Patenting Estate Planning Techniques: A Patently Difficult Issue

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CAN ESTATE PLANNING TECHNIQUES BE PATENTED? The answer is yes. Should they be patented? And how do practitioners respond to the patenting of estate planning techniques? These are tougher questions to answer. This article reviews how estate planning techniques have come to be patented, and what it all means for estate planners and their clients, and others involved in implementing estate plans.

A REVIEW OF INTELLECTUAL PROPERTY RIGHTS • The basic types of intellectual property include patents, trademarks, copyrights, and trade secrets. Each of these different forms of protection covers or protects different aspects of the creative efforts, ideas, discoveries, developments, and inventions made in the ordinary course of business activities. Very generally, copyright protects original works of authorship, while a patent protects inventions or discoveries. Ideas and discoveries are not protected by the copyright law, although the way in which they are expressed may be. A trademark protects words, phrases, symbols, or designs identifying the source of the goods or services of one party and distinguishing them from those of others. These basic IP rights are explained in more detail below.

Patents

A patent gives the owner legal rights of ownership in an invention for a limited period of time. The patent term for most countries is a 20-year term measured from the date the patent application is first filed. In the United States, the legal rights established by a patent include the right to exclude others from making, using, selling, or offering to sell the patented invention. After that limited period of patent protection, the invention may be copied by others. The active inducement of others to infringe or the sale of a component uniquely suited for use in a patented combination also constitutes an act of infringement.

A patent is a right granted by a particular country and does not extend to other countries. The U.S. patent system differs in many respects from the patent systems in other countries and it is important to take these differences into consideration in strategic planning.

Why does a person or business obtain patents? In brief summary, there are four reasons:

- Patents provide legal exclusivity; they provide the legal right to exclude others from making, using, or selling the patented invention; this is obviously helpful in protecting the patented invention from competition and in protecting our investment in new products;
- Patents provide marketing advantages; most consumers believe patented products involve the latest, best, and government-approved technology; combined with an appropriate advertising promotion, patented products are highly regarded in the marketplace;
- Patents provide strategic defenses in lawsuits; if sued, we can use our patents in a settlement and cross-license the plaintiff;
- Patents provide opportunities to license a company's technology, if licensing is considered desirable or appropriate for certain technologies.

Both functional and ornamental features can be protected by a patent. A "utility" patent may be granted for any new, useful, and non-obvious process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. For non-functional, ornamental features and configurations of products, "design" patent protection may be available. These different types of patents sometimes use different names in different countries, but the type of protection is similar. The scope of patentable subject matter is very broad: mechanical, chemical, electrical technologies, manufacturing methods, *methods of doing business* and more.

Patents are obtained by initially filing an application with the Patent Office of the appropriate country, or an "international" application under the Patent Cooperation Treaty (PCT). It is also possible to file a single application in a group of European countries under the European Patent Convention (EPC).

The patent systems in each country differ in many respects. It is important to take these differences into consideration in strategic planning. Countries vary in their definitions of the kinds of subject matter that can be patented. The United States, for example, is more liberal in granting protection for certain methods of doing business and software than some other countries.

The standard for granting patents in most countries is "absolute novelty"—the application must be based on an invention that is absolutely new and has never been disclosed or used previously. Any publication or public disclosure of the invention prior to filing will bar the right to a patent in countries where absolute novelty prevails.

In the United States, by contrast, the patent laws provide a one-year grace period. The applicant has one year from the time of first publication, offer for sale, or public use of the invention to file for a U.S. patent. There also are a number of differences in the examination procedures in various countries.

Normally, the company files a provisional or a regular patent application in the country of origin of the invention, but exceptions may be made to achieve appropriate business objectives. Under international conventions and treaties, within one year (i.e. the "convention year") of the first filed application, corresponding foreign filings are made.

Trademarks

A trademark is a word, symbol, or device used to identify goods and services and to distinguish those goods and services from those sold by other companies. Technically, a "trademark" generally refers to a mark that protects goods. A "service mark" is a trademark that applies to services. Unless there is some reason to draw a distinction, most people refer to both trademarks and service marks as "trademarks." For example, the word "Apple" is a trademark for computers, and the picture of the apple used in connection with the computers sold by Apple Computer Inc. is a symbol or logo trademark.

Trademarks embody the goodwill we have established and provide protection against competitors who adopt and use marks likely to cause confusion, mistake, deception, or dilution in the marketplace. Those infringing marks are subject to state or federal civil actions for money damages, injunctive relief and, in appropriate cases, attorneys' fees and costs.

United States trademark rights are obtained primarily by using a mark in commerce and secondarily by filing an application for registration in the United States Patent and Trademark Office ("PTO"). Registering a mark at the PTO extends rights in the mark nationwide and provides a number of important advantages. Trademark rights continue, and registrations may be renewed, for so long as the mark remains in use on or in connection with the goods listed in the registration.

