

## TAX STRATEGY PATENTS CONSIDERED HARMFUL \*

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## I. INTRODUCTION

Tax preparation is big business. For example, in the fiscal year ending April 30, 2006, Jackson Hewitt reported net income of \$58.0 million on revenues of \$275.4 million.<sup>1</sup> In the same period, H&R Block reported net income of \$490 million on revenues of \$4.9 billion.<sup>2</sup> The amount of money paid for tax preparation services is only a fraction of that paid in taxes. The federal government, in the fiscal year ending September 30, 2006, reported a deficit of \$248 billion on income of \$2.4 trillion.<sup>3</sup> Of that \$2.4 trillion, 43%, or \$1.04 trillion, came from personal income taxes.<sup>4</sup>

Any way to save on taxes, any “tax strategy,” could involve large sums of money, in both fees for services and in taxes saved. If the tax strategy were patentable, the patentee would be able to prevent everyone else from using it—even if they discovered it independently—unless they entered into a licensing arrangement with the patentee. In 1999, Robert C. Slane thought that the right to exclude conferred by a patent was too good to pass up and filed an application for a tax strategy patent.<sup>5</sup> The United States Patent & Trademark Office (“PTO”) granted the patent in 2003,<sup>6</sup> and patent infringement litigation commenced in 2006.<sup>7</sup> The parties settled the case out of court.<sup>8</sup>

In July 2006, the Subcommittee on Select Revenue Measures of the House Ways and Means Committee held a hearing on patenting tax strategies.<sup>9</sup> The Tax Section of the New York State

1. Jackson Hewitt Tax Service Inc., Annual Report (Form 10-K), at 48 (July 14, 2006).

2. H&R Block, Inc., Annual Report (Form 10-K), at 17 (June 30, 2006).

3. CONGRESSIONAL BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2008 TO 2017, at 140 tbl.E-1 (2007), <http://www.cbo.gov/ftpdocs/77xx/doc7731/01-24-BudgetOutlook.pdf>.

4. *Id.* at 142 tbl. E-3.

5. *See* Establishing & Managing Grantor Retained Annuity Trusts Funded by Nonqualified Stock Options, U.S. Patent No. 6,567,790 (filed Dec. 1, 1999) (issued May 20, 2003).

6. *Id.*

7. *See* AMY E. HELLER, ABA SECTION OF REAL ESTATE, PATENTING TAX ADVICE: GRAT CASE STIRS DEBATE (2006), [http://www.abanet.org/rppt/publications/ereport/2006/1/heller\\_patenting.shtml](http://www.abanet.org/rppt/publications/ereport/2006/1/heller_patenting.shtml).

8. Consent Final Judgment Regarding Settlement Agreement, Wealth Transfer Group LLC v. Rowe, No. 3:06CV00024(AWT) at 2-3 (D. Conn. Mar. 9, 2007); *see also* Ellen P. Aprill, *Responding to Tax Strategy Patents* 2 n.2, (Loyola-LA Legal Studies Paper No. 2007-26, 2007), available at <http://ssrn.com/abstract=980347>.

9. *See Patenting Tax Advice: Hearing Before the Subcomm. on Select Revenue Measures of the H. Comm. on Ways and Means*, 109th Cong. 77 (2006).. As of July 2006, there were forty-one issued tax strategy patents and another sixty-one patent applications

Bar Association sent a letter in response identifying the “difficult policy, ethical and practical issues” associated with patenting tax strategies.<sup>10</sup> On October 31, 2006, the *New York Times* ran a scathing editorial on the subject.<sup>11</sup> The same month, the American Bar Association (“ABA”) Section of Taxation formed a task force to examine patenting tax strategies.<sup>12</sup> The ABA Section of Taxation is currently working with the PTO to assist in educating patent examiners on tax matters.<sup>13</sup>

This comment argues that tax planning is a profession rather than a “useful art.” Tax strategy patents do not promote the progress of either the profession or any useful art. Further, some or all tax strategy patents may be unconstitutional because they violate equal protection or constitute a taking. For these reasons, tax strategy patents may be held invalid without requiring further legislation.

## II. SCIENCE AND USEFUL ARTS — AND PROFESSIONS

In the Constitution, Congress is given the power “[T]o 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.”<sup>14</sup> The useful arts are distinguished from science, which in eighteenth century parlance meant knowledge in general.<sup>15</sup> Today we might speak of the applied sciences<sup>16</sup> or the “technological arts.”<sup>17</sup> The useful arts also are distinguished from the liberal arts<sup>18</sup> and the fine arts.<sup>19</sup>

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published but still pending. *Id.* The PTO classifies tax strategies under business methods, class 705, and created the 36T subclass dedicated to tax strategies. *Id.*

10. See Kimberly S. Blanchard, *Tax Section Grapples with Patenting Issues*, 237 N.Y.L.J. 12, col.1 (2007).

11. See *Pay to Obey*, N.Y. TIMES, Oct. 31, 2006, at A24.

12. Press Release, ABA Section of Taxation, ABA Tax Section Task Force to Examine Patenting Tax Strategies (Oct. 5, 2006), <http://www.abanet.org/tax/news/home.html#taxpatent> (follow “ABA Tax Section Task Force to Examine Patenting Tax Strategies” hyperlink).

13. See *id.*; see also *Patenting Tax Advice Hearing*, *supra* note 9, at 5 (statement of James Toupin, General Counsel, U.S. Patent and Trademark Office).

14. U.S. CONST. art. I, § 8, cl. 8.

15. See *In re Bergy*, 596 F.2d 952, 958 (C.C.P.A. 1979).

16. But see John R. Thomas, *The Patenting of the Liberal Professions*, 40 B.C. L. REV. 1139, 1167-68 (1999) (exposing flaws in the definition of technology as simply applied science).

17. *Bergy*, 596 F.2d at 959; see also Thomas, *supra* note 16, at 1140 & n.12, 1166-67.

18. The liberal arts consist of the *trivium* (grammar, dialectic (logic), and rhetoric) and the *quadrivium* (arithmetic, geometry, music, and astronomy). See Thomas, *supra* note 16, at 1164 n.189.

19. The fine arts are painting, drawing, architecture, sculpture, poetry, music, dancing, and drama. See *id.*

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The arts and sciences are further distinguished from professions.<sup>20</sup>

Professions, such as law and medicine, have characteristics that might tend to make their advances patentable: systematic learning based on elementary materials or principles, practical application, and communication among professionals.<sup>21</sup> However, other imperatives of a profession—dedication to advancing the body of knowledge, ethical conduct, and public service—are in conflict with the right to exclude conferred by a patent.<sup>22</sup> A patent can limit how a professional may practice, and the existence of a patent can create a conflict of interest for a professional who should be acting in the client's best interest and in the public interest.<sup>23</sup> Tax practitioners—attorneys, accountants, and actuaries who provide tax advice—share these characteristics; thus, it is appropriate to regard tax planning as a profession and not an art, science, or trade.<sup>24</sup>

Another salient characteristic of professions is that, as in the expressive arts, rewards typically go to the practitioners rather than to the inventors.<sup>25</sup> For example, clients are not interested in who discovered a particular tax strategy, but rather in how it can be applied to benefit them particularly. However, in the realm of science and technology, the one who first discovers an idea is rewarded, not necessarily the one who successfully applies the idea.<sup>26</sup> This reality justifies greater protection for practitioners in science and technology, and greater protection for discoverers in the arts. “[T]hat is approximately the line drawn by patent law.”<sup>27</sup>

### III. PATENT ACT REQUIREMENTS

Congress enacted the current patent statute in 1952<sup>28</sup>, which provides that “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter,

20. The “liberal professions” are law, medicine, education, and theology. *See id.* at 1175.

21. *Id.* at 1175-76.

22. *See Jewell v. Maynard*, 383 S.E.2d 536, 546 (W. Va. 1989).

23. *See Thomas*, *supra* note 16, at 1176.

24. *See, e.g.*, 31 C.F.R. § 10.6(e) (2006) (requiring continuing professional education for tax practitioners).

25. *See WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 307 (2003); *see also infra* text accompanying note 145.

26. LANDES & POSNER, *supra* note 25, at 307-08.

27. *Id.* at 308.

28. Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792 (codified as amended at 35 U.S.C. § 101 (2000)).

or any new and useful improvement thereof, may obtain a patent therefor.”<sup>29</sup> Beyond the requirement of statutory subject matter, the five conditions for patentability are novelty, utility, non-obviousness, enablement, and disclosure.<sup>30</sup> First, the invention must be novel; that is, different from the prior art.<sup>31</sup> Second, the standard for utility is easily met—so long as an invention can provide some “identifiable benefit” or achieve a “useful result,” it will be deemed to be useful.<sup>32</sup> Third, the invention must not have been obvious to someone “having ordinary skill in the art” at the time of invention.<sup>33</sup> Fourth, the inventor must fully describe the invention in the patent application such that a “person skilled in the art” could make and use the invention without undue experimentation.<sup>34</sup> Finally, the patent application becomes a matter of public record when the patent is granted, or sooner if the applicant requests.<sup>35</sup>

Patents enjoy a presumption of validity.<sup>36</sup> Nevertheless, the PTO does not pass judgment on the efficacy of every invention.<sup>37</sup> The PTO may grant a patent for a device that is illegal,<sup>38</sup> deceptive,<sup>39</sup> or unsafe.<sup>40</sup> IRS Commissioner Mark Everson said,

29. 35 U.S.C. § 101 (2000).

