TAXATION OF INTELLECTUAL PROPERTY
PROFESSOR ENGLER – Fall 2017
SYLLABUS

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III. Grading: Final grades will be based on the final examination.

IV. The assignments for each live class on the tapes are set forth below. Note that actual class coverage might deviate somewhat from the pre-class assignments.

A. First Class Assignment (1/19): Read Chapter 2 (pp. 12 (middle) - 44), which focuses on Intellectual Property law apart from the tax law. This should give us a better feel for the underlying IP area, thereby facilitating and enhancing our tax coverage in the subsequent classes. Also consider problems 4-5 on pp.11-12, thinking about the potential tax issues presented in these problems. Finally, consider the following select readings and problems in the tax overview Chapter (Chapter 3): Section III(A)(1)(b)(iii), pp. 52(middle) – 53(middle); Section III(A)(2)(a)(ii)-(iii), pp. 54(middle) – 56(middle); Section III(B), pp. 60(middle)-62(middle); and problems 5-6, p. 48.

B. Second Class (1/26): Taxation of IP Development, Part I.

Readings: Overview pp. 75-88 (top); Materials pp. 99-134.

Problems: Problems 1-4 on pp. 73-74.

Code and Reg Sections: See top of page 73 but skip § 41 Code/Regs.

C. Third Class (2/2): Taxation of IP Development, Part II.

Readings: Overview pp. 88 (top) - 93; Materials pp. 93(middle)-99 (top); 134-140.

Problems: Problems 5-7 on pp. 74-75.

D. Fourth Class (2/9): Taxation of IP Acquisitions, Part I.
Readings: Overview pp. 143-53 (but skip the following: (1) Section ii discussion of Software on 146 (middle) to 147 (top); (2) the related chart on p. 150 (top); and (3) section ii discussion of Income-Forecast Method on pp. 149(bottom)- 152 (top).
Materials: pp. 154-57 (top); 165(middle)-171.

POST-TAPING NOTE: The recent CCA 201543014 provides more guidance on problem 1(d). The tapes for the 12th class provide an updated analysis of problem 1(d) taking into account the CCA.

Problems: Problems 1a,b,d, 2, 3, 6 on pp. 141-43.

Code and Reg Sections: See top of page 73 but skip § 167(g) and Prop Reg 1.167(n)(1)-(7).

E. Fifth Class (2/23) [note: we do not meet on 2/16 since it is a legislative Monday]:

Taxation of IP Acquisitions, Part II.

Readings. Chapter 5: Section ii discussion of Software on 146 (middle) to 147 (top) [and related chart 150 (top)]; Section ii discussion of Income-Forecast Method on pp. 149(bottom)- 152 (top); 157 (top) -165(middle).

Problems: 1c, 4-5, 7 in Chapter 5.

Code and Reg Sections: Code §§ 167(g), 1221(a)(1)-(3); 1231(a),(b)(1)(A)-(C); Reg §1.1221-1(c)(1)-1(c)(3)

F. Sixth Class (3/1): Taxation of IP Sales and Licenses, Part I.

Readings. pp. 175 (bottom)-187 (bottom); 188 (bottom)- 190 (end of Section C); 192 - 199 (bottom); 209 (middle) - 219 (middle).

Problems:1,2,5,6,7,10 in Chapter 6.

Code and Reg Sections: Code §§ 1221(a)(1)-(3); 1231(a),(b)(1)(A)-(C); 1235; 1239; 1245(a)(1)-(3)(A); Reg §15A.453-1(c)(2)(i), -1(c)(3)(i), -1(c)(4), -1(d)(2)(i), -1(d)(2)(iii); 1.1221-1(c)(1)-1(c)(3); 1.1235-1(b), -1(c)(2), -2(a)-(d); 1.1235-3(b).

G. Seventh Class (3/8): Taxation of IP Sales and Licenses, Part II.

Readings. pp. 181 (middle)- 182 (bottom); 185; 187 (bottom) - 188 (bottom); 190 (bottom) – 191; 199 (bottom) - 210; 219 (middle) – 226.
Problems: We will focus primarily on Problems 1, 2, 3, 4, 7, 8 in Chapter 6. Time permitting, we will also discuss briefly Problem 11. [Note that our class discussion of Code § 197 in Chapter 5 already covered the material in Problem 9.]

Code and Reg Sections: Code § 453B(a)(2); 1221(a)(3); 1253(a)-(c). Reg § 1.1221-1(c)(1)-1(c)(3); 1.1235-1(c)(2).

H. Eighth Class (3/22) [note: we do not meet on 3/15 since it is the break]: Overflow from Taxation of IP Sales and Licenses (problems 1, 2, 3, 8, 11); Taxation of IP Litigation, Part I: read pp 232-33, 250(middle)-265(top); Problems 2b, 6.

I. Ninth Class (3/29):

First Hour: Taxation of IP Litigation, Part II: read pp 229-31, 234-250(middle); 265(top)-271; Problems 2-5.

Second Hour: Taxation of IP Held By Corporations and Partnerships (Part I).

Readings: (i) Ch 8: pp. 275-80(top) [IIIA-C.1]; p.281 [III.D.1]; 283(bottom)-297 [IIIG – Eli Lilly case]; and (ii) Ch 9: pp.312 (bottom)-317 [IIIA-B.2].

