

The Law and Economics of Tax Strategy Patents

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**T. John Costello, Jr.
COSTELLO, ROYSTON & WICKER, LLP
12670 New Brittany Blvd. Suite 101
Fort Myers, FL 33907
(239) 939-2222
jcostello@lawcrw.com**

ABSTRACT

Since the famous Federal Circuit case of State Street Bank & Trust Co. v. Signature Financial Group, Inc., the practice of patenting business methods has increased substantially. This has led some inventors to apply for patents on strategies to save or defer taxes. Tax lawyers and accountants now face increased costs and substantial liability for unknowingly infringing on patents that may very well cover methods that they have been using for years.

Patents on tax strategies should not be allowed because they preempt taxpayers other than the patent holder from utilizing or complying with certain provisions of the tax law. Additionally, patents on tax strategies do not promote the progress of the “useful Arts,” as required by the Constitution. The purpose of the patent system is to encourage innovation in science and technology, not to prevent people from interpreting and complying with the law as intended by the legislature.

Although current case law may prohibit the patentability of tax strategies, a lack of resources at the United States Patent & Trademark Office prevents patents applications from obtaining adequate examinations. In addition, courts are not in the position to make patentability decisions on the basis of policy. Thus, Congress should take legislative action to define tax strategies and limit the patent law to exclude methods that may prohibit some taxpayers from taking advantage of certain interpretations of the law.

1. INTRODUCTION

In recent years, the United States Patent and Trademark Office (“USPTO”) has been granting patents on plans or techniques that are designed to reduce, minimize, or defer a taxpayer’s tax liability. These “tax strategy patents” have been granted on the use of financial products, charitable giving, estate and gift tax, pension plans, tax-deferred real estate exchanges, and deferred compensation. Not surprisingly, this has sparked deep concern among tax practitioners and accountancy organizations, as well as the Treasury Department and the Internal Revenue Service (“IRS”). Federal tax policy dictates that the tax laws, particularly those that provide benefits, should be equally available to every eligible taxpayer.¹ On the other hand, federal patent policy “seeks to promote public access to innovative products and developments” by providing inventors with the ability to control the use of an invention for a period of years.² Many find it difficult to understand that these two policies can coexist if it is possible to grant a legal monopoly on an interpretation of the tax law.³

This paper will discuss the arguments for and against tax strategy patents and analyze whether they are economically sound. It will begin with a brief history of tax strategy patents and then give a general overview of patent law and the patentability of tax strategies. Next, it will discuss the policies of patent law economics and analyze whether patents on tax strategies fall in line with those policies. Finally, it will discuss possible solutions to the problems surrounding tax strategy patents.

¹ *Hearing on Issues Relating to the Patenting of Tax Advice*. Page 1. See also Joel S. Newman, *Federal Income Taxation*, page 25 (3d ed. 2005).

² *Hearing on Issues Relating to the Patenting of Tax Advice*. Page 1.

³ See, e.g., Bernard Wolfman, Letter to the Editor, *Tax Strategy Patents: An Idea Whose Time Should Never Come*, 115 Tax Notes 505 (2007) (“[C]ornering an interpretation of the law and a use to which it may be put has to be unlawful.”).

2. BACKGROUND

The USPTO classifies tax strategy patents as a type of business method, which is defined as “data processing: financial, business practice, management, or cost/price determination.” Although the patentability of business methods was long questioned,⁴ the Federal Circuit removed any doubts in the case of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*⁵ when it held that a computerized system for managing a mutual fund’s pooling of investments through a tax partnership was patentable subject matter. Since that decision in 1998, there has been an explosion of business method patent applications: over 69,000 have been filed.⁶ Although that number includes only a small amount of tax strategies, applications involving them have steadily increased. In early 2008, there were 49 issued tax strategy patents and another 77 tax strategy patent applications published.⁷

Most tax practitioners became aware of tax strategy patents when Wealth Transfer Group L.L.C. sued Dr. John W. Rowe, the CEO of Aetna, for allegedly infringing its U.S. Patent No. 6,567,790 B1, titled “Establishing And Managing Grantor Retained Annuity Trusts Funded By Nonqualified Stock Options.”⁸ The patent, better known as the “SOGRAT” patent, relates to an estate planning technique that uses a grantor retained annuity trust (“GRAT”) to minimize gift tax liability.⁹ The SOGRAT patent claims the method of funding a GRAT with nonqualified

⁴ See *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467, 467 (2d Cir. 1908) (Holding that a “‘method of a means for cash-registering and account-checking’ designed to prevent fraud[] . . . by waiters and cashiers” was not patentable.).

⁵ 149 F.3d 1368 (Fed. Cir. 1998) (Although business method patents existed long before the *State Street* case, this opinion eliminated any doubts about their patentability.)

⁶ <http://www.uspto.gov/web/menu/pbmethod/applicationfiling.htm>

⁷ See *Increased Awareness of Tax Patent Risks Needed, Say Practitioners*, Crystal Tandon, published by TaxAnalysts, at

<http://www.taxanalysts.com/www/website.nsf/Web/TaxPatentRisks?OpenDocument>.

⁸ *Wealth Transfer Group L.L.C. v. John W. Rowe*, No 3:06-CV-00024-AWT (D.Conn. 2006).

⁹ U.S. Patent No. 6,567,790 B1.

stock options. Grantor retained annuity trusts are irrevocable trusts that are typically funded by the grantor with assets that are likely to experience substantial appreciation. The grantor receives an annuity on the trust for a term of years and designates the remainder to a beneficiary, who is usually a family member. Because of the retained annuity interest, the value of the gift to the remainder beneficiaries, for gift tax purposes, is determined by subtracting the present value of the retained interest from the value of the remainder.¹⁰ It is possible to set the value of the annuity so that it effectively “zeros out” the remainder interest.¹¹

It came as a huge surprise to those in the tax world when they learned that one could earn a patent on an extremely common technique, simply on the basis of the type of asset involved,¹² especially considering that GRATs are used by many estate planning professionals. Consequently, tax lawyers and accountants have become almost uniformly against tax strategy patents. For example, the American Institute of Certified Public Accounts “believes that patents for tax strategies undermine the integrity, fairness, and administration of the tax system[,] . . . are contrary to sound public policy[,] . . . create inequalities between taxpayers, and threaten to preempt tax law.”¹³

Intellectual property attorneys respond to these arguments by invoking Congress’s statement that it intended the Patent Act to cover “[a]nything under the sun made by man.”¹⁴ The Patent Act, they argue, entitles applicants to a patent if their inventions are new, useful, and

¹⁰ I.R.C. § 2702 (2006). In order for a grantor retained annuity trust to have its desired effect, the grantor must outlive the term of the annuity. See I.R.C. § 2036(a) (2006).

