Intellectual Property's Newest Invention, the Tax Patent: Has Patent Protection Extended Beyond Its Constitutional Limits?

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I. INTRODUCTION

The United States Constitution gives Congress the power to enact patent laws.[1] This clause allows Congress "[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."[2] Patents are generally thought to fall under the "useful Arts" category of the Constitution's article.[3] Congress grants this protection through the United States Patent Act.[4] The Act grants inventors exclusive rights to their inventions for a period of twenty years from the date the patent application is filed with the United States Patent and Trademark Office (USPTO).[5] By allowing an inventor a limited-

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1. U.S. CONST. art. I, § 8, cl. 8.

2. *Id.*

3. ALAN L. DURHAM, PATENT LAW ESSENTIALS 1 n.1 (2d ed. 2004) ("When the Constitution was drafted . . . the term *useful arts* probably referred to what we would now call *technology*.").

4. United States Patent Act, 35 U.S.C. §§ 1-376 (2000).

5. *Id.* § 154.

period monopoly over an invention, the USPTO provides the inventor with an opportunity to profit from the invention.[6] This illustrates the general purpose of patent law, which is to provide an incentive to create new and useful items through research and labor by allowing inventors the opportunity to profit from the costly research necessary to create their invention.[7] After the term of a patent expires, the invention and how to make and use it becomes part of the public domain.[8] Thereafter, many companies can produce the same product, market competition will lower prices, and more members of the general public will have access to the new and useful product.[9]

The Patent Act provides for three types of patents: utility, plant, and design patents.[10] The most common patents are utility patents, which are granted to the inventor of a new and useful product or process.[11] To qualify for a utility patent, an invention must first fit into one of the statutory categories of patentable subject matter.[12] Section 101 of the Patent Act provides that patents may be obtained for four categories of subject matter: "process, machine, manufacture, or composition of matter."[13] These categories are very broad and rarely create an obstacle to patent protection.[14] Subject matter that has typically been considered questionable for patent protection includes mathematical algorithms, business methods, living organisms, and abstract ideas.[15]

In addition, a patentable invention must be useful,[16] novel,[17] and nonobvious.[18] To be useful, an invention only needs to have an identifiable benefit.[19] The invention is novel if it has not been previously known to others or in public use.[20] Novelty is determined by reviewing "prior art," which includes previous inventions, patented or not, which are similar to the invention described in the patent application.[21] To be

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6. Craig J. Madson, *Patents*, *in* THE INTELLECTUAL PROPERTY HANDBOOK 229, 230 (William A. Finkelstein & James R. Sims III eds., 2005).
7. DURHAM, *supra* note 3, at 2.
8. *Id.*
9. *See id.*
10. 35 U.S.C. §§ 101, 161, 171.
11. *See* Madson, *supra* note 6, at 234-35.
12. 35 U.S.C. § 101.
13. *Id.*
14. DURHAM, *supra* note 3, at 23.
15. *Id.*
16. 35 U.S.C. § 101.
17. *Id.* § 102.
18. *Id.* § 103.
19. *See* Juicy Whip, Inc. v. Orange Bang, Inc., 185 F.3d 1364, 1366 (Fed. Cir. 1999).
20. Minn. Mining & Mfg. Co. v. Chemque, Inc., 303 F.3d 1294, 1301 (Fed. Cir. 2002).
21. DURHAM, *supra* note 3, at 90.

considered nonobvious, the invention is compared to prior art again, this time to determine if the differences between the prior art and the current invention are truly inventive, or if those differences would have occurred to anyone with knowledge or skill in the same field as the inventor.[22]

One of the more recent developments in patentability is the business method patent.[23] The USPTO traditionally rejected all business method patent claims because business methods did not fall within one of the categories of patentable subject matter.[24] However, the United States Court of Appeals for the Federal Circuit changed that with the landmark decision in *State Street Bank & Trust Co. v. Signature Financial Group*.[25] The opinion stated that new and useful business methods were eligible for patent protection in the same manner as other processes and methods.[26]

Despite *State Street Bank*'s prescription of equal treatment for all process and method patents, changes in the way business method patents were treated in comparison to other types of patents were inevitable due to the nature of business methods. In 1999, Congress passed The American Inventors Protection Act, which included the First Inventor Defense Act.[27] The Act required that a defense to business method patent infringement be codified in the Patent Act.[28] The defense applies only to business method patent infringers who reduced the patented method to practice and used the method commercially in the United States at least one year prior to the filing of the patent.[29] The purpose of the Act was to protect individuals who used the business methods without seeking a patent because they believed business methods were not patentable.[30]

The treatment of business method patents was further differentiated from that of other process patents with the USPTO's "Business Methods

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22. 35 U.S.C. § 103; *see also* Graham v. John Deere Co. of Kan. City, 383 U.S. 1, 17 (1966) (providing for a three-part test for nonobviousness which reviews the scope of the prior art, how the prior art differed from the claimed invention, and the level of skill required by the art).

