

## COMMENTS

# Be Happy with What You've Got: Tax Strategy Patents as Too Dangerous To Be Allowed To Continue To Exist, and Trade Secret as a Sufficient, if Not Perfect, Alternative Protection

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### I. INTRODUCTION

Among the current debates in both tax law and intellectual property law is tax patents—or, more formally, tax strategy patents (TSPs). A TSP is, for now, a legitimately recognized patent in which a tax planner purports to have “invented” a new strategy to minimize her clients’ tax liability, and files a patent to that effect, making claims to each of the different steps and tax strategies.<sup>1</sup> While the topic is widely discussed in the scholarly field, one is hard-pressed to find any published works favoring the practice of granting the patents, outside those holding the

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1. Wade M. Chumney, David L. Baumer & Roby B. Sawyers, *Patents Gone Wild: An Ethical Examination and Legal Analysis of Tax-Related and Tax Strategy Patents*, 46 AM. BUS. L.J. 343, 343 (2009). TSPs typically include more than just a single strategy to minimize tax liability, but are an all-encompassing ball of strategies that work together to that effect. Thus, each claim accounts for a different strategy that, when taken together, constitutes one large strategy.

monopolies.<sup>2</sup> The advent of the TSP is not a small area of contention among scholars and practitioners. In fact, the TSP changed the very landscape of the entire profession. What was once a field of well-educated professionals providing personalized advice on an individual's tax minimization as a *service* has devolved into an industry of bundled, generic tax reduction plans being sold as a *good*.<sup>3</sup>

Critics offer a number of strong arguments against the patentability of these TSPs. These arguments include, inter alia, that TSPs fall outside the realm of the underlying purpose of patent protection; that TSPs fail the novelty prong of patent protection under the Patent Act; and finally that TSPs raise a host of ethical dilemmas from the position of a tax professional, including increasing the costs of tax-planning to consumers who could otherwise afford sound advice from tax professionals and the misleading nature of TSPs to consumers. All of these problems are avoidable, however, without risk of a tax planner losing protection for his clever strategy that has gone otherwise "undiscovered" in the field. The solution is through trade secret law. There are a host of avenues which a tax planner may take in order to ensure that his strategy goes unnoticed in the field, including confidentiality agreements with clients and private letter rulings, to name a couple.

The first part of this Comment will briefly discuss the relevant background and history of patent law and how TSPs came to be. The second part will explain in more detail the specifics and underpinnings of the TSP, as well as explain the shortcomings and dilemmas inherent in the grant of tax strategy patents. Finally, the third part of this Comment proffers the position that trade secret is a more appropriate protection of the tax planner's strategy than patent and that TSP should be disallowed altogether as being outside the realm of even business method patent protection.

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2. *But cf.* Michael Risch, *Everything Is Patentable*, 75 TENN. L. REV. 591, 611-12 (2008). In this piece, Risch calls for an even more laissez-faire approach to the already lax standards of patentability, taking power away from the courts and granting patents whenever an invention or process fits within the letter of the law regarding the Patent Act. However, even given this position regarding patentability, generally, the author points out that TSPs likely fail the prongs of patentability when a rigorous application of the Patent Act is applied (namely, the non-obviousness prong).

3. Nicholas Robinson, *Patenting the Tax Code: Monopolizing Basic Tax Strategy*, 5 BUFF. INTELL. PROP. L.J. 50, 52 (2007).

## II. PATENT LAW, THE BUSINESS METHOD PATENT

A. *Patent Law*

Article 1, Section 8, Clause 8 of the United States Constitution grants Congress the power “to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>4</sup> Furthermore, Congress specifically chose to recognize patents under the Patent Act, which grants to the inventor an exclusive right to make, use, offer to sell or sell within the United States, or import into the United States, her invention for twenty years from the date of filing the patent application with the U.S. Patent and Trademark Office.<sup>5</sup> This protection affords inventors an opportunity to recoup their costs in the invention and assures them that the fruits of their labor will not merely serve to profit others at their expense.<sup>6</sup> The underlying utilitarian policy for granting exclusive monopolies to inventors for their inventions is that such allowance incentivizes creation from which the public ultimately expects to benefit.<sup>7</sup> It naturally follows that when it is foreseeable that the public will suffer net losses by allowing the monopoly, the patent should be denied.<sup>8</sup>

Section 101 of the Patent Act states that an inventor may obtain a patent for “any new and useful process, machine, manufacture, or composition of matter.”<sup>9</sup> While the quoted language lays out four distinct categories, in reality patents are lumped into two categories: physical structures (the archetypal “invention”) and acts or steps in a method or process.<sup>10</sup> The distinction notwithstanding, whether the invention or method is of patentable subject matter is rarely at issue, because patent law tends to define this prong of patentability in an exceedingly broad manner.<sup>11</sup> There are things, however, such as a process or an article of

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4. U.S. CONST. art. I, § 8, cl. 8.