¹¹ *Walton v. Comm’r*, 115 T.C. 589 (Tax Ct. 2000).

¹² William C. Weinsheimer, Barry L. Grossman. *Patenting Estate Planning Techniques: A Patently Difficult Issue; The Practical Tax Lawyer*. Spring 2008.

¹³ American Institute of Certified Public Accountants, Analysis and Legislative Proposals Regarding Patents for Tax Strategies (Feb 28, 2007), at 1.

¹⁴ *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (quoting S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H. R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952)).

nonobvious, and their applications adequately describe the claimed invention.¹⁵ There is no “business method” exception and Congress, they say, did not intend for policy issues to determine whether an invention satisfies the requirements of patentability. Accordingly, any public policy considerations should be directed to Congress and not to courts.¹⁶

3. PATENT LAW

a. General Patentability Requirements

A patent is a grant of a twenty year property right to an inventor “to exclude others from making, using, offering for sale, or selling” the invention within the United States or importing the invention into the United States.¹⁷ In general, patents are granted on new and useful inventions that are nonobvious and that fall within the statutory subject matter classes of a “process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”¹⁸

i. Patent-Eligible Subject Matter

Section 101 of the Patent Act states that “[w]hoever 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.”¹⁹ The 1952 Act’s Committee Reports state that

¹⁵ William C. Weinsheimer, Barry L. Grossman. *Patenting Estate Planning Techniques: A Patently Difficult Issue*. The Practical Tax Lawyer, Spring 2008, Page 49.

¹⁶ William C. Weinsheimer, Barry L. Grossman. *Patenting Estate Planning Techniques: A Patently Difficult Issue*. The Practical Tax Lawyer, Spring 2008, Page 49.

¹⁷ 35 U.S.C. § 271.

¹⁸ 35 U.S.C. § 101.

¹⁹ 35 U.S.C. § 101.

Congress intended the patent laws to “include anything under the sun made by man.”²⁰ “An invention is therefore patent eligible under title 35 if it is a ‘process,’ defined as a series of acts which are performed upon subject matter to produce a given result;²¹ a ‘machine,’ defined as any apparatus;²² a ‘composition of matter,” defined as synthesized chemical compounds and composite articles;²³ or an article of “manufacture,” defined in broad terms to capture almost any other useful technology.”²⁴

ii. Utility

Determining whether an invention can be put to a useful purpose is a trivial task. Consequently, the utility requirement of section 101 of the Patent Act is rarely invoked by courts, patent examiners, or defendants. It “is rarely an obstacle to a patent [and] requires only a minimal showing that the invention [is] capable of achieving a pragmatic result.”²⁵ Furthermore, it is often suggested that inventors of something useless would likely not incur the costs of patenting, nor would there be any reason to sue an alleged infringer, or any incentives to obtain the monopoly grant.

iii. Novelty

Section 102 of the Patent Act, which is often the focus of patent litigation, embraces two separate issues: novelty,²⁶ and the statutory bars.²⁷ Under §102(a), a patent will be deemed

²⁰ *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (quoting S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H. R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952)).

²¹ *Cochrane v. Deener*, 94 U.S. 780 (1877).

²² *Nestle-Le Mur Co. v. Eugene, Ltd.*, 55 F.2d 854 (6th Cir. 1932).

²³ *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).

²⁴ *Id.*

²⁵ Schecter and Thomas, *Principles of Patent Law*, (West/Thomson 2004) at 61.

²⁶ 35 U.S.C. §102(a), (e), and (g).

²⁷ 35 U.S.C. § 102(b) and (d)

invalid if the invention was “known or used by others in [the United States], or patented or described in a printed publication [anywhere],” prior to the invention’s conception date. §102(b) prevents patenting of inventions that were “patented or described in a printed publication [anywhere] or in public use or on sale in [the United States], more than one year prior to the date of the [United States patent] application.” The key distinction between novelty and the statutory bars is the time at which the patent-defeating activity takes place. Novelty is keyed to the time the inventor completed the invention – the “invention date,” or “conception date.” The statutory bars are keyed to the day on which the inventor filed the patent application to the USPTO – the “filing date.”

iv. Nonobviousness

The doctrine of obviousness, which is often called “the most significant gatekeeper to patentability,”²⁸ ensures that the invention sufficiently advances the useful arts in order to warrant the award of an exclusive right.²⁹ It does this by requiring a comparison of the claimed invention with prior art and allowing a patent only if the differences between the “subject matter sought to be patented and the prior art are such that the subject matter as a whole” would not have been obvious “to a person having ordinary skill in the art” at the time the invention was made.³⁰

In contrast to the novelty requirement, which considers whether one item of prior art includes all elements of the claimed invention, the obviousness test allows multiple items of prior art to be combined.³¹ Because most, if not all, inventions are essentially combinations of

²⁸ Adelman, page 308.

²⁹ 35 U.S.C. § 103.

³⁰ 35 U.S.C. § 103.

³¹ 35 U.S.C. § 103.

existing items, only prior art that is “analogous” to the invention is considered.³² This essentially limits the comparison to art that is (1) from the same field of endeavor; or (2) that is reasonably pertinent to the particular problem that the inventor is trying to solve.

In the recent case of *KSR Int’l Co. v. Teleflex, Inc.*, the Supreme Court relaxed the test for obviousness.³³ In doing so, it approved of the application of a more “common sense” approach in determining whether a combination was obvious,³⁴ and rejected the Federal Circuit’s long standing rigid test that required some “teaching, suggestion or motivation” to combine multiple items of prior art.³⁵ Courts and patent examiners are now required “to inquire whether the improvement is more than the predictable use of prior-art elements according to their established functions.” Consequently, more patents are expected to be invalidated by the obviousness inquiry.³⁶

A critical factor in the obviousness test is the level of ordinary skill in the pertinent art.³⁷ Determining the appropriate level can be a difficult inquiry.³⁸ Courts typically consider factors that include (1) the educational level of the inventor; (2) the type of problems encountered in the art; (3) sophistication of the technology; and (4) the educational level of active workers in the field.³⁹ As the level of skill for the hypothetical inventor increases, the more likely a court will

³² *In re Clay*, 966 F.2d 656 (Fed. Cir. 1992).