23. Madson, *supra* note 6, at 239 (citing State St. Bank & Trust Co. v. Signature Fin. Group, 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999)).

24. *See* Madson, *supra* note 6, at 239.

25. 149 F.3d 1368.

26. *Id.* at 1375.

27. American Inventors Protection Act of 1999, Pub. L. No. 106-113, app. A, 113 Stat. 1501, 552, 555 (current version at 35 U.S.C. § 273).

28. *Id.*; 35 U.S.C. § 273.

29. 35 U.S.C. § 273(b).

30. *See* STAFF OF JOINT COMM. ON TAXATION, 109TH CONG., BACKGROUND AND ISSUES RELATING TO THE PATENTING OF TAX ADVICE 15 (Comm. Print 2006), *available at* http://www.house.gov/jct/x-31-06.pdf [hereinafter JCT REPORT].

Patent Initiative."[31] The initiative required broader searches into the prior art to determine if the invention is truly "new" to satisfy the Patent Act requirements.[32] Further, the initiative required more specialized training for business method patent examiners and an automatic second review of all business method patents that have been approved on first review.[33]

While the USPTO's Business Methods Patent Initiative obstructed a business method inventor's path to patent protection for some business methods, it still left the door open for protection of many other types of business method patents. For example, patents have been issued for billing systems, hospital and health center patient records, insurance, reservations and check-in for hotels and airlines, staff scheduling, security and user identification programs, and tax processing and planning.[34] Controversy associated with this last group of patents, tax patents, was recently addressed in a congressional hearing, though Congress has not yet enacted any law to limit the applicability of patent protection for tax strategies and plans.[35] This Comment takes the position that while some of these business method patents, such as security programs and registration and check-in programs, are appropriate candidates for patent protection, others, such as tax patents, push the boundaries of patentable subject matter too far.

This Comment will address the business method patent as it specifically relates to tax planning devices. In this introduction, general information on patents is given. Next, I will discuss the dissolution of the business method exception to patentability. Then, I will talk briefly about the expansion of the business method patent to cover a broader range of business strategies including tax planning strategies. That will be followed by a discussion of the law and policy behind the United States federal tax system and tax planning, and how those laws relate to patentability issues. Finally, I will argue that the expansion of patent

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31. *See* Wynn Coggins, *The Evolution of the Business Method Patent and Update on the Business Method Action Plan*, USPTO TODAY: MAG. U.S. PAT. & TRADEMARK OFF., Dec. 2000, at 8, *available at* http://www.uspto.gov/web/offices/ac/ahrpa/opa/ptotoday/ptotoday12.pdf; USPTO Business Methods Patent Initiative: An Action Plan, *available at* http://www.uspto.gov/web/offices/com/sol/actionplan.html (last visited Aug. 31, 2007) [hereinafter USPTO ACTION PLAN].

32. 35 U.S.C. § 102 (stating that to qualify for patent protection an invention must be "novel," meaning it is not already available to the public); USPTO ACTION PLAN, *supra* note 31; Coggins, *supra* note 31, at 9.

33. USPTO ACTION PLAN, *supra* note 31; Coggins, *supra* note 31, at 9-10.

34. U.S. Patent & Trademark Office Class 705 Definition (June 30, 2000), http://www.uspto.gov/web/offices/ac/ido/oeip/taf/def/705.htm [hereinafter CLASS 705 DEFINITION].

35. *Issues Relating to the Patenting of Tax Advice: Hearing Before the Subcomm. on Select Revenue Measures of the H. Comm. on Ways and Means*, 109th Cong. (2006) [hereinafter *Hearing*]; *see also* JCT REPORT, *supra* note 30.

protection to cover methods such as tax strategies stretches the concept of patentability too far, and undermines the purposes behind patent and tax laws.

II. THE BUSINESS METHOD PATENT

A. *The* State Street Bank *Decision*

Until 1998, methods of doing business were generally excluded from patent protection.[36] Then, the Federal Circuit handed down the landmark decision that rejected the "business method exception" to patentable subject matter.[37] The patented invention in *State Street Bank* was a computerized system of accounting developed by the defendant, Signature Financial Group (Signature), which allowed the user to organize mutual funds under the ownership of a partnership.[38] This accounting method resulted in a decrease in the average cost of each unit proportional to the increase in the number of units produced and provided the business with the tax advantages of partnership organization.[39] State Street Bank attempted to license Signature's patented system.[40] However, when the two parties were unable to reach a licensing agreement, State Street Bank brought a declaratory judgment action in federal district court claiming that Signature's patent was invalid and unenforceable due to a lack of patentable subject matter.[41] The district court agreed with State Street Bank and granted State Street Bank's motion for summary judgment.[42] On Signature's appeal, the Federal Circuit reversed, holding that the manipulation of data in Signature's system did not represent an unpatentable algorithm because it involved the manipulation of money, which led to a "useful, concrete,

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36. DURHAM, *supra* note 3, at 28-29.

