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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

No. 2007-1130
(Serial No. 08/833,892)

IN RE BERNARD L. BILSKI and RAND A. WARSAW

Appeal From The United States Patent and Trademark Office,
Board of Patent Appeals and Interferences.

BRIEF FOR *AMICUS CURIAE*
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
IN SUPPORT OF APPELLEE

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April 7, 2008

CERTIFICATE OF INTEREST

Counsel for *amicus curiae*, the American Institute of Certified Public Accountants, certifies the following:

1. The full name of every party represented by me is:

   American Institute of Certified Public Accountants

2. The name of the real parties in interest represented by me are:

   Not applicable.

3. The parent corporations and any publicly held companies that own ten percent or more of the stock of the parties represented by me are:

   None.

4. The names of all law firms and the partners or associates that appeared for the parties now represented by me in the trial court or are expected to appear in this court are:

   Kelsey I. Nix and Heather M. Schneider
   Willkie Farr & Gallagher LLP

WILLKIE FARR & GALLAGHER LLP

Dated: April 7, 2008

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

The American Institute of Certified Public Accountants (the "AICPA") is a national professional association comprised of approximately 340,000 Certified Public Accountants throughout the country. The AICPA has worked closely with Congress and taxing authorities for many years to ensure equity, fairness, and simplicity in our tax system. Its members play a major role helping millions of individual taxpayers and businesses, located in every state in the United States, to comply with federal, state, and local tax laws. The AICPA and its members have extensive experience in rendering advice to taxpayers on matters of tax planning and compliance.

In accordance with Federal Rule of Appellate Procedure 29 and Federal Circuit Rule 29, the AICPA files this brief pursuant to the Court's February 15, 2008 Order specifying that *amicus* briefs may be filed without leave of Court.

QUESTIONS PRESENTED

The Court's order granting hearing en banc, *In re Bilski*, No. 2007-1130 (Fed. Cir. Feb 15, 2008), requested the parties and *amici* to address the following questions:

1. Whether claim 1 of the 08/833,892 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), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), in this case and, if so, whether those cases should be overruled in any respect?

The AICPA will address questions 2, 4, and 5.

SUMMARY OF ARGUMENT

This case addresses the patentability criteria for processes. This Court's decision in *State Street Bank & Trust v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), endorsed the patentability of business methods as processes.

"Tax strategies" are one subset of business methods that increasingly have been patented since *State Street*. As used in this brief, a tax strategy is a plan or technique permitted by statute that is designed to reduce, minimize, or defer a taxpayer's tax liability.[1] Since this Court's decision in *State Street*, 65 patents that include claims for tax strategies have been granted, and 107 additional patent applications for tax strategies are pending.[2] Patents for tax strategies have been granted in a variety of areas, including the use of financial products, charitable giving, real estate, estate and gift tax, pension plans, tax-deferred exchanges, and deferred compensation.

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[1] Tax strategies are to be distinguished from tax preparation software or other tools used solely to perform or model mathematical calculations or prepare tax or information returns.

[2] The Patent Office classifies tax strategy patents as subclass 36T in Class 705, "Data Processing: Financial, Business Practice, Management, or Cost/Price Determination." *See* Class Schedule, *available at* http://www.uspto.gov/go/classification/uspc705/sched705.htm. As of April 4, 2008, the Patent Office website lists 65 issued patents and 110 pending applications in subclass 36T.

Tax strategies are not proper patentable subject matter under Section 101 of the Patent Act or the Patent Clause of the Constitution because they (1) preempt the public's free use of certain provisions of the tax laws, (2) do not meet the Supreme Court's criteria for the patentability of processes, and (3) fail to promote the useful arts.