5. See U.S. Patent Act, 35 U.S.C. §§ 1-376 (2000).

6. Mackenzie Dismore, Comment, *Intellectual Property’s Newest Invention, the Tax Patent: Has Patent Protection Extended Beyond Its Constitutional Limits?*, 10 TUL. J. TECH. & INTELL. PROP. 287, 288 (2007).

7. 1 R. CARL MOY, MOY’S WALKER ON PATENTS § 1:26 (4th ed. 2009). This is the reasoning, because at the expiration of the twenty-year period, the invention falls to the public domain and may be used in any manner by anybody.

8. *Id.*

9. *Id.* § 5:1 (quoting 35 U.S.C.A. § 101).

10. *Id.*

11. *Id.*; see also *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (“Congress intended statutory subject matter to ‘include anything under the sun that is made by man.’” (quoting Hearings on H.R. 3760 Before Subcomm. No. 3 of the H. Comm. on the Judiciary, 82d Cong., 1st Sess., 37 (1951) (statement by P.J. Federico))).

manufacture or a pure discovery of a naturally occurring element, that are not patentable subject matter, and this reflects the policy that patent rights should only be extended to inventions that involve the application of technology.<sup>12</sup>

The second requirement in order to receive patent status is that the invention be useful.<sup>13</sup> This means that the invention must have some illustrative benefit.<sup>14</sup> There is no debate over whether tax strategy patents meet this prong.

More important to this Comment is the requirement that the invention be novel. In order to be adjudged novel, possessory knowledge of the invention must not have come into the hands of the U.S. public, nor must the inventor have engaged in any efforts to exploit the invention commercially before a one-year period leading up to the date the patent application was filed (the grace period).<sup>15</sup>

Finally, the invention must be nonobvious. In order to be nonobvious *at the time of invention*, an invention must not have been “obvious” over the “prior art.”<sup>16</sup> Whether this is the case is to be judged objectively from the eyes of “a person having ordinary skill in the art.”<sup>17</sup> Four factual inquiries are typically used by courts to determine nonobviousness: (1) the scope and content of the prior art; (2) the differences between the prior art and the claims at issue; (3) the level of ordinary skill in the art at the time the invention was made; and (4) objective evidence of nonobviousness, if any.<sup>18</sup>

### B. *The Business Method Patent*

Prior to *State Street Bank & Trust Co. v. Signature Financial Group*, the United States Patent and Trademark Office, as well as American courts, refused to recognize ways or methods of doing business as patentable subject matter.<sup>19</sup> The court in *State Street*, however, turned this practice on its head by holding that business methods were not per se invalid as outside the scope of patentable subject matter if they fit within

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12. Moy, *supra* note 7, § 5:1.

13. *Id.* § 6.1.

14. Dismore, *supra* note 6, at 288.

15. Moy, *supra* note 7, § 8:199. Novelty, as it is discussed today, primarily deals with statutory bars imposed under section 102 of the Patent Act.

16. *Id.* § 9.1 (2000) (quoting 35 U.S.C. § 103(a)).

17. *Id.*

18. *Id.* (citing *In re O'Farrell*, 853 F.2d 894 (Fed. Cir. 1988)).

19. Jason Pill, *What's So Great About SOGRAT?: An Analysis of the Ethical Issues Created by Tax Patents and a Patently Strict Dilemma*, 20 U. FLA. J.L. & PUB. POL'Y 147, 153-54 (2009).

the definition of “process” laid out in section 101 of the Patent Act.<sup>20</sup> Distinguishing the type of business method in the case from the stand-alone mathematical algorithms rejected by the United States Supreme Court as patentable subject matter in *Diamond v. Diehr*, the *State Street* court held that a mathematical algorithm, formula, or calculation that transforms data into a “useful, concrete and tangible result” is a practical application and therefore patentable as within the definition of “process.”<sup>21</sup> The Court’s decision, however, was limited in its holding that the specific business method proffered in that case was not outside the realm of patentable subject matter, and did not opine as to the other prongs of patentability, leaving that to lower courts.<sup>22</sup>

