

Statutory Penalties for False Assertions or Certifications of Small and Micro Entity Status

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Summary

35 U.S.C. 41(j) and 123(f) require the United States Patent and Trademark Office (USPTO) to assess a fine of not less than three times the amount an entity failed to appropriately pay the USPTO, when the entity is found by the USPTO to have falsely made an assertion or certification of small or micro entity status, unless the entity shows that the assertion or certification was made in good faith. The USPTO will begin issuing a combined notice of payment deficiency and order to show cause as to why a fine should not be assessed ("combined notice and order"), when the USPTO makes a preliminary determination that a pending patent application ("application") or patent contains a false assertion or certification that resulted in the payment of at least one fee in an unentitled reduced amount. The USPTO will issue a subsequent notice to provide a final determination of whether a fine is being assessed, and the fine amount, based on any timely response to the combined notice and order and the record as a whole.

The statutory penalty system of 35 U.S.C. 41(j) and 123(f) promotes the submission of compliant assertions and certifications of small and micro entity status, reduces the revenue loss from false assertions and certifications that would otherwise be borne by all entities, and discourages inappropriate conduct related to making false assertions and certifications.

Background

An entity may qualify for small entity status if the entity is a person, a small business concern, or a nonprofit organization, including an institution of higher education. See 37 CFR 1.27. Sections 509.02-03 of the Manual of Patent Examining Procedure (MPEP) (9th Edition, Rev. 01.2024, November 2024) provide guidance on when small entity status may be appropriately asserted. The MPEP is available at www.uspto.gov/MPEP.

Some entities that qualify for small entity status can benefit from an additional reduction of most fees charged by the USPTO if they also qualify for micro entity status. The entity may be entitled to certify micro entity status under either a gross income basis or a United States institution of higher education basis. Section 509.04 of the MPEP and www.uspto.gov/PatentMicroentity provide guidance on when micro entity status may be appropriately certified. If an applicant, inventor, or joint inventor has been named as the inventor or a joint inventor on more than five prior nonprovisional applications, the applicant may be required to establish that a certification under the gross income basis as a micro entity is appropriate, e.g., establishing that the exceptions in 37 CFR 1.29(b) apply to a sufficient number of prior applications that the certification was not falsely made. See MPEP section 509.04(a), subsection I.

An entity is required to conduct an inquiry reasonable under the circumstances prior to making the assertion or certification. See 37 CFR 11.18(b)(2).

The USPTO is a fully fee-funded agency. When entities ineligible for the small or micro entity status fee reductions pay fees in an unentitled reduced amount, they take improper advantage of the fees paid by other

entities. Fee payments made in an unentitled reduced amount result in revenue loss for the USPTO, which is required to set fees to recover aggregate costs. Entities paying fees in unentitled reduced amounts result in the fees for all applicants being reset higher to offset this revenue loss.

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Division W of the Consolidated Appropriations Act of 2023 enacted the Unleashing American Innovators Act of 2022 and amended Title 35 of the United States Code to provide for penalties for false assertions and certifications under 35 U.S.C. 41(j) and 123(f), respectively. See Public Law 117-328. In December 2024, Public Law 118-151 further amended Title 35 to provide good faith exceptions to the statutory penalty system of 35 U.S.C. 41(j) and 123(f). Consequently, 35 U.S.C. 41(j) and 123(f) require the USPTO to assess a fine of not less than three times the amount an entity failed to appropriately pay the USPTO, when the entity is found by the USPTO to have falsely made an assertion or certification of small or micro entity status that resulted in the payment of a fee in an unentitled reduced amount, unless the entity establishes that the assertion or certification was made in good faith.

Combined Notice and Order

At USPTO's discretion, a review may be undertaken of an entity status claim for compliance with all relevant USPTO rules. For example, the USPTO may review a micro entity status certification claim to determine whether the entity is compliant with the limit of filing no more than five nonprovisional applications. If the review leads to a preliminary determination that an application contains a false assertion or certification that resulted in the payment of at least one fee in an unentitled reduced amount, the USPTO will issue to the correspondence address of record a combined notice and order. The combined notice and order will set forth the USPTO's basis for its preliminary determination and provide a response period of two months, extendible under 37 CFR 1.136(a), to give the entity notice and an opportunity to respond.

