Taxes

An Overview of Key U.S. Tax Considerations for Inbound Investment

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As the world's largest economy, the United States provides tremendous operating and investment opportunities, with an innovative and productive workforce, robust infrastructure, and lucrative markets. However, foreign businesses interested in investing in the United States can find it daunting to navigate the U.S. federal tax code and regulations, as well as state and local taxes. Inadequate preparation can create undue risk, result in increased and unanticipated tax costs, and ultimately impact the overall success of U.S. operations. In addition, overlooking potentially valuable tax and financial benefits, including federal, state, and local credits and incentives, can result in missed opportunities to reduce tax costs and benefit from capital and operational cost offsets.[*]

This chapter is intended to provide businesses interested in investing in the United States with some general guidance about various levels of U.S. tax imposed on non-U.S. investors, as well as available government incentives. It is critical to consult with a qualified advisor before making any business or tax-related decisions to more fully understand the impact of those decisions on the specific facts of the investment.

The Fundamentals of U.S. Federal Tax

Who must pay?

U.S. tax-resident individuals, citizens, corporations, and their foreign branches are subject to U.S. federal tax (and potentially state and local taxes) on their worldwide income. Conversely, non-U.S. tax resident individuals and non-U.S. corporations and partnerships are generally only subject to U.S. tax on income that is "effectively connected to a U.S. trade or business" (referred to as ECI) and U.S. source income that is "fixed, determinable, annual, or periodical" (FDAP). FDAP income generally includes U.S. source interest, dividends, rents, and royalties.

ECI must be associated with U.S.-based activity that rises to the level of a U.S. trade or business. Although the U.S. tax code does not define a U.S. trade or business, case law generally frames it as activity in pursuit of profit that is "considerable, continuous, regular, and substantial." If the foreign parent or subsidiary is resident in a country that has an income tax treaty with the United States, business profits are subject to U.S. federal income tax only to the extent that the income is attributable to a U.S. permanent establishment (PE). In general, a PE requires a more permanent business connection with the United States, so it is possible that a non-U.S. company could carry on a U.S. trade or business that does not rise to the level of a U.S. PE (and therefore is not liable for federal income tax).

[*] The views expressed are those of the authors and do not necessarily represent the views of Ernst & Young LLP or any other member firm of the global EY organization.

How much is the tax?

For non-U.S. corporations, ECI is subject to federal tax at the same rate as applies to U.S. domestic corporations.

In addition to federal taxes, there may also be applicable state and local taxes on a non-U.S. corporation's U.S. business income, discussed further below. A deduction is generally available on the federal income tax return for all state and local taxes; thus, despite the addition of state and local taxes, it is not unusual for a corporation to have a U.S. effective marginal tax rate of approximately 25 percent.

Tax on FDAP is withheld by the payor on a gross basis at a 30 percent rate, though this rate can be reduced (potentially to zero) under an applicable U.S. income tax treaty if the income recipient is eligible for treaty benefits. Certain exceptions to FDAP withholding tax may also be available under federal law.

Corporate tax rates at a glance

Nature of tax	*Rate*
Corporate income tax	21%
Capital gains	21%
State and local income taxes	Varies by state from 0% to 13%, but generally deductible against federal income tax
FDAP withholding taxes, including dividends, interest, rents, royalties	30% (applicable to non-U.S. recipients) - note this may be reduced under an applicable treaty
Branch profits tax	30% (applicable to non-U.S. recipients) - note this may be reduced under an applicable treaty

**Additional taxes, including federal payroll taxes, duties and customs and a variety of other state and local taxes, may apply.*

Choice of Entity

There are various ways a non-U.S. company can structure its U.S. business. The choice may be driven by customer requirements, business and commercial needs, though U.S. and non-U.S. taxes can also play a role. Typical business models include a representative office, branch office, or wholly owned subsidiary. Each has its own implications and compliance requirements for U.S. tax purposes; this discussion focuses on tax considerations associated with the models.

A representative office is the easiest option for a company just starting to do business in the U.S., and it may not trigger U.S. federal corporate income tax if the U.S. activities are very limited. A representative office may be appropriate for the very early stages of a company's

U.S. expansion but will likely need to be transitioned into a branch or subsidiary as the U.S. business grows.

A branch structure is similar to a representative office in that it does not require incorporating a separate legal entity, but a branch can perform a substantially broader range of activities than a representative office. A branch will, however, constitute a taxable presence in the U.S., which means that the business must annually account for and file U.S. federal income tax on the branch's profits. The parent company of the branch will be considered the U.S. taxpayer, and, as such, the parent company's other operating income could potentially be pulled into the U.S. tax net in certain circumstances. It is important that all related party transactions between the U.S. branch and the parent company are based on arm's length U.S. transfer pricing principles.

Non-U.S. companies that intend to have people or property in the United States often choose to incorporate a wholly owned U.S. subsidiary to "ring fence" the U.S.-based activities. A subsidiary does not have to necessarily be incorporated in the state in which it is primarily doing business. It is common to incorporate in a state with flexible incorporation laws and then operate in many other states, which may require registering the corporation to do business in those other states and applying for a certificate of authority to do business there. As with branch structures, it is important that all related party transactions with the U.S. subsidiary are based on arm's length U.S. transfer pricing principles to control the amount of profits subject to U.S. tax.

Considerations associated with typical U.S. operating models

Considerations	*U.S. representative office*	*U.S. branch*	*U.S. corporate subsidiary*
Allowed functions	Activities are limited to ancillary and support activities such as advertising and market research.	No specific restrictions apply to U.S. branch operations.	No specific restrictions apply to corporate subsidiaries, though all related party cross-border activities should use U.S. transfer pricing arm's length principles.
U.S. federal income tax	If activities are sufficiently limited, the representative office should not be subject to U.S. federal income tax.	Branch profits that are ECI are taxed at the 21 percent corporate tax rate.	Taxed at the 21 percent corporate tax rate.

Dividends	The representative office should not be able to pay dividends.	A 30 percent branch profits tax on deemed withdrawals from the branch (potentially reduced/eliminated under treaty).	30 percent dividends withholding tax (potentially reduced/eliminated under treaty).
State and local taxation	Varies depending on state tax nexus profile.	Varies depending on state tax nexus profile.	Varies depending on state tax nexus profile.

Alternatively, some non-U.S. companies choose to operate through a U.S. limited liability company (LLC). For U.S. federal income tax purposes an LLC can elect different tax classifications. For example, an LLC with a single owner is, by default, classified as a disregarded entity (the equivalent of being classified as a branch) for U.S. tax purposes, unless the owner elects to treat it as a corporation. Likewise, an LLC with more than one owner is classified as a partnership, unless the owners elect to treat it as a corporation. These rules are commonly referred to as the "check-the-box" rules. Before choosing to use an LLC for U.S. business purposes, the non-U.S. company should carefully consider local country treatment of the LLC (such as whether it could be considered a hybrid entity).

Financing U.S. Operations

U.S. operations can be funded via debt, equity, or a mix of debt and equity, though it is recommended that U.S. operations not be fully funded by debt. Although interest expense is generally deductible, the U.S. tax code imposes various restrictions on deductibility. In addition, the Internal Revenue Service (IRS) can recharacterize purported debt as equity for U.S. tax purposes, which could potentially lead to disallowed interest deductions and/or additional withholding tax liability.

Interest paid to a non-U.S. creditor is generally subject to a 30 percent rate of U.S. federal tax through the application of the FDAP withholding regime described above. This rate may be reduced (potentially to zero) if the creditor is eligible for benefits under an applicable U.S. income tax treaty. Certain exceptions to withholding are also available under federal law. Note that most U.S. tax treaties contain a "limitation on benefits" article (an anti-treaty shopping provision) that limits treaty benefits to persons that have a measurable business nexus to their country of incorporation (for example, the country of residence of the ultimate owners, or the conduct of an active trade or business in the country where the non-U.S. company is resident). Eligibility for a reduced rate of federal tax on interest payments,

whether the reduction is based on federal law or a tax treaty, should be confirmed prior to entering into any financing arrangements.

Repatriation of U.S. Earnings

Once U.S. operations become profitable, consideration should be given to how best to repatriate the cash to the home office. If a U.S. corporate subsidiary is established, dividends paid to the non-U.S. parent company are generally subject to a 30 percent rate of U.S. federal tax under the FDAP withholding regime described above. The 30 percent rate may be reduced (potentially to zero) under an applicable U.S. income tax treaty if the recipient is eligible for treaty benefits. For non-U.S. companies that are operating in branch form in the U.S., a federal branch profits tax imposes similar withholding (and relief from branch profits tax may also be available under a U.S. income tax treaty).

In some cases, a non-U.S. company may choose to utilize debt to fund U.S. operations to repatriate cash back to the home country office if the federal withholding tax rate on interest is less than the federal withholding tax rate on dividends.

State, Local, and Other Taxes

In addition to the activities and structures that generate U.S. federal income tax liability, inbound companies (depending upon where they locate, how they conduct their business, and to whom they sell their products) can also be subject to subnational state and local income taxes, as well as certain non-income taxes, such as sales and use taxes, gross receipts taxes, real and personal property taxes, unemployment and payroll taxes, among others.

State income taxes

Non-U.S. companies expanding into the United States may be surprised to learn that they may be subject to state income taxes not only in their state of incorporation, but in other states as well. States generally impose tax when a company creates state tax "nexus" in the state. Nexus is generally formed when a company has people or property in a state, even temporarily (and increasingly, some states also have economic nexus rules whereby a liability could exist even without people or property in that state so long as the company has made a threshold level of sales to the state). As such, it is possible for a non-U.S. company to create state tax nexus in multiple states.

Although most states use federal taxable income as a starting point for calculating the state tax liability, each state may provide significant additions to, or subtractions from, that amount to determine state taxable income. States typically do not allow the same amount of depreciation and usually will add back state and local taxes, among other items, to determine the state tax base. Thus, the state income tax base could vary widely from state to state. In addition, and quite unusual compared to other countries around the globe, the states rely upon formulary apportionment to divide the tax base of a multi-state business. In the past, most states used a blended factor comparing the ratio of property, payroll, and sales in the state compared to everywhere the taxpayer was engaged in business. Now, increasingly the states rely solely upon a sales factor to apportion the tax base among the states. In some cases, certain types of income, such as income from the sale of real property located in the state or from certain intangible income, is allocated entirely to one state, although these rules vary from state to state. In theory, there should not be double taxation amongst the states as the total income of a company should be allocated and apportioned amongst the states where the company has created nexus, but because there is no mechanism among the states to settle double taxation disputes, it is possible that a single stream of income could be subject to taxation by more than one state.

In general, states may choose whether to conform to the federal Internal Revenue Code (IRC) and may even pick and choose which parts of the IRC to which they wish to conform. Some states opt for "fixed date" conformity, which means that they follow the IRC as of a certain date. Some states choose "selective" conformity and adopt only certain IRC provisions or conform to those provisions at different times compared to their original date of adoption for federal income tax purposes. Others practice "rolling" conformity, automatically updating their reference to the IRC on a continual basis and thus conforming to the most recent version of the IRC as it is amended.

In addition, it is possible to create state tax nexus (and thus a state tax liability) even if there is no federal tax due, such as when a treaty eliminates the federal tax liability, because U.S. tax treaties are limited by their terms solely to the U.S. federal income tax (other than the non-discrimination provisions). Thus, non-U.S. companies should be aware that if they believe they do not have a U.S. PE and are thus not subject to U.S. federal income tax, they may still have sufficient state nexus to be subject to state income taxation. These rules governing tax presence vary widely from state to state and, notably, even with respect to particular state or local taxes within a single state.

