

Designating Entity Status

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Let's face it, going through the patent process can be expensive. Between filing fees, examination fees, publication fees, issue fees, and potentially even extension fees, excess claim fees, and surcharges, the process can cost inventors more than \$3,000 in United States Patent and Trademark Office ("USPTO") filing and issuance fees alone. This does not include the attorney fees.

When it comes to fees paid to the USPTO entity size matters! This article takes deep look into how designating entity status can save the applicant a significant amount of money throughout the life of a patent.

Designating Entity Status

Whether filing a utility, design, or plant patent application, applicants are required to designate an entity status when filing the application. With the passage of the American Invents Act (AIA) in 2011, there are three types of entity designations that applicants can choose from – micro, small, and large entity status. Generally speaking, the classification of the entity is based on the revenue generated by the entity, the number of employees, and the assignee status. Choosing the correct entity status is very important and can save applicants a lot of money over the lifetime of a patent, cutting down on many fees paid to the USPTO associated with filing, searching, examining, issuing, appealing, and maintaining patent applications and patents

However, not all fees paid to the USPTO are eligible for a reduction in cost based on entity status. Fees that are not eligible for a reduction include the republication fees under 37 C.F.R. § 1.18(d)(3), the processing fee for provisional applications under 37 C.F.R. § 1.17(q), the certificate of correction fee under 37 C.F.R. § 1.20(a), statutory and terminal disclaimer fees under 37 C.F.R. § 1.20(d), the fees associated with Inter Partes Review (IPR), and all fees relating to international patent applications filed under the Paris Convention Treaty (PCT).

Small Entity: The specific conditions for qualifying as a small entity are set forth in 37 C.F.R. § 1.27.

Small entities enjoy a 50% reduction on many of the USPTO filing fees, meaning that the total initial filing fee for utility patent applications (which includes a basic filing fee, a search fee, and an examination fee) will be reduced from \$1820.00 to \$990.00.

At the time of filing, there are no specific forms that need to be submitted to qualify applicants as a small entity. Instead, an applicant merely needs to assert on a new application transmittal form—or on an application data sheet (ADS)—and a certification by the applicant (or their attorney with a proper POA) that the applicant qualifies as a small entity. Generally, to qualify as a small entity, the applicant must fall within one of the following three categories:

1. **A person** (as opposed to a corporation), to establish small entity status under this category, the applicant is:
 1. any inventor or other individual that owns the patent rights individually or jointly.
2. **A small business** (as defined in 13 C.F.R. 121.801 – 121.805), to establish small entity status under this category, the applicant is:
 1. a business whose number of employees, including affiliates, does not exceed 500 persons.

3. **Non-Profit Organization**, to establish small entity status under this category, the applicant is:

1. any university or other institution or higher education located in any country;
2. any organization of the type described in section 501(c)(3) of the Internal Revenue Code and exempt from taxation under section 501(a) of the Internal Revenue Code;
3. any nonprofit scientific or education organization qualified under a nonprofit organization statute of any state in the United States of America; or
4. any nonprofit organization located in a foreign country which would qualify as a nonprofit organization if it were located in the United States of America.

Micro Entity: The specific conditions for qualifying as a micro entity are set forth in 37 C.F.R. § 1.29.

Micro entities enjoy a 75% reduction on many of the USPTO filing fees, meaning that the total initial filing fee for utility patent applications (which includes a basic filing fee, a search fee, and an examination fee) will be reduced from \$1820.00 to \$455.00.