As noted above, the primary mechanism for acquiring trademark rights in the United States is by using the mark in the marketplace. This principle applies in many countries such as Canada, the United Kingdom, and Australia, commonly known as "first to use" countries. However, the vast majority of countries around the world are not "first to use" countries, but rather are "first to file" countries. In these countries, it is the first entity to successfully register the trademark in that particular country that will own the exclusive right to use the trademark on the goods listed in the registration. In many countries, unscrupulous dealers or distributors file trademark registrations in their own name and then by using the trademark registration as leverage, will force the real trademark holder to buy back the trademark registration or prevent the real trademark owner from terminating the business relationships with the distributor. Therefore, it is critically important that marks are registered in countries *before* negotiations begin with dealers or distributors in these countries.

Trademarks differ from trade names. Commercial and trade names are names that identify business entities. In contrast, a trademark is the name or symbol affixed by a business entity to its goods for the purpose of identifying the goods the business entity produces. Trade names and trademarks may be the same or very similar, as exemplified by the trademark "Xerox," a trademark for photocopies, owned by the corporation known as Xerox, having the corporate name of Xerox Corporation.

Copyrights

In general, copyright is a form of legal protection that protects the original expression of an idea, not the idea itself. Copyright protects against anyone copying the expression of the idea. It does not protect the idea, nor does it protect against independent development without copying. The expression of the idea can be in a number of different formats, such as a writing (as with a book), a computer program, a sculpture, a musical composition, or many other forms of expression.

The expression of the idea must be fixed in any tangible medium of expression, now known or later developed, from which it can be perceived, reproduced, or otherwise communicated either directly or with the aid of a machine or device.

Works of authorship protectable with a copyright are broadly defined to include: brochures; manuals; drawings; sketches; advertising copy; computer software; pantomimes and choreographic works; pictures; photographs; pictorial, graphic and sculptural works; videotapes; motion pictures and other audio/visual works; sound recordings; literary works; musical works; dramatic works; and architectural works.

As with patents and trademarks, there is no such thing as an "international copyright" that will automatically protect an author's writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the laws of that country. However, most countries do offer protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

In general, copyrights provide five basic, exclusive rights: reproduction, adaptation, public distribution, public performance, and public display. These rights extend to "derivative works," which are works which "recast" or "transform" one or more preexisting copyrighted works. Copyrights do not protect ideas, they protect only the words used or the manner of expression of those ideas.

As with trademarks, registration is not a prerequisite to acquiring copyright protection for original works of authorship but provides a number of important advantages. In the United States, a copyright must be registered before a lawsuit for infringement of the copyright can be filed.

Trade Secrets

The laws of most countries protect against someone stealing, or "misappropriating," your confidential business information. This confidential business information is generally referred to as a "trade secret." Trade secret protection is established merely by keeping information secret. There is no application process or registration scheme for trade secrets. However, you must take affirmative steps to maintain the information as "secret." Typically, you must do what is reasonable under the circumstances to maintain its secrecy.

In general, most laws consider trade secrets to consist of any secret formula, pattern, device, or compilation of information; the overall know-how associated with a manufacturing method; or a particular unknown step in a known process. A trade secret also may be a unique arrangement of commonly known elements or it may reside in business information such as sources of supply or distribution and customer lists. However, the laws in each country vary as to the scope of trade secret protection.

The law only protects against "misappropriation," such as by theft, fraud, or similar improper conduct. The trade secret law does not protect against independent development, "reverse engineering," or use of information properly obtained. Thus, not all ideas are capable of effective trade secret protection. The protection against misappropriation extends for so long as the information is secret. In the United States, unlike patents, which are protected by Federal law, trade secrets are protected by state law.

Although secrecy is fundamental to maintaining rights in trade secrets, there will be times when disclosure of trade secrets to third parties is essential. A potential licensee, for example, may need to have access to trade secrets to evaluate the merits of a prospective business arrangement. In such circumstances, the integrity of the trade secrets can be maintained by having the recipient execute a confidentiality agreement prior to any disclosure of the trade secrets.

HOW TRADEMARKS APPLY TO ESTATE PLANNING • Just like with any consumer product, someone can adopt a trademark that applies to estate planning services. The trademark will be protected against someone using the same or similar trademark on the same or similar services if there is a likelihood of confusion.

Rights in a trademark exist independently of the Lanham Act and are acquired under common law by adoption and use of the mark in connection with goods or services moving in commerce. The trademark or service mark rights acquired are enforceable in the trading area served by the user of the mark.

