UNLEASHING AMERICAN INNOVATORS ACT OF 2022

FEE STUDY SUMMARY REPORT

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Report to Congress | December 2024

Unleashing American Innovators Act

UAIA of 2022

Fee study summary report

United States Patent and Trademark Office

Derrick Brent
Acting Under Secretary of Commerce for Intellectual Property and
Acting Director of the United States Patent and Trademark Office

United States Patent and Trademark Office

Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office

December 27, 2024

The Honorable Richard J. Durbin
Chairman, Senate Judiciary Committee
United States Senate
Washington, DC 20510

The Honorable Jim Jordan
Chairman, House Judiciary Committee
United States House of Representatives
Washington, DC 20515

The Honorable Lindsay Graham
Ranking Member, Senate Judiciary Committee
United States Senate
Washington, DC 20510

The Honorable Jerrold Nadler
Ranking Member, House Judiciary Committee
United States House of Representatives
Washington, DC 20515

Dear Chairmen and Ranking Members:

As required by the Unleashing American Innovators Act of 2022 (UAIA) under the Consolidated Appropriations Act, Pub. L. 117-328, we are pleased to submit this summary report on the results of a study of the U.S. Patent and Trademark Office (USPTO) fee structure. We developed this summary report to provide a high-level overview of the study's findings; the complete report is available here.

Please let us know how we can be of any further assistance.

Sincerely,

Derrick Brent
Acting Under Secretary of Commerce for
Intellectual Property and Acting Director of the
United States Patent and Trademark Office

Fee study summary report

In accordance with requirements of the Unleashing American Innovators Act (UAIA) of 2022, the United States Patent and Trademark Office (USPTO) commissioned a study of the agency's fee structure, including potential impacts on small and micro entities, for delivery to Congress by December 29, 2024. Specifically, the UAIA directed that the study assess whether fees for small and micro entities[1] inhibit the filing of patent applications; whether fees for application examination should approximately match examination costs, and the incentive effect of maintenance fees covering examination costs; whether any changes to the fee structure are needed, particularly an increase to standard application and examination fees, a reduction in standard maintenance fees, and a reduction in small and micro entity fees as a percentage of standard application fees; and any recommendations for administrative and legislative action.

Academic economists Gaétan de Rassenfosse of Ecole polytechnique fédérale de Lausanne, Switzerland, and Adam B. Jaffe of Brandeis University, United States, and Motu Economic and Public Policy Research, New Zealand, conducted the study. Both authors have extensive research experience in global patenting issues, including many published works on the U.S. patent system.

This summary report provides a high-level overview of the author's findings per the UAIA's prescribed scope of study in order of the four questions posed. The complete econometric analysis (methodology) and companion analytical framework are available on the USPTO website.

UAIA-directed study results

1. **Do fees for small and micro entities inhibit the filing of patent applications by those entities?**

The authors found that, under current fee levels, USPTO fees do not generally inhibit small and micro entities from filing patent applications.

The study focused on new entrants to complement existing empirical studies that document the effects of fees on applicant behavior. According to the authors' empirical findings, new entrants account for only 3 to 5 of every 10 patent applicants claiming small entity discounts at the USPTO, and this ratio has been declining. The authors cite "barriers beyond fees," including filing process complexity, lack of awareness regarding

[1] https://www.uspto.gov/patents/laws/micro-entity-status

patent rights, policies from agencies and organizations external to the USPTO, and higher associated costs of patenting (e.g., patent attorney fees), as potentially greater impediments to the patent system for new applicants. Currently, undiscounted USPTO fees for application filing, search, and examination total about $2,000[2], while attorney fees and other non-USPTO expenses are typically in excess of $10,000.

The study revealed that fee discounts for small and micro entities, including those introduced most recently by the Leahy-Smith American Invents Act (AIA) of 2011 and the UAIA, have had a limited effect on the participation rates of new entrants to the patent system. In fact, their analysis showed that the major drivers of small entity participation in the patent system are wholly unconnected to fees, including changes in patent legislation and certain global events.