³³ *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398 (U.S. 2007) (“The combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results.”)

³⁴ *See Leapfrog Enters. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1161 (Fed. Cir. 2007).

³⁵ *In re Bond*, 910 F.2d 831, 834 (Fed. Cir. 2004); *See also SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 859 F.2d 878, 887 (Fed. Cir. 1988).

³⁶ *Monolithic Power Sys. v. O2 Micro Int’l Ltd.*, 2009 U.S. App. LEXIS 4528 (Fed. Cir. 2009)

³⁷ 35 U.S.C. § 103.

³⁸ Adelman, page 345.

³⁹ *See Environmental Designs, Ltd. V. Union Oil Co.*, 713 F.2d 693, 696 (Fed. Cir. 1983).

find an invention to be obvious. Consequently, defendants seek to define the level as high as possible.

The final part of the obviousness inquiry considers various secondary factors that can be used by patentees as circumstantial evidence that an invention was nonobvious. These include commercial success, long felt unsolved needs, the failure of others, copying, unexpected results or properties, licenses that show respect for the invention within the industry, and skepticism of others.⁴⁰ For example, if there is a long history of failures to solve a problem, or a high level of skepticism within an industry about a certain solution, the claimed invention may still be deemed nonobvious even though the use of the elements was somewhat predictable.

v. Enablement

A patent application has two parts: the specification and the claims.⁴¹ The specification is comparable to a brief or engineering article that describes the problem the inventor faced and the steps taken to solve that problem. The claims define what the inventor considered to be the “scope” of the invention. In order to obtain patent protection, the specification must adequately “enable” others to use the invention by fully disclosing how to make it, how use it, and the invention’s best mode of use.⁴²

This enablement requirement of section 112 is often overlooked.⁴³ It has been analogized to a contract between inventors and the public.⁴⁴ Under the agreement, the inventor receives his 20 year monopoly in exchange for full disclosure of his invention. This is the basis of “incentive

⁴⁰ *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 17-18 (1966); *In re Rouffet*, 149 F.3d 1350, 1355 (Fed. Cir. 1998).

⁴¹ 35 U.S.C. §112.

⁴² *Id.*

⁴³ *Id.*

⁴⁴ Adelman, page 438.

to disclose” economic theory (discussed below) and ensures that the public gets its fair share of the bargain.

b. Patentability of Tax Strategies

i. Tax Strategies as Patentable Subject Matter

Notwithstanding the *State Street Bank* decision and Congress’s intention that the patent laws cover a broad scope of inventions, courts have put important limitations on the patentability of business methods. For example, it has been consistently held that mere ideas are not patentable.⁴⁵ Indeed, even in *State Street Bank*, the Federal Circuit stated that “mathematical algorithms standing alone, represent nothing more than abstract ideas until reduced to some type of practical application, i.e., ‘a useful, concrete and tangible result.’”⁴⁶ Although the plain language of that decision may have lead some courts to rule that a tax strategy is merely an intangible mathematical algorithm, most have focused on the achieved “result” aspect and would probably conclude that tax savings is a concrete and tangible result.

In the decade since *State Street Bank*, the Federal Circuit has issued two new important decisions on business method patents: *In re Comiskey*⁴⁷ and *In re Bilski*.⁴⁸ The patent application in *Comiskey* was directed towards a method for mandatory arbitration resolution involving legal documents, such as wills or contracts.⁴⁹ The Court held that in order to qualify as patentable subject matter under 35 U.S.C. § 101, a process must involve statutory subject matter from

⁴⁵ *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (“[L]aws of nature, physical phenomena, and abstract ideas have been held not patentable.”); *see also Diamond v. Diehr*, 450 U.S. 175 (1981) (“Excluded from such patent protection are laws of nature, natural phenomena, and abstract ideas.”).

⁴⁶ *State Street Bank*, 149 F.3d at 1373 (quoting *In re Alappat*, 33 F.3d at 1544).

⁴⁷ *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007).

⁴⁸ *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

⁴⁹ *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007).

another class, namely; a machine; manufacture; or composition of matter.⁵⁰ Even though the process had a practical application, the Court held it to be unpatentable because it contained only mental steps and it was not tied to another statutory class. “In other words, the patent statute does not allow patents on particular systems that depend for their operation on human intelligence alone, a field of endeavor that both the framers and Congress intended to be beyond the reach of patentable subject matter. Thus, it is established that the application of human intelligence to the solution of practical problems is not in and of itself patentable.”⁵¹ After *Comiskey*, patent applications on tax strategies were likely scrutinized to determine whether they were directed only to mental processes or whether they involved other statutory classes of subject matter.

In 2008, the Federal Circuit heard *In re Bilski*, an appeal from the Board of Patent Appeals and Interferences, en banc.⁵² The patent application in *Bilski* concerned a method for managing commodity risk but it did not require the use of a computer to implement its method.⁵³ All the claims in the *Bilski* application were rejected by the patent examiner under 35 U.S.C. § 101 as not being directed to statutory subject matter.⁵⁴ In affirming the Board of Patent Appeals’s rejection of the application, the Federal Circuit spelled out the “machine-or-transformation” test as the sole test of subject matter eligibility for claimed processes. “The Supreme Court ... has enunciated a definitive test to determine whether a process claim is tailored narrowly enough to encompass only a particular application of a fundamental principle rather than to pre-empt the principle itself. A claimed process is surely patent-eligible under §

⁵⁰ *Id.* at 365.

⁵¹ *Id.* at 1379.

⁵² *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

⁵³ U.S. Patent Application Serial No. 08/833,892.