Response to Combined Notice and Order

The combined notice and order will provide the following three options for response:

- I. If the assertion or certification was not falsely made, a reply must be submitted that includes an explanation supported by sufficient evidence to rebut the preliminary determination that the application contains a false assertion or certification. Relying upon the previously submitted assertion or certification or providing a reassertion or recertification are not satisfactory responses.
- II. If the assertion or certification was falsely made, but in good faith, an itemization of the total deficiency owed must be provided under 37 CFR 1.28(c)(2) or 1.29(k)(1), as appropriate, along with payment for the total deficiency under 37 CFR 1.28(c)(2) or 1.29(k)(2), as appropriate, and include an explanation supported by sufficient evidence that the assertion or certification was made in good faith.
- III. If the assertion or certification was falsely made and a good faith explanation is not submitted, an itemization of the total deficiency owed and payment for the total deficiency must be provided, along with, as appropriate, an offer to pay any fine once assessed.

The USPTO will evaluate any response to the combined notice and order on a case-by-case basis before issuing a final determination. For example, if the response includes an explanation supported by evidence that the false assertion or certification was made in good faith, the USPTO will take into consideration the reasonableness of any steps taken to avoid the false assertion or certification (i.e., an inquiry reasonable under 37 C.F.R. 11.18(b)(2)) and whether the entity, e.g., applicant or practitioner, has exhibited a pattern of making false assertions or certifications.

Subsequent Notice from the USPTO

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Following a response to the combined notice and order, or after the expiration of the time period for response, the USPTO will generally issue a subsequent notice that will contain a final determination, based on the record as a whole, of whether the application contains a false assertion or certification that resulted in the payment of at least one fee in an unentitled reduced amount. The subsequent notice will also set forth the fine amount, if any, being assessed. In certain situations, where the facts warrant, the USPTO may require additional information prior to the final determination.

In addition, the USPTO may issue sanctions under 37 CFR 11.18(c) for an entity's conduct before the USPTO regarding a false assertion or certification. Practitioners remain subject to the USPTO Rules of Professional Conduct and sanctions under 37 CFR 11.15, 11.19, and 11.20 for violations thereof. See 37 CFR 11.101 et seq.

Impact on Prosecution Status and Patent Term Adjustment

When the USPTO issues a combined notice and order, the USPTO will remove the application from examination pending resolution of the preliminary determination that the application contains a false assertion or certification. The USPTO will not return the application to examination until both the fee deficiency and fine are resolved.

In the event that the USPTO makes a final determination that the application contains a false assertion or certification that resulted in the payment of at least one fee in an unentitled reduced amount, there will be a patent term adjustment (PTA) impact for the application.

Under 37 CFR 1.704(c), circumstances that constitute a failure of the applicant to engage in reasonable efforts to conclude processing or examination of an application may result in the reduction of the period of adjustment set forth in 37 CFR 1.703. There will be a delay in prosecution corresponding to the USPTO removing an application from examination, pending the resolution of the false assertion or certification in the application. Because the delay is the result of a false assertion or certification, the delay is a failure to engage in reasonable efforts to conclude processing or examination of the application, starting on the date the USPTO issues the combined notice and order and ending on the date all appropriate fee deficiencies and any assessed fine are paid in full.

Additional Information

An entity is subject to the penalty provisions of 35 U.S.C. 41(j) and 123(f) only when inappropriately discounted fees were paid on or after December 29, 2022. The filing date of the application is not relevant to whether the fee payment could result in a penalty.

Once a fine has been assessed, the fine is a debt owed to the United States Government, unless the USPTO determines that the assessment was in

error in response to a request for further review. Payment of only the fee deficiency amount after the penalty has been assessed does not obviate the fine owed to the United States Government, and a collection process will be initiated to collect the fine owed. The fine must be paid even if the application is abandoned or if the patent has expired. Additionally, failure to pay the fine amount within the time period for its payment may result in sanctions under 37 CFR 11.18, including termination of the proceedings. Payment of only the fine amount and not the fee deficiency will, after expiration of the time period to pay the fee deficiency, result in abandonment of the application.

Contact information

Inquiries concerning the statutory penalty system of 35 U.S.C. 41(j) and 123(f) may be directed to Joseph F. Weiss Jr., Senior Legal Advisor, Office of Patent Legal Administration, at 571-270-0629. Inquiries concerning patent term adjustment may be directed to Kery Fries, Senior Legal Advisor, Office of Patent Legal Administration, at 571-272-7757.

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Acting Director of the United States Patent and Trademark Office