With registration of the mark, the owner obtains certain additional benefits that are not accorded by common law, but the registration itself does not create a trademark. Thus, the first person to adopt and use a mark generally has priority to the exclusive use of that mark over another person who subsequently adopts and uses the same or a similar mark for the same or similar goods or services. However, when an application for federal registration of a mark under the Lanham Act is filed based on the applicant's intent to use the mark and the mark is subsequently adopted and used within a specified time period, the application date becomes that person's constructive date of use for the purpose of determining priority.

Adoption and use of a mark sufficient to establish trademark rights in the owner consists of the act of applying, attaching, or displaying the mark in connection with the sale or offer for sale of a commodity or service, and the placement of the commodity or service in the market.

In the case of a trademark, the Lanham Act defines "use in commerce" as occurring when the mark: "[i]s placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale," provided further that the "goods are sold or transported in commerce."

In the case of a service mark, "use in commerce" occurs when the mark "is used or displayed in the sale or advertising of services" with the further provision that the "services are rendered in commerce."

For example, although the SOGRAT patent has been the topic of much discussion, there has not been much mention of the fact that the term SOGRAT is a registered trademark. The mark "SOGRAT" was registered with the PTO on November 13, 2001, Registration No. 2507943, for use on "*Computer software and instruction manuals sold as a unit for use in estate planning, tax planning, trust services, trust planning, wealth transfer planning, charitable gifting, charitable gift planning, and employee benefit planning.*" The registrant is Wealth Transfer Group, Inc. The mark "SOGRAT" also was registered with the PTO on September 4, 2001. Registration No. 2486079, for use in providing "*Services to others in the fields of estate planning, wealth transfer planning, charitable gifting, and charitable gift planning; providing information in the field of estate planning by means of a global computer network.*"

Although the SOGRAT patent is being actively prosecuted (see below), it is not clear how actively a service mark or trademark would be enforced in the estate planning arena.

REQUIREMENTS FOR PATENTABILITY • The specific and detailed criteria and procedures for obtaining a U.S. patent are set out in Title 35 of the U.S. Code, and in Title 37 of the Code of Federal Regulations. In general terms, in order to obtain a utility patent on an invention, the invention must be within the statutory classes of invention, and must also be new, useful, and not obvious to one having "ordinary skill in the art." The invention also must be fully and properly disclosed and described in the application.

The statutory classes of invention are limited to inventions that are a "process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." The Committee Reports accompanying the 1952 Act inform us that Congress intended statutory subject matter to "include anything under the sun that is made by man." S. Rep. No. 82-1979, at 5 (1952); H. R. Rep. No. 82-1923, at 6 (1952), quoted in *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

Notwithstanding the broad scope of what can be patented, there are important limitations. For example, the Federal Circuit recently held in *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007), that a method and system for mandatory arbitration involving legal documents, such as wills or contracts, was not patentable subject matter under the statute. The court held that it was an unpatentable "mental process." Moreover, they suggested that combining this unpatentable mental process with a standard computer also would be unpatentable. The invention that Mr. Comiskey sought to patent is very similar to many tax patents which have been issued or applied for. The following quote from the case is a good indicator how "tax patents" may be treated in the courts, and the PTO, in the future:

> It is thus clear that the present statute does not allow patents to be issued on particular business systems—such as a particular type of arbitration—that depend entirely on the use of mental processes. In other words, the patent statute does not allow patents on particular systems that depend for their operation on human intelligence alone, a field of endeavor that both the framers and Congress intended to be beyond the reach of patentable subject matter. Thus, it is established that the application of human intelligence to the solution of practical problems is not in and of itself patentable.

Id. at 1378-79. It should be noted that the PTO in the *Comiskey* case actually refused to issue the patent. In many of the issued and published "tax patents," it does not appear that the PTO acted in a manner that is fully consistent with what it did in the *Comiskey* case. However, this case may establish a strong precedent for the PTO to become much more rigorous in its analysis of "tax patents"

The Federal Circuit will be taking a fresh look at the entire issue of whether "business methods," like "tax patents," are patentable subject matter under 35 U.S.C. §101. On February 15, 2008, the Federal Circuit, by its own action, granted an en banc hearing in *In re Bilski*, 2008 WL 417680 (Fed. Cir. Feb. 15, 2008). The invention in *Bilski* concerns a method for managing commodity risk. The invention relates to a method practiced by a commodity provider for managing (i.e., hedging) the consumption risks associated with a commodity sold at a fixed price. For example, it is disclosed in the *Bilski* patent application that energy consumers face two kinds of risk: price risk and consumption risk. Consumption risk (e.g., the need to use more or less energy than planned due to the weather) is the problem addressed by the *Bilski* invention. It does not require the use of a computer to implement its method for managing the consumption risk costs of a commodity.

