Page 3987 - 4003 **DOI:** *https://doij.org/10.10000/IJLMH.1110312*

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 8 | Issue 3

2025

Intellectual Property Taxation Frameworks in the EU, US, and India: A Comparative Study

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ABSTRACT

In this contemporary knowledge-based economy, Intellectual Property (IP) are useful economic assets and motivation for innovation. Global businesses rely heavily on IP taxation for influencing innovation levels, investments and promoting economic growth. This study investigates into IP Rights (IPR) taxation systems across European Union (EU), United States of America (USA) and India while it also draws connections to commerce, trade and laws . The research adopts a comparative legal policy analysis which studies statutory provisions, international taxation contracts and economic footprints of IPR taxation. The assessment includes analysis of essential tax components including royalties, patent box regimes, IP transaction's capital gains taxation and international tax issues concerning Base Erosion and Profit Shifting (BEPS) . The study examines how different jurisdictions both agree and differ in their operations to present positive and negative impacts of their methods. This research exhibits that world-leading economies- the USA and EU have implemented IPR taxation approaches to support research and development (R&D) along with attracting capital investments but India stands in a developmental stage which balances its home technology development against worldwide market competition. The study reveals that the Patent Box System of the EU promotes innovation, the Tax Cuts and Jobs Act with GILTI (Global Intangible Low-Taxed Income) and FDII (Foreign-Derived Intangible Income) provisions of the USA aims to fight profit tax evasion and simultaneously stimulate domestic IP growth. The marks of modern tax policy within India incorporate strengthened transfer pricing oversight through regulations that protect both international standards and national technological advancement and innovation. The research enhances current discussions about tax policies concerning IP through studying various tax systems' impact on innovation systems. This research paper is pressing priority for enabling developing economies and will form a strong edifice in aiding researchers, policy makers and nations in formulating and adopting premier IPR tax regimes leading to robust innovation.

Keywords: *BEPS, Intellectual Property Rights (IPR), International IPR Taxation, Patent Box Regime, R&D Incentives.*

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 [ISSN 2581-5369]

I. INTRODUCTION

As we see the increasing inclination towards the innovation and technology, the role of intellectual property for a business has also seen a rise at national as well as the global level. This has not only promoted economic development but also cross border investment frameworks. Human intellectual creations in the form of patents, trademarks, copyrights and trade secrets make up intellectual property assets because they produce extended economic value after commercialization. The taxation of IP derived income has become a vital area of public policy because it touches innovation alongside economic development and international tax requirements. The way and location of IP development along with its ownership and exploitation patterns directly respond to taxing policies at both national and international levels. Favourable IP tax structures serve jurisdictions as a mechanism to secure high-end research spending while protecting their local creation of new ideas. Tax designs with poor architecture tend to reduce innovation levels while also causing capital relocation through base erosion. Major world economies created specific frameworks for IP tax regulation that combine domestic innovation encouragement with international tax requirements. The EU together with the USA has introduced extensive regimes that are based on innovation. Since its evolution remains ongoing India has developed taxation policies with unique characteristics that conform to its development objectives alongside its economic challenges.

This study performs a comprehensive evaluation of IP taxation structures among the EU and USA and India. The research investigates innovation-specific tax benefits which include EU Patent Box rules as well as US GILTI and FDII schemes and Indian IP taxation under the Central Goods and Services Tax Act, 2017 (GST) and the Income Tax Act, 1961. The study also assesses that in different jurisdictions, different IP are taxed and maintained along with the combination of law assessment and policy reviews. The research methodology employed comparative legal policy analysis through simultaneous normative evaluation of statutory elements and BEPS framework and international tax treaties. The analysis of policies draws attention towards the innovation systems and global economic alignment especially for developing nation like, India.

The research topic aligns with current times. The Organization for Economic Cooperation and Development (OECD)/G20[3] Inclusive Framework and Pillar One and Pillar Two initiatives along with rising digital and IP-intensive multinationals' surveillance have made economies to

[3] OECD. (2017). *Transfer pricing guidelines for multinational enterprises and tax administrations*. OECD Publishing. https://doi.org/10.1787/9789264265597-en

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reconsider their IP tax policy frameworks. Tax systems within knowledge-based economies aim to develop supportive mechanisms for fair IP development along with maintaining high sustainability levels. The research dedicates itself to developing academic and policy understanding of IP taxation through an examination of IP tax frameworks within EU, US, and India. This analysis shows both strengths and weaknesses in existing systems especially in developing economies which intend to boost innovation through sustainable fiscal policies.