30. See *id.* (statutory subject matter, utility); *id.* § 102 (novelty); *id.* § 103(a) (nonobviousness); *id.* § 112 (enablement, disclosure). Another condition includes the absence of any statutory bars to patentability. See *id.* § 102(b)-(d).

31. See 35 U.S.C. § 102(a). Prior art is “[k]nowledge that is publicly known, used by others, or available on the date of invention to a person of ordinary skill in an art, including what would be obvious from that knowledge.” BLACK’S LAW DICTIONARY 119 (8th ed. 2004).

32. *Juicy Whip, Inc. v. Orange Bang, Inc.*, 185 F.3d 1364, 1366 (Fed. Cir. 1999).

33. 35 U.S.C. § 103 (2000).

34. See *id.* § 112. One estimate is that about half of patented inventions do not meet this requirement. MARTIN J. ADELMAN ET AL., CASES AND MATERIALS ON PATENT LAW 30 n.21 (2d ed. 2003) (citing Barkev S. Sanders et al., *Attitudes of Assignees Toward Patented Inventions*, 2 PAT., TRADEMARK & COPYRIGHT J. RES. & EDUC. 463, 467-68 (Dec. 1958)).

35. 35 U.S.C. § 122(b) (2000); see also ROGER E. SCHECHTER & JOHN R. THOMAS, PRINCIPLES OF PATENT LAW 136 (2d ed. 2004).

36. *Radio Corp. of Am. v. Radio Eng’g Labs., Inc.*, 293 U.S. 1, 2 (1934); see LANDES & POSNER, *supra* note 25, at 308 (qualifying the presumption as rebuttable).

37. See *In re Brana*, 51 F.3d 1560, 1567 (Fed. Cir. 1995). But see *Brenner v. Manson*, 383 U.S. 519, 534-35 (1966) (holding that “unless and until a process is refined and developed . . . there is insufficient justification for [a patent]”).

38. See *Aldehyde-free Alcoholic Liquids*, U.S. Patent No. 1,785,447 (filed June 28, 1926) (issued Dec. 16, 1930) (Note that this patent was issued during the Prohibition Era).

39. *Juicy Whip*, 185 F.3d at 1368 (*Juicy Whip*’s “post-mix” dispenser had a liquid-filled tank on top—which appeared to be full of a brightly-colored refreshing beverage—just like “pre-mix” dispensers. In reality the ingredients were kept separate and out of sight; the refreshing beverage was mixed at the time of sale. The tank did not contain a refreshing beverage; it was just for show.).

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“The grant of a patent for a tax strategy has absolutely no impact on IRS’ determination of the effectiveness or the legitimacy of the strategy under tax law.”<sup>41</sup> The patent holder must be careful not to make any “misleading or deceptive” claims in any advertising regarding the patented strategy.<sup>42</sup>

A. *Inventions and the “Law of Nature” Doctrine*

Courts have construed 35 U.S.C. § 101 broadly to include “anything under the sun that is made by man.”<sup>43</sup> If the Court wanted to say either “anything under the sun” or “anything made by man,” it could have done so. Both parts of the phrase—“under the sun” and “made by man”—should be dispositive in the patentability analysis. For instance, some things are not patentable:

The laws of nature, physical phenomena, and abstract ideas have been held not patentable. Thus, a new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated law that  $E=mc^2$ ; nor could Newton have patented the law of gravity. Such discoveries are “manifestations of . . . nature, free to all men and reserved exclusively to none.”<sup>44</sup>

These laws, phenomena, and ideas are not patentable because they have always existed.<sup>45</sup> They are the raw materials which inventors harness in their inventions.<sup>46</sup> Allowing a patent on a scientific principle or law of nature “would impede rather than ‘promote the Progress of Science and useful Arts.’”<sup>47</sup> The concern with patenting a mathematical algorithm in *Gottschalk*

40. *In re Watson*, 517 F.2d 465, 476 (C.C.P.A. 1975) (stating that Congress did not intend the Patent Office to determine whether drugs were unsafe).

41. *Patenting Tax Advice*, *supra* note 9 (statement of Mark Everson, IRS Commissioner).

42. See 31 C.F.R. § 10.30(a)(1) (2006).

43. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 n.6 (1980) (citing *Hearings on H.R. 3760 Before Subcomm. No. 3 of the H. Comm. on the Judiciary*, 82nd Cong., 1st Sess. 37 (1951) (testimony of P.J. Federico, principal draftsman of the 1952 recodification)).

44. *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 927 F. Supp. 502, 507 (D. Mass. 1996), *rev'd*, 149 F.3d 1368 (Fed. Cir. 1998) (ellipsis in original) (quoting *Chakrabarty*, 447 U.S. at 309 (1980)).

45. See *Parker v. Flook*, 437 U.S. 584, 593 n.15 (1978); see also LANDES & POSNER, *supra* note 25, at 308.

46. See *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972).

47. *State Street*, 927 F. Supp. at 507 (quoting U.S. CONST. art. I, § 8, cl. 8); see also *Parker*, 437 U.S. at 589; *Diamond v. Diehr*, 450 U.S. 175, 185-86 (1981).

*v. Benson* was that an entire field of knowledge could be preempted.<sup>48</sup> Algorithms and other laws of nature fail the “made by man” portion of the “anything under the sun made by man” test and are thus not patentable subject matter.<sup>49</sup>

PTO guidelines state that unpatentable subject matter “is limited to abstract ideas, laws of nature and natural phenomena.”<sup>50</sup> The expressed limitation indicates an awareness that “anything under the sun” may not be patented, but it also indicates an unwillingness on the part of the PTO to concede that not anything and everything made by man may be patented.

The term “invention,” as it is used in the Patent Act, has been interpreted by the Supreme Court as “anything made by man that uses or harnesses one or more ‘laws of nature’ for human benefit.”<sup>51</sup> The earliest reference seems to be in an 1853 opinion:

The mere discovery of a new element, or law, or principle of nature, without any valuable application of it to the arts, is not the subject of a patent. But he who takes this new element or power, as yet useless, from the laboratory of the philosopher, and makes it the servant of man; who applies it to the perfecting of a new and useful art, or to the improvement of one already known, is the benefactor to whom the patent law tenders its protection.<sup>52</sup>

This view has been reiterated in cases down to *Diamond v. Diehr*.<sup>53</sup>

Other countries’ patent systems also speak of inventions in terms of harnessing the laws of nature. The Japanese Patent Act defines invention as “the highly advanced creation of technical

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48. See *Gottschalk*, 409 U.S. at 71-72; see also *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 126 S. Ct. 2921, 2925 (2006) (Breyer, J., dissenting).

49. See Andrew A. Schwartz, *Tax Strategies Are Not Patentable Inventions*, IPL NEWSLETTER (ABA Section of Intellectual Property Law), Fall 2006, at 35.

50. *Id.* at 37 n.25 (emphasis added) (quoting Patent and Trademark Office, Examination Guidelines for Computer-Related Inventions, 61 Fed. Reg. 7478, 7481 (Feb. 28, 1996)).

51. *Id.* at 36.

52. *O’Reilly v. Morse*, 56 U.S. 62, 132-33 (1853) (Grier, J., concurring in part and dissenting in part); see also Schwartz, *supra* note 49, at 36.

53. See Schwartz, *supra* note 49, at 36 (citing *Diamond*, 450 U.S. at 188 n.11 (1981); *Gottschalk*, 409 U.S. at 67; *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933); *The Telephone Cases*, 126 U.S. 1, 532 (1888)).

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ideas utilizing the laws of nature.”<sup>54</sup> In Germany, patentable technologies must have a “technical rule for the control of natural forces.”<sup>55</sup>

The above discussion leads to the conclusion that tax strategies are not “inventions” as defined in the Patent Act.<sup>56</sup> Tax strategies are unpatentable because the foundation of all tax-strategy patents is law passed by Congress and in the public domain:<sup>57</sup> “laws of man,” not “laws of nature.”<sup>58</sup>

### B. *The Industrial Application Doctrine*

In addition to the “law of nature” doctrine found in the United States and abroad, the industrial application doctrine is found in several foreign patent systems and also serves to limit the scope of patentable subject matter.

#### 1. The Industrial Application Doctrine in Japan

In Japan, a statutory invention must also be “industrially applicable” in order to be patentable.<sup>59</sup> In 2000, the Japan Patent Office (“JPO”) issued guidelines (“JPO Guidelines”) on the “industrially applicable” requirement.<sup>60</sup> These guidelines also address what is statutory subject matter. Inventions which use laws “other than a law of nature (e.g., economic laws), arbitrary arrangements (e.g., a rule for playing a game as such), . . . or [only utilize] these laws (e.g. methods of doing business as such),” are not considered statutory.<sup>61</sup> However, even if part of an invention does not use a law of nature but the invention as a whole does (for example, “software used in doing business” or the rubber-curing machine in *Diehr*), the invention is considered statutory.<sup>62</sup> The JPO Guidelines contain an example in which a nonstatutory claim for a mathematical function (“[a] method for

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54. Japanese Patent Act, Law No. 121 of 1959 (as amended), Ch. I, art. 2(1), available at <http://www.cas.go.jp/jp/seisaku/hourei/data/PA.pdf>; see also Schwartz, *supra* note 49, at 36.

