NEW YORK CITY BAR

April 15, 2011

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Hon. Orrin Hatch
Ranking Member, Senate Finance Committee
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Hon. Patrick Leahy
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Hon. John Conyers, Jr.
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Re: The Equal Access to Tax Planning Act of 2011 (S. 139)
Section 14 of the Patent Reform Act of 2011 (S. 23)

Dear Senators and Congressmen:

This letter is being sent to you by the Estate & Gift Taxation Committee, the Personal Income Taxation Committee, and the Taxation of Business Entities Committee of the New York City Bar (the "Committees") in support of the above-referenced bills that would prohibit the issuance of patents for tax planning methods ("tax patents").

In this letter, we discuss why legislation in the form of one of the above-referenced bills is the most effective mechanism for preventing the issuance of tax patents. If neither bill will receive sufficient backing, we also propose alternative legislation prohibiting the imposition of damages against someone who uses a tax patent without permission from the patent holder. In support of our position, we outline the public policy reasons as to why tax patents should be prohibited, and we review the current state of the case law, the proposed Treasury Regulations, and the U.S. Patent and Trademark Office's current stance as they relate to the issuance of tax patents.

Legislation Prohibiting Tax Patents

Over the past several sessions there have been numerous bills before Congress regarding the prohibition of tax patents. During the current session the Equal Access to Tax Planning Act of 2011 (S. 139) was introduced by Senators Baucus and Grassley, and the Patent Reform Act of 2011 (S. 23) was introduced by Senators Grassley, Hatch, and Leahy.

The Equal Access to Tax Planning Act of 2011 provides that "any strategy for reducing, avoiding, or deferring tax liability, whether known or unknown at the time of the invention or application for patent, shall be deemed insufficient to differentiate a claimed invention from the prior art." The legislation would have the effect of making tax patents impermissible under 35 U.S.C. § 103, which provides that "[a] patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art 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 art to which said subject matter pertains." The legislation would take effect on the date of enactment and would "apply to any patent application pending and any patent issued on or after that date." The language of Section 14 of the Patent Reform Act of 2011 tracks exactly that of the Equal Access to Tax Planning Act of 2011.[1]

[1] It should be noted that the proposed prohibition of tax patents supported by the Committees is incomplete in that it does not address the status of tax patents issued prior to the enactment of the ban. The Committees would support either (i) a ban on tax patents that vitiated the effect of patents previously issued

For the reasons set forth in this letter, the Committees strongly support both of the proposed bills prohibiting tax patents outlined above.

As emphasized by Professor Beale in "Tax Patents: At the Crossroads of Tax and Patent Law," the "principle of patented monopoly rights undermines the fundamental purpose of fair tax collection." As such, legislation to ban tax patents is important and the Committees urge that it be adopted.

Policy Reasons Why Tax Patents Are Not Desirable

Tax patents force a taxpayer and a tax advisor to incur a fee, payable to the patent holder, before the taxpayer can take advantage of the tax planning method covered by the patent and before the tax advisor can utilize the method for the practitioner's clients. Failure to pay the fee may result in a claim against the taxpayer or practitioner who violates the patent.

There are many important policy reasons for banning tax patents. We believe the most important reason for banning tax patents is that they would prevent some taxpayers from taking a perfectly valid position under the tax law simply because someone else laid claim to that position first. This result is in direct conflict with the generally accepted principle that "[t]he legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted." *Gregory v. Helvering*, 293 U.S. 465 (1935). The issuance of tax patents restricts taxpayers' access to those means that are otherwise available to them.

A direct consequence of the issuance of tax patents is that similarly situated taxpayers would, unfairly, have different tax burdens. As expressed by Senators Baucus and Grassley, in a news release issued in January 2011 (the "2011 Release"), tax patents compromise equity and fairness of the tax system by compelling taxpayers to choose between paying more than legally required in taxes or paying a fee to a third party for use of a patented tax planning strategy. As further noted by the Chief Executive Officer of

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with respect to tax matters; or (ii) in conjunction with a prospective ban on tax patents, a ban on the imposition of damages for infringement of tax patents issued pre-enactment, as described more fully below.

the American Institute of Certified Public Accountants ("AICPA"), Barry Melancon, tax strategy patents violate the principle of equity that is the foundation of the voluntary tax reporting system in the U.S. *See Daily Tax Report*, Bureau of National Affairs, September 10, 2007.