A later case, *In re Bilski*, further clarified the Federal Circuit’s feelings on business method patents by holding that the test for whether a business method is patentable subject matter is to be the “machine-or-transformation” test, which states that a business method is patentable subject matter if “(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”<sup>23</sup> The *Bilski* court noted that while business methods are not per se unpatentable, they still must meet the other requirements of patentability.<sup>24</sup>

*Bilski* is relevant to the subject of TSPs because on one hand, many of today’s TSPs rely on calculations and data analysis that can only be performed by a modern computer.<sup>25</sup> These TSPs are technically tied to a machine, the first alternative for patentable subject matter in *Bilski*. Therefore, as long as a tax planner uses an algorithm that takes various inputs and parameters and returns some strategy to minimize tax liability, she will technically be within patentable subject matter as laid out in *Bilski* (though it remains to be seen whether the nonobviousness and novelty prongs of patentability are satisfied). On the other hand, many TSPs do not rely on algorithms and computer inputs, but solely on clever use of the Internal Revenue Code’s (the Code) many provisions and loopholes.<sup>26</sup> This type of TSP is seemingly marching toward its sunset, as

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20. *Id.* at 154 (citing *State Street Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1375 (Fed. Cir. 1998)).

21. *Id.* at 155.

22. *Id.* at 156.

23. *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008), *aff’d sub nom. Bilski v. Kappos*, 130 S. Ct. 3218 (2010). The Supreme Court affirmed the Federal Circuit’s decision in *In re Bilski*, but held that the lower court’s “machine-or-transformation” test, while a useful tool, is not the sole test for patent eligibility. *Bilski v. Kappos*, 130 S. Ct. at 3221.

24. *Id.*

25. Pill, *supra* note 19, at 160.

26. *Id.*

courts now are using the “machine-or-transformation” test of *Bilski* to invalidate TSPs of this nature as unpatentable subject matter.<sup>27</sup>

### III. THE TAX PATENT AND ITS SHORTCOMINGS

#### A. *The Tax Patent . . .*

A Tax Strategy Patent is a form of business method patent.<sup>28</sup> As mentioned in the previous Part, TSPs fall into two categories: computer-based tax patents (more commonly referred to as tax-related patents), which are not the standard TSP, and the more traditional, Code-based method patents (usually referred to as a TSP).<sup>29</sup> The computer-based tax patent utilizes the computer algorithms as an element of the tax strategy.<sup>30</sup> The second type, which does not utilize machines (and will henceforth be the subject of any referral to “TSPs”), is much more troublesome. TSPs are simply process patents, in that they solely encompass a series of steps.<sup>31</sup> As the Supreme Court described process patents in *Cochrane v. Deener*, “[T]he process requires certain things be done with certain substances, in a certain order, [and] the tools used in doing this may be of secondary consequence.”<sup>32</sup>

Perhaps the most famous, or notorious, of all the TSPs discussed is the Stock Option Grantor Retained Annuity Trust, or SOGRAT.<sup>33</sup> The first claim of the SOGRAT patent describes a “method for minimizing transfer tax liability of a grantor for the transfer of the value of nonqualified stock options to a family member grantee, the stock options having a stated exercise price and a stated period of exercise.”<sup>34</sup> The SOGRAT patent utilizes a four-step process: (1) establishing a grantor retained annuity trust (GRAT); (2) funding the GRAT with nonqualified stock options (NQOs) that have a determined value at the time of transfer, (3) setting the GRAT’s term and schedule of annuity disbursements from it; and (4) valuing the NQO’s upon each disburse-

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27. Justin M. Lee, *The Board Bites Back: Bilski and the B.P.A.I.*, 24 BERKELEY TECH. L.J. 49, 70-71 (2009) (“Though *Bilski* clearly held that there are no categorical prohibitions against business methods, in order for the claim to be upheld, it needs to be more than a how-to manual for conducting a business or executing a financial or legal transaction.”).

28. Thomas J. Monks, *Everything You Always Wanted to Know About Patents but Were Afraid to Ask: A Tax Practitioner’s Primer on Patenting Tax Strategies*, 61 TAX LAW. 907, 920 (2008).

29. *Id.*

30. *Id.* An example of this type of patent would be a program that administers leveraged split dollar life insurance arrangements.