IPR represents modern-day value in the economy that fuels growth while boosting innovation and international trade. Businesses that depend on intellectual assets now demand accurate taxation systems for intellectual property. IPR's trouble-free appearance creates multiple tax challenges and demands worldwide fair taxation rules. Globalization affects almost every aspect of the development of IP taxation systems including the activities of both multinational corporations and digital businesses. In the past tax authorities handled all types of property income without respecting the difference between physical and non-physical assets. This section mainly highlights the key regulatory shifts, major international tax initiatives and future direction of taxation framework in digital era. By understanding the direction of taxation people making decisions must decide how to support new technology development while ensuring that tax rules continue to work. The world's IPR taxation policies developed because intellectual property gained great economic value while multinational companies formed bestselling businesses and nations wanted to stop tax evasion properly. The research enhances current discussions about tax policies concerning intellectual property through study of various tax systems impacting innovations. This research paper presents comparative findings enabling developing nations to accept effective and robust practices while identifying potential changes strengthening innovation and IPR tax systems.

II. THEORITICAL FRAMEWORK

The taxation of IP resides at the confluence of legal doctrine, economic theory, and innovation policy. The IP taxation frameworks of the EU, USA and India are evaluated through this study by using a multidisciplinary theoretical framework which integrates three main areas, these are-

- innovation and incentive economic theory
- international tax policy theory
- comparative law and fiscal sovereignty legal theory.

Economic Theory of Innovation and Incentives: Under the innovation-incentive framework IP

taxes are designed to lower innovation costs as an encouragement for research and development efforts. Schumpeter's theory[4] of business cycles led to endogenous growth theories where Paul Romer and other researchers confirmed that economic growth needs knowledge growth and technology progress. Schumpeter's innovation theory demonstrates that economic growth emerges from entrepreneurial innovation that brings fresh products along with new processes and company models to transform existing markets by implementing creative destruction. With this model tax incentives are introduced as market-fixing tools because they add benefits to the system. The incentives lower the costs of innovation which motivates companies to invest in IP development for market success. The EU Patent Box regimes together with the US FDII programs rely upon this organizational structure to stop IP benefits from moving to foreign jurisdictions.

International Tax Policy Theory: This study depends on basic tax competition ideas together with tax base erosion perspectives plus neutral tax principles. The growth of digital businesses with intangible assets leads nations to fear that businesses shift tax burdens while earning income without a specific location. BEPS project from OECD offers a standardized policy so that Multinational Companies cannot exploit the taxation and evade taxes as applicable. Actions 5, 8-10, and 13 from BEPS[5] serve as a measure to check if national IP tax policies correspond to worldwide tax criteria. The relationship between tax benefits for innovation and avoiding tax avoidance determines the proper design of these special tax programs. The notion of competitive tax rate reductions to keep up with other countries applies to this situation. By offering IP tax rates below global standards some countries harm tax justice as they chase mobile intellectual capital away from other nations. The GILTI Tax Program of the US and the nexus approach of EU, help to prevent the abuse of taxation provisions.

Comparative Legal Theory and Fiscal Sovereignty: The comparative law tradition lets researchers inspect similar official goals across many nations by using the same method. Experts put current tax legislation into place through its relationship with overall historical economic and political conditions. This research uses functional equivalence in its comparisons because it evaluates laws based on their true purpose rather than just their written text. The EU supports R&D by granting Patent Box benefits and the United States activates the Foreign Derivative Income (FDII) framework for its equivalent purpose. India supports research and development through different rules and regulations although it has not established its own IP box system. Every country makes different IP tax decisions based on

[4] Schumpeter, J. A. (1942). *Capitalism, socialism and democracy* (pp. 81–86). Harper & Brothers.
[5] Schön, W. (2014). Taxation and innovation. *Bulletin for International Taxation, 68*(6/7).

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their right to make financial decisions independently. Every state without exception holds power to set up its tax program because nations keep total control over their tax systems when working with worldwide bodies. This framework allows us to carefully examine IP taxation by using both economic reasoning and also international policy standards. The foundation it creates helps people correctly read both IP tax systems and their effects.

III. IPR TAXATION FRAMEWORK IN INDIA

Indian society must navigate two essential tasks: supporting innovation activities and growing its tax collection system in order to become a knowledge economy. Indian IP taxation[6] seeks to promote domestic research and development (R&D) through its system which maintains compliance with global standards regarding fair taxation and anti-avoidance rules. At present India lacks a specialized "IP Box" together with an exclusive preferential tax plan intended for IP-derived revenue which remains absent from its current tax system. India employs the Goods and Services Tax (GST) for indirect taxation together with direct tax provisions from the Income Tax Act, 1961 and strict rules to manage transfer pricing in international IP transactions.