Sales and use taxes

Unlike many other countries, the United States does not impose a national sales tax or value-added tax (VAT). Instead, such consumption-based taxes, known as sales and use taxes [but which may go by other names such as a "general excise tax" (in Hawaii) or a "transaction privilege tax" (in Arizona)], are levied in all but five states. In most states, in addition to the

state-wide sales tax, counties, cities, and other local regional authorities are entitled to levy their own sales and use taxes. Fortunately, in most states, these additional local jurisdictional sales and use taxes are merely imposed as an incremental addition to the existing state sales tax base and collected by the same state taxing authority. However, in certain states, some local "home" rule jurisdictions are granted the authority to administer their own sales and use taxes separately from the state, meaning that they may have a tax base that is different from the state's and may require taxpayers to file and report such local taxes separately as well. Sales taxes are typically assessed on the final consumer purchase, with wholesale transactions usually exempted. Generally, all sales of tangible personal property occurring within a state are subject to sales tax unless specifically exempted by statute. In most states, sales of services and intangible property (such as electronically delivered software) are usually excluded from sales tax unless specifically taxable. It is the seller's responsibility to collect and remit sales tax, although state and local law typically allows the cost to be transferred to the consumer.

Prior to the 2018 U.S. Supreme Court ruling in *South Dakota vs. Wayfair, Inc.* (*Wayfair*),[6] a company generally needed to have a physical presence in a state to trigger an obligation to levy and remit sales tax on sales within a state. The *Wayfair* ruling eliminated the physical presence standard, meaning sellers may be required to collect sales tax on transactions with remote consumers that previously were not subject to sales tax. After the *Wayfair* ruling, many states enacted presence thresholds for sales and use tax purposes that apply depending on the dollar amount of sales and/or number of transactions within the state (typically either $100,000 or more of revenues derived from sales to consumers in the state, or 200 or more transactions with consumers located in the state, although these thresholds vary from state to state). Moreover, in response to the rapid development of online retailers who allow third-party retailers to sell through their internet portals, nearly every state now imposes a sales tax collection responsibility on the operators of the internet sales portals.

Non-U.S. companies selling into the United States (including those without a physical presence in the United States) should assess their potential sales tax obligations following the *Wayfair* ruling and the ongoing changes in state and local tax laws in response to that ruling, and ensure they have compliance and reporting processes in place to satisfy any obligations. Even though the state and local taxing authorities may not have an immediate ability to enforce collection, the failure to file returns means that the statute of limitations for sales tax collection assessments remains open indefinitely. Non-U.S. companies that do not comply may later be surprised to learn they have significant state and local sales tax liabilities.

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[6] *South Dakota v. Wayfair, Inc.*, 585 U.S. __, 138 S.Ct. 2080 (2018).

Employment taxes

Human capital is an area that can become quite challenging for an inbound company, especially if the home country headquarters is left to deal with the diverse and often complex requirements of federal and multistate taxing jurisdictions. Many businesses coming to the United States decide to outsource some or all of their human resource management activities such as payroll and benefits administration since these areas require considerable local knowledge.

1. *Social security tax*

Under the Federal Insurance Contributions Act (FICA), social security tax is imposed on wages or salaries received by individual employees to fund retirement benefits paid by the federal government. For 2022, the social security tax is 12.4 percent. Half of the tax (6.2 percent) is withheld from the employee's wages and half (6.2 percent) is paid by the employer. The portion relating to the social security portion of the federal tax is subject to a wage limitation that periodically changes while the portion relating to the federal Medicare program (1.45 percent imposed on each of the employer and the employee) is not subject to any such limitation.

2. *Federal unemployment tax*

Federal unemployment tax (FUTA) is imposed on the wage payments that employers make to their employees for services performed within the United States regardless of the citizenship or residency of the employer or employee. The 2022 projected tax rate is 6 percent on the first $7,000 of wages of each employee. Connected to this federal unemployment insurance program, most states also impose their own unemployment taxes that are creditable against FUTA tax when paid; rates vary from state to state as well as on the historic unemployment performance of each particular employer.

3. *Employer reporting and withholding*

An employer (whether a domestic or foreign United States employer) is responsible for withholding and remitting United States federal, state, and local income and social security taxes from the wages of resident and nonresident alien employees. The employer is also responsible for reporting the compensation income of its employees working in the United States.

Federal, state, and local credits and incentives

Although the U.S. network of federal, state, and local taxes can be complex to navigate, there are also federal, state, and local incentives available for inbound investors where the investment involves material capital investment, research and innovation, or leads to job creation. These can include tax credits, abatements, cash grants, land grants, low interest loans, and other benefits. Companies should consider a strategy for identifying and securing these investment incentives as they can help mitigate upfront costs and ongoing operational costs associated with investing in the United States, as well as strengthen the inbound investor's relationship with the U.S. communities in which it does business.

Glossary

Branch profits tax (BPT): The branch profits tax, which simulates the tax treatment of a corporation that issues dividends, is a 30 percent U.S. federal tax on deemed withdrawals from a branch. The tax base for the branch profits tax is the dividend equivalent amount, which is essentially the branch earnings for the year less the amounts reinvested in the United States. In some cases, the 30 percent branch profits tax can be reduced or eliminated by treaty.

C corporation: Under U.S. law, most corporations are established in accordance with the law of the state of incorporation. Although the corporate laws of most states are similar, those of certain states are more flexible than others. A corporation has a separate legal identity distinct from its shareholders. This can be used to cap any risks that may be inherent in a branch or partnership. A "C corporation" is a reference to the United States federal income tax treatment of a corporation under Subchapter C of the IRC. Most corporations are treated as "C corporations" unless special elections or qualifications apply. Use of a C corporation also prevents United States profits and losses from flowing up to the shareholders. The profits earned by a C corporation are subject to a 21 percent federal income tax rate (plus any applicable state and local taxes) in the United States.

Effectively connected income (ECI): Income that is effectively connected to a U.S. trade or business associated with activity that is considerable, continuous, regular, and substantial. ECI is generally used to determine what foreign corporations and their U.S. branches and partnerships are subject to U.S. tax.

Fixed, determinable, annual, or periodic income (FDAP): Includes dividends, interest, rents, and royalties; generally excludes gains from the sale of real or personal property.

Federal Insurance Contributions Act (FICA): A social tax imposed on wages or salaries received by individual employees to fund retirement benefits paid by the U.S. federal government.

Federal unemployment tax (FUTA): Imposed on the wage payments employers make to their employees, regardless of the citizenship or residency, for services performed within the United States.

Internal Revenue Code (IRC) of 1986, as amended: The basic federal income tax law for the United States.

Internal Revenue Service (IRS): The agency of the U.S. federal government responsible for enforcing U.S. federal tax laws, collecting taxes, processing tax returns, and issuing tax refunds.

Limited liability company (LLC): An entity created under state law. From a U.S. federal income tax perspective, an LLC is an eligible entity that can be treated as either a partnership, a corporation, or a disregarded entity. An LLC may be disregarded only if it has a single member (i.e., owner). If it has two or more members, unless it elects to be treated as a corporation, an LLC is treated as a partnership for U.S. federal income tax purposes (provided it does not engage in certain businesses for which such an election is not permitted). From a state business law perspective, LLCs provide their members with liability protection similar to that offered to shareholders by being organized in corporate form.

Permanent establishment (PE): A fixed place of business through which the business of an enterprise is wholly or partly carried on, which most U.S. double tax treaties say includes a place of management, a branch, an office, or a factory.

Sales and use tax: Sales and use taxes in the United States are generally assessed at the state and/or local level and are usually assessed on the final consumer purchase, with wholesale transactions remaining tax exempt. As a general rule, all sales of tangible personal property are subject to sales or use tax unless specifically exempted by statute (sales of services and intangible property vary by state). Use taxes are imposed on the use, storage, or consumption of tangible personal property by a business itself, within a state's borders.

State tax nexus: Generally refers to the requisite business activity in a state or local taxing jurisdiction sufficient to allow a state to impose an obligation to pay or collect and remit a tax. Based on U.S. Supreme Court rulings, state tax nexus can be limited by provisions of the U.S. Constitution. Moreover, state laws may also establish the thresholds by which a taxpayer may have sufficient connections to the state to be subject to a state tax payment or collection obligation [generally based upon physical presence, such as the presence (even on a temporary basis) of employees or independent contractors in the state, leased property in the state, or based on the dollar amount or number of transactions occurring in the state]. Such rules vary from state to state and also, even within the same state, based upon the type of tax. As indicated elsewhere, U.S. income tax treaties by their very terms do not apply to the states. Consequently, even though a non-U.S. company may not have a PE in the United

States due to the invocation of treaty protection, it may still have “state tax nexus” and an obligation to pay or remit certain state or local taxes.

U.S. trade or business: There is no comprehensive definition of a U.S. trade or business; it is largely defined by case law. In order to make a determination of whether a trade or business exists, the owner’s level of activity must be measured. Activity in pursuit of profit that is “considerable, continuous, and regular” is necessary to establish a trade or business.

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Disclaimer

This chapter was prepared by Jillian Symes, Julia Tonkovich, and Brian Smith with EY. Views expressed in this chapter are the authors’ own, not that of the International Trade Administration. This chapter does not constitute legal advice. Readers interested in investing in the United States should consult legal counsel.

Workforce

Creating Employment Success in the United States

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The key to any organization is people, and any company doing business in the United States will have to recruit, interview, hire, and manage a workforce. The process of hiring and managing a U.S.-based workforce may differ greatly from those practices customary in other countries. In the United States, employers are regulated by (1) federal laws that apply to all companies regardless of location; (2) state laws, for the individual state(s) where the employees are physically working; and (3) local- or city-based ordinances in some larger cities. Also, the law may be shaped by "public policy" considerations and court decisions. Employers are generally afforded great latitude in structuring their workplace policies and practices. This freedom, however, is not without limits, as federal, state, and local laws regulate such areas as minimum wage and other issues relating to the payment of wages and prohibit workplace decisions taken for discriminatory reasons. There are also other types of protections, including those for disabled or pregnant workers.

This chapter is designed to provide a general overview of federal, state, and local laws; how these laws work to protect employers and employees; and how the United States works to provide safeguards against discrimination through the classification of people into "Protected Classes." In fact, these protected classes should be some of the most important considerations for employers as they delve into the laws governing the workplace. *Title VII of the Civil Rights Act of 1964* and corresponding federal civil rights statutes define who is protected. In the United States, employment laws prohibit discrimination based on these protected characteristics, which Federal law identifies as age, race, sex and gender, national origin, disability, color, and religion. Several U.S. states and some local governmental entities have added to these categories to provide broader protections.

Section 1 – The Employment Relationship

Recruitment

In a nutshell, recruitment cannot show a preference for a class of people or discourage someone from applying because they are in a protected class. This is true whether an employer recruits through job postings, recruiters, or word of mouth. For example, job postings cannot seek "females" or "recent college graduates," since the first would show a preference for women and discourage males from applying, and the second would discourage people over 40 from applying. Likewise, employers cannot direct their recruiters to only interview people inside or outside protected categories or recruit in a way that will only yield members outside the protected categories. Therefore, employers should review

job postings for potential issues to ensure neutral language and impact and review directions given to recruiters. There are also some state-specific restrictions on what employers may inquire about pre-hire, such as salary histories.

Employee benefits are an essential part of U.S. recruitment and compensation. While benefits vary by size of the business, geographic region, and sector of the economy, the most common are health care (medical, dental, and vision), retirement plans, and paid time off. Some less common, but still popular, benefits include incentive programs, education reimbursement, and discounts on some products. Employee benefits are constantly evolving to incorporate new concepts and new expectations from employees. Many companies are reassessing their benefits in light of the priorities of the workforce they are looking to attract and retain. Each employer is free to choose the types of benefits they offer and how these benefits are provided. However, some benefits must be offered uniformly to all similarly situated employees. There are also some selected benefits that can be tailored for specific employees or potential employees. A key point to remember is that the legal requirements and restrictions are changing as fast as the benefits.