31. *Id.*

32. *Id.* (quoting *Cochrane v. Deener*, 94 U.S. 780, 788 (1876)).

33. *See id.* at 923-25. *See generally* Pill, *supra* note 19.

34. Monks, *supra* note 28, at 925.

ment and determining the number of stock options to be distributed in kind as part of the annuity payment.<sup>35</sup>

*B. . . . And Its Shortcomings*

1. The Patent Requirement of Novelty

While undeniably clever, the SOGRAT described above illustrates one of the most widely held criticisms of TSPs, which is that they fall outside the realm of patentability because they fail to meet the requirement of novelty.<sup>36</sup> To hold the SOGRAT patent up against the Code, it is readily discernible that the method and language the patent employs in no way claims or describes novel trust language, but instead, the first step of the process refers to the method of establishing a GRAT as *required* by the Federal Regulations.<sup>37</sup> In addition, the steps of the method in which the options are valued are in no way novel, but use the Black-Scholes method *prescribed by the Internal Revenue Service*.<sup>38</sup> Finally, the method described and claimed to value the transfer in the SOGRAT patent cannot be said to be novel or nonobvious, because it calls for gift valuation *in accordance with mandatory IRS tables and rates*.<sup>39</sup>

In the realm of intellectual property law, tax law, or, for that matter, any body of law, the essence and reasoning behind this would greatly upset the Founding Fathers, because its result contradicts their intentions. This is similar to a tax practitioner saying, “I have the right, to the exclusion of all others in the United States, to use these *laws* in this

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35. *Id.* at 925-26 (quoting and citing U.S. Patent No. 6,567,790 col. 1 l.50-67, col. 8, 1-9) (filed Dec. 1, 1999). The rest of the claims are as follows:

“Claim 2 stakes claim over the method of Claim 1 for determining the optimum annuity percentage for purposes of reducing the value of the taxable gift. Claims 3 through 9 stake claims over the method of Claim 1 wherein the step of funding the GRAT includes contributing supplemental assets (in addition to the NQOs), namely cash and shares of stock, and determining the amount of cash to so contribute under two different methods. Claims 10 and 11 relate to substituting other assets for the options remaining at the end of the GRAT term. Claims 12 through 25 describe a variation of Claims 1 through 11, one that includes establishing an ‘irrevocable life insurance trust’ (ILIT) which receives the remainder of the GRAT, provides a life insurance policy on the life of the grantor, and names the grantor’s family members as beneficiaries.”

*Id.* at 925-26.

36. *Id.* at 926.

37. *Id.*

38. *Id.* (citing Rev. Proc. 1998-34, 1998-1 C.B. 983).

39. *Id.*

order.”<sup>40</sup> Certainly, if anything can be said to be “in the hands of the public” (speaking to novelty), it is the law, altered by no means, published by Congress and supported by the relevant Executive Agencies. While there is some merit to business method patents, generally, patents of that traditional sort employ novel methods of analysis or processes in which to do business, not simply read from public documents and ordered in a specific manner. They are intangible, but born from beginning to end of somebody’s mind and labor.

The SOGRAT, as with most TSPs, should never have been granted patent status in the first place, but, because it was, should be invalidated on grounds of novelty. Section 102(a) of the Patent Act states, in relevant portion: “A person shall be entitled to a patent unless: (a) the invention was known or used by others in this country, or patented or described in a printed publication . . . before the invention thereof by the applicant for patent.”<sup>41</sup> Looking at TSPs, and the SOGRAT, specifically, we see that it falls miles short of the requirements of section 102(a). The SOGRAT was known by others in the United States and was described in printed publication—everything the SOGRAT purports to do is based on the Code and the Regulations (which can safely be assumed to be known by somebody in this country and which happened to be a printed publications). In fact, almost every TSP is based on rules and designs found in the Code, the Regulations, textbooks, or practitioners’ manuals (who likely altruistically published their manuals before realizing the fortunes of which they were letting go).<sup>42</sup> To hold that it is merely the order of the steps that is the patentable material is, in essence, to render all TSPs and business method patents, generally, worthless. Using the SOGRAT as an example, if one were to set the GRAT’s term and disbursement schedule when the GRAT is created but before it is funded, would one no longer be infringing? If this is the case, then TSPs are nothing more than academic feathers in the patent holders’ caps, and the whole argument becomes moot.