37. State St. Bank & Trust Co. v. Signature Fin. Group, 149 F.3d 1368, 1375 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

38. *Id.* at 1370.

39. *Id.* ("This investment configuration provides the administrator of a mutual fund with the advantageous combination of economies of scale in administering investments coupled with the tax advantages of a partnership."); *see also* Wikipedia, *Economies of Scale*, http://en.wikipedia.org/wiki/Economies_of_scale (as of Sept. 25, 2007, 15:03 GMT) ("Economies of scale characterizes [sic] a production process in which an increase in the [number of units produced] causes a decrease in the . . . average cost of each unit."); I.R.C. § 701 (West 2002) (providing taxation rules for partnerships). Partnerships are not considered taxable entities for federal income tax purposes, thus the income from a partnership is attributed pro rata to the contributing partners so the effective tax rate is based on the partners' individual income rather than the total income of the partnership as a whole. I.R.C. § 701 & nn.1-65 (West 2002).

40. *State St. Bank*, 149 F.3d at 1370.

41. *Id.*

42. *Id.*

and tangible result."[43] The court also expressly repudiated the business method exception calling it an "ill-conceived exception" which the court "put to rest."[44]

While the *State Street Bank* decision enlarged the range of subject matter for which patent protection is available, the basic requirements for a patent, usefulness, novelty, and nonobviousness still apply, even for a business method patent.[45] The Federal Circuit remanded those issues regarding the Signature patent to the district court.[46] Thus, the Federal Circuit ruled only that the subject matter of the patent was valid, not that the patent itself met all of the statutory requirements.[47]

Other than business methods, the other exceptions to patentable subject matter still apply. The USPTO currently states in its interim guidelines for business method patents that the only recognized exceptions to patentable subject matter under 35 U.S.C. § 101 are "laws of nature, natural phenomena, and abstract ideas."[48] Because business method patents are required to comply with the same requirements as any other patent, every application must be analyzed according to §§ 101 through 103 of the Patent Act, which describe patentable subject matter and other requirements for patentability.[49] First, the patent must claim a useful invention that has not been previously used in any of the prior art.[50] Then an examiner determines (1) if the invention falls within one of the statutory categories: new or improved process, machine, manufacture, or composition of matter, or (2) if it falls within one of the judicial exceptions: laws of nature, natural phenomena, or abstract ideas, or (3) if the invention has a practical application, or (4) if the invention preempts a judicial exception to patentability.[51] As long as the examiner can answer in the affirmative to questions (1) and (3) above (meaning the invention is part of the statutory subject matter and is useful), and in the

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43. *Id.* at 1375 (quoting *In re* Alappat, 33 F.3d 1526, 1544 (Fed. Cir. 1994)). Mathematical algorithms cannot be patented because they are considered "principles of nature" which are discovered, not invented. *See* Diamond v. Diehr, 450 U.S. 175, 185 (1981); *see also* DURHAM, *supra* note 3, at 202 (describing those things not generally accepted as patentable subject matter).

44. *State St. Bank*, 149 F.3d at 1375.

45. *Id.* at 1377.

46. *Id.*

47. *Id.*

48. USPTO Interim Guidelines for Subject Matter Eligibility, *available at* http://www.uspto.gov/web/offices/pac/compexam/interim_guide_subj_matter_eligibility.html (last visited Aug. 31, 2007) [hereinafter Guidelines].

49. 35 U.S.C. §§ 101-103 (2000); *see supra* Part I.

50. Guidelines, *supra* note 48; *see also* cases and sources cited *supra* notes 20-22 and accompanying text (defining prior art).