Interviews

Like recruitment, employers should not inquire into, or make decisions based upon, an applicant's disability, race, color, gender, sex, national origin, age, or religion. Employers should avoid asking questions about family or marital status and club or union membership. Instead, interview questions should be limited to determining if a person is qualified for the job. For example, if a job requires an employee to lift 50 pounds, the interviewer can ask if the applicant meets all the required qualifications. On the other hand, the interviewer should not ask, "I see you are in a wheelchair. Can you still lift 50 pounds?" Similarly, if an employer requires applicants to take a test as part of the hiring process, the test must be related to the job and may not exclude people because of their membership in a protected category.

Ban the Box Laws

Multiple states (16 at the time this chapter was drafted), and many more cities, have implemented so-called "Ban the Box" laws. These laws are designed to limit or eliminate employers' ability to inquire into past criminal convictions or use past convictions in hiring decisions. While these laws vary between states (and localities), they generally: restrict the type of conviction that can be asked about; limit the ability to use past convictions in hiring decisions; delay background checks; and require that employees be notified when criminal

information is used in hiring decisions. Several localities within these states have additional requirements on what information can be sought or used. Some states require a detailed analysis be undertaken before rejecting a candidate based on a criminal conviction.

Pre-Hiring Drug Testing

Pre-hiring drug testing is another area where the laws and requirements vary dramatically between various states and localities. Some states have no restrictions on pre-hiring drug testing; others have some limited restrictions. Certain localities go even further by eliminating the ability to require pre-hiring drug testing, except under very limited situations, or by restricting employers from testing for certain drugs such as cannabis, except in certain narrow circumstances. Some states that permit the use of medical marijuana have revised testing procedures to accommodate the use of cannabis outside of work. There is some tension between federal and state law on the issue of drug testing. Some employers who have federal contracts, federal grants, or are subject to Department of Transportation (DOT) or Department of Defense (DOD) guidelines, may have more expansive drug testing requirements than those permitted under state law.

Managing the Workforce

Employers have great latitude about decisions on promotions, pay increases, discipline, or termination. However, employers must be mindful to follow Equal Pay Act laws and other non-discrimination and non-retaliation laws in making these important workplace decisions. Again, employers must consult federal, state, and local laws on these topics. (Refer to Section 4: Compliance) In general, employers are free to design pay policies based on merit, performance metrics, client development, or other important considerations without being lock-stepped solely by tenure or the position level.

Section 2 – At-Will Employment

Almost every state in the United States applies some version of the "at-will" employment doctrine. Generally, the at-will doctrine means that either the employee or employer may terminate the relationship at any time, without notice or "cause." Any employment decision, even taken in a state that follows a broad application of the at-will employment doctrine, must still comply with all federal, state, and local laws regulating employment decisions, including protected classes.

The at-will doctrine may be a new concept for international business investors, who may be accustomed to hiring through employment contracts with a fixed term (duration) that may restrict the ability to terminate employees. Under the at-will doctrine, there is no set term of employment, no standard affecting employment decisions, and, as a result, each party can end the employment relationship at any time. In short, the doctrine does not require a long-term commitment by either party. In an at-will situation, an employee who simply wishes to

stop working can end the employment relationship at any time, as can the employer. Indeed, since 1888, Texas has held that employers can terminate an employee for good cause, bad cause, or no cause at all. Most other states have court decisions that contain similar holdings.

Employers and employees can disregard the at-will doctrine by entering into contracts that specify the length of employment and the conditions for, and consequences of, termination. Even without an express written contract, however, the doctrine does have some limitations. Even though the at-will employment doctrine presents a straightforward approach to the employment relationship—both parties will continue to work together if each party desires to continue the relationship—the application of federal and state law supersede the doctrine. The most obvious exception is that an employment decision cannot be based on an act or reason that has been deemed “illegal,” and for purposes of this chapter any hiring or firing practices where the decision is based on the employee’s identification with any protected class is illegal.

In addition to non-discrimination limits, several states provide protection against “retaliation,” such as termination because an employee has engaged in whistleblower activities (such as reporting illegal or fraudulent conduct; filing a complaint about discrimination or unpaid wages; seeking workers’ compensation benefits; or engaging in some other protected action).

Moreover, when applying the at-will employment doctrine, some states exercise an amended version of the doctrine. For example, some states apply an implied contract exemption to the doctrine, meaning employers can establish a “just cause” standard for employment decisions through a contract, an employee handbook, or other employment policies. Further, some states applying the doctrine also exercise a good faith exemption. In these states, even though the at-will doctrine applies, an employer may only terminate employees for “just cause.”

While the at-will doctrine provides employers with a fair amount of flexibility, there are limits based on federal, state, or local law that must be considered. Employers should take care that internal personnel policies do not create contractual expectations. As a practical matter, most employers use caution when terminating employees. The expense of hiring and training and the impact on employee morale are all important considerations that practical employers evaluate before terminating employment.

In addition, unemployment insurance is an important consideration. Most states require that employers contribute monies into a state unemployment insurance fund administered by the state government. Employees who are terminated are often eligible to make a claim for unemployment benefits, which is a partial wage replacement for a period to assist the employee until he or she can locate new employment. The amount the employer is required to contribute to the fund is determined by several factors, including the total amount of the payroll dollars and the employer's claims experience. If an employer has high turnover of its employees, and many former employees file for unemployment benefits, the employer is likely to receive a risky rating and may be required to contribute a higher percentage based on its adverse claims experience. Employers and employees can submit information relating to the termination and claim; employers can object; and there are limited appeal rights if either employee or employer disagree with the findings of the unemployment claims examiner.

As a practical matter, employees who do not understand why they are terminated are more likely to file an administrative or court claim against their employer alleging discrimination or wrongful termination. As such, most employers attempt to resolve performance problems and terminate only where the problems are unsolvable, the employee is unsuitable, or there are financial issues compelling the termination.

Section 3 – Use of Employment Agreements

An employer may decide that it is useful to have employment agreements for its executives or key employees. This type of agreement is helpful to cover such essential terms as: (1) length of employment; (2) expanded notice upon resignation; (3) compensation and bonus structures; (4) equity participation; (5) termination for cause or without cause; (6) severance; (7) post-employment restrictions, such as non-competition, non-solicitation, and nondisclosure covenants; (8) detailed performance expectations; (9) housing, car, or entertainment stipends or allowances; and (10) relocation benefits and expectations. If the business is a start-up or encountering financial difficulties, the agreement may cover a "stay bonus" or otherwise incentivize remaining with the employer for a period. Severance provisions can be important as a method of pre-negotiating the end of the employment agreement, minimizing the consequences of any potential emotions. Often, severance agreements are conditioned on the employee giving up the right to make a post-employment claim for damages, where permitted.

In addition to executives, employment agreements are useful for employees who have access to, and work with, trade secrets and confidential information; who are hired to invent or work on research and development (R&D) activities; or where the employee will be responsible for developing good will (sales). There is federal and state statutory protection for some of an employer's intellectual property rights; however, in the absence of a written agreement and affirmative steps to safeguard proprietary information, an employer's rights may be unsettled or result in shared ownership of an intellectual property asset. Employers may wish to impose post-employment restrictions on working for a competitor, soliciting employees or customers, or disclosing confidential information. Invention agreements detail ownership rights in intellectual property conceived or developed by the employee with the employer's time or resources. An employer may elect to have stand-alone agreements covering the protection of trade secrets, good will, non-competition, or intellectual property rights. Employers may instead include these post-employment restrictions in a general employment agreement covering the topics identified in the preceding paragraph.

State law varies on the requirements for such agreements and their ultimate enforceability. All agreements must be supported by "consideration." In legal terms, consideration is a bargained-for exchange of something of value for something else of value. The parties of the agreement can decide if what they are exchanging is valuable enough to be part of the agreement. Sometimes, continued employment can be deemed sufficiently valuable and therefore enough "consideration" to uphold the agreement. The agreements themselves must be reasonable in scope, duration, and geographic area subject to the post-employment restraints. In addition, they must support legitimate interests, such as protection of trade secrets or goodwill. Under no circumstance can they be created for the sole purpose of limiting competition between similar goods or services. Lastly, the agreement cannot violate public policy, be injurious to the public interest, or unduly burdensome to the employee. Courts enforce these agreements to varying degrees; if this is of importance, employers should consult with employment counsel in their specific geography and/or their specific industry, as specialized aspects to these negotiations might exist.

Section 4 – Compliance

Employment Laws

U.S. federal and state employment laws generally prohibit discrimination, harassment, and retaliation based on protected classes, characteristics, and conduct. Most federal employment laws cover employers with 15 or more employees. Federal laws prohibit discrimination based on race, color, national origin, religion, sex, disability, familial status, genetic information, citizenship, pregnancy, veteran or military status, and age (federal law protects employees who are over age 40, Oregon and the District of Columbia protect employees 18 and older, and Michigan and New Jersey protect employees of all ages).

Federal law protects LGBT (lesbian, gay, bisexual, and transgendered) employees. In addition, at the time of publication, more than 32 states and the District of Columbia protect sexual orientation and/or gender identity/expression.

State employment laws expand coverage to smaller businesses or provide additional protection, such as:

- Height and weight: Michigan and Washington
- Marital status and parenthood: Alabama
- Possession of a driver's license: California
- Exercise of free speech rights: Connecticut
- Reproductive health decisions: Delaware, Hawaii
- Family responsibilities: Delaware, the District of Columbia
- Personal appearance, matriculation, or political affiliation: The District of Columbia
- Credit history: The District of Columbia, Hawaii, Illinois, Oregon
- Breastfeeding: The District of Columbia, Illinois
- AIDS and HIV status: Florida; Missouri; Nebraska; Vermont; San Francisco, California
- Sickle cell trait: Florida, Louisiana, North Carolina, New Jersey
- Arrest record and criminal history: 13 states
- Protective order status and work authorization status: Illinois
- Choice of a Sabbath: Kentucky
- Status as a smoker or non-smoker: Kentucky, Louisiana, Mississippi, New Hampshire, New Jersey, Nevada, Oklahoma, Oregon
- Exercise of right to bear arms: North Dakota

Medical and recreational marijuana users are protected in more than 18 states. As of January 2022, 12 states also prohibit hairstyle discrimination.

Wage & Hour Laws

The Federal Fair Labor Standards Act (FLSA) and various state wage and hour laws require that employers comply with minimum wage requirements; properly classify workers as exempt or non-exempt from overtime pay; and impose recordkeeping obligations, child labor restrictions, and posting requirements. These laws also prohibit the misclassification of employees as independent contractors.

Leave of Absence (LOA) Laws

Federal and state LOA laws require employee LOAs in specific circumstances and prohibit retaliation against employees who exercise their LOA rights. The Federal Family Medical Leave Act (FMLA) requires employers with 50 or more employees who work in a 75-mile (120-kilometer) radius to provide 12 weeks of unpaid leave for eligible employees' own serious medical condition or the care of a covered family member. Other federal and state LOA laws

require unpaid leaves for bereavement; military service; jury and witness duty; voting; victims of domestic violence or criminal activity; blood, bone marrow, and organ donation; school activity; pregnancy and nursing mothers; and voluntary firefighter, first responder, or civil air patrol. Although federal LOA laws require only unpaid leave, 16 states and various municipalities now require paid sick leave.

Required Harassment Prevention Training

Federal law does not yet require that employers provide sexual harassment prevention training; however, it is required in seven states and in New York City, New York.

Posters, Notices, and Filings

U.S. employers must post conspicuous summaries of applicable federal and state employment laws. The Department of Labor (DOL) e-Laws Poster Advisor helps employers determine which federal law posters must be posted. States require additional posters for unemployment insurance, worker's compensation, workplace safety, and wage laws. More information on employment law poster requirements by state can be found on a state-by-state basis.