55. See Thomas, *supra* note 16, at 1178.

56. Schwartz, *supra* note 49, at 35.

57. The Internal Revenue Code, which contains all laws passed by Congress concerning taxes, is codified at Title 26 of the United States Code.

58. See Schwartz, *supra* note 49 at 36.

59. See Japanese Patent Act, Ch. II, art. 29(1).

60. See generally JAPAN PATENT OFFICE, EXAMINATION GUIDELINES FOR PATENT AND UTILITY MODEL, Part II, Ch. 1 (2000), available at [http://www.jpo.go.jp/tetuzuki\\_e/t\\_tokkyo\\_e/Guidelines/PartII-1.pdf](http://www.jpo.go.jp/tetuzuki_e/t_tokkyo_e/Guidelines/PartII-1.pdf). [hereinafter JPO GUIDELINES].

61. *Id.* § 1.1(4).

62. *Id.*



determining the selling price of a commodity”) was rewritten as a statutory claim for a checkout counter equipped with bar code reader, inventory database, real-time clock, and pricing software (“[a] method for determining the selling price of a commodity in a cash register”).<sup>63</sup> While this example may be proper, the danger lies in allowing “artful claim drafting” to inflate the realm of patentability beyond the technological, beyond what is industrially applicable.<sup>64</sup>

Tax laws are not laws of nature, so tax strategies would not be statutory subject matter in Japan. The rules for implementing a tax strategy could also be considered an artificial arrangement, not utilizing a law of nature and therefore nonstatutory.<sup>65</sup> However, if the tax strategy claims were written as method and apparatus claims, the invention as a whole (the hardware or software for implementing the tax strategy) might be considered statutory there.<sup>66</sup>

Further, in Japan, “[a]n invention concerning marketable or tradable subject matter is considered commercially applicable,” and thus industrially applicable.<sup>67</sup> But “an invention applied only for personal use, such as a method of smoking” is not commercially applicable.<sup>68</sup> Since a tax strategy must be tailored to each individual, the strategy itself likely would not be considered commercially applicable.

## 2. The Industrial Application Doctrine in Europe

While a footnote to article 27 of the TRIPS agreement states that “susceptible of industrial application” may be considered synonymous with “useful,” European case law indicates there is more to industrial application than mere utility.<sup>69</sup> The European Patent Convention contains the industrial application standard in its definition of patentable inventions.<sup>70</sup> Among the things not

63. *Id.* § 1.1(4), ex. 6.

64. *See* Thomas, *supra* note 16, at 1181.

65. *See* Japanese Patent Act, Ch. II, art. 29(1).

66. *See* JPO GUIDELINES, *supra* note 60, §1.1(4), ex. 6; *see also id.* Part VII, Ch. 1 (listing categories of software-related inventions).

67. *Id.* § 2.1(2).

68. *Id.* § 2.1(2)(i).

69. *See* Alberto Bercovitz Rodríguez-Cano, *On the Patentability of Inventions Involving Computer Programmes*, UPGRADE, June 2003, at 17, 18, <http://www.upgrade-cepis.org/issues/2003/3/up4-3Bercovitz.pdf>; Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Part II, § 5, art. 27 (April 15, 1994), *available at* [http://www.wto.org/english/tratop\\_e/trips\\_e/trips\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/trips_e.htm) [hereinafter TRIPS Agreement].

70. *See* EUROPEAN PATENT OFFICE, CONVENTION ON THE GRANT OF EUROPEAN PATENTS, Part II, Ch. I, Art. 52 (12th ed. 2006), *available at* <http://www.european-patent-office.org/legal/epcl/>.

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regarded as inventions are “discoveries[;] scientific theories[;] . . . mathematical methods; . . . rules and methods for performing mental acts, playing games or doing business[;] and programs for computers.”<sup>71</sup> While “programs for computers” is certain to raise eyebrows, the European Patent Office (“EPO”) excludes only software per se and programs that do not have a technical effect.<sup>72</sup> The EPO has held application software for process control and CAD/CAM,<sup>73</sup> as well as operating system software, patentable.<sup>74</sup> Programs for functions such as text processing or music instruction have been rejected as “lacking a technical effect.”<sup>75</sup> EPO guidelines state that “if a computer program is capable of bringing about, when running on a computer, a further technical effect . . . it is not excluded from patentability.”<sup>76</sup>

The industrial application doctrine has the effect of excluding business methods, as well as “techniques from economics, psychology, and the social sciences.”<sup>77</sup>

Business methods may be amenable to reasoned analysis and intended to make business practices more efficient, but they are not transformative in character. They do not manipulate physical forces to achieve the production or transformation of material objects. Business methods engage economic principles rather than the laws of physics, chemistry or biology. They do not comprise technology and should not be within the grasp of the patent system.<sup>78</sup>

Adopting the industrial application doctrine would likely require amending the patent laws. However, the notion of “invention” incorporates the law of nature doctrine in the statutes.<sup>79</sup> As a result, given the opinion of the Federal Circuit in *State Street Bank & Trust Co. v. Signature Financial Group*,<sup>80</sup> it likely would take legislation or a Supreme Court decision to get

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71. *Id.*

72. See Thomas, *supra* note 16, at 1179.

73. Computer-Aided Design/Computer-Aided Manufacturing. See CAD – Definition from Merriam-Webster Online Dictionary, <http://www.merriam-webster.com/dictionary/CAD> (last visited May 7, 2008); CAM – Definition from Merriam-Webster Online Dictionary, <http://www.merriam-webster.com/dictionary/CAM> (last visited May 7, 2008).

74. See Thomas, *supra* note 16, at 1179.

75. *Id.*

76. See EUROPEAN PATENT OFFICE, *supra* note 70 at Part C, Ch. IV, § 2.2.6.

77. Thomas, *supra* note 16, at 1181.

78. *Id.*

79. See *supra* text accompanying notes 51-52.

80. 149 F.3d 1368, 1375 (Fed. Cir. 1998).

the Federal Circuit and the PTO to chart a different course with respect to business method patents.<sup>81</sup> John Thomas predicted the impact of the *State Street* decision: “With the Patent Office open for patents on business methods, the frontiers of the patent system appear virtually without limit. The patent system now seems poised to impact callings ranging from the arts, to the social sciences, to the law itself.”<sup>82</sup> Tax strategy patents do just that.

#### IV. A SHORT HISTORY OF BUSINESS METHOD PATENTS

The concept of business methods existed long before the patent system.<sup>83</sup> The origins of the U.S. patent system trace at least as far back as the Statute of Monopolies.<sup>84</sup> Passed by Parliament in 1623, the statute was a response to abuses of power by the English Crown in granting control over successful industries to favored subjects.<sup>85</sup> It provided for the grant of “letters patent” to “the true and first inventor” for the “working or making of any manner of new manufacture.”<sup>86</sup> Even in the nineteenth century, it was felt to be “contrary to the spirit of the law . . . to grant patents for methods of bookkeeping” and that “a method of transacting common business’ or ‘a mere contract’ [was] unpatentable.”<sup>87</sup>

Many business method patents use the laws of economics to either generate revenue or reduce costs.<sup>88</sup> Under recent U.S. law, business methods have been held patentable because they have “practical consequences” or “practical usefulness.”<sup>89</sup> This seems to be a more permissive standard than that of “industrial application” found in Europe and Japan. Recall that in Japan, many business methods would be considered nonstatutory subject matter because laws of economics are not considered laws of nature.<sup>90</sup>

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81. See Thomas, *supra* note 16, at 1184.

82. *Id.* at 1185.

83. Thomas, *supra* note 16, at 1141.

84. See Statute of Monopolies, 1623, 21 Jam., c. 3 (Eng.); SCHECHTER & THOMAS, *supra* note 35 at 14-15.

85. *Id.* at 15.

86. *Id.* (internal quotation marks omitted).

87. SCHECHTER & THOMAS, *supra* note 35, at 50 (internal quotation marks and footnotes omitted).

88. See Schwartz, *supra* note 49, at 38.

89. See *State Street*, 149 F.3d at 1373.

90. See JPO GUIDELINES, *supra* note 60, at Part II, Ch. 1, 1-2; *but see* Schwartz, *supra* note 49, at 38 n.52.

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The first case to recognize business method patents was *State Street Bank & Trust Co. v. Signature Financial Group*.<sup>91</sup> Signature Financial developed an application that allowed mutual fund managers to pool their funds' assets in order to realize further economies of scale as well as tax advantages.<sup>92</sup> Signature called it a "Hub and Spoke" system, with individual funds (spokes) contributing to a common portfolio (hub).<sup>93</sup> The software accounted for purchases and redemptions from the spoke mutual funds and allocated income and capital gain (or loss) realized by the hub among the spokes.<sup>94</sup> The Federal Circuit found the system to be patentable because processing data to reach a final share price was a "practical application" of an algorithm that had a "useful, concrete and tangible result" in managing mutual funds.<sup>95</sup> Testifying before Congress, PTO General Counsel James Toupin said that *State Street* did not change U.S. law and practice, but it "created a new awareness that business method claims could be patented."<sup>96</sup>

Transformation of raw data into practically useful information is another characteristic of patentable inventions in the United States. In *Arrhythmia Research Technology, Inc. v. Corazonix Corp.*, a method for processing heartbeat signals and displaying a number "related to the patient's heart activity" was held to be patentable because the electrocardiogram signal was transformed by a "practical and potentially life-saving process" to produce a useful result.<sup>97</sup> This case involved the application of the two-part *Freeman-Walter-Abele* test.<sup>98</sup> The Federal Circuit explained the test:

It is first determined whether a mathematical algorithm is recited directly or indirectly in the

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91. 149 F.3d 1368 (Fed. Cir. 1998).