First, strategies for complying with any law or regulation – including tax laws – are unpatentable because they preempt others from utilizing or complying with all provisions of the law. The Supreme Court has consistently held that patents cannot be granted for laws of nature, physical phenomena, and abstract ideas because they are part of the storehouse of knowledge available to the public. Like the laws of nature, the laws enacted by national, state, and local authorities must also be accessible to the public. Patents cannot be granted to preempt the public's use of the laws of man, any more than they can preempt the public's enjoyment of the laws of nature. Allowing someone to patent a tax strategy, for example, would prevent affected taxpayers from arranging their affairs to minimize their taxes in a manner contemplated by Congress. Tax strategy patents limit the ability of taxpayers to utilize all provisions of national, state, or local tax codes, thus causing some taxpayers to pay more tax than intended by lawmakers or to pay more tax than other similarly situated taxpayers.

Second, tax strategies do not meet the Supreme Court's stated criteria for the patentability of processes because (1) they do not transform an article to a different state or thing, and (2) they are not tied to a particular machine or apparatus. Tax strategies and other legal methods do not transform or reduce an article to a different state or thing, even if they are implemented on a computer and the computer's memory is "transformed" when it stores the results of calculations. Tax strategies are not elevated into patentable subject matter merely by reciting the use of generic electronic devices such as general purpose computer hardware. Allowing patents on tax strategies that utilize a computer would, as a practical matter, preempt the public's use of the strategy just as much as allowing a patent on the pure mental process alone. Although many tax strategies could be implemented using pencil and paper, the use of computerized calculations is commonplace. Almost any claim for a tax strategy could be drafted to tack on the use of some generic electronic devices such as conventional computer hardware. However, the recitation of generic electronic devices or software does not convert unpatentable subject matter into the "particular machine" envisioned by the Supreme Court.

Finally, tax strategies are not patentable because they do not promote the progress of the "useful Arts," as required by the Patent Clause of the

Constitution. The purpose of the patent system is to encourage innovation in science and technology, not to prevent people from interpreting and complying with the law as intended by the legislature. Tax strategies differ from other types of business methods because they affect compliance with the law. Unlike other business methods, certain legally required or legally endorsed actions would constitute infringement of tax strategy patents. Compliance with, or interpretation of, the law should not provide a basis for patent infringement liability.

Furthermore, lawyers and accountants may be unable to challenge the validity of tax strategy patents or to defend themselves from patent infringement lawsuits because of their professional obligations of privilege and confidentiality to their clients.

For these reasons, the AICPA asks this Court to adopt the following positions with respect to Questions 2, 4, and 5:

- **Question 2:** A process is not eligible for patent protection under Section 101 if it preempts the public from using or complying with provisions of the law, including the tax law.
- **Question 4:** Claims to tax strategies and other legal methods are unpatentable subject matter even if they recite generic

electronics such as general purpose computer hardware or computational software.

- **Question 5:** Regardless of whether other business methods are patentable, *State Street* is overruled to the extent that it can be interpreted to allow patents for tax strategies and other methods of interpreting or applying the laws.

ARGUMENT

The following sections explain why tax strategies are not patentable subject matter for three independent reasons: (1) they preempt compliance with the tax laws, (2) they do not meet the Supreme Court's criteria for the patentability of processes, and (3) they do not promote the progress of the useful arts.

I. Tax Strategies Are Not Patentable Because They Preempt The Use Of Certain Provisions Of The Tax Laws

The Supreme Court has consistently held that patents are not allowed for laws of nature, physical phenomena, or abstract ideas. *See Diamond v. Diehr*, 450 U.S. 175, 185 (1981) ("This Court has undoubtedly recognized limits to § 101 and every discovery is not embraced within the statutory terms."). Thus, one cannot patent the law of gravity or the formula $E=mc^2$ because "[s]uch discoveries are 'manifestations of . . . nature, free to all men

and reserved exclusively to none.'" *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (quoting *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948)).

