# 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. In the same period, H&R Block reported net income of $490 million on revenues of $4.9 billion. 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. Of that $2.4 trillion, 43%, or $1.04 trillion, came from personal income taxes.

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. The United States Patent & Trademark Office (“PTO”) granted the patent in 2003, and patent infringement litigation commenced in 2006. The parties settled the case out of court.

In July 2006, the Subcommittee on Select Revenue Measures of the House Ways and Means Committee held a hearing on patenting tax strategies. 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. On October 31, 2006, the New York Times ran a scathing editorial on the subject. The same month, the American Bar Association (“ABA”) Section of Taxation formed a task force to examine patenting tax strategies. The ABA Section of Taxation is currently working with the PTO to assist in educating patent examiners on tax matters.

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.” The useful arts are distinguished from science, which in eighteenth century parlance meant knowledge in general. Today we might speak of the applied sciences or the “technological arts.” The useful arts also are distinguished from the liberal arts and the fine arts.

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.

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).
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.
The arts and sciences are further distinguished from professions.\(^{20}\) 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.\(^{21}\) 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.\(^{22}\) 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.\(^{23}\) 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.\(^{24}\)

Another salient characteristic of professions is that, as in the expressive arts, rewards typically go to the practitioners rather than to the inventors.\(^{25}\) 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.\(^{26}\) 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.”\(^{27}\)

III. PATENT ACT REQUIREMENTS

Congress enacted the current patent statute in 1952\(^{28}\), 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.


\(^{23}\) 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).


\(^{26}\) Landes & Posner, supra note 25, at 307-08.

\(^{27}\) Id. at 308.

or any new and useful improvement thereof, may obtain a patent therefor.” 29 Beyond the requirement of statutory subject matter, the five conditions for patentability are novelty, utility, non-obviousness, enablement, and disclosure. 30 First, the invention must be novel; that is, different from the prior art. 31 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. 32 Third, the invention must not have been obvious to someone “having ordinary skill in the art” at the time of invention. 33 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. 34 Finally, the patent application becomes a matter of public record when the patent is granted, or sooner if the applicant requests. 35

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

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).
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)).
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.).
“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.”41 The patent holder must be careful not to make any “misleading or deceptive” claims in any advertising regarding the patented strategy.42

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.”43 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=mc²; nor could Newton have patented the law of gravity. Such discoveries are “manifestations of . . . nature, free to all men and reserved exclusively to none.”44

These laws, phenomena, and ideas are not patentable because they have always existed.45 They are the raw materials which inventors harness in their inventions.46 Allowing a patent on a scientific principle or law of nature “would impede rather than ‘promote the Progress of Science and useful Arts.’”47 The concern with patenting a mathematical algorithm in Gottschalk
v. Benson was that an entire field of knowledge could be preempted. 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.

PTO guidelines state that unpatentable subject matter “is limited to abstract ideas, laws of nature and natural phenomena.” 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.” 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.

This view has been reiterated in cases down to Diamond v. Diehr. 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

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

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

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.59 In 2000, the Japan Patent Office (“JPO”) issued guidelines (“JPO Guidelines”) on the “industrially applicable” requirement.60 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.61 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.62 The JPO Guidelines contain an example in which a nonstatutory claim for a mathematical function (“[a] method for

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55. See Thomas, supra note 16, at 1178.
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.
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”). 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.

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. 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.

Further, in Japan, “[a]n invention concerning marketable or tradable subject matter is considered commercially applicable,” and thus industrially applicable. But “an invention applied only for personal use, such as a method of smoking” is not commercially applicable. 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. The European Patent Convention contains the industrial application standard in its definition of patentable inventions. Among the things not

63. Id. § 1.1(4), ex. 6.
64. See Thomas, supra note 16, at 1181.
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).
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.”71 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.72 The EPO has held application software for process
control and CAD/CAM,73 as well as operating system software,
patentable.74 Programs for functions such as text processing or
music instruction have been rejected as “lacking a technical
effect.”75 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.”76

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

Business methods may be amenable to reasoned
analysis and intended to make business practices
more efficient, but they are not transformative in
color. 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.78

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.79 As a result, given the opinion of the Federal Circuit in
State Street Bank & Trust Co. v. Signature Financial Group,80
it likely would take legislation or a Supreme Court decision to get

71. Id.
72. See Thomas, supra note 16, at 1179.
73. See European Patent Office, supra note 70 at Part C, Ch. IV, § 2.2.6.
CAD (last visited May 7, 2008); CAM – Definition from Merriam-Webster Online
75. See Thomas, supra note 16, at 1181.
76. Id.
77. See supra text accompanying notes 51-52.
78. 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. \(^81\) 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.” \(^82\) 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. \(^83\) The origins of the U.S. patent system trace at least as far back as the Statute of Monopolies. \(^84\) 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. \(^85\) 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.” \(^86\) 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.” \(^87\)

Many business method patents use the laws of economics to either generate revenue or reduce costs. \(^88\) Under recent U.S. law, business methods have been held patentable because they have “practical consequences” or “practical usefulness.” \(^89\) 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. \(^90\)

\(^81\) 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.
The first case to recognize business method patents was *State Street Bank & Trust Co. v. Signature Financial Group*. 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. Signature called it a “Hub and Spoke” system, with individual funds (spokes) contributing to a common portfolio (hub). 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. 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. 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.”

