



3415 SOUTH SEPULVEDA BOULEVARD  
SUITE 330  
LOS ANGELES, CALIFORNIA 90034-6060  
(310) 398-1888 Fax (310) 572-7280  
www.actec.org

THE AMERICAN COLLEGE OF TRUST AND ESTATE COUNSEL

BOARD OF REGENTS

**President**  
W. BJARNE JOHNSON  
Great Falls, Montana

**President-Elect**  
DENNIS I. BELCHER  
Richmond, Virginia

**Vice President**  
KAREN M. MOORE  
Columbus, Ohio

**Treasurer**  
MARY F. RADFORD  
Atlanta, Georgia

**Secretary**  
LOUIS A. MEZZULLO  
Rancho Santa Fe, California

**Immediate Past President**  
DANIEL H. MARKSTEIN, III  
Birmingham, Alabama

CHRISTINE L. ALBRIGHT  
Chicago, Illinois

THEODORE B. ATLESS  
Denver, Colorado

WILLIAM E. BEAMER  
San Diego, California

TURNEY P. BERRY  
Louisville, Kentucky

BEVERLY R. BUDIN  
Philadelphia, Pennsylvania

JACK G. CHARNEY  
San Diego, California

HENRY CHRISTENSEN, III  
New York, New York

VIRGINIA F. COLEMAN  
Boston, Massachusetts

MONICA DELL'OSSO  
Oakland, California

ERIN DONOVAN  
Tulsa, Oklahoma

DAVID F. EDWARDS  
New Orleans, Louisiana

NANCY G. FAX  
Bethesda, Maryland

CHARLES D. FOX, IV  
Charlottesville, Virginia

ROBERT W. GOLDMAN  
Naples, Florida

PETER S. GORDON  
Wilmington, Delaware

RICHARD B. GREGORY  
Las Cruces, New Mexico

ELLEN K. HARRISON  
Washington, D.C.

MILFORD B. HATCHER, JR.  
Atlanta, Georgia

PAUL C. HEINTZ  
Philadelphia, Pennsylvania

LINDA B. HIRSCHSON  
New York, New York

NOEL C. ICE  
Fort Worth, Texas

GARY M. JOHNSON  
Minneapolis, Minnesota

MICHEL C. KAPLAN  
Nashville, Tennessee

JERRY J. MCCOY  
Washington, D.C.

HOWARD M. MCCUE, III  
Chicago, Illinois

ALFRED J. OLSEN  
Phoenix, Arizona

DUNCAN ELLIOTT OSBORNE  
Austin, Texas

JOHN W. PORTER  
Houston, Texas

JOSHUA S. RUBENSTEIN  
New York, New York

IRVING S. SCHLOSS  
New Haven, Connecticut

SARA R. STADLER  
New Haven, Connecticut

SUSAN S. WESTERMAN  
Ann Arbor, Michigan

DIANA S.C. ZEYDEL  
Miami, Florida

Please Address Reply to:

W. Bjarne Johnson  
Church, Harris, Johnson & Williams, P.C.  
21 3rd Street North, 3<sup>rd</sup> Floor  
P. O. Box 1645  
Great Falls, MT 59403-1645  
Phone (406) 761-3000  
Fax (406) 453-2313  
Email: bjarnejohnson@chjw.com

May 14, 2008

The Honorable Eric Solomon  
Assistant Secretary (Tax Policy)  
Department of the Treasury  
Room 3120 MT  
1500 Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

Ms. Linda E. Stiff  
Acting Commissioner  
Internal Revenue Service  
Room 3000 IR  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

HAND DELIVERED: Courier's Desk, CC:PA:LPD:PR (REG-129916-07)

Re: Proposed Regulations Relating to Patents as Reportable Transactions  
under Internal Revenue Code Sections 6011 and 6111  
(REG-129916-07)

Dear Assistant Secretary Solomon and Acting Commissioner Stiff:

The American College of Trust and Estate Counsel (ACTEC) is  
submitting comments on proposed regulations relating to patented transactions  
as subject to the disclosure rules for reportable transactions under sections  
6011 and 6111 of the Internal Revenue Code.