GST Treatment of IP Transactions[7]- The Indian indirect tax system applies "service" classification to intellectual property rights for taxation purposes. The GST Act of 2017 unified numerous previous indirect taxes by establishing a single tax system throughout India. The CGST Act of 2017 in Section 2(102)[8] states that IP transactions including temporary transfers or license agreements of patents and copyrights and trademarks and designs and similar rights constitute "services" within the definition. The GST taxation for IP transactions depends on both what type of intellectual property rights are involved and who receives them. When rights to patents are transferred for any time duration, the GST tax rate stands at 12%. Original literary copyrights benefit from a 12% concessional GST rate although copyrights concerning film or music illustrate an 18% taxation bracket.

The practical application of trademark and brand name licensing requires a payment of regular 18% GST as per the Indian tax system. Exports of IP-related services achieved "zero-rated supply[9]" status if foreign exchange transactions occur with overseas business partners. The GST structure demonstrates India's goal to standardize IP tax regimes but simultaneously

[6] Rajaratnam, S. (2022). Taxation of intellectual property rights in India. *Comparative Taxation, 45*(2).
[7] Central Goods and Services Tax (CGST) Act, 2017, § 7. (2017). https://taxinformation.cbic.gov.in/content/html/tax_repository/gst/acts/2017_CGST_act/active/chapter3/section7_v1.00.html *(Accessed April 8, 2025)*
[8] Central Goods and Services Tax (CGST) Act, 2017, § 2(102) (India).
[9] GST Council. (n.d.). *Zero rating of supplies*. https://gstcouncil.gov.in/sites/default/files/e-version-gst-flyers/Zero%20ratings%20of%20suplies.pdf *(Accessed April 8, 2025)*

supports export activities together with maintaining revenue balance. The compliance burden on IP-intensive firms grows because of the complex task to determine supply locations when providing intangible digital services across borders.

Capital Gains, Royalty Income, and Transfer Pricing Rules-

Capital Gains on IP Transactions – The Income Tax Act of 1961 taxes financial gains obtained from the disposal of either self-created or purchased intellectual property under the category "Capital Gains.[10]" Any intellectual property held for longer than thirty-six months will qualify as a long-term capital asset. Lots of issues occur while valuing intangible assets self-created by entities mainly targeting start-ups along with technology companies. The inability to establish acquisition costs together with establishing market prices leads to unclear tax conditions. According to litigation precedent certain types of self-created IP such as goodwill remain unpaid if statutes do not explicitly select them for taxation as seen in the case of CIT v. B.C. Srinivasa Setty, 1981. According to CIT v. B.C. Srinivasa Setty (1981)[11] the Supreme Court of India specified that self-generated assets like goodwill cannot invoke capital gains tax because they lack determinable acquisition costs. Section 45 of the Income Tax Act does not apply because both cost of acquisition and consideration need to be measurable according to the Court in the case of CIT v. B.C. Srinivasa Setty (1981). The historical decision provided critical insight into how taxes should be handled for intangible assets.

Royalty Income- Royalties from IP licensing or usage are treated as "Income from Other Sources"[12] but may get classified as business income based on circumstantial factors. Under Section 9 of the Income Tax Act royalty income received by non-resident licensors falls into the tax calculation because they use or exploit their intellectual property in Indian Territory. Under Section 195[13] the tax deductions will occur directly through the payment source. Through tax treaties between India and the US, UK and Germany royalty payments are taxed at a maximum rate of 10%-15% but contain specified conditions for application. The Indian tax authorities now considered payments for digital licenses along with embedded software to come under the definition of "royalty." The Supreme Court during Engineering Analysis Centre of Excellence Pvt. Ltd. v. CIT (2021)[14] decided that software supplier distributions to foreign professionals do not qualify as royalties thus eliminating tax withholding duties under

[10] Income Tax Act, No. 43 of 1961, § 9, India Code (2023)
[11] CIT v. B.C. Srinivasa Setty, (1981) 2 S.C.R. 628 (India)
[12] Section 56 of Income-tax Act, 1961
[13] Section 195 of the Income-tax Act, 1961 specifies the TDS provision
[14] Eng'g Analysis Ctr. of Excellence Pvt. Ltd. v. CIT, (2021) 3 S.C.C. 138 (India).

