Australia Guidelines, Practices

BY MICHAEL GRAY*

A review of important legal guidelines and contractual practices in transferring technology

Technology transfer in Australia presents a marked contrast with the position in other countries in the Asia Pacific Region. In Australia there is no general government regulation or supervision of technology transfer agreements and no scrutinizing or review of the terms and conditions on which technology is transferred into or within Australia. There is some indirect regulation, for example, in so far as antitrust laws, and tax laws in relation to transfer pricing, impact on technology transfer agreements. Nor are there special incentives provided to attract foreign technology to Australia. The tax laws provide certain incentives in relation to research and development expenditure, but these are effectively available to nonresidents if they establish a company in Australia in the same way they are available to residents.

For these reasons this paper will be short on statistics and long on more conventional legal issues.

Before mentioning some specific features of the law in relation to copyright, patents and trade secrets in Australia and dealing with aspects of Australian antitrust law, stamp duties and tax law, I should mention some preliminary issues.

PRELIMINARY ISSUES

In Australia, technology transfer is a matter of contract — negotiation and agreement. Contract law in Australia is governed by the common law derived from the common law in England. In commercial contracts freedom of contract still rules, although there are the usual statutory inroads by antitrust laws and so forth. Moreover, as in other developed countries, a technology transfer agreement prepared by a U.S., U.K., Canadian, European or other lawyer from a developed legal system will be intelligible and familiar to an Australian lawyer and his client.

Australia's legal system is a federal system. That is to say, the legislative powers are divided between a Commonwealth parliament that makes laws for the whole of Australia in defined areas and the various State and Territory parliaments that make laws for their own State or Territory. The patent, copyright, trademark and design laws, as well as the antitrust and tax laws, are federal legislation and apply uniformly throughout Australia. Company law and stamp duty on the other hand are a matter of State law.

Australian lawyers reviewing technology transfer agreements on behalf of overseas clients or their lawyers are often asked whether it is permissible to specify the transferor's jurisdiction as the proper law of the agreement and as the forum for resolution of disputes. In the absence of overriding statutory provisions, Australian courts will give effect to an express choice of law clause in a technology transfer agreement if the selection is bona fide and legal. A selection will not necessarily lack bona fides because there is no factual relation between the jurisdiction chosen and the contract. Normally, however, the jurisdiction chosen will be that of one of the parties to the agreement and there will not be a problem.

Courts in Australia would assume that the foreign law is the same as Australian law unless it is proved otherwise. Proof of the foreign law is a question of fact to be proved by the party alleging that it differs from Australian law. This must be proved by expert witnesses. Earlier decisions of Australian courts on the interpretation of particular foreign laws and, indeed, decisions of the courts of the foreign jurisdiction are not binding on Australian courts because the question is one of fact. Proving foreign law can therefore be a long and expensive exercise.

A further issue arises in relation to enforcement of foreign judgments by Australian courts. All States and Territories have legislation providing for direct execution of foreign judgments. The rules applicable generally follow the common law rules, in particular the judgment must be final and conclusive. Thus, interlocutory orders would not be enforced. In each case the legislation applies only in relation to jurisdiction scheduled in the particular legislation. For example, in the New South Wales legislation the following jurisdictions are scheduled — New Zealand, Singapore, British Columbia, Manitoba, Newfoundland and Labrador, Saskatchewan, India, Hong Kong, Japan and Malaysia (to choose some of the jurisdictions covered by the regions seminars). But none of the states of the U.S. is included. In such cases the common law rules apply, where as mentioned above the main requirement is that the judgment be final and conclusive.

◄ Expensive Process ►

In either case it is usually open to the defendant effectively to re-open the proceedings and the enforcement

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of the foreign judgment also becomes a long and expensive process.

The point I wish to make is that it often makes more sense in the long run to specify the law of an Australian State or Territory law as the proper law of the technology transfer agreement and to nominate the courts of that State or Territory as at least one of the forums for resolution of disputes.

Another point that foreign lawyers are not always aware of is that Australian courts will not award full costs to a successful party in legal proceedings. This differs from the position in the U.S. for example. Therefore, in a technology transfer agreement it is often sensible to provide that any indemnity against legal costs is on a full indemnity basis covering all costs as a solicitor and own client basis.