Laws of nature, physical phenomena, and abstract ideas are not patentable because allowing patent protection preempts the public's use of such discoveries. In *O'Reilly v. Morse*, the Supreme Court "rejected Samuel Morse's broad claim covering any use of electromagnetism for printing intelligible signs, characters, or letters at a distance." *Parker v. Flook*, 437 U.S. 584, 592 (1978) (discussing 15 How. 62, 112-121 (1853)). In *Gottschalk v. Benson*, the Supreme Court denied patent protection to a process where "the patent would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself." 409 U.S. 63, 72 (1972). In *Flook*, the Supreme Court reiterated that one may not attempt to preempt a mathematical formula through clever claim drafting. 437 U.S. at 590 ("A competent draftsman could attach some form of post-solution activity to almost any mathematical formula; the Pythagorean theorem would not have been patentable, or partially patentable, because a patent application contained a final step indicating that the formula, when solved, could be usefully applied to existing surveying techniques.").

Tax strategies are unpatentable for the same reason that laws of nature, physical phenomena, and abstract ideas are not patentable. The laws enacted by Congress and state legislatures are "part of the storehouse of knowledge" and compliance with those laws must be "free to all men and reserved exclusively to none." *Funk Brothers*, 333 U.S. at 130. As the Supreme Court noted in *Flook*, laws of nature are not patentable because they are not the kind of "discoveries" that the Patent Act was designed to protect. 473 U.S. at 593. Indeed, scientific principles and algorithms are not patentable because they merely "reveal[] a relationship that already existed." *Id.* at 593 n.15. Tax strategies have the same characteristic – although a particular method of minimizing tax may be "discovered" by an accountant or tax lawyer, the framework already existed in the law that was enacted by the legislature. It would be just as improper to let someone patent the "discovery" of a pre-existing relationship that exists in a law enacted by a national, state, or local taxing authority, as it would to let someone patent the discovery of a pre-existing law of nature.

Tax strategies are not patentable even if they produce "a useful, concrete and tangible result" as this Court required in *State Street*. 149 F.3d at 1373. As the Supreme Court observed in *Flook*, the Pythagorean theorem would not be patentable even if the claim recited that the formula "could be

usefully applied." 437 U.S. at 590. Indeed, tax strategies are not patentable because they produce such a useful, concrete, and tangible result – *i.e.*, lower taxes. One individual cannot be allowed to preempt others from paying lower taxes as permitted by the tax laws, in the same way that one person cannot preempt others from using the law of gravity or the relationship between mass and energy.

By preempting the public's unencumbered use of the tax laws, tax strategy patents undermine legislative authority and create inequalities between taxpayers. Surely, Congress could not have intended such a result. One of the basic principles of good tax policy is that similarly situated taxpayers should be taxed similarly. *See* AICPA, *Tax Policy Concept Statement One – Guiding Principles of Good Tax Policy*, p. 11 (2001), *available at* http://tax.aicpa.org/NR/rdonlyres/AC230E51-D650-4D65-B160-C7450A9381F4/0/2I_08a.pdf. Similarly situated taxpayers should have the same opportunities to apply all provisions of federal, state and local tax law. All taxpayers should be able to structure their affairs so as to incur only the minimum, statutorily-required amount of tax without having to pay a patent royalty to comply with the tax laws. Allowing patents on tax strategies would undermine this important principle by giving the patent

holder the ability to force taxpayers to choose between paying a royalty or paying higher taxes than required by federal, state, or local law.

Tax strategy patents also preempt Congress's prerogative to have full legislative control over tax policy. Congress and other taxing authorities enact tax law provisions and intend that taxpayers universally will be able to use them. Tax strategy patents thwart this legislative intent, however, by giving patent holders the power to decide how select tax law provisions can be used and who can use them. Congress could not have intended such a result.

Thus, tax strategy patents preempt the public's ability to fully utilize the laws enacted by legislatures, in the same way that patents on laws of nature, physical phenomena, or algorithms would preempt the public's use of those discoveries. To the extent that *State Street* suggests that all business methods, including tax strategies, are patentable, this Court should clarify that tax strategies are not patentable subject matter.