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Section 195[15]. Through this significant ruling the Supreme Court established clarity while narrowing down the areas where royalty payments would apply in software exports.

Transfer Pricing Rules- Indian tax authorities tightly control royalty thresholds between 10% to 15% in the context of IP transactions. Under Indian tax law Sections 92–92F of the Income Tax Act governs all aspects of transfer pricing which directly impacts IP taxation. Multinational businesses tend to locate their IP assets within low-tax jurisdictions while having their Indian collaboration units pay license fees for using the intellectual property. Indian tax agencies review these arrangements to ensure price transactions occur at market value terms.

Recent Reforms and Policy Challenges- Tax administration in India has introduced various reforms since recent years to overcome IP taxation challenges but additional essential issues persist. The implementation of Faceless Assessment Scheme and Dispute Resolution Committees worked to cut down tax litigation practice while building taxpayer trust. Transfer pricing uncertainty decreases because of the implementation of safe harbour rules together with Advance Pricing Agreements (APAs). The Indian tax system lacks any tax bonus programs that support the Patent Box system. By not implementing a dedicated incentive for IP holding and exploitation inside national borders India avoids BEPS Action 5 assessment but lacks specific measures to attract IP activities at home.

IV. IPR TAXATION FRAMEWORK IN THE USA

The United States uses an organized system to tax IP through controls for domestic entrepreneurship and international tax prevention. Throughout the US government has put supportive rules in place to manage how IP taxation is treated and to stop companies from moving their profits elsewhere while encouraging IP development and use within its borders. Since 2017 the United States has made important updates to its IP rights tax policies through the Tax Cuts and Jobs Act (TCJA)[16] tax code changes. Through TCJA legislation the United States government implemented measures to block money movement between countries while boosting American intellectual property ownership and sales. Global Intangible Low-Taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII)[17] are the top IPR taxation regulations that now shape this area of US law. These aspects are discussed below in detail.

a. Tax Cuts and Jobs Act (TCJA) Provisions: GILTI & FDII

[15] Raju, K. D. (2008). Intellectual property taxation: Need for a comprehensive policy and law in India. *Journal of Intellectual Property Rights, 13*, 563–568.
[16] Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (2017).
[17] Deloitte. (2023). *GILTI and FDII analysis for multinationals*. https://www2.deloitte.com *(Accessed April 8, 2025)*

b. Global Intangible Low-Taxed Income (GILTI)

GILTI represents a strong tax enforcement system set up to prevent companies from moving IP business profits to tax-avoidance countries. American multinational companies used to move their intangible assets freely from one tax haven to another without paying significant US taxes on the income these assets produced.

Working of GILTI: This rule affects US multinational companies that control well-located foreign corporations in regions with small tax rates.

Taxation: GILTI income must pay US taxes at a 10.5% rate that represents half of regular 21% corporate tax rules.US companies must report their intangible asset profits earned abroad in their tax return. US companies must pay tax on more than 10% income from their physical foreign assets if they earn profits through controlled foreign corporations in low-tax areas.

Effect on Tax Planning: IP owners have less reason to relocate their operations because earnings from abroad still face US tax obligations. Companies preserve US-based intangible assets because offshore movement of those assets does not save more tax than keeping them in the US.

Limitations and Criticism: The GILTI regulations demand companies to process global enterprise data thoroughly and keep extensive proof to comply. When GILTI intends to deter offshore IP usage some businesses attempt non-traditional methods to decrease their tax obligations. The 10.5% tax rate on foreign earnings gives US firms an unfair business disadvantage compared to companies from other countries without this tax requirement.

Foreign-Derived Intangible Income (FDII) FDII aims to keep US businesses from moving intellectual property abroad because GILTI promotes global trade.

Working of FDII: A US corporation can apply this concept when earning profits from selling goods and services labelled under their patented technology brands or licensed software to foreign customers.

Taxation: Qualified foreign-derived income receives 13.125% tax advantage versus 21% for standard corporate rates. The income source needs to come from selling products or services where foreign customers buy intangibles like patent licenses, trademarks, or innovative technology.

Effect on Tax Planning: The policy helps US companies to control and market their intangible assets from within the country. The Federal Domestic International Income plan makes the United States a better place to hold valuable Intellectual Property because it lowers the taxes

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on exports based on IP.

Limitations and Criticism: The WTO considers Foreign-Derived Intangible Income as an export subsidy that illegally favours US companies over foreign competitors. FDII programs support firms that sell or export intellectual property assets with limited help to business sectors focused on the US market. The program creates incentives for companies to pick transactions that breed tax benefits through exported IP assets.