ACTEC STAFF

**Executive Director**  
GERRY A. VOGT

**Registration Administrator**  
ROBIN M. BAKER

**Publications Manager**  
GABRIELLE L. BALARA

**Systems Administrator**  
WILLIAM L. CRAWFORD

**Office Assistant**  
CONNIE A. GABEL

**Meeting Planner**  
DYLAH E. HUGHES

**Membership Administrator**  
DEBBIE F. JACOBOWITZ

**Committees Coordinator**  
ROBIN L. NEAL

**Staff Accountant**  
ADRIANA TORRES

**Executive Assistant**  
RACHEL WATSON

ACTEC is a professional association of more than 2,500 lawyers from throughout the United States. Members of ACTEC are elected to membership by their peers on the basis of professional reputation and ability in the fields of trusts and estates law and on the basis of having made substantial contributions to these areas of the law through lecturing, writing, teaching, and bar association activities. ACTEC's members have extensive experience in rendering advice to taxpayers on matters of taxes and estate planning, with a focus on estate, gift and generation-skipping transfer tax planning and compliance. Standards and practices implemented or followed by ACTEC members generally are or become the standard for the estate planning community.

As leaders in the estate planning community, we have considered the broad impact of tax strategy patents on taxpayers, professional advisors, and the public interest. Patents granted for tax planning strategies in the tax area, particularly the estate planning area, are contrary to sound public policy because these patents undermine the integrity and administrability of the transfer tax system, interfere with the effective estate planning by advisors and prohibit taxpayers from using congressionally authorized tax planning methods. ACTEC shares the Treasury's concern that a growing number of these patents will interfere with the voluntary estate, gift and generation-skipping transfer tax compliance system, and has supported legislation, including H.R. 1908 and S. 2369<sup>1</sup>, to eliminate the issuance of such patents.

---

<sup>1</sup> H.R. 1908, *The Patent Reform Act of 2007*, as passed by the House on September 7, 2007, contains Section 10, a provision prohibiting the granting of tax planning method patents, and at the same time, exempting tax preparation software from the scope of the legislation so as to not affect products like TurboTax and TaxCut. A similar bill has been introduced in the Senate, S. 2369, by Senators Baucus and Grassley, on November 15, 2007. ACTEC also supports H.R. 2365, which was introduced by Representatives Boucher, Goodlatte and Chabot, on May 17, 2007, and provides immunity from infringement liability for taxpayers and practitioners from tax strategy patents.

ACTEC has considered the approach set forth in the proposed regulations for discouraging the use of tax patents. Although ACTEC agrees that a strategy needs to be implemented to monitor and identify abusive tax patents, we disagree that the proposed regulations will accomplish that result and we propose an alternative solution as set forth below. Please note that we support many of the positions that were espoused by other groups<sup>2</sup> at the hearing in Washington, D.C. on February 21, 2008.

## DISCUSSION AND CONCLUSIONS

### a. The Proposed Regulations

In REG-129916-07<sup>3</sup>, the Internal Revenue Service proposed amendments to the regulations under Internal Revenue Code sections 6011 and 6111.<sup>4</sup> These proposed regulations: (1) add a patented transactions category to the reportable transaction regulations under Regulation section 1.6011-4, and (2) make conforming changes to the rules relating to the disclosure of reportable transactions by material advisors under section 6111. The regulations would affect taxpayers participating in reportable transactions under section 6011, material advisors required to disclose reportable transactions under section 6111, and material advisors required to keep lists under section 6112.

---

<sup>2</sup> For example, much of the Internal Revenue Service's interest in tax patents appears to be based on the belief that patents may be tax evasion schemes. "The biggest myth of all is that tax shelters are hiding in the Patent Office," Raymond B. Ryan, an inventor and speaking on behalf of GR Solutions, LLC, said.

<sup>3</sup> 72 Fed. Reg. 54,615 (Sept. 26, 2007).

<sup>4</sup> All section references are to the Internal Revenue Code of 1986, as amended and to the regulations promulgated thereunder, unless otherwise specified.

Under the new category of reportable transactions, the “patented transaction” is 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.

For purposes of the new patented transaction category, a taxpayer has participated in a patented transaction if the taxpayer’s tax return reflects a tax benefit from the transaction (including a deduction for fees paid in any amount to the patent holder or patent holder’s agent). A taxpayer also has participated in a patented transaction if the taxpayer is the patent holder or patent holder’s agent and the taxpayer’s tax return reflects a tax benefit in relation to obtaining a patent for a tax planning method or reflects income from a payment received from another person for the use of the tax planning method that is the subject of the patent.