A further area of concern to foreign licensors of technology is the extent to which they can effectively limit their liability in relation to the supply of the technology. Leaving aside commercial considerations, there are no specific requirements of Australian law that prevent a provider of technology from limiting his liability. However, as a matter of drafting it is essential to provide expressly that liability for negligence is excluded. Limitation clauses are construed against the person relying on them and if a clause that does not expressly exclude liability for negligence can be construed as limiting other heads of liability, it will be taken by the court not to have been intended to limit liability for negligence. It is therefore essential to limit liability for negligence expressly.

COPYRIGHT

Australian copyright law is governed by the Copyright Act 1968, a Commonwealth enactment. It is a long and complicated act based on the U.K. Act of 1956. The subject matter protected falls into two main categories — "works" (e.g. literary, dramatic, musical and artistic works) and "subject matter other than works" (e.g. sound recordings, cinematograph films, television and sound broadcast and published editions).

Computer programs are expressly protected as a result of an amendment of the Act in 1984 under which a "literary work" now includes a computer program, which in turn is defined as an expression in any language, code or notation of a set of instructions intended, either directly or after either or both of a conversion to another language, code or notation or a reproduction in a different material form, to cause a device having digital information processing capabilities to perform a particular function. Both source and object codes are therefore covered.

The term of protection of copyright in works is the author's life plus 50 years and of other subject matter is 50 years from the date of publication.

There is no requirement for registration of copyright.

There is provision for compulsory licenses but these are limited to areas such as multiple copying in educational institutions and broadcasting.

Copyright is an incorporeal right separate and distinguished from the object in which it is embodied. Copyright is personal property and is divisible as to time, place and the class of act or acts protected. Assignments and licenses of copyright may be similarly limited to particular times, places or acts. Thus, at any time there may be different owners of different parts of the copyright.

The only statutory formality for assignment of copyright is that it must be in writing and assigned by or on behalf of the assignor — s.196(3). However, an oral assignment will be enforceable in equity assuming there is admissible evidence of the assignment and executed consideration. There is no special formula of words for an assignment, although as in other jurisdictions the common problem arises of determining whether an assignment or license was intended. This is usually a matter of construction of the relevant technology transfer documents. An assignment of future copyright is possible — it also must be in writing and signed by or on behalf of the person who would be its owner on its coming into existence. The assignment is effective when the copyright comes into existence but is subject to prior equitable claims.

◄ **Formalities** ►

There are no formalities for licenses — not even writing. Under s.196(4) a license of copyright or future copyright binds every successor in title of the interest in the copyright of the grantor of the license to the same extent the license was binding on the grantor. Thus, a licensee's interest cannot be defeated by a later assignment.

A license may be exclusive or nonexclusive. There is a statutory definition of an exclusive license in s.10(1) — it must be a license in writing, signed by or on behalf of the owner, authorizing the licensee, to the exclusion of all other persons, to do an act that the owner would but for the license have the exclusive right to do. Note that an exclusive license must be in writing and must be granted by the owner of the copyright. There cannot be an exclusive sub-license. Under s.119 an exclusive licensee (as defined) has a limited right to initiate proceedings for infringement. Except as against the owner, he has the same rights of action, and is entitled to the same remedies, as he would have if the license were an assignment. For example, he can seek an injunction, an account of profits or damages. These rights are concurrent with the rights of the owner and if either one of them brings an action for infringement, he must join the other as a plaintiff or defendant.

PATENTS

Australian patent law is governed by the Patents Act 1952 of the Commonwealth. This legislation was modelled on the 1949 U.K. Act, although in both cases the legislation has diverged somewhat over the intervening years. For example, in 1979 Australia introduced a system of petty patents.

The term of a patent is 16 years from the date on which the complete specification is lodged, subject to payment of renewal fees. The term of a patent may be extended in the event of war loss or on the grounds of inadequate remuneration.

Under s.152(1) the rights granted to a patentee are personal property capable of assignment and devolution by operation of law. The Patents Act also recognizes proprietary rights in an invention before grant of a patent, s.34(1). Thus, there may be dealings in an invention or application for a patent before grant and the addition or substitution of applicants or grant to a person other than the original applicant as a result of a relevant assignment.