92. See SCHECHTER & THOMAS, *supra* note 35, at 51.

93. See *id.*

94. See *id.*

95. *State Street*, 149 F.3d at 1373. See Richard Gruner, *Patenting Tax Planning Methods*, Presentation to the ABA Section of Taxation Officers and Council Meeting (Feb. 2, 2006), at slide 15.

96. *Patenting Tax Advice Hearing*, *supra* note 9; cf. Harry Randolph Blythe, *A Theory*, 10 GREEN BAG 2d 64 ("When judges pass on pretty points / Not passed upon before, / Do they declare what is the law / Or what it was of yore?").

97. 958 F.2d 1053, 1059, 1066 (Fed. Cir. 1992); see Gruner, *supra* note 95, at slide 17.

98. *Arrhythmia*, 958 F.2d at 1058 (citing *In re Abele*, 684 F.2d 902 (C.C.P.A. 1982); *In re Walter*, 618 F.2d 758 (C.C.P.A. 1980); *In re Freeman*, 573 F.2d 1237 (C.C.P.A. 1978)); see also SCHECHTER & THOMAS, *supra* note 35, at 45. The Japanese Patent Office seems to have embraced the *Freeman-Walter-Abele* test. See *supra* text accompanying note 63.

claim. If so, it is next determined whether the claimed invention as a whole is no more than the algorithm itself; that is, whether the claim is directed to a mathematical algorithm that is not applied to or limited by physical elements or process steps. Such claims are nonstatutory. However, when the mathematical algorithm is applied in one or more steps of an otherwise statutory process claim, or one or more elements of an otherwise statutory apparatus claim, the requirements of section 101 are met.<sup>99</sup>

Again the Federal Circuit held that the claims “are directed to a specific apparatus of practical utility and specified application, and meet the requirements of 35 U.S.C. § 101.”<sup>100</sup>

Another example of the “transformation” standard is *In re Alappat*.<sup>101</sup> That case involved the use of computer hardware for information processing.<sup>102</sup> The hardware was a digital oscilloscope.<sup>103</sup> The only new component was Alappat’s anti-aliasing (smoothing) subsystem.<sup>104</sup> Alappat’s invention performed mathematical computations that transformed the raw electrical signal “vector list” data into smooth “pixel illumination intensity” data representing the displayed waveform.<sup>105</sup> In other words, it transformed “one set of numbers into another set of numbers.”<sup>106</sup> Alappat’s invention was “no more than the algorithm itself”<sup>107</sup> and should have failed the second part of the *Freeman-Walter-Abele* test.<sup>108</sup> Whether the Federal Circuit was swayed because the invention was implemented in hardware<sup>109</sup> or for some other reason cannot be said. Rejecting the *Freeman-Walter-Abele* test,<sup>110</sup> the court held the claimed rasterizer was

99. *Arrhythmia*, 958 F.2d at 1058; SCHECHTER & THOMAS, *supra* note 35, at 45.

100. *Arrhythmia*, 958 F.2d at 1061.

101. 33 F.3d 1526 (Fed. Cir. 1994) (en banc).

102. *Id.* at 1537.

103. *Id.* An oscilloscope is a device for representing electrical signals graphically. See MERRIAM-WEBSTER’S COLLEGIATE DICTIONARY 877 (11th ed. 2003) (“oscilloscope: an instrument in which the variations in a fluctuating electrical quantity appear temporarily as a visible wave form on the fluorescent screen of a cathode-ray tube.”)

104. *Id.* at 1537.

105. See SCHECHTER & THOMAS, *supra* note 35, at 47.

106. *Id.*

107. *Id.* at 45 (quoting *Arrhythmia*, 958 F.2d at 1058).

108. See *id.* at 46-47.

109. See *Alappat*, 33 F.3d at 1540 n.14, 1558 fig. 3 (schematic diagram of the rasterizer circuit).

110. Cf. SCHECHTER & THOMAS, *supra* note 35, at 48 (stating that the Federal Circuit did not expressly reject the *Freeman-Walter-Abele* test, but the notion that running a

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patentable because the system was “a specific machine to produce a useful, concrete, and tangible result.”<sup>111</sup>

A business recordkeeping method was the subject matter of a patent in *AT&T Corp. v. Excel Communications, Inc.*<sup>112</sup> The court held the format for recording information on long distance calls was patentable because the claimed process achieved a “useful, concrete, tangible result.”<sup>113</sup> This case spelled the end of the requirement that a process must involve a physical transformation to be patentable.<sup>114</sup>

In *State Street*, the Federal Circuit said that the question of subject matter should focus on “the essential characteristics of the subject matter, in particular, its practical utility.”<sup>115</sup> The problem with using “practical usefulness” as a guide to determining whether a claim goes to statutory subject matter is that it “collapses the subject matter inquiry into [the utility inquiry].”<sup>116</sup> Since the utility standard is such a low hurdle, the functional effect of the practical usefulness standard is that “if you can name it, you can claim it.”<sup>117</sup>

Ironically, while the *State Street* case is generally recognized as allowing business method patents, there were no method claims in the patent.<sup>118</sup> The initial application contained six method claims, but they were voluntarily dropped during patent prosecution when the examiner considered rejecting them as nonstatutory subject matter.<sup>119</sup> The six remaining claims were “machine” or “means plus function” claims.<sup>120</sup> John Thomas speculated that “[g]iven the absence of method claims in the patent at suit . . . this portion of the *State Street* opinion may amount to nothing more than dicta.”<sup>121</sup>

While these cases do not give a single standard for distinguishing patentable and unpatentable subject matter, “devices with information processing controls, devices evaluating information on surroundings of practical significance, [and]

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computer program creates a new machine means that the second prong of the test will always be met).

111. *Alappat*, 33 F.3d at 1544.

112. 172 F.3d 1352, 1352 (Fed. Cir. 1999).

113. *Id.* at 1358; see Gruner, *supra* note 95, at slide 16.

114. *AT&T Corp.*, 172 F.3d at 1359-60; SCHECHTER & THOMAS, *supra* note 35, at 29.

115. *State Street*, 149 F.3d at 1375; see also Thomas, *supra* note 16, at 1160.

116. Thomas, *supra* note 16, at 1160.

117. *Id.* at 1160 & n.166 (citing Robert P. Merges, *Commercial Success and Patent Standards: Economic Perspectives on Innovation*, 76 CAL. L. REV. 805, 811-12 (1988)).

118. See *State Street*, 149 F.3d at 1371.

119. *Id.*

120. *Id.*

121. Thomas, *supra* note 16, at 1160-61.

processes manipulating physical items in accordance with information processing results” are clearly patentable.<sup>122</sup> Inventions that are not clearly patentable or unpatentable fall into the category of “pure information processing advances.”<sup>123</sup> A tax-saving strategy appears to fall into the category of either an idea, an algorithm, a list of abstract rules, a business method, or simply a more efficient interpretation of the tax code. While a particular instantiation of the strategy for a particular client might be patentable, the strategy or process — the idea itself — would not.

“Ideas” in copyright law are different from “ideas” in patent law.<sup>124</sup> “The two classes of idea (call them ‘expressive’ and ‘inventive’) are related, however, . . . in the enormous potential for rent seeking that would be created if property rights could be obtained in them . . . .”<sup>125</sup> As more ideas are protected, the transaction costs associated with creating new works increase.<sup>126</sup> As the line between idea and expression (or invention) blurs, transaction costs increase because the prospective user cannot be sure whether a given element is protected.<sup>127</sup> Business method patents are an area in which the line between idea and invention is blurred.

An open question is whether the Black-Scholes option pricing model<sup>128</sup> would be patentable today. Under U.S. law, the model itself would not be patentable because it is mathematical.<sup>129</sup> However, if it were used in a business method, it likely would be patentable.<sup>130</sup> By contrast, in Japan, the Black-Scholes model would be rejected as not employing a law of

122. Gruner, *supra* note 95, at slide 20.

123. *Id.* at slides 19-20.