⁵⁴ *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”⁵⁵ The Court also concluded “that the ‘useful, concrete and tangible result’ inquiry [from *State Street Bank*] is inadequate” and no longer to be relied upon.⁵⁶

Although the Federal Circuit made clear in *Bilski* that business methods and software will still be patentable, the decision leaves the patentability of tax strategies in question. According to Professor Dennis Crouch, “tax strategies (and business methods generally) that necessarily need computer assistance will be able to obtain protection by including sufficient recitation of ties to ‘particular machines.’ Practically, the links should be tied to particular portions of the computer to ensure that the tied machine is ‘particular’ enough. On the transformation side, it is unclear whether the transformation of *money* will be considered sufficiently ‘representative of physical objects or substances.’”⁵⁷

Although some tax patents may be invalidated by the new *Bilski* test, it will not be surprising if clever patent attorneys are able to successfully draft claims that seem to be attached to machines, when in reality, they are not. A brief survey of post-*Bilski* patents shows that this practice is taking place and USPTO examiners are allowing such claims. For example, U.S. Patent No. 7,502,758, titled “Creation and distribution of excess funds, deposits, and payments,” (issued March 10, 2009) apparently uses “information processor” as the “machine”:

Claim 1. A method of accumulating credits from financial movements to and from an account held by a financial transactor and managed by an account manager, comprising:

initiating roundup by accessing entries in the account with an *information processor* authorizing, by the transactor, rounding up of entries in the account;

⁵⁵ *Id* at 943.

⁵⁶ *Id.* at 943.

⁵⁷ <http://www.patentlyo.com/patent/2008/10/patenting-tax-s.html> (emphasis in original).

rounding up the entries in the account to obtain a total roundup amount;

withdrawing the roundup amount from the account and debiting the account with the roundup amount;

wherein the step of initiating roundup is performed by said **information processor** accessing the account in the account manager, and the steps of initiating, rounding up, and withdrawal are done outside the control of the account manager.

The examiner of this patent application did not try to identify a particular machine. At first glance, “information processor” may seem like it would satisfy the *Bilski* test. That is, until you view dependent claim 7:

Claim 7. A method as in claim 1, wherein the steps of accessing and rounding are performed by said information processor and **said information processor is a service organization**.

A “service organization” is clearly not a machine. This patent is likely to fail the *Bilski* test if it becomes the subject of litigation.⁵⁸

Another example is Syracuse University’s recently granted U.S. Patent No. 7,493,262 titled “Method for valuing intellectual property” (issued February 17, 2009):

Claim 1. A method of calculating the value of a license for an intellectual property asset between a licensor and a licensee **using a data processing system**, comprising the steps of:

calculating a minimum value of said license to said licensor **using said data processing system**;

calculating a maximum value of said license to a licensee **using said data processing system**;

⁵⁸ Considering the assignee of this patent, Every Penny Counts, Inc., litigation may be likely. Every Penny Counts recently sued Visa, American Express, Bank of America, and others for their alleged infringement of U.S. Patent 6,112,191, titled “Method and system to create and distribute excess funds from consumer”. The patent was asserted against Bank of America’s “Keep the Change” program.

calculating a net value of said license by subtracting said minimum value from said maximum value *using said data processing system*;

determining a licensor investment in said license based on said net value and said minimum value *using said data processing system*;

determining a licensee investment in said license based on said net value and said maximum value *using said data processing system*; and

calculating a lump-sum equal return payment which provides an equal percentage rate of return to said licensor and said licensee on said licensor investment and said licensee investment in said license *using said data processing system*; and

displaying said lump-sum equal return payment *using said data processing system*.

Although “processing system” could include a physical “machine,” it is probably not particular enough to satisfy the *Bilski* test. Additionally, the data processing system appears to be completely unnecessary to the claimed invention.

It can safely be assumed that tax strategies that are tied to the use of computers, such as software programs to reduce tax liability, will remain patentable – as long as the computer is necessary to the invention. Those that have no ties to particular “machines,” however, should fail the *Bilski* test. Nonetheless, it is important to remember that currently issued tax strategy patents remain valid and continue to threaten tax practitioners and taxpayers. Furthermore, because patents have a strong presumption of validity when litigated,⁵⁹ they present a heavy burden that is overcome only by “clear and convincing evidence” of invalidity.⁶⁰ Consequently, tax practitioners who are labeled as potential defendants may be more inclined to obtain a license instead of facing a costly lawsuit.⁶¹ In fact, it has been reported that at least one institution

⁵⁹ 35 U.S.C. § 282.

⁶⁰ *Ethicon, Inc. v. Quigg*, 849 F.2d 1422 (Fed. Cir. 1988).

⁶¹ Current estimates set the average cost of a patent lawsuit to be well over \$1,000,000.

backed away from using a SOGRAT technique suggested in its newsletter to clients after the patent holder saw the letter and threatened to sue.⁶²

ii. Novelty and Nonobviousness of Tax Strategies and the Social Costs of an Obvious or Non-Novel Tax Patent

A major problem surrounding tax patents is that the Patent Office lacks examiners who are experts in tax law. At an American Institute of Certified Public Accountants (AICPA) meeting, an IRS representative stated, “Even a well seasoned patent attorney might not be in an appropriate position to determine whether a given tax minimization scheme is an original work.”⁶³ When it became known that the SOGRAT method was patented, many estate planners were in shock because they had reportedly been using the technique for years. For example, at a meeting of the American College of Trust and Estate Counsel (ACTEC) in 2004, many members and even the head of the committee stated that they had been using the technique with clients for a long time.

The novelty analysis determines whether the subject matter claimed by the patent was anticipated by the prior art. Prior art may consist of publications, public presentations, or prior public use. Publications within the tax industry include the tax code itself, Treasury regulations, legislative history, unofficial and official IRS pronouncements (e.g., revenue rulings and private letter rulings), and numerous professional publications and meetings. In order for the prior art to anticipate the patent, however, it must be dated prior to the patent holder’s invention date. Thus, while many estate planners in 2004 claimed that the SOGRAT method was an “old trick,” the

⁶² Jones and Luscombe, “*Patenting Tax Strategies; A Troubling Storm Develops*,” Web CPA (Sept. 9, 2006).