A register of patents is kept and assignments, mortgages and licenses are registered on it. Under s.21 an assignee of a patent must apply to register his title and under s.23 a person entitled as mortgagee or licensee must register his interest in a patent. This is not to say that technology transfer agreements themselves are registered. Rather, the interest in the patent is registered. Except in proceedings to enforce equities or for rectification of the register, an unregistered instrument or document will not be admitted in evidence as proof of title to an interest in a patent unless the court otherwise directs, s.31.

Assignments of interests in patents must be in writing and signed by or on behalf of both the assignor and the assignee, s.152. Assignments may be limited territorially for a place in or part of Australia. A license need not be in writing. An oral license is effective.

An exclusive licensee is entitled to bring an action for infringement in respect of the patent license, s.114. An exclusive licensee is defined in s.6 as a licensee who has the right to make, use, exercise and vend the patented invention throughout Australia to the exclusion of all persons including the patentee.

Section 112 of the Patents Act is directed at arrangement that require a licensee to refrain from using articles or processes supplied or owned by persons other than the licensor or that require a licensee to acquire articles not covered by the patent from the licensor or his nominee. (Antitrust laws will also be relevant in this area). Such a condition in a license is prima facie void unless the licensor can show that the licensee has the option of acquiring the articles on reasonable terms without the condition and that there is provision for the licensee to relieve himself from liability under the condition upon giving reasonable notice.

Also, conditions relating to the supply of goods for purposes of repair are not affected nor are conditions prohibiting a licensee from selling goods other than those of a particular person (for example goods covered by the patent or made in accordance with it).

The Patent Act makes provision for compulsory licensing where the reasonable requirements of the Australian public for a particular patented invention are not being met, s.108 and s.110. These provisions are not of great importance in practice. A person interested may petition the Commissioner of Patents three years after sealing of the patent. The Commissioner considers the petition and if the parties do not make an arrangement and the Commissioner is satisfied a prima facie case has been made, he refers it to the court.

Also, under s.109 a patent may be revoked for nonworking on the same grounds. An interested person must petition the Commissioner within two years of the date of grant of the first compulsory license and again revocation depends on whether the reasonable requirements of the public have been met.

Australia has subscribed to the International Convention for the Protection of Industrial Property (the Paris Convention) and the Patents Act incorporates the relevant provisions of the Patent Cooperation Treaty.

TRADE SECRETS

In the context of technology transfer, non-statutory industrial property — trade secrets or confidential information — will be governed by contract. Note that in Australia there is no fundamental distinction between confidential information and trade secrets as in the U.S., nor is there any separate tort of unfair competition.

The protection of confidential information and trade secrets is founded on equitable principles. In the High Court of Australia in the case *Moorgate Tobacco v. Phillip Morris* the High Court accepted that there was a general equitable jurisdiction to grant relief for breach of confidence and rejected any rational basis in proprietary rights. The High Court relied on "the notion of an obligation of conscience arising from the circumstances in or through which the information was communicated or obtained. Relief under the jurisdiction is not available, however, unless it appears that the information . . . has the necessary quality of confidence about it . . . and that it is significant, not necessarily in the sense of commercially valuable . . .but in the sense that the preservation of its confidentiality or secrecy is of substantial concern to the Plaintiff."

In jurisprudential terms, the rights in question are best characterized as equitable choses in action. Some are inherently incapable of assignment, such as personal confidences of the kind litigated in *Argyle v. Argyle*. Others, such as commercial trade secrets, are not affected by such inhibitions and are "assignable" and able to be licensed. This analysis also helps explain the cases where the dispute is whether particular information is a true trade secret or merely an employee's skill and experience that he is free to apply and use for successive employers.

As mentioned above, dealing in and protection of trade secrets is essentially a matter of contract. However, it would be prudent in any such contract to include an acknowledgement by an assignee or licensee both as to the proprietary rights of the provider of the relevant trade secrets and as to their confidentiality and secrecy.

ANTITRUST

Australia's antitrust law is embodied in the Trade Practices Act

1974 of the Commonwealth. The relevant provisions of that act regulate two broad classes of anticompetitive agreements or conduct that are relevant to technology transfer. Certain arrangements, such as price fixing by competitors and resale price maintenance, are prohibited outright, and other arrangements are prohibited if they have the purpose or effect of substantially lessening competition in a market in Australia. Examples are exclusive dealing and price discrimination.