In summary, fees do not inhibit the filing of patent applications by small and micro entities; rather, these entities are more sensitive to the complexities and greater costs (external to the USPTO) of the patent process, but similarly responsive to legislative changes and global events as undiscounted entities. The authors noted that complementary measures to fee discounts, including outreach programs that raise awareness of the patent system, simplification of the patent application process, and additional support for new filers, could have a greater positive impact on small and micro entity participation rates.

2. **Should fees for examination approximately match the costs of examination, and what incentives are created by using maintenance fees to cover the costs of examination?**

Determining a fee structure involves tradeoffs among multiple goals and considerations, and the authors offered a framework for analytical consideration of these tradeoffs. Two significant aspects of the USPTO fee structure are mandated by Congress: (1) charge fees for its services that, in the aggregate, recover the costs of the patent process; and (2) offer discounts on most patent fees to small and micro entities. The USPTO sets fees for services within the mandate for overall aggregate revenue balance in relation to aggregate costs. The AIA provided the USPTO with temporary fee setting authority, which the Study of Underrepresented Classes Chasing Engineering and Science Success (SUCCESS) Act of 2018 extended through September 2026.

[2] About $800 for those claiming the 60% small entity discount and about $400 for those claiming the 80% micro entity discount. If a small entity files electronically, there is an additional discount bringing the total fees paid to about $700.

As a matter of policy, the USPTO maintains "front end" (i.e., filing, search, and examination) patent fees below cost to enable innovation across sectors, including small and micro entities. The agency balances the differential with maintenance fees for utility patents, which are due at intervals of 3.5 years, 7.5 years, and 11.5 years after issue.

Most of the USPTO's patent costs arise in examination, and a structure that ties fees closely to costs would place most, if not all, of the fee burden at the examination stage. The returns on investment of patenting, however, often come long after examination—if ever. Shifting fee obligations from early in the process to later reduces uncertainty by allowing applicants and patentees to pay some fees when they have better information on the value of their patent, and after revenue is available to cover the fees. The authors argue that this reality supports the potential superiority of a fee structure that captures only a portion of examination costs in front-end fees, even when undiscounted, and defers a significant fraction of cost recovery to the payment of maintenance fees collected over time, if the applicant chooses to maintain the patent up to its statutory life. Alternative fee structures analyzed by the authors, including a unit cost (per service) recovery model, carried risk versus benefits calculations that could potentially further dampen innovation.

Higher maintenance fees could be expected to cause fewer patents to be renewed and more patents to lapse (because of nonpayment of maintenance fees) before the full term. If patents expire and hence "free to use," this could foster follow-on inventions. Additionally, because the USPTO may set fees only to recover its aggregate costs, the benefits of maintenance fees set higher than the costs of processing are paired with setting other fees (e.g., examination fees) below cost. According to the authors, the USPTO's risk from this arrangement is "manageable"—even as it incurs most of its costs during application examination—because the agency maintains an operating reserve and has authority to modify its fee structure as necessary to achieve balance between aggregate revenues and aggregate expenses.

Given the USPTO's fee setting authority, the authors do not believe that its current fee structure impacts how it examines applications. Previous literature suggested that reliance on maintenance fees creates an incentive for the USPTO to grant more patents and/or grant them quickly, in order to generate the revenue expected from the maintenance fees. However, this conceptualization of a grant decision process in which examiners behave according to high-level organizational financial incentives does not align with the decision process that examiners undertake in making a patenting decision. Additionally, the previous research was conducted when the USPTO did not have robust statutory authority to adjust fees to address expanding resource requirements. In the current statutory framework that includes fee setting authority, the

authors suggest the office can deal with any resource concerns directly by adjusting fees in a way consistent with the statutory direction to recover aggregate costs, while also taking into account other stakeholder and policy concerns. Hence, there is no reason to eschew the current innovation-supporting fee structure out of concern for distortion of the examination process.

In summary, the authors support the current USPTO fee structure, given the flexibility of the agency's temporary fee setting authority, as potentially superior to other models considered because its benefits for applicants and patentees extend from the initial application stages over the life of the invention.