⁶³ Robert Goulder, IRS Looking to Prevent Patents on Tax Advice, 109 Tax Notes 737, 737 (2005).

question is whether they had used the trick prior to its date of invention, which may have been as early as 1998.⁶⁴

Prior use of the claimed method will be found to anticipate the patent if it was in public “use by another” prior to the invention date. Although the attorney-client and practitioner-client privileges may make it difficult to prove prior use of the invention, a prior use will be found as long as the method was “accessible” to the public or used in the ordinary course of a trade or business, and was not a “secret” use.⁶⁵ “There simply is no requirement that the prior user make an effort to make the invention publicly accessible, so long as he or she uses it in the ordinary course of business without efforts to conceal it.”⁶⁶

The inexperience of patent examiners with taxation issues will likely play an even greater role in the obviousness inquiry. Many critics have claimed that the SOGRAT patent “demonstrated that the Patent Office does not have sufficient training or resources to make the determination of non-obviousness accurately.”⁶⁷ Patent examiners are normally well educated within the area of patents that they examine. For example, a patent application that claims an electronic device will, in most cases, be examined by a person who has one or more degrees in electrical engineering. That education allows the examiner to decipher pieces of prior art, to determine what combinations would be obvious, and to know where to look for pieces of prior art that the patent applicant may have not submitted with his application. Thus, without

⁶⁴ William A Drennan, *The Patented Loophole: How Should Congress Respond to this Judicial Invention?*, 59 Fla. L. Rev. 229 (2007).

⁶⁵ Donald S. Chisum et al., *Principles of Patent Law* (3d ed. 2004) at 532.

⁶⁶ *National Research Development Corp. v. Varian Associates, Inc.*, 822 F. Supp. 1121, 1133 (D.N.J. 1993), aff'd in part, vacated in part, 17 F.3d 1444 (Fed. Cir. 1994).

⁶⁷ Charles F. Wieland, *Tax Strategy Patents – Policy and Practical Considerations*, 47 Tax Mgt. Memo 499 (2006).

knowledge in tax law, patent applications that claim obvious tax strategies have a greater chance of being granted.

The social costs of a patent on an obvious or non-novel tax strategy will depend on a variety of factors. If the underlying method is a legal and successful tax savings technique, the costs to taxpayers could be substantial. Taxpayers in this situation will have to decide between paying more taxes, paying a license fee to the patent holder, or using the method and risking an infringement suit from the patent holder. On the other hand, if the underlying method is not a legal or successful tax savings technique, the costs will theoretically be limited only to the inventor and to those who obtain licenses to use the underlying method.

c. Enforceability of a Tax Strategy Patent

The attorney-client and practitioner-client privileges, along with the confidentiality of tax returns may prevent a patent holder from detecting infringement.⁶⁸ “It is likely that patent enforcement will be haphazard and depend to a significant extent on the nature of the patent itself, the degree to which patent holders take prophylactic measures, and the integrity of taxpayers and their advisors.”⁶⁹ Practically, detection of infringement may occur only when the strategy is publicly discussed at meetings, through marketing efforts, IRS rulings, or SEC filings.⁷⁰ It has been reported that Wealth Transfer Group hired a firm to review SEC filings in order to detect infringement of the SOGRAT patent. The firm “track[s] whether executives are transferring large quantities of stock options, a signal that they may be using a [similar]

⁶⁸ 47 Tax Mgmt. Memo 499, at 10.

⁶⁹ Matthew A. Melone, *The Patenting of Tax Strategies: A Patently Unnecessary Development*, 5 DePaul Bus. & com. L.J. 437 (Spring 2007).

⁷⁰ *Id.*

technique.”⁷¹ Despite any difficulties that the Wealth Transfer Group has had in detecting infringers, it has reportedly obtained licenses from at least fourteen large law firms.⁷²

d. The Economics of Patent Law

The Constitution grants Congress the power to enact legislation that “promote[s] the Progress of Science and the useful Arts, by securing for limited times to . . . Inventors the exclusive Right to their . . . Discoveries.”⁷³ In *Graham v. John Deere of Kan. City*, the Supreme Court held that “[t]his is the *standard* . . . and it may not be ignored.”⁷⁴ Most economists recognize that the patent system is essential to stimulating innovation and courts have emphasized two mechanisms that patent law uses to achieve this goal. First, the prospect of obtaining a patent monopoly provides incentives to invest in research and to make new inventions. Second, the patent system promotes disclosure of new inventions and thereby increases the public knowledge. The main cost of patent protection is the restriction in use and the inefficiencies associated with monopoly protection.⁷⁵

i. Incentive to Invent

In many industries, both scientific and not, the research and development costs are often enormous. The incentive to invent theory holds that firms would not incur these costs in the absence of patent protection because competitors could easily appropriate the inventions. With the ability to easily copy successful inventions, competitors will (theoretically) drive prices down

⁷¹ Rachel Emma Silverman, *The Patented Tax Shelter - Lawyers, Financial Advisors Are Getting Exclusive Rights to Estate-Planning Strategies*, Wall St. J., June 24, 2004, at D1.

⁷² William A Drennan, *The Patented Loophole: How Should Congress Respond to this Judicial Invention?*, 59 Fla. L. Rev. 229 (2007).

⁷³ Constitution. Article 1, Section 8, Clause 8

⁷⁴ *Graham v. John Deere of Kan. City*, 383 U.S. 1 (1966).

⁷⁵ Ceccagnoli, Marco; Rothaermel, Frank. *Appropriating the Returns from Innovation*,

to the point where it is impossible for the inventor to receive a return on its original investment. As a result, the inventor would not be able to justify the sunk research and development costs. Consequently, inventions with social benefit might never come about, or at least might be significantly delayed.⁷⁶

The incentive to invent theory has been challenged in a variety of ways. The most credible of these arguments claims that the restriction of use on new inventions reduces the social value of the patented inventions.⁷⁷ Supporters of this argument claim that the value of being the first firm to a market may provide sufficient enough advantages to make patent protection unnecessary, and even too costly. Additionally, the need to keep up with competitors and technological advancements might be enough incentive in itself to stimulate innovation.⁷⁸

Courts often claim that the incentive to invent around patents has a positive effect on technological progress because inventing around patents requires research beyond the patented invention.⁷⁹ Critics, however, argue that patents may have the opposite effect – the limitations placed on the research efforts of others may actually hinder progress. For example, use of a patented invention in non-commercial research is not allowed under United States patent law.⁸⁰

⁷⁶ Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. Chi. L. Rev. 1017, 1025 (1989).

⁷⁷ Contrary to popular belief, use of a patented invention in non-commercial research is not allowed under U.S. patent law. *See Madey v. Duke University*, 64 USPQ2d 1737 (Fed. Cir. 2002).