Part IV of the Trade Practices Act prohibits the following types of anticompetitive arrangements and conduct:

— **Anticompetitive agreements:** Agreements that have the purpose or effect of substantially lessening competition in a market in Australia are prohibited (an agreement between competitors to fix prices is deemed to have this effect and is therefore prohibited outright).

— **Primary boycotts:** Collective refusals by competitors to deal with another party are prohibited outright.

— **Secondary boycotts:** Concerted action to hinder supplies to or from another person is prohibited if the action has the effect of substantially lessening competition or of substantially damaging a business.

— **Misuse of market power:** A corporation with a substantial degree of market power is prohibited from taking advantage of the power for the purpose of eliminating or substantially damaging an actual or potential competitor, preventing the entry of a person into any market or deterring or preventing a person from engaging in competitive conduct in any market.

— **Exclusive dealing:** Supplying goods or services on condition that the purchaser will not acquire goods or services from a competitor of the supplier or (in the case of a supply on goods) restricting the persons to whom or places in which the purchaser may resupply the goods is prohibited if the conduct has the purpose or effect of substantially lessening competition.

— **Third-line forcing:** Supplying goods or services on condition that the purchaser will acquire other goods or services from another supplier is prohibited outright.

— **Resale price maintenance:** It is prohibited for a supplier to insist on minimum prices at which a re-seller should sell or advertise goods.

— **Price discrimination:** It is prohibited for a supplier to discriminate in the price he charges to purchasers of goods of like grade and quality if the discrimination is of such magnitude or of such a recurring character that it is likely to have the effect of substantially lessening competition (defenses are available on grounds of cost justification or acts done in good faith to meet competition).

— **Mergers:** Mergers are prohibited where as a result of the merger the acquiring corporation would be in a position to dominate a market or where a corporation is already in such a position and the acquisition would substantially strengthen the power of the corporation to dominate the market.

Under the Trade Practices Act there are processes under which the Trade Practices Commission has the power to grant immunity from court action for certain practices that would otherwise breach the act. The Commission must be satisfied that the benefit for the public is greater than the loss of competition that results from the practices.

◄ Immunity ►

Authorization or immunity can be granted for anticompetitive agreements, primary boycotts, anticompetitive exclusive dealing arrangements, exclusive dealing involving third-line forcing and mergers resulting in market dominance, but not for misuse of market power, resale price maintenance, price discrimination or (except in certain cases such as joint ventures) price-fixing agreements.

Section 51(3) of the Trade Practices Act provides limited exemptions from the operation of the provisions of Part IV described above in the case of certain arrangements in connection with industrial property. Section 51(3) is set out below.

"A contravention of a provision of this Part other than section 46 or 48 shall not be taken to have been committed by reason of —

(a) the imposing of, or giving effect to, a condition of —

(i) a license granted by the proprietor, licensee or owner of a patent, of a registered design or of a copyright or by a person who has applied for a patent or for the registration of a design; or

(ii) an assignment of a patent, of a registered design or of a copyright or of the right to apply for a patent or for the registration of a design,

to the extent that the condition relates to —

(iii) the invention to which the patent or application for a patent relates or articles made by the use of that invention;

(iv) goods in respect of which the design is, or is proposed to be, registered and to which it is applied; or

(v) the work or other subject matter in which the copyright subsists;

(b) the inclusion in a contract, arrangement or understanding authorizing the use of a certification trademark of a provision in accordance with rules applicable under Part XI of the Trade Marks Act 1955, or the giving effect to such a provision; or

(c) the inclusion in a contract, arrangement or understanding between—

(i) the registered proprietor of a trademark other than a certification trademark; and

(ii) a person as a registered user of that trademark under Part IX of the Trade Marks Act 1955 or a person authorized by the contract to use the trademark subject to his becoming registered as such a registered user,

of a provision to the extent that it relates to the kinds, qualities or standards of goods bearing the mark that may be produced or supplied, or the giving effect to the provision to that extent."