Work Eligibility Concerns

All employers are required to have employees complete I-9 Forms and provide appropriate documentation that the employee is eligible to work in the United States. Employers are required to maintain such records and provide access to these completed forms if audited.

"Right-To-Work"

In the United States, workers in many industries have unions that are designed to help employees in bargaining for wages and benefits with employers. Unions are not necessarily present in all industries, and some unions are more powerful than others, but where unions exist, members pay dues. The "Taft-Hartley Act" (better known as *The Labor Management Relations Act of 1947*) implemented the right-to-work concept at the federal level by putting into law that employees can choose to join a union or not, pay dues or not, and cannot be forced out of their job if they choose not to join a union. In addition, employees who do not join the union can still benefit from the services offered by the union because the union exists to represent all employees. This relationship is so ingrained that employees who are not union members and/or do not pay dues can sue the union if they feel they were not well represented in their case against their employer. In addition to the federal-level regulation, 27 states and Guam have right-to-work laws currently in effect.

Section 5 – Privacy Laws

Employee privacy in the United States does not consist of a unified privacy law, but rather a series of laws at the local, state, and federal level, many of which apply only to specific aspects of privacy or certain sectors of the economy. At the federal level, there are several prominent laws dealing with privacy, three of which often come into consideration with hiring and employment matters.

First is the Federal Trade Commission Act (FTC Act), which governs the collection of personal information on websites. Most importantly, the FTC Act requires those collecting personal information from a website to specify what information is collected and how it will be used. This is critical to keep in mind when hiring individuals or seeking qualified candidates for a position through a website, even if a third party or add-in is used to do so. The FTC Act will apply if the information is collected by employers or for their benefit.

The second applicable federal law is the Health Insurance Portability and Accountability Act (HIPAA), which covers health benefits provided to employees once employed. HIPAA requires certain disclosures to employees and prohibits disclosure of protected health information without express authorization. Employers must also set up HIPAA-specific procedures and practices, conduct a risk assessment, and enter into agreements with third parties that may receive information subject to HIPAA on the employer's behalf.

The third important privacy regulation is the Genetic Information Nondiscrimination Act (GINA), which prohibits employers from using genetic information to make most decisions about employees.

At the state level, almost every state and the District of Columbia has passed laws protecting their residents. While these laws differ greatly and are being revised and expanded regularly, a few key components are common and applicable to employment. First, in the event personal information is used in a way that violates the law or is used contrary to its intended purpose, the individual must be notified about what happened, advised on how to prevent the risk of identity theft, and, in many cases, the employer must contact the state or federal government. Second, many states have passed laws prohibiting employers from requesting or otherwise accessing personal accounts of employees, especially social media. Third, individuals, including employees, must receive notice of their rights regarding their personal information and how their personal information is being used. This often goes well beyond what is required to comply with the FTC Act described above. Specifically, in some states, notices must be provided about where information is obtained, how long it is stored, who it is shared with, and whether it is sold as part of a dataset. Fourth, states are increasingly restricting when and how very sensitive information, such as biometric information, can be collected and used.

In all cases, employers must carefully monitor their data collection and maintain employee privacy, keeping such information well contained. Meeting these standards at the state and federal level requires the assistance of knowledgeable professionals. If data is exchanged outside of the United States in countries that have their own data protection laws, U.S.-based employers must comply with those laws as well.

Section 6 – Employee Recourse

If employers run afoul of federal, state, or local employment laws, aggrieved employees have several avenues to vindicate their rights. First, if the employer has workplace policies, the employee can use the employer's internal resources, such as their manager or human rights manager, to address the departure from a workplace rule or law. Employees are not required to do this, but this is a viable option. An employee may file a complaint with either a federal or state civil rights agency, such as the EEOC or the state's department of labor. Some laws require that the employee first file a complaint with such an administrative agency (called "exhaustion of administrative remedies"). Other laws do not require exhaustion and an employee can file a complaint with any court that has jurisdiction to hear the controversy – typically the state or federal court where the employee works or lives. Lastly, by agreement, an employer may compel the employee to pursue claims through an alternative dispute mechanism, such as arbitration.

Conclusion

The United States provides great investment opportunities and a well-educated diverse workforce. There is a substantial amount of freedom to recruit, manage, and retain a productive workforce. This chapter has sought to provide a high-level review of these key areas of flexibility as well as the restrictions that employers need to know. However, it is strongly encouraged that any business consult legal advisors for more specific information about the legal requirements where the new business will operate.

Glossary

Arbitration: Arbitration is a private method of resolving a dispute without either party having to file a complaint with an administrative agency or court. The parties can use the rules established by a recognized arbitration association, set their own rules by contract, or refer to the federal or state arbitration act. The purported benefits to using arbitration are confidentiality (no public filing in an agency or court), shorter time to resolve the dispute, and a smaller expense of attorneys' fees. There are downsides to arbitration, such as no judge to make decisions, no jury to hear the dispute, and limited appeal rights.

At-Will Employment: At-will employment is a policy that provides employee or employer with the freedom to end the employment relationship at any time, for any reason (except for

an unlawful reason), without advance notice. In the absence of an employment agreement, or a specific federal or state statute, employers need not pay any separation pay, severance pay, or notice pay. Employers must comply with the law in terms of paying wages and accrued but unused benefits (such as vacation or sick time); otherwise, employers are free to create employment policies addressing what is payable at the time of termination.

Employee Benefits: Employee benefits typically refer to the accoutrements or emollients of employment, such as paid time off, health insurance, retirement plans, and flexible benefit plans. Most states do not require provision of paid time off, except for sick time. But most employers routinely provide time off not only for sickness, but personal reasons or vacation as well. Most states do not requirement payment of unused paid time off at the time of termination, but some do. If the employment policies or practices require such payment, then the employer must follow those policies or practices.

Consideration: Consideration" is a bargained-for exchange of something of value for something else of value (for example, the promise to work in exchange for payment).

Exhaustion of Administrative Remedies: A federal or state law may require that an employee file a complaint with a specific administrative agency before he or she can file the complaint in court. The idea behind exhaustion is that the specific administrative agency is charged with the responsibility to enforce the law and has expertise in interpreting the law, an interest in deterring violation of the law, and expertise and authority to issue a remedy, including a public-facing remedy. For example, if an employee wants to file a claim under Title VII of the Civil Rights Act alleging she was fired because she was a woman, she will first have to file the complaint with the EEOC and provide them with an opportunity to resolve the dispute before she can file a complaint with a federal or state court of law and submit her dispute to a jury.

Federal Law: Federal law refers to the United States Constitution and its Amendments, and the Acts passed by the United States Congress and signed by the sitting President. Various federal agencies having oversight or enforcement responsibilities for certain laws may publish regulations that interpret federal law and provide more detail on the scope of the law. Also, federal agencies may publish guidelines that provide interpretative guidance to regulatory bodies, employers, employees, and the courts. In this paper, all these sources are considered federal law.

State Law: The United States is comprised of 50 sovereign states, each with its own executive branch, legislative branch, and judicial system. Instead of a president, states have governors. States are permitted to pass laws if the state law does not conflict with or override federal law. For example, the states can establish their own minimum wage which may differ from the federal law but cannot be a lesser amount than the federal minimum wage law. The states can enact more generous rules of law, but not more restrictive. Many states augment

federal employment law by provider greater employment rights or benefits; however, some do not. The law of some states closely mirrors that of federal law. One approach is not better than the other. It is simply something to be aware of when conducting business in the United States. Business activities need to comply with federal and state law, and even local law, such as that enacted by larger cities.

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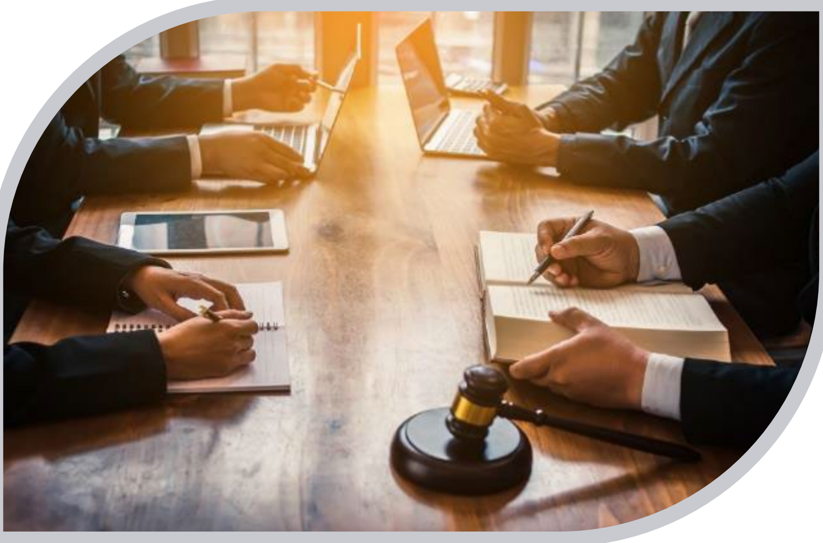
This chapter was prepared by Michael Sachs, Adam Boland, Vanessa Kelly, Paul Starkman, and Charles Russman with Clark Hill. Views expressed in this chapter are the author's own, not that of the International Trade Administration. This chapter does not constitute legal advice. Readers interested in investing in the United States should consult legal counsel.

FDI Restrictions

Limitations on Foreign Investment into the United States



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I. Introduction

The United States has consistently ranked as a top destination for foreign direct investment (FDI). The United States boasts a high Ease of Doing Business ranking, a population of over 330 million people, the world's largest economy, and one of the best educated, most productive, and most innovative workforces in the world. The benefits of an open investment regime, based, to the extent possible, on the principle of national treatment, have been noted for decades. National treatment strives to ensure that foreign-owned companies in the United States are treated the same as domestically owned firms. This principle and its benefits were eloquently expressed in a policy statement issued by President Ronald Reagan in 1983.[7] That policy statement emphasized further liberalization of trade, protection of intellectual property rights around the world, and the importance of national treatment as a principle. Subsequent U.S. Presidents have also emphasized the importance and benefits of the United States' liberal and open investment regime.

Given the openness of the United States investment regime and the vast amount of FDI that the country continues to attract, it may seem unnecessary to consider the limitations foreign investors may face. Indeed, although these limitations are few and far between, foreign investors and their legal counsel should be aware of them. This chapter describes the most important limitations by sector except for authorities and activities of the Committee on Foreign Investment in the United States (CFIUS).[8] This chapter reflects the views of the author and is intended as a starting point to understanding the limitations on investing into the United States.

Topics Covered:

- Energy Sector
- Transportation Sector
- Financial Services Sector
- Miscellaneous (Including Radiocommunications and Tech)
- State and Local Restrictions

II. Energy

A. Atomic Energy

Commercial nuclear power and atomic energy are governed by the Atomic Energy Act of 1954.[9] Under the Atomic Energy Act, a license issued by the United States Nuclear Regulatory Commission (NRC) is required for any person in the United States "to transfer or receive in

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[7] Statement on International Investment Policy, National Archives, reaganlibrary.gov/research/speeches/90983b.

[8] For more information on CFIUS, see SelectUSA Investor Guide, Chapter 7: "The Committee on Foreign Investment in the United States."

[9] 42 U.S.C. §§ 2011 et seq.

interstate commerce, manufacture, produce, transfer, use, import, or export" any nuclear "utilization or production facilities" for commercial or industrial purposes.[10] These licenses cannot be issued to "an alien or any alien corporation or other entity if the Commission knows or has reason to believe it is owned, controlled, or dominated by an alien, a foreign corporation, or a foreign government."[11]

An NRC-issued license is also required for nuclear use in medical therapy, industrial and commercial purposes, and research and development (R&D) activities.[12] This second category of licenses has a restriction nearly identical to the commercial licenses previously discussed.[13] The legal limits on issuing licenses to foreign entities are implemented by 10 C.F.R. § 50.38, which provides that "[a]ny person who is a citizen, national, or agent of a foreign country, or any corporation, or other entity which the Commission knows or has reason to believe is owned, controlled or dominated by an alien, a foreign corporation, or a foreign government, shall be ineligible to apply for and obtain a license."