Another reason to prohibit the issuance of tax patents is that they may well be issued inappropriately. Tax advisors routinely use various tax strategies that are reasonably well known to the profession, but are not generally publicized. If one advisor chooses to apply for a patent for such a strategy, it may be very difficult for the Patent Office to determine that the strategy is not sufficiently "new" to satisfy the grant of patent. There are other substantive areas (for example, the area of medical innovation) which inventions are more likely to be publicized, so that innovative nature of a particular claim can be more easily verified. This problem is illustrated by the case of the patent issued in 2003 for the "SOGRAT" strategy (which involves funding a grantor retained annuity trust with nonqualified stock options), despite the fact that such a strategy had generally been in use by many practitioners before the patent application was filed.

A further reason to prohibit the issuance of tax patents is that they can create the false impression that a patented strategy has been approved as effective by the U.S. government. Clearly, the Patent Office does not serve as a forum in which the IRS could challenge the effectiveness of a tax strategy for which patent protection is claimed. Nonetheless, it is possible that the grant of a patent will be viewed by taxpayers as a government "imprimatur" that the strategy works. The 2011 News Release expressed the concern that tax patents may give the false implication that the U.S. government condones tax loopholes that violate the letter or the spirit of tax laws.

In addition, tax patents should be prohibited because they create distortions in the marketplace for tax advice. If tax patents are issued, aggressive tax advisors will have an incentive to amass such patents and to promote themselves as market leaders and, perhaps falsely, as innovators of successful tax strategies. Further, taxpayers would be inappropriately faced with the choice of (i) employing the advisors of their choice, but

potentially paying fees to patent holders to implement the appropriate tax planning advice, (ii) employing the advisors who hold the patents, or (iii) paying higher taxes unnecessarily.

The arguments we advance above, as well as additional concerns, have been articulated by a number of commentators, legislators and practitioners. These include:

- Senators Baucus and Grassley, in the 2011 News Release alluded to above, also argued that tax patents:
  - Result in fees when tax payers use routine tax strategies.
  - May lead to the promotion of tax shelters.
  - Undermine a tax system based on voluntary compliance.

- In a previous news release issued in November 2007, Senators Baucus and Grassley observed that tax patents:
  - Cause taxpayers to have to pay a fee to make sure they are not violating patent law when they file their tax returns.
  - Prevent tax practitioners from providing advice to their clients without paying a fee to the patent holder.

- As expressed by a House Judiciary Committee Report (H. Rept. No. 110-314) in September 2007, tax patents may result in lost tax revenue and can remove particular ways to satisfy legal obligations from the public domain.

- As set forth in an AICPA report analyzing legislative proposals on patents for tax strategies, tax patents: (i) limit a taxpayer's ability to fully utilize tax law interpretations intended by Congress; (ii) may cause some taxpayers to pay more tax than Congress intended or than others pay; (iii) complicate the process of providing tax advice; (iv) hinder taxpayer compliance; (v) mislead taxpayers into thinking a patented strategy is valid under the tax law; and (vi) prevent professionals from challenging the validity of tax strategy patents. *See Federal Taxes Weekly Alert*, March 15, 2007, Vol. 53, No. 11.

- By privatizing tax strategies through a system of tax patents, the ability to implement public policy goals through the tax system is thwarted, since it will be more difficult for taxpayers to avail themselves of the benefits offered by certain tax laws. *See id*.

- In congruence with many of the above comments, it has been noted that "[b]ecause it is a centrally important function of democratic government, the tax system is grounded in fairness norms, including the ideal that taxpayers perceive the system as treating them fairly in comparison with other taxpayers . . . . A taxpayer may be less compliant than otherwise expected because of perceived unfairness, or may not report in accordance with the tax laws because of misunderstood opportunities of avoiding taxation." *See* "Tax Patents: At the Crossroads of Tax and Patent Law," by Linda M. Beale, *Tax Notes*, December 1, 2008, at 1040.

- While patents are necessary, in general, to create an incentive for people to innovate, in the tax field the desire to pay as little tax as legally possible is enough to encourage innovative tax planning among tax practitioners. *See id.* at 1041-42.

- The voluntary compliance nature of the U.S. tax system makes the tax laws different from other laws and supports the reasoning that the patenting of a tax method should be prohibited notwithstanding the fact that patents have been issued to comply with other laws, such as patents for mechanisms that reduce pollution. *See id.* at 1041.