A number of things need to be noted in relation to this exemption. The first is that it offers no protection in relation to non-statutory industrial property, that is confidential information or trade secrets. The second is that the conduct in sections 46 and 48, namely misuse of market power and resale price maintenance, is not within the exemption. The third can best be illustrated by taking the extent of the exemption in relation to patents. Thus, a contravention is not taken to have been committed by reason of the imposing of or giving effect to a condition of a license granted by the proprietor, licensee or owner of a patent (or by reason of the imposing of or giving effect to a condition of an assignment of a patent) *to the extent that the condition relates to the invention* to which the patent relates or *articles made by the use of that invention*.

There is no case law of assistance in this area and the general view taken is that while the exemption would extend to quality-control requirements, quantitative or quota limitations on production and territorial restraints — these being regarded as relating to the invention or articles made by use of the invention — the exemption would not extend to grant backs of rights to improvements, restrictions on the manufacture or supply of goods not covered by the patent or on the acquisition of raw materials, or ties in relation to other unpatented goods.

However, it should also be noted that, even though a particular provision of a technology transfer arrangement does not fall within the exemption, it is still necessary to consider the primary provisions of the Trade Practices Act to see whether a contravention has occurred. As noted above, many of the prohibited arrangements and classes of conduct are prohibited only if they have the necessary effect of substantially lessening competition in a market. Determining whether competition has been substantially lessened can be a complicated and expensive exercise.

STAMP DUTY

All States and Territories of Australia impose stamp duties. Stamp duty is a tax on documents or, more accurately, instruments. In some areas it is a tax on transactions, but the legislation then operates by requiring that certain transactions be recorded in a document or that a document be created whenever certain transactions are entered into, and then imposing stamp duty on the document so created.

These comments are confined to the position in New South Wales, although similar considerations apply in other States and Territories. In the case of technology transfer, two heads of stamp duty are relevant and both are conventional heads of duty relying on there being a document in the first place. These heads of duty are "conveyance" stamp duty based on the transfer of property and "lease" stamp duty based on the granting of rights to use property.

Although there is no obligation under the Stamp Duties Act of New South Wales to create documents evidencing such transactions where technology is the subject matter, it is unlikely in a commercial technology transfer arrangement that the parties could proceed without a document. There may be other reasons to produce a document. For example, under the Copyright Act if an exclusive license is to be created it must be in writing.

Liability to stamp duty depends on the relevant document having the necessary connection with New South Wales. The requirement for this connection flows from the constitutional limitation on the powers of the parliament of New South Wales. The connection required for both conveyances and leases is the situation of the property conveyed or leased in New South Wales. The question therefore arises whether or not the relevant technology is property in New South Wales.

It is generally accepted that copyright, patents, designs and trademarks are not property situated in New South Wales on the grounds that under the relevant Commonwealth statute the property exists and is protected throughout Australia and cannot have a situation in a particular State attributed to it. Although, on the view I have taken earlier in this paper, trade secrets are not property in the conventional sense, if they are regarded as equitable choses of action they would fall within the expanded definition in property contained in the Stamp Duties legislation. But again there is difficulty in attributing a situation in a particular State.

Therefore, where Australia-wide rights are the subject of the technology transfer arrangement there should not be a liability to stamp duty. However, a number of commentators argue, and the Commissioner of Stamp Duties for New South Wales takes the view, that, if an assignment or license of industrial property is territorially limited to New South Wales or a place within New South Wales, a sufficient connection with New South Wales is thereby created for stamp duty purposes. In such a case the Commissioner would argue that the relevant document was liable to stamp duty in New South Wales.

◄ Goodwill ►

Also, many transfers of technology are linked with transfers of goodwill and goodwill is treated as property for the purposes of Stamp Duties legislation. For example, it is often necessary to include an assignment of goodwill in a business with an assignment of trademarks.

Stamp duty on conveyances and leases is levied at "ad valorem" rates, that is, a percentage of the consideration passing or in certain cases of the underlying value of the property transferred. In New South Wales the rates of stamp duty for conveyances range from 1.25% to 5.50% (although the top rate operates only where the consideration exceeds $1M) and the rate for leases is 0.35% of the total rent (or in the case of technology transfers, royalties) payable. Not surprisingly, there may be difficult problems in valuing untried technology.