Effectiveness in Preventing Profit Shifting and Boosting IP Development Preventing Profit Shifting: Before its establishment, MNCs from the US frequently transferred their IP assets into locations like Ireland, Bermuda and the Cayman Islands to avoid US tax payment. After the introduction of GILTI rules US companies anyways needed to pay basic taxes on their foreign income. Fewer companies move their IP assets to different countries now because of GILTI tax measure. GILTI generates more US tax revenue because it collects funds that were avoided by offshore tax planning techniques. Organizations keep employing different strategies like business agreements or domestications to limit the impact of GILTI rules.

Boosting IP Development: FDII helps companies conduct IP-related operations in the United States as an effective strategy. FDII provides reduced foreign-derived intangible income taxes to achieve these goals. US firms receive financial benefits for doing their IP development and licensing in the domestic market instead of sending these processes overseas. The tax benefit under FDII makes the United States a better place to sell patented products through exports. The tax advantage for exports through FDII has triggered international trade body examinations[18] that might lead to changes or end to the program.

The Tax Cuts and Jobs Act (TCJA) created GILTI and FDII rules which changed how IPR received tax treatment in the United States. GILTI successfully fights profit hiding methods but FDII motivates US companies to develop new ideas and export IP-based products. Both rules create difficult-to-manage problems that generate unwanted results and open tax avoidance opportunities despite their design goals. Other nations including India use US tax policies to learn about matching tax collection methods with valuable business advantages. Government leaders must examine GILTI and FDII policies to build tax systems that defend IP ownership while making both US companies and countries around the world perform better in business.

Strengths of the us IPR Taxation framework: The US taxation of intellectual property rights

[18] **World Trade Organization (WTO).** (2021). *United States – Tax incentives for Foreign-Derived Intangible Income (FDII)* (WT/DS541). https://www.wto.org

combines efforts to detect tax evasion while creating benefits for creators of new ideas. The Tax Cuts and Jobs Act (TCJA) GILTI and FDII plans plus normal transfer pricing rules strengthened by research tax refund policies form a complete intellectual property tax model for the US.

Comprehensive Anti-Avoidance Rules – The Global Intangible Low-Taxed Income system defends US taxes better because it prevents corporations from moving their IP to tax haven countries to avoid US taxes. The GILTI rule stops companies from moving their intellectual property rights to low-tax countries to evade US income taxes. The Global Intangible Low Tax Income rule toward tax avoidance forces US companies to pay 10.5% US income tax on their foreign profits.

GILTI system makes controlled foreign corporations pay taxes on their abnormal profits so companies must fulfil their tax responsibilities regardless of where their income is located.

The United States tax framework follows OECD BEPS measures to fight tax avoidance while other countries do the same thing. The tax policy stops US corporations from moving profits abroad to avoid paying taxes while still enabling them to generate tax revenue for the nation.

Encourages Domestic Innovation –Through FDII incentives the US government stimulates companies to perform their innovation and research activities inside its borders. Licensing foreign patent and technology rights at 13.125% tax brings better rates than the normal 21% corporate tax rate. FDII helps US companies retain their intellectual property in the United States and discourages them from sending IP overseas. The policy promotes US dominance in technical fields by making research and business activities more profitable. FDII helps US companies keep their intellectual property at home which advances US technology excellence and supports national economic development.

Clear Transfer Pricing Regulations – The credit goes to its organized transfer pricing rules US taxpayers must pay fair market value for intellectual property licensing deals. The US maintains tax rules linked to OECD standards that require related businesses to price their deals as separate parties do. Companies need to establish real values for royalty agreements because they cannot use lower taxes to steal business profits. The presence of defined transfer pricing rules lowers both tax conflicts and helps businesses avoid challenges with tax laws. The OECD-compatible transfer pricing system helps authorities identify fair IP transactions while stopping companies from using royalties in tax avoidance schemes.

Tax Incentives for R&D- The US offers significant tax benefits for businesses that conduct research and development activities.

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R&D Tax Credit: The program grants companies a 20% tax reduction for every dollar spent on research activities they qualify for. Tax benefits cover company payrolls and purchases for product development plus independent research projects and intellectual property technologies. Companies can deduct all their R&D expenses right away to support continuous development of new ideas. The policy lets technology companies and new business maintain financial balance by using tax benefits on their product developments. The plan has driven fast growth in biotech research as well as computer software development platforms business and artificial intelligence systems. The policy of full tax deductions boosts development spending which enables US companies to stay at the leading edge of global innovation.