- The ability to obtain a tax patent will make it less likely that tax practitioners will freely exchange and discuss their ideas for advising clients on tax issues, out of fear that another practitioner will obtain a patent for the idea and prevent others from using it without paying a fee. *See id*. at 1044.

- The consumer may believe that a patented tax strategy is legitimate, in concert with the tax law, and accepted by the IRS, which may not necessarily be the case. *See* "Patently Illegal: What Taxpayers Should Know About Patented Tax

Strategies," by Lucas Osborn and Jim Repass, *Business Entities* (WG&L), March/April 2007, at 25.

- Tax patents cause a dilemma for practitioners and taxpayers. They may feel that they can legitimately challenge a tax patent, but because the cost of a challenge may be far greater than the fee that is charged by the patent holder for use of the patent, they may be forced to pay the fee and forego the challenge.

It is clear that there are significant public policy reasons for denying tax patents. However, as noted by James Toupin, General Counsel at the U.S. Patent and Trademark Office ("PTO"), when he testified before the House Ways and Means Committee, "the Federal Circuit [Court of Appeals] has stated that there is no clear provision that allows the USPTO to reject an invention solely on the grounds that the invention may be against public policy." Toupin cited as examples a patent on a method of making drinking alcohol that was issued during Prohibition, a patent on a radar detector that is illegal in some states, and a patent on a method of preparing ricin toxin used for toxicological warfare. *See id.* Consequently, the public policy arguments above make it important that legislation be enacted to prevent the issuance of tax patents.

Current State of Case Law

The starting point for the discussion of tax patents is 35 U.S.C. § 101, which provides that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." Based upon this statute, there are essentially four categories of subject matter that may be patented: processes, machines, manufactures, and compositions of matter. For a tax planning method to be patentable it would have to be considered a "process," as it would clearly not fall under the heading of "machine," "manufacture," or "composition of matter."

The case that caused the current climate in favor of the issuance of tax patents is *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed.

Cir. 1998). There is little doubt that *State Street* was indirectly, if not directly, the initial impetus for the above-referenced bills.

At issue in *State Street* was whether the patent issued to Signature Financial Group, Inc., related to a statutory subject matter under 35 U.S.C. § 101 (i.e., was the subject matter of the patent a process, machine, manufacture, or composition of matter). If it did not relate to a form of statutory subject matter, the patent would be invalid. *Id.* at 1370. The subject matter in question was a system in which mutual funds pool their assets in an investment portfolio that is structured as a partnership, which has certain tax advantages due to its being a partnership rather than some other type of entity. *Id.*

In its analysis, the court in *State Street* noted that "[t]he Supreme Court has identified three categories of subject matter that are unpatentable, namely 'laws of nature, natural phenomena, and abstract ideas.'" *Id.* at 1373. The court in *State Street* went on to note that the Supreme Court has also held "that mathematical algorithms are not patentable subject matter to the extent that they are merely abstract ideas." *Id.* Citing the same Supreme Court decision, the court also noted that in many cases mathematical subject manner is just an abstract idea until it is applied in a way that produces a "useful, concrete and tangible result." *Id.*

The *State Street* court held that the patent at issue was directed to a machine programmed with the patented software and therefore produced a "useful, concrete and tangible result." Consequently, the court held that the patent was statutory subject matter, notwithstanding that the useful result was expressed in numbers. *Id.* at 1375.

The patent at issue in *State Street* was essentially a patent that encompassed a tax planning strategy. As a result, since the 1998 holding in that case there has been a significant increase in the issuance of tax patents, for which the PTO has established a special subclass. *See* "The Supreme Court's Opinions in *Bilski* and the Future of Tax Strategy Patents," by Ellen P. Aprill, *Journal of Taxation* (August 2010) at 84. As of January 21, 2011, the PTO had issued at least 131 patents in the tax patent subclass. It is

likely that the actual number of tax patents issued is greater because not all patents that have tax implications are necessarily categorized in that subclass. *Id.*[2]

Bilski v. Kappos, 130 S.Ct. 3218 (2010), decided on June 28, 2010, was an appeal of *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), an *en banc* decision of the Federal Circuit Court of Appeals (the same court that had issued the *State Street* opinion ten years earlier). In *In re Bilski*, the Federal Circuit upheld the determination of the Board of Patent Appeals and Interferences denying a patent for a method for hedging risk in the field of commodities trading. *Id.* at 949. The court ruled that such a method was not patentable subject matter under 35 U.S.C. § 101. *Id.* at 966.

