

**Regulatory Impact**

**Analysis**

**Setting and Adjusting Patent Fees during Fiscal Year 2020 in accordance with**

**Section 10 of the Leahy-Smith America Invents Act**

**Proposed Rule**

**U.S. Department of Commerce**

**United States Patent and Trademark Office**

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# EXECUTIVE SUMMARY

* 1. Purpose

The proposed rulemaking sets and adjusts patent fees in accordance with Section 10 of the Leahy-Smith America Invents Act (Act or AIA) (Pub. L. 112-29, 125 Stat. 284, as amended by the Study of Underrepresented Classes Chasing Engineering and Science Success Act (SUCCESS Act) (Pub. L. 115-273), which authorizes the Director of the USPTO to set or adjust by rule any patent fee established, authorized, or charged under title 35 of the United States Code (U.S.C.) for any services performed, or materials furnished, by the Office. The Notice of Proposed Rulemaking (NPRM) (*see* “Setting and Adjusting Patent Fees during Fiscal Year 2020,” available at https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting) is economically significant and results in a need for a Regulatory Impact Analysis (RIA) under Executive Order 12866 Regulatory Planning and Review, (Sept. 30, 1993).

This RIA reviews the alternatives considered for the patent fee schedule presented in the NPRM and analyzes their qualitative costs and benefits relative to each other and the proposed fee schedule. The Office follows the guidance set forth in Office of Management and Budget (OMB) Circular A-4, “Regulatory Analysis,” in determining which data to provide in this analysis. Consistent with Circular A-4 and guidance from OMB on regulatory impact analysis, the user fees charged by the USPTO for its services are considered transfer payments that do not affect the total resources available to society, and therefore the changes to patent fees implemented by this rulemaking are transfers, and are not costs of this rulemaking. See OMB Circular A-4 and OMB’s “Regulatory Impact Analysis: A Primer,” (“Examples of transfer payments include . . . Fees to government agencies for goods or services provided by the agency”). These transfers are identified below, and consistent with OMB guidance, these transfers are not included in the estimates of the benefits and costs of this rulemaking.

* 1. Summary of Analysis

The Office analyzed four alternatives for alignment with the Office’s rulemaking strategies and goals, which are comprised of strategic priorities (goals, objectives, and initiatives) from the *USPTO 2018-2022 Strategic Plan* (Strategic Plan) and the Office’s fee setting policy factors. From this conceptual framework, the Office assessed the absolute and relative qualitative costs and benefits of each alternative.

* Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020 – The proposed fee schedule detailed in the NPRM.
* Alternative 2: Unit Cost Recovery – A fee schedule that generally sets fees equal to their individual activity-based unit cost (where that information is available) to produce adequate revenue to fund approved budgetary requirements.
* Alternative 3: Across the Board Adjustment to Patent Fees – A fee schedule that generally applies a 10.0 percent inflationary factor to the Baseline (Alternative 4) to produce adequate revenue to fund budgetary requirements.
* Alternative 4: Baseline – Current fee schedule that became effective on January 16, 2018.

The Office intentionally developed and considered alternatives, aside from the Baseline alternative, that would recover the aggregate costs to the Office, as presented in the USPTO Fiscal Year (FY) 2020 Congressional Justification (FY 2020 Budget). All four alternatives apply equally to all patent applicants regardless of the sector of the economy or technology field of the applicants. Neither the USPTO’s proposed fee schedule nor the other three alternatives discussed herein are designed to impose different costs on different technologies or sectors of the economy. In applying equally to all applicants and patent applications, all four alternatives are origin-neutral and technology-neutral. The Office does not anticipate that the adjustments in user fees under this final fee schedule will increase the compliance costs for users to obtain USPTO services. All alternatives considered, except the Baseline, result in adequate revenues to support the Office’s strategic priorities, and the Office’s analysis in this RIA revolves around two qualitative costs and benefits: (1) fee schedule design, and (2) securing aggregate revenue to recover aggregate cost. This analysis does not include any monetized costs and benefits since the fees charged under this rule are considered transfer payments per guidance to federal agencies in the Office of Management and Budget (OMB) Circular A-4, “Regulatory Analysis”, and direct guidance from the OMB, Office of Information and Regulatory Affairs (OIRA); therefore the changes to patent fees implemented by this rulemaking are transfers, not costs.

Discussions of fee schedule design costs and benefits revolve around if, and how well, an alternative’s fee schedule, both individual fee amounts and their relationship to other fees in the fee schedule, aligns to the Office’s four key fee setting policy factors: promoting innovation strategies, aligning fees with the full cost of products and services, facilitating the effective administration of the patent system, and offering processing options to applicants. These four policy factors aim to tie individual fee changes to the Office’s core mission and strategic initiatives. The Office’s analysis of the four alternatives revealed that:

* Alternative 1, the Proposed Fee Schedule, offers fee schedule design benefits due to the way the Office proposes targeted fee changes that are aligned to the four policy factors while remaining responsive to public feedback as documented in the Patent Public Advisory Committee (PPAC) report on the Office’s initial proposal (*see* NPRM for a summary of the PPAC report and the Office’s response to feedback received).
* Alternative 2, the Unit Cost Recovery option, presents significant costs related to fee schedule design, because it reverses the Office’s longstanding practice of setting some fees below cost to foster innovation. Instead, entry fees or those initial fees required to access the patent system (e.g., filing, search, and examination fees due on filing of the nonprovisional application) are significantly higher under this alternative, potentially serving as a barrier to entry for some innovators.
* For Alternative 3, the Across the Board Adjustment, the fee schedule design offers no costs or benefits beyond the Baseline, because the fee schedule remains intact with changes only to the fee rates.
* Finally, the Baseline (Alternative 4) offers no new fee schedule design benefits or costs.
* In summary, while Alternatives 1, 3, and 4 have acceptable fee schedule designs, the fee schedule adjustments in Alternative 1 offer more fee schedule design benefits over Alternative 3 and the Baseline (Alternative 4).

Securing aggregate revenue to recover aggregate cost is the factor that assesses if, and how well, an alternative is projected to achieve the minimal level of aggregate revenue needed to recover aggregate cost of operations and sustain progress towards the Office’s core patent-related mission programs (patent operations) and the strategic priorities.  The Office discusses these programs and initiatives in detail in both the NPRM and the FY 2020 Budget. *See* annual budget available at<http://www.uspto.gov/about-us/performance-and-planning/budget-and-financial-information>. In summary, optimizing patent application pendency and examination timeframes, issuing highly reliable patents, fostering innovation through business effectiveness, enhancing the operations of the Patent Trial and Appeal Board (PTAB), optimizing speed, quality and cost-effectiveness of information technology (IT) delivery to achieve business value, and ensuring financial sustainability to facilitate effective patent operations are key to the Office’s long-term commitment to help strengthen the innovation economy.

The Office’s analysis reveals that:

* Alternatives 1, 2, and 3 secure adequate aggregate revenues to fund the aggregate cost of patent operations and strategic priorities. Given their similar aggregate revenue projections over the five-year period, none of the three alternatives has an advantage over the others in terms of achieving the optimal operating reserve balance. All three build the operating reserve to the optimal level without significantly exceeding it during the five-year period, without requiring budget reductions that would impede the delivery of USPTO’s mission and strategic goals. This effect is recognized as a benefit and a critical aspect to any alternative that the Office would propose.
* The Baseline (Alternative 4) is the only alternative considered that does not secure the necessary aggregate revenues to recover aggregate cost as presented in the FY 2020 Budget. Alternative 4 does not achieve the minimum or optimal operating reserve balance in the five year planning horizon. Under this alternative, the operating reserve balance becomes negative in FY 2024, and, therefore, this is not considered a viable option.
* In summary, there is no demonstrable difference in the benefits associated with Alternatives 1, 2, and 3 for securing aggregate revenue to recover aggregate cost.
* When analyzing costs and benefits from the perspective of fee-paying patent stakeholders, the Office recognizes that any additional fees paid to the Office above the Baseline fee schedule (as is true for Alternatives 1, 2 and 3) represent transfers, in accordance with OMB guidance which states fees paid to government agencies for goods or services provided by the agency are transfer payments. *See* OMB Circular A-4. The Office does not anticipate that the adjustments in user fees under this final fee schedule will increase the compliance costs for users to obtain USPTO services.
* The opportunity cost of fees paid to the Office rather than invested in additional research and development (R&D), commercialization, or other activities that produce immediate and direct value to patent stakeholders warrants consideration in this analysis. However, monetizing and quantifying certain impacts of patent fees on the economy and the rate of innovation are inherently challenging due to the number of variables involved, the difficulty in predicting economic activity, and the lack of available data, especially data on private sector behavior. For example, the Office only collects data on innovation activity that results in a patent application or other action. Innovative actions that do not result in fees paid to the Office for a defined service are not captured in the Office’s databases, thus making it challenging to estimate and forecast the true breadth and depth of the IP economy for patents. This analysis does not attempt to monetize these costs.
* In summary, given that Alternatives 1, 2 and 3, when compared to the Baseline (Alternative 4), result in roughly the same aggregate increase in revenue, there is no demonstrable difference in the benefits associated with these alternatives for securing aggregate revenue to cover aggregate cost. However, Alternative 1 is the only alternative that has additional benefits regarding fee schedule design.

The Office’s analysis of these two costs and benefits—fee schedule design and securing aggregate revenue to recover aggregate cost—is informed by activity based information, aggregate revenue estimates, and cost estimates related to the Office’s core mission programs (patent operations) and strategic initiatives. Where available, the Office uses this information to aid discussions about the magnitude of these sometimes competing costs and benefits to better inform discussions of net impacts.

* 1. Conclusion

This RIA concludes that the overall qualitative benefits to patent applicants, patent holders, other patent stakeholders, and society of the proposed fee schedule (Alternative 1) are significant. The proposed fee schedule has qualitative benefits related to the targeted fee changes reflected in the fee schedule design. Moreover, the proposed fee schedule secures the aggregate revenue while adhering to the Office’s fee setting strategies and goals, as described in Part III of the proposed rule and below. Patent applicants and holders can expect continued progress towards the Office’s strategic priorities to operate within a sustainable funding model to avoid disruptions caused by fluctuations in financial operations, and to enable the USPTO to continue strategic improvements, such as optimizing patent application pendency, issuing highly reliable patents, fostering innovation through business effectiveness, enhancing operations of the PTAB, and optimizing speed, quality, and cost effectiveness of information technology delivery to achieve business value.

* 1. Points of Contact
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# GENERAL INFORMATION

* 1. Statement of Need for Action

Per the fee setting authority of section 10 of the AIA, as amended by the SUCCESS Act, the USPTO is issuing a proposed rule to set or adjust patent fees to secure sufficient aggregate patent fee revenue to support the projected aggregate costs of the Office (based on current projections). The fee schedule in the NPRM will recover the aggregate estimated costs of patent operations while achieving the Office’s strategic goals as detailed in the Strategic Plan, which defines the USPTO’s mission, vision, and long-term goals and presents the actions the Office will take to realize those goals. The NPRM supports the patent strategic goal to optimize patent quality and timeliness, and to the extent that the aggregate revenue generated by the fee schedule will be used to pay for all patent-related costs, the NPRM also supports the USPTO’s goal to provide domestic and global leadership to improve IP policy protection and enforcement, as well as the mission support goal to deliver organizational excellence.

From 1982 until the passage of the AIA in 2011, the patent fees that generate most of the patent revenue (e.g., filing, search, examination, issue, and maintenance fees) were set by statute, and the Office could only adjust these fees to reflect changes in the Consumer Price Index for All Urban Consumers (CPI-U), as determined by the Secretary of Labor. Since these fees were set by statute, the USPTO could not realign or adjust fees to effectively respond to market demand or changes in processing costs other than for the CPI-U.

Section 10 of the AIA changed the Office’s fee setting model and authorized the USPTO to set or adjust patent fees within the regulatory process. Section 10 better equips the Office to respond to changing circumstances, such as fluctuations in demand for patent products and services or emerging legal requirements. While the fee setting authority granted by Section 10 of the AIA was set to expire after 7 years, Section 4 of the SUCCESS Act amended Section 10 of the AIA by striking “7-year” and inserting “15-year” in reference to the expiration of fee setting authority. This extension of fee setting authority continues the Office’s authority to set fees in order to further organizational goals and improve services through September 16, 2026.

In FY 2013 and FY 2018, the USPTO used the AIA’s fee setting authority to achieve key fee setting policy factors—to foster innovation, align fees with the full cost of products and services, set fees to facilitate the effective administration of the patent and trademark systems, and offer application processing options for applicants—and to generate sufficient resources needed to meet the Office’s strategic patent priorities. With the additional fees collected as a result of the January 2013 Setting and Adjusting Patent Fees Final Rule (hereinafter “the January 2013 Final Rule”) and the January 2018, Setting and Adjusting Patent Fees during Fiscal Year 2017 Final Rule (hereinafter “the January 2018 Final Rule”), the Office made considerable progress in these areas.

The USPTO recognizes that pending patent applications can introduce a high level of uncertainty over the precise nature of any pending claims that may be allowed (or ultimately abandoned). This can slow innovation in those sections of the technology space most highly related to the pending applications in question. The sooner other players in that technology space can know the precise disposition of the pending applications and the precise nature of any claims allowed, the better. This is especially true when the issued patents are of high quality, such that they are issued in compliance with all the requirements of Title 35 of the United States Code as well as the relevant case law at the time of issuance, and the property rights embedded in those patents are clear and well defined.

The Office acknowledges there is still progress to be made to further optimize patent examination timeframes, and, importantly, to ensure that the patents the USPTO issues are highly reliable and provide predictable intellectual property protection. The Office also recognizes that its operating environment and financial outlook have changed since fees were last set in FY 2018. While the existing fee schedule was expected to generate sufficient aggregate revenue to support the offices aggregate patent costs through FY 2022, reduced application filings, lower than expected maintenance fee collections, and other factors have resulted in lower actual and estimated revenue under the current fee schedule, based on current projections. On the cost side of the USPTO’s budget, critical costs to the Agency continue to increase, including costs resulting from strategic decisions to increase the time allotted to patent examiners to review and issue highly reliable timely patents.