The NRC has therefore established a "foreign owned, controlled, or dominated" test (FOCD) for the purpose of determining if an investment into the United States civil nuclear sector may fall under this prohibition.[14] The NRC's Final Standard Review Plan (SRP) on Foreign Ownership, Control, or Domination, details some of the complexities that go into making an FOCD determination.[15] For example, in some situations a license can be granted where there is 100 percent indirect ownership by a foreign parent company if that foreign parent company's stock in turn is "largely" owned by U.S. citizens.[16] On the other hand, the analysis under the "domination" principle may render an applicant ineligible for the license if its corporate structure makes a foreign company or foreign citizen appear to be dominant.[17]

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[10] 42 U.S.C. § 2133(a).

[11] 42 U.S.C. § 2133(d).

[12] 42 U.S.C. § 2134.

[13] *Compare* 42 U.S.C. § 2134(d) (restricting the grant of licenses to foreign persons or companies if the entity is owned, controlled, or dominated by a foreign person, corporation, or government) *with* 42 U.S.C. § 2133(d) (using nearly identical language in describing limitations on granting licenses to foreign persons or foreign companies).

[14] The NRC also has FOCD information on its website regarding nuclear reactors, which can be found at: nrc.gov/reactors/focd.html

[15] 64 Fed. Reg. 52355-01, 52358 (Sep. 28, 1999).

[16] *Id*. (This treatment may reflect a view that in such case the firm is not really foreign owned since it is ultimately, albeit very indirectly, owned by U.S. citizens).

[17] *Id*.

B. Oil, Gas, and Certain Mineral Rights

The limits on investment in the oil and gas sector by citizens of other countries and foreign corporations are found in the Mineral Lands Leasing Act of 1920.[18] Under that law, there are limitations on the acquisition of rights-of-way for oil or gas pipelines, or pipelines carrying products refined from oil and gas, across onshore federal lands. These restrictions also apply to acquiring leases or interests in certain minerals (including coal and oil) on onshore federal lands. Citizens of other countries and foreign corporations may have up to a 100 percent stock ownership in a domestic company that owns such rights, interests, or leases, provided that the foreign investor's home country reciprocates with similar or like privileges to U.S. companies.[19]

III. Transportation

A. Land Transport

There are two primary restrictions on investment in land transportation in the United States. The first is for transportation within the United States (cabotage), which is limited to persons of the United States using U.S.-registered and either U.S.-built, or duty-paid trucks or buses.[20] The second restriction is cross-border bus or truck services, which require operating authority from the Department of Transportation (DOT).[21]

B. Maritime Transport

The occasional complexity of the limitations on foreign investment into the United States is perhaps best illustrated by U.S. cargo preference laws and obligations stemming from the Military Cargo Preference Act of 1904 and the Cargo Preference Act of 1954. Military cargoes must be carried exclusively on U.S.-flag vessels.[22] At least 50 percent of all government-generated (procured, furnished, or financed by) cargo tonnage must be carried by privately-owned U.S.-flag commercial vessels (provided those are available at fair and reasonable

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[18] 30 U.S.C. §§ 181, et seq.

[19] 30 U.S.C. §§ 181, 185(a) (This requirement of reciprocity applies to deposits of coal, phosphate, sodium, potassium, oil, oil shale, gilsonite, gas, and federal lands containing such deposits).

[20] *See,* "Guidelines For Compliance of Commercial Motor Vehicles (CMV) and CMV Drivers Engaged in Cross-Border Traffic," Homeland Security, May 2012 at: https://www.dhs.gov/xlibrary/assets/policy/dhs-cross-border-trucking-guidelines.pdf; *see also*, "How do I enter the United States as a commercial trucker," U.S. Customs and Border Protection, at: https://www.cbp.gov/border-security/ports-entry/cargo-security/carriers/land-carriers/how.

[21] These regulatory requirements can be found in 49 C.F.R. Subtitle B, Chapter III.

[22] 10 U.S.C. § 2631.

rates).[23] This requirement includes agricultural cargo,[24] but cargo generated under Export-Import Bank loan guarantees must be exclusively carried on U.S.-flag vessels (provided that the guarantee amount is over $20 million or the term of the loan is over seven years).[25] In turn, a U.S.-flagged vessel must be owned and crewed by U.S. citizens (with certain limited exceptions),[26] but the entity that owns the vessel may have a foreign parent company. Finally, it is worth noting that the cargo preference laws and regulations do not apply to non-military and non-government agency commercial goods.

There are several limitations on the transportation of goods and people within the United States (cabotage) by vessel. Cabotage of passengers is generally not allowed by foreign-flagged vessels.[27] In order for a vessel to engage in cabotage services of goods or passengers, it must meet at least one of three essential requirements qualifying it as eligible to engage in "coastwise trade."[28] The coastwise trade requirements for a vessel are (1) ownership by a U.S. citizen and documentation as coastwise under U.S. law (which requires the vessel to have been built in the United States); (2) ownership by a U.S. citizen, exempt from documentation, and otherwise entitled to documentation with a coastwise endorsement but for tonnage (because vessels measuring less than five net tons are excluded from documentation altogether); or (3) ownership by a partnership or association in which at least 75 percent interest is owned by a U.S. citizen, is exempt from documentation, and is otherwise entitled to documentation with a coastwise endorsement but for tonnage (because vessels measuring less than five net tons are excluded from documentation altogether), citizenship of owner, or both.[29]

The catching and transport of fish in U.S. waters is similarly limited to vessels built in the United States and either owned by a U.S. citizen or owned by an entity in which there is at

[23] 46 U.S.C. § 55305; 46 CFR § 381.

[24] *Id*.

[25] See "U.S. Flag Shipping Requirements," EXIM, at https://www.exim.gov/policies/us-flag-shipping-requirements

[26] *See* 46 U.S.C. § 8103.

[27] 46 U.S.C. § 55103.

[28] 19 CFR § 4.80.

[29] *Id*.

least 75 percent ownership and control by U.S. citizens[30]. Control, for the purpose of this provision, means either having the right to direct the business of the entity; possessing the ability to limit actions of or to replace CEOs; holding a majority of the board of directors, general partners, persons serving in management capacities; or being able to direct the transfer, operation, or manning of the vessel[31]. Control does not include certain financial rights or simply the ability to participate in the previously listed actions.

The limitations in the maritime transportation sector listed above are by no means exhaustive. The United States maintains an extensive list of reservations in its international trade agreements regarding this sector.[32]

C. Air Transportation

Air carriers must be U.S. citizens in order to engage in domestic air service (cabotage) and to provide international air service as U.S. air carriers.[33] Foreign Civil Aircraft, as defined by U.S. law, require authority from the Department of Transportation (DOT) in order to operate in the United States.[34] Non-U.S. citizens also require authority to engage in indirect air transportation activities such as air freight forwarding and passenger charter activities.[35] The grant of such authority is determined by the DOT, which takes into consideration, among other things, the reciprocity granted to U.S. investors by the foreign investor's home country[36]. Under the Aviation Programs statutes, 49 U.S.C. Subtitle VII, a U.S. citizen is defined as an individual who is a U.S. citizen; a partnership in which each member is a U.S. citizen; or a U.S. corporation where at least two thirds of the board of directors are U.S. citizens, the president and other managing officers are U.S. citizens, and at least 75 percent of voting interests are owned or controlled by U.S. citizens[37]. A foreign company may therefore own

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[30] *See* 46 U.S.C. 12113.

[31] *See* 46 C.F.R. § 67.31(c).

[32] *See* United States-Korea Free Trade Agreement (KORUS), signed June 30, 2007, Annex II, pp 4-7 (listing maritime transport sector non-conforming measures); Agreement Between the United States, Canada, and Mexico (USMCA), December 12, 2019 text, Annex II, pp 5-7 (listing maritime transport sector non-conforming measures). The text of the KORUS agreement can be found at: https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta; The text of the USMCA can be found at: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between

[33] *See* 49 U.S.C. Subtitle VII.

[34] *Id*.

[35] *Id*.

[36] S*ee, e.g.*, 14 C.F.R. § 211.20(q).

[37] 49 U.S.C. § 40102(a)(15).

up to a 25 percent voting interest in a U.S. air carrier or a company engaged in indirect air transportation activities without a DOT grant of authority[38].

IV. Financial Services

The United States has a number of restrictions on foreign investment in the financial services sector, via both mergers and acquisitions (M&A) and greenfield investment. This section provides a brief overview of some of these restrictions. At both the national level and state level, there may be citizenship requirements for banking. For example, all directors of a national bank are required to have U.S. citizenship, a requirement that the Comptroller of the Currency can waive only for a minority of the total number of directors of a given national bank.[39] The varying requirements imposed by different states operating with different banking regulations add an additional level of complexity at the sub-federal level. Some U.S. states do not account for foreign banks in their licensing process and requirements. This may limit a foreign bank's ability to enter into that state's financial sector or create additional steps and requirements for that foreign bank to enter that state's financial sector, which are not applicable to U.S. banks. Some states also impose citizenship requirements on members of the boards of directors of state-chartered depository institutions. There are also similar requirements for insurance companies, which are generally regulated at the state level. Various states also regulate insurance at a more local level of government, and such regulations may include citizenship requirements for their board of directors, citizenship requirements for incorporators, and residency requirements for various organizational structures.

There are also limitations on what foreign banking corporations and branches of foreign banks can do in the United States. Corporations organized under a foreign country's laws cannot establish thrift institutions (credit unions, savings banks, or savings associations).[40] Foreign non-bank firms cannot own Edge Act corporations, which are corporations that either take deposits from and make loans to companies doing business internationally or invest in foreign companies. This limitation does not apply to foreign banks and their U.S. subsidiaries.[41] Foreign banks also cannot engage in securities advisory and investment services without first registering as an investment adviser under the *Investment Advisers Act*

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[38] *Id*.

[39] 12 U.S.C. § 72.

[40] 12 U.S.C §§ 1463 *et seq.*, 12 U.S.C §§ 1751 *et seq.*

[41] 12 U.S.C. § 619.

of 1940.[42] Moreover, foreign banks cannot be members of the Federal Reserve System (and relatedly cannot vote for directors of the Federal Reserve Bank).[43]

Finally, there are a number of financial services activities that are limited by reciprocity conditions, and likely require an analysis of the foreign investor's home country's laws. These limitations include acting as a sole trustee of an indenture for a bond offering in the United States and being designated as a primary dealer in U.S. government debt securities.[44] Similar reciprocity requirements may also exist at the state and local level.

V. Additional Limitation – Highlights (Including Technology Transfers and Radiocommunications)

There are various other limitations on investing in the United States that do not fit neatly in any of the other categories in this chapter. Many of these are not so much restrictions on investment, but are rather conditions on doing business in the United States that apply to foreign investors and not U.S. investors. The largest group of such limitations is on business and export promotion services provided by the U.S. government. For instance, foreign persons and foreign corporations cannot apply for a certificate of review under the Export Trade Company Act (ETCA) of 1982, which limits liability under federal and state antitrust laws when engaging in the certified export conduct.[45] Foreign nationals and foreign companies can still receive the benefits of such a certificate by becoming members of a qualified applicant.[46] U.S. International Development Finance Corporation (DFC) programs are also administered preferentially for U.S. citizens or entities controlled by U.S. citizens, and their availability to foreign-owned or -controlled U.S. enterprises may depend on the extent of U.S. ownership or participation.[47]

A key restriction for foreign investors that falls into the miscellaneous section are the regulations surrounding controlled technologies, such as lasers and sensors, nuclear materials, and chemicals. Release of a controlled technology to a foreign national in the United States, which may be a foreign investor or part of a foreign investor, is deemed to be an export to the home country of the foreign national, and as such requires written

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[42] 15 U.S.C. §§ 80b-2, 80b-3.