The US IPR taxation system includes effective fighting methods against tax avoidance plus benefits for innovations. The GILTI law limits tax avoidance from IP property held abroad and FDII[19] and R&D tax credits support IP growth within US borders. The US transfer pricing rules help tax authorities properly examine copyright and licensing transactions between international entities.

V. IPR TAXATION FRAMEWORK IN THE EU[20]

Businesses value Intellectual Property Rights (IPR) in their development through the tax system established by the European Union. Under this framework Patent Box Regime lets companies pay lower taxes on their IP-based income. The tax system faces difficulties in making IP policy work the same way in all EU nations while preventing tax evasion issues. The EU IPR taxation scheme serves three main purposes: to stimulate innovation besides stopping tax evasion while supporting market competition. Patents serve as the backbone of the regime through this system because businesses obtain reduced taxation rates for their IP-derived income. The EU taxation framework operates within international tax standards because it follows the Base Erosion and Profit Shifting (BEPS) Action Plan from the OECD to stop tax avoidance and profit shifting.

PATENT BOX REGIME [21][22]-

The Patent Box Regime functions as a specialized tax benefit called IP Box or Innovation Box

[19] World Trade Organization (WTO). (2021). *United States – Tax incentives for FDII* (WT/DS541). https://www.wto.org

[20] Tax Foundation. (2023). *Patent box regimes in Europe, 2023*. https://taxfoundation.org/data/all/eu/patent-box-regimes-europe-2023/ *(Accessed April 7, 2025)*

[21] Ernst & Young. (2022). *Patent box regimes in Europe: A comparative review*. https://www.ey.com *(Accessed April 9, 2025)*

[22] Alstadsæter, A., Barrios, S., Nicodème, G., Skonieczna, A. M., & Vezzani, A. (2015). *Patent boxes design, patents location and local R&D* (Taxation Papers Working Paper No. 57). European Commission. https://taxation-customs.ec.europa.eu/document/download/1d06ffc6-26b7-4f25-99d4-e0c594bad392_en *(Accessed March 31, 2025)*

which lets organizations pay decreased tax rates when they earn profits from intellectual property. Through this regime the EU aims to motivate businesses toward developing IP within European borders as opposed to relocating it to tax haven locations.

The key elements of Patent Box Regime are:

Lower Tax Rate on Qualifying IP Income **-** The Patent Box system contains essential elements which determine its operation. Under the Patent Box system businesses obtain lower corporate tax rates for income derived from patents together with other qualifying IP assets and trademarks and copyrights and software. Some examples of EU states Patent Box rates are mentioned below –

- Netherlands: 9% tax rate on qualifying IP income.
- Belgium: 85% tax exemption on eligible IP income.
- Ireland: 6.25% tax rate for patented inventions.

Nexus Approach: Linking Tax Benefits to R&D Activity - The EU prevents profit shifting through implementing the Nexus Approach that supports OECD BEPS Action 5 recommendations. Tax incentives become available only when genuine R&D takes place at domestic locations supported by the provision of tax benefits. A company lacks valid access to a low-tax EU nation's tax benefits unless they carry out real R&D operations inside the country.

Country-Specific Variations[23]- EU member states implement their own Patent Box requirements that differ in terms of asset classification and tax incentive levels as well as eligibility rules between countries. The inclusion of software and trademarks into tax benefits programs exists in some territories but certain nations restrict patent incentives to patented inventions exclusively.

The impacts of patent box regime are as follows –

Encourages Innovation and R&D Investment- Businesses choose to invest in new technologies as well as pharmaceuticals and software through the Patent Box regime because it provides reduced tax rates on IP assets. The Netherlands along with the UK Ireland and Belgium have experienced boosted patent registration and research development because of their appealing Patent Box programs. Start-ups together with tech-based organizations now have financial support to invest in intellectual property development under this policy

[23] Government of India & Government of Ireland. (2000, November 6). *Convention between the Government of India and Ireland for the avoidance of double taxation*.

framework.

Boosts Economic Growth and Job Creation- When companies increase their research and development spending the economy expands particularly within biotechnology fields coupled with artificial intelligence development and pharmaceutical industries. The universal adoption of favourable Patent Box rates by countries creates global innovation centres that draw talented employees into research-based job markets.