51. Guidelines, *supra* note 48.

negative to questions (2) and (4) above (meaning it does not fall within one of the exceptions to patentable subject matter), the invention qualifies for patent protection under the current Patent Act.[52]

B. Follow-Up to the State Street Bank *Decision*

Just after the *State Street Bank* decision, another patent holder, AT & T, appealed the decision of the United States District Court for the District of Delaware, which granted summary judgment in favor of the defendant-competitor in AT & T's infringement suit.[53] AT & T's patent protected a novel, three-step method of recording calls and messages involving multiple long-distance carriers on an easily transferable data system allowing for ease in processing and billing.[54] The patent was granted in 1994 with no indication that the subject matter was possibly ineligible for patent protection.[55] The defendant, Excel, moved for summary judgment on the grounds that the patent claimed mathematical algorithms, which are not patentable, and the district court agreed.[56] However, on appeal, the Federal Circuit reiterated its decision in *State Street Bank*.[57] The court held that while any process might necessarily involve some type of algorithm, "process" is still included in § 101 of the Patent Act as statutory subject matter.[58] Thus, mathematical algorithms are only excluded from patent protection to the extent they are shown to be "merely abstract ideas."[59] As long as the algorithm is used in a way that produces a "useful, concrete and tangible result" it satisfies the requirements of § 101.[60] Thus, the court held that the patent was valid for the purposes of subject matter, but remanded to determine validity on the other requirements set forth in the Patent Act, including novelty, nonobviousness, and specification.[61]

The *State Street Bank* decision did not state that business methods had to use an automated means of carrying out the method in order to be considered a technological advancement.[62] However, courts generally require that the method be attached to some form of technology (which

52. *Id.*
53. AT & T Corp. v. Excel Commc'ns, Inc., 172 F.3d 1352, 1353 (Fed. Cir. 1999).
54. *Id.* at 1353-54.
55. *Id.* at 1354.
56. *Id.* at 1355.
57. *Id.* at 1356.
58. *Id.* at 1356-57.
59. *Id.* at 1357 (quoting State St. Bank & Trust Co. v. Signature Fin. Group, 149 F.3d 1368, 1375 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999)).
60. *Id.* (quoting *In re* Alappat, 33 F.3d 1526,1544 (Fed. Cir. 1994)).
61. *Id.* at 1361.
62. *State St. Bank*, 149 F.3d 1368.

in this age, is almost always the case) in order to fit within the Constitutional provision of "useful arts."[63] This judicial conformity was likely due to the pre-*State Street Bank* decision *Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, in which a district court held that where claims for a business method are drafted in terms of a computerized system, the invention qualified as a "technological art."[64] However, the USPTO abandoned the technology requirement in its decision in *Ex parte Lundgren*.[65] The patent in question in that case described a method of compensation for a manager that did not include any reference to a computer or automated system.[66] The patent was deemed valid because it produced a "useful, concrete and tangible result" and was not claiming a "principle of nature."[67] The USPTO Board of Patent Appeals and Interferences declined to create a "technological arts" test though it had been urged to do so by the examiner handling Lundgren's patent application.[68] The board did not reach a unanimous decision in *Lundgren*, however, the decision was still precedential.[69] Thus, the business method patent expanded further to include even those business method patents that do not require the use of technology to produce the intended result of the method.[70]

Since *State Street Bank* first announced the termination of the long-standing business method exception to patentability, the notion of the business method patent has been stretched to cover an almost infinite number of processes that do not require the use of any "useful art" as initially intended in the Constitution.[71] Most business method patents are found in class 705, which currently has five hundred subclasses including healthcare management systems, resource allocation methods, inventory methods, and credit and risk processing systems.[72] While not

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63. DURHAM, *supra* note 3, at 28-29; *see, e.g.*, *Ex parte* Lundgren, 76 U.S.P.Q.2d (BNA) 1385, 1388 (B.P.A.I. 2005) (Smith, J., dissenting); *Ex parte* Bowman, 61 U.S.P.Q.2d (BNA) 1669, 1671 (B.P.A.I. 2001) (nonprecedential decision); *see also* U.S. Patent & Trademark Office, PTO Business Method Patents: Formulating and Communicating 103 Rejections, http://www.uspto.gov/web/menu/busmethp/busmeth103rej.htm (last visited Aug. 31, 2007) (referring to the inventions in the business method class as "Computer-Implemented Business Method Inventions").

64. 564 F. Supp. 1358, 1369 (D. Del. 1983).

65. 76 U.S.P.Q.2d at 1388.

66. *Id.* at 1385.

67. *Id.* at 1386.

68. *Id.* at 1387-88.

69. *Id.* at 1388-90 (Smith, J., dissenting; Barrett, J., concurring in part and dissenting in part).

70. *Id.* at 1385-88.