If the relevant technology transfer agreement does not have the necessary connection with New South Wales or another State or Territory to attract ad valorem stamp duty, it may still be liable to a nominal fixed rate of duty if the document is executed in New South Wales. If the agreement is executed under hand, the duty may be affixed by an adhesive stamp and the document is not submitted to the Commissioner for his review. However, if the agreement is executed under seal, even though the rate of duty is nominal, the document must still be submitted to the Commissioner for stamping and the Commissioner has the opportunity to consider the terms of the document and decide whether some higher ad valorem amount of duty is payable.

The sanctions for failing to stamp a document that is liable to stamp duty are onerous. The amount of stamp duty is a debt due to the Crown and may be sued for by the Crown. Under the New South Wales Stamp Duties Act, the person primarily liable for the duty is the assignee in the case of a conveyance and the lessee or the licensee in the case of a lease or license. It is an offense if the person primarily liable does not submit the document for stamping within six months of its first execution and fines and penalties for late payment start to accrue if the document is stamped more than two months after its first execution. These sanctions affect the person primarily liable, but the document itself is not admissible in evidence and cannot be pleaded in court proceedings (other than criminal proceedings) if it is not stamped and it was executed in New South Wales or relates (wherever executed) to any matter or thing done or to be done in New South Wales. Thus, the other party to the document (the one not primarily liable) has a clear concern to see that a document required to be stamped is duly stamped.

TAXATION

Under s.25(1)(b) of the Income Tax Assessment Act 1936 of the Commonwealth, the assessable (that is, taxable) income of a nonresident includes gross revenue derived directly or indirectly from all sources in Australia. Where there is no tax treaty between the nonresident's country and Australia, therefore, royalties derived by a nonresident assignor or licensor of technology from Australian sources are liable to Australian tax under the ordinary assessment regime. This means that tax is levied on the *net* royalties after deduction of allowable deductions (if any) at ordinary rates of tax, currently 49% for companies/corporations.

Furthermore, s.6C deems all royalties that are derived by nonresidents and all outgoings incurred by the payer in carrying on business in Australia to have a source in Australia. The section distinguishes between resident and nonresident payers of royalties. Where the payer of the royalty is a resident and the royalty is not an outgoing incurred in carrying on a business outside Australia, the royalty has an Australian source. Where the payer is a nonresident and the royalty is an outgoing incurred in carrying on a business in Australia, the royalty also has an Australian source.

There is an extended definition of royalty in s.6(1) of the Act, and it includes any amount paid or credited, however described or computed, whether periodical or not, to the extent to which it is consideration for (among other things):

The use of, or the right to use, any copyright, patent, design or model, plan, secret formula or process, trademark or other like property or right;

The supply of scientific, technical, industrial or commercial knowledge or information;

The supply of any assistance that is ancillary and subsidiary to, and is furnished as a means of enabling the application or enjoyment of, any such property or right or knowledge or information.

However, the taxation of royalties is affected by tax treaties. Australia has tax treaties with the following countries included in the regions seminars: Canada, Japan, Korea, Malaysia, New Zealand, Philippines and Singapore.

Unless royalties are effectively connected with a permanent establishment of the recipient in Australia, a tax treaty limits the rate of Australian tax payable on royalties flowing to nonresidents. Where the treaty is of the comprehensive kind (for example, with the U.S., U.K., Canada, Singapore or Japan) the rate of tax is limited to 10% of the gross amount of the royalties. In the case of New Zealand, Malaysia and Korea the rate is 15% and in the case of the Philippines the rate is 25%.

◄ Credit ►

If the royalties are taxed in the country of residence of the recipient a credit is given for the Australian tax, and corresponding provisions apply where the royalties flow into Australia.

Australia's capital gains tax regime also applies to industrial property, but an analysis of that is beyond the scope of this paper.

Every person who pays royalties to a nonresident must before payment give the Commissioner of Taxation a written statement of the amount due to the nonresident. Payment may not be made unless the payer receives notice from the Commissioner setting out the amount to be deducted. When payment is made to the nonresident the amount notified by the Commissioner must be deducted and sent to the Commissioner within 14 days of the end of the month in which the payment was made.

Where the amount of Australian tax is not limited by treaty the nonresident may provide the Commissioner with details of deductions claimed as allowable against the royalties. The Commissioner will, however, initially notify an amount to be deducted based on gross royalties. Where a tax treaty exists, the rate of tax applies to gross royalties and allowable deductions are not relevant.