[43] 12 U.S.C. §§ 221, 302, 321. Note that this restriction does not apply to U.S. bank subsidiaries of a foreign bank.

[44] 15 U.S.C. § 77jjj(a)(1); 22 U.S.C. § 5342(b)(1).

[45] 15 U.S.C. §§ 4011-4021; 15 CFR Part 325.

[46] *See* 15 C.F.R. §§ 325.1, 325.2(l).

[47] 22 U.S.C § 9671(b). The DFC maintains a useful website which can be found at https://dfc.gov on what programs and resources it offers as well as some of the eligibility requirements for projects.

authorization from the Bureau of Industry and Security (BIS) at the U.S. Department of Commerce (DOC).[48]

There are also requirements surrounding practicing before the U.S. Patent and Trademark Office. U.S. patent attorneys must be U.S. citizens or lawful residents, and U.S. patent agents must be U.S. citizens or lawful residents or registered to practice in a country that allows for U.S. patent agents to practice there (for the limited purpose of patent prosecuting applications of applicants located in another country).

Lastly, there are limitations on foreign investment in the radiocommunications sector. The United States prohibits the granting of a station license to a foreign government or representative thereof.[49] The United States also prohibits the granting of broadcast, common carrier, aeronautical en route, or aeronautical fixed station licenses to foreign citizens or their representatives, corporations organized under foreign laws, and corporations with more than one fifth of their capital stock being foreign owned.[50] There are also additional limitations on the ownership of the stock of companies that own radiocommunication company stock.[51]

VI. State-Level Restrictions (Primarily Real Estate)

This section addresses sub-federal restrictions on investment, which are primarily found in insurance and real estate sectors at the state level. Since the restrictions on insurance are highlighted briefly in Section IV above covering financial services, this section focuses on real estate. Some states have established restrictions on the purchase of agricultural land and may require that foreign entities comply with reporting requirements and /or establish residency in the United States. In addition, some states have limited the purchase of agricultural land by any entity (foreign or domestic) or have placed restrictions on how many acres of agricultural land may be acquired by non-U.S.

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[48] 15 CFR Parts 730-774. BIS maintains guidelines for foreign national license applications, which can be found here: bis.doc.gov/index.php/licensing/14-policy-guidance/deemed-export/109-guidelines-for-foreign-national-licenses

[49] 47 U.S.C § 310(a).

[50] 47 U.S.C § 310(b); Foreign Participation Order 12 FCC Rcd 23891, paras 97-118 (1997).

[51] 47 U.S.C. § 310(c). Although too detailed to address in this chapter, the Federal Communications Commission, which regulates the radiocommunication sector, maintains guidelines on foreign ownership, which can be found here: fcc.gov/document/foreign-ownership-guidelines-fcc-common-carrier-and-aeronautical-radio

residents. Similarly, a few states have residency requirements for owning real estate. For example, Oklahoma allows non-U.S. citizens to own real estate only if they fall within certain exceptions (which include residency).[52] Several states also have various preference systems for either U.S. citizens or residents to own land, placing limits on how long non-resident non-U.S. citizens can own real estate without changing their status to become a U.S. resident or U.S. citizen. Ultimately, there are not outright restrictions on foreign investors owning real estate, but instead conditions and limitations at the state level.

VII. Conclusion

The previous sections have covered the sectors and subsectors where the United States has the most extensive limitations on foreign investment. While a few of these limitations are stringent in nature, many allow for high levels of indirect ownership, for investment based on corporate structure, and for investment where the home country of the foreign investor reciprocates. The volume of FDI into the United States remains the highest in the world and stands as a testament to the nation's friendly investment environment. The United States ultimately welcomes foreign investment even in the sectors where there are limitations and has made a variety of resources available to foreign investors seeking to invest into the United States, including the SelectUSA program. In that same light, this chapter will hopefully prove a useful resource to foreign investors looking to navigate the U.S. investment regime.

Disclaimer

This chapter was prepared by Edward S. Rivera with the Office of the Chief Counsel for International Commerce (OCCIC). Views expressed in this chapter are the author's own, not that of the International Trade Administration. This chapter does not constitute legal advice. Readers interested in investing in the United States should consult legal counsel.

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[52] Okla. Const. art. XXII §§ 1-2 (restricting the purchase of real estate by non-U.S. citizens); Okla. Stat. tit. 60, § 121 (creating an exception if the right is guaranteed by a U.S. treaty or if the person's country of origin affords such rights to U.S. citizens); Okla. Stat. tit. 60, § 122 (creating an exception for resident aliens or aliens who intend to become residents).

The Committee on Foreign Investment in the United States (CFIUS)

Considerations for Foreign Direct Investment

Office of the Chief Counsel for International Commerce

Office of Investment Security

U.S. Department of Commerce

What is CFIUS?

The Committee on Foreign Investment in the United States (CFIUS) is an interagency committee that is authorized to review certain transactions involving foreign investment in the United States and certain real estate transactions by foreign persons, in order to determine the effect of such transactions on U.S. national security. CFIUS is exclusively focused on national security risk and takes action only when other provisions of law do not provide adequate authority to address the risk. CFIUS operates within the broader context of the U.S. open investment environment.

In addition to the summary below, information on the CFIUS process, frequently asked questions, and other resources are available at: http://www.treasury.gov/cfius

FIRRMA Regulations and the U.S. Investment Climate

In August 2018, the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) was enacted to strengthen and modernize CFIUS. FIRRMA provides authorities to the President and CFIUS to address national security concerns more effectively, including the ability to review and take action to address any national security concern arising from certain non-controlling investments and real estate transactions involving foreign persons. New regulations published by the U.S. Department of the Treasury to implement FIRRMA became effective in 2020.

Open Investment Policy:

In FIRRMA, Congress acknowledged the important role of foreign investment in the U.S. economy and reaffirmed the United States' open investment policy, consistent with the protection of national security.

The United States is one of the most open countries in the world to foreign investors. The United States is also one of the best places to invest, with strong economic growth policies, a strong innovation ecosystem, and a large and highly developed market. The United States maintains a transparent regulatory environment and unparalleled rule of law.

The CFIUS statute and regulations provide clarity to the business and investment communities with respect to the types of transactions that are subject to CFIUS review and the benefits of such review. The CFIUS process, as modernized and strengthened by FIRRMA, enhances investor confidence in our nation's longstanding open investment policy.

Expanded CFIUS Authority:

Prior to the enactment of FIRRMA, CFIUS had the authority to review the potential national security effects of any transaction that could result in foreign control of any U.S. business. FIRRMA expanded CFIUS's jurisdiction to allow CFIUS to also review certain non-controlling investments and certain real estate transactions.

Non-Controlling Investments:

Under FIRRMA, CFIUS is authorized to review certain non-controlling investments (called "covered investments" in the CFIUS regulations), but only if such investment affords a foreign person specified access to information in the possession of, board membership or observer rights in, or involvement in the substantive decision-making of, certain U.S. businesses related to critical technologies, critical infrastructure, or sensitive personal data, each as defined in the CFIUS regulations.

- **Critical technologies:** CFIUS may review certain transactions involving U.S. businesses that produce, design, test, manufacture, fabricate, or develop one or more critical technologies. "Critical technologies" is defined to include certain items subject to export controls and other regulatory regimes, as well as emerging and foundational technologies controlled pursuant to the Export Control Reform Act of 2018.
- **Critical infrastructure:** CFIUS may review certain transactions involving U.S. businesses that perform specified functions—owning, operating, manufacturing, supplying, or servicing—with respect to critical infrastructure across subsectors such as telecommunications, utilities, energy, and transportation, each as identified in an appendix to the regulations.
- **Sensitive personal data:** CFIUS may review certain transactions involving U.S. businesses that maintain or collect sensitive personal data of U.S. citizens that may be exploited in a manner that threatens national security. "Sensitive personal data" is defined to include ten categories of data maintained or collected by U.S. businesses that (i) target or tailor products or services to certain populations, including U.S. military members and employees of federal agencies with national security responsibilities, (ii) collect or maintain such data on at least one million individuals, or (iii) have a demonstrated business objective to maintain or collect such data on greater than one million individuals and such data is an integrated part of the U.S. business's primary products or services. The categories of data include types of financial, geolocation, health, and identifiable genetic data, among others.

Real Estate Transactions:

FIRRMA also authorizes CFIUS to review certain real estate transactions involving the purchase or lease by, or a concession to, a foreign person of U.S. real estate that is in and/or

around specific airports, maritime ports, and military installations. The relevant airports, maritime ports, and military installations are described in the CFIUS real estate regulations with additional guidance on the Department of the Treasury's CFIUS website. The CFIUS real estate regulations include certain exceptions, for example, real estate that is a "single housing unit" and real estate located in certain "urbanized areas" or "urban clusters," in each case as defined in the CFIUS real estate regulations.

Other Topics:

Foreign Person and Excepted Investor:

FIRRMA does not prohibit investments from any particular country, and investments from all foreign persons remain subject to CFIUS jurisdiction where a transaction could result in foreign control of a U.S. business. As required by FIRRMA, however, the CFIUS regulations create exceptions with respect to covered investments that do not result in control and certain real estate transactions by certain foreign persons, defined as "excepted investors" (or "excepted real estate investors") from certain "excepted foreign states" (or "excepted real estate foreign states') as identified on the Department of the Treasury's CFIUS website. Any such excepted investor must meet specific criteria to qualify for this status.

Declarations:

FIRRMA modernized CFIUS's processes to better enable timely and effective reviews of transactions falling under its jurisdiction, including by introducing the concept of a declaration—an abbreviated notification to which CFIUS must respond within a 30-day assessment period—as an alternative to a voluntary notice, which has been the traditional means of filing a transaction with CFIUS. Instructions are available on the Department of the Treasury's CFIUS website.

Process Remains Largely Voluntary:

The CFIUS process remains largely voluntary, where parties may file a notice or submit a short-form declaration notifying CFIUS of a transaction in order to receive a potential "safe harbor" letter (which prevents CFIUS from subsequently initiating a review of a transaction except in limited circumstances).

In some circumstances, filing a declaration or notice for a transaction is mandatory. In particular, the regulations require submission of a declaration for covered transactions where a foreign government is acquiring a "substantial interest" in a U.S. business that is involved in specified ways with critical technologies, critical infrastructure, or sensitive personal data. Additionally, the regulations require filings for certain covered transactions involving U.S. businesses that produce, design, test, manufacture, fabricate, or develop one or more critical technologies.

There is no mandatory filing requirement for real estate transactions under the real estate regulations. Parties may file a notice or submit a short-form declaration notifying CFIUS of a real estate transaction in order to potentially qualify for a “safe harbor” letter.

Disclaimer:

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Intellectual Property

An Overview of Intellectual Property For Foreign Investors

Trademarks and Copyrights
Arnold Lutzker, Partner

Susan Lutzker, Partner

LUTZKER & LUTZKER LLP

Patents and Trade Secrets
Jeffrey Love, Partner

Klarquist

Introduction to Intellectual Property (IP) for Foreign Investors

For foreign investors, like other business owners, the most valuable assets of a business are its Intellectual Property (IP). The heart of the IP are four categories of assets: trademarks, copyrights, patents, and trade secrets. Each of these assets is the basis upon which a business is built and thrives. All four categories have unique legal systems that invest ownership in the creator and enable lawful control and exploitation. Generally, IP is managed on a national basis, with a common set of international principles developed over more than a century of bilateral and multilateral treaties.