At the time of filing, the applicant is required to submit either Form PTO/SB/15A to qualify based on the applicant's gross income or Form PTO/SB/15B to qualify applicants based on their status as an Institution of Higher Education. The particular requirements to qualify for micro entity status using Form PTO/SB/15A or Form PTO/SB/15B are discussed in more detail below:

1. **Gross Income Basis** (Form PTO/SB/15A), to establish micro entity status under the Gross Income Basis, the applicant must certify all of the following:
 1. the applicant qualifies as a small entity as defined in 37 C.F.R. 1.27;
 2. neither the applicant nor the inventor nor a joint inventor has been named as the inventor or a joint inventor on more than four previously filed patent applications, not including applications filed in another country and provisional applications;
 3. neither the applicant nor the inventor nor a joint inventor, in the calendar year preceding the calendar year in which the applicable fee is being paid, had a gross income exceeding three times (3x) the median household income for that preceding calendar year. (In 2021, three times the median gross household income was \$239,700); and
 4. neither the applicant nor the inventor nor a joint inventor has assigned, granted, or conveyed, nor is under an obligation to do so, to an entity that, in the calendar year preceding the calendar year in which the applicable fee is being paid, had a gross income exceeding three times (3x) the median household income for that preceding calendar year.
2. **Institution of Higher Education Basis** (Form PTO/SB/15B), to establish micro entity status under the Institutions of Higher Education Basis, the applicant must certify all of the following:
 1. the applicant qualifies as a small entity as defined in 37 C.F.R. 1.27;
 2. the applicant's employer, from which the applicant obtains the majority of the applicant's income, is an institution of higher education as defined in section 1001(a) of the Higher Education Act of 1965; or
 3. the applicant has assigned, granted, conveyed, or is under an obligation to assign, grant, or convey a license or other ownership interest in the particular application to such an institution of higher education.

Large Entity:

Large entities are those which do not qualify as small or micro entities under the definitions above. Large entities are often larger business having more than 500 employees. Large entities do not enjoy any reduction in filing fees, meaning the total initial filing fee for a utility patent application (which includes a basic filing fee, a search fee, and an examination fee) is \$1820.00.

Other Important Details About the Entity Status Designation

- Entity status is determined at the time of filing the application and must be updated if the current owner ceases to qualify—or a new owner does not qualify— as a small or micro entity. So, an individual, without a prior obligation to assign, grant, or convey the rights of a patent application can qualify for micro entity designation, provided they fit into either the gross income basis or the institution of

Higher Education basis. If at some point during the lifetime of the patent, either pre- or post-grant of the patent application, the individual assigns, grants, or conveys the rights of the patent to a company that does not qualify as a Small Business as defined in 13 C.F.R. 121.801 – 121.805, the designation must be updated upon a change in entity status.

- Small entities are not obligated to notify the USPTO of a change in the entity status until the time for paying a fee, at which time payment of a large entity fee will suffice as notice that the applicant no longer qualifies as a small entity. Micro entities are, however, obligated to notify the USPTO of a change in the entity status and such notification must be signed by the applicant or attorney. The USPTO offers a safe harbor for those who in good faith assert or fail to update the entity status.
- In Canada, Small Entities are defined as an entity that has 50 employees or less or is a university. This is very different from the USPTO's interpretation of small entities...in fact, it is 450 employees different. Additionally, in Canada, the entity status designation is a one-time designation, so if later down the road, either pre- or post- grant of the patent application, the applicant assigns, grants, or conveys the rights of the patent to a company that does not qualify as a Small Business in Canada, there is no need to change the entity status designation and the company will continue to enjoy the 50% reduction on fees such as maintenance fees.
- Entity status designations also reduce maintenance fees (fees that are due in the United States at the 3.5-, 7.5-, and 11.5-year anniversary from the date of issuance). So, a large entity would pay \$2,000, \$3,760.00, and \$7,700 at each respective anniversary, whereas such fees are reduced by 50% for small entities and reduced by 75% for micro entities.

If you need any assistance obtaining a trademark, patent, or copyright for your business or have questions about meeting your intellectual property needs, please contact Blake Hurt at bhurt@tuggleduggins.com (336.271.5252), Reinier Smit at rsmit@tuggleduggins.com (336.271.5266), or Connor Christensen at cchristensen@tuggleduggins.com (336.271.5254).

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