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. This case involved the application of the two-part *Freeman-Walter-Abele* test. 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.
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.
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.99

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.”100

Another example of the “transformation” standard is In re Alappat.101 That case involved the use of computer hardware for information processing.102 The hardware was a digital oscilloscope.103 The only new component was Alappat’s anti-aliasing (smoothing) subsystem.104 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.105 In other words, it transformed “one set of numbers into another set of numbers.”106 Alappat’s invention was “no more than the algorithm itself”107 and should have failed the second part of the Freeman-Walter-Abele test.108 Whether the Federal Circuit was swayed because the invention was implemented in hardware109 or for some other reason cannot be said. Rejecting the Freeman-Walter-Abele test,110 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
patentable because the system was “a specific machine to produce a useful, concrete, and tangible result.”\textsuperscript{111}

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

In \textit{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.”\textsuperscript{115} 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].”\textsuperscript{116} 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.”\textsuperscript{117}

Ironically, while the \textit{State Street} case is generally recognized as allowing business method patents, there were no method claims in the patent.\textsuperscript{118} 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.\textsuperscript{119} The six remaining claims were “machine” or “means plus function” claims.\textsuperscript{120} John Thomas speculated that “[g]iven the absence of method claims in the patent at suit . . . this portion of the \textit{State Street} opinion may amount to nothing more than dicta.”\textsuperscript{121}

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] computer program creates a new machine means that the second prong of the test will always be met).
processes manipulating physical items in accordance with information processing results” are clearly patentable.\textsuperscript{122} Inventions that are not clearly patentable or unpatentable fall into the category of “pure information processing advances.”\textsuperscript{123} 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.\textsuperscript{124} “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 . . . .”\textsuperscript{125} As more ideas are protected, the transaction costs associated with creating new works increase.\textsuperscript{126} 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.\textsuperscript{127} 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\textsuperscript{128} would be patentable today. Under U.S. law, the model itself would not be patentable because it is mathematical.\textsuperscript{129} However, if it were used in a business method, it likely would be patentable.\textsuperscript{130} By contrast, in Japan, the Black-Scholes model would be rejected as not employing a law of

\begin{footnotesize}
\begin{enumerate}
\item[122.] Gruner, supra note 95, at slide 20.
\item[123.] Id. at slides 19-20.
\item[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.
\item[125.] Id. at 305-06 (footnote omitted).
\item[126.] Id. at 306.
\item[127.] Id.
\item[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.
\item[129.] See id.
\item[130.] Id.
\end{enumerate}
\end{footnotesize}
nature. 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. 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. 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. 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. 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. 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. 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.
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.\textsuperscript{138} 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.\textsuperscript{139}

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.\textsuperscript{140}

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.\textsuperscript{141} The same rights accrue to the “inventor” of a tax

\textsuperscript{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).

\textsuperscript{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.

\textsuperscript{140} LANDES & POSNER, supra note 25, at 300; see also Eisenberg, supra note 135, at 1025.

\textsuperscript{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
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.142

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.143 Ideally, patents allow inventors to charge a price that matches the value users receive from the inventions.144 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.”145

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.146 While this argument is open to question, and counterexamples can be given,147 the grant of exclusive rights which survive disclosure would tend to make disclosure feasible.148 Disclosure allows
other inventors to “invent around” the patented invention, that is, to duplicate the technology without infringing on the claims. 149 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. 150 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. 151 This argument ultimately rests on that “last resort of constitutional arguments,” 152 the equal protection clause. 153 Indeed, almost any law discriminates against someone, 154 but patented tax strategies zone off portions of the Internal Revenue Code, which is in the public domain. 155 “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.” 156 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. 157

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.”).
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.”).
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. In shaping tax policy, Congress makes political decisions. 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. The question becomes whether the benefits conferred by a tax strategy patent justify the resultant social costs and inefficient redistribution of resources. 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.

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 which protects a doctor who performs a patented medical procedure on a patient from being sued for patent infringement. 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. Without a claim for relief, the patent is essentially unenforceable. The statute “expressly does not cover products, compositions of matter, and

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.
164. See J. COMM. ON TAXATION, supra note 157, at 15.
165. See id. at 16.
166. Thomas, supra note 16, at 1177.
biotechnologies.”\textsuperscript{167} 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.\textsuperscript{168} “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.”\textsuperscript{169}

Yet many of the same legal and ethical arguments that cover the doctor/patient relationship apply to tax practitioners and taxpayers.\textsuperscript{170} 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.”\textsuperscript{171} 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 . . . .”\textsuperscript{172} The TRIPS Agreement expressly allows medical treatment to be excluded from patentable subject matter,\textsuperscript{173} but once patented, patent holders must enjoy the same rights as other patentees.\textsuperscript{174}

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.\textsuperscript{175} 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.\textsuperscript{176} This assumption ignores the reality that

\textsuperscript{167} J. COMM. ON TAXATION, supra note 157, at 16.
\textsuperscript{168} Thomas, supra note 16, at 1177.
\textsuperscript{169} Id.
\textsuperscript{171} Id. at 2.
\textsuperscript{172} TRIPS Agreement; supra note 69, at Part II, § 5, art. 27, ¶ 1; see Thomas, supra note 16, at 1177.
\textsuperscript{173} TRIPS Agreement, supra note 69, at Part II, § 5, art. 27, ¶ 2.
\textsuperscript{174} Thomas, supra note 16, at 1177.
\textsuperscript{175} Dirksen, supra note 170, at 4.
\textsuperscript{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
patent rights are often licensed or sold to third parties, referred to as "patent trolls," who then profit from enforcing intellectual property rights. 177

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.178 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."179 Both a bill that would grant safe harbor180 and a bill that would prohibit tax strategy patents181 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.182 Two examples of such laws are the Federal Trade Commission Act183 and the Sherman Act.184 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."185 The fact that a patentee owns a patent does not demonstrate market power.186 Since the patent

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


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").
185. Id. at 654; see also Sherman Anti-Trust Act § 2.
conveys a statutory right to exclude, many actions that might otherwise be considered anticompetitive are part of “typical patent owner behavior.” To prevail in a patent infringement suit on an antitrust counterclaim a defendant must show either that the patent was fraudulently obtained or that the infringement litigation is a “sham,” in that the lawsuit is “objectively baseless” and is in reality an “anticompetitive weapon” designed to “interfere directly with the business relationships of a competitor.”

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.” 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. The doctrine only comes into play when the patentee has the power to eliminate competition. 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. 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

188. Id.
189. Id. at 655 & n.166.
191. Id. at 61 (quoting City of Columbia v. Omni Outdoor Adver., Inc., 499 U.S. 365, 366 (1991)).
193. See Mueller, supra note 182, at 655-56 (discussing the essential facilities doctrine).
194. Id. at 656 & n.174.
196. See Mueller, supra note 182, at 656-57.
patents. The Tax Code is a de jure standard promulgated by Congress, and for many individuals and corporations in the United States and abroad it is a “mandatory de jure standard.” 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. 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.

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. 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. 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. The initiation of eminent domain proceedings against a patent holder is an extreme step and probably not justified except in
cases where the patented tax strategy is the only means of complying with federal law.\(^{204}\)

**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.\(^{205}\) Fraud-based remedies, such as equitable estoppel and implied license, depend on the plaintiff’s showing a failure to disclose and detrimental reliance.\(^{206}\) 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.\(^{207}\) 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.\(^{208}\)

Finally, the patent misuse doctrine is a common law theory based in equity and developed before most U.S. antitrust law.\(^{209}\) 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.\(^{210}\) Patent misuse is an affirmative defense to a claim of patent infringement.\(^{211}\)

**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).


\(^{207}\) See Mueller, *supra* note 182, at 659.

\(^{208}\) See *id.*

\(^{209}\) *Id.* at 671 & n.249.


advice constitutes infringement, taking legal action against the practitioner would jeopardize the practitioner-client privilege and raise free speech issues.\textsuperscript{212}

Many tax strategies are structured as business transactions in which the taxpayer purchases financial products or enters into contractual relationships.\textsuperscript{213} A taxpayer’s purchase of goods on the open market should not constitute patent infringement.\textsuperscript{214}

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.\textsuperscript{215} However, tax returns are confidential.\textsuperscript{216} The president of the New York State Bar Association Tax Section wrote:

\begin{quote}
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.\textsuperscript{217}
\end{quote}

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.\textsuperscript{218}

A. \textit{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.\textsuperscript{219} Because the substance of a tax patent is disclosed in the application, it is no

\begin{footnotes}
\item[212] See Blanchard, \textit{supra} note 10; see also U.S. CONST. amend. I.
\item[213] Examples include funding an annuity, or entering into a partnership. See William A. Drennan, \textit{The Patented Loophole: How Should Congress Respond to this Judicial Invention?}, 59 FLA. L. REV. 229 (2007).
\item[214] See Blanchard, \textit{supra} note 10.
\item[215] \textit{Id.}
\item[216] I.R.C. § 6103(a) (2000); see also Blanchard, \textit{supra} note 10 (discussing the lack of tax strategy disclosure due to tax return confidentiality).
\item[217] Blanchard, \textit{supra} note 10.
\item[218] See \textit{id.}
\end{footnotes}
longer confidential. To circumvent the problem, the IRS could add the use of patented tax strategies to its list of reportable confidential transactions.

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. This argument for patentability is most compelling when applied to physical objects that lend themselves to mass production. 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. 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.”

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

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

220. Id.
221. Id.
223. See Gruner, supra note 95, at slide 4.
224. See supra text accompanying notes 137-42.
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
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—230—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.231

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.232 Tax strategy patents impose “a prior restraint upon the free flow of legal advice.”233

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.234

C. Impact on Taxpayers

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

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.”).
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. 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.

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. 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.”

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.”

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

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.”

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