THE PATH TO THE TAX PATENT PROHIBITION

Ellen Aprill *

The Leahy-Smith America Invents Act of 2011 (“2011 Act”), like its predecessor, the Patent Act of 1952, requires patented inventions to be useful, novel, and non-obvious. Thus, the invention must not be anticipated by “prior art,” such as publications and other patents. The 2011 Act specifies that any tax strategy patent, with some limited exceptions, “shall be deemed insufficient to differentiate a claimed invention from the prior art.” That is, the 2011 Act denies patentability to tax strategy patents by creating a per se rule that they cannot satisfy the requirements of novelty and non-obviousness. This approach, however, was adopted only after other approaches proved unsuccessful. Comparing the choice ultimately made to two other possibilities clarifies the purpose of the provision as enacted.

The first approach, which several professional groups endorsed in 2007, would have limited liability for infringing or inducing infringement of tax patents. Such limitation on liability would have paralleled a provision of the patent law enacted in 1996, the Physicians’ Immunity Statute, which bars patent holders from obtaining damages or injunctions against medical practitioners for infringing patents on medical procedures. Those supporting the Physicians’ Immunity Statute argued: 1) that it would be unethical for physicians to seek patents on medical procedures; 2) that the medical profession had long relied on the open exchange of information and that patents on medical procedures would affect relationships with patients; 3) that these patents would

* John E. Anderson Professor of Tax Law, Loyola Law School, Los Angeles. All views expressed herein are solely those of the author.
increase the cost of serving clients; and 4) that they would complicate patient confidentiality. Tax groups making similar arguments called for a similar solution.

Experience with the Physicians’ Immunity Statute, however, has shown the limitations of its approach. First, the provision has a narrow reach; it fails to protect processes if they also involve patented drugs, device or products. Second, whether the immunity provision applies is a question of fact. It cannot be resolved on summary judgment and does not protect practitioners from the cost of preparing a full defense. As a result, it failed to provide the kind of protection crucial to a practitioner. In short, immunity for liability implicates a number of practical difficulties.

The approach of the Physicians’ Immunity Statute also raises significant questions regarding compliance with TRIPs, the Agreement on Trade Related Aspects of Intellectual Property. TRIPs provides that “patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.” Moreover, it requires that patent rights are to be enjoyable without discrimination, and limiting liability for a particular category of patents discriminates among patent rights. While TRIPs contains an exception for compliance with its requirements for inventions related to human life and health that may cover the Physicians’ Immunity Act, this exception would not be available for tax strategy patents.

“The Patent Reform Act of 2007, which passed the House of Representative, but not the Senate, took the second approach. Largely because of concerns about TRIPs, it excluded tax strategy patents from the very definition of a patentable invention. The House Judiciary Committee Report accompanying the 2007 legislation argued that defining patents to exclude tax strategy patents fared well under TRIPs. It took the
position that this approach did not violate the anti-discrimination provision of TRIPs because many members of the World Trade Organization did not consider business methods, of which tax strategy patents are a subclass, as a “field of technology” for which TRIPs requires patent rights.

Amending the provision of the patent law defining a patentable invention failed to gain sufficient traction because the patent bar views a broad definition of patentable invention as sacrosanct. Patent practitioners, deeply committed to the U.S. patent system as promoting innovation crucial to our country’s economic success, objected to limiting this definition in any way. In other words, defining patentability to exclude tax patents faced a conceptual difficulty.

The tax strategy provision of the 2011 Act sidesteps both of these problems by respecting not only TRIPs, but also the definition of a patentable invention. Moreover, this approach recognizes the difficulty that United States Patent and Trade Office examiners face in finding prior art to determine whether tax strategy patents are in fact novel and non-obvious. As the legislative history states, “any future tax strategy will be considered indistinguishable from all other publicly available information that is relevant to a patent’s claim of originality.” The legislative history also acknowledges the important policy reasons for thwarting tax strategy patents – ensuring that the ability to interpret and implement the tax law “remain[s] in the public domain, available to all taxpayers and their advisors.” Patents give their holders a 20-year right to exclude others from making, selling, or using the patented invention. When inventions would bar American citizens from adopting methods by which they can fulfill their obligation to supply the government with revenue, the values of the patent system give way to the needs of the tax system.