Enhances Global Competitiveness- IP taxation policies offering competitive benefits let nations battle against tax havens while maintaining intellectual products within their own borders. The implementation of attractive IP taxation approaches holds vital importance for countries which depend on technology-based industries along with pharmaceutical production and innovation sectors.

Attracts Foreign Direct Investment (FDI)- The search for tax optimization by Multinational companies (MNCs) drives them to establish R&D facilities along with their patent portfolios in specific locations. The Knowledge Development Box operated by Ireland provides a 6.25% tax rate that has successfully drawn international tech and pharmaceutical corporate operations. Patent Box regimes function as an attraction tool to maintain high-tech enterprises thereby stopping them from transferring intellectual property to non-EU tax facilities.

The correct application of this approach stops companies from diverting profits across borders- According to the OECD's Nexus Approach the tax incentives apply only to IP originating from R&D conducted within the jurisdiction providing the incentive benefits. The approach functions as a tax base protection measure that discourages businesses from moving profits into countries offering minimal taxation. Through its influence on global taxation of intellectual property the Patent Box system attracts innovation alongside foreign direct investments thus preventing multinational organizations from relocating IP operations to locations with minimal taxation. The Patent Box system creates tax revenue reduction as well as potential abuse risks together with administrative difficulties.

Compliance with ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) and BASE EROSION AND PROFIT SHIFTING (BEPS) measures to prevent profit shifting

The EU follows BEPS guidelines from OECD to set up proper IP taxation rules that guard against tax evasion.

Key OECD BEPS Measures Implemented in the EU are mentioned below –

a. Adoption of the Nexus Approach- Companies need to perform authentic research and development tasks within the country for their business to qualify for Patent Box tax advantages. When companies need to perform actual research and development within a particular country to benefit from patent box benefits, they will stop relocating their income to tax haven countries.

b. Country-by-Country Reporting (CbCR)- Large international companies need to report their financial performance in every location they run their operations to create fair profit view.

c. Mandatory Disclosure Rules (MDR) - Tax authorities need companies to show their aggressive tax planning methods so businesses now struggle to find legal tax breaks.

VI. LIMITATIONS IN IP FRAMEWORKS: COMPARATIVE ANALYSIS

The developing IP taxation system of India encounters multiple framework problems alongside policy issues which stop it from providing complete innovation backing and global IP investment attraction. The main hurdle lies in the failure to establish IP tax regulations similar to European Union Patent Box schemes or the U.S. FDII program. Companies avoid holding or commercializing intellectual property within the country when tax preferences are unavailable. Capital gains taxation becomes uncertain because self-generated intangible assets present valuation difficulties. Lack of standard acquisition cost assessment for self-generated property causes varied tax treatment and hesitation for businesses to place IP assets on the books. The coordination between India's innovation policies and its tax framework remains inadequate which creates major challenges. India's push to boost patent applications fails to match with necessary tax incentives needed to turn patents into profitable business activities. The wide scope in Indian law defining royalty through digital and software-related technological payments has triggered lawsuits and multiple taxation burdens for intercontinental business deals. This framework requires startup businesses and SMEs to manage significant compliance requirements even though they lack the ability to handle sophisticated GST duties as well as strict transfer pricing procedures. Small businesses are likely to choose not to participate in formal IP-related transactions because of the existing complicated framework. The tax framework of India shows limited resemblance to international tax standards particularly in the Pillar One and Two initiatives launched by the Organization for Economic Cooperation and Development (OECD), which shows that it is not consonance with the global standards.

The GILTI and FDII laws implemented by the United States to fight base erosion profit

shifting and boost domestic intellectual property development have multiple essential problems. The tax provisions currently pose significant challenges because they have complex rules that create heavy compliance requirements. Companies need to perform complicated mathematical processes while creating thorough documentation to meet these taxing regulations which lead to substantial operational expenses and enhanced legal dangers. Tax arbitrage options persist despite the implemented system changes. Trade bodies at the WTO and other international organizations have criticized FDII because they view it as unlawful and constituting an export subsidy. The manner in which the United States has classified FDII has triggered international disagreements and global assessments which diminish the respect for the US IP tax system internationally. The 10.5% GILTI tax rate for foreign profits stands opposite to the standard corporate tax rate of 21% and creates an unexpected financial advantage for certain companies to keep holding IP assets abroad. A structural flaw in US tax policy results from additional taxation of foreign income while most territorial-tax systems shun this practice. This has resulted in US multinationals being less competitive in the market. The multiple rules generate additional administrative expenses for businesses because they need to spend substantial funds on tax planning services along with compliance requirements and legal advisory work to fulfil all implications. The combination of rules results in increased financial strain that takes away essential resources from essential development activities.