⁷⁸ This argument is often used by those who oppose software patents.

⁷⁹ *See, for example, WMS Gaming Inc. v. International Game Tech.*, 184 F.3d 1339, 1349 (Fed. Cir. 1999); *See also Yarway Corp. v. Eur-Control U.S.A.*, 775 F.2d 268 (Fed. Cir. 1985).

⁸⁰ *See Madey v. Duke University*, 307 F.3d 1351 (Fed. Cir. 2002). Although U.S. patent law provides an experimental use exception, it is extremely rare that an accused infringer can successfully plead it as a defense because it is limited to uses for "amusement, to satisfy idle curiosity, or for strictly philosophical inquiry." The 1984 Hatch-Waxman Act did, however, allow pharmaceutical companies to begin generic medicine research and FDA testing prior to the expiration of the original inventor's patent. *See* 35 U.S.C. § 271(e)(1).

As a result, competitors of the patent holder may be required to waste time and effort in attempts to find duplicative solutions in order to avoid infringement.

ii. Incentive to Disclose

The incentive to disclose argument states that in the absence of patent protection, inventors would keep their inventions secret in order to prevent competitors from appropriating them. Disclosure of the inventions prevents wasteful duplicative research and enables the public to gain the full benefit of the knowledge.⁸¹ This theory, however, has been questioned by economists. Secrecy may not be the best option for an invention that may be easily reverse engineered by a firm's competitors. On the other hand, where secrecy is feasible, the time limited monopoly grant of a patent may not be an attractive option.⁸² Furthermore, many have questioned whether patent disclosures actually convey enough information to be useful to the public.

e. Tax Patents and Patent Law Economics

In her paper *Business Method Patents, Innovation, and Policy*, Professor Hall examined different studies concerning the effect of patent law on innovation.⁸³ She concluded that the only certain effect from allowing business method patents will be an increase in the patenting of business methods.⁸⁴ “Along with this increase in patenting comes an increase in litigation,

⁸¹ Martin J. Adelman, *Property Rights Theory and Patent-Antitrust: The Role of Compulsory Licensing*, 52 N.Y.U. L. Rev. 977, 982 (1977).

⁸² In this scenario, firms often opt for trade secret protection.

⁸³ Bronwyn H. Hall. *Business Method Patents, Innovation, and Policy.*, <http://repositories.cdlib.org/iber/econ/E03-331/>, (2003).

⁸⁴ *Id.* at 11.

raising the costs of the system as a whole.”⁸⁵ Because tax strategy patents are essentially business method patents, the same conclusion could probably be drawn for them.

In order for patents on tax strategies to be justifiable, they should be needed for the promotion of innovation. It is not clear, however, that either incentives to invent or incentives to disclose are needed within the industry. For example, competition among tax practitioners is high: attorneys compete not only among themselves but also with small and large accounting firms. Firms must constantly try to improve their advice or they will lose clients to one of their many competitors. On the other hand, it is possible that the incentives provided by fees and competition are not sufficient for conducting pure tax strategy research.⁸⁶ “Outside of the representation of specific clients, therefore, tax strategy research arguably may be underfunded.”⁸⁷

It can also be argued that that the incentive to “design around” tax patents will increase the availability of newer and more innovative tax strategies. Additionally, tax strategy patents will, at the least, allow the techniques to be known to the public and available for use by taxpayers if only by permission of the patent holder. This theory, however, works only if the invention was not known or in use by others prior to the patent’s invention date. Thus, although it can be argued that tax strategy patents will spur innovation within the tax industry, the patent system must work as intended – only those tax strategies that would not have been obvious to the ordinary tax practitioner at the time of invention should be patentable. Otherwise, the chilling effects that we are seeing with the SOGRAT patent will likely occur.

⁸⁵ *Id.* at 11.

⁸⁶ Charles F. Wieland III, *Tax Strategy Patents – Policy and Practical Considerations*, 47 Tax Mgmt. Memo. 499 (2006).

⁸⁷ *Id.*

Arguments against the incentive to disclose theory claim that tax strategy patents are not needed because the tax industry has traditionally worked together to develop and perfect tax strategies through ABA committees, state and local bar associations, the American College of Trust and Estate Counsel and the American Institute of Certified Public Accountants. The ability to patent tax strategies not only threatens these collaborative efforts but will potentially limit the quality of advice that taxpayers can receive. Furthermore, the ability to patent tax advice may have the result of delaying disclosure because practitioners who were previously open to disclosing their new methods to others may now be more inclined to remain silent until a patent application has been filed.

4. TAX PATENTS AND FEDERAL TAX LAW POLICY

Tax laws are “the life-blood of government, and their prompt and certain availability an imperious need.”⁸⁸ Congress enacts tax laws to fund government operations and programs, and to shape economic policy. Critics have claimed that tax strategy patents interfere with this authority of Congress by shifting Congress’s power to the “hands of the patent holders.”⁸⁹ Additionally, the critics claim that the existence of exclusive rights over a tax strategy may block or impede access to the strategy and possibly even prevent compliance with the law.⁹⁰ Both of these claims are overstated because the standards of patentability should not allow a method to be patented if it is stated or obviously implied in the tax provisions themselves.⁹¹ To the extent the relevant tax law itself discloses the invention, the patent application should be rejected as

⁸⁸ *Bull v. United States*, 295 U.S. 247, 259 (1935).

⁸⁹ Paul Devinsky, John R. Fuisz, Thomas D. Sykes, *To Practice Tax Law, You Need a Patent License*, IP LAW 360 (Sept. 11, 2006).

⁹⁰ Statement of Dennis I. Belcher, 2006 TNT 135-39 (July 14, 2006).