Absent action to increase the USPTO’s revenue, the Office will be forced to either 1) abandon some key initiatives to improve patent reliability, or 2) to implement these initiatives at the expense of continued progress on application pendency and other business improvements, such as modernizing information technology. The Office is committed to continuing work to improve patent quality, particularly the reliability of issued patents, while also improving pendency and examination timeframes.

The NPRM details how the proposed fee schedule will produce the aggregate revenue needed to sustain progress towards strategic goals while also aligning to the key fee setting policy factors discussed above. The goal of the NPRM is to establish a fee schedule that better supports patent applicants and patent holders and therefore effects positive change on the innovation economy.

* 1. Scope

The scope of this fee setting effort is patent fees that are established, authorized, or charged under Title 35 of the U.S.C. Using section 10 of the AIA, as amended by the SUCCESS Act, the USPTO is proposing to set or adjust 295 patent fees; this includes 11 new fees and 3 discontinued fees.

Upon further review of the proposed rulemaking and source materials, and consistent with OMB Circular A-4, “Regulatory Analysis,” as discussed further below, the OIRA has indicated that it considers the proposed rule to be a transfer payment from one group to another that does not affect the total resources available to society, and thus does not trigger a detailed analysis of monetized costs and benefits within the meaning of Executive Order 12866 Regulatory Planning and Review, (Sept. 30, 1993) and related directives.  OIRA also concluded that it is very difficult to precisely monetize and quantify costs and benefits in a transfer rule such as the proposed rule.  In such cases when monetization of benefits and costs is not easily accomplished, OMB A-4 advises that agencies should “still describe the benefit or cost qualitatively.” Thus, the scope of this RIA for the proposed rule outlines the transfer and assesses the qualitative costs and benefits that accrue to patent applicants, patent holders, and other patent stakeholders in the United States.

Lastly, it is important to note that the USPTO administers patent examination subject to statutes created by the U.S. Congress and by judicial decisions made by the federal courts. The importance of patenting in the United States goes back to Article I, Section 8, of the Constitution, which gave Congress the power to grant “for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” Congress itself established the USPTO in the Patent Act and most USPTO policies regarding patent examination and post-grant procedures—detailed in the Manual for Patent Examination Procedure (MPEP)—follow directly from statute (found primarily in 35 U.S. Code) or from various court decisions. In other words, the USPTO’s role is to examine patent applications in accordance with these various statutes and court decisions.

* 1. Assumptions and Constraints
     1. Assumptions
* The time horizon for the analysis is FY 2020 – FY 2024.
* The planned effective date for the new fee rates is January 1, 2021.
* In the FY 2020 Budget, the projected patent operating reserve balance at the end of FY 2020 is $203 million.
* The budgetary requirements contained in the FY 2020 Budget, along with target operating reserve levels, represent the aggregate costs to the Office over the stated time horizon.
* Note that the requirements included in the FY 2020 Budget do not reflect the 2019 1.9 percent pay raise as authorized by the Consolidated Appropriation Act, 2019, Pub. L. 116-6, 133 Stat. 13, which was passed after cost estimates for the Budget had been finalized. This new requirement will increase the patent budgetary requirements by approximately $31-$44 million per year. This will result in a cumulative impact of $245 million over the budget horizon.
* The estimated aggregate revenue generated by the Proposed Fee Schedule is calculated using the estimated fee workloads displayed in the “Aggregate Revenue Tables.” These workloads reflect assumptions about future economic conditions, service demand, and productivity as described in the FY 2020 Budget.
* Applying the guidance in OMB A-4 and earlier guidance from OIRA, the Office concluded that the payment of fees under the proposed rule is a transfer from one group to another that does not affect total resources available to society. Therefore, all analyses of costs and benefits discussed in this RIA are qualitative (rather than monetized).
* The Office estimates the amount of transfer payments from patent applicants and patent holders (*see* Tables 3-6, 3-7, and 3-8), although the analysis is qualified, not quantified (per OMB A-4). The Office also follows the guidance in OMB A-4 as a methodology for discounting transfers, including selecting appropriate discount rates. *See* OMB Circular A-4, available at <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf>.
* The average annual growth of patent application filings is 1.0 percent over the period from FY 2020 through FY 2024. The Office estimates the growth in application filings using a regression model with real gross domestic product (RGDP) controls derived from the Congressional Budget Office (CBO), available at <https://www.cbo.gov/about/products/budget_economic_data>. The Office made calculations based on CBO’s August 2018 estimates.
* All dollar values in this document are in nominal terms, except those specifically identified otherwise (*see* Tables 3-6, 3-7, and 3-8). To calculate constant year (real) estimates for FY 2020 through FY 2024 (Base Year 2019), the Office used the CBO’s “10-Year Economic Projections” for the CPI-U. *See* CBO website, available at <https://www.cbo.gov/about/products/budget_economic_data#4>.
* The proposed rule does not impose different costs or burdens on applicants and patent holders based on technology type or their country of residence, i.e., United States or foreign. Based on FY 2017 USPTO data, the Office estimates that 48.8 percent of patent filings are domestic and 51.2 percent are foreign. This data is available in the workload tables in the Performance and Accountability Report (PAR), <https://www.uspto.gov/sites/default/files/documents/USPTOFY18PAR.pdf>.
* The Office used the Patent Pendency Model (PPM) to estimate patent production, workload, changes in backlog and pendency, and associated staffing levels for each alternative. A description of the PPM, including a simulation tool, is available for review at <http://www.uspto.gov/learning-and-resources/statistics/patent-pendency-model>.
* The Office acknowledges that there may be some changes in applicant behavior as a result of the fee changes in Alternatives 1, 2, and 3. In order to estimate the impact of the fee changes on demand for USPTO services, the Office conducted an economic analysis to measure the impact in the change in demand for services as a result of changes to fee rates. The methodology and results (known as price elasticities) of this analysis are available in the appendix to the proposed rule. Workloads across scenarios are adjusted for price elasticity as necessary. For more information see “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2020 – Description of Elasticity Estimates,” available at <http://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting>. Each year, the Office conducts a rigorous budget formulation process that entails validating current year requirement estimates and formulating the budget and projecting out year requirements based on a number of production models, such as the PPM and the PTAB production models, as well as business cases for new initiatives.  The process is also based on a framework of continuous and comprehensive budget reviews designed to ensure that estimates and projections of all operational and administrative costs are reviewed and funds are reallocated when necessary to focus on high-priority and effective programs—primarily core mission activities—and to mitigate risk by retaining operating reserve balances.
* The Office assumes that the relative similarity of the aggregate revenue totals for three of the four alternatives considered over the five-year horizon of this analysis does not produce variation in the PPM estimates. Therefore, all alternatives rely on a single PPM, which explains why backlog, pendency, and patents granted estimates are identical across these alternatives.
  + 1. Constraints
* Monetizing and quantifying certain impacts of patent fees on the economy and the rate of innovation are inherently difficult due to the number of variables involved, the difficulty in predicting economic activity, and the availability of data, especially data on private sector behavior. For example, the Office only collects data on innovation activity that results in a patent application or other action. Innovative actions that do not result in fees paid to the Office for a defined service are not captured in the Office’s databases, thus making it challenging to estimate and forecast the true breadth and depth of the IP economy for patents.
* The Office uses RGDP as a general proxy for the health of the domestic economy.
* Estimates appearing in this RIA should not be taken to mean that the USPTO has calculated specific monetized costs or benefits for purposes of economic impacts. Rather, some dollar values appearing in this RIA are necessary for the Office to comply with the Section 10 requirement that aggregate revenues recover aggregate costs for purposes of setting or adjusting fees for patent services.
  1. Patent System Overview

An analysis of the qualitative costs and benefits associated with the proposed fee schedule requires a basic understanding of the overall patent system. A detailed description of the patent process can be found on the USPTO Web site at <http://www.uspto.gov/patents/process/index.jsp>.

A U.S. patent is a property right granted by the Government of the United States of America to an inventor to exclude others from making, using, offering for sale, or selling an invention throughout the United States or importing the invention into the United States for a limited time in exchange for public disclosure of the invention when the patent is granted. Patents promote and incentivize innovation by granting inventors certain short-term exclusive rights to their inventions. This limited exclusive right is intended to stimulate inventive activity in multiple ways. First, the exclusivity made possible by a patent incentivizes inventors to undertake R&D and inventive labor. Second, an exclusive patent right incentivizes commercialization of an invention in the marketplace. That is, inventors may bring their inventions to market by self-commercialization or by either licensing (to earn royalties) or selling their inventions to other market participants (e.g., larger companies) who in turn commercialize that invention. Third, patent exclusivity provides a means for inventors to obtain capital financing (e.g., through venture capital) to self-commercialize. In exchange for exclusive rights to the invention, an inventor must disclose the invention to the public. Public disclosure of information helps avoid redundant R&D by others and promotes the dissemination of new technology and the development of innovations that build on current technology. A broad disclosure of the technology occurs when a patent application is published 18 months from the earliest effective filing date. A more specific disclosure on the scope of claims allowed occurs when the patent is granted.

The economy benefits from new products and services that would not otherwise be commercialized. Patented technologies are the source of entirely new industries (e.g., artificial intelligence), help bring new products and services to market (e.g., drugs and medical devices), and support new job creation (*see* Intellectual Property and the U.S. Economy 2016 Update: Industries in Focus, available at <https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf>).

An efficient and effective patent system provides tools to protect new ideas and investments in innovation and creativity. In this way, an effective and efficient patent system benefits both inventors and the economy. Without timely, clear, and effective patent rights, uncertainty in the legal rights of new products increases, and the value of IP and capital decreases. As a result, investments are either misdirected or not undertaken, and costly litigation is more likely to occur. Innovation depends, in part, on the USPTO’s success in optimizing the patent application pendency and examination timeframes—both of which stall the delivery of innovative goods and services to the market and impede economic growth and the creation of high-paying jobs.

Securing a patent is an early step in the sometimes long and often expensive process of transforming an innovation into a consumer product. Legal fees, research and development (more expensive in some industries than in others), licensing and royalties (where applicable), marketing, and production are all elements of the commercialization process in addition to patent fees. Given that patent fees are a proportionately small expense, the impact of the proposed fee rate changes on consumers of patented products—in the form of higher prices or fewer market choices—is also projected to be negligible.

# OVERVIEW OF ANALYSIS

* 1. Overview of Alternatives

The Office considered a total of four patent fee schedule alternatives.

* Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020 – The proposed fee schedule detailed in the NPRM.
* Alternative 2: Unit Cost Recovery – A fee schedule that generally sets fees equal to their individual activity-based unit cost (where that information is available) to produce adequate revenue to fund future budgetary requirements.
* Alternative 3: Across the Board Adjustment to Patent Fees – A fee schedule that generally applies a 10.0 percent inflationary factor to the Baseline (Alternative 4) to produce adequate revenue to fund future budgetary requirements.
* Alternative 4: Baseline – Current fee schedule that became effective on January 16, 2018.
  1. Methodology

The Office considered the qualitative impact of several costs and benefits for each alternative, using key indicators when applicable. This section presents three methodologies used to develop information for this RIA: (1) activity-based costing; (2) aggregate patent fee revenue projections; and (3) aggregate patent cost projections.

* + 1. Activity-based costing

The Office used activity-based costing (ABC) methodology to execute the strategy of setting individual fees to further the key fee setting policy factor of aligning fees to the cost of the particular service. The historical cost of a particular service is derived from the Office’s Activity-Based Information (ABI) program. A discussion of the Office’s methodology and results is available in a separate document titled “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2020 – Activity Based Information and Patent Fee Unit Expense Methodology,” available at https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting The Office used ABI cost data to inform most individual fee amounts in Alternative 2: Unit Cost Recovery.

While the Office does not use historical cost information to directly assess any costs or benefits in this RIA, where available, this information allowed the Office to assess how well different fee amounts aligned to their cost.

* + 1. Aggregate Fee Revenue Projections

The NPRM provides an extensive discussion of how the Office projects aggregate fee revenue (the total amount of money transferred to the USPTO by patent applicants and patent holders) by analyzing the RGDP (the broadest measure of economic activity) and other influential factors such as non-domestic patent activity, legislation, process efficiencies, court decisions, fee changes, and anticipated applicant behavior. Additional detail about the Office’s aggregate fee revenue estimates for each alternative, including projected workloads by fee is available in “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2020 – Aggregate Revenue Tables,” available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting>. A description of the Office’s methodology for using RGDP can be found in the section of the FY 2020 Budget entitled, “USPTO Fee Collection Estimates/Ranges.” For a discussion of how the Office projects revenues for each of the alternatives considered, see the Initial Regulatory Flexibility Analysis (IRFA) contained within the NPRM and also the “Setting and Adjusting Patent Fees during Fiscal Year 2020 – Aggregate Revenue Estimating Methodology” supplement.

In summary, to estimate aggregate revenue for the Baseline and other alternatives, the Office analyzed the relevant factors and indicators described above to estimate prospective fee workload volumes for the five-year planning horizon (FY 2020 – FY 2024). For Alternatives 1, 2, and 3, the Office is using elasticity adjusted workloads (because of the difference in fee rates, workloads between alternatives vary based soley on price elasticites). The Office recognizes that most fees have some price elasticity, which generally refers to how sensitive applicants and patentees are to fee (price) changes in terms of their decisions to pursue patenting. For Alternative 2, in particular, the Office recognizes that there would be changes in applicant demand related to the adjustments to both entry fees and maintenance fee rates. In the discussions of each alternative, this analysis includes additional insights on the magnitude and direction of these changes. A more detailed description of price elasticity is contained in the “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2020 – Description of Elasticity Estimates,” available at https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting. Lastly, the Office also prepares a high-to-low range of fee collection estimates to account for the inherent sensitivity and volatility of predicting fluctuations in the economy and market environment. In this RIA, however, the projections presented are the mid-point fee collection estimates to simplify the analysis. Table 3-1 shows two of the Office’s performance metrics and their forecasted values at the end of the five-year period. The availability of aggregate revenue directly impacts the Office’s ability to deliver services per its performance commitments. The Baseline and three other alternatives use the same performance metrics shown in Table 3-1 when estimating aggregate revenue. Since alternatives 1, 2, and 3 generate sufficient aggregate revenue to recover aggregate costs, the impact of the difference in workloads caused by price elasticity among the alternatives can be minimized by efficiently managing resources to ensure the Office meets its performance metrics.