II. Tax Strategies Are Not Patentable Because They Do Not Meet The Supreme Court's Criteria For Patentable Processes

The Supreme Court has stated that "transformation and reduction of an article to a different state or thing is the clue to the patentability of a process claim that does not include particular machines." *Diamond v. Diehr*,

450 U.S. 175, 184 (1981) (citations and internal quotation omitted). As explained below, under the two criteria outlined in *Diehr*, a tax strategy is not a patentable process. The Supreme Court has suggested that some processes might be patentable even if they do not meet the "transformation" or "particular machine" criteria. *See, e.g.*, *Flook*, 437 U.S. at 588 n.9, and *Benson*, 409 U.S. at 71. The Supreme Court, however, has never articulated any alternative test for patentability of a process. Nonetheless, recent Supreme Court decisions involving patent law have eschewed bright-line tests in favor of more flexible, nuanced analyses. *See, e.g., KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1742-43 (2007) ("Rigid preventative rules that deny factfinders recourse to common sense, however, are neither necessary under our case law nor consistent with it."); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393-94 (2006) (rejecting application of a "categorical rule" for determining whether to grant injunctive relief in patent infringement suits). Accordingly, in adopting the *Diehr* criteria, this Court should caution against applying those criteria rigidly.

A. Transformation Of An Article Is A Meaningful Criterion

If the Court does adopt the *Diehr* criteria, it should not parse them so finely that they become meaningless. For example, tax strategies and other legal methods do not "transform[] and reduc[e] an article to a different state

or thing" – even if they are implemented using a computer and the computer's hard drive or random access memory is "transformed" when it stores the results of calculations. *Diehr*, 450 U.S. at 184 (citation and internal quotation omitted).

To hold that implementation of a tax strategy in a generic computer is a "transformation of an article" merely because data is stored in the computer's memory would render that criterion meaningless. Under that reasoning, performing the tax strategy using pencil and paper likewise would result in "transformation" of the piece of paper, which now has writing on it. In both *Benson* and *Flook*, the Supreme Court rejected the patentability of such processes. *Flook*, 437 U.S. at 586 ("the calculations can be made by pencil and paper"); *Benson*, 409 U.S. at 67 ("the mathematical procedures . . . can also be performed without a computer.") Indeed, interpreting "transformation" so broadly would mean that performing a tax strategy as a pure mental process would be patentable because cognitive activity and creating a memory result in the firing of neurons and chemical activity in the brain that would constitute a "transformation" of matter.

None of these *de minimis* and merely incidental changes qualify as the type of "transformation or reduction of an article to a different state or thing" that makes a process patentable under *Diehr*. To hold otherwise would

nullify the Supreme Court's criterion. If parsed that finely, one could always find some transformation and thereby qualify any process as patentable subject matter. That outcome, however, would make the analysis meaningless.

B. Use Of A "Particular" Machine Does Not Encompass Generic Modern Electronics

Tax strategies are also unpatentable because they are not tied to a "particular" machine or apparatus. A process can not be elevated to the stature of patentable subject matter based on the mere recitation of generic modern electronics such as general purpose computer hardware. Although many tax strategies could be implemented using pencil and paper, they primarily will be used in connection with computerized calculations and transactions. Like the unpatentable algorithm in *Benson*, tax strategies "can be carried out in existing computers long in use, no new machinery being necessary." 409 U.S. at 67. Almost any claim could be drafted to recite the use of some generic computer hardware.

In *Benson*, the Supreme Court denied patent protection to an algorithm for converting binary-coded-decimal numerals into pure binary numerals, despite the fact that the algorithm was implemented in a general purpose digital computer. 409 U.S. at 64. The Court held that, because the

formula at issue had "no substantial practical application except in connection with a digital computer," allowing a patent on the method would "wholly pre-empt the mathematical formula." *Id.* at 71-72.