⁹¹ Charles F. Wieland III, *Tax Strategy Patents – Policy and Practical Considerations*, 47 Tax Mgmt. Memo. 499 (2006).

anticipated under 35 U.S.C. § 102. This becomes a valid concern, however, if a party proposing tax legislation simultaneously filed a patent application that took advantage of that legislation.⁹²

Critics also question whether it is desirable or socially beneficial for the government to encourage innovation in strategies designed to reduce taxes. For example, the Joint Committee stated that “no social gains from novel tax planning strategies exist as any gain to the user of the strategy is offset by losses to the Treasury, and therefore the resources devoted to producing and using such strategies represent a net loss to society.”⁹³ In addition, the New York State Bar Association claims that tax patents “would invariably increase the cost to taxpayers of complying with their tax obligations, a result [that] is indefensible as a policy matter.”⁹⁴ The claim is that society would suffer a net loss because the savings of one taxpayer will need to be compensated for by an additional burden on everyone else, assuming the Treasury requires a specific level of tax revenue. It is difficult to understand this argument because the limitation placed on the use of patented valid and successful tax strategies should theoretically result in more revenue making its way to the Treasury. On the other hand, these strategies may have not been invented without the incentives created by the ability to patent them.

a. Tax Patents, Complexity of the Tax System, and Horizontal Equity

The voluntary self-assessment aspect of the tax system makes it important that citizens perceive it as operating fairly and that the rules are equally available to every eligible taxpayer.⁹⁵ The idea of horizontal equity, which holds that similarly situated taxpayers should pay similar

⁹² Charles F. Wieland III, *Tax Strategy Patents – Policy and Practical Considerations*, 47 Tax Mgmt. Memo. 499 (2006).

⁹³ Joint Committee Report at 15.

⁹⁴ *NYSBA Says Applying Patent Law to Tax Advice Could Cause Problems*, 2006 TNT 160-18, August 18, 2006.

⁹⁵ *Hearing on Issues Relating to the Patenting of Tax Advice*. Page 1.

taxes, is one of the most important principles of tax policy.⁹⁶ Without horizontal equity, taxpayers will be more inclined to view the tax system as unfair and arbitrary, and may be less inclined to voluntarily comply with the laws.

In addition, patents on tax strategies may increase the view that the tax system is too complex to even attempt to comply with it.⁹⁷ The Internal Revenue Code, originally 14 pages, has evolved into an extremely complex set of rules: the current version contains almost 3000 pages and the IRS publishes approximately 400 forms and schedules.⁹⁸ This complexity creates numerous burdens and compliance costs that represent deadweight losses to the economy. The introduction of patents into the system has the potential of further eroding taxpayer confidence and increasing the view that “gaming the system” is appropriate.⁹⁹ The “tax gap” – the difference between the expected tax revenue and the received tax revenue – has been estimated to be in the range \$312 billion to \$362 billion.¹⁰⁰ “In this environment, one can question whether the patent laws should introduce greater horizontal *inequity* into the tax system.”¹⁰¹

b. Abusive Tax Strategies and Confusion with Apparent Government Endorsement.

Most critics of tax strategy patents point out that unsophisticated taxpayers may confuse the USPTO’s grant of a patent with government approval of the strategy it protects. “[U]nscrupulous promoters [could falsely] hold out a patent as evidence that an aggressive tax

⁹⁶ Joel S. Newman, *Federal Income Taxation*, 25 (3d ed. 2005).

⁹⁷ Drennan, page 18.

⁹⁸ Charles I. Kingson, *How Tax Thinks*, 37 *Suffolk U. L. Rev.* 1031, 1028 (2004) (citing U.S. Gen. Accounting Office, *Tax Administration: The Potential Impact of Alternative Taxes on Taxpayers and Administrators* 39-40 (1998)).

⁹⁹ Tax patent loophole article page 18.

¹⁰⁰ Martin A. Sullivan, *Closing the Tax Gap: One Step Forward, Two Back*, 110 *Tax Notes* 691, 691 (2006).

¹⁰¹ Tax patent loophole article page 18. (emphasis mine).

structure has been reviewed and approved by the government. The possibility of taxpayers being misled is compounded by the fact that a patent carries with it the presumption of satisfaction of the ‘utility’ requirement of 35 U.S.C. § 101.”¹⁰² Although the IRS emphasizes that the patent grant “has no bearing on [the strategy’s] legitimacy or illegitimacy under the tax laws,” very few people are aware of this.¹⁰³ Some have proposed requiring disclosure on the patent itself that it is not a guarantee of validity under tax law.¹⁰⁴

5. IMPACTS ON TAX ATTORNEYS

Patents on tax strategies place an increased burden on practitioners because they are now obligated to conduct “due diligence” patent searches before advising a client to use a certain strategy. This obligation stems from the ABA Model Rules of Professional Responsibility, Rule 1.4, which requires a lawyer, in communicating with his client, to “explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.” The rule explains that “when a lawyer knows that a client proposes a course of action that is likely to result in substantial adverse legal consequences to the client, the lawyer’s duty to the client under [this rule] may require that the lawyer offer advice if the client’s course of action is related to the representation.”¹⁰⁵ In addition, Rule 1.1 of the same rules requires attorneys to provide “competent representation” which “includes inquiry into and analysis of the

¹⁰² Charles F. Wieland III, *Tax Strategy Patents – Policy and Practical Considerations*, 47 Tax Mgmt. Memo. 499 (2006).

¹⁰³ Statement of the Honorable Mark Everson, commissioner, Internal Revenue Service, Testimony before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means, 2006 TNT 135-34 (July 13, 2006).

¹⁰⁴ “NYSBA Says Applying Patent Law to Tax Advice could Cause Problems,” 2006 TNT 160-18 (Aug. 17, 2006).

¹⁰⁵ ABA Model Rules of Professional Conduct, Rule 1.4 Communication.

factual and legal elements of the problem.”¹⁰⁶ Failure to perform the proper due diligence may ultimately result in malpractice claims against the attorney and ethical violations, which are often worse than malpractice liability.

This new due diligence requirement may ultimately require tax lawyers to hire patent attorneys or agents to conduct “freedom-to-operate” analyses before offering tax advice to their clients.¹⁰⁷ IRS Commissioner Everson, in testimony before the Subcommittee on Select Revenue Measures, suggested that “patented tax strategies place an increased burden on practitioners who, while simply developing good gift, estate, or business-planning strategies for their clients, would be obligated to conduct due diligence searches for existing patents on such strategies.”¹⁰⁸ The costs of hiring outside patent counsel could be as high as tens of thousands of dollars. It is important to note that even obtaining a “freedom-to-operate” opinion from patent counsel does not give the “full range of knowledge regarding every possible patent or patent application that covers a particular technology or process.”¹⁰⁹ Furthermore, because the current number of issued tax strategy patents is small, “[t]here may be reason to believe that the tax community might have a more difficult time asserting that the failure to conduct a clearance search was reasonable.”¹¹⁰

It may also be a conflict of interest for a lawyer who obtains a patent to advise a client to use the patented tax strategy.¹¹¹ Furthermore, it may also be unauthorized practice of law for a

¹⁰⁶ ABA Model Rules of Professional Conduct, Rule 1.1 Competence.