**Table 3-1**

| **Performance Metrics** | **Baseline and Alternatives** |
| --- | --- |
| Average First Action Pendency in FY 2024 | 14.0 months |
| Average Total Pendency in FY 2024 | 22.4 months |

* + 1. Aggregate Patent Costs

As mentioned in the NPRM (*see* Part IV), the basis for calculating the aggregate patent costs is the routine USPTO budget formulation and planning process. The USPTO budget is a five-year plan (prepared annually) with projections for carrying out base programs and implementing strategic priorities. The estimated budgetary requirements are the same for the Baseline and all alternatives. Aggregate patent costs is the total of estimated budgetary requirements and targeted operating reserve levels. Table 3-2 provides the projected aggregate patent revenue and aggregate patent costs for each alternative. The chart below does not reflect the 2019 1.9 percent pay raise as authorized in the Consolidated Appropriation Act, 2019, Pub. L. 116-6, 133 Stat. 13, which was passed after the cost estimates for the FY 2020 Budget were finalized. This new requirement will increase the patent budgetary requirements by approximately $31-$44 million per year. This will result in a cumulative impact of $245 million over the budget horizon.

**Table 3-2**

| **Projected Aggregate Patent Costs and Aggregate Patent Revenue by Alternative (dollars in millions)** | | | | | |
| --- | --- | --- | --- | --- | --- |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** |
| **Budgetary Requirements** | $3,172 | $3,326 | $3,434 | $3,524 | $3,626 |
| **Other Income[[1]](#footnote-2)** | $37 | $37 | $37 | $37 | $37 |
| **Optimal Operating Reserve Level** | $785 | $822 | $850 | $872 | $897 |
| **Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020 – Aggregate Patent Revenue** | $3,132 | $3,395 | $3,724 | $3,727 | $3,873 |
| *EOY Operating Reserve Alternative 1:* | $203 | $272 | $562 | $765 | $1,012 |
| **Alternative 2: Unit Cost Recovery – Aggregate Patent Revenue** | $3,132 | $3,492 | $3,694 | $3,704 | $3,832 |
| *EOY Operating Reserve Alternative 2:* | $203 | $369 | $629 | $809 | $1,015 |
| **Alternative 3: Across the Board Adjustment – Aggregate Patent Revenue** | $3,132 | $3,405 | $3,737 | $3,741 | $3,889 |
| *EOY Operating Reserve Alternative 3:* | $203 | $282 | $585 | $802 | $1,065 |
| **Alternative 4: Baseline – Aggregate Patent Revenue** | $3,132 | $3,228 | $3,429 | $3,433 | $3,568 |
| *EOY Operating Reserve Alternative 4:* | $203 | $105 | $100 | $9 | ($49) |

Over the five-year timeframe of this analysis (FY 2020 – FY 2024), the Office projects that Alternatives 1, 2, and 3 would secure sufficient aggregate revenue to sustain progress on the Office’s core mission programs and strategic initiatives. Not only does the Baseline not generate enough revenue to achieve the the optimal three month patent operating reserve during the five year horizon, it does not achieve the minimum balance of $300 million and would deplete the operating reserve by FY 2024, or earlier when accounting for the 2019 1.9 percent pay raise as authorized in the Consolidated Appropriation Act, 2019, Pub. L. 116-6, 133 Stat. 13. Section 4 provides detailed discussions of each alternative.

* 1. Overview of the Qualitative Costs and Benefits Across Alternatives

A high-level overview of the qualitative costs and benefits assessed in this RIA is presented below. Section 4 presents a more thorough description of each alternative and assesses the relative costs and benefits. A summary of the identified qualitative costs and benefits for each alternative is contained inTable 3-3 below.

**Table 3‑3**

| **Costs, Benefits, and Transfers** | | | | |
| --- | --- | --- | --- | --- |
|  | **Alternative 4** | **Alternative 1** | **Alternative 2** | **Alternative 3** |
|  | **Baseline** | **Proposed  Fee Schedule** | **Unit Cost Recovery** | **Across the Board Adjustment** |
| **Costs:** | | | | |
| **Secure Aggregate Revenue to Recover Aggregate Cost** | Significant | *See benefits* | *See benefits* | *See benefits* |
| **Fee Schedule Design Costs** | Neutral | *See benefits* | Significant | Neutral |
| **Overall Costs** | **Moderate** | **Neutral** | **Significant** | **Neutral** |
| **Benefits:** | | | | |
| **Secure Aggregate Revenue to Recover Aggregate Cost** | *See costs* | Significant | Significant | Significant |
| **Fee Schedule Design Benefits** | Neutral | Significant | *See costs* | Neutral |
| **Overall Benefits** | **Neutral** | **Significant** | **Neutral** | **Moderate** |
| **Transfers:** | | | | |
| **Aggregate Increase in User Fee Payments** | Neutral | Minimal | Minimal | Minimal |
| **Overall Net Benefits/Costs** | **Moderate Cost** | **Significant Benefit** | **Significant Cost** | **Moderate Benefit** |

### Qualitative Costs

This section summarizes features of the alternatives that represent a cost to one or more stakeholder groups. Table 3-4 shows the major qualitative costs associated with the alternatives considered in this analysis. If a cost applies to a certain alternative, it is denoted with a checkmark.

**Table 3‑4**

| **Cost Description** | **Alternative 4**  **Baseline** | **Alternative 1**  **Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020** | **Alternative 2**  **Unit Cost Recovery** | **Alternative 3**  **Across the Board Adjustment** |
| --- | --- | --- | --- | --- |
| Secure Aggregate Revenue to Recover Aggregate Cost | ✓ | -- | -- | -- |
| Fee Schedule Design | -- | -- | ✓ | -- |

The Baseline (Alternative 4) has a cost for securing sufficient aggregate revenue to recover aggregate costs, because it would not allow the USPTO to meet its Strategic goals since it does not secure sufficient aggregate revenue to recover aggregate costs. Alternative 2 has a cost related to fee schedule design because it is counter to the Office’s general philosophy to charge applicants and holders lower front-end fees and higher back-end fees when they have more information about the relative value of their innovation. These costs will be discussed in more detail in Section 4.

### 3.3.2 Qualitative Benefits

This section summarizes features of the alternatives that represent a benefit to one or more stakeholder groups. Table 3-5 shows the major qualitative benefits associated with the alternatives considered in this analysis. If a benefit applies to a certain alternative, it is denoted with a checkmark.

Table 3‑5

| **Benefit Description** | **Alternative 4**  **Baseline** | **Alternative 1**  **Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020** | **Alternative 2**  **Unit Cost Recovery** | **Alternative 3**  **Across the Board Adjustment** |
| --- | --- | --- | --- | --- |
| Secure Aggregate Revenue to Recover Aggregate | -- | ✓ | ✓ | ✓ |
| Fee Schedule Design Benefits | -- | ✓ | -- | -- |

All of the alternatives, other than the Baseline, secure sufficient aggregate revenue to recover aggregate costs. However, the only alternative that offers additional benefits related to fee schedule design is Alternative 1. These benefits will be discussed in more detail in Section 4.

### Transfer Estimates

OMB Circular A-4 details the importance of distinguishing between real costs and transfer payments. Circular A-4 states that “benefit and cost estimates should reflect real resource use. Transfer payments are monetary payments from one group to another that do not affect total resources available to society.” OMB’s “Regulatory Impact Analysis: A Primer” cites “fees to government agencies for goods or services provided by the agency” as an example of transfer payments. Circular A-4 states that transfer payments should be addressed “in a separate discussion of the regulation’s distributional effects.”

The distributional effects of the proposed rule are considered to be minimal given the fee increases contemplated and the equal application of fees to all users of USPTO services, as described herein. Further, the USPTO’s final fee schedule and the other three alternatives discussed herein apply fees for each service equally, regardless of the customer’s point of origin, technology, or sector of the economy.

The Baseline fee revenue for all patent fees was used to estimate the Baseline transfer amount. This is a reasonable baseline estimate, because these fees represent the current patent fee schedule, in the absence of pending rulemakings.

Circular A-4 states that a discount factor should be used to adjust for differences in timing. As stated in Circular A-4, invested resources “will normally earn a positive return, so current consumption is more expensive than future consumption, since you are giving up that expected return on investment when you consume today.” On the other hand, “people generally prefer present to future consumption. They are said to have positive time preference.” Circular A-4 states that estimates should be provided using both three percent and seven percent discount rates, to show the sensitivity of the estimates to the discount rate assumption.

Table 3-6, Table 3-7, and Table 3-8 compare the undiscounted and three and seven percent discounted amounts of transfers for each Alternatives 1, 2, and 3 to the Baseline. Dollar values reflected in Table 3-6, Table 3-7 and Table 3-8 are in constant FY 2020 dollars using the CBO estimate of CPI-U as the inflation index. The Office calculates transfers as the total amount of money paid by patent applicants and patent holders to the Office over the Baseline estimate. Across undiscounted and three and seven percent discount rates, the Office estimates the increase in transfers to be the greatest for Alternative 3, when compared to the Baseline. Alternative 1 and Alternative 2 are nearly equal over the five year time frame.

**Table 3‑6**

| **Patent Fee Transfers (Aggregate Fee Revenue)[[2]](#footnote-3) by Alternative – *Undiscounted* (Constant FY 2020 dollars in millions)** | | | | | |
| --- | --- | --- | --- | --- | --- |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** |
| **Baseline (Alternative 4) – Fee Revenue** | $3,095 | $3,113 | $3,229 | $3,155 | $3,204 |
| **Alternative 1: Proposed Fee Schedule –Setting and Adjusting Patent Fees during Fiscal Year 2020 – Fee Revenue** | $3,095 | $3,275 | $3,509 | $3,428 | $3,480 |
| *Transfer Amount from Baseline for Alternative 1* | $0 | $163 | $281 | $274 | $277 |
| **Alternative 2: Unit Cost Recovery – Fee Revenue** | $3,095 | $3,370 | $3,480 | $3,407 | $3,443 |
| *Transfer Amount from Baseline for Alternative 2* | $0 | $257 | $252 | $252 | $240 |
| **Alternative 3: Across the Board Adjustment – Fee Revenue** | $3,095 | $3,285 | $3,522 | $3,441 | $3,494 |
| *Transfer Amount from Baseline for Alternative 3* | $0 | $172 | $293 | $287 | $291 |

**Table 3‑7**

| **Patent Fee Transfers (Aggregate Fee Revenue) by Alternative – 3% *Discount* (Constant FY 2020 dollars in millions)** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **Total (Net Present Value)** | **Annualized (Net Present Value)** |
| **Baseline (Alternative 4) - Fee Revenue** | $3,004 | $2,934 | $2,955 | $2,803 | $2,763 | $14,459 | $3,157 |
| **Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020 - Fee Revenue** | $3,004 | $3,087 | $3,212 | $3,046 | $3,002 | $15,351 | $3,352 |
| *Transfer Amount from Baseline for Alternative 1* | $0 | $153 | $257 | $243 | $239 | $892 | $195 |
| **Alternative 2: Unit Cost Recovery - Fee Revenue** | $3,004 | $3,177 | $3,185 | $3,027 | $2,970 | $15,363 | $3,355 |
| *Transfer Amount from Baseline for Alternative 2* | $0 | $243 | $230 | $224 | $207 | $904 | $197 |
| **Alternative 3: Across the Board Adjustment Fee Revenue** | $3,004 | $3,096 | $3,223 | $3,058 | $3,014 | $15,395 | $3,362 |
| *Transfer Amount from Baseline for Alternative 3* | $0 | $162 | $268 | $255 | $251 | $936 | $204 |

**Table 3‑8**

| **Patent Fee Transfers (Aggregate Fee Revenue) by Alternative – 7% *Discount* (Constant FY 2020 dollars in millions)** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **Total (Net Present Value)** | **Annualized (Net Present Value)** |
| **Baseline (Alternative 4) - Fee Revenue** | $2,892 | $2,719 | $2,636 | $2,407 | $2,284 | $12,938 | $3,155 |
| **Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020 - Fee Revenue** | $2,892 | $2,861 | $2,865 | $2,616 | $2,481 | $13,715 | $3,345 |
| *Transfer Amount from Baseline for Alternative 1* | $0 | $142 | $229 | $209 | $197 | $777 | $190 |
| **Alternative 2: Unit Cost Recovery - Fee Revenue** | $2,892 | $2,944 | $2,841 | $2,599 | $2,455 | $13,731 | $3,349 |
| *Transfer Amount from Baseline for Alternative 2* | $0 | $225 | $205 | $192 | $171 | $793 | $193 |
| **Alternative 3: Across the Board Adjustment - Fee Revenue** | $2,892 | $2,869 | $2,875 | $2,625 | $2,491 | $13,752 | $3,354 |
| *Transfer Amount from Baseline for Alternative 3* | $0 | $150 | $239 | $218 | $207 | $814 | $199 |

* 1. Summary of the Proposed Fee Schedule (Alternative 1)

The Accounting Statement (as shown in Table 3-9) summarizes the qualitative costs and benefits as well as other impacts of the patent fee schedule (Alternative 1) set forth in the proposed rule. Overall, this proposed fee schedule (Alternative 1) has significant qualitative benefits to patent applicants, patent holders, other patent stakeholders, and society, with minimal qualitative costs to the Office.