**b. Tax Patents Impose Unfair Burdens on Taxpayers and Their Advisors Who Use Legitimate Planning Strategies**

ACTEC has reviewed a substantial number of recently granted and applied for patents in the estate planning and related tax areas. Although the Internal Revenue Service has a valid concern that patented tax strategies may be abusive – and, therefore, should constitute reportable transactions, ACTEC has found that many of these strategies are not abusive and, in fact, employ legitimate tax planning techniques which have been properly used by estate planners for many years. Estate planners have therefore recommended patented strategies such as the strategy that is the subject of the “SOG RAT patent” (Patent No. 6,567,790) without knowledge that such strategies had been patented.

ACTEC has concluded that tax patents in the estate planning area do not generally stimulate the use of abusive tax strategies -- on the contrary, they often seek to impose an onerous "licensing type arrangement" on legitimate estate planning strategies that are already in use. In addition to causing taxpayers to pay licensing fees, tax patents in the estate planning area unfairly burden taxpayers and their advisors in the use of legitimate estate planning strategies in that these patents:

- Limit the ability of taxpayers to follow the breadth of tax law intended by Congress;
- May cause some taxpayers to pay more tax than Congress intended and may cause other taxpayers to pay more tax than others similarly situated;
- Complicate the provision of tax advice by estate planning professionals;
- Hinder compliance by taxpayers;
- Mislead taxpayers into believing that a patented strategy is valid under the tax law; and
- Preclude tax professionals from challenging the validity of tax strategy patents.<sup>5</sup>

c. **The Proposed Regulations Impose an Additional Unfair Burden on Taxpayers and Their Advisors Who Use Patented Tax Strategies**

The proposed regulations --in addition to imposing reportable transaction disclosure requirements on patent holders and their agents -- require that taxpayers who use patented tax planning methods and their advisors be subjected to the same disclosure requirements. If those taxpayers who use patented tax strategies, in addition to having to pay a license fee for the use of the patented strategies, also were subject to disclosure requirements, which would impose a

---

<sup>5</sup> These problems are identified in the AICPA letter to Congressional tax-writing committee chairs dated February 28, 2007, and in the AICPA's Comments on these Proposed Regulations submitted to the Internal Revenue Service on January 28, 2008.

further unfair burden on the taxpayers and their advisors, but not provide a deterrent to the patent holder or the patent holder's agent.<sup>6</sup>

The penalties for failure to report reportable transactions are severe. Taxpayers can be subject to penalties with limited opportunity for waiver, for failing to disclose a reportable transaction. Material advisors who fail to "register" reportable transactions under section 6111 or furnish lists in a timely manner under section 6112 also face significant penalties. The entire reportable transaction regime is fraught with traps for the uninformed, with little opportunity for forgiveness even in cases where reasonable cause and good faith exist.

Although we continue to believe that patenting tax strategies is not good public policy, the recommendation of, or use of, a patented tax strategy does not on its face mean the taxpayer has participated in an abusive transaction, nor does it mean that the tax treatment covered by the patented tax strategy does not conform with the tax law. Regulation section 301.6112-1(a) generally requires material advisors to furnish a list of participants in reportable transactions to the Internal Revenue Service within 20 business days of a written request. This list includes detailed information about the participant and documents relating to the transaction. This is an unnecessary burden when a taxpayer uses a legitimate, compliant, non-abusive patented tax planning strategy. Such a requirement seems an unnecessary burden and use of resources that does nothing to further good tax administration or the tax system. In addition, the Service's limited resources would be misdirected toward legitimate tax transactions solely because of the fact that the transaction is patented.

---

<sup>6</sup> Further, if the taxpayer (or his or her advisor) does not have knowledge of the patent, the taxpayer may incur liability to both the patent holder and Internal Revenue Service for failure to disclose the transaction. Treating a patent as a disclosable transaction to the taxpayer who uses the patented technique is unduly burdensome.