Noting that 35 U.S.C. § 101 sets forth four categories of patentable subject matter, the *In re Bilski* court stated that it is undisputed that the patent applicant's claims are not directed to a machine, manufacture, or composition of matter and that the proposed patent at issue involves the term "process" in the statute (as is the case with a tax patent). *Id.* at 951. The court went on to reiterate the point highlighted in *State Street* that a claim is not patentable if it claims laws of nature, natural phenomena, or abstract ideas. *Id.* at 952. The court referred to such claims as "fundamental principles" that cannot be reserved to any one person, and it stated further that the issue before it was whether the patent applicant was seeking to patent something that is a fundamental principle, like an abstract idea, or a mental process. *Id.*

In analyzing whether the patent claim at issue in *In re Bilski* was patentable, the court noted that whether a process claim that does not include a particular machine is patentable depends, in part, on whether it transforms or reduces an article to a different state or thing. *Id*. at 954. With such precedent in mind, the court in *In re Bilski* stated that it was relying on the "machine or transformation test" as the appropriate test for determining whether a process claim is patentable subject matter under 35 U.S.C. § 101. *Id*. at 955.

[2] This circumstance can also make it more difficult for the Patent Office to ascertain whether a particular patent application is for a strategy for which a patent had already been issued.

The *In re Bilski* court went on to hold that the "useful, concrete and tangible result" test used in *State Street* for determining whether a mathematical formula is applied in such a way that it is patentable subject matter was "insufficient to determine whether a claim is patent-eligible under § 101." *Id*. at 959-60. The court concluded that this test is not adequate, that to the extent that *State Street* applies this test it cannot be relied upon, and that the machine or transformation test is the appropriate test for determining whether a process is patentable subject matter. *Id*. Consequently, *In re Bilski* overruled the *State Street* decision and its support for business and tax patents.

In applying the machine or transformation test to the patent claim at issue in *In re Bilski*, the court noted that a process claim such as this satisfies the subject matter requirements of 35 U.S.C. § 101 if it either is tied to a particular machine *or* transforms an article. *Id*. at 961. Since the process claim at issue did not relate to a particular machine, the court focused on the transformation part of this test and stated that in order for the process at issue to be patentable (i) it must transform an article into a different state, and (ii) the transformation must be central to the process. *Id*. at 962. The court stated that central to this inquiry is what constitutes an "article," and it held that "[p]urported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the [transformation] test because they are not physical objects or substances, and they are not representative of physical objects or substances." With this principle in mind, the *In re Bilski* court held that the claim for a method of hedging risk in the field of commodities trading is not patentable subject matter.

The Supreme Court in *Bilski v. Kappos* rejected the Federal Circuit's machine-or-transformation test as the sole test for what constitutes a patentable process, "although that test may be a useful and important clue." 130 S.Ct. at 3221. In addition, the Court concluded that "process" in 35 U.S.C. § 101 did not categorically preclude "business methods" as patentable subject matter. *Id.* at 3222. The Court, however, upheld the result of *In re Bilski*, citing previous precedents in holding that "petitioners' claims are not patentable processes because they are attempts to patent abstract ideas." *Id.* at 3229-30.

In rejecting the machine-or-transformation test, the Court encouraged the Federal Circuit to find a "less extreme means of restricting business method patents . . . . In disapproving an exclusive machine-or-transformation test, we by no means foreclose the Federal Circuit's development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text." *Id.* at 3231.

Thus, *Bilski v. Kappos* allows for the following possibilities: that some business methods constitute patentable subject matter under 35 U.S.C. § 101; "that the 'useful, concrete and tangible' test of *State Street Bank* will no longer be used; that in many, probably most, cases, business methods will be patentable, if at all, under the machine-or-transformation test, but that it is not the sole test for patentability (and thus there may be some other basis or bases as well); and that abstract ideas are not patentable." "The Supreme Court's Opinions in *Bilski*" at 91.

The Court's failure to provide any clear-cut guidance in *Bilski v. Kappos* demonstrated that legislation is needed. While the Court "did not categorically reject business methods as patentable subject matter and clearly stated that the machine-or-transformation test cannot be the sole test for such patents, it neither suggested that such patents are to be granted freely nor rejected the machine-or-transformation test completely. It is an opinion in search of standards, and to a large extent, these standards will need to be supplied by others . . . ." *Id.* at 89.