The patent examiner rejected all the claims in the *Bilski* application under 35 U.S.C. §101 as being directed to nonstatutory subject matter. This rejection was affirmed in an administrative appeal by the Board of Appeals and Interferences in the Patent Office. The Board decision was then appealed to the Court of Appeals for the Federal Circuit. The case was fully briefed and argued at the Federal Circuit. However, rather than issue an opinion in the case, the Federal Circuit ordered an en banc rehearing of the *In re Bilski* case – asking the following five questions:

1. Whether the claim 1 patent application claims patent-eligible subject matter under 35 U.S.C. §101?
2. What standard should govern in determining whether a process is patent-eligible subject matter under section 101?
3. Whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process; when does a claim that contains both mental and physical steps create patent-eligible subject matter?
4. Whether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-eligible subject matter under section 101?
5. Whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999) and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), *cert. denied*, 528 U.S.

946 (1999) in this case and, if so, whether those cases should be overruled in any respect?

Thus, the *Bilski* case may resolve or clarify the issue of whether estate planning techniques or other methods of tax reduction or avoidance can be patented.

An invention is "new" if no one else has patented, published, commercialized, or used the same invention prior to the date of invention or the date of the patent application, depending on a number of factors.

An invention is "useful" if it is capable of providing some identifiable benefit. However, courts have avoided consideration of broad public policy in awarding patents and concluded that the requirement in patent law that an invention be "useful" is not a directive to the Patent and Trademark Office or the courts to serve as arbiters of deceptive trade practices. Such policy decisions are the duty of other agencies or for Congress itself. Thus, in granting a tax strategy patent, the PTO is not making a determination as to the validity of the strategy under tax law.

An invention is "obvious" and thus not patentable, if the differences between the subject matter sought to be patented and prior public information (such as prior patents, publications, or public uses) are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the technology to which the invention pertains. The Supreme Court recently clarified the law of what is "obvious" in patent law in *KSR Int'l Co. v. Teleflex Inc.,* 127 S.Ct. 1727 (2007), in which the Court stated "The combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results." The Court in *KSR* also stated: "The obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion, and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents. The diversity of inventive pursuits and of modern technology counsels against limiting the analysis in this way." The analysis from the *KSR* case may be helpful in determining whether patents on tax strategies are "obvious" and hence unpatentable.

HOW THE PATENT PROCESS WORKS • An application for a United States patent is filed with the PTO. The application consists of the following parts:

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

- Drawings showing the preferred embodiment of the invention when the nature of the invention is such that it can be illustrated;
- Claims that define the scope of the invention sought to be protected;
- An oath or declaration of the inventor; and
- A filing fee.

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.

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.

Claim drafting is the most difficult part of preparing a patent application. An ideal claim must be broad enough in scope to cover all potential infringers and narrow enough to be patentable over all prior art references. For this reason, many claims of different scope are usually put into a patent application.

The patent drawings must be prepared in accordance with the rules of the PTO. The drawings frequently show details of the invention that are not referred to in the specification. Thus the drawings, original claims, and specification together form the complete patent application disclosure.

THE EXAMINATION PROCESS 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.

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.

THIRD-PARTY CHALLENGES TO A PATENT • Third parties can protest a patent either before or after the patent is issued.

Prior To The Patent Being Issued—Submit Information Following Publication Of A Pending Application

A submission by a member of the public of *patents* or *publications* relevant to a pending published application may be entered in the application file. This submission must be filed within two months from the date of publication of the application or prior to the mailing of a notice of allowance, whichever is earlier.

The submission is limited to patents and publications relevant to the published application, with no further comment or explanation. The Office will screen third-party submissions to determine whether they are limited to patents and publications, and to remove any explanations or information (other than patents and publications) from the submission before the submission is placed in the application file and forwarded to the examiner.

A submission cannot include any of the following:

- More than 10 total references (patents or publications);
- Explanations of the patents or publications;
- Documents other than patents or publications (e.g., the submission cannot include any affidavits or declarations); or
- Markings or highlights on the patents or publications.

The third party does not have the right to insist that the examiner consider any of the patents or publications submitted. The involvement of a third party in filing a submission ends with the filing of the submission.

After the Patent Is Issued—Request Reexamination

A reexamination request is also limited to patents and printed publications. It can be made either ex parte or inter partes.

INFRINGEMENT OF A PATENT • 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. The remedy for infringement of a patent is a civil action by the patent owner against the infringer. 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.

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. Courts have held that willful infringement may arise, for example, if a potential infringer has actual notice of another's patent and fails to exercise due care to avoid any infringing activity.

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

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 metes and bounds of real estate.

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 method.

However, even if the accused 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.