124. LANDES & POSNER, *supra* note 25, at 305; *see* 17 U.S.C. § 102(a) (2000) (listing the subject matter of copyright); *id.* § 102(b) (excluding, among other things, ideas, concepts, principles, and discoveries from copyrightable subject matter); *see also* Eldred v. Ashcroft, 537 U.S. 186, 219 (2003) (quoting Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 556 (1985)) (distinguishing ideas and expression); Baker v. Selden, 101 U.S. 99 (1879) (same). “The ‘ideas’ . . . that are ineligible for copyright protection are standard plots, stock characters, verse forms, literary and musical genres, schools of painting, dramatic conventions, iconography, and the like. The ideas that patent law excludes are fundamental scientific (including mathematical) and technological principles.” LANDES & POSNER, *supra* note 25, at 305.

125. *Id.* at 305-06 (footnote omitted).

126. *Id.* at 306.

127. *Id.*

128. The Black-Scholes pricing model “is a differential equation that provides a value for a stock option, premised on the assumption that the underlying stock price evolves according to Brownian motion.” Schwartz, *supra* note 49, at 37 n.52.

129. *See id.*

130. *Id.*

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nature.<sup>131</sup> Even if embodied in a business method, it might still be rejected as not employing a law of nature or as being an artificial arrangement.<sup>132</sup> Japan would likely issue a patent only if the model were used as part of a larger invention which employs a law of nature. A tax strategy, in and of itself, is simply an idea. Tax strategies must be tailored for each individual. While the implementation of a tax strategy for a particular individual might be a patentable invention, the strategy itself is an unpatentable idea.

A tax strategy is not so much a business method as a legal method.<sup>133</sup> All tax strategies are necessarily based on the Tax Code as enacted by Congress. Similarly, an affirmative defense is based on statutory and common law.<sup>134</sup> If tax practitioners can patent their tax-saving strategies, could a defense attorney patent a particularly clever affirmative defense?

## V. ARGUMENTS FOR — AND AGAINST — TAX STRATEGY PATENTS

A. *Incentive to Invent*

The “incentive to invent” justification for patent protection is that when free riders copy a successful invention, inventors will not be able to recover their research and development costs and other fixed costs associated with the invention.<sup>135</sup> The most basic objection to the incentive-to-invent argument is that the right to exclude conferred by patents restricts the use of inventions and thus reduces the social benefits derived from patented inventions.<sup>136</sup> There may be ways to stimulate invention that compensate inventors for fixed costs but do not have the side effect of restricting output that patents do.<sup>137</sup> Some methods

131. Cf. *supra* notes 62-63 and accompanying text (leaving the door to patentability open if the model were incorporated in a larger invention).

132. See JPO GUIDELINES, *supra* note 60, at 15-16.

133. See Andrew A. Schwartz, *The Patent Office Meets the Poison Pill: Why Legal Methods Cannot Be Patented*, 20 HARV. J.L. & TECH. 333, 372 (2007) (stating the difference between business methods and legal methods).

134. See, e.g., 5 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1270 (3d. ed. 2004).

135. See Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1024-25 (1989); see also LANDES & POSNER, *supra* note 25, at 313 (conditioning the effect of free riders on the cost of copying).

136. See Eisenberg, *supra* note 135, at 1026.

137. *Id.* For example, compensating inventors with transfer payments (prizes, in other words) in lieu of patents could stimulate invention. See *id.* at 1026 n.35; cf. LANDES & POSNER, *supra* note 25, at 306-07 (noting that basic research is incentivized by rewards while applied research is incentivized by intellectual property rights.)



may operate without direct government invention.<sup>138</sup> These “non-pecuniary incentives” reward different behavior in the arts than they do in the sciences:

The principal rewards of aesthetic achievement flow to the authors (composers, painters, etc.) of the expressive works themselves rather than to the creators of the “ideas” reflected in them . . . . The situation is the opposite in scientific and technological fields. There fame, a potent motivator with often a cash value to boot, goes to the discoverer of basic ideas rather than to the individuals who perfect their application. This is an argument for providing greater legal protection and therefore economic rewards to applicators than to discoverers in the scientific and technological as opposed to the cultural domain, and that is approximately the line drawn by the patent law. However, the line is eroding.<sup>139</sup>

Because the rewards of implementing a tax strategy go to the practitioner who implements it, and not to the person who discovered it, implementations of tax strategies are more like expressive works than scientific or technological works, and do not merit or require patent protection.

The higher the cost of research and development, and the lower the cost of copying, the more compelling the “incentive to invent” argument becomes because stronger patent protection will be required to ensure the inventor can recoup the fixed costs of developing the invention.<sup>140</sup>

Yet, the rights conferred by a U.S. patent do not depend on research and development costs, the cost of copying, or any other factor.<sup>141</sup> The same rights accrue to the “inventor” of a tax

138. See, e.g., Eisenberg, *supra* note 135, at 1026 n.35, 1027 (noting, as an example, that non-patent barriers to the market place could protect inventors from competition such that patents would not be needed to make research and development a profitable venture).

139. LANDES & POSNER, *supra* note 25, at 307-08 (footnote omitted). For a comparison of the notion of ideas in the expressive and inventive realms, see *supra* note 125 and accompanying text.

140. LANDES & POSNER, *supra* note 25, at 300; see also Eisenberg, *supra* note 135, at 1025.

141. See LANDES & POSNER, *supra* note 25, at 300; see also 35 U.S.C. § 154(a)(2) (2000) (providing that the duration of a patent once issued is twenty years from the date the patent application was filed, unless there is a reference to an earlier-filed application. The earlier time controls.); *id.* §§ 283, 284, 289 (mandating that injunctions can be granted based on principles of equity, damages can be awarded in an amount adequate to

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strategy who had relatively little fixed costs—or whose costs were paid by the first client—as accrue to the inventor of a new drug who spent millions of dollars on research and development.<sup>142</sup>

Another objection to the “incentive to invent” justification is that when the broad rights and remedies granted to a patentee are out of proportion to the costs incurred, there is a danger the inventor will be able to charge too high a price, that he will recoup more than the fixed costs of invention, and that many potential users will not be able to afford the invention.<sup>143</sup> Ideally, patents allow inventors to charge a price that matches the value users receive from the inventions.<sup>144</sup> If patentees are able to profit far beyond their investment, “the prospect of such windfalls will induce rent-seeking behavior, with a resulting waste of resources illustrated by patent races.”<sup>145</sup>

### B. *Incentive to Disclose*

The “incentive to disclose” argument is that without patent protection, inventors would keep their inventions secret, preventing the public from benefiting from their knowledge, and leading to socially wasteful duplication of effort.<sup>146</sup> While this argument is open to question, and counterexamples can be given,<sup>147</sup> the grant of exclusive rights which survive disclosure would tend to make disclosure feasible.<sup>148</sup> Disclosure allows

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compensate for patent infringement, and additional damages can be awarded for total profit as long as it is not less than \$250).

142. However, design patents and utility patents do have some differences in duration and remedies. *Compare* 35 U.S.C. § 173 (2000) (fourteen years for design patents) *with* 35 U.S.C. § 154 (2000) (twenty years from date of filing for utility patents). The owner of a design patent also gets the “additional remedy” of the infringer’s profits. 35 U.S.C. § 289 (2000).

143. LANDES & POSNER, *supra* note 25, at 296.

144. Eisenberg, *supra* note 135, at 1025-26.

145. LANDES & POSNER, *supra* note 25, at 300. Economic rent is “payment above the supply price or opportunity cost for the use of a resource that is fixed in supply. The payment, therefore, is above the minimum amount necessary to assure the continued supply of that factor of production. . . . The limitation of supply may be temporary or permanent, so the ability to extract economic rent also may be temporary or permanent.” KENYON A. KNOFF, A LEXICON OF ECONOMICS 88-89 (1991). Rent seeking refers to the allocation of “resources in an effort to obtain a monopoly.” 4 THE NEW PALGRAVE: A DICTIONARY OF ECONOMICS 147 (John Eatwell et al. eds., 1987). Of course, by definition only one of the entities seeking a given monopoly will be successful. “[T]he activity of creating monopolies is a competitive industry.” *Id.*

146. Eisenberg, *supra* note 135, at 1028.

147. For example, the formula for Coca-Cola has been a trade secret since 1886. Coca Cola, The Chronicle of Coca-Cola, [http://www.thecoca-colacompany.com/heritage/chronicle\\_birth\\_refreshing\\_idea.html](http://www.thecoca-colacompany.com/heritage/chronicle_birth_refreshing_idea.html) (last visited Oct. 14, 2007).

148. Eisenberg, *supra* note 135, at 1028-29.

other inventors to “invent around” the patented invention, that is, to duplicate the technology without infringing on the claims.<sup>149</sup> This seems socially wasteful because it involves duplication of effort, but after the initial duplication, it could lead new inventors down new paths to further, and perhaps more profitable, discoveries.<sup>150</sup> With tax strategies, the inventor might choose not to disclose because it would be too difficult to detect infringers and too costly to litigate.