Table 3‑9

| **Agency/Program Office: United States Patent and Trademark Office**  **Rule Title: Setting and Adjusting Patent Fees during Fiscal Year 2020**  **RIN#: 0651-AD31**  **Date:** | | | | |
| --- | --- | --- | --- | --- |
| ***Category*** | ***Primary Estimate*** | ***Minimum Estimate*** | ***Maximum Estimate*** | ***Source Citation*** |
|  | **FY 2020 – FY 2024** | | |  |
| **BENEFITS (*see* section 4 for a detailed explanation of the benefits related to the baseline and alternatives)** | | | | |
| Incremental Unquantified (Qualitative) Benefits | The proposed fee schedule allows for optimizing patent quality and timeliness and delivering organizational excellence through continued improvements to the USPTO IT systems and infrastructure, and ensuring financial sustainability. This significantly increases the value of patents by advancing commercialization of new technologies sooner and reduces uncertainty regarding the scope of patent rights, which fosters innovation and has a positive effect on economic growth. The fee schedule design is also improved over the current fee schedule to better support key policy factors. | | | RIA Section 4 |
| **COSTS (*see* section 4 for a detailed explanation of the costs related to the baseline and alternatives)** | | | | |
| Incremental Unquantified (Qualitative) Costs | The Office does not anticipate that the adjustments in the final fee schedule will increase the compliance costs for users to obtain USPTO services. | | | RIA Section 4 |
| **TRANSFERS (*see* section 3 for a detailed explanation of Transfers)** | | | | |
| Total Monetized Transfers: “On Budget” | $777 | $738 | $816 | RIA Section 3 |
| From Whom to Whom | From patent applicants and patent owners to the U.S. Government | | |  |
| **Other Impacts** | | | | |
| ***Category*** | ***Effects*** | | | ***Source Citation*** |
| Effects on State, Local, and/or Tribal Governments | n/a | | | n/a |
| Effects on Small Businesses | Changes in patent fees can affect further innovation and commercialization by small entities. The patent fee schedule includes discounts for small and micro entities for certain fees. The estimated impact on small businesses is addressed in the Initial Regulatory Flexibility Analysis. | | | Initial Regulatory Flexibility Analysis (IRFA) |
| Effects on Growth | The impact of patent fee changes on fostering innovation, which helps drive economic growth, was an important factor in this analysis. The proposed fee schedule is expected to produce the revenue needed to achieve the patent-related strategic priorities encompassed in the Strategic Plan. | | | RIA |

The qualitative benefits of the proposed fee schedule (Alternative 1) are (1) improvements in the design of the fee schedule when bearing in mind key policy factors and (2) securing sufficient aggregate revenue to recover aggregate costs.

As to the first benefit, the design of the proposed fee schedule (Alternative 1) includes several changes that would better achieve fee setting policy factors than the current fee schedule. Specifically, the proposed fee schedule continues to foster innovation, competitiveness, and economic growth by keeping front-end fees below the Office’s cost in order to keep barriers to entry into the patent system low. Also, Alternative 1 includes carefully targeted fee adjustments rather than increasing all fees equally. These targeted adjustments have been proposed to facilitate the effective administration of the patent system.

The proposed fee schedule also fulfills the goal of ensuring financial sustainability to facilitate effective USPTO operations by securing the USPTO’s minimum acceptable operating reserve balance in FY 2021 and gradually building from there toward the optimal reserve target during the five year planning horizon. In the proposed fee schedule, the Office focused on prioritizing spending and gradually building the operating reserve in order to build resiliency against financial shocks. At optimal levels, the reserve will allow the Office to operate for three months in the event of interruptions in the ability to access collected fees, such as during a government shutdown. The reserve would also be available during a period of unanticipated reductions in revenue or increases in operating expenses, such as during a domestic or global economic crisis, or major departures from the estimated number of patent applications received.

No qualitative costs are identified for the Proposed Rule Fee Schedule (Alternative 1).

The transfers identified in the proposed fee schedule (Alternative 1) represent the aggregate increase in user fee payments. The aggregate increase in user fee payments associated with the Proposed Rule Fee Schedule (Alternative 1) is expected to be higher than the Baseline (Alternative 4). The additional fee revenue will allow the Office to continue efforts to optimize patent application pendency and examination timeframes, issue highly reliable patents, foster innovation through business effectiveness, enhance the operations of the PTAB, optimize speed, quality and cost-effectiveness of IT delivery to achieve business value, and ensure financial sustainability to facilitate effective patent operations.

In summary, based on the analysis of costs and benefits, the overall benefit of the proposed fee schedule is the most significant. For a minimal cost, it supports key policy factors better than the other alternatives or the Baseline.

# ANALYSIS OF BASELINE AND ALTERNATIVES

The Office identified three alternative patent fee schedules and assessed them against the current patent fee schedule (Baseline) to assess their ability to meet the rulemaking’s strategies and goals. The subsections below provide a detailed description of the Baseline and other alternatives. Each description contains an overview of the key indicators impacting the costs and benefits of the alternative.

* 1. Baseline (Alternative 4, Current Fee Schedule)

**Table 4-1**

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **Total** |
| **Budgetary Requirements** | **$3,172** | **$3,326** | **$3,434** | **$3,524** | **$3,626** | **$17,082** |
| Alternative 4: Baseline – Fee Revenue | $3,095 | $3,191 | $3,392 | $3,396 | $3,531 | $16,605 |
| Other Income | $37 | $37 | $37 | $37 | $37 | $185 |
| **Aggregate Revenue** | **$3,132** | **$3,228** | **$3,429** | **$3,433** | **$3,568** | **$16,790** |
| Operating Reserve | $203 | $106 | $102 | $12 | ($45) |  |
| Optimal Operating Reserve | $793 | $832 | $859 | $881 | $907 |  |
| **Optimal Operating Reserve Surplus (Deficit)** | **($590)** | **($726)** | **($757)** | **($869)** | **($952)** |  |

* + 1. Description of the Baseline

The Baseline for this analysis is the current patent fee schedule that became effective on January 16, 2018. The Office estimates that the Baseline would generate approximately $3.1 billion in patent fees during FY 2020.

The Baseline would not secure aggregate revenue to recover aggregate costs laid out in the FY 2020 Budget. Under the Baseline, the Office only expects to collect sufficient revenue to continue executing some, not all, of the patent priorities. For example, in FY 2020, the USPTO plans to grow the size of its examination corps by 246 examiners (roughly 3 percent) to position the office to continue progress reducing application pendency and examination timeframes while also allowing examiners more time to work on each application to improve patent reliability. The Baseline neither provides sufficient resources to hire the same number of examiners, nor does it provide sufficient resources to build the patent operating reserve to its optimal level in the five year planning horizon. In fact, current estimates project that the USPTO will withdraw funds from the patent operating reserve in both FY 2019 and FY 2020, and would continue to do so every year under the Baseline, until the reserve is exhausted during FY 2024. As discussed in the NPRM and the FY 2020 Budget, funding an operating reserve as a part of the Office’s regular budgetary requirements aligns with the USPTO’s mission support goal of delivering organizational excellence by ensuring financial sustainability to facilitate effective USPTO operations. This will prevent the USPTO from having to make short-term crisis-based spending adjustments that affect the delivery of the patent performance commitments.

* 1. Alternative 1 – Proposed Rule Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020

**Table 4-2**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Patent Costs and Revenue by Alternative** | | | | | | |
| **(dollars in millions)** | | | | | | |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **Total** |
| **Budgetary Requirements** | $3,172 | $3,326 | $3,434 | $3,524 | $3,626 | $17,082 |
| Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020 – Fee Revenue | $3,095 | $3,358 | $3,687 | $3,690 | $3,836 | $17,666 |
| Other Income | $37 | $37 | $37 | $37 | $37 | $185 |
| **Aggregate Revenue** | $3,132 | $3,395 | $3,724 | $3,727 | $3,873 | $17,851 |
| Operating Reserve | $203 | $272 | $562 | $765 | $1,012 |  |
| Optimal Operating Reserve | $793 | $832 | $859 | $881 | $907 |  |
| **Optimal Operating Reserve Surplus (Deficit)** | ($590) | ($560) | ($297) | ($116) | $106 |  |

* + 1. Description of Alternative 1

The Proposed Rule Fee Schedule (Alternative 1) is the recommended fee schedule set forth in the proposed rule. Transitioning to the proposed fee schedule in FY 2021 would provide the USPTO with a 5.2 percent increase in fee collections over the Baseline fee collection level. Once fully transitioned to the new fee collection level, the Office estimates that FY 2022 fee collections would exceed FY 2022 Baseline fee collections by 8.7 percent. The aggregate revenue would be sufficient to recover the aggregate cost of patent operations, to support the Office’s strategic priorities to optimize patent application pendency and examination timeframes, issue highly reliable patents, foster innovation through business effectiveness, enhance the operations of the PTAB, optimize speed, quality and cost-effectiveness of IT delivery to achieve business value, and ensure financial sustainability to facilitate effective USPTO operations. With Alternative 1, the Office projects to first reach the optimal operating reserve balance during FY 2024, and FY 2025 would be the first year in which the optimal operating reserve balance would be in place at the beginning of the fiscal year. The FY 2024 optimal reserve balance is projected to be $907 million, and the projected reserve level entering the fiscal year is $765 million. These estimates do not reflect the 2019 1.9 percent pay raise as authorized in the Consolidated Appropriation Act, 2019, Pub. L. 116-6, 133 Stat. 13, which was passed after the cost estimates for the FY 2020 Budget had been finalized. This new requirement will increase the patent budgetary requirements by approximately $31-$44 million per year. This will result in a cumulative impact of $245 million over the budget horizon, with a projected patent operating reserve balance of $767 million by the end FY 2024. The USPTO will continue to assess the patent operating reserve balance against its target balance annually, and at least every two years, the Office will evaluate whether the target balance continues to be necessary and sufficient to provide the necessary funding stability. Per the Office’s operating reserve policy, if the operating reserve balance is projected to exceed the optimal level by 10 percent for two consecutive years in a future five-year budget forecast, the Office will consider fee reductions. It is important for the Office to balance accomplishing the priorities together so that once it achieves the strategic goals and objectives, it has sufficient resources to maintain them.

The proposed fee schedule also aligns with the Office’s fee setting policy factors. Like the Baseline, Alternative 1 sets many fees either below or above cost consistent with the key policy factors of promoting innovation strategies, aligning fees with the full cost of products and services, facilitating effective administration of the patent system, and offering patent processing options to applicants (*see* Table 4-3). The proposed fee schedule also maintains the front-end/back-end balance that has been the cornerstone of the patent fee schedule design for years.

**Table 4-3**

|  | **Patent Fee Rates** |  |
| --- | --- | --- |
|  | **Baseline Fee Rate** | **Alternative 1 Fee Rate** |
| Filing | $300 | $320 |
| Search | $660 | $700 |
| Examination | $760 | $800 |
| First RCE | $1,300 | $1,360 |
| **Front-End Fees** | **$3,020** | **$3,180** |
| Issue | $1,000 | $1,200 |
| 1st Stage Maintenance | $1,600 | $2,000 |
| 2nd Stage Maintenance | $3,600 | $3,760 |
| 3rd Stage Maintenance | $7,400 | $7,700 |
| **Back-End Fees** | **$13,600** | **$14,660** |
| **Total Fees** | **$16,620** | **$17,840** |

As shown in Table 4-3, the cost of securing and maintaining a patent through a typical prosecution sequence for its full 20-year term increases by $1,220 (7.3 percent) for Alternative 1. Assuming a three percent discount rate, the net present value of investing in a patent for Alternative 1 is $13,363, compared to a net present value of $12,400 for the Baseline.

Table 4-4 presents fee adjustments included in Alternative 1 that have the greatest impact on patent revenue. Large, small, and micro entity dollar and percent changes are compared to current large, small, and micro entity fees. A complete list of fee changes for Alternative 1 can be found in the document titled “Table of Patent Fee Changes – Current, Proposed and Unit Cost Recovery,” available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting>.