On the other hand, there can be no infringement when the accused device or method is entirely devoid of structure or a step corresponding to an element of the claim.

Infringement In The Context Of Tax Practitioners

Can a lawyer who "recommends" a patented invention be held liable for patent infringement? A good, lawyerly answer is "it depends"—it depends on the facts, and it depends on the patent.

A patent is infringed by anyone who makes, uses, sells, or offers for sale the patented invention. A patent can be infringed by someone who does any one of the four proscribed activities. You infringe a patent by actually doing one of the "prohibited 4." However, someone who "actively induces infringement of a patent" also is liable as an infringer. All of this is set out in 35 U.S.C. §271.

Direct Infringement

With respect to "tax advice" patents, these usually are business method patents. The lawyer giving advice to a client usually is *not* actually making, using, selling, or offering to sell the patented method and thus would not be liable for direct infringement. For example, in the SOGRAT patent, claim 1 requires:

1. Establishing the GRAT;
2. Funding the GRAT with stock options;
3. Setting a term for the GRAT; and
4. Performing a valuation of the stock options and determining which options to include in the annuity payment.

The lawyer may establish the GRAT, and set the term, but the lawyer is *not* funding the GRAT, and likely is *not* performing a valuation of the stock options. Thus, the lawyer is *not* doing steps 2 and 4 above, and thus is not directly infringing the patented invention.

Inducing Infringement

Last year the Court of Appeals for the Federal Circuit clarified the law on "inducing infringement." Based on the court's clarification, it is difficult for a patent owner to establish that a lawyer giving advice to a client would be held liable for inducing infringement.

In *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006), the court held that the alleged inducing infringer must be shown to have knowingly induced infringement, not merely knowingly induced the acts that constitute direct infringement. It must be established that the person alleged to induce infringement possessed specific intent to encourage another's infringement and not merely that the person had knowledge of the acts alleged to constitute inducement. The requirement that the person intended to induce actual infringement necessarily includes the requirement that he or she knew of the patent. Also, the mere knowledge of possible infringement by others does not amount to inducement; specific intent and action to induce infringement must be proved.

Patent lawyers routinely provide advice to clients that a patent is not infringed by the client's product or method and/or that the patent is invalid. Patent lawyers advise the client that he or she may use the patented invention without fear of liability. Sometimes the lawyer giving such advice is wrong—the patent is valid and infringed. The authors are not aware of any case in which the patent owner has alleged that the lawyer giving such advice was liable for "inducing" patent infringement.

Willful Infringement

There is an affirmative duty of due care to avoid infringement of the known patent rights of others. The extent to which the infringer disregarded the property rights of the patentee, the deliberateness of the tortious acts, or other manifestations of unethical or injurious commercial conduct, may provide grounds for a finding of willful infringement.

The patentee bears the burden of persuasion and must prove willful infringement by clear and convincing evidence.

A finding of willful infringement may qualify a case as exceptional under 35 U.S.C. §285, thereby allowing a party to obtain enhanced damages and attorney fees.

HOW PATENTS APPLY TO ESTATE PLANNING • Estate planning and other tax strategy patents fall within the broad classification of "business method patents." 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. Mary Lee Turk, *Patenting Tax Strategies*, 145 Tr. & Est. 60, 61 (Dec. 2006). However, such an abstract process can be thought of as a method of doing business.

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 hears most patent appeals cases) ruled in *State Street Bank and Trust Company supra*, that a business method was patentable as long as it involved a process within the meaning of the Patent Act. In that case, the business method was a data processing system for implementing an investment structure for mutual funds using a partnership and performing calculations showing each partner's interest in the funds. Dennis I. Belcher and Dana G. Fitzsimons Jr., *Tax Planners—Beware of Patented Estate Planning Techniques!*, 20 Prob. & Prop. 24, 25 (Nov./Dec. 2006).

Although it may seem like a leap to go from a business method like the data processing system involved in *State Street Bank* to tax and estate planning strategies, as of February 12, 2008, the PTO has issued business method patents for 63 tax reduction strategies, including several estate planning techniques, and 107 tax reduction strategy patent applications are currently pending at the PTO. In addition to the SOGRAT patent discussed below, examples of estate planning strategy patents applied for or issued include patent numbers 6,058,376 and 6,567,790; and patent application publication no. US 2006/0026085. (Issued patents and patent applications can be searched by number and in other ways at www.uspto.gov/patft/index.html.)

THE SOGRAT PATENT (NO. 6,567,790) • An example of a tax strategy patent is the SOGRAT Patent (Patent No. 6,567,790, Establishing and Managing Grantor Retained Annuity Trusts Funded by Nonqualified Stock Options (Filed 12/1/99; granted 5/20/03).) A SOGRAT involves a grantor retained annuity trust ("GRAT") funded with nonqualified stock options. A GRAT is an estate planning technique authorized by Congress, the Treasury Department, and the Internal Revenue Service. Internal Revenue Code §2702; Treas. Reg. §25.2702-2(a).

