligence in assisting applicants to determine their entity status, an entity which is aware of and monitors its status independently will be in the best position to work with their attorneys and/or patent agents to ensure fees imposed by the Unleashing American Innovators Act of 2022 do not cause hardship or needless financial loss.

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