71. U.S. CONST. art. I, § 8, cl. 8; *see also* CLASS 705 DEFINITION, *supra* note 34.

72. CLASS 705 DEFINITION, *supra* note 34.

all business method patents are found in class 705, the tax patent is.[73] Tax patents fall in subclass 36T, which includes portfolio selection, planning, and analysis.[74] In this subclass, the USPTO has issued forty-eight patents for tax strategies, leaving some tax attorneys wondering if they must check with the USPTO before dispensing tax advice to clients.[75]

Tax patents, like other business method patents, often include a computer-based method.[76] For example, one patent claimed a computer system for insurance policies where the premium costs are split between the employer and the employee.[77] The computer method stored all of the different factors for determining the best payment method while ensuring the method complied with tax regulations.[78]

Other tax patents do not rely on a computer or other apparatus, which are described as "structure-based" tax patents.[79] An example of this type of patent is one that structures a grantor retained annuity trust (GRAT), which is an estate planning tool that allows the settlor of the trust to retain an income interest in property removed from his estate for tax purposes.[80] The structure of a qualified GRAT is provided for in the Internal Revenue Code.[81] The patented "invention" is in how the GRAT is funded.[82]

Both of these examples offer patented methods of complying with the federal tax laws. The second example, the structure-based patent, was the subject of an infringement action in January 2006.[83] It seems that with the advent of the tax patent, individuals could be subject to patent infringement lawsuits for their efforts to comply with federal tax law.

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73. Wynn W. Coggins, Prior Art in the Field of Business Method Patents—When Is an Electronic Document a Printed Publication for Prior Art Purposes?, presented at AIPLA (Fall 2002), http://www.uspto.gov/web/menu/pbmethod/aiplafall02paper.htm; *see also* CLASS 705 DEFINITIONS, *supra* note 34.

74. *Hearing*, *supra* note 35, at 37 (statement of Ellen Aprill, Associate Dean, Loyola Law School, Los Angeles); CLASS 705 DEFINITIONS, *supra* note 34.

75. *See Hearing*, *supra* note 35, at 37-38. For examples of tax strategy patents, see JCT REPORT, *supra* note 30, at 19-20, 26-27 (discussing U.S. Patent No. 5,966,693 (filed Oct. 12, 1999) and U.S. Patent No. 6,567,790 (filed May 20, 2003)).

76. JCT REPORT, *supra* note 30, at 19.

77. '693 Patent.

78. *Id.*

79. JCT REPORT, *supra* note 30, at 19.

80. '790 Patent.

81. I.R.C. § 2702 (West 2002).

82. '790 Patent (claiming the invention of funding a GRAT with nonqualified stock options).

83. Paul Devinsky et al., *Whose Tax Law Is It?*, LEGAL TIMES IP MAG., Oct. 16, 2006, at 13-14.

III. TAX POLICIES

Congress is afforded the power to tax citizens under the Constitution, which also grants Congress the power to issue patents.[84] This power was expanded by the Sixteenth Amendment, which allows Congress to tax the income of individuals.[85]

There are a few basic policies behind almost all federal tax laws. First, tax liabilities should be uniformly apportioned among the population.[86] Second, individuals are taxed based on their ability to pay.[87] Third, all citizens, regardless of religious or political beliefs or state of residence, have an obligation to pay federal taxes.[88]

These policies are intended to protect the public. However, the underlying purpose of federal taxation is to generate revenue for the federal government.[89] In order to ensure the federal government has enough revenue to sustain itself, the Internal Revenue Service analyzes the tax gap.[90] The "tax gap" is the difference "between what tax payers pay accurately and on time in taxes and what they should pay under the law."[91] In 2001, the federal net tax gap was estimated between $257-298 billion.[92] However, about $55 billion of that was either from late payments or payments that had to be enforced, both of which cost the government money to obtain.[93] Because the United States has a system of voluntary compliance for reporting tax liabilities, underreported income for income tax liability is the largest source of the tax gap.[94]

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84. U.S. CONST. art. I, § 8, cl. 1.

85. *Id.* amend. XVI.

86. *See id.* art. I, § 8, cl. 1; *see also* Brushaber v. Union Pac. R.R., 240 U.S. 1, 12 (1916) (holding that geographic uniformity is met by individual taxes because taxpayers with the same characteristics are subject to the same tax liability no matter where they live). *See generally* BORIS I. BITTKER & LAWRENCE LOKKEN, FEDERAL TAXATION OF INCOME, ESTATES AND GIFTS ¶ 1.2 (3d ed. 1999) (overview of geographical uniformity principle).

87. I.R.C. §§ 1, 2001, 2502 (West 2002 & Supp.) (providing progressive rate schedules for income, estate, and gift taxes); *see, e.g.*, Eisner v. Macomber, 252 U.S. 189 (1920) (holding that income should not be taxed until it is realized, because otherwise, a taxpayer would be forced to sell an asset in order to afford the tax liability created by possession of the asset). *See generally* BITTKER & LOKKEN, *supra* note 86, ¶ 3.5.3 (describing the U.S. progressive tax schedule).