For all creators, protection starts in one's home country and then extends to the target of foreign investment, which is the United States, for the purposes of this chapter. Therefore, foreign investors should always start by first protecting their IP in their home country. Then, once a decision is made to conduct business in the United States, the investors need to take effective steps to protect their IP in the United States.

The U.S. legal system provides one of the most expansive sets of protections for IP assets of any nation. It starts with core, constitutional principles, which are clarified and implemented by federal and state statutes, administrative regulations, and judicial determinations. Some IP, like trademarks and patents, should be identified, cleared as available for exclusive ownership, and protected as early as possible. Other IP, like copyrights and trade secrets, once created, should be protected formally, by registration or contract. Failure to analyze the availability of IP assets for exclusive ownership and to secure full legal protections can place in jeopardy both the assets and the financial investment made to create them.

In the United States, there are limitless options to promote and utilize an investor's product via sale and licensing through traditional channels, online, and through apps. When it comes time to seek additional capital or sell a company, IP assets are the bedrock of the business's value. Protecting an investor's IP and enforcing subsequent rights against infringers requires knowledge of the applicable laws and the ability to react quickly to an ever-changing landscape. This is a basic guide for all foreign investors.

Trademarks and Servicemarks

What Is a Trademark/Servicemark?

Trademarks (for goods), servicemarks (for services), and trade names (for the business) are the words, phrases, symbols, designs, product configurations, and even colors and smells,

which stand for a business in the eyes of the consumer and in the minds of competitors. They are the shorthand expressions that define the goodwill a company has built over time. The central basis for trademark protection in the United States is "use in commerce," and the law protects against the "likelihood of confusion" between a business's mark and a competitor's mark. Trademark rights are exclusive to the proprietor; therefore, it is critical that a business protects its brand as soon as plans to enter the United States are formalized.

How Do Investors Protect Their Trademarks?

In the United States, there are both state (local) and federal (national) ways of protecting a trademark. On the local level, merely using a mark gains *common law rights* and enables a business to carve out protection in the state or states where it operates. An investor can also register a trademark with the state-level Secretary of State (not to be confused with the federal role of the same name). However, common law/state protection will not necessarily prevent someone in a distant state from using the same mark competitively. To best protect against this challenge, investors should plan to secure *federal rights* and take advantage of the benefits of registering with the U.S. Patent and Trademark Office (USPTO). Federal rights are protected under the Lanham Act (15 USC §1051 *et seq*.), which is the federal trademark statute.

USPTO offers two options for trademark owners. First, before a business begins use, the company can claim a mark by filing an "Intent to Use" application (ITU). An ITU filing can be submitted even before entering the U.S. market, and it is strongly recommended. The ITU is a formal reservation of rights to the mark, which, once allowed by USPTO, must be perfected by using the mark in commerce. Critically, if someone else (Company B) uses the same mark for the first time after another company's (Company A's) ITU filing, the original company (Company A) can force them to stop that use. However, without the filing, the original company's (Company A's) mark may be restricted instead.

If the mark is already in use in the United States, the company can submit an application based on use in commerce in one or multiple classes of goods or services. While not required to secure common law trademark rights, the importance of filing and securing federal registration cannot be overstated. Once a mark is registered, it acquires national protection, and the trademark owner has a virtual monopoly on the right to use the mark for those products or services. That monopoly can be enforced in any federal court in the United States. Also, by international treaties, a registrant can extend protection to other countries.

How Should Investors Select a Trademark for Their Business?

If a company has a brand in its home market or is selecting a new mark for its U.S. business, the company should strive to develop a distinctive mark that will stand up against competitors. The hallmark legal issue in trademark law is "likelihood of confusion," so a company should have a mark that will withstand a claim that it confuses the consumer as to the source of the good or service.

Additionally, trademarks can be characterized by their strength in the public's mind as follows (from strongest and most protectable to weakest or not protectable):

- *Fanciful* marks: these have no dictionary meaning or connection with the business, like Qorvo for technology or radio frequency solutions.
- *Arbitrary* marks: these are dictionary words but have no connection to the goods or services, like Apple for computers.
- *Suggestive* marks: these creatively hint at a feature of the goods or services, like Federal Express for national overnight package delivery.
- *Descriptive* marks: these describe a feature of the good or service, and some are protectable, some not. If, with the investment of time and money, the mark gains public recognition and stands as a unique source, like ChapStick for lip balm, it can be exclusively owned; however, if the description is needed by all competitors to describe the product, like "sun block" for sunscreen, it is not protectable.
- *Generic* terms: these are not trademarks but rather words or phrases that stand for the genus of the product or service, like dry ice or cell phone, and are not protectible.

To avoid investing in a brand that would later have to be abandoned (or leave a company vulnerable to charges of infringing another's mark), businesses should conduct a search to determine the availability of the mark in the United States and be assured that it would not create a likelihood of confusion with another's mark. Searches can be cursory or detailed, and the extent of a search depends on such factors as where the mark fits on the strength continuum and how much will be invested to promote the brand. Because of the importance of the internet to marketing, you should also quickly *secure the mark's domain name* registration concurrently for marketing and as a protection against cybersquatting by unauthorized third parties.

How Does a Business Get Federal Protection for Its Trademark?

Once a mark is "cleared," the next step is to file an application with USPTO. It is important to file an ITU application before a company commences business in the United States, as well as a standard application once use in the United States commences. USPTO also requires applicants domiciled outside the United States to have a U.S.-licensed attorney represent

them in their USPTO trademark proceedings. As of August 2019, all trademark applicants and registrants must provide and keep their domicile address current. USPTO defines a domicile address as the place where an individual applicant resides or the principal place of business. Post office box addresses do not meet this requirement.

There are also treaties, such as the Paris Convention, which allow a foreign entity to claim U.S. trademark rights based on first use at home, and the Madrid Protocol, which offers a streamlined method for applying for trademark protection in multiple jurisdictions with a single application. All options for registration should be carefully considered.

The time between filing an application and registration can vary, but typically the process takes about a year. An Examining Attorney reviews the application for technical formalities and to assess whether the mark applied for is confusingly similar to a registered mark. An important note for foreign investors: the Examining Attorney will translate foreign words to assess the meaning and "strength" of the mark.

A letter or "office action" informs the applicant of any issues and must be answered within six months. If approved, the mark is published in USPTO's Official Gazette, which allows for public comment, including opposition. Assuming no challenge, the application will proceed to registration or, for ITUs, to allowance. Marks allowed by ITU must be in use within three years. A registration is granted for ten years and may be renewed indefinitely as long as it is in use. Nevertheless, every registered owner *must* file an affidavit of continued use in the fifth year after initial registration to get the full ten-year benefit. Failure to file that affidavit will result in registration being canceled. Before registration, a trademark owner can use the informal symbol TM adjacent to the mark to indicate a trademark claim. Once the mark is registered (and only after registration), an owner should adopt the statutory notice symbol, ®.

Special considerations apply to trademarks that might be considered disparaging in the United States or that involve federally banned products (such as cannabis), so early legal counsel is essential for producers in these cases.

How Does a Business Protect Its Trademark After Registration?

Once a mark is registered, it is important to monitor the marketplace to identify any third party uses that may create confusion. Failure to monitor a trademark and to act on infringements can create cracks in a company's IP claims and open the brand to a claim of abandonment. Trademark "watch services" help monitor USPTO records and provide the opportunity to intervene early to protect a mark.

Copyrights

What Is a Copyright?

Copyright is a bundle of exclusive rights that is accorded authors of creative works, such as movies, books, music, software, or photos. A copyrighted work must be original, have a modicum of creativity; and be fixed in a tangible medium of expression. The law protects expressions, but not facts or ideas, which are an essential part of free speech and the flow of information.

The U.S. Constitution (Article I, Section 8, Clause 8) empowers Congress to grant to "authors" the exclusive right to their writings "for limited times." This power is implemented through the Copyright Act, 17 USC §101 *et seq*. Through copyright law reform, the "limited times" has been extended to nearly a century. Once the term of copyright expires, the work falls into the public domain, which means that it is free to be copied and used by anyone without prior approval.

The exclusive rights granted to a copyright owner are these: the right to reproduce (copy) the work; the right to prepare derivative works based on the original; the right to distribute copies to the public; the right to perform the work publicly; the right to display the work publicly; and the right to perform sound recordings publicly by means of digital audio transmission. These rights can be sold, licensed, loaned, or given away and can pass from one generation to the next.

Importantly, copyright law balances the grant of exclusive rights to owners with a set of limitations designed to permit certain public uses either without consent or subject to a compulsory license. The most prominent limitation is fair use, which defends against a charge of copyright infringement by establishing that the use is permitted, for purposes such as criticism, comment, news reporting, teaching, scholarship, or research. Fair use and other limitations, as well as the compulsory licenses for software and music, are complex and require careful analysis to assure compliance with the statutory requirements.

How Does a Business Protect Its Copyrights?

Copyright rights attach to a work as soon as it is fixed in a tangible form. By treaty (The Berne Convention), there are no "formalities" needed to gain rights; however, federal registration and copyright notice (© NAME and YEAR CREATED) and federal registration, while not mandatory, are essential to enjoy full rights available to copyright owners in the United

States. Before filing a case for infringement, the copyright must be registered. If the work is registered before infringement, the U.S. system provides for recovery of actual losses, or alternatively minimum statutory damages ($750-$30,000 per work up to $150,000 in cases of willful infringement), plus recovery of reasonable attorneys' fees. Criminal penalties are possible for certain types of willful copyright infringement. Copyright registration is a simpler and less expensive process than trademark registration. For certain classes of works (such as photographs), group registrations are possible. Further, there are special procedures when registering software programs to maintain trade secrets embodied in code. Expedited handling of a copyright application is available for an additional fee, if required for customs matters, litigation or contract deadlines.

What is the Digital Millennium Copyright Act (DMCA)?

The DMCA, adopted in 1998, is a set of rules dealing with content online, content shared by websites and online service providers (OSPs), and protection of copyright management information. Registration of a DMCA agent with the U.S. Copyright Office, and learning and following the DMCA rules is advisable for any entities with an online presence entering the U.S. market.

What is a Work for Hire Agreement?

If an employee creates materials for their company within the scope of their employment, the employer owns the copyright. However, if an *independent contractor* (for example, a software engineer or a website designer) creates materials that fall within certain statutory categories (for example, a contribution to a collective work or a motion picture), then unless there is a written "work made for hire" agreement that defines ownership, the contractor may claim copyright. In short, absent specific work for hire language appearing in a written contract, a business risks discovering it does not own clear title to the copyrights it paid for and needs to succeed. If the materials created fall outside the statutory categories, then a written assignment of copyright is required and is an advisable back up to a "work made for hire" provision.

What are some copyright issues related to Artificial Intelligence (AI) and the Web 3.0 landscape?

AI is technology that enables computers and machines to simulate human learning, comprehension, problem solving, decision making, creativity and autonomy. Web 3.0 is a broad term generally encompassing NFTs (Non-fungible Tokens), cryptocurrency, blockchain, augmented reality (AR), virtual reality (VR), asset tokenization and the metaverse.

U.S. copyright law currently requires "human authorship" for registration of an original work. Accordingly, a work which is entirely generated by AI lacks human authorship and is not eligible for copyright protection. In short, it is considered to be in the public domain. The

amount of AI involvement needed to render a work non-copyrightable remains very fact-specific and is often unclear. Copyright protection may however be obtained for the human-created portions of a work which contains both human and AI elements. Additionally, some types of AI may be protected by copyright, including source code and the visual elements of an AI computer program (if they are fixed in a tangible medium of expression).

Guidance from the Copyright Office, new laws and regulations specifically addressing the technological advances and court decisions will inevitably provide a clearer roadmap for this unchartered territory, even as the technology and new applications for its use develop. In the meantime, it is essential to seek legal guidance on this rapidly evolving intersection of law and technology.