The European Union system for tax benefits and Patent Box regimes creates major policy challenges although it advances research development strategies. The main worry for public authorities is their loss of tax payments. The chance for income tax evasion and profit transfer keeps coming back as a major problem. Many multinational companies have chosen low-tax European Union nations like Luxembourg, Ireland or the Netherlands to place their IP registrations while conducting almost no research inside these countries. The practice of moving headquarters weakens the relationship between tax incentives and actual national research activities. Research proves that Patent Box tax incentives do not improve actual R&D funding investments. Most businesses take advantage of these regimes by minimizing their taxes without devoting saved money back to actual innovation efforts. Businesses experience additional problems because they must handle multiple steps in getting started. Businesses carrying out IP activities across multiple EU member states encounter multiple unclear tax rules that put extra costs on their operations. The issues with WTO and EU competition policy arise when Patent Box systems give special market advantages to particular industries or businesses. The European Commission conducted investigations to check whether the license schemes verify with the EU aid rules for fair trade practices.

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Differences between EU member states in tax regulations make the problem even harder to handle. Various nations maintain different strategic tax benefits which create confusing policies that prevent proper international market coordination and unity. Under both BEPS guidelines from OECD and the Nexus Approach policies companies find ways to shift profits between nations because tax rules in different jurisdictions stay mismatched.

VII. CONCLUSION: KEY TAKEAWAYS

1. Tax policies directed at intellectual property remain essential for innovation activities together with investment benefits.
2. Government tax policies control the decisions regarding intellectual property development and transfer together with commercialization actions in knowledge-driven worldwide economies.
3. Indian tax regulations differ significantly from the US and EU since they maintain inefficient fragmented procedures which deviate from modern international standards.
4. A new tax policy should develop implementation strategies for domestic innovation programs and international tax compliance through advanced disclosure measures instead of traditional deterrent measures.
5. The strengthening of Indian anti-avoidance measures such as transfer pricing and GST reforms was not enough to establish a specific IP tax framework thus reducing India's capability to attract foreign intellectual property.

VIII. SUGGESTIONS FOR INDIAN IP TAXATION

a. *Implementing a Stronger Anti-Avoidance Regime*[24]- India should create tax regulations similar to GILTI rules to stop firms from moving their intellectual property to countries with small taxes. By developing better transfer pricing rules India can prevent companies from abusing royalty and licensing deals.

b. *Introducing an FDII-Style Incentive*- Indian manufacturers should pay less income tax when they generate sales by using intellectual property assets. India would become a stronger international innovation leader in addition to keeping valuable IP properties in national territory.[25]

[24] Avi-Yonah, R. S. (2007). *International tax as international law: An analysis of the international tax regime* (pp. 89–92). Cambridge University Press.
[25] Internal Revenue Code, 26 U.S.C. §§ 951A, 250 (2022); Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (2017).

c. *Balancing Taxation and Compliance Costs*- India needs to make tax compliance simpler for businesses to support innovation investment instead of placing too many reporting duties on companies during tax regulation oversight.

d. *Introduce balanced patent box regime*[26]- A balanced patent box system should be introduced for tax policies. In order to support R&D activities and minimize revenue loss India should establish a Patent Box system with a moderate tax rate between 10 and 12 percent.

e. *Adopt the Nexus Approach*- A Nexus Approach must be implemented as a solution to link tax incentives directly to R&D activities in India because this prevents misuse yet ensures tax incentives deliver innovation.

f. *Align with Global Best Practices (OECD & WTO Compliance)*[27][28]- Perform compliance with OECD and WTO standards regarding international best practices. The Patent Box framework of India should follow OECD BEPS principles to prevent international tax audits and safeguard its position among global competitors.

g. *Strengthen Anti-Avoidance Measures*- The profit-shifting problems experienced by the EU demonstrate that India should build robust transfer pricing systems with General Anti-Avoidance Rules to stop artificial IP income transfer.

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[26] Organisation for Economic Co-operation and Development (OECD). (2017). *Modified nexus approach*. OECD Publishing. https://www.oecd.org

[27] International Monetary Fund (IMF). (2021). *Taxing the digital economy: Challenges & options* (IMF Staff Discussion Note). https://www.imf.org

[28] Organisation for Economic Co-operation and Development (OECD). (2021). *Inclusive framework on BEPS: Progress report July 2020 – June 2021*. OECD Publishing. https://www.oecd.org

 [ISSN 2581-5369]