Assigned Problems: (i) Ch 8: Problems 1; 4(a), (e); and (ii) Ch 9: Problems 1, 4(b). Discussion question: consider the relative pros and cons from holding IP in a C corporation, an S corporation, or a limited liability company (taxable as a partnership).

J. Tenth Class (4/5): Taxation of IP Held By Partnerships (Part II). Estate Planning for IP.

Readings: (i) Ch 9: pp.318 -- 338; and (ii) Ch 15 (entire chapter).

Assigned Problems: (i) Ch 9: Problems 2, 3, 4a; and (ii) Ch 15: the Problem. Additional discussion question: consider the advantages and disadvantages of transferring intellectual property during one’s lifetime versus waiting to transfer until death.

K. Eleventh Class (4/12): Taxation of IP Held By Corporations (Part II); Multi-State Tax Planning for IP.

Readings: (i) Chapter 8: pp. 280(top) – 281(top) [III.C.2]; pp. 282 (bottom) – 283(top) [III.E]; pp. 297(middle)- 310 [skim only this portion of the readings]; and (ii) Chapter 11 (the entire chapter).
Assigned Problems: Problems 2a,c; 3a,b,c in Chapter 8 (p. 274), along with the following additional part to Problem 3: “(d) Do you think the structure will work to accomplish any desired tax benefits flagged in part (c) above.”


**Readings:** Chapter 12, Section III pp. 420 (bottom) -30 (middle); Chapter 13, Section III pp. 456 – 65.

**Initial Discussion Topic:** We’ll compare and contrast the use of IP Holding companies in the state context to the international setting. Restated, we studied last class the possible use of IP holding companies to try to shift IP income from a high-tax state to a low-tax state. This class, we will focus on the somewhat analogous question of whether U.S taxpayers can use IP holding companies to shift IP income from the US to another (lower-tax) country. In particular, consider what additional impediments a US taxpayer faces in utilizing the Holdco structure for an attempted shift to another country (rather than another state).

**Follow-up Problem:** Problem 1 on pp. 455.


**Readings:** Chapter 12, 438(middle) – 452 (middle). Chapter 13, pp. 466 -474. In addition, read the excerpt from the Rubinger article separately attached.

**Problems:** Chapter 12: Problems 1, 3, and 4 on pp. 419-20 (to clarify the facts of Problem 1, assume that the “foreign” subsidiary (McDon of Africa Inc) conducts business outside the U.S. but is incorporated in the U.S.). Chapter 13: Problem 2 on p. 455.

**POST-TAPING NOTE:** AFTER OUR LAST CLASS, I SENT THE FOLLOWING EMAIL TO THE CLASS WITH A FEW FOLLOWUP POINTS:

Let me share two followups from our last class. The first area relates to our very brief discussion of corporate inversions (at the expiration of our class time). As discussed in class, a successful corporate inversion can generate US tax savings going forward on offshore profits. Companies sometimes try also to generate further tax savings on US earnings under the new inverted structure via additional steps, such as debt issuances by the inverted US Corp to its new foreign parent. So in addition to the expanded IRC 7874 rules, the Treasury department also implemented so-called “earnings stripping” regulations. For this press release, see Fact Sheet: Treasury Issues Final Earnings Stripping regulations at
The second area relates to the excellent points raised in class regarding the impact of the conduit financing regulations on SDI Netherlands (and possible revisions after the date of the Rubinger article). As to the latter point, note that the regulations were amended after the Rubinger article to provide that disregarded branch entities would be treated as separate persons for purposes of the conduit financing regulations. See T.D. 9562, 76 FR 76896, Dec. 9, 2011, available at: https://www.gpo.gov/fdsys/pkg/FR-2011-12-09/pdf/2011-31595.pdf#page=1. Having said that, though, note how the conduit financing regulations provide an example which actually restates the outcome and sourcing approach of RR 80-362 (albeit on facts somewhat different than SDI Netherlands), thereby taking the transaction outside the conduit financing approach. For your convenience, I have reproduced this example below. Finally, note how the conduit financing regulations were not in effect for years in question in SDI.

1.881-3(e) Example 11. Reduction of tax.

(i) On January 1, 1995, FP licenses to FS the rights to use a patent in the United States to manufacture product A. FS agrees to pay FP a fixed amount in royalties each year under the license. On January 1, 1996, FS sublicenses to DS the rights to use the patent in the United States. Under the sublicense, DS agrees to pay FS royalties based upon the units of product A manufactured by DS each year. Although the formula for computing the amount of royalties paid by DS to FS differs from the formula for computing the amount of royalties paid by FS to FP, each represents an arm’s length rate.

(ii) Although the royalties paid by DS to FS are exempt from U.S. withholding tax, the royalty payments between FS and FP are income from U.S. sources under section 861(a)(4) subject to the 30 percent gross tax imposed by § 1.881-
2(b) and subject to withholding under § 1.1441-2(a). Because the rate of tax imposed on royalties paid by FS to FP is the same as the rate that would have been imposed on royalties paid by DS to FP, the participation of FS in the FP-FS-DS financing arrangement does not reduce the tax imposed by section 881 within the meaning of paragraph (a)(4)(i)(A) of this section. Accordingly, FP is not a conduit entity.