For the reasons stated in the following part of these comments, we do not believe a reportable transactions disclosure system as provided in the proposed regulations is the most effective way for the Internal Revenue Service to monitor and control tax patents. ACTEC supports placing the burden for reporting the patents only on the patent holders and their agents to the extent that a reporting regime is adopted because the patent holder is the one who financially benefits from the patents on tax strategies.<sup>7</sup>

**d. Recommendation of an Alternative to Reportable Transactions Structure**

As an alternative to the complex reporting requirements envisioned by the reportable transactions regime in the proposed regulations, we recommend that procedures be established to require that the United States Patent and Trademark Office (“PTO”) promptly notify the Internal Revenue Service when patent applications related to tax strategies are filed. These procedures would ensure that the Internal Revenue Service would be on notice with respect to the specifics of the tax strategy for which a patent is sought at an early date. This notice will enable the Internal Revenue Service to evaluate the potential impact of the tax strategy on the tax system and determine if any legislative or administrative actions are required before a patent is granted. If the Internal Revenue Service thought the potential risk of the strategy was significant, it could designate the specific strategy as a “transaction of interest,” thus triggering the reportable transaction regime for the potentially offensive transaction.<sup>8</sup>

This designation as a transaction of interest would require anyone who participates in the patented tax strategy to file a disclosure statement with the Internal Revenue Service. Because

---

<sup>7</sup> A disclosure regulation will not have the intended chilling effect. On October 12, 2007, Treasury Assistant Secretary (Tax Policy) Eric Solomon stated that he believes the proposed regulations will not be sufficient to address Treasury’s concerns regarding tax strategy patents. Mr. Solomon stated, “A disclosure regulation isn’t going to fix it. It’s going to take Congress to ban them.” See “Solomon Says Rules Not Enough to Fix Tax Patent Problem: Other Issues Discussed,” BNA Daily Report for Executives, October 15, 2007.

<sup>8</sup> Reg. section 1.6011-4(b)(6).

the definition of “participation” for transactions of interest would be set forth in the Internal Revenue Service notice identifying the transaction as such, the Internal Revenue Service can target the disclosure obligation so that it is only applicable to those taxpayers who pursue such a potentially abusive patented tax strategy.

The benefit of the early-coordination procedure suggested above is that it would reduce the overall burden on taxpayers and the Internal Revenue Service, while actually placing the Internal Revenue Service on notice early enough to take effective steps to discourage the patenting and use of abusive tax strategies.

### **CONCLUSIONS**

ACTEC joins the Treasury and the Internal Revenue Service in strongly advocating legislation to prohibit the patenting of tax strategies. ACTEC agrees that until such legislation is enacted, or if no such legislation evolves, the Internal Revenue Service needs to be able to determine at an early date which patented tax strategies are abusive so that those abusive strategies can become subject to disclosure under the reportable transactions regime. However, ACTEC urges that the Internal Revenue Service adopt an early detection system by coordinating information with the PTO as a less burdensome and more effective alternative to the reportable transactions approach set forth in the proposed regulations. Further, if the Internal Revenue Service determines that all patented tax strategies must be subject to the reportable transactions regime, ACTEC advocates that such disclosure requirements be limited to the patent holder and the patent holder’s agents, and not be imposed on taxpayers and their advisors who are simply using patented tax strategies.

ACTEC appreciates your consideration of these comments. If you have any questions or if we can be of further assistance, please contact any of the following members of ACTEC’s



Intellectual Property/Estate Planning Task Force: Dennis I. Belcher, (804) 775-4304,  
dbelcher@mcguirewoods.com; Louis S. Harrison, (312) 332-5440, lharrison@harrisonheld.com;  
or Task Force Chair, William C. Weinsheimer, (312) 832-4590, wwweinsheimer@foley.com.

Very truly yours

  
W. Bjarne Johnson  
President

cc: Mr. Michael J. Desmond, Tax Legislative Counsel, Treasury Department  
Ms. Anita Soucy, Attorney Advisor, Treasury Department  
The Honorable Donald Korb, Chief Counsel, Internal Revenue Service  
Mr. Michael H. Beker, Office of the Associate Chief Counsel, Passthroughs and Special  
Industries, Internal Revenue Service, Room 5203  
Mr. Charles Wien, Office of the Associate Chief Counsel, Passthroughs and  
Special Industries, Internal Revenue Service, Room 5203  
ACTEC Executive Committee  
Ms. Gerry A. Vogt, Executive Director