Table 4‑4

| **Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Current and Proposed Fees** | | | | | | |
| **Description** | **Current Fees** | | | **Proposed Fees** | | |
| **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** | **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** |
|
|  |
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $300 | $150 | $75 | $320 | $160 | $80 |
| **7%** | **7%** | **7%** |
| Non-DOCX Filing Surcharge Fee (may be required) | n/a | | | $400 | $200 | $100 |
| **n/a** | **n/a** | **n/a** |
| Basic Filing Fee – Utility (Electronic Filing) | $300 | $75 | $75 | $320 | $80 | $80 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Design | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Basic Filing Fee – Design (CPA) | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Basic Filing Fee – Plant | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Provisional Application Filing Fee | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Reissue | $300 | $150 | $75 | $320 | $160 | $80 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Reissue (CPA) | $300 | $150 | $75 | $320 | $160 | $80 |
| **7%** | **7%** | **7%** |
| Surcharge – Late Filing Fee, Search Fee, Examination Fee or Oath or Declaration, or Application Filed Without at least One Claim or by Reference | $160 | $80 | $40 | $160 | $80 | $40 |
| **0%** | **0%** | **0%** |
| Each Independent Claim in Excess of Three | $460 | $230 | $115 | $480 | $240 | $120 |
| **4%** | **4%** | **4%** |
| Each Reissue Independent Claim in Excess of Three | $460 | $230 | $115 | $480 | $240 | $120 |
| **4%** | **4%** | **4%** |
| Each Claim in Excess of 20 | $100 | $50 | $25 | $100 | $50 | $25 |
| **0%** | **0%** | **0%** |
| Each Reissue Claim in Excess of 20 | $100 | $50 | $25 | $100 | $50 | $25 |
| **0%** | **0%** | **0%** |
| Multiple Dependent Claim | $820 | $410 | $205 | $860 | $430 | $215 |
| **5%** | **5%** | **5%** |
| Utility Search Fee | $660 | $330 | $165 | $700 | $350 | $175 |
| **6%** | **6%** | **6%** |
| Design Search Fee | $160 | $80 | $40 | $160 | $80 | $40 |
| **0%** | **0%** | **0%** |
| Plant Search Fee | $420 | $210 | $105 | $440 | $220 | $110 |
| **5%** | **5%** | **5%** |
| Reissue Search Fee | $660 | $330 | $165 | $700 | $350 | $175 |
| **6%** | **6%** | **6%** |
| Utility Examination Fee | $760 | $380 | $190 | $800 | $400 | $200 |
| **5%** | **5%** | **5%** |
| Design Examination Fee | $600 | $300 | $150 | $640 | $320 | $160 |
| **7%** | **7%** | **7%** |
| Plant Examination Fee | $620 | $310 | $155 | $660 | $330 | $165 |
| **6%** | **6%** | **6%** |
| Reissue Examination Fee | $2,200 | $1,100 | $550 | $2,320 | $1,160 | $580 |
| **5%** | **5%** | **5%** |
| Utility Issue Fee | $1,000 | $500 | $250 | $1,200 | $600 | $300 |
| **20%** | **20%** | **20%** |
| Reissue Issue Fee | $1,000 | $500 | $250 | $1,200 | $600 | $300 |
| **20%** | **20%** | **20%** |
| Design Issue Fee | $700 | $350 | $175 | $740 | $370 | $185 |
| **6%** | **6%** | **6%** |
| Plant Issue Fee | $800 | $400 | $200 | $840 | $420 | $210 |
| **5%** | **5%** | **5%** |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,300 | $650 | $325 | $1,360 | $680 | $340 |
| **5%** | **5%** | **5%** |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,900 | $950 | $475 | $2,000 | $1,000 | $500 |
| **5%** | **5%** | **5%** |
| Submission of an Information Disclosure Statement | $240 | $120 | $60 | $260 | $130 | $65 |
| **8%** | **8%** | **8%** |
| Certificate of Correction | $150 | | | $160 | | |
| **7%** | | |
| Notice of Appeal | $800 | $400 | 200 | $840 | $420 | 210 |
| **5%** | **5%** | **5%** |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $2,240 | $1,120 | 560 | $2,360 | $1,180 | 590 |
| **5%** | **5%** | **5%** |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $15,500 | | | $19,500 | | |
| **26%** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $15,000 | | | n/a | | |
| **n/a** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 20 Claims | n/a | | | $18,750 | | |
| **n/a** | | |
| *Inter Partes* Review Request of Each Claim in Excess of 20 | $300 | | | $375 | | |
| **25%** | | |
| *Inter Partes* Post-Institution Request of Each Claim in Excess of 15 | $600 | | | n/a | | |
| **n/a** | | |
| *Inter Partes* Post-Institution Request of Each Claim in Excess of 20 | n/a | | | $750 | | |
| **n/a** | | |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $16,000 | | | $20,000 | | |
| **25%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $22,000 | | | n/a | | |
| **n/a** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 20 Claims | n/a | | | $27,500 | | |
| **n/a** | | |
| Post-Grant or Covered Business Method Review Request of Each Claim in Excess of 20 | $375 | | | $475 | | |
| **27%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Request of Each Claim in Excess of 15 | $825 | | | n/a | | |
| **n/a** | | |
| Post-Grant or Covered Business Method Review Post-Institution Request of Each Claim in Excess of 20 | n/a | | | $1,050 | | |
| **n/a** | | |
| Basic National Stage Fee | $300 | $150 | $75 | $320 | $160 | $80 |
| **7%** | **7%** | **7%** |
| National Stage Search Fee – U.S. Was the ISA | $140 | $70 | $35 | $140 | $70 | $35 |
| **0%** | **0%** | **0%** |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $520 | $260 | $130 | $540 | $270 | $135 |
| **4%** | **4%** | **4%** |
| National Stage Search Fee – All Other Situations | $660 | $330 | $165 | $700 | $350 | $175 |
| **6%** | **6%** | **6%** |
| National Stage Examination Fee – All Other Situations | $760 | $380 | $190 | $800 | $400 | $200 |
| **5%** | **5%** | **5%** |
| National Stage – Each Independent Claim in Excess of Three | $460 | $230 | $115 | $480 | $240 | $120 |
| **4%** | **4%** | **4%** |
| National Stage – Each Claim in Excess of 20 | $100 | $50 | $25 | $100 | $50 | $25 |
| **0%** | **0%** | **0%** |
| National Stage – Multiple Dependent Claim | $820 | $410 | $205 | $860 | $430 | $215 |
| **5%** | **5%** | **5%** |
| For maintaining an original or any reissue patent, due at 3.5 years | $1,600 | $800 | $400 | $2,000 | $1,000 | $500 |
| **25%** | **25%** | **25%** |
| For maintaining an original or any reissue patent, due at 7.5 years | $3,600 | $1,800 | $900 | $3,760 | $1,880 | $940 |
| **4%** | **4%** | **4%** |
| For maintaining an original or any reissue patent, due at 11.5 years | $7,400 | $3,700 | $1,850 | $7,700 | $3,850 | $1,925 |
| **4%** | **4%** | **4%** |
| Extension for response within first month | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Extension for response within second month | $600 | $300 | $150 | $640 | $320 | $160 |
| **7%** | **7%** | **7%** |
| Extension for response within third month | $1,400 | $700 | $350 | $1,480 | $740 | $370 |
| **6%** | **6%** | **6%** |
| Extension for response within fourth month | $2,200 | $1,100 | $550 | $2,320 | $1,160 | $580 |
| **5%** | **5%** | **5%** |
| Extension for response within fifth month | $3,000 | $1,500 | $750 | $3,160 | $1,580 | $790 |
| **5%** | **5%** | **5%** |
| Pro Hac Vice Admission Fee | n/a | | | $250 | | |
| **n/a** | | |
| Inactive Patent Practitioner Fee | n/a | | | $70 | | |
| **n/a** | | |
| Annual Active Patent Practitioner Fee with certifying continuing legal education completion | n/a | | | $240 | | |
| **n/a** | | |
| Annual Active Patent Practitioner Fee without certifying continuing legal education completion | n/a | | | $340 | | |
| **n/a** | | |
| Copy of Patent Bibliographic Extract and Other DVD (Optical Disc) Products Not Otherwise Provided For | $50 | | | $0 | | |
| **-100%** | | |
| Copy of U.S. Patent Custom Data Extracts | $100 | | | $0 | | |
| **-100%** | | |
| Copy of Selected Technology Reports, Miscellaneous Technology Areas | $30 | | | $0 | | |
| **-100%** | | |

* + 1. Costs of Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020

The Office did not identify any qualitative costs to Alternative 1. The fee rates recover enough aggregate revenue to support the Office’s goals, and there is no cost to the fee schedule design.

* + 1. Benefits of Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2020

The Office identified two benefits for the Proposed Rule Fee Schedule (Alternative 1): fee schedule design benefits and securing aggregate revenue to recover aggregate costs. The following discussion of the fee schedule design benefits evaluates how the fee adjustments reflect the key fee setting policy factors, namely, promoting innovation strategies, aligning fees with the full cost of products and services, facilitating effective administration of the patent system, and offering patent processing options for applicants. This discussion only includes fees for which the Office can draw reasonable conclusions about the benefits as they relate to fee schedule design; therefore, the discussion that follows does not address all of the fees included in Table 4-4. A more detailed discussion of the fee change rationale for each fee is available in Part V of the NPRM.

1. ***Promoting innovation strategies by setting select fees below cost:*** Currently, the large entity filing, search, and examination fees for a utility patent recover only a portion of the average unit cost for prosecuting a patent application (*see* “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2020 – Activity Based Information and Patent Fee Unit Expense Methodology”, available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting>). This alternative continues the long-standing policy factor of promoting innovation strategies by keeping front-end fees (e.g., filing, search, and examination) below cost with a back-end subsidy.

To help balance aggregate costs with aggregate revenues, the Office is proposing to increase the total filing, search, and examination fees in this alternative to recover slightly more of the average unit cost for processing a patent application while keeping the total fees paid below the Office’s costs (*see* cost at Table 4-5). Maintaining below-cost entry fees as part of the fee schedule design is a benefit and supports the key fee setting policy consideration of promoting innovation strategies*.*

In addition to front-end utility fee rate changes, fee rates for Design and Plant applications are proposed to increase; still, these fees continue to be partially subsidized by other fees to encourage entry into the IP system.

1. ***Aligning fees with the full cost of products and services:*** The proposed fee schedule (Alternative 1) better aligns the full cost of products and services without increasing the fee rate for every fee code by the same percentage. One example of this is the PTAB trial fees. On April 24, 2018, the U.S. Supreme Court issued *SAS Institute Inc.* v. *Iancu*, 2018 WL 1914661, (U.S. Apr. 24, 2018). As required by the decision, the PTAB will institute a trial as to all claims or none. Previously, the PTAB has instituted a trial on just some of the contested claims. This has increased the amount of time spent per case post-institution. The Office has also modified its pre-institution practice to take into account the impacts of the *SAS* decision. For example, prior to *SAS*, the PTAB did not generally address all arguments at institution. Post *SAS*, for purposes of deciding whether to institute trial on a petition, the Office’s policy is to provide details to the parties to the extent practicable, including responding to arguments in a patent owner’s preliminary response that were not the basis for the decision whether or not to institute. This has increased the amount of time spent per case pre-institution. Other implementations, such as providing automatic sur-replies and pre-hearing conferences, were made to help provide additional fairness and certainty to the parties and public while continuing the PTAB’s practice of rendering high quality decisions within the statutory time limits applicable to AIA trial proceedings. These changes related to the *SAS* decision will increase the average cost to conduct each proceeding. At this time, best estimates indicate that the average expense attributable to the institution stage of *inter partes* reviews has increased more than 20 percent between the second quarter of fiscal year 2018 to the fourth quarter of fiscal year 2018, and that the average expense attributable to the final decision stage of *inter partes* reviews has also increased more than 20 percent during the same period. By targeting a fee increase to the AIA trial fees, the Office is proposing to reduce the subsidization of these proceedings, allowing for the Office to keep other unrelated fee rate changes minimized.
2. ***Facilitating effective administration of the patent system:*** The Office proposes new fees divided into subcategories according to the function of the fees, including: (a) non DOCX filing surcharge fee; (b) Pro Hac Vice; and (c) Annual Active Patent Practitioner fee. These fees are established in order to facilitate the effective administration of the patent system.

The Office proposes a new fee to be charged for non-provisional utility filings submitted in a format other than DOCX in order to encourage more applicants to file in a structured text format. This will allow the Office to realize increased efficiencies in the patent process such as improved accessibility for sight-impaired customers, higher data quality, greater reuse of content, improved search for patent applications and submissions, streamlining of the application process, and improved examination consistency by using automated tools to analyze text. This contributes to the USPTO’s plan to begin the automation of publication processes, which would eventually lead to large cost reductions in production of patent artifacts (grants and pre grant publications), and contributes to the USPTO’s plan to begin the automation of processes to assist in formalities reviews, classification, and routing which leads to improved patent quality, reduced pendency, and greater consistency.

Additionally, the Office proposes to charge a fee to appear pro hac vice in an *inter* *partes* review proceeding. The proposed non-registered practitioner fee is for each proceeding that a non-registered practitioner requests admission to practice. If a non-registered practitioner requests admission to multiple AIA trial proceedings, multiple requests and fees would be required, one for each proceeding. By instituting this fee, the Office is able to shift the cost of this service of processing petitions from the overall AIA trial fees to the petitioning, non USPTO registered counsel.

Also, the Office proposes to implement an annual active patent practitioner fee under 37 C.F.R. § 1.21 to shift the costs of the services the Office of Enrollment and Discipline (OED) provides practitioners in administering the disciplinary system and roster maintenance from patent applicants and owners to the practitioners who most directly benefit from such services. The intent of the annual active patent practitioner fee is to offset the costs of OED operations, including discipline and roster maintenance, implementation of the annual fee (both IT and personnel costs), the Patents Pro Bono Program, the Law School Program, and USPTO Continuing Legal Education (CLE) and outreach efforts.

Finally, under this alternative, the Office is proposing the elimination of several fees to help streamline the patent fee schedule, while also focusing USPTO workforce efforts on producing products that benefit the general public, rather than producing outputs for individual customers that can be obtained through other, more efficient means. The elimination of fees for bibliographic data, technology reports, and custom data extracts comply with Presidential Executive Order 13681, Improving the Security of Consumer Financial Transactions. All of these changes are proposed to provide increased clarity to stakeholders regarding the products and services the USPTO offers and their associated fee rates.

***Summary of Fee Design Benefits for Alternative 1:*** Alternative 1 captures the most fee schedule design benefits of any of the alternatives examined. The Office designed the fee schedule around the key fee setting policy factors referenced throughout this document and the NPRM. As demonstrated by the continuation of a front-end/back-end subsidy structure and the new and revised fees discussed above, this alternative designs the fee structure in a way to achieve the Office’s proposed rulemaking and operational strategies and goals and to benefit patent stakeholders. These additional fee schedule design benefits are unique to Alternative 1 and are not present in the Baseline or in the other two Alternatives.

***Summary of Secure Sufficient Aggregate Revenue to Recover Aggregate Costs for Alternative 1:*** The proposed fee schedule secures sufficient aggregate patent revenue to allow for optimizing patent application pendency and examination timeframes, issuing highly reliable patents, fostering innovation through business effectiveness, enhancing the operations of the PTAB, optimizing speed, quality and cost-effectiveness of IT delivery to achieve business value, and ensuring financial sustainability to facilitate effective USPTO operations.

* 1. Alternative 2 – Unit Cost Recovery

Table 4-5

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **Total** |
| **Budgetary Requirements** | $3,172 | $3,326 | $3,434 | $3,524 | $3,626 | $17,082 |
| Alternative 2: Unit Cost Recovery – Fee Revenue | $3,095 | $3,455 | $3,657 | $3,667 | $3,795 | $17,669 |
| Other Income | $37 | $37 | $37 | $37 | $37 | $185 |
| **Aggregate Revenue** | $3,132 | $3,492 | $3,694 | $3,704 | $3,832 | $17,854 |
| Operating Reserve | $203 | $369 | $629 | $809 | $1,015 |  |
| Optimal Operating Reserve | $793 | $832 | $859 | $881 | $907 |  |
| **Optimal Operating Reserve Surplus (Deficit)** | ($590) | ($463) | ($230) | ($72) | $109 |  |

* + 1. Description of Alternative 2

The Unit Cost Recovery (Alternative 2) is a fee structure that would set most individual large entity fees at the historical cost of performing the activities related to the particular service in FY 2018. This alternative continues existing small and micro entity discounts as required by law. It is important to note that the Alternative 2 fee rates for FY 2021 through FY 2024 are based on FY 2018 historical costs. The Office recognizes that this approach does not account for inflationary factors that will likely increase the costs of certain patent services and necessitate higher fees in the out-years. However the FY 2018 data is the best unit cost data available to inform this analysis.