Likewise, in the realm of business method patents generally, if one were to take a patented algorithm and simply switch the order in which two different inputs were entered into the formula, the effect of which having no bearing on the algorithm’s output, would one similarly not be running afoul of the patent holder’s exclusive right to use that method? Certainly this cannot be the case. It follows, then, that the patent holder

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40. To be fair, they are not all laws. Some are merely rulings and prescriptions of the IRS, but the concept is the same.

41. 35 U.S.C. § 102(a) (2010).

42. Pill, *supra* note 19, at 169-70.



must have rights to something more than just the order of the patent for that patent to be effective. This can only be the substance of those things that are being ordered. And if it is the very “things” being ordered that account for at least some of what is being patented, it naturally follows that those “things” must at least require a modicum of novelty. If even a hint of novelty is required of the “things” being ordered, and if novelty requires the “things” never to have been published or known to anybody in the United States, then it naturally follows that a specific ordering of Internal Revenue Code statutes and Treasury Regulations cannot be patented, because they are published and put forth to the public by the United States government. That’s just simple logic . . . A to B.

To really drive this point home, let’s analogize what is going on with TSPs to another area of intellectual property law: copyright. Assume an American author publishes a bestselling, entirely fictional novel. Now, assume that somebody realizes that were he to take three or four nonconsecutive chapters of that novel and combine them, unaltered in any manner save the omission of the chapters between them or perhaps their order, he can put together a coherent short story. Now, assuming this act falls outside the fair use defense (say it is entirely commercial in nature and takes the very essence of the original piece, and the novel was entirely fictional), would it not be repugnant to say that this person is not infringing the original author’s copyright, and that this “new” piece should be afforded copyright protection of its own? Of course it would be. This is exactly what TSPs do—they take unaltered sections of somebody else’s work (Congress’s and the Treasury Department’s laws), place them in a certain order, and say, “This is my entirely new and original work, worthy of others’ exclusion, individual profit and protection of the United States government.”

## 2. The Policy Behind Patents, Generally

Generally, tax patents fall far short of the very policy behind the constitutional provision which speaks to patents. Above all else, the Founding Fathers included Article 1, section 8, clause 8 in the Constitution because they thought it wise to incentivize innovation.<sup>43</sup> This incentive is provided by way of granting to the patent holder a monopoly on the innovation for a period of time, so that the inventor (or process-developer or what have you) may enjoy the fruits of his or her labor without fear of others unjustly profiting from those same fruits.<sup>44</sup>

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43. Dismore, *supra* note 6, at 298-99.

44. *Id.* at 299.

With this monopoly, the idea is that the inventor will be given sufficient time to recover his costs in developing the technology, and can then turn a profit on his investment.<sup>45</sup> Following this allotted time, the innovation falls to the public domain, free to use by anybody and everybody.<sup>46</sup> The trade-off being the grant of a monopoly for something that will ultimately benefit and improve society at large.

With the idea and policy behind patents being a trade-off of temporary monopoly in exchange for something that will ultimately benefit society, it is clear that tax patents do not quite fit. For one, tax professionals do not need this incentive. Tax attorneys are compensated for their services and what they provide is, in fact, a competitive service, which is incentive enough to develop clever, new means for lowering a client's tax liabilities, which ultimately leads to more clients, etc.<sup>47</sup> Another incentive in place for tax professionals to develop innovative strategies—and share them with the world, including others in the field—is to promote their practice and establish themselves as experts in the field of tax planning.<sup>48</sup> TSPs stifle this free flow of ideas in an otherwise scholarly field and may result in a decline in the quality of the service across the board.<sup>49</sup> In addition, the mandatory nature of taxes will always provide an incentive for the public at large, not just tax professionals, to find mechanisms of avoidance.<sup>50</sup> Finally, the development of tax strategies, however clever and “unique,” certainly does not carry with it the same costs associated with the development of say, pharmaceuticals, or any more tangible innovation.<sup>51</sup>

TSPs also run afoul of the policy behind patents, generally, inasmuch as there is absolutely no guarantee that the grant of the monopoly (currently twenty years) will yield any public benefit. A tax strategy lives and dies by the whims of Congress, in that a change to the relevant tax law (an “entirely artificial implementation of our government”) on which the TSP rests renders the entire TSP useless to anybody, because TSPs entirely fail to produce anything that could be called a “non-tax” result.<sup>52</sup> Perhaps the best example of this occurring in

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45. Pill, *supra* note 19, at 150-51.

46. *Id.* at 151.