¹⁰⁷ *See, e.g.*, Statement of Ellen Aprill, Associate Dean of Academic Programs, Professor of Law, Loyola Law School, Los Angeles, California, before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means, July 13, 2006; *See also* ABA Model Rules of Professional Conduct, Rule 1.1 – Competence.

¹⁰⁸ *See* Statement of the Honorable Mark Everson.

¹⁰⁹ Wieland, page 15.

¹¹⁰ *Id.*

¹¹¹ ABA Model Rule of Professional Conduct 1.7.

non-lawyer to obtain and market a tax strategy patent. As a result, attorneys may now have to take measures to prevent their clients from attempting to patent strategies that the lawyer has developed for the client.

A lawyer who is charged with infringement of a tax strategy patent will find it very difficult to defend himself. Although patent law protects those accused of infringing a business method patent if they have reduced the subject matter to practice and had commercially used it at least a year before the filing date of the allegedly infringed patent¹¹², an attorney will face a difficult hurdle when attempting to persuade a client to reveal confidential information about the representation. Once charged with infringement, the attorney (or client) is obligated to investigate the issue.¹¹³ Failure to do so can result in a finding of willful infringement, which can bring up to treble damages plus attorneys fees.¹¹⁴

6. POSSIBLE SOLUTIONS

a. Prohibition of Patents on Tax Strategies

Although the *Bilski* decision may have removed the need for it to do so, one solution is for Congress to enact legislation to prohibit tax strategy patents that are not tied to a computer or software program. Removal of tax strategies from the patent process would not be the first time that Congress has taken such measures. It previously enacted a law to remove inventions that are “solely in the utilization of special nuclear material or atomic energy in an atomic weapon.”¹¹⁵ In February of 2007, Senators Levin, Coleman, and Obama proposed the “Stop Tax Haven

¹¹² 35 U.S.C. §273.

¹¹³ *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983).

¹¹⁴ 35 U.S.C. § 284, 285.

¹¹⁵ 42. U.S.C. § 2181.

Abuse Act,” which contained a provision that amended the Patent Act that prohibited patents for any invention “designed to minimize, avoid, defer, or otherwise affect the liability for Federal, State, local, or foreign tax.”¹¹⁶ This legislation was overly broad and did not carve out an exception for protection of software designed for tax reporting. It did not become law.

If Congress attempts to legislate in this area, caution needs to be taken so that it does not violate the International Agreement on Trade Related Aspects of Intellectual Property (TRIPS),¹¹⁷ which provides that “patents shall be available for any inventions, whether products or processes, in all fields of technology.”¹¹⁸ Even though most member states of the TRIPS Agreement expressly exclude business methods¹¹⁹, there is disagreement among commentators whether TRIPS requires patent protection for pure business methods. It should be noted, however, that the United States did not formally recognize pure business methods until several years after it became a party to the TRIPS Agreement.

b. Limiting Liability

Limiting the liability of taxpayers and tax practitioners may be a route that Congress is most willing to take because it has recently enacted two similar pieces of legislation. In 1996, Congress enacted the Physician’s Immunity Statute to limit the liability of medical practitioners

¹¹⁶ S. 681. *See also* <http://levin.senate.gov/newsroom/release.cfm?id=269479>; *AICPA Urges Congress to Legislate Against Tax Patents*, 2007 TNT 45-22, March 7, 2007, available on *LEXIS*, TNT file.

¹¹⁷ Agreement on Trade-Related Aspects of Intellectual Property Rights art. 27, Apr. 15, 1994, 33 I.L.M. 1197, 1208 (1994) (The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement administered by the World Trade Organization (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation.).

¹¹⁸ *Id.*

¹¹⁹ *See* Gregory J. Maier et al., An “Opposition” to the Recently-Proposed Legislation Related to Business Method Patents, 20 *J. Marshall J. Computer & Info. L.* 397, 412-13 (2002)

for the performance of certain medical and surgical procedures.¹²⁰ Congress took this action after the American Medical Association condemned the patenting of medical procedures. Additionally, it passed the American Inventors Protection Act in 1999, which established a “first inventor defense,” in an attempt to mitigate the impact of business method patents.¹²¹ Limiting the liability instead of invalidating patents may also allow Congress to avoid problems with the TRIPS Agreement mentioned above.¹²²

c. Educating Patent Examiners

As stated above, much of the concern surrounding patents on tax strategies and other business method involves the lack of expertise at the patent office. Consequently, there is an urgent need to hire examiners with the expertise to determine whether a patent application claims an obvious or non-novel tax strategy. Due to the current relatively low level of applications for tax strategy patents, the needed number of knowledgeable examiners would be minimal.

d. Publication by Practitioners

Patent applications are generally published eighteen months after the filing date.¹²³ In an attempt to prevent the patenting of an obvious or non-novel patent, tax practitioners could monitor the applications to determine whether someone is attempting to patent an obvious or non-novel strategy. In the event that one is discovered, the practitioners may gather and submit

¹²⁰ 35 U.S.C. § 287(c)(1).

¹²¹ 35 U.S.C. §273.

¹²² Agreement on Trade-Related Aspects of Intellectual Property Rights art. 27, Apr. 15, 1994, 33 I.L.M. 1197, 1208 (1994) (The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement administered by the World Trade Organization (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation.).

¹²³ 35 U.S.C. § 122(b)(1)(A).

prior art (within two months of the publication date) to the examiner or to the patent applicant, who would then be obligated under Patent Office rules to cite such material to the examiner.

7. CONCLUSION

Tax practitioners are right to be concerned about the new practice of patenting tax strategies. While there is little evidence that taxpayers will benefit from the issuance of patents on tax strategies, there are proven costs that will most likely remain substantial. Congress must take steps to examine whether patents on tax strategies interfere with its authority and the economic and social policies of the tax laws. Additionally, instead of relying on courts, Congress must decide whether tax strategies should qualify for patent protection. At a minimum, Congress should either increase funding to the USPTO so that it can adequately examine patent applications or limit liability for those who may infringe on these types of patents.

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