Similar to Alternatives 1 and 3, the aggregate revenue would be sufficient to recover the aggregate cost of patent operations and support the Office’s strategic priorities to optimize patent application pendency and examination timeframes, issue highly reliable patents, foster innovation through business effectiveness, enhance the operations of the PTAB, optimize speed, quality and cost-effectiveness of IT delivery to achieve business value, and ensure financial sustainability to facilitate effective USPTO operations. It is important for the Office to balance accomplishing priorities together so that once it achieves the strategic goals and objectives, it has sufficient resources to maintain them.

As shown in Table 4-6, the fee schedule in Alternative 2 includes the highest combined filing, search, and examination fee rates and the lowest maintenance fee rates of any of the alternatives. As shown in Table 4-6, the cost of securing and maintaining a patent through a typical prosecution sequence for its full 20-year term increases by $2,180 (13.1 percent) for Alternative 2. Assuming a three percent discount rate, the net present value of investing in a patent for this alternative is $14,954, compared to a net present value of $12,400 for the Baseline. For a unit cost recovery fee schedule, in particular, the difference in front-end fees is most telling, $7,460 ($7,105 net present value assuming three percent discounting) under this alternative’s fee schedule instead of $3,020 ($2,860 net present value assuming three percent discounting) under the baseline fee schedule.

**Table 4-6**

|  | **Patent Fee Rates** |  |
| --- | --- | --- |
|  | **Baseline Fee Rate** | **Alternative 2 Fee Rate** |
| Filing | $300 | $260 |
| Search | $660 | $2,040 |
| Examination | $760 | $2,680 |
| First RCE | $1,300 | $2,480 |
| **Front-End Fees** | **$3,020** | **$7,460** |
| Issue | $1,000 | $320 |
| 1st Stage Maintenance | $1,600 | $1,400 |
| 2nd Stage Maintenance | $3,600 | $3,140 |
| 3rd Stage Maintenance | $7,400 | $6,480 |
| **Back-End Fees** | **$13,600** | **$11,340** |
| **Total Fees** | **$16,620** | **$18,800** |

This alternative could present significant barriers to those seeking patent protection, because front-end fees would increase significantly for all applicants, even with small and micro entity fee reductions. Further, this alternative is counter to the Office’s general philosophy to charge applicants and holders lower fees when they have less information about the relative value of their innovation. During the initial application stages, applicants often are not sure of the value of their innovation, thus lower front-end fees serve to encourage innovation, even though these front-end services are more costly to the Office. At the back-end, i.e., for maintenance fee payments, applicants know more information related to the commercial value of their innovation and can therefore make more informed decisions regarding maintenance fee payments.

Setting fees at cost recovery is a common practice in the Federal Government. OMB Circular A-25: *User Charges* provides guidance stating that user charges (fees) should be sufficient to recover the full cost to the Federal Government of providing the service, resource, or good when the government is acting in its capacity as sovereign. However, there are several complexities in achieving individual fee cost recovery for the patent fee schedule. The most significant is the statuatory requirement to provide a 50 percent discount on fees to small entities and a 75 percent discount on fees to micro entities. The Office looked at several options for designing this alternative. For example, the Office considered increasing the fee paid by large entities to recover the lost revenue associated with the 50 and 75 percent discounts. However, this would seem to be unduly punitive to large entities. Instead, the Office decided to adjust the large entity fee so that it reflects the full cost of the service provided, and recover lost revenue from small and micro entity discounts through other fees. However, because most fees are set at individual large fee cost recovery, there are not many remaining fees available to provide subsidies to recover the revenue shortfall. There are some fees for which cost data is not available; for these fees the Office chose to retain the current fee rates in this alternative.

A final complexity is that the Office did not receive revenue equal to the full cost of examining the applications currently comprising the backlog when those applications were filed (application fees are set below the cost of the Office). Therefore, if the Office were to implement this alternative, the Office would need to address this funding gap as well. (*See* section 1.3 describing how the Office operated prior to fee setting authority under the AIA).

Given these complexities, the Office requires more revenue to sustain operations than a simple cost recovery alternative would generate. Therefore, the Office adjusted maintenance fee rates to ensure that the aggregate costs laid out in the FY 2020 Budget were met. As a result, this alternative includes maintenance fees set approximately 13.0% lower than the amount of current maintenance fee rates.

The Office theorizes that the high costs of entry into the patent system could lead to a decrease in the incentives to invest in innovative activities among all entities, and especially for small and micro entities. There is a strong possibility that funds previously used for issue and maintenance fee payments could offset the higher front-end costs for some users, but the front-end costs could prove insurmountable for other innovators.

Additional information about the fee cost calculation methodology, including the cost components related to respective fees, is available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting> in the document titled “USPTO Setting and Adjusting Patent Fees during FY 2020 – Activity Based Information and Patent Fee Unit Expense Methodology.” A summary of the unit costs associated with the major fees is presented in Table 4-7. This unit cost information was used to inform the large entity fee rates used in this alternative.

Table 4‑7

| **Fee Description** | **Unit Cost** | | |
| --- | --- | --- | --- |
| **FY 2016** | **FY 2017** | **FY 2018** |
|
|  |
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $260 | $251 | $253 |
| Basic Filing Fee – Utility (Electronic Filing) | $260 | $251 | $253 |
| Basic Filing Fee – Design | $260 | $251 | $253 |
| Basic Filing Fee – Design (CPA) | $875 | $737 | $779 |
| Basic Filing Fee – Plant | $260 | $251 | $253 |
| Provisional Application Filing Fee | $137 | $134 | $150 |
| Basic Filing Fee – Reissue | $258 | $250 | $251 |
| Basic Filing Fee – Reissue (CPA) | $875 | $737 | $779 |
| Utility Search Fee | $1,853 | $1,964 | $2,047 |
| Design Search Fee | $465 | $439 | $497 |
| Plant Search Fee | $1,853 | $1,964 | $2,047 |
| Reissue Search Fee | $1,853 | $1,964 | $2,047 |
| Utility Examination Fee | $2,443 | $2,501 | $2,670 |
| Design Examination Fee | $665 | $687 | $727 |
| Plant Examination Fee | $2,443 | $2,501 | $2,670 |
| Reissue Examination Fee | $2,443 | $2,501 | $2,670 |
| Utility Issue Fee | $307 | $309 | $325 |
| Reissue Issue Fee | $307 | $309 | $325 |
| Design Issue Fee | $307 | $309 | $325 |
| Plant Issue Fee | $307 | $309 | $325 |
| Petition for the Delayed Payment of the Fee for Maintaining a Patent in Force | $111 | $107 | $125 |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $2,150 | $2,235 | $2,470 |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,576 | $1,654 | $1,824 |
| Other Publication Processing Fee | $32 | $30 | $31 |
| Request for Voluntary Publication or Republication | $111 | $107 | $125 |
| Request for Expedited Examination of a Design Application | $111 | $107 | $125 |
| Processing Fee for Provisional Applications | $32 | $30 | $31 |
| Filing a Submission After Final Rejection (*see* 37 CFR 1.129(a)) | $2,150 | $2,235 | $2,470 |
| For Each Additional Invention to be Examined (*see* 37 CFR 1.129(b)) | $2,150 | $2,235 | $2,470 |
| Certificate of Correction | $106 | $129 | $115 |
| Request for *Ex Parte* Reexamination | $31,632 | $30,707 | $37,091 |
| Request for Supplemental Examination | $7,498 | $8,256 | $9,215 |
| Reexamination Ordered as a Result of Supplemental Examination | $31,226 | $29,452 | $36,260 |
| Petitions to the Chief Administrative Patent Judge Under 37 CFR 41.3 | $1,815 | $9,789 | $24,261 |
| Notice of Appeal | $44 | $17 | $23 |
| Filing a Brief in Support of an Appeal in an *Inter Partes* Reexamination Proceeding | $21,268 | $21,412 | $19,955 |
| Request for Oral Hearing | $1,696 | $1,566 | $1,305 |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $4,874 | $5,147 | $5,879 |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $15,389 | $15,922 | $15,016 |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $14,440 | $16,206 | $25,490 |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $18,707 | $17,489 | $21,465 |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $27,304 | $29,990 | $29,842 |
| Petition for a Derivation Proceeding | n/a | n/a |  |
| Petitions Requiring the Petition Fee Set Forth in 37 CFR 1.17(f) (Group I) | $292 | $316 | $275 |
| Petitions Requiring the Petition Fee Set Forth in 37 CFR 1.17(g) (Group II) | $292 | $316 | $275 |
| Petitions Requiring the Petition Fee Set Forth in 37 CFR 1.17(h) (Group III) | $111 | $107 | $125 |
| Petition for Revival of an Abandoned Application for a Patent, for the Delayed Payment of the Fee for Issuing Each Patent, or for the Delayed Response by the Patent Owner in any Reexamination Proceeding | $292 | $316 | $275 |
| Petition for the Delayed Submission of a Priority or Benefit Claim, or to Restore the Right of Priority or Benefit | $292 | $316 | $275 |
| Filing an Application for Patent Term Adjustment | $111 | $107 | $125 |
| Request for Reinstatement of Term Reduced | $111 | $107 | $125 |
| Extension of Term of Patent | $111 | $107 | $125 |
| Initial Application for Interim Extension (*see* 37 CFR 1.790) | $111 | $107 | $125 |
| Subsequent Application for Interim Extension (*see* 37 CFR 1.790) | $111 | $107 | $125 |
| Basic National Stage Fee | $326 | $325 | $319 |
| National Stage Search Fee – U.S. Was the ISA | $325 | $343 | $363 |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $1,853 | $1,964 | $2,047 |
| National Stage Search Fee – All Other Situations | $1,853 | $1,964 | $2,047 |
| National Stage Examination Fee – All Other Situations | $2,443 | $2,501 | $2,670 |
| Transmittal Fee | $295 | $296 | $302 |
| Search Fee – Regardless of Whether There is a Corresponding Application (*see* 35 U.S.C. 361(d) and PCT Rule 16) | $2,027 | $2,211 | $2,157 |
| Supplemental Search Fee When Required, per Additional Invention | $2,027 | $2,211 | $2,157 |
| Transmitting Application to Intl. Bureau to Act as Receiving Office | $5 | $5 | $5 |
| Preliminary Examination Fee – U.S. Was the ISA | $896 | $906 | $998 |
| Preliminary Examination Fee – U.S. Was Not the ISA | $896 | $906 | $998 |
| Supplemental Examination Fee per Additional Invention | $896 | $906 | $998 |
| Application Fee (Non-Refundable) | $265 | $246 | $268 |
| On registration to practice under §11.6 | $530 | $472 | $512 |
| Grant of Limited Recognition Under § 11.9(b) | $530 | $472 | $512 |
| Certificate of Good Standing as an Attorney or Agent | $45 | $41 | $45 |
| Certificate of Good Standing as an Attorney or Agent, Suitable for Framing | $54 | $49 | $54 |
| For Test Administration by Commercial Entity | $512 | $460 | $509 |
| For Test Administration by the USPTO | $731 | $658 | $725 |
| Review of Decision by the Director of Enrollment and Discipline Under § 11.2(c) | $2,165 | $1,918 | $2,074 |
| Review of Decision of the Director of Enrollment and Discipline Under § 11.2(d) | $2,016 | $1,812 | $1,971 |
| On Petition for Reinstatement by a Person Excluded or Suspended on Ethical Grounds, or Excluded on Consent from Practice before the Office | $3,583 | $3,228 | $3,529 |
| Administrative Reinstatement Fee | $999 | $887 | $961 |
| Delinquency Fee | $237 | $224 | $268 |
| Unspecified Other Services, Excluding Labor | N/A | N/A | N/A |
| On Change of Registration From Agent to Attorney | $91 | $83 | $91 |
| For USPTO-Assisted Recovery of ID or Reset of Password for the Office of Enrollment and Discipline Information System | $15 | $14 | $15 |
| For USPTO-Assisted Change of Address Within the Office of Enrollment and Discipline Information System | $15 | $14 | $15 |
| For USPTO-Administered Review of Registration Examination | $555 | $499 | $551 |

Even though this alternative provides sufficient aggregate revenue to recover aggregate costs, Alternative 2 reverses the policy of promoting innovation strategiesvia lower front-end fees. Under this alternative, the increase in front-end fees is the greatest of any of the alternatives considered.

Table 4-8 presents the major fee changes between the Baseline and Alternative 2. A complete list of fee changes for Alternative 2 is available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting> in the document titled, “IRFA Fee Tables.”

Table 4‑8

| **Alternative 2 – Unit Cost Recovery** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Current and Proposed Fees** | | | | | | |
| **Description** | **Current Fees** | | | **Proposed Fees** | | |
| **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** | **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** |
|
|  |
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $300 | $150 | $75 | $260 | $130 | $65 |
| **-13%** | **-13%** | **-13%** |
| Basic Filing Fee – Utility (Electronic Filing) | $300 | $75 | $75 | $260 | $65 | $65 |
| **-13%** | **-13%** | **-13%** |
| Basic Filing Fee – Design | $200 | $100 | $50 | $260 | $130 | $65 |
| **30%** | **30%** | **30%** |
| Basic Filing Fee – Design (CPA) | $200 | $100 | $50 | $780 | $390 | $195 |
| **290%** | **290%** | **290%** |
| Basic Filing Fee – Plant | $200 | $100 | $50 | $260 | $130 | $65 |
| **30%** | **30%** | **30%** |
| Provisional Application Filing Fee | $280 | $140 | $70 | $160 | $80 | $40 |
| **-43%** | **-43%** | **-43%** |
| Basic Filing Fee – Reissue | $300 | $150 | $75 | $260 | $130 | $65 |
| **-13%** | **-13%** | **-13%** |
| Basic Filing Fee – Reissue (CPA) | $300 | $150 | $75 | $780 | $390 | $195 |
| **160%** | **160%** | **160%** |
| Surcharge – Late Filing Fee, Search Fee, Examination Fee or Oath or Declaration, or Application Filed Without at least One Claim or by Reference | $160 | $80 | $40 | $160  **0%** | $80  **0%** | $40  **0%** |
| Each Independent Claim in Excess of Three | $460 | $230 | $115 | $460 | $230 | $115 |
| **0%** | **0%** | **0%** |
| Each Reissue Independent Claim in Excess of Three | $460 | $230 | $115 | $460 | $230 | $115 |
| **0%** | **0%** | **0%** |
| Each Claim in Excess of 20 | $100 | $50 | $25 | $100 | $50 | $25 |
| **0%** | **0%** | **0%** |
| Each Reissue Claim in Excess of 20 | $100 | $50 | $25 | $100 | $50 | $25 |
| **0%** | **0%** | **0%** |
| Multiple Dependent Claim | $820 | $410 | $205 | $820 | $410 | $205 |
| **0%** | **0%** | **0%** |
| Utility Search Fee | $660 | $330 | $165 | $2,040 | $1,020 | $510 |
| **209%** | **209%** | **209%** |
| Design Search Fee | $160 | $80 | $40 | $500 | $250 | $125 |
| **213%** | **213%** | **213%** |
| Plant Search Fee | $420 | $210 | $105 | $2,040 | $1,020 | $510 |
| **386%** | **386%** | **386%** |
| Reissue Search Fee | $660 | $330 | $165 | $2,040 | $1,020 | $510 |
| **209%** | **209%** | **209%** |
| Utility Examination Fee | $760 | $380 | $190 | $2,680 | $1,340 | $670 |
| **253%** | **253%** | **253%** |
| Design Examination Fee | $600 | $300 | $150 | $720 | $360 | $180 |
| **20%** | **20%** | **20%** |
| Plant Examination Fee | $620 | $310 | $155 | $2,680 | $1,340 | $670 |
| **332%** | **332%** | **332%** |
| Reissue Examination Fee | $2,200 | $1,100 | $550 | $2,680 | $1,340 | $670 |
| **22%** | **22%** | **22%** |
| Utility Issue Fee | $1,000 | $500 | $250 | $320 | $160 | $80 |
| **-68%** | **-68%** | **-68%** |
| Reissue Issue Fee | $1,000 | $500 | $250 | $320 | $160 | $80 |
| **-68%** | **-68%** | **-68%** |
| Design Issue Fee | $700 | $350 | $175 | $320 | $160 | $80 |
| **-54%** | **-54%** | **-54%** |
| Plant Issue Fee | $800 | $400 | $200 | $320 | $160 | $80 |
| **-60%** | **-60%** | **-60%** |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,300 | $650 | $325 | $2,480 | $1,240 | $620 |
| **91%** | **91%** | **91%** |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,900 | $950 | $475 | $1,820 | $910 | $455 |
| **-4%** | **-4%** | **-4%** |
| Submission of an Information Disclosure Statement | $240 | $120 | $60 | $240 | $120 | $60 |
| **0%** | **0%** | **0%** |
| Certificate of Correction | $150 | | | $130 | | |
| **-13%** | | |
| Notice of Appeal | $800 | $400 | 200 | $20 | $10 | $5 |
| **-98%** | **-98%** | **-98%** |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $2,240 | $1,120 | 560 | $5,880 | $2,940 | $1,470 |
| **163%** | **163%** | **163%** |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $15,500 | | | $15,920 | | |
| **3%** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $15,000 | | | $16,205 | | |
| **8%** | | |
| *Inter Partes* Review Request of Each Claim in Excess of 20 | $300 | | | $300 | | |
| **0%** | | |
| *Inter Partes* Post-Institution Request of Each Claim in Excess of 15 | $600 | | | $600 | | |
| **0%** | | |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $16,000 | | | $18,825 | | |
| **18%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $22,000 | | | $30,165 | | |
| **37%** | | |
| Post-Grant or Covered Business Method Review Request of Each Claim in Excess of 20 | $375 | | | $375 | | |
| **0%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Request of Each Claim in Excess of 15 | $825 | | | $825 | | |
| **0%** | | |
| Basic National Stage Fee | $300 | $150 | $75 | $320 | $160 | $80 |
| **7%** | **7%** | **7%** |
| National Stage Search Fee – U.S. Was the ISA | $140 | $70 | $35 | $360 | $180 | $90 |
| **157%** | **157%** | **157%** |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $520 | $260 | $130 | $2,040 | $1,020 | $510 |
| **292%** | **292%** | **292%** |
| National Stage Search Fee – All Other Situations | $660 | $330 | $165 | $2,040 | $1,020 | $510 |
| **209%** | **209%** | **209%** |
| National Stage Examination Fee – All Other Situations | $760 | $380 | $190 | $2,680 | $1,340 | $670 |
| **253%** | **253%** | **253%** |
| National Stage – Each Independent Claim in Excess of Three | $460 | $230 | $115 | $460 | $230 | $115 |
| **0%** | **0%** | **0%** |
| National Stage – Each Claim in Excess of 20 | $100 | $50 | $25 | $100 | $50 | $25 |
| **0%** | **0%** | **0%** |
| National Stage – Multiple Dependent Claim | $820 | $410 | $205 | $820 | $410 | $205 |
| **0%** | **0%** | **0%** |
| For maintaining an original or any reissue patent, due at 3.5 years | $1,600 | $800 | $400 | $1,400 | $700 | $350 |
| **-13%** | **-13%** | **-13%** |
| For maintaining an original or any reissue patent, due at 7.5 years | $3,600 | $1,800 | $900 | $3,140 | $1,570 | $785 |
| **-13%** | **-13%** | **-13%** |
| For maintaining an original or any reissue patent, due at 11.5 years | $7,400 | $3,700 | $1,850 | $6,480 | $3,240 | $1,620 |
| **-12%** | **-12%** | **-12%** |
| Extension for response within first month | $200 | $100 | $50 | $200 | $100 | $50 |
| **0%** | **0%** | **0%** |
| Extension for response within second month | $600 | $300 | $150 | $600 | $300 | $150 |
| **0%** | **0%** | **0%** |
| Extension for response within third month | $1,400 | $700 | $350 | $1,400 | $700 | $350 |
| **0%** | **0%** | **0%** |
| Extension for response within fourth month | $2,200 | $1,100 | $550 | $2,200 | $1,100 | $550 |
| **0%** | **0%** | **0%** |
| Extension for response within fifth month | $3,000 | $1,500 | $750 | $3,000 | $1,500 | $750 |
| **0%** | **0%** | **0%** |

* + 1. Costs of Alternative 2 – Unit Cost Recovery

Costs for the Unit Cost Recovery (Alternative 2) consist of fee schedule design costs. Individual fee amounts and their relationship to other fees in the fee schedule affect the fee schedule design costs.

The following discussion of the fee schedule design evaluates how well the fee adjustments reflect the key policy factors, namely promoting innovation strategies, facilitating effective administration of the patent system, and offering patent processing options for applicants. This discussion only includes fees for which the Office can draw reasonable conclusions about the costs; therefore, the discussion that follows does not address all of the fees included in Table 4-8. A complete list of fees for Alternative 2 can be found on the USPTO Web site, available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting>, in the document titled, “IRFA Fee Tables.”

1. ***Utility—Basic Filing, Search, and Examination:*** Unit Cost Recovery (Alternative 2) offers the most significant change to the current fee schedule of any of the alternatives; it reverses the Office’s long-established policy consideration to set front-end fees below cost in order to foster innovation. Setting the basic utility patent application fees (i.e., filing, search, and examination) at cost ($4,980 for a large entity) would create a barrier for entry into the patent system. For most patent applicants—whether large, small, or micro entities—this fee amount would be a cost to patenting that could cause some patent applicants to completely forgo seeking patent protection. As a result, this alternative has the largest reduction in public disclosure of information of all the alternatives examined. The potential costs to society from reduced innovation include less or inefficient R&D that would not as effectively support economic growth and the creation of high-paying jobs.
2. ***Request for Continued Examination (RCE):*** An RCE is sometimes used to resolve prosecution issues during examination. Setting the RCE fees at cost, $2,480 for the first RCE, could limit access to this patent service. Given the full cost of the basic utility application fees (*see* above), this higher RCE fee might have a significant adverse impact upon applicants, especially those with the fewest resources (e.g., small and micro entities). Setting all RCE fees at cost recovery is contrary to the fee setting policy factors of promoting innovation strategies and offering patent prosecution options for applicants, because they would increase costs to applicants to prosecute a patent application at a time when an applicant has less information about the value of their invention.
3. ***Appeal Fees:*** Setting the total large entity appeal fees at cost to be paid upon filing a notice of appeal and the cost to forward it to the Board ($5,900) would create a barrier to using this service and would not foster innovation since the appeal processes helps ensure high standards for patent examination by acting as an additional review of the merits of a patent application.
4. **Ex Parte *Reexamination and Supplemental Examination:*** Supplemental examination is intended to offer an option for persons wishing to preempt disputes concerning IP rights. The services discussed in this section are highly specialized, and the Office’s costs for performing them are significant.
5. ***Utility Issue Fee:*** As mentioned earlier, Alternative 2 does not provide for a subsidy of front-end application fees. Instead, setting the front-end application fees (i.e., filing, search, and examination) (discussed earlier) at cost does not require these back-end fees to be set above cost (i.e., the issue fee would decrease to $320 from $1,000). This fee design structure does not support the policy factor of promoting innovation strategies.
6. ***Maintenance Fee – 1st, 2nd, and 3rd Stages:*** The cost for processing maintenance fee payments is minimal. As discussed earlier, in order to recover aggregate costs with aggregate revenue, maintenance fee rates would need to be set at $1,460 (1st Stage), $3,280 (2nd Stage), and $6,740 (3rd Stage) for large entities. As shown in Table 4-8, these fees are less than the Baseline maintenance fees.

***Summary of Fee Schedule Design Costs for Alternative 2***

In summary, after analyzing the fee schedule design costs, the Office concludes that while Alternative 2 represents the standard approach to fee setting in the Federal Government, this approach does not support the Office’s proposed rulemaking strategies and goals, especially the important policy factors that go into the Office’s individual fee setting strategy. The largest fee schedule design cost is the loss of a front-end subsidy designed to promote innovation strategies, but the impacts of much costlier patent processing options (e.g., RCEs and appeals) are also noticeable. Overall, Alternative 2 would not offer adequate benefits and would produce appreciable costs, especially when compared to the Proposed Rule See Schedule (Alternative 1).

* + 1. Benefits of Alternative 2 – Securing Aggregate Revenue to Recover Aggregate Costs

The Office identified one benefit under Unit Cost Recovery (Alternative 2)—securing aggregate revenue to recover aggregate costs. This alternative generates aggregate patent revenue to meet the Office’s strategic priority to ensure financial sustainability to facilitate effective USPTO operations (by establishing a three month patent operating reserve). While recovering aggregate patent costs is classified as a benefit in the analysis, the Office considers this alternative to be wholly insufficient at fulfilling three of the four fee setting policy factors (promote innovation strategies, set fees to facilitate the effective administration of the patent system, and offer application processing options for applicants).

* 1. Alternative 3 – Across the Board Adjustment

**Table 4-9**

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2020** | **FY 2021** | **FY 2022** | **FY 2023** | **FY 2024** | **Total** |
| **Budgetary Requirements** | **$3,172** | **$3,326** | **$3,434** | **$3,524** | **$3,626** | **$17,082** |
| Alternative 3: Across the Board Adjustment – Fee Revenue | $3,095 | $3,368 | $3,700 | $3,704 | $3,852 | $17,719 |
| Other Income | $37 | $37 | $37 | $37 | $37 | $185 |
| **Aggregate Revenue** | **$3,132** | **$3,405** | **$3,737** | **$3,741** | **$3,889** | **$17,904** |
| Operating Reserve | $203 | $282 | $585 | $802 | $1,065 |  |
| Optimal Operating Reserve | $793 | $832 | $859 | $881 | $907 |  |
| **Optimal Operating Reserve Surplus (Deficit)** | **($590)** | **($550)** | **($274)** | **($79)** | **$159** |  |

* + 1. Description of Alternative 3

Prior to the enactment of the AIA, the Office used its statutory authority to adjust statutory fees annually according to annual changes in the CPI-U, which is a commonly used measure of inflation. Building on this former approach, Alternative 3 uses the Office’s Section 10 fee setting authority to apply an inflationary adjustment of 10.0 percent to the Baseline in order to achieve an aggregate patent revenue roughly equivalent to the Proposed Rule Fee Schedule (Alternative 1) and the Unit Cost Recovery (Alternative 2); and to recover the aggregate costs laid out in the FY 2020 Budget.

As shown in Table 4-9, transitioning to the Across the Board Adjustment (Alternative 3) fee schedule in FY 2021 would provide the USPTO with a 5.6 percent increase in fee collections from the Baseline fee collection levels. Once fully transitioned to the new fee levels, however, the Office estimates that FY 2022 fee collections under Alternative 3 would exceed FY 2022 Baseline fee collections by approximately 9.1 percent. The aggregate revenue would be sufficient to recover the aggregate cost of patent operations and provide enough to meet the Office’s strategic priorities to optimize patent application pendency and examination timeframes, issue highly reliable patents, foster innovation through business effectiveness, enhance the operations of the PTAB, optimize speed, quality and cost-effectiveness of IT delivery to achieve business value, and ensure financial sustainability to facilitate effective USPTO operations (by establishing a three month patent operating reserve). It is important for the Office to balance accomplishing priorities together so that once it achieves the strategic goals and objectives, it has sufficient resources to maintain them. Alternative 3 builds toward the optimal three month patent operating reserve by the end of FY 2024. These operating reserve estimates are based on cost projections in the FY 2020 Budget and do not reflect the 2019 1.9 percent pay raise as authorized in the Consolidated Appropriation Act, 2019, Pub. L. 116-6, 133 Stat. 13, which will increase the patent budgetary requirements by approximately $31-$44 million per year. This will result in a cumulative impact of $245 million over the budget horizon, with a projected patent operating reserve balance of $820 million by the end FY 2024.

As shown in Table 4-10, the Across the Board Adjustment (Alternative 3) retains the same fee relationships and subsidization policies as the Baseline. The fees for securing and maintaining a patent through a typical prosecution sequence for its full 20-year term increases by $1,680 (10.1 percent) for Alternative 3. Assuming a three percent discount rate, the net present value of investing in a patent for Alternative 3 is $12,657, compared to a net present value of $12,400 for the Baseline.