A GRAT is an irrevocable trust in which the grantor retains an annuity for a fixed term (usually two or more years) and at the end of the term the remaining trust assets (the trust "remainder") pass to beneficiaries selected by the grantor (usually the grantor's family). The grantor transfers assets to the GRAT that the grantor believes will appreciate significantly over the term of the trust. The grantor is able to deduct for gift tax purposes the value of the grantor's retained annuity, thereby reducing the amount of the gift to the grantor's family. The annuity can be structured so that its value is almost equal to the value of the assets being transferred to the GRAT, with the result that the value of the gift of the remainder (including any appreciation) to the family is close to zero. Because of the taxpayer's ability to transfer appreciation on assets in the GRAT to family members at little or no gift tax cost, the GRAT is a frequently used estate planning technique.

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.

Problems Created By The SOGRAT Patent

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.

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.

In 2006 the SOGRAT patent holder, Wealth Transfer Group, filed suit in Connecticut U.S. District Court for infringement of the SOGRAT patent against Dr. John W. Rowe, the Executive Chairman of Aetna, Inc. *Wealth Transfer Group v. Rowe*, No. 06CV00024 (D. Conn. Jan. 6, 2006). According to an article in *Business Week Online* dated July 27, 2006, the stock options were valued at $28.5 million.

This case was settled by agreement of the parties confirmed in a Consent Final Judgment entered on March 9, 2007. Based on stipulated facts, the Judgment holds that a valid patent exists. No liability was admitted and no license fees or damages were disclosed.

No tax advisor should set up a GRAT funded with nonqualified stock options unless the advisor's client is willing to negotiate with Wealth Transfer Group for a license to use this technique or has obtained an opinion from experienced patent counsel that the technique being recommended does not infringe on the SOGRAT patent.

POTENTIAL DIFFICULTIES FOR TAX ADVISORS AND THEIR CLIENTS CAUSED BY TAX STRATEGY PATENTS • 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 to patent tax strategies could have a chilling effect on the previously collegial nature of the tax practice.

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.

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.

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.

Can a tax advisor and his or her client become informed on a timely basis of exactly what tax strategies have been patented? To a degree, but not entirely. The PTO has established subclass 36T (Tax Strategies) of Class 705 (Data Processing: Financial, Business Practice). The client and the tax advisor can go to a PTO website (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 www.uspto.gov/patft/index.html, click on "Advanced Search" and enter the following terms: ccl/705/36T.

However, this information can be difficult to understand for one who is not experienced in patent law, and tax strategy patents and applications are not always correctly categorized under 705/36T by the PTO. 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.

At least one IP attorney has suggested that tax advisors should indemnify their clients against damages for patent infringement. Given the difficulty of determining the status of tax strategy patents, this appears to be unworkable.

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 applications 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.

The possible impact of tax strategy patents on development of responses to new tax legislation illustrates the unfairness to taxpayers (and their advisors) of the ability to patent tax strategies. If we ever get estate tax reform legislation, how would we be able to advise clients on amending plans to comply with the new law without the concern that someone would have already patented techniques for adapting plans to the new law? For example, a plan to utilize the concept of a portable transfer tax exemption, which was included in at least one of the 2006 legislative proposals, could be patented before most estate planners would be aware of it.

Note that in 1999, the First Inventor Defense Act, 35 U.S.C. § 273(b)(1), was enacted to provide a defense to one who is accused of infringing a business method patent if the accused had reduced the subject matter to practice and had commercially used the subject matter at least one year before the filing date of the allegedly infringed patent. Although this may provide some comfort to a taxpayer or tax advisor who was a prior inventor of a patented tax strategy, it is only a defense to an infringement suit. Furthermore, it can be difficult to prove that the prior inventor qualifies for first inventor protection under the Act.

Ethical Issues

Numerous ethical issues arise out of the patenting of tax strategies, and they affect both the lawyer who obtains a patent and the lawyer who is advising a client but has no financial interest in the patent. (The authors thank Professor Michael Lang, Chapman University School of Law, Orange, CA, for allowing them to use his outline, *Ethical Issues Arising Out of the Patenting of Tax Strategies*, presented at an ABA Tax Section meeting on May 11, 2007, as a frame of reference for the following discussion.) Examples of these ethical issues follow.