88. *See* BITTKER & LOKKEN, *supra* note 86, ¶¶ 1.1-1.2.

89. *Hearing*, *supra* note 35, at 36-41.

90. *See* GOV'T ACCOUNTABILITY OFFICE, PUBL'N NO. GAO-06-208T, TAX GAP: MULTIPLE STRATEGIES, BETTER COMPLIANCE DATA, AND LONGER TERM GOALS ARE NEEDED TO IMPROVE TAXPAYER COMPLIANCE (2005) [hereinafter TAX GAP] (excerpts of congressional testimony of Michael Brostek, Director of Strategic Issues, GAO).

91. *Id.* at 1.

92. *Id.*

93. *Id.*

94. *Id.* at 8.

These figures represent a clear government need to promote compliance with the tax laws.

IV. ARGUMENT

A. Patenting of Tax Advice Runs Contrary to the Policies and Purpose Behind the Patent Act

As noted above, the fundamental requirements for patent protection of an invention include novelty, usefulness, and that the invention not be obvious to other professionals in the field.[95] Some tax strategy patents seem to fall short of these requirements.[96]

First, the novelty is judged by examining the "prior art" in the field of the invention claimed.[97] Prior art, including past patents, past publications, and past uses or knowledge by other people, is found in the public domain for most inventions, because the patent system encourages the dissemination of ideas.[98] However, the nature of the tax system is quite different from the nature of the patent system.[99] Individual tax returns are confidential, so no tax strategy is disclosed through returns.[100] Further, most taxpayers who use the type of complex tax strategies that could be patented, do so with the advice of an attorney.[101] Thus, attorney-client privilege makes any record of the strategy or reasons for using it confidential as well.[102] These characteristics unique to tax plans make the review of prior art very difficult for the patent agent reviewing the application to determine if the tax method is novel to satisfy § 102 of the Patent Act.[103]

Second, for an invention to be considered useful, it must be "capable of providing some identifiable benefit."[104] The benefit provided by tax strategies depends on the method creator's interpretation of tax law.[105] However, just because a patent is issued does not mean the

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95. *See* sources cited *supra* notes 16-18, 21 and accompanying text; Juicy Whip, Inc. v. Orange Bang, Inc., 185 F.3d 1364, 1366 (Fed. Cir. 1999); Minn. Mining & Mfg. Co. v. Chemque, Inc., 303 F.3d 1294, 1301 (Fed. Cir. 2002).

96. *See Hearing*, *supra* note 35, at 37-39.

97. *See* cases and sources cited *supra* notes 20-22, 50 and accompanying text (discussing prior art in patent review); *see Minn. Mining & Mfg. Co.*, 303 F.3d at 1301.

98. *Hearing*, *supra* note 35, at 38; *see also* DURHAM, *supra* note 3, at 90 (discussing categories and sources of prior art).

99. *Hearing*, *supra* note 35, at 41.

100. *Id.* at 21, 40.

101. *See id.* at 15, 38.

102. *See id.* at 15, 38-39.

103. 35 U.S.C. § 102 (2000); *see also Hearing*, *supra* note 35, at 15.

104. *Hearing*, *supra* note 35, at 39 (quoting Justice Story).

105. *Id.*

statutory interpretation it represents is appropriate from the point of view of the Internal Revenue Service (IRS).[106] Tax law is an expansive field of law, as is patent law.[107] It would be unreasonable to expect USPTO reviewing agents, already well versed in the field of patent law, to also become experts in the field of tax.[108] Thus, a tax strategy patent is not guaranteed to be based on a legal interpretation of the tax law, so it will not necessarily bring about the intended result, which is the part of the method that is actually patented.[109] Because a tax patent does not reliably achieve its intended result, it is not useful for the purposes of satisfying § 101 of the Patent Act.[110]

Finally, the nonobviousness criterion for patent protection requires that a "person having ordinary skill in the art" (PHOSITA) would not have been able to come up with the same innovation.[111] The nonobviousness requirement comes up against the same restrictions on a tax patent as the novelty requirement does because prior art is also used to determine if an invention was obvious.[112] Because the prior art is very limited in the field of tax, this determination will be very difficult for the patent application reviewer. Also, the need for the addition of § 273 to the Patent Act in 1999, which provided a defense for those who were already using a patented business method at least one year prior to the filing of the patent, shows that obviousness is problematic for business method patents in general, and particularly so for tax patents.[113] If someone in the field of tax law has used the tax strategy in question for over a year, it would seem counterintuitive to declare the strategy nonobvious to a "person having ordinary skill" in that field.