In *Flook*, the Supreme Court also rejected the patentability of an algorithm that was implemented in a computer. 437 U.S. at 586. The Court noted that "[a]lthough the computations can be made by pencil and paper calculations, the abstract of disclosure makes it clear that the formula is primarily useful for computerized calculations . . . ." *Id.*

Like the algorithms in *Benson* and *Flook*, a tax strategy should not be patentable just because it is implemented on a computer instead of with pencil and paper. As a practical matter, most tax strategies will be implemented using a computer, even if the taxpayer is just performing calculations in a spreadsheet application such as Microsoft Excel®. Like the algorithm in *Benson*, most tax strategies will have little practical application except in connection with a computer. Thus, allowing a patent on a tax strategy that recites generic computer hardware would, as a practical matter, preempt the public's use of the strategy to the same extent as would allowing a patent on the pure mental process alone.

The idea that tax strategies become patentable when combined with a computer would "exalt[] form over substance" and reward the "competent

draftsmen" as the Supreme Court cautioned against in *Flook*. 437 U.S. 590. An example from an actual tax strategy patent shows how inconsistent that result would be.

For example, U.S. Patent No. 6,567,790 B1 is for a method of "Establishing And Managing Grantor Retained Annuity Trusts Funded By Nonqualified Stock Options." The patent gained notoriety in the tax world when, in January 2006, the patent assignee filed a patent infringement lawsuit in the United States District Court for Connecticut, seeking an injunction and damages against Dr. John W. Rowe, the former Executive Chairman of Aetna, Inc. *Wealth Transfer Group L.L.C. v. John W. Rowe*, No. 3:06-cv-00024-AWT (D. Conn.). The parties settled the case and a final consent judgment was issued in March 2007.

The patent describes an estate planning method for minimizing transfer tax liability with respect to the transfer of nonqualified stock options to a family member. (Abstract.) The method utilizes a Grantor Retained Annuity Trust ("GRAT"), which is a common type of irrevocable trust. (col. 2, lines 27-29) ("col. 2:27-29.") According to the patent, irrevocable trusts are frequently used to minimize estate and gift taxes when transferring family wealth from one generation to the next. (col. 2:22-24.) In a GRAT the grantor transfers assets to the trust and is paid a term annuity from the

trust. (col. 2:27-29.) At the end of the GRAT term, the remaining assets are distributed to the named beneficiaries. (col. 2:29-31.) The grantor avoids tax liability with respect to appreciation of the trust assets.

The patent describes a method of funding a GRAT with a particular type of property, that is, nonqualified stock options. The patent refers to this type of GRAT as a Stock Option Grantor Retained Annuity Trust ("SOGRAT"). (col. 2:35-36.) According to the patent, a SOGRAT allows a holder of nonqualified stock options to transfer the value of the options to a family member with minimum transfer tax liability. (col. 1:50-53.)

Below is the first claim in the patent, omitting any reference to a device:

> 1. A method for minimizing transfer tax liability of a grantor for the transfer of the value of nonqualified stock options to a family member grantee, the stock options having a stated exercise price and a stated period of exercise . . . comprising:
>
> establishing a Grantor Retained Annuity Trust (GRAT);
>
> funding said GRAT with assets comprising stock options, the stock options having a determined value at the time the transfer is made;
>
> setting a term for said GRAT and a schedule and amount of annuity payments to be made from said GRAT;

> and performing a valuation of the stock options as each annuity payment is made and determining the number of stock options to include in the annuity payment.

This claim describes a method of minimizing taxes that complies with the tax laws. It should not be patentable under the *Diehr* criteria because it does not transform or reduce any article to a different state or thing, and it is not tied to a particular machine.

Now here is the claim with its only reference to a device put back in place:

> 1. A method for minimizing transfer tax liability of a grantor for the transfer of the value of nonqualