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India: Intellectual Property Holding Companies and Their Benefits

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Most companies go to great lengths to protect and maintain their intellectual property (IP). These companies recognize the value of their IP and work towards its development, sustainability and commercialization. IP strategy customary includes where and when to file patent applications, how to choose a brand name and register it, how to protect and enforce copyrights, protect trade secrets, etc. This article focuses on another strategy, one that more and more companies are choosing to adopt due to its significant benefits. It involves modifying the existing corporate structure to set up a company for the sole purpose to hold the company's IP assets.

In a large corporation with the traditional corporate structure of a parent and subsidiaries, with or without common management, it is challenging to remember that each company is a separate legal entity that may own part of whole of the IP it created. A subsidiary company may own the IP in all of its ideas and inventive concepts unless effectively assigned to the parent. Sometimes, the subsidiary may still own the core component of the IP and can file for patent applications and copyright registrations on its own. The subsidiary could also create or invent on top of the IP previously assigned and absent an effective assignment would be the owner of the new IP. If one company wishes to exit the group, it could get complicated as to who owns the IP, and how it can be transferred. A lucrative transaction could be delayed or even cancelled if the due diligence reveals that the patent/trademark registrations have been filed in the names of multiple entities or if the owner of the IP is not the party to the transaction. Obtaining assignments and licenses at that time, will cause confusion and is often a deal breaker.

Under this arrangement, an IP Holding company or (IPHC) would be the exclusive owner of the IP assets, even if the IP was developed by a subsidiary or an affiliate company. The biggest advantage for this type of structure is that the IP is protected. When the company discontinues the distribution of the company's IP portfolio among all its trading companies and centralizes it in one company, then the risk is significantly reduced. In the event of a legal dispute or insolvency of any subsidiary company, the company's IP assets will not be threatened. Usually, in a bankruptcy proceeding, the IP assets of an insolvent company are sold. By transferring the company's assets to a holding company, the Company's IP remains secure. The process of establishing an IPHC requires a prior inventory and evaluation of the Company's IP portfolio. The concentration of IP in one company further makes it easy to obtain funding for the portfolio.

To make this arrangement effective, the owner of the IP, assuming it's the subsidiary, will need to assign all ownership rights to the IPHC, which in turn, will license back the rights to use and sub license the IP, and/or the distribution and marketing rights to the subsidiary company. This license back is imperative for the structure to be operative. In turn, the subsidiary or trading company will pay a license fee to the IPHC. For third parties, external distributors, resellers etc., the same arrangement will need to be structured. The IPHC would thereby earn royalty and receive license fees from the subsidiary companies and its external distribution companies, resellers, etc.

Another advantage is that since the profits arising from the IP is taxable only in the country of incorporation, the IPHC if incorporated in such country, will have the added bonus of tax benefits. The commercialization of the IP within the conglomerate becomes manageable as the royalties and license fees due to be paid to the IPHC by the subsidiary companies can be deducted as operating costs within the subsidiaries.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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