Prior to the *Bilski* decisions the IRS issued a proposed regulation to limit the use of tax planning patents, and subsequent to these cases the PTO provided certain criteria for examiners to follow in evaluating the patentability of business methods, including tax planning strategies. We discuss both the proposed regulation and the guidance below in order to underscore our argument that (i) neither is sufficient to prohibit tax patents and (ii) legislation is the optimum vehicle to achieve such an outcome.

Proposed Regulations

Due to the IRS concern that a patent for tax advice or a tax strategy will be interpreted by taxpayers as approval of the transaction by the IRS, on September 26,

2007, the IRS issued a proposed regulation adding patented transactions as a new category of reportable transaction. Presumably the IRS felt this was important as a result of the burgeoning number of tax patents after the *State Street* decision.

Under Internal Revenue Code § 6011 and Treas. Reg. § 1.6011-4, taxpayers who have participated in a reportable transaction must file a disclaimer statement with the IRS by filing Form 8886 with their income tax return for the year of the transaction. Generally speaking, a reportable transaction is a transaction that the IRS has determined to be a tax avoidance transaction or that the IRS believes has the potential to enable a taxpayer to avoid or evade tax.

Proposed Regulation § 1.6011-4(b)(7)(i) defines a "patented transaction" as "a transaction for which a taxpayer pays (directly or indirectly) a fee in any amount to a patent holder or the patent holder's agent for the legal right to use a tax planning method that the taxpayer knows or has reason to know is the subject of the patent. A patented transaction also is a transaction for which a taxpayer (the patent holder or the patent holder's agent) has the right to payment for another person's use of a tax planning method that is the subject of the patent."

While the proposed treasury regulation making tax patent transactions reportable transactions is a significant weapon in the fight against tax patents, it is not sufficient by itself to prevent the issuance of tax patents. Moreover, treating a "patented transaction" as a reportable transaction will not address all of the concerns we have raised in opposition to the issuance of tax patents. Tax patents, even if resulting in reportable transactions, will still prevent taxpayers from employing all legal means to reduce their tax liabilities, will still result in similarly situated taxpayers paying differing tax amounts, and will still, to some extent, provide a false impression of government approval of tax strategies. Thus, despite the proposed regulations, there remains a need to prohibit tax patents with clear legislation.

The U.S. Patent and Trademark Office's Interim *Bilski* Guidance

In light of the Supreme Court's decision the PTO, which makes the initial determination of patentability, announced "Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of *Bilski v. Kappos*," 75 Fed. Reg. 43,922 (July 27, 2010). The Interim *Bilski* Guidance offers a number of factors for examiners to consider in making a prima facie case for rejecting an application on the basis of its being an abstract idea.

The Interim *Bilski* Guidance encourages examiners to "avoid focusing on issues of patent-eligibility under [35 U.S.C.] § 101," *id.* at 43923-24, inasmuch as that section "is merely a coarse filter[,] and thus a determination of eligibility under § 101 is only a threshold question for patentability. Sections 102 [novelty], 103 [nonobviousness], and 112 [fully and particularly described] are typically the primary tools for evaluating patentability unless the claim is truly abstract . . . ." *Id.* at 43926.

For business method patents, the Interim *Bilski* Guidance lists various nonexclusive factors for examiners to consider in determining whether a claim, viewed as a whole, is eligible for a patent. Key factors weighing toward eligibility include "[r]ecitation of a machine or transformation (either express or inherent)," and the invention's being "more than a mere statement of a concept." *Id.* at 43927. Additional factors include whether the claim "provides a particular solution to a problem," whether it "implements a concept in some tangible way," and whether inherent in the invention is an "observable and verifiable" performance of steps. *Id.*

A key factor weighing against eligibility is the claim's being "a mere statement of a general concept." *Id.* Examples of "general concepts" include, but are not limited, to: basic economic practices or theories (e.g., hedging, insurance, financial transactions, marketing); basic legal theories (e.g., contracts, dispute resolution, rules of law); mathematical concepts (e.g., algorithms, spatial relationships, geometry); mental activity (e.g., forming a judgment, observation, evaluation, or opinion); interpersonal interactions or relationships (e.g., conversing, dating); teaching concepts (e.g., memorization,

repetition); human behavior (e.g., exercising, wearing clothing, following rules or instructions); and instruction on ‘‘how business should be conducted.’’ *Id.*

