Italian tax authorities clarify the relevance for Patent Box purposes of the payments received under an IP Co-Development and License Agreement

In Ruling No. 120 of 24 April 2020, the Italian tax authorities dealt with the issue of whether the payments received by Company X under a "Co-Development and License Agreement" concluded with Company Y ("**Agreement**") should be regarded as paid for the right to use an IP. This characterization would make them fall within the scope of application of the 50% exemption under the Italian patent box regime ("**Patent Box**").

Under the Agreement, Company X is entitled to receive the following payments: (a) a payment in consideration for an exclusivity right connected to a patented molecule used in pharmaceutical products; (b) an up-front license fee to be paid upon the granting of the relevant regulatory authorization; and (c) an up-front license fee to be paid upon the sale of the first product containing the patented molecule. The Agreement also provides for (d) the payment of a lump-sum cost contribution for the R&D activities that Company X would carry out to co-develop a protocol for pre-clinical and clinical trials, aimed at obtaining two international regulatory authorizations ("**R&D Contribution**"). Because of the R&D Contribution, Company Y becomes contractually entitled to a perpetual, irrevocable, exclusive, worldwide, transferable, royalty-free license to use, in certain areas of exploitation, the new IPs that Company X may patent as a result of the above R&D activities.

The tax authorities found that payments under (a), (b) and (c) should be characterized as royalties and qualify for the application of the Patent Box. Conversely, they denied that the R&D Contribution might fall within the scope of such tax regime. In particular, in the tax authorities' view, the R&D Contribution (i) is not a payment for the right to use of an existing IP, and (ii) represents a mere cost contribution for the development of new IPs, rather than a royalty payment.

Finally, the tax authorities clarified that the part of the R&D costs incurred by Company X for the R&D co-development activities, and re-charged to Company Y as R&D Contribution, should not be taken into account for the purpose of computing the "nexus ratio" of the Patent Box.

Milan
Piazza F. Meda 5
20121
T: +39.02.776931

Rome
Piazza d'Aracoeli 1
00186
T: +39.06.45441410

London
2, Throgmorton Avenue
EC2N 2DG
T: +44.207.3740299