## VI. TAX PATENTS AND TAX POLICY

### A. *Fifth Amendment Issues*

As public law, the tax code ought to apply to all taxpayers equally.<sup>151</sup> This argument ultimately rests on that “last resort of constitutional arguments,”<sup>152</sup> the equal protection clause.<sup>153</sup> Indeed, almost any law discriminates against someone,<sup>154</sup> but patented tax strategies zone off portions of the Internal Revenue Code, which is in the public domain.<sup>155</sup> “Zoning decisions often contain a heavy dose of politics, not necessarily of the partisan kind, but of the kind that involves a decision whether a given benefit or detriment should be conferred on group A or group B.”<sup>156</sup> In extreme cases, patenting a tax strategy would allow preemption or capture (or taking, in Fifth Amendment terms) of part of the tax code for the benefit of the patentee.<sup>157</sup>

149. LANDES & POSNER, *supra* note 25, at 295.

150. See Eisenberg, *supra* note 135, at 1028 n.44.

151. See *Int'l Bus. Machs. Corp. v. United States*, 343 F.2d 914, 920 (Ct. Cl. 1965); accord *Blanchard*, *supra* note 10 (“We [the New York State Bar Association Tax Section] believe that tax ideas should be generally available to all taxpayers.”).

152. *Buck v. Bell*, 274 U.S. 200, 208 (1927) (Holmes, J.) (attempting to disparage attacks on the decision).

153. U.S. CONST. amend. V; see also *Bolling v. Sharpe*, 347 U.S. 497 (1954) (applying equal protection to the federal government via the Fifth Amendment’s due process clause).

154. See ERWIN CHEMERINSKY, *CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES* 668 (3d ed. 2006).

155. See *Wheaton v. Peters*, 33 U.S. 591, 621 (1834). (“If either statutes or decisions could be made private property, it would be in the power of an individual to shut out the light by which we guide our actions.”).

156. DAVID CRUMP, DAVID S. CAUDILL & DAVID CHARLES HRICK, *PROPERTY: CASES, DOCUMENTS, AND LAWYERING STRATEGIES* 547 (2004).

157. STAFF OF J. COMM. ON TAXATION, 109TH CONG., *BACKGROUND AND ISSUES RELATING TO THE PATENTING OF TAX ADVICE 1* (Comm. Print 2006), available at <http://www.house.gov/jct/x-31-06.pdf>; see also U.S. CONST. amend. V.

290 *HOUSTON BUSINESS AND TAX LAW JOURNAL* [Vol. VIII]B. *Politics and Rent-seeking Behavior*

Allowing patents on tax strategies would alter the tax base from what Congress anticipated when it enacted the tax code.<sup>158</sup> In shaping tax policy, Congress makes political decisions.<sup>159</sup> The grant of a patent is also a political decision in that it confers a benefit on the patentee at the expense of all others, who are excluded from practicing the invention. Patents on tax strategies represent two layers of political decisions, both of which are susceptible to special interests and can promote rent-seeking behavior, with its consequent social costs.<sup>160</sup> The question becomes whether the benefits conferred by a tax strategy patent justify the resultant social costs and inefficient redistribution of resources.<sup>161</sup> One of the costs associated with tax strategy patents is that Congress can no longer shape tax policy on its own; it must share that power with individual patent holders.<sup>162</sup>

## VII. REMEDIES FOR TAX STRATEGY PATENTS

A. *Constitutional and Statutory Remedies*

Several remedies exist to curb the proliferation of tax strategy patents. One such remedy would be to enact legislation granting safe harbor to those who use a patented tax strategy. In 2000, Congress passed the Physicians Immunity Statute<sup>163</sup> which protects a doctor who performs a patented medical procedure on a patient from being sued for patent infringement.<sup>164</sup> Thus, a medical procedure patent holder would not be able to get damages or injunctive relief from a licensed medical practitioner who carried out that procedure.<sup>165</sup> Without a claim for relief, the patent is essentially unenforceable.<sup>166</sup> The statute “expressly does not cover products, compositions of matter, and

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158. See generally H.R. REP. NO. 109-430 (2006) (discussing tax policy choices and their impact on U.S. macroeconomic performance). “In the case of tax strategies that embody behavior that the tax law specifically intends to encourage, permitting patent protection could frustrate congressional intent.” Blanchard, *supra* note 10.

159. See H.R. REP. NO. 109-430, at 4.

160. See *supra* note 145 and accompanying text.

161. See THE NEW PALGRAVE, *supra* note 145, at 147-48. “[T]he argument against rent seeking turns out also to be an argument against political corruption.” *Id.* at 148.

162. Paul Devinsky, John Fuisz & Thomas Sykes, *Whose Tax Law is It?*, 29 LEGAL TIMES 42, Oct. 16, 2006, at S12.

163. 35 U.S.C. § 287(c) (Supp. I 2003).

164. See J. COMM. ON TAXATION, *supra* note 157, at 15.

165. See *id.* at 16.

166. Thomas, *supra* note 16, at 1177.

biotechnologies.”<sup>167</sup> It is an open question whether the business community will be able to organize and effect a change in the patentability of tax strategies in the way the medical community has with medical procedures.<sup>168</sup> “Few occupations are as well-organized, imbued with a sense of profession and capable of employing the rhetoric of public service as the practice of medicine.”<sup>169</sup>

Yet many of the same legal and ethical arguments that cover the doctor/patient relationship apply to tax practitioners and taxpayers.<sup>170</sup> Justifications for the Physicians’ Immunity Statute included “a patient’s restricted access to care, the higher costs of health care caused by patent royalties, and the duty of physicians to share knowledge with others.”<sup>171</sup> The problem with the Physicians’ Immunity Statute, and with safe harbor legislation in general, is that it goes against the provision of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”) that “patents shall be available and patent rights enjoyable without discrimination as to . . . the field of technology. . . .”<sup>172</sup> The TRIPS Agreement expressly allows medical treatment to be excluded from patentable subject matter,<sup>173</sup> but once patented, patent holders must enjoy the same rights as other patentees.<sup>174</sup>

Similarly, an objection to the Physicians’ Immunity Statute could apply in a tax context: Elimination of remedies for infringement would destroy the incentive to invent.<sup>175</sup> This argument makes several presumptions. First, it presumes that remedies for infringement will provide the sole incentive to invent. This may be more true for U.S. doctors than for tax practitioners. Second, the argument presumes that any remedies for infringement will go to the inventor’s recouping research and development costs.<sup>176</sup> This assumption ignores the reality that

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167. J. COMM. ON TAXATION, *supra* note 157, at 16.

168. Thomas, *supra* note 16, at 1177.

169. *Id.*

170. See Steve Dirksen, *A Reconsideration of the Physicians’ Immunity Statute*, 2001 DUKE L. & TECH. REV. 27, (2001) (proposing alternative methods to more effectively accomplish the goals of the Physicians’ Immunity Statute).

171. *Id.* at 2.

172. TRIPS Agreement; *supra* note 69, at Part II, § 5, art. 27, ¶ 1; see Thomas, *supra* note 16, at 1177.

173. TRIPS Agreement, *supra* note 69, at Part II, § 5, art. 27, ¶ 2.

174. Thomas, *supra* note 16, at 1177.

175. Dirksen, *supra* note 170, at 4.

176. Research and development costs are only one of the fixed costs involved in securing a patent. Rent-seeking behavior involves the redistribution of resources, and is

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patent rights are often licensed or sold to third parties, referred to as “patent trolls,” who then profit from enforcing intellectual property rights.<sup>177</sup>

In addition to safe harbor legislation, ad hoc legislation denying patentability is always an option. There are already a couple of examples of this in the U.S. Code. For instance, a patent may be withheld in the interest of national security.<sup>178</sup> Furthermore, no patent will be granted for “any invention or discovery which is useful solely in the utilization of special nuclear material or atomic energy in an atomic weapon.”<sup>179</sup> Both a bill that would grant safe harbor<sup>180</sup> and a bill that would prohibit tax strategy patents<sup>181</sup> were introduced in the 110th Congress in 2007.

Another remedy would be for the government to take action against the holder of a tax strategy patent based on federal antitrust legislation.<sup>182</sup> Two examples of such laws are the Federal Trade Commission Act<sup>183</sup> and the Sherman Act.<sup>184</sup> Relief under section 2 of the Sherman Act is predicated on showing that “the patentee has monopoly power in the relevant market, and that it has acquired or is maintaining that power in an anticompetitive manner.”<sup>185</sup> The fact that a patentee owns a patent does not demonstrate market power.<sup>186</sup> Since the patent

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one example of transaction costs not related to research and development. See THE NEW PALGRAVE, *supra* note 145, at 147.

177. Patent trolls are “nonproductive patent consolidators who acquire patents allegedly for the purpose of extorting a substantial settlement or judgment from productive companies.” Robert E. Thomas, *Vanquishing Copyright Pirates and Patent Trolls: The Divergent Evolution of Copyright and Patent Laws*, 43 AM. BUS. L.J. 689, 692 (2006); see generally Thomas L. Casagrande, *The Reach of eBay Inc. v. MercExchange, L.L.C.: Not Just for Trolls and Patents*, HOUSTON LAWYER, Nov./Dec. 2006, at 10, available at [http://www.thehoustonlawyer.com/aa\\_nov06/page10.htm](http://www.thehoustonlawyer.com/aa_nov06/page10.htm).

178. 35 U.S.C. § 181 (Supp. III 2003).

179. 42 U.S.C. § 2181 (2000).

180. H.R. 2365, 110th Cong. (2007) (amending 35 U.S.C. § 287 to provide safe harbor to the user of any patented “tax planning method”).

181. Stop Tax Haven Abuse Act, S. 681, 110th Cong. § 303 (2007) (denying patentability under 35 U.S.C. § 102 to any invention “designed to minimize, avoid, defer, or otherwise affect the liability for Federal, State, local, or foreign tax”).

182. Janice M. Mueller, *Patent Misuse Through the Capture of Industry Standards*, 17 BERKELEY TECH. L.J. 623, 653 (2002).

183. Federal Trade Commission Act, Pub. L. No. 63-203, 38 Stat. 717 (1914) (codified as amended in scattered sections of 15 U.S.C.).

184. Sherman Anti-Trust Act, ch. 647, 26 Stat. 209 (1890) (codified as amended in scattered sections of 15 U.S.C.); see also Mueller, *supra* note 182, at 653-54.

185. *Id.* at 654; see also Sherman Anti-Trust Act § 2.

186. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 43 n.4 (2006); Haris Apostolopoulos, *Refusal-To-Deal Cases of IP Rights at the Aftermarket in the US and EU Law: Converging of Both Law Systems Through Speaking The Same Language of Law and Economics*, 7 CHI.-KENT J. INT'L & COMP. L. 144, 149 (2007).

conveys a statutory right to exclude, many actions that might otherwise be considered anticompetitive are part of “typical patent owner behavior.”<sup>187</sup> To prevail in a patent infringement suit on an antitrust counterclaim a defendant must show either that the patent was fraudulently obtained<sup>188</sup> or that the infringement litigation is a “sham,”<sup>189</sup> in that the lawsuit is “objectively baseless”<sup>190</sup> and is in reality an “anticompetitive weapon”<sup>191</sup> designed to “interfere directly with the business relationships of a competitor.”<sup>192</sup>

If a particular tax strategy were determined to be an “essential facility,” it would be an antitrust violation for the patentee “to deny access . . . at nondiscriminatory terms.”<sup>193</sup> Just because the inventor has been granted patent rights does not mean the invention is essential. If obtaining the patent only results in higher costs to competitors or requires them to adopt a non-infringing alternative, the essential facilities doctrine does not apply.<sup>194</sup> The doctrine only comes into play when the patentee has the power to eliminate competition.<sup>195</sup> However, patented tax strategies affect both tax practitioners, who are in competition with one another, and individual taxpayers. When a tax strategy captures the only means of complying with — or taking advantage of — a provision of the Tax Code, the taxpayer is faced with choosing between noncompliance or foregoing a legislatively conferred tax benefit.<sup>196</sup> In that case, the rationale for applying the essential facilities doctrine becomes more compelling.

Attempts to capture public tax law for private benefit may backfire should the government decide to exercise its powers of eminent domain, a fifth possible remedy against tax strategy

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187. Mueller, *supra* note 182, at 654.

188. *Id.*

189. *Id.* at 655 & n.166.

190. *Profl Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60 (1993).

191. *Id.* at 61 (quoting *City of Columbia v. Omni Outdoor Adver., Inc.*, 499 U.S. 365, 366 (1991)).

192. *Id.* at 60-61 (quoting *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961)).

193. See Mueller, *supra* note 182, at 655-56 (discussing the essential facilities doctrine).

194. *Id.* at 656 & n.174.

195. See *Alaska Airlines, Inc. v. United Airlines, Inc.*, 948 F.2d 536, 545-46 & n.14 (9th Cir. 1991).

196. See Mueller, *supra* note 182, at 656-57.

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patents. The Tax Code is a de jure standard<sup>197</sup> promulgated by Congress, and for many individuals and corporations in the United States and abroad it is a “mandatory de jure standard.”<sup>198</sup> As a practical matter, this is what distinguishes government standards from industry standards: Compliance is mandatory and enforceable by civil and criminal penalties. In principle, this is also what distinguishes legal methods from business methods: The underlying law on which the legal method is based is not economics or science, and not an industry standard, but public law. This dependence on public law also distinguishes tax strategy patents from other business method patents.<sup>199</sup> The patented tax strategy is designed not to make money but to save taxes. But for the Tax Code, the tax strategy would not exist.<sup>200</sup>

Most case law on the subject of government-mandated standards involves public health and safety. For example, in *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharmaceuticals, Inc.*, the court found that FDA regulations required Watson to use SmithKline’s drug label, and thus precluded an action for copyright infringement.<sup>201</sup> The court saw its decision as resolving a conflict between the Copyright Act and the Federal Food, Drug and Cosmetic Act, and did not reach the defendant’s theories of fair use and implied license.<sup>202</sup> In *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Foundation*, the Ninth Circuit refused to enforce patent rights and held the patents invalid in the name of public interest.<sup>203</sup> The initiation of eminent domain proceedings against a patent holder is an extreme step and probably not justified except in

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197. See Larry Seltzer, *The Standards Industry*, INTERNET WORLD, Apr. 15, 2001, at 50-51, available at <http://www.internetworld.com/magazine.php?inc=041501/04.15.01internettech1.html>; Mueller, *supra* note 182, at 634.

198. Mueller, *supra* note 182, at 634-35; see I.R.C. §§ 1, 2, 55 (2000). “[I]n this world nothing can be said to be certain, except death and taxes.” 10 BENJAMIN FRANKLIN, THE WORKS OF BENJAMIN FRANKLIN 410 (Jared Sparks ed., Hillard Gray 1840).

199. Compare U.S. Patent No. 6,567,790, *supra* note 5, with U.S. Patent No. 5,913,056 (filed Mar. 9, 1993) (as discussed in *State Street*, 149 F.3d 1368).

200. “[T]he essence of a technology standard is the definition of a core product and a complimentary product, for example, a compact disc player and a compact disc. The definition allows any number of manufacturers to produce cross-compatible core and complementary products.” Mueller, *supra* note 182, at 632 n.47 (internal quotation marks omitted) (quoting Keith Lutsch et al., Compaq Computer Corp., *Standards Activities in the Computer Industry*, State Bar of Texas Intellectual Property Law Institute (San Antonio, Mar. 20-21, 1998)).

201. *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms. Inc.*, 211 F.3d 21, 25 (2d Cir. 2000).

202. *Id.*

203. *Vitamin Technologists, Inc. v. Wis. Alumni Research Found.*, 146 F.2d 941, 946-47 (9th Cir. 1945).



cases where the patented tax strategy is the only means of complying with federal law.<sup>204</sup>

### B. *Common Law Remedies*

Another third remedy for those who seek to manipulate tax policy for their own gain derives from the common law. If a patentee participates in standard-setting activity and does not disclose relevant patent rights where a duty to disclose exists, it may constitute fraud.<sup>205</sup> Fraud-based remedies, such as equitable estoppel and implied license, depend on the plaintiff's showing a failure to disclose and detrimental reliance.<sup>206</sup> The issue in establishing this sort of fraud in the case of tax strategy patents is whether there has been enough contact between the patentee and the ultimate user to show detrimental reliance.<sup>207</sup> These doctrines would protect other tax practitioners who participated in the legislative process, but likely would not protect third parties, such as taxpayers, who could not show detrimental reliance on the patent holder's failure to disclose.<sup>208</sup>

Finally, the patent misuse doctrine is a common law theory based in equity and developed before most U.S. antitrust law.<sup>209</sup> It is intended to deter patentees who seek to expand their intellectual property rights beyond what the statutes grant in order to deter anticompetitive behavior.<sup>210</sup> Patent misuse is an affirmative defense to a claim of patent infringement.<sup>211</sup>

## VIII. CONSEQUENCES OF TAX STRATEGY PATENTS

A thorny problem with tax strategy patents is pinning down exactly what constitutes infringement. Does infringement lie in the advice, in the transaction, or in the tax return? If giving tax

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204. See Mueller, *supra* note 182, at 663 (explaining that significant legislative amendment would be necessary to extend the eminent domain statutory framework to patent infringements by non-government parties).

205. *Rambus Inc. v. Infineon Tech. AG*, 318 F.3d 1081, 1105 (Fed. Cir. 2003). *But see id.* at 1107-10 (Prost, J., dissenting) (imposing an even greater duty than required under the majority opinion).

206. Janice M. Mueller, *Patenting Industry Standards*, 34 J. MARSHALL L. REV. at 925 (2001).

207. See Mueller, *supra* note 182, at 659.

208. See *id.*

209. *Id.* at 671 & n.249.

210. See Kelly Hershey, *Patent Misuse: Scheiber v. Dolby Laboratories, Inc.*, 18 BERKELEY TECH. L.J. 159, 161-62 (2003).

211. Mueller, *supra* note 182, at 671 (citing *Va. Panel Corp. v. Mac Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986)).