3. **Do the results of these assessments counsel in favor of changes to the USPTO fee structure, such as raising standard application and examination fees; reducing standard maintenance fees; and reducing the fees for small and micro entities as a percentage of standard application fees?**

The authors do not counsel in favor of changes to the USPTO fee structure regarding increases in standard application and examination fees, reductions to standard maintenance fees, or reductions to small and micro entity fees. They do, however, highlight the benefits of potential fee changes relating to an imbalance in certain utility patents that expire before all maintenance payments come due.

The life of a utility patent is generally 20 years from the patent's actual filing date or any domestic benefit date to a prior nonprovisional application. For most patents, the filing date or domestic benefit date is a few years before the grant date, and if the patent is maintained for its maximum duration, all maintenance fees are paid. There are, however, some patents (mostly, but not entirely, continuing applications) for which the filing date or domestic benefit date is long before the grant date. For these patents, it is clear at the time of grant—and predictable at the time of application for many applications—that the patent will lapse before all maintenance payments come due. The USPTO does not, therefore, recover its examination costs for these applications if they expire before all maintenance fees come due. The authors offer several options for implementing such a fee, including congressional action, real-time adjustments to maintenance fees before a continuing application's expiration, a single additional fee due at publication of the patent, or basing maintenance fee schedules on the application (versus issue) date, as is the practice of the European Patent Office.

In summary, the authors' only targeted proposal for fee changes concerns patents issued with limited term remaining, which are not included in the fees specified within question 3, because the USPTO does not cover examination costs for these applications.

It should be noted that as part of its most recent fee setting effort, during Fiscal Year 2025, the USPTO will implement variable fees, due at filing, based on time elapsed since the earliest benefit date (including discounted fees for small and micro entities). This change will improve the USPTO's cost recovery on such applications.

4. **Make recommendations for such administrative and legislative action as may be appropriate.**

Most significantly, the authors state that Congress should continue to allow the USPTO's fee setting authority. They note that with the policy benefits inherent to the agency's existing fee structure, the flexibility of fee setting is critical to not only balancing aggregate revenues and aggregate costs, but also fostering innovation, access, and broader equity and inclusion in the overall U.S. patent system.

The authors also note that although empirical data show that application fees do not impact participation rates, discounts could enhance perceptions of fairness and equity in the patent system. They highlight that the criteria to qualify for a small entity discount does not include a monetary parameter, and the most differentiating factor is a maximum of 500 employees. The authors observe that the vast majority of all U.S. firms, including many highly profitable and well-capitalized ones, have fewer than 500 employees. Therefore, they suggest that changing the criteria for small entity discounts could be worth exploring for future administrative or legislative action.

In other recommendations, the authors propose further study into the long-term effects of measures like the UAIA's fee reductions and fee reforms on specific underrepresented groups (e.g., women and minority inventors), as well as the non-fee barriers discussed in question 1.

Concluding remarks

- The authors found that, under the current fee structure, USPTO fees do not inhibit the filing of patent applications by small and micro entities; these filers are more heavily influenced by factors external to the USPTO.

- The authors noted that complementary measures such as outreach or legal assistance programs (e.g., programs highlighted in the UAIA Regional Office Report and Study of the Patent Pro Bono Programs, both available on the USPTO website) could have a greater positive impact on small and micro entity participation rates.

- The authors found that the USPTO's fee schedule structure, which defers about half of the examination costs to the payment of maintenance fees, does not impact or incentivize examination and patenting decisions.

- The authors support the current USPTO fee structure, including the agency's temporary fee setting authority, as potentially superior to other models considered because of its benefits for applicants and patentees.

- The authors singled out continuing applications as an area for potential fee changes because the USPTO does not recover the examination costs for these applications if they expire before all maintenance fees come due. The USPTO has already addressed this as part of its most recent fee setting effort.

- The authors specifically highlight the value of lengthening the USPTO's fee setting authority beyond the September 2026 extension included in the SUCCESS Act.

U.S. Patent and Trademark Office
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