Lawyer Who Obtains A Patent

For the lawyer who obtains a patent, is it a conflict of interest for the lawyer to advise a client to use a patented tax planning strategy when the lawyer is the patent holder or owns an interest in the patent? (Conflicts of Interest—MRPC (ABA Model Rules of Professional Conduct) 1.7, Comment 10)

Lawyer Advising Client

For the lawyer who is simply advising a client: Is the lawyer required to determine whether the tax plan being proposed for the client has been patented? (Due Diligence—MRPC 1.3) (Duty to Communicate with Client—MRPC 1.4) If the lawyer—believing that the strategy is not new and is obvious—fails to search for and discover that this recommended technique has been patented, could the lawyer be held liable for malpractice if the technique has in fact been patented? If the patent holder is another lawyer and the two lawyers act as co-counsel on the matter, does the fee-sharing rule apply? (MRPC 1.5(e)) Can the lawyer rely on the patent holder's statements about the tax consequences of the patented strategy? Does the lawyer have a duty to refer the client to the patent holder if the patent holder refuses to license the patent to the lawyer or the patent holder waives or reduces the license fee for his or her own clients?

Non-Lawyer Actions

Is there some point at which a non-lawyer who obtains and markets a tax strategy patent is engaged in the unauthorized practice of law? What can a lawyer do to prevent a client from patenting a tax strategy the lawyer has created?

WHO NEEDS TO BE CONCERNED ABOUT TAX STRATEGY PATENTS? • Investment advisors, valuation consultants, individual and corporate trustees, and others are often involved in implementing tax strategies. For example, a trustee is required to administer the GRAT involved in a SOGRAT and an investment advisor or valuation firm would likely be involved in valuing the stock options.

These "implementers" face many of the same risks being presented to tax advisors by the patenting of tax strategies.

Any individual or firm which participates in the implementation of a tax strategy should try to determine—independently or with the assistance of the tax advisor or patent counsel—whether the strategy being utilized has or has not been patented, and, if a similar technique has been patented, whether or not implementation of the recommended strategy might lead to patent infringement litigation.

POLICY CONSIDERATIONS • Tax patents raise a host of policy issues.

From IP Attorneys' Perspective

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.

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 best mode for practicing the claimed invention. What is more, when Congress enacted section 101, it indicated that "anything under the sun that is made by man" constitutes potential subject matter for a patent. S. Rep. No. 82-1979, at 7 (1952). And that principle was confirmed by the Supreme Court in

Diamond v. Chakrabarty, 447 U.S. 303, 309 (1980). "Anything under the sun" includes estate planning.

There is no "business method" exception to what can be patented. Since the 1952 Patent Act, business methods have been, and should have been, subject to the same legal requirements for patentability that applied to any other process or method.

From Tax Attorneys' Perspective

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. We are talking about patenting tax advice (which is what one uses to develop tax strategies), not patent protection for tax preparation or computation software. The provision of tax advice is a mental process or process of human thinking which, under the Federal Circuit's 2007 holding in *In re Comiskey*, supra, should be critically scrutinized by the PTO.

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. At the same time, as Judge Learned Hand pointed out, "[a]ny 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." *Helvering v. Gregory,* 69 F.2d 809, 810-11 (2d Cir. 1934).

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 patents permit privatization of the 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 abusive tax strategies could lead taxpayers to believe they had a "seal of approval" from the Government and could hurt compliance with Federal tax laws. This concern has led the IRS to propose regulations which would include all transactions which involve tax patents as reportable tax shelter transactions under IRC sections 6011 and 6111. See REG-129916-07, 72 Fed. Reg. 54,615 (9/26/07). A better alternative would be for the PTO to agree to notify the IRS whenever a tax strategy patent application is filed. The IRS could identify abusive strategies and take appropriate action, rather than subject all patented tax strategies to the reporting regime under IRC sections 6011 and 6111.

WHAT IS BEING DONE TO ADDRESS PROBLEMS CAUSED BY THE PATENTING OF TAX STRATEGIES? • In response to concerns of tax advisors, The American College of Trust and Estate Counsel ("ACTEC"), the American Institute of Certified Public Accountants ("AICPA"), and the American Bankers Association established a joint Intellectual Property/Estate Planning ("IP/EP") Task Force to study these issues. Though not formally members of the Task Force, several members of the American Bar Association ("ABA") have been attending Task Force meetings. In addition, the AICPA and the ABA Tax Section have each formed a Task Force on Tax Strategy Patents.

The ABA Sections of Taxation and of Real Property, Trust and Estate Law have held sessions to educate the PTO regarding the conduct of tax research and plan to hold additional sessions with the PTO. In addition, both ABA Sections have presented programs to educate their members regarding how to search for and read patents and patent applications.

The ABA Tax Section's Patent Task Force maintains a web page on which they post articles of interest and information regarding new tax strategy patents and patent applications. This page can be accessed at www.abanet.org/dch/committee.cfm?com=TX800000.