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advice constitutes infringement, taking legal action against the practitioner would jeopardize the practitioner-client privilege and raise free speech issues.<sup>212</sup>

Many tax strategies are structured as business transactions in which the taxpayer purchases financial products or enters into contractual relationships.<sup>213</sup> A taxpayer's purchase of goods on the open market should not constitute patent infringement.<sup>214</sup>

Some tax strategies may lie in how the return is prepared and filed; therefore, evidence of the use of the tax strategy may be found only on the return itself.<sup>215</sup> However, tax returns are confidential.<sup>216</sup> The president of the New York State Bar Association Tax Section wrote:

We do not see how treating the preparation or filing of a tax return as constituting infringement in and of itself can possibly be viewed as good policy. Once a taxpayer has engaged in a transaction, the preparer and taxpayer are legally obligated to [report it]. Compliance with legal obligations should not constitute patent infringement.<sup>217</sup>

Defending against an infringement action would also be difficult because much of the information required to prove the existence of prior art would be covered by the attorney-client privilege.<sup>218</sup>

#### A. *Impact on the IRS*

Tax-strategy patents may make tax enforcement more difficult for the IRS. Certain transactions, including those involving tax shelters, are listed as "confidential transactions" and require disclosure to the IRS by the taxpayer.<sup>219</sup> Because the substance of a tax patent is disclosed in the application, it is no

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212. See Blanchard, *supra* note 10; see also U.S. CONST. amend. I.

213. Examples include funding an annuity, or entering into a partnership. See William A. Drennan, *The Patented Loophole: How Should Congress Respond to this Judicial Invention?*, 59 FLA. L. REV. 229 (2007).

214. See Blanchard, *supra* note 10.

215. *Id.*

216. I.R.C. § 6103(a) (2000); see also Blanchard, *supra* note 10 (discussing the lack of tax strategy disclosure due to tax return confidentiality).

217. Blanchard, *supra* note 10.

218. See *id.*

219. George G. Jones & Mark A. Luscombe, *Patenting Tax Strategies: A Troubling Storm Develops*, ACCOUNTING TODAY, Aug. 21-Sept. 3, 2006, at 10.

longer confidential.<sup>220</sup> To circumvent the problem, the IRS could add the use of patented tax strategies to its list of reportable confidential transactions.<sup>221</sup>

### B. *Impact on Tax Practitioners*

The tradeoff contemplated by the patent system is that inventors receive a limited right to exclude in return for disclosing their invention to the public and allowing the public to benefit from it.<sup>222</sup> This argument for patentability is most compelling when applied to physical objects that lend themselves to mass production.<sup>223</sup> It is less so in the context of the provision of professional services which must be tailored to each taxpayer's individual circumstances. With mass-produced widgets, the patent allows the public to profit from the invention at the same time as the inventor recoups development costs and profits from the invention.<sup>224</sup> In the context of providing tax advice and preparing submissions to the IRS, the tax practitioner is compensated for services rendered to each client. Allowing tax strategies to be patented would change the nature of the relationship between tax adviser and taxpayer from professional-client to supplier-customer. Patenting tax strategies could impact the ability of tax advisers to "provide clients with the highest quality representation."<sup>225</sup>

If patenting tax strategies becomes widespread, tax practitioners will ostensibly have to conduct patent searches before offering advice.<sup>226</sup> And if practitioners choose to patent their tax strategies, they will have costs associated with patent prosecution, licensing, and enforcement.<sup>227</sup>

Tax strategy patents impose additional transaction costs on tax practitioners and, ultimately, taxpayers.<sup>228</sup> A tax practitioner who wants to use a patented strategy and has any responsibility to a patentee is faced with a conflict of interest:<sup>229</sup>

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220. *Id.*

221. *Id.*

222. *Brenner v. Manson*, 383 U.S. 519, 534 n. 21 (1966) (citing *Universal Oil Prods. Co. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944)).

223. *See Gruner, supra* note 95, at slide 4.

224. *See supra* text accompanying notes 137-42.

225. *See* 31 C.F.R. § 10.33(a) (2006).

226. *See* Floyd Norris, *You Can't Use That Tax Idea. It's Patented.*, N.Y. TIMES, Oct. 20, 2006, at C1; *see also* Thomas, *supra* note 16, at 1165.

227. *See* Norris, *supra* note 226.

228. *See id.*

229. *See* 31 C.F.R. § 10.29(a)(2) (2006) ("A conflict of interest exists if . . . [t]here is a significant risk that the representation of one or more clients will be materially limited by

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use the patented strategy and pay a royalty—assuming the patent owner will license the strategy, which he or she is under no obligation to do<sup>230</sup>—or use an alternate strategy which results in the client’s paying more in taxes? Treasury Department Circular 230 states that without a client’s informed written consent regarding such a conflict, a tax practitioner may not represent the client before the IRS.<sup>231</sup>

This conflict-of-interest situation assumes the tax practitioner is aware of the patent in the first place. The existence of patents on tax strategies could create an ethical obligation on the practitioner to use due diligence in searching for patents on tax strategies before recommending them to clients.<sup>232</sup> Tax strategy patents impose “a prior restraint upon the free flow of legal advice.”<sup>233</sup>

A report by the Joint Committee on Taxation summarized the conflicts facing a tax attorney who wants to recommend a patented tax strategy:

[A lawyer] could be forced into the uncomfortable position of choosing between (i) seeking the client’s waiver of attorney-client privilege to approach the patent-holder about obtaining a license, (ii) refraining from advising the client to pursue a course of action which might otherwise be in the client’s best interest in order to avoid either infringing the patent or waiving confidentiality of attorney-client communications, or (iii) willfully infringing the patent to preserve attorney-client privilege and satisfy the professional duty to diligently represent the client.<sup>234</sup>

### C. *Impact on Taxpayers*

IRS regulations mandate that clients give informed consent in writing when a patented tax strategy may apply to them.<sup>235</sup> Conversely, clients may also require their tax practitioners

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the practitioner’s responsibilities to . . . a third person or by a personal interest of the practitioner.”).

230. See Devinsky, *supra* note 162.

231. See 31 C.F.R. § 10.29(b) (2007) (“Notwithstanding a conflict of interest . . . the practitioner may represent a client if: . . . [e]ach affected client gives informed consent, confirmed in writing.”).

232. Blanchard, *supra* note 10.

233. *Id.*

234. J. COMM. ON TAXATION, *supra* note 157, at 27 n.100.

235. See *supra* note 234 and accompanying text.

indemnify them from claims for royalties or damages for patent infringement.<sup>236</sup> In deciding whether to use a tax-saving strategy, clients should ask whether the strategy is patented, whether it is considered obvious, and whether there is any statutory or case law on the strategy.<sup>237</sup>

The existence of patented tax strategies adds an additional layer of transaction costs to the relationship between clients and their tax practitioners. Taxpayers are faced with the choice of paying royalties to the patent holder or paying more than their fair share of taxes.<sup>238</sup> Courts have repeatedly held that “there is nothing sinister in so arranging one’s affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions.”<sup>239</sup>

As the president of the New York State Bar Association Tax Section wrote in response to a congressional hearing on patenting tax advice, “Taxpayers should not be forced to pay a royalty for the privilege of paying taxes legally owed, or be prevented from legally minimizing their tax burden. The tax law should be an open road, not a toll road.”<sup>240</sup>

## IX. CONCLUSION

Patented tax strategies seek to capture public tax law for private benefit. Their existence frustrates Congressional intent in shaping tax policy.

Since the *State Street* decision opened the patent system to business method patents, the realm of patentable subject matter has become almost limitless. By moving away from the conventional definition of “invention,” the patent system has embraced new fields never before considered as technology or useful arts. Tax strategy patents are just one example of this phenomenon. However, tax planning is not a useful art, it is a profession. Tax strategies are not patentable because they are not inventions under the Patent Act. They do not promote the

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236. See *Idea (And Reality) Of Tax Patent Strategies Creates Uproar*, STATE INCOME TAX MONITOR, Aug. 15, 2006, at 78.

237. Deborah L. Jacobs, *Sorry, that Tax Plan Is Patented*, BUSINESS WEEK ONLINE, July 27, 2006, [http://www.businessweek.com/innovate/content/jul2006/id20060726\\_214792.htm](http://www.businessweek.com/innovate/content/jul2006/id20060726_214792.htm) (last visited Apr. 6, 2007).

238. Blanchard, *supra* note 10.

239. *Comm’r. v. Newman*, 159 F.2d 848, 850-51 (2d Cir. 1947) (Hand, C.J., dissenting).

240. Blanchard, *supra* note 10.

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progress of the useful arts, as required by Article 1, Section 8, and they violate the equal protection and takings clauses of the Fifth Amendment.

Other countries have adopted the industrial application standard in order to delineate patentable subject matter. Given the history of the U.S. patent system and our common law heritage, no additional legislation is required in order to invalidate tax strategy patents as nonstatutory subject matter. The courts and the PTO need only recognize that invention requires a connection of technology with the natural world and accordingly adopt a holistic construction of “invention” as “anything under the sun made by man.” Remedies such as safe harbor legislation would be ad hoc solutions that violate the TRIPS agreement.

Allowing patents on tax strategies leads to rent-seeking behavior and the consequent inefficiencies and redistributions of wealth. It adds another layer of special interests to the tax policy arena and raises serious questions of policy and ethics. Tax strategy patents are harmful to the government, the patent system, tax practitioners, and taxpayers. They are not worth “the embarrassment of an exclusive patent.”<sup>241</sup>

*Craig E. Groeschel*

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241. *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966); see THOMAS JEFFERSON, 6 THE WRITINGS OF THOMAS JEFFERSON 181 (Derby & Jackson 1859).