In addition to failing to meet the statutory requirements of patent law, tax patents do not fit within the purpose of patent law. A primary purpose of patent protection is to provide incentives for innovation.[114] However, the tax savings that result from new and inventive tax strategies

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106. *Id.*

107. *See id.* at 38-39.

108. *Id.*

109. *Id.* at 39-40; *see also* Cochrane v. Deener, 94 U.S. 780, 787-88 (1877) (providing that a process is a way of doing something, but it is the result of the process, not the steps involved, that is the subject matter of the patent).

110. 35 U.S.C. § 101 (2000); *Hearing*, *supra* note 35, at 39.

111. DURHAM, *supra* note 3, at 107-08 (citing Amgen Inc. v. Hoechst Marion Roussel, Inc., 314 F.3d 1313, 1352 (Fed. Cir. 2003)).

112. Graham v. John Deere Co. of Kan. City, 383 U.S. 1, 17 (1966) (providing for a three-part test for nonobviousness which reviewed the scope of the prior art, how the prior art differed from the claimed invention, and the level of skill required by the art).

113. 35 U.S.C. § 273.

114. *See* sources cited *supra* notes 3, 6.

provide sufficient incentive for tax planning innovations.[115] Patents provide incentive for innovation by allowing a period of time for the inventor to profit from his invention with no competition from others in the market.[116] This type of incentive is not needed in the tax field because the inventors are typically accountants and attorneys who are already reimbursed by their clients for their efforts to come up with innovative tax strategies.

Finally, there is the constitutional question of whether Congress should even be allowed to extend patent protection to tax strategies. Article I, section 8 of the U.S. Constitution allows Congress to "promote the Progress of . . . useful Arts."[117] As was previously discussed, "useful arts" at the time the Constitution was written was likely equivalent to "technology" today.[118] The *State Street Bank* decision never addressed the constitutional issue of whether business method patents actually fulfill this "useful art" requirement.[119] However, many commentators on patent law have argued that the constitutional requirement is not met, especially with the most recent tax strategy patents.[120]

B. Patenting of Tax Advice Frustrates the Policy and Purpose of the Internal Revenue Code

Some experts fear that extension of patent protection to tax planning devices will encourage the development of legally questionable tax shelters.[121] Tax shelters are tax avoidance tools.[122] Commentators have opined that tax shelters arise from loopholes that Congress purposely created to encourage tax shelters.[123] However, IRS enforcement statistics support the opinion that Congress discourages tax avoidance.[124] Further, most of the so-called "loopholes" are actually tax deferral mechanisms, which support the policy of taxing an individual according to his ability to pay, or mechanisms for prevention of double

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115. *Hearing*, *supra* note 35, at 41; *see infra* Part IV.B; *infra* note 131 and accompanying text.

116. *See* sources cited *supra* notes 3, 6.

117. U.S. CONST. art. I, § 8, cl. 8.

118. *See* DURHAM, *supra* note 3, at 1 n.1.

119. State St. Bank & Trust Co. v. Signature Fin. Group, 149 F.3d 1368, 1368-77 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

120. *See* DURHAM, *supra* note 3, at 29; *Hearing*, *supra* note 35, at 39.

121. JCT REPORT, *supra* note 30, at 21.

122. Jeff Schnepper, Tax Shelters Still Exist and Can Save you Money, MSN MONEY, http://articles.moneycentral.msn.com/Taxes/TaxShelters/TaxSheltersStillExistAndCanSaveYouMoney.aspx (last visited Aug. 31, 2007).

123. *Id.*

124. TAX GAP, *supra* note 90; *see Hearing*, *supra* note 35, at 38.

taxation, another tax law policy.[125] If patents on tax plans do result in an increase in tax avoidance "shelters," the IRS will have to spend more money on enforcement. Or, the IRS will have to increase its estimates for the "tax gap." As the estimated tax gap increases due to the increase in tax avoidance plans, tax rates will need to be increased accordingly, because the federal government still requires the same amount of revenue.[126]

On the other hand, allowing patenting of tax avoidance plans could allow the IRS to quickly identify tax plans that abuse the Internal Revenue Code.[127] The IRS would be able to stop the use of abusive plans more effectively because it could more easily identify the strategies employed on tax returns.[128] This seems like a benefit at first glance, and initially, it may result in a greater amount of enforced payments, but it might also lead to more litigation regarding tax compliance and eventually a more lengthy and complicated tax code.

