I. How the Patent Process Works—Requirements for Patentability

A. In order to obtain a utility patent on an invention, the invention must be new, useful, and not obvious to one having "ordinary skill in the art." Designs and plans must also meet the requirements of novelty and nonobviousness to be patented. Generally, an applicant is not entitled to a United States patent if:

1. Applicant is not the first person to invent the device, process, or composition; or

2. More than one (1) year before applicant files a patent application for the invention, the invention has been:

a. In public use or offered for sale in the United States; or

b. Patented or described in a printed publication anywhere in the world.

B. An application for a United States patent is filed with the PTO. The application consists of the following parts:

1. A specification, which is a written description of a preferred embodiment of the invention;

2. Drawings showing the preferred embodiment of the invention when the nature of the invention is such that it can be illustrated;

3. Claims that define the scope of the invention sought to be protected;

4. An oath or declaration of the inventor; and

5. A filing fee.

C. The specification must describe the best mode or preferred embodiment of the invention with sufficient clarity to enable one having ordinary skill in the art to make and use the invention without undue experimentation.

D. The claims which are contained in numbered paragraphs at the end of the specification define the scope of the invention protected by the patent. They are the basis on which patent infringement is determined. Hence, the claims must patentably distinguish the invention from the prior art, including previously granted patents.

II. The Examination Process

A. After the patent application is filed, it is assigned to a patent examiner who makes a search to locate prior patents that are relevant to the invention claimed. The examiner sends an "office action" to the applicant, citing the relevant patents as prior art references and usually rejecting at least some of the claims as being unpatentable over such references. In addition, the office action may reject the claims on formal grounds, such as indefiniteness of the claims.

B. An applicant is given an opportunity to respond to an office action by advancing arguments as to why the invention is patentably distinguishable over the references cited by the examiner.

III. Infringement of a Patent

A. Infringement is an unauthorized making, using, or selling in the United States of the invention recited in the claims of an unexpired U.S. patent.

B. The remedy for infringement of a patent is a civil action by the patent owner against the infringer.

C. The patent owner is entitled to compensation for whatever actual damage has been caused by the infringement, but in no case less than a reasonable royalty, together with interest from the date of infringement, and costs, as fixed by the court.

D. In cases of willful infringement, or in the court's discretion, damages may be increased to three times actual damages, and in exceptional cases attorneys' fees may be awarded.

E. In order to determine whether a patent has been infringed, the accused device is compared to the claims of the allegedly infringed patent.

F. The Courts have established that the scope of the patent owner's legal protection is limited to the invention as described in the claims, which are construed by referring to, among other things, the specification. The patent claims delineate the precise boundaries of the invention, and have been aptly likened to the description in a deed, which sets forth the meets and bounds of real estate.

G. As a general rule, a patent claim is not infringed unless all of the elements, or significant parts, of the invention recited in the claim are literally included in the accused device or methods.

H. However, even if the accuses device does not literally infringe a claim, it may nevertheless infringe under the judge-made law referred to as the "Doctrine of Equivalents." Under that Doctrine, the accused device infringes the claim if the differences between the patented invention and the accused infringing device are insubstantial. One test is to determine whether the accused device "performs substantially the same function, in substantially the same way, to produce substantially the same result" as the claimed invention.

IV. How Patents Apply to Estate Planning

A. Estate planning and other tax strategy patents fall within the broad classification of "business method patents."

B. Patentable tax strategies are the application of legal concepts and tax laws in a manner designed to produce tax savings—not the traditional subject matter of patents. However, such an abstract process can be thought of as a method of doing business.

C. Prior to 1998, some courts rejected the patenting of business methods. However, in 1998, the Court of Appeals for the Federal Circuit (the court which bears most patent appeals cases) ruled in <u>State Street Bank and Trust Company v. Signature Financial Group, Inc.</u>, 149 F.3d 1368 (Fed. Cir. 1998), that a business method was patentable as long as it involved a process within the meaning of the Patent Act.

V. The SOGRAT Patent (No. 6,567,790)

A. An example of a tax strategy patent: The SOGRAT Patent.

1. Most estate planning professionals were shocked to learn that an individual could patent such a common estate planning technique used in connection with a specific asset, the purpose of which is to allow taxpayers to minimize their federal estate and gift tax liability, particularly a technique authorized under the regulations issued by the Treasury Department and approved in many Internal Revenue Service rulings.

B. Problems created by the SOGRAT patent.

1. The existence of the SOGRAT patent is preventing taxpayers from using a government authorized estate and gift tax reduction technique, which is considered by many tax advisors to be a common planning technique.

2. An investment advisor who had been recommending this technique (unaware that a patent had been granted) is now required to inform his or her clients of the existence of the SOGRAT patent and the identity of the patent holder.

VI. Potential Difficulties for Tax Advisors and Their Clients Caused by Tax Strategy Patents

A. Traditionally, tax lawyers and accountants have generally worked together to develop and perfect tax strategies through tax committees of the ABA, state and local bar associations, ACTEC and the AICPA, and other formal and informal groups of tax advisors. The ability of patent tax strategies could have a chilling effect on the previously collegial nature of the tax practice.

B. This collaborative approach has been very beneficial for taxpayers because it has enabled a broader group of tax advisors to deliver cutting edge tax advice to a greater number of taxpayers.

C. Attorney-client confidentiality makes it difficult for attorneys to demonstrate prior art in a patent infringement suit or in presenting evidence to the PTO in opposition to a patent application.

D. The patenting of tax strategy techniques makes it difficult for an advisor to advise his or her clients due to concerns that the technique being recommended might infringe on an unknown third party's patent claim.

E. Can a tax advisor and his or her client become informed on a timely basis of exactly what tax strategies have been patented?

1. To a degree, but not entirely. The PTO has established subclass 36T (Tax Strategies) of Class 705 (Data Processing: Financial Business). The client and the tax advisor can go to a PTO website (http://www.uspto.gov/patft/class705_sub36t.html) to get an almost up-to-date list showing which tax strategy patents have been allowed and what applications have been published. To get the most detailed and up-to-date list of patents and published patent applications in this subclass, with links to the documents themselves, the client and advisor can go to http://www.uspto.gov/patft/index.html, click on "Advanced Search" and enter the following terms: ccl/705/36T.

2. However, this information can be difficult to understand for one who is not experienced in a patent law.

3. And, due to the fact that a patent application can be kept private or, at best, is not published until 18 months after it has been filed, there is a period of time when it is impossible for the taxpayer or his or her tax advisor to know whether the tax strategy being recommended could have patent infringement ramifications.

F. The client clearly has to rely on his or her tax advisor, and should, perhaps, even retain special patent counsel to review tax strategy advice in light of existing patent application and patents. This places an unreasonable burden on taxpayers who could be obligated to incur substantial additional costs in order to comply with the tax laws.

VII. Policy Considerations

A. From IP attorneys' perspective.

1. As the Supreme Court has held, the potentially patentable subject matter includes "anything under the sun that is made by man," Diamond v. Chakrabarty, 447 U.S. 303, 309 (1980) (citation omitted).

2. Congress did not intend for practical problems in evaluating or examining new inventions to affect the determination of whether an invention satisfies the requirements set forth in 35 U.S.C. §§101, 102, 103, and 112. If there are public policy considerations to preclude patenting some technologies, they are appropriately directed to Congress.

3. Under Title 35, an applicant is entitled to a patent if his invention is new, useful, and nonobvious, and his application adequately describes the claimed invention, teaches others how to make and use the claimed invention, and discloses the beset mode for practicing the claimed invention. What is more, when Congress enacted §101, it indicated that "anything under the sun that is made by man" constitutes a potential subject matter for a patent. S.Rep.No. 82-1979, at 7 (1985).

4. There is no "business method" exception to what can be patented.

B. From tax attorneys' perspective.

1. It is inadvisable from a public policy standpoint (leaving aside legality) to allow the patenting of tax strategies, other than patents involving matters of compliance and reporting.

2. Patenting of tax strategies is different from other business method patents because it relates to taxes.

- If there is a business method patent in an area of business, a citizen has the choice to either pay for the right to use the technique, do the activity in a different way, or not do it at all.

- A taxpayer does not have that choice—payment of taxes is mandatory.

- However, "Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

3. It should be against public policy to patent tax strategies because:

- Such patents prevent taxpayers from exercising their rights to minimize their taxes within the limits of the law.

- Such patent permit privatization of tax laws and, in effect, deny the taxpayers unrestricted access to the provisions of the Internal Revenue Code.

- A tax strategy patent requires the taxpayer to pay a "toll charge" to the patent holder, thus unfairly increasing the taxpayer's costs and tax burden.

- Even worse, the patent holder could refuse to license the tax strategy altogether, thereby blocking the taxpayer's ability to comply with the tax laws in an effective manner.

- Patents on aggressive tax strategies could lead taxpayers to believe they had a "seal of approval" from the government and could hurt compliance with federal tax laws.

VIII. What Could be Done to Address Problems Caused by the Patenting of Tax Strategies

A. In response to concerns of tax advisors, ACTEC, the ABA's Real Property, Probate and Trust Law ("RPPT") Section, the American Bankers Association and the AICPA established a joint Intellectual Property/Estate Planning ("IP/EP") Task Force to study these issues. In addition, the AICPA has formed a Task Force on Tax Strategy Patents.

B. The ABA Tax Section has organized a pilot session to educate the PTO regarding the conduct of tax research, and plans to hold additional sessions.

C. The IP/EP Task Force and the ABA RPPT and Tax Sections plan to work with the ABA Intellectual Property Law Section to urge the PTO to adopt appropriate procedural reforms to enable advisors to have sufficient time to submit evidence of prior art in opposition to defective patent applications during both the pre-grant examination and post-grant re-examination and cancellation periods. For example, current PTO regulations permit submission of prior art to the PTO within two months of a patent application's publication. Perhaps this window could be increased (to six months? or a year?).

D. The IP/EP Task Force is working with its member organizations to:

- Develop and maintain an easily accessible and informative database of issued and pending tax strategy patents, which would improve on the information currently available on the PTO website.

- Develop a monitor pending and issued tax strategy patents and solicit evidence of prior art for submission to the PTO by tax advisors.

E. On the regulatory and legislative front, it might be appropriate to seek rule changes or legislation:

- To improve procedures for submission of prior art to the PTO and review of prior art by the PTO.

- To require that all tax strategy patents applications be disclosed.

- To require that tax strategy patent holders offer to license their patents.

- To provide a special exemption for tax strategy patents (other than compliance methods).