Under s.68A any expenditure incurred by a taxpayer in obtaining or seeking to obtain the grant of a patent, the registration of a design or a copyright or the extension of the term of a patent or period of registration of a design is deductible in the year in which it is incurred. If the grant of patent, registration of design or copyright or extension is wholly for the purpose of producing assessable income, the whole of the expenditure is an allowable deduction. If the grant, registration or extension is only partly for the purpose of producing assessable income, only as much of the expenditure as in the Commissioner's opinion is reasonable in the circumstances is an allowable deduction. This might apply where the registered industrial property produces offshore income not subject to Australian tax.

Note that the deduction is available wherever the registration is sought — within or outside Australia — and whether or not the application for registration or extension is successful. The deduction is available for registration and application fees and patent attorneys' and lawyers' fees.

Under Division 10B of Part III of

the Act, capital expenditure incurred in the development or purchase of "a unit of industrial property" may be amortized over the effective life of the unit of industrial property in the hands of the owner.

A unit of industrial property is an *Australian* patent, registered design or copyright or a license to use an Australian patent, registered design or copyright. A unit of industrial property also includes equitable rights. The owner is the original inventor or author, an assignee from the inventor or author, a purchaser from the inventor or author or a person who has acquired the unit of industrial property by gift or operation of law.

The owner must have used the unit of industrial property for producing assessable income.

The cost or capital expenditure might be the development cost (excluding registration and application fees etc. deductible under s.68A), the purchase price or, in the case of a person acquiring by gift or operation of law, the unrecouped cost in the hands of the previous owner.

There may be a number of owners in relation to a particular unit of industrial property, for example the owner and various licensees from him, each with his own applicable cost.

◄ Effective Life ►

The effective life of the unit of industrial property is determined separately in relation to each owner. It begins at the beginning of the year of income in which the owner first uses the unit of industrial property to produce assessable income, and it ends at the end of the year of income in which the unit of industrial property terminates or expires. (The effective life may not exceed 25 years in the case of copyright).

The deduction allowed each year is the unrecouped cost of the unit of industrial property divided by the number of years of its effective life remaining.

There are anti-tax avoidance provisions dealing, for example, with transactions between parties not at arms' length.

Adjustments are made where the unit of industrial property lapses or is disposed of in whole or in part. For example, the grant of a license is treated as a partial disposal of a unit of industrial property. Again, if a unit of industrial property is sold before it terminates, the unrecouped costs less the consideration received for the sale would be an immediate deduction for the owner and any surplus would be treated as assessable income.

As with s.68A in the case of registration and application costs, if an owner of a unit of industrial property obtains a benefit from a right exercisable outside Australia the Commissioner may reduce the deduction allowed as he thinks fit having regard to the benefit received.

Under s.73B of the Act a number of concessional deductions may be claimed by companies that incur expenditure on research and development. Deductions can be claimed only by companies incorporated in Australia, and not by individuals, partnerships or trusts nor by companies acting as trustees or nominees. To be eligible for the deduction the company must be registered with the Australian Industrial Research and Development Incentives Board or the Industry Research and Development Board. The deduction cannot be claimed for research and development carried out on behalf of someone else. The company must benefit from the research and development.

Also, claims are not allowed where the expenditure is recouped or the subject of a grant from the government or a government authority.

The concessions are as follows:

— 150% deduction for wages, salaries and expenditures incurred exclusively for research and development activities and for payments to approved research institutes.

— Expenditures on plant and equipment wholly attributable to research and development is deductible at the rate of 50% for the first year in which the plant is used exclusively for research or development and again at 50% in each of the next two years.

— Expenditure on buildings wholly attributable to research and development is deductible at the rate of 33⅓% for the first year in which the building begins to be used for research and development activities and again at 33⅓% in each of the next two years.

There are threshold requirements and the provisions of s.73B are complicated, to say the least. Special advice is warranted whenever a company wishes to take advantage of these deductions.

For this paper I have assumed that transfers of technology are at arms' length. Division 13 of Part III the Tax Act is intended to deal comprehensively with arrangements by which profits are shifted out of Australia by transfer pricing. Division 13 imposes arms'-length standards in relation to the supply or acquisition of property or services under an "international arrangement" and in relation to the internal dealings of an interntional organization. A consideration of its terms is beyond the scope of this paper.