Patents

What Is A Patent?

The United States Constitution grants Congress the power "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." (Article I, Section 8, Clause 8.) Pursuant to that grant, Congress has enacted patent laws, and created a patent office that issues patents to inventors. A patent is a document granting an inventor, or the inventor's assignee, the right for a limited time (currently about 20 years from the date the patent application was filed) to file a complaint in federal court seeking a reasonable royalty and other compensation and relief, including an injunction, against persons and companies practicing the patented invention without authorization, and to file a complaint with the U.S. International Trade Commission for an order barring the importation of goods that infringe the patent.

Who Can Get A Patent?

Inventors can get patents on their inventions. Assignees of inventors can get patents on the inventors' inventions. U.S. patent law authorizes inventors to transfer to any person or company, by written assignment, their rights to patent their inventions, and their rights to any patents already issued. The law provides: "Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing." (35 USC § 261.) In accordance with that law, employees often assign in writing their patent rights to their employers.

In some states within the United States, and some countries outside the United States, statutes provide that employers own any patentable inventions made by their employees as part of their employment. For example, Nevada Revised Statute 600.500 provides that "an employer is the sole owner of any patentable invention or trade secret developed by

his or her employee during the course and scope of the employment that relates directly to work ....” (N.R.S. 600.500).

How Does One Get A Patent?

For employers, start by obtaining in advance from employees a written assignment of any employee inventions and a written nondisclosure agreement obligating them to keep company inventions confidential.

Then, identify potential inventions. Many companies create incentives for employees to create inventions, identify them as potentially valuable, and submit summaries of them to management. These companies also create systems for management to regularly review the summaries and determine whether they merit a patent application. Patent lawyers often assist individuals and companies in identifying and evaluating potentially patentable inventions, obtaining written assignments of inventions from employees, and creating systems for receiving and reviewing invention summaries from employees.

After a potential invention is identified, keep it confidential, and do not sell products embodying it, until an application to patent it is filed or a decision is made to not patent it. *Nondisclosure agreements* can help keep inventions confidential. Public disclosure of the invention (for example in articles or presentations or in sales of products embodying the invention) prior to the filing of an application can result in the loss of patent rights. Patent lawyers routinely advise individuals and companies on how to keep potentially patentable inventions confidential and when to file a patent application.

Finally, file a patent application with USPTO and prosecute the application through issuance of the patent. Often it is best to file an initial patent application early, to preserve rights in the invention as initially conceived, and then file a second application later after the invention has been more fully developed. Patent rights generally may extend for up to 20 years from the filing of the application.

Why Get A Patent?

Patents can keep out competition over use of one’s patented inventions and provide grounds for seeking a reasonable royalty for use of the inventions, for the life of the patents. If an invention that gives a significant competitive advantage is patented, or a patent application is pending, potential competitors may decide not to copy it to avoid the risks of patent

litigation. If they do copy it, a successful patent lawsuit may result in a court order prohibiting further copying for the life of the patent; awarding a reasonable royalty; or, in some cases, lost profits and treble damages.

Patents are valuable assets that increase the sale value of a company and its product lines. Potential purchasers of a company or product line often expect the company's products to be protected from wholesale copying by competitors by a substantial patent portfolio. Patents can be valuable assets in negotiating cross-license agreements with competitors. Patents can be a valuable source of income through licensing, litigation, and sale of the patents. The process of identifying, keeping confidential, and seeking to patent inventions can provide a company with incentives to be more inventive.

What Can Be Patented?

U.S. law provides for three different types of patents: a utility patent, design patent, and plant patent. These patents cover three distinct types of patentable subject matter:

- Utility Patent: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor…" (35 USC § 101);
- Design Patent: "Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor…." (35 USC § 171);
- Plant Patent: "Whoever invents or discovers and asexually reproduces any distinct and new variety of plant … may obtain a patent therefor…." (35 USC § 161).

The U.S. Supreme Court has placed some limits on patentable subject matter, holding that laws of nature, physical phenomena, and abstract ideas are not patentable. (*Diamond v. Chakrabarty*, 447 U.S. 303 (1980).) Patent lawyers advise businesses on which of their inventions and discoveries are patentable and the best type of patent protection to seek for them.

Trade Secrets

What Is A Trade Secret?

A trade secret is information that is (a) valuable in a trade or business, (b) secret, and (c) protected by the owner's reasonable steps to keep it secret. The federal Defend Trade Secrets Act of 2016 (DTSA) defines "trade secret" as follows (18 U.S.C. § 1839(3)):

"the term 'trade secret' means all forms and types of financial, business, scientific, technical, economic, or engineering information, … if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information;..."

The Uniform Trade Secrets Act (UTSA) defines "trade secret" similarly (Section 1(4)):

"(4) 'Trade secret' means information ... that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

Who Can Own A Trade Secret?

Anyone can own a trade secret. Anyone who develops the trade secret, or obtains knowledge of it by proper means, may own it. Trade secrets may be acquired by written assignment. For example, part of the acquisition of a company or its assets often includes a written assignment of trade secrets. Employers often require employees to assign to their employer in advance trade secrets they develop or discover during their employment. Some states and countries have statutes that provide that trade secrets discovered by employees are owned by their employers.

How Does One Protect A Trade Secret?

As with patents, employers can start by obtaining in advance from employees a written assignment of any trade secrets developed or discovered by employees and a written nondisclosure agreement obligating them to keep company trade secrets confidential.

Then, identify potential trade secrets. A company can offer incentives for employees to identify potentially valuable trade secrets and put in place systems for management to regularly review and determine whether they merit special protection.

When a company identifies a potential trade secret, it should keep it confidential. Public disclosure of the trade secret can result in the loss of legal rights for the secret.

Unlike patents, there is no government office for submitting trade secrets for approval or protection. The owner of the trade secret maintains legal rights in it by taking reasonable steps to keep the information secret. These steps may include labelling documents "secret," segregating them from ordinary business information in a secure location, such as a safe or password-protected computer in a locked room, requiring people with access to the information to sign nondisclosure agreements, minimizing the number of copies of

documents that contain the secret, and promptly taking steps to minimize any public disclosure of the secrets.

Why Make the Effort to Maintain Information as Trade Secrets?

For valuable information that is not generally known, establishing them as trade secrets by taking reasonable steps to maintain their secrecy gives them substantial protection under both state and federal laws throughout the United States. Since 1981, almost all states have enacted a version of the UTSA, which is a model Act drafted in 1979 (and amended in 1985) by the Uniform Law Commission, a state-supported organization of lawyers established in 1892 to provide states with non-partisan model laws.

In 2016, the federal government enacted the DTSA (18 U.S. Code § 1836). It is based on the UTSA, but with some changes. It provides a single law against theft of trade secrets related to a product or service used in interstate or foreign commerce. The DTSA applies throughout the United States; can apply to some trade secret theft outside the United States; can be enforced in federal courts and state courts throughout the United States; and can be enforced by the owners of the trade secrets in civil actions and by federal prosecutors in criminal and civil actions.

State laws based on the UTSA and the DTSA create a private cause of action, which authorizes trade secret owners to bring civil suits for theft seeking damages and other relief.

In 1996, the federal government enacted the Economic Espionage Act of 1996 (EEA). It authorizes federal prosecutors to bring criminal actions, and civil actions to enjoin violations, in federal court against persons and companies accused of trade secret theft. Unlike the DTSA and state trade secret laws, the EEA does not create a private cause of action. The EEA contains two separate provisions that criminalize the theft or misappropriation of trade secrets. The first provision (18 U.S.C. § 1831) is directed towards foreign economic espionage and requires that the theft of the trade secret be done to benefit a foreign government, instrumentality, or agent. The second provision (18 U.S.C. § 1832) makes criminal the more common commercial theft of trade secrets, regardless of who benefits. The EEA provides for the criminal forfeiture of any property or proceeds derived from a violation. The EEA covers conduct occurring outside the United States where the offender is a citizen or permanent resident alien of the United States or where an act in furtherance of the offense was committed in the United States (18 U.S.C. § 1837).

A trade secret owner may also file a complaint for theft of trade secrets with the U.S. International Trade Commission (pursuant to Section 337 of the Tariff Act, 19 U.S.C. § 1337), seeking an order excluding from importation into the U.S. products that incorporate misappropriated trade secrets.

These and other state and federal laws offer substantial remedies for the theft of trade secrets. Like patents, trade secrets can help keep out unfair competition. If confidential information is protected as a trade secret, by taking reasonable steps to maintain its secrecy, potential competitors may decide not to try to obtain it to avoid the risks of trade secret litigation. If they do obtain it through theft or other improper means, a successful trade secret lawsuit may result in a court order prohibiting them from using it and awarding substantial monetary damages.

Trade secrets, like patents and other intellectual property, can be valuable assets that increase the sale value of a company and its product lines. Potential purchasers of a company or product line often expect the company's confidential information to be protected as trade secrets by taking reasonable steps to maintain its secrecy. Trade secrets can be valuable assets in negotiating agreements with competitors and a valuable source of income through licensing and sale. Unlike patent protection, which expires after a limited time, trade secrets may be protected for as long as the owner takes reasonable steps to maintain their secrecy.

What Is Considered A Trade Secret?

Almost any information can be a trade secret if it is valuable to a business and not generally known. The DTSA gives as examples: "patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing." (18 U.S.C. § 1839(3).) The UTSA gives as examples "a formula, pattern, compilation, program, device, method, technique, or process…." (Section 1(4).)

Conclusion

Foreign investors should take steps early to protect their intellectual property in the U.S. as delay may result in the loss of rights. Talk to an intellectual property attorney to identify valuable IP and agree on a plan to protect it. Basic steps include: registering trademarks with USPTO; using trademarks correctly on products, websites and advertising; registering copyrights with the U.S. Copyright Office; timely applying to patent inventions with USPTO; documenting steps taken to maintain the secrecy of trade secrets, including nondisclosure agreements with employees and business partners; and obtaining and granting necessary IP licenses and assignments.

Further information on how to protect intellectual property in the U.S. can be found at the USPTO website, which provides basic information on patents, trademarks, copyrights and trade secrets, and at the U.S. Copyright Office website, which provides basic information on copyrights.

About Klarquist Sparkman, LLP (Authors of IP Section on Patents and Trade Secrets)

Klarquist Sparkman, LLP was founded in 1941, and is one of the oldest and largest full-service intellectual property boutique firms in the Northwest United States. Based in Portland, Oregon, its clients are at the cutting edge of technology and innovation. The firm includes more than 60 attorneys and patent agents who represent a broad range of clients, including solo inventors, mid-size companies, large corporations and major research institutions. The firm provides the technical and legal experience needed to preserve, protect, and defend in litigation all intellectual property rights. Klarquist Sparkman is a proud member of INBLF. Learn more by visiting www.klarquist.com.

About Lutzker & Lutzker LLP (Authors of IP Sections on Trademarks/Copyright) and INBLF

Lutzker & Lutzker LLP is a boutique firm, co-founded by Arnold Lutzker and Susan Lutzker, focused on intellectual property, entertainment, high tech, and privacy issues. The firm provides counseling, transactional and litigation services to traditional businesses, educators, and creative professionals. Lutzker & Lutzker LLP is a proud member of INBLF, and Arnold Lutzker serves as President of INBLF.

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The sections on trademarks and copyrights in this chapter were prepared by Arnold Lutzker and Susan Lutzker of Lutzker & Lutzker LLP. The sections on patents and trade secrets in this chapter were prepared by Jeffrey Love and Ramon A. Klitzke II of Klarquist Sparkman, LLP. Views expressed in this chapter are the author's own, not that of the International Trade Administration. This chapter does not constitute legal advice. Readers interested in investing in the United States should consult legal counsel.