

AALS 2009 Open Source Program

The Business of Tax Patents:
At the Crossroads of Patent, Tax
and Business Law

The Business of Tax Patents: Panelists

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Crossroads of Patent, Tax and Business Law

- Brief History of Business Method Patents
- How Patent Law Deals with New “Species” of Patents:
 - Constitutional limitations; statutory requirements
 - Significant case law precedents
- The “Deep Divide”
 - Why the IP bar mostly favors patentability of business methods (and tax strategies)
 - Why the tax bar mostly disfavors patentability of tax strategy patents
- The *Bilski* Decision:
 - pros, cons and speculation about the future
- The Role of Academics:
 - Needful insights or kneejerk protectionism of academic turf?

Brief History of Business Method Patents

- Application must present a claim based on patentable subject matter that sets forth an invention that is useful, novel and nonobvious
- Grant provides a limited-term right to exclude
 - Incentivizes inventors to invent
 - Provides a public good in the use of the invention, even while the monopoly exists

Brief History of Business Method Patents

- Seminal *State Street Bank* case
- Surge in business method patents and, more recently, tax patents

How Patent Law Has Dealt with New “Species” of Patents:

- Constitutional limitations and statutory requirements
- Significant case law precedents

A few interesting article titles

The uninvited guest: patents on wall street (Robert Merges, 2003)

Patenting tax strategies: a troubling storm develops (Jones & Luscombe, 2006)
("warning" that "Tax strategies are now being carved out as private property")

Whose tax law is it? (Devinsky 2006)

To practice tax law, you need a patent license (Devinsky & Fuiscz 2006)

The patented loophole: how should Congress respond to this judicial invention?
(William Drennan, 2007)

A sea change for intellectual property in the financial industry (Schaafsma, 2007)

Ethical issues arising out of the patenting of tax planning strategies (Beale, Goldstein, Lang, Pulaski ABA panel 2007)

Crisis pending (Seidenberg, 2007) (quoting Drapkin, "Members are shocked and dismayed at the very idea that legal advice can be patented.")

The “Deep Divide”

- Why the IP bar mostly favors patentability of business methods (and tax strategies)
- Why the tax bar mostly disfavors patentability of tax strategy patents

The *Bilski* Decision

Bilski

“Purported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances and they are not representatives of physical objects or substances.”

The response to *Bilski*

Is there still a big loophole for software and business method patents?

Masnich (TechDirt, 10/31/08)

“[L]awyers who filed briefs [in Bilski] in favor of stronger patent protection ... seem to think that as long as the software works on any device it qualifies for patent protection under the new test. In other words, ...as long as you add the words “on a computer” to a claim, then you’re all good.”

Business Week (Brady, 10/31/08)

“The court dodged what for many is a crucial question: whether simply employing a computer itself is enough to earn patent protection”

The response to *Bilski*

- Assuming *Bilski* is not overturned, how will the decision impact businesses, patent law?

Pros/Cons of business method patents

Business Week (Brady, 03108)

- Accenture said that patents in financial services and organizational behavior are “*central to innovation in a 21st century economy*”; thinks *Bilski* still leaves room for protection of business methods.
- IBM argued that there has been a “*runaway issuance of nontechnological process patents*”; is “*very pleased*” with *Bilski* result.

Newman dissent

- “This exclusion of process inventions is contrary to statute, contrary to precedent, and a negation of the constitutional mandate.”
- “The innovations of the “knowledge economy”--or digital prosperity--have been dominant contributors to today’s economic growth and society change. Revision of the commercial structure affecting major aspects of today’s industry should be approached with care.”
- “These new uncertainties not only diminish the incentives available to new enterprise, but disrupt the settled expectations of those who relied on the law as it existed.”

Mayer Dissent

- *“The patent system is intended to protect and promote advances in science and technology, not ideas about how to structure commercial transactions”*
- *“Affording patent protection to business methods lacks constitutional and statutory support, serves to hinder rather than promote innovation and usurps that which rightfully belongs in the public domain.”*

Rader dissent

“[T]his court ties our patent system to dicta from an industrial age decades removed from the bleeding edge ...[and] links patent eligibility to the age of iron and steel at a time of subatomic particles and terabytes.”

The case could have been resolved with a simple sentence: *“Because Bilski claims merely an abstract idea, this court affirms the Board’s rejection.”*

“This is going to affect a handful of industries, namely banking, accounting, insurance...” (Wall Street Journal 10/31/08)

*“The only people who will suffer from the decline are a few patent prosecutors and trolls. As a whole, the American public will not suffer at all from the change.” (commentator on Patently-O blog posting on *Bilski*)*

*“My guess ... is that the [*Bilski*] case will lead to the US system becoming much more like the one we have in Europe [where business method patents are pretty much unobtainable, while software patents are much harder to get.” (Adams, IAM blog, 10/14/08)*

*“[T]he PTO’s position pushes outside the patent system Google’s PageRank patent, even though that patent covers one of the most widely known and commercially successful innovations of our era.” (John Duffy, The Death of Google’s Patents, a post *Bilski* article looking at *Langemyr* and *Wasynczuk* Board opinions)*

Kevin Collins “Tangibility Gone ‘Meta’” (paraphrased)

- “[W]hat is new in *Bilski* is the importance now placed on the physicality of the thing to which the data refers. Thus, the tangibility test has gone ‘meta’: it is no longer the tangibility of jostling electrons that is of concern ... but the tangibility of the stuff represented by those electrons as symbols.”
- This raises both a normative question--why treat manipulation of data about physical properties (height) differently from information about intangible things (age)?-- and an administrative concern --how do we decide whether the data satisfies the requirements for patent eligibility?

The Role of Academics

- Needful insights?

or

- kneejerk protectionism of academic turf?