**Table 4-10**

| **Patent Fee Rates** | | |
| --- | --- | --- |
|  | **Baseline Fee Rate** | **Alternative 3 Fee Rate** |
| Filing | $300 | $340 |
| Search | $660 | $720 |
| Examination | $760 | $840 |
| First RCE | $1,300 | $1,440 |
| **Front-End Fees** | **$3,020** | **$3,340** |
| Issue | $1,000 | $1,100 |
| 1st Stage Maintenance | $1,600 | $1,760 |
| 2nd Stage Maintenance | $3,600 | $3,960 |
| 3rd Stage Maintenance | $7,400 | $8,140 |
| **Back-End Fees** | **$13,600** | **$14,960** |
| **Total Fees** | **$16,620** | **$18,300** |

For example, this alternative maintains the status quo ratio of front-end and back-end fees, given that all fees would be adjusted by the same escalation factor, thereby promoting innovation strategies and allowing applicants to gain access to the patent system through fees set below cost while patent holders pay issue and maintenance fees above cost to subsidize the below cost front-end fees. Alternative 3 nevertheless fails to implement policy factors and deliver benefits beyond what exists in the Baseline fee schedule (e.g., no fee adjustments to offer new patent prosecution options or facilitate more effective administration of the patent system).

Table 4-11 presents the major fee changes between the Baseline and the Across the Board Adjustment (Alternative 3). A complete list of fee changes for Alternative 3 is available at <https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting> in the document titled, “IRFA Fee Tables.”

**Table 4‑11**

| **Alternative 3 – Across the Board Increase** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Current and Proposed Fees** | | | | | | |
| **Description** | **Current Fees** | | | **Proposed Fees** | | |
| **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** | **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** |
|
|  |
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $300 | $150 | $75 | $340 | $170 | $85 |
| **13%** | **13%** | **13%** |
| Basic Filing Fee – Utility (Electronic Filing) | $300 | $75 | $75 | $340 | $85 | $85 |
| **13%** | **13%** | **13%** |
| Basic Filing Fee – Design | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Basic Filing Fee – Design (CPA) | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Basic Filing Fee – Plant | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Provisional Application Filing Fee | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Reissue | $300 | $150 | $75 | $340 | $170 | $85 |
| **13%** | **13%** | **13%** |
| Basic Filing Fee – Reissue (CPA) | $300 | $150 | $75 | $340 | $170 | $85 |
| **13%** | **13%** | **13%** |
| Surcharge – Late Filing Fee, Search Fee, Examination Fee or Oath or Declaration, or Application Filed Without at least One Claim or by Reference | $160 | $80 | $40 | $180 | $90 | $45 |
| **13%** | **13%** | **13%** |
| Each Independent Claim in Excess of Three | $460 | $230 | $115 | $500 | $250 | $125 |
| **9%** | **9%** | **9%** |
| Each Reissue Independent Claim in Excess of Three | $460 | $230 | $115 | $500 | $250 | $125 |
| **9%** | **9%** | **9%** |
| Each Claim in Excess of 20 | $100 | $50 | $25 | $120 | $60 | $30 |
| **20%** | **20%** | **20%** |
| Each Reissue Claim in Excess of 20 | $100 | $50 | $25 | $120 | $60 | $30 |
| **20%** | **20%** | **20%** |
| Multiple Dependent Claim | $820 | $410 | $205 | $900 | $450 | $225 |
| **10%** | **10%** | **10%** |
| Utility Search Fee | $660 | $330 | $165 | $720 | $360 | $180 |
| **9%** | **9%** | **9%** |
| Design Search Fee | $160 | $80 | $40 | $180 | $90 | $45 |
| **13%** | **13%** | **13%** |
| Plant Search Fee | $420 | $210 | $105 | $460 | $230 | $115 |
| **10%** | **10%** | **10%** |
| Reissue Search Fee | $660 | $330 | $165 | $720 | $360 | $180 |
| **9%** | **9%** | **9%** |
| Utility Examination Fee | $760 | $380 | $190 | $840 | $420 | $210 |
| **11%** | **11%** | **11%** |
| Design Examination Fee | $600 | $300 | $150 | $660 | $330 | $165 |
| **10%** | **10%** | **10%** |
| Plant Examination Fee | $620 | $310 | $155 | $680 | $340 | $170 |
| **10%** | **10%** | **10%** |
| Reissue Examination Fee | $2,200 | $1,100 | $550 | $2,420 | $1,210 | $605 |
| **10%** | **10%** | **10%** |
| Utility Issue Fee | $1,000 | $500 | $250 | $1,100 | $550 | $275 |
| **10%** | **10%** | **10%** |
| Reissue Issue Fee | $1,000 | $500 | $250 | $1,100 | $550 | $275 |
| **10%** | **10%** | **10%** |
| Design Issue Fee | $700 | $350 | $175 | $780 | $390 | $195 |
| **11%** | **11%** | **11%** |
| Plant Issue Fee | $800 | $400 | $200 | $880 | $440 | $220 |
| **10%** | **10%** | **10%** |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,300 | $650 | $325 | $1,440 | $720 | $360 |
| **11%** | **11%** | **11%** |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,900 | $950 | $475 | $2,100 | $1,050 | $525 |
| **11%** | **11%** | **11%** |
| Submission of an Information Disclosure Statement | $240 | $120 | $60 | $260 | $130 | $65 |
| **8%** | **8%** | **8%** |
| Certificate of Correction | $150 | | | $165 | | |
| **10%** | | |
| Notice of Appeal | $800 | $400 | 200 | $880 | $440 | 220 |
| **10%** | **10%** | **10%** |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $2,240 | $1,120 | 560 | $2,460 | $1,230 | 615 |
| **10%** | **10%** | **10%** |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $15,500 | | | $17,050 | | |
| **10%** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $15,000 | | | $16,500 | | |
| **10%** | | |
| *Inter Partes* Review Request of Each Claim in Excess of 20 | $300 | | | $330 | | |
| **10%** | | |
| *Inter Partes* Post-Institution Request of Each Claim in Excess of 15 | $600 | | | $660 | | |
| **10%** | | |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $16,000 | | | $17,600 | | |
| **10%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $22,000 | | | $24,200 | | |
| **10%** | | |
| Post-Grant or Covered Business Method Review Request of Each Claim in Excess of 20 | $375 | | | $415 | | |
| **11%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Request of Each Claim in Excess of 15 | $825 | | | $910 | | |
| **10%** | | |
| Basic National Stage Fee | $300 | $150 | $75 | $320 | $160 | $80 |
| **7%** | **7%** | **7%** |
| National Stage Search Fee – U.S. Was the ISA | $140 | $70 | $35 | $160 | $80 | $40 |
| **14%** | **14%** | **14%** |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $520 | $260 | $130 | $580 | $290 | $145 |
| **12%** | **12%** | **12%** |
| National Stage Search Fee – All Other Situations | $660 | $330 | $165 | $720 | $360 | $180 |
| **9%** | **9%** | **9%** |
| National Stage Examination Fee – All Other Situations | $760 | $380 | $190 | $840 | $420 | $210 |
| **11%** | **11%** | **11%** |
| National Stage – Each Independent Claim in Excess of Three | $460 | $230 | $115 | $500 | $250 | $125 |
| **9%** | **9%** | **9%** |
| National Stage – Each Claim in Excess of 20 | $100 | $50 | $25 | $120 | $60 | $30 |
| **20%** | **20%** | **20%** |
| National Stage – Multiple Dependent Claim | $820 | $410 | $205 | $900 | $450 | $225 |
| **10%** | **10%** | **10%** |
| For maintaining an original or any reissue patent, due at 3.5 years | $1,600 | $800 | $400 | $1,760 | $880 | $440 |
| **10%** | **10%** | **10%** |
| For maintaining an original or any reissue patent, due at 7.5 years | $3,600 | $1,800 | $900 | $3,960 | $1,980 | $990 |
| **10%** | **10%** | **10%** |
| For maintaining an original or any reissue patent, due at 11.5 years | $7,400 | $3,700 | $1,850 | $8,140 | $4,070 | $2,035 |
| **10%** | **10%** | **10%** |
| Extension for response within first month | $200 | $100 | $50 | $220 | $110 | $55 |
| **10%** | **10%** | **10%** |
| Extension for response within second month | $600 | $300 | $150 | $660 | $330 | $165 |
| **10%** | **10%** | **10%** |
| Extension for response within third month | $1,400 | $700 | $350 | $1,540 | $770 | $385 |
| **10%** | **10%** | **10%** |
| Extension for response within fourth month | $2,200 | $1,100 | $550 | $2,420 | $1,210 | $605 |
| **10%** | **10%** | **10%** |
| Extension for response within fifth month | $3,000 | $1,500 | $750 | $3,300 | $1,650 | $825 |
| **10%** | **10%** | **10%** |

### Costs for Alternative 3: Aggregate Increase in User Fee Payments

For the Across the Board Adjustment (Alternative 3), the Office did not identify any qualitative costs for Alternative 3. The fee rates recover enough aggregate revenue to support the Office’s goals, and there is no cost to the fee schedule design.

### Benefits of Alternative 3 – Across the Board Adjustment

When compared to the Baseline, one benefit is produced by Alternative 3—securing aggregate revenue to recover aggregate costs. The benefit is significant, as it would allow for optimizing patent application pendency and examination timeframes, issuing highly reliable patents, fostering innovation through business effectiveness, enhancing the operations of the PTAB, optimizing speed, quality and cost-effectiveness of IT delivery to achieve business value, and ensuring financial sustainability to facilitate effective USPTO operations. Specifically, the Office estimates that the operating reserve will meet its minimum acceptable balance ($300 million) in FY 2022 and gradually build until it reaches the optimal target (three months of patent operating expenses) by the end of FY 2024. The operating reserve estimates are based on cost projections in the FY 2020 Budget and do not reflect the 2019 1.9 percent pay raise as authorized in the Consolidated Appropriation Act, 2019, Pub. L. 116-6, 133 Stat. 13, which will increase the patent budgetary requirements by approximately $31-$44 million per year. This will result in a cumulative impact of $245 million over the budget horizon, with a projected patent operating reserve balance of $820 million by the end FY 2024.

# ACHIEVEMENT OF THE PROPOSED RULEMAKING STRATEGIES AND GOALS

* 1. Achievement of the Proposed Rulemaking Strategies and Goals

Given the economic significance of the proposed rulemaking to set and adjust patent fees in accordance with section 10 of the AIA, the Office conducted this RIA, which analyzed four alternatives for how well they aligned to the Office’s rulemaking strategies and goals. As noted throughout this document, the rulemaking strategies and goals are comprised of strategic priorities from the Strategic Plan and the Office’s fee setting policy factors. Based on the costs and benefits identified for this RIA, namely (1) fee schedule design, (2) securing aggregate revenue to recover aggregate cost, the Proposed Rule Fee Schedule (Alternative 1) offers the highest net benefits. With a fee schedule that maintains the existing front-end/back-end balance, while offering targeted fee schedule design changes and securing the aggregate revenue needed to achieve the strategic priorities, the benefits of the proposed alternative clearly outweigh those of the other alternatives considered.

The way the Office chose alternatives was purposeful. As stated earlier, Unit Cost Recovery (Alternative 2) represents the standard methodology that federal agencies use to set user fees per OMB A‑25, i.e., agencies should set fees to recover the individual unit cost of the good or service provided. In the case of the USPTO, where front-end services are much costlier than back-end services, a unit cost methodology does not align with the Office’s purposeful subsidization of entry fees as a means to promote innovation strategies. Similarly, many stakeholders would agree that if the Office seeks more revenue than the Baseline fee schedule is projected to provide, an acceptable and logical solution would be an across the board fee increase that would secure the required revenue. Given that the Office’s prior fee setting authority revolved around CPI-U adjustments to the existing fee schedule, there is a precedent for such increases. However, this alternative does not take full advantage of the AIA section 10 flexibilities that allow the Office to readjust relationships between fees in ways that both benefit applicants (e.g., facilitating effective and efficient administration of the patent system) and the Office (e.g., discouraging low-value, high-cost services). In these ways, the Proposed Rule Fee Schedule (Alternative 1) again offers more net benefits and allows the Office to provide greater value to stakeholders.

* 1. Closing

In closing, unlike traditional regulatory actions that seek to change behavior, redistribute costs and benefits to different stakeholder groups, or both, this RIA is essentially an analysis of the costs and benefits associated with increases to the fees transferred from patent stakeholders to the Office. Given that all of the alternatives considered beyond the Baseline (Alternative 4) provide the necessary revenue to maintain progress on operational and strategic priorities, the differentiator between them is how their fee schedule was designed to result in higher transfers. The Proposed Rule Fee Schedule (Alternative 1) is not fundamentally different from the Across the Board Adjustment (Alternative 3) or the Baseline in terms of applying the Office’s fee setting policy factors, but applicants, patent holders, the public and the Office recognizes additional benefits from the prudent targeting of fee adjustments.

# APPENDIX A: Acronyms

ABC – Activity-based costing

ABI – Activity-based information

AIA – Leahy-Smith American Invents Act

CBO – Congressional Budget Office

CLE – Continuing Legal Education

CPI-U – Consumer Price Index for All Urban Consumers, as determined by the Secretary of Labor

FY – Fiscal Year

IDS – Information Disclosure Statement

IP – Intellectual Property

IPEA/US – International Preliminary Examining Authority

IRFA – Initial Regulatory Flexibility Analysis

ISA/US – International Searching Authority

ISR – International Search Report

IT – Information Technology

NPRM – Notice of Proposed Rulemaking

OED – Office of Enrollment and Discipline

OIRA – Office of Information Regulatory Affairs

OMB – Office of Management and Budget

PCT Patent Cooperation Treaty

PPAC – Patent Public Advisory Committee

PPM – Patent Pendency Model

PTAB – Patent Trial and Appeal Board

R&D – Research and Development

RCE – Request for Continued Examination

RGDP – Real Gross Domestic Product

RIA – Regulatory Impact Analysis

U.S.C. – United States Code

USPTO – United States Patent and Trademark Office

1. For example, income from reimbursable agreements and recoveries. [↑](#footnote-ref-2)
2. Does not include “other income” such as reimbursements. The revenue in the transfer tables are solely from fee collections. [↑](#footnote-ref-3)