47. Dismore, *supra* note 6, at 299.

48. Chumney, Baumer & Sawyers, *supra* note 1, at 353.

49. *Id.*

50. Brian C. Banner, *Patenting Tax Strategies: The Case for Excluding Legal Methods From the Realm of Patentable Subject Matter*, 15 TEX. INTELL. PROP. L.J. 491, 498 (2007).

51. *Id.*

52. Michael Moulton, *Effecting the Impossible: An Argument Against Tax Strategy Patents*, 81 S. CAL. L. REV. 631, 650 (2008). The author compares this phenomenon to patents once denied because there was no guarantee of public utility as the innovations were potentially

the real world is in the realm of the estate tax, which, for this year, at least, has been repealed in its entirety.<sup>53</sup> Obviously, tax professionals, just months ago, had a whole host of strategies of limiting this very tax liability which are now entirely useless.<sup>54</sup> These tax strategies employed methods to take advantage of loopholes in the relevant Code provisions, which no longer exist because there is nothing to loophole through, and because the strategies produced no “non-tax” results, they are of no use.<sup>55</sup> It is important to note, however, in this example, that the repeal of the estate tax is for 2010 only, and the belief is that President Obama plans to allow it to be resurrected in 2011, permanently locked in at the 2009 \$3.5 million minimum estate total rate.<sup>56</sup> However, this begs the question: How long must a patent be credibly useless before it becomes legally ineffective?

Given its unique nature, it seems clear that only in the area of the tax strategy patent is it entirely possible for a patent to pass section 101 utility muster one year, then be of no use (that is, produce no tangible result or utility, the very next year), and then the very following year, return to a state of utility and tangible result. What if it were not just one year that the patent was credibly useless, but five, ten, or fifteen years before it became useful again? Would the patent holder’s legal protection kick right back in? Would he have to refile, knowing that the process is now in no way novel or nonobvious? If there are TSPs which are solely aimed at and around the now-repealed estate tax provisions of the Code, these questions must be answered as soon as next year. But the very fact that these questions exist tells us that society at large has absolutely no guarantee that the grant of a limited monopoly to the developer of a TSP will yield any benefit, much less a tangible one.

One more way in which TSPs can be said to fall outside the policy behind patents, generally, is that, by their very nature, they inherently result in a net loss for society.<sup>57</sup> If the goal of taxes is to increase government revenue so that the government may provide citizens with

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violative of *natural* law. Using a cure for baldness, something once thought impossible but recently shown to be viable, the author points out that as our understanding of the natural law grew, so did the scope of patents. The scope grew in the sense that not only did a particular innovation become patentable, but courts and the PTO, in general, became more willing to grant a patent even when there was question as to whether natural law would allow the innovation. This simply cannot be said for the law Congress writes. Moulton, *supra*.

53. *Id.* at 650.

54. *Id.* at 650-51.

55. *Id.* at 651.

56. Jonathan Weisman, *Obama Plans to Keep Estate Tax*, WALL ST. J., Jan. 12, 2009, available at [http://online.wsj.com/article/NA\\_WSJ\\_PUB:SB123172020818472279.html](http://online.wsj.com/article/NA_WSJ_PUB:SB123172020818472279.html).

57. Moulton, *supra* note 52, at 658-61.

public goods, and TSPs create an incentive to find new ways in which to avoid taxation, it would appear that the U.S. government is incentivizing a reduction in its own ability to provide society with the public goods that, absent itself, would otherwise go unprovided.<sup>58</sup>

### 3. The Ethical Dilemmas

Clients consult tax professionals with the understanding and expectation that the professional will provide them with advice and strategy to reduce their tax liability.<sup>59</sup> In fact, the American Institute of Certified Public Accountants (AICPA) mandates that CPAs have the responsibility to advocate for their clients, in respect to tax issues, to the extent the law allows them.<sup>60</sup> However, TSPs do not serve this function, because they limit the non-patent holder professionals' ability to advocate successfully for their client.<sup>61</sup> As stated before in this Comment, TSPs are essentially patenting the law. To analogize the effect of TSPs to yet another body of law, let us look at how we would feel if a similar allowance were given in the field of tort law, and specifically, a codified affirmative defense to any given tort. Now, would we allow an attorney to patent several affirmative defenses to a single tort, if those defenses were used in a specific order? Of course not; common sense dictates that to do so would forever bar every other attorney from effectively advocating for their client, if sued for that specific tort, without paying the patent holder a licensing fee. This is similar to the American Medical Association's Council on Ethical and Judicial Affairs' conclusion that to grant patents on medical procedures is a breach of ethics on grounds of "the unacceptable picture of a patented procedure becoming unavailable to patients who require it, particularly when no alternative exists," and that it would "raise the cost of the patented procedures, thereby limiting patient access to the procedures."<sup>62</sup> Finally, on the subject of TSPs as limiting the ability of other tax professionals to ethically advocate for their clients, TSPs place a very large burden on tax professionals to ensure that they are practicing due diligence in searching

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58. *Id.* at 659.

59. Chumney, Baumer & Sawyers, *supra* note 1, at 348.

60. *Id.*

61. *Id.*

62. *Id.* at 348-49 (quoting Am. Med. Ass'n, Council on Ethical and Judicial Affairs, *Ethical Issues in the Patenting of Medical Procedures*, 53 FOOD & DRUG L.J. 341, 344 (1998), available at [http://www.fdi.org/pubs/Journal%20Online/53\\_2/art10.pdf](http://www.fdi.org/pubs/Journal%20Online/53_2/art10.pdf)). As the author notes, tax planning really lacks the life-and-death consequences associated with this analogy, but not all now un-patentable medical procedures are life-and-death, and a potential for financial ruin is, of course, a very serious matter.

for any given tax strategy to make sure that it is not patented.<sup>63</sup> This is no easy task, as patents are sometimes not published for up to eighteen months following their grants, and it is virtually impossible to know if a strategy is the subject of a pending application.<sup>64</sup> Even if the professional finds that the strategy is patented, she must then carefully analyze it to ensure all relevant parts of the strategy match the claims of the patent and, if so, she must face the choice of suggesting to her client the increased cost of using that strategy or alternatively opting for a possibly less effective one.<sup>65</sup>

Another ethical dilemma raised by TSPs is their potentially misleading nature, inasmuch that just because a patent is granted for a particular strategy, the IRS is not bound to recognize the strategy as valid, even though it would seem that a patent issued by the government should be honored by the government.<sup>66</sup> This is just not the case, however, and unknowing clients might be misled into thinking the IRS endorses the strategy, as could the tax professionals themselves.<sup>67</sup> Though it would be a poor tax professional who would think that, it is easy to imagine that the grant of a patent might at the very least be persuasive, or seem so, at any rate, and might entice a tax professional to push a rather risky strategy that they might not have otherwise to the client.

Furthermore, tax professionals are governed by Treasury Regulations, one of which states, without detail, that tax professionals may not charge unconscionable fees.<sup>68</sup> Lawyers, in addition, are subject to a similar (and similarly ambiguous) provision in the Model Rules of Professional Conduct.<sup>69</sup> One unclear issue revolves around which body of law applies. Patents grant to the holder a monopoly and thus, the ability to charge monopoly prices, but tax professionals may not charge unconscionable fees; therefore, the two theories are seemingly at odds.<sup>70</sup>

Finally, one of the most troubling aspects of TSPs is, like all patents, a lack of regulations as to who may file for them. It is possible that a person or company, in no way a tax practitioner and unable to utilize the tax strategy, could ultimately still apply for and be granted a patent for that tax strategy.<sup>71</sup> One can imagine the implications of this scenario.

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63. *Id.* at 350. Note that ignorance is no defense to patent infringement.

64. *Id.* at 350-51.

65. *Id.* at 351.

66. *See* Banner, *supra* note 50, at 495-96.

67. *Id.* at 496.

68. Chumney, Baumer & Sawyers, *supra* note 1, at 349.

69. MODEL RULES OF PROF'L CONDUCT R. 1.5 (2002).

70. Chumney, Baumer & Sawyers, *supra* note 1, at 349.

71. Robinson, *supra* note 3, at 55.

Picture corporations patenting tax strategies that they themselves could not use, but their competitors could, in order to gain or maintain a competitive advantage or draw a licensing fee. Picture universities, in an effort to raise money through licensing fees, filing for TSPs on the basis of their unknowing tax professors' scholarly articles. Picture a new wave of tax/IP practitioners, whose entire "practice" revolves solely around the development and enforcement of TSPs, leading to an eventual monopolization of the entire Code, effectively gutting the industry as a whole.

In conclusion, TSPs simply do not square with the traditional notions of advocacy among the tax planning industry. They reduce the ability of practitioners to practice effectively, stifle the free-flow of ideas in such a manner that may lead to a decline in quality of all tax advice, increase the costs and burdens of tax advice that is then passed along to consumers, and potentially run afoul of mandated ethical guidelines on fees.

#### IV. TRADE SECRET—A BETTER WAY

The oldest form of intellectual property protection, trade secret law, is unique in that it is housed in state law tort and offers a remedy to the developer of useful commercial information kept secret against anyone who wrongfully obtains and uses that trade secret.<sup>72</sup> The principle aspects of trade secret law are that (1) it arises automatically, (2) it is extremely broad in scope, (3) it allows independent development of similar ideas by innocent third parties is allowed (in other words, only wrongdoers may be sued), and (4) it is lost if the protected information is disclosed (subject to certain contractual restrictions).<sup>73</sup>

The specifics of trade secret law (the components of misappropriation, for example) are not important for this suggestion. What is important is that trade secret provides the protection of sensitive ideas for the purpose of economic gain that those in favor of TSPs maintain is the very reason TSPs should exist. To put it another way, if a tax practitioner is to say that the development of a unique, nonobvious, and useful tax strategy is the fruit of her labor, she should be the only one who should profit from it, and trade secret law provides that very protection.<sup>74</sup> There is a strong, rather obvious rationale for this, and the

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72. HENRY H. PERRITT, JR., *TRADE SECRETS: A PRACTITIONER'S GUIDE* § 1.1 (2010).

73. *Id.*

74. See generally Christopher C. Anderson, *Patents on Tax Strategies: Just Another Harmless Subject*, 2009 U. ILL. L. REV. 1591.

counterarguments only serve to bolster the argument that tax strategies are not patentable subject matter.

The argument for making tax strategies nonpatentable is that if economic gain as a product of fairness for labor and time spent is truly the only reason why defenders of the TSP say tax strategies should be patentable, then why not merely maintain the strategy as a trade secret? Individuals just should not tell anyone about it. Obviously, clients would know, as would the Service, but clients can be kept to secrecy contractually and the Service does not make public the tax strategies of compliant individuals or corporations. One glaring problem with this is that the strategy may be rejected by the Service, become the subject of (published) litigation and ultimately be allowable in the Tax Court, which would kill the secrecy. This is a case, however, of taking the good with the bad, and would actually serve to make tax professionals who wish to keep their strategies protected under trade secret more prudent in ensuring they are within the boundaries of the law.

The strongest argument against trade secret as appropriate protection is that trade secret, unlike patent law, does not allow holders to exclude others from using the process, and good-faith “discoverers” of the exact same strategy would be free of any liability.<sup>75</sup> But this argument is fallacious in that the same argument can be made for everything that is protected under trade secret, and yet the body of law still exists. If a real concern of tax strategy developers is that they will not profit from the strategy because they know other people are going to figure out the same strategy and destroy their competitive advantage, then how on Earth can they say that their strategy is nonobvious? That seems to be the very definition of obviousness.

There are a number of other arguments as to why TSPs are better than trade secrets in the area of tax law, but the fact is that we cannot in good conscience put the entire industry at risk just so somebody who finds a clever order of Code provisions can hold onto that order for twenty years to the exclusion of all others.<sup>76</sup> Trade secret runs into none of the ethical dilemmas that TSPs do, and in reality just seems better suited to the respectable field of legal professionals. While trade secret may not be the most protective alternative, it is certainly the least dangerous to the practice and to individuals.

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75. *Id.* at 1613.

76. *See id.* at 1603-17.

## V. CONCLUSION

The real function of TSPs is to allow their holders to “have their cake and eat it too.” TSPs allow a holder to exclude all others from using those Code provisions in a specific manner or order and all the while publish the strategy and gain notoriety for their practice and as an expert in the field of tax law. TSPs not only fall outside the realm of patentable subject matter, but they butt up against the ethical codes of tax professionals in a very real way, threatening to turn the industry from an advocacy-based service to a more expensive off-the-shelf good. If tax professionals really think they have a clever strategy, one that is so unique as to be “nonobvious,” then they should, by all means, hold on to and protect their work. However they should be resigned to trade secret, which serves to effectively protect the work while allowing others in the field to continue to do their jobs. In essence, whereas all other areas of patent law simply *deny* all nonholders of the patent the rights and abilities to do something, TSPs actively *take* abilities away from all nonholders, and in any field of law, this just simply cannot be the case.