While it would seem that after *Bilski v. Kappos* "a pure or naked method for doing business will as a practical matter be difficult to qualify as patent-eligible," it remains necessary to ascertain, in light of the Interim *Bilski* Guidance, whether there exist "examples of claims that fail the machine-or-transformation test but are nonetheless patent-eligible because they are not abstract ideas. . . . *Bilski* clearly gives inventors an incentive to make their claims as concrete, specific, and limited in scope as possible and, whenever possible, to satisfy the machine-or-transformation test, to avoid any PTO examiner or court from concluding that their claims are no more than statements of abstract ideas or fundamental principles." "The Supreme Court's Opinions in *Bilski*" at 91.

It appears that one way that a tax planning strategy can satisfy the machine-or-transformation test—which, though not an exclusive test, is still a test approved by the Supreme Court—is by employing computer software as an integral part of the process. Indeed, all eight patents granted in June or July 2010 and listed in the tax strategy subclass focused on the use of a computer as an essential element of the claimed invention. *See id.* at 92. Thus, the Interim *Bilski* Guidance, while further reducing the possibility that tax patents will be granted, are not sufficient in themselves to prohibit the granting of such patents. Once again, the implication is that legislation is needed to achieve this goal.

Alternative Proposed Legislation

For the policy reasons outlined above, the Committees firmly believe that the Equal Access to Tax Planning Act of 2011 and Section 14 of the Patent Reform Act of 2011 are the optimal means of addressing the issue of tax patents. Should political realities render impossible the enactment of an outright ban, however, the Committees would support legislation prohibiting the imposition of damages against a taxpayer or tax advisor who uses a tax patent without authorization from, or compensation to, the patent holder. A draft of a form of such proposed legislation is enclosed with this letter. The

draft is patterned after 35 U.S.C. § 287(c), which limits damages with respect to a medical practitioner's performance of a medical activity that constitutes an infringement of a patent.

It is the conclusion of the Committees that prohibiting the imposition of damages against someone who uses a tax patent without permission from the patent holder would not accomplish all of the goals as would prohibiting tax patents, but nonetheless would address some of the concerns we have raised in opposition to tax patents. The prohibition of the imposition of damages would ensure that, even if tax patents were issued, taxpayers' access to strategies that reduce their tax liability would not be restricted and all similarly situated taxpayers could pay the same taxes. This approach would not, however, address the concern that tax patents might create the impression of government sanction or approval for patented tax strategies, or the potential distortion of the marketplace by aggressive tax advisors who amass tax patents. Despite these shortcomings, we believe that, based on the precedent of 35 U.S.C. § 287(c) in the medical area, a statute prohibiting the imposition of damages (as opposed to prohibiting a particular patent) would be better received by the patent community and would still address the major concerns of the tax community.

The Committees' proposed legislation would prohibit the imposition of damages as a result of the use by a taxpayer, or the use by any person who renders advice to taxpayers regarding any tax matter (regardless of whether said advice is rendered to a particular taxpayer or is given to the general public), of a "tax planning invention." The proposed legislation uses the same definition of "tax planning invention" that is used by three bills introduced during the 111th Congress: H.R. 1265, S. 506, and S. 2955. Thus, the proposed legislation is in line with previous proposals, even though it focuses on damages as opposed to an outright prohibition on tax patents.

Conclusion

For the reasons outlined above, the Committees strongly support the prohibition of tax patents that would be realized by the enactment of the Equal Access to Tax Planning Act of 2011 (S. 139) or Section 14 of the Patent Reform Act of 2011 (S. 23). If

total prohibition is not possible, we would be willing to support legislation prohibiting the imposition of damages against someone who uses a tax patent without permission from the patent holder.

We would be grateful for the opportunity to address any questions you may have and to discuss our views in more detail.

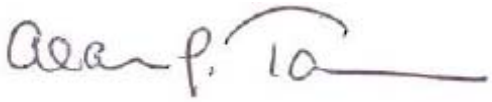
Respectfully,

Brit L. Geiger, Chair
Estate & Gift Taxation Committee

Debra Herman, Chair
State & Local Taxation Committee

Gilda I. Mariani

Gilda I. Mariani, Chair
Personal Income Taxation Committee



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