Extension of patent protections to tax plans could also lead to patenting of tax plans that are regularly used to comply with the Internal Revenue Code.[129] This would allow the patent holder to maintain a property right in a provision of the Internal Revenue Code, Treasury Regulations, or other sources of tax law.[130] Allowing tax planners to monopolize a mode of compliance with a federal statute frustrates the innovation incentive purpose behind patent law.[131] While certain tax strategies will clearly be deemed obvious[132] and thus, not be patentable, there are more complicated strategies that could be patented and would achieve the same effect of monopolizing a section of the tax code.[133]

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125. *See, e.g.*, I.R.C. § 453 (West Supp. 2007) (providing that income from installment sales need not be recognized until it is actually paid by the buyer unless the taxpayer elects otherwise); *see also* I.R.C. §§ 71, 215 (West 2002) (providing that alimony payments are included in the gross income of the recipient, and fully deductible from the income of the paying party).

126. TAX GAP, *supra* note 90.

127. JCT REPORT, *supra* note 30, at 23-24.

128. *Id.*

129. *Id.* at 21.

130. *Id.*; *see, e.g.*, I.R.C. § 2056(b) (West 2007) (providing for the estate tax deferral device known as "Qualified Terminable Interest Property" or "QTIP" in order to allow a decedent to provide for his/her surviving spouse and take advantage of the estate tax marital deduction, without giving the surviving spouse control over the disposition of the property after he/she dies). If an estate planner were allowed to patent a QTIP plan, no other estate planner would be able to comply with this code section in the same way without obtaining a license from the patent holder.

131. *See* discussion *supra* Part IV.A; *supra* text accompanying note 113 (discussing the general patent scheme of incentive for innovation).

132. JCT REPORT, *supra* note 30, at 19-20 (giving an example of estate planning device known as a GRAT).

133. Floyd Norris, *Patent Law Is Getting Tax Crazy*, INT'L HERALD TRIB., Oct. 19, 2006, at 12, *available at* http://www.iht.com/articles/2006/10/19/business/norris20.php.

There is little room for innovation in mere compliance with laws explicitly laid out by Congress. Often, modes of compliance with the Internal Revenue Code and accompanying Treasury Regulations are later included by Congress in amendments to the Code.[134] If the initial user of such plans for compliance is given a monopoly over that plan via a patent, Congress would not be able to include the patented methods when amending the tax laws.[135]

This also frustrates the policy of treating all taxpayers equally,[136] a policy that has its roots in the United States Constitution.[137] Congress might not want to wall off tax benefits from some taxpayers while allowing others to reap those benefits.[138] Some tax lawyers have called the tax patent "government-issued barbed wire" which allows the inventor of a new tax plan to prevent some taxpayers from receiving equal tax treatment.[139] This system of tax patents, if perpetuated, would permit taxing individuals based on their ability to pay for a patented tax plan, rather than their ability to pay the tax liability. This is in direct violation of the federal tax policy of taxing individuals based on their ability to pay the tax.[140]

V. CONCLUSION

The subject matter of patent law has expanded greatly since Congress initially laid out standards for patent protection. The demise of the business method exception to patentability was an appropriate and reasonable step to take because it followed the purpose and policy behind the Patent Act. However, those purposes and policies should not be forgotten as business method patent applications continue to be filed and accepted.

The purposes of incentive for innovation and recovery of research costs are not necessary in all methods currently being patented, such as the tax patent. The tax patent has allowed some practitioners to monopolize their legal theories, which frustrates the express policy of patent law to not extend protection to mere ideas or laws of nature.

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134. *See* BITTKER & LOKKEN, *supra* note 86, ¶ 7.1 (discussing the codification in I.R.C. § 108 of the discharge of indebtedness principle annunciated in United States v. Kirby Lumber, 284 U.S. 1 (1931)).

135. *See* Norris, *supra* note 133.

136. *Id.*

137. U.S. CONST. art. I, § 8, cl. 1; *see also supra* note 85 and accompanying text.

138. *See* Norris, *supra* note 133.

139. *Id.* (quoting Paul Devinsky, John Fuisz, and Thomas Sykes, lawyers with McDermott, Will & Emery).

140. *See supra* text accompanying note 86.

Allowing patent protection to continue down this path could lead to patents on other law-related ideas such as litigation strategies, or methods of complying with the rules of commercial law.[141] Just as laws of nature and their application are not granted patent protection, neither should the laws of the United States.

Currently, many people in the fields of tax and patent law question whether the Patent Act can offer protection to tax strategies because the Constitution does not expressly grant Congress the power to provide such protection.[142] While completely barring tax strategies from patent protection may seem too harsh a step to take, Congress and the USPTO could do more to limit the patentability of tax plans. Such limits should be set by Congress, and enforced by the USPTO, with the purpose of confining patentable subject matter to the type of invention the United States Constitution originally intended to protect.

141. *Hearing*, *supra* note 35, at 42.
142. *See* discussion *supra* Part IV.A.