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Payment of royalties for the use of intellectual property items



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Over the past few years, we have received many requests from Kazakhstani companies about requests from the tax authorities regarding the payment of royalties by them for the use of trademarks and software (intellectual property items - IPI).

In the absence of a license agreement, or its definition as free of charge or suspiciously low royalty rate, the tax authorities consider that free of charge use of intellectual property as unfair enrichment and demand payment of 10% of the amount of unpaid royalties to the budget and fines for non-payment of such taxes.

In order to determine this tax and the amount of penalties, tax authorities often require the trademarks users to conduct an assessment of intellectual property items, and almost in all cases such assessments are very problematic due to absence of approved methods for such assessments and at least recommended royalty rates. Intellectual property items users usually cannot conduct such assessments themselves, do not know who to contact and do not want to bear additional costs. The tax authorities themselves are unable to conduct such assessments, in particular due to the lack of relevant specialists and the lack of a budget to pay for the work of private assessors. Correspondence at the request of the tax authorities requires a significant amount of time, and in most cases grounded responses eliminate the need to pay additional payments to the budget.

An additional issue with the supply contracts, agreements and licenses already concluded for the use of IPIs is that although the contracts refer along with the transfer of goods, technical assistance or services from IPI owners, the possibility of transferring the right to use IPIs to Kazakh companies in the future, the right to use them is not actually transferred. In such cases, a careful analysis of the agreements themselves, the wording used in them, additional agreements, acts of performed works and other documentation is required to justify the absence of transfer of the right to use the IPI, which could have been avoided if the agreements had originally contained clear and precise wording and had not raised doubts or ambiguous interpretations of their provisions.

In order to avoid such situations it is recommended to review agreements at the stage of their drafting in order to avoid ambiguous interpretation of agreement provisions, however foreign companies are often reluctant to do so, referring to their standard international practice. This practice is, of course, convenient for IPI owners, but its inconsistency with Kazakhstan legislation or uncertainty in the wording of agreements causes great inconvenience for Kazakhstani companies.

The customs authorities also require royalties to be separated, as the rates for royalties are different from those for the goods. There are some inconveniences for importers; however they sometimes result in savings, as it is possible to split the value (royalty allocation, often taxed at a reduced rate not exceeding 10% due to double taxation treaties).

To sum up the said above, we advise you to draft agreements in advance with experts in tax law and intellectual property, conclude and where necessary register license agreements or, if immediate conclusion of agreements is required, carry out the above analysis and amend the agreement properly before concluding it.

We would also like to underline the following. Pursuant to the Tax Code of the Republic of Kazakhstan (Article 243.15 - deductions for certain types of expenses) a taxpayer carrying out production and (or) sale of goods under a tradename, trademark and (or) service mark, which belong and are used by a taxpayer (including under a license or sub-license agreement in the manner prescribed by Kazakhstan legislation and (or) international treaties ratified by Kazakhstan, shall deduct expenses for activities aimed at supporting or increasing volume of sales, all expenses for promotion of goods bearing a registered trademark can be deducted. Even for goods which have not yet been imported into Kazakhstan, but the trademark used on them has already been registered. Please register your trademarks and demand registration of trademarks in our country (and better yet register license agreements) from partners who supply their products to Kazakhstan.

It is worth to mention that this does not apply to inventions, utility models, industrial designs and appellations of origin, whatever it is as it is.