The AICPA is developing a library of "prior art" related to several tax strategy patents which have been applied for or issued. Any persons interested in participating in this project should contact Eileen Sherr at escherr@aicpa.org.

The IP/EP Task Force has a long-term project to develop a program for monitoring and peer review of tax strategy patents and patent applications.

The PTO has initiated a peer-to-peer patent review program in another area. If successful, it could be expanded to the area of tax strategy patents.

Significant legislation has been proposed to deal with this patently difficult issue, including:

- The Patent Reform Act of 2007, H.R. 1908 and S.1145, attempts to enhance the ability of the public to challenge patents by allowing those interested to bring an administrative action before the PTO during a one-year period immediately after the patent has been granted. The proposed patent reform legislation would also extend the period for submitting prior art to the PTO from 60 days to six months after a patent application has been published, and allow the person submitting evidence of prior art to explain its relevance.
- H.R. 1908, in Section 10, would also make tax planning methods not patentable. A "tax planning method" is defined as "a plan, strategy, technique, or scheme that is designed to reduce, minimize, or defer, or has, when implemented, the effect of reducing, minimizing, or deferring, a taxpayer's tax liability." It would not include tax preparation software or other tools used solely to perform or model mathematical calculations or prepare tax or information returns.H.R. 1908, including Section 10, was passed by the House on September 7, 2007.
- S. 2369, introduced as a stand-alone bill by Senators Baucus and Grassley on November 15, 2007, would also prohibit tax method patents. This bill currently has seven co-sponsors and has been referred to the Senate Judiciary Committee.
- The Tax Planning Fairness Act of 2007, H.R. 2365, with 40 co-sponsors, was introduced in the House of Representatives on May 17, 2007. This bill provides for a limitation on damages and other remedies with respect to patents for tax planning methods. It would protect taxpayers and tax practitioners (and the practitioners' firms) from suits for injunctions, damages, and attorneys' fees for infringement of a tax planning method patent. This bill takes an approach which is similar to 35 U.S.C. §287(c), which restricts infringement liability for certain surgical procedures.
- The Stop Tax Haven Abuse Act, S.681, introduced by Senators Levin, Coleman, and Obama in February, 2007, includes, among many other provisions dealing with offshore tax havens and allegedly abusive tax shelters, a provision (section 303(a)) which would prohibit the PTO from issuing patents on inventions designed to avoid tax liability. This bill has been referred to the Senate Finance Committee. A similar bill (H.R. 2136) was introduced

in the House of Representatives on May 3, 2007.

CONCLUSION • The patenting of tax strategies presents challenging issues which need to be considered and dealt with by taxpayers and their tax advisors, and by all individuals and firms who will be called upon to implement tax strategies. Each of these parties needs to develop an appropriate risk management plan to minimize the possibility of becoming involved in costly patent infringement disputes.

PRACTICE CHECKLIST FOR

Patenting Estate Planning Techniques: A Patently Difficult Issue

Can estate planning techniques be patented? The answer is yes, under current law. But legislation has been introduced which would prohibit tax strategy patents. Should they be patented? Most tax advisors would say "no". And how do practitioners respond to the patenting of estate planning techniques? This is a tougher question to answer. Tax advisors may be well advised to periodically monitor the PTO website to identify tax patents which have been issued or applied for and stay abreast of new cases and legislative and tax law developments affecting tax method patents.

- Why does a person or business obtain tax strategy patents?

  __ Patents provide legal exclusivity; they provide the legal right to exclude others from using or selling the patented strategy and enable the patent holder to generate revenue in the form of potentially significant licensing fees.

  __ Patents provide marketing advantages; and, in fact, might lead potential clients to believe that the patented strategy will be effective and has government approval.

  __ Patents provide strategic defenses in lawsuits; if sued, the patent holder can use the patent in a settlement and cross-license the plaintiff.

  __ Note, however, that under recent case law, the PTO may become less inclined to issue tax strategy patents. And they may be legislated out of existence.

- Can a lawyer who "recommends" a patented invention be held liable for patent infringement? A good, lawyerly answer is "it depends"—it depends on the facts, and it depends on the patent.

  __ With respect to "tax advice" patents, these usually are business method patents. The lawyer giving advice to a client usually is not actually making, using, selling, or offering to sell the patented method and thus would not be liable for direct infringement.

  __ Last year the Court of Appeals for the Federal Circuit clarified the law on "inducing infringement." Based on the court's clarification, it is difficult for a patent owner to establish that a lawyer giving advice to a client would be held liable for inducing infringement.

  __ Patent lawyers routinely provide advice to clients that a patent is not infringed by the client's product or method and/or that the patent is invalid. Patent lawyers advise the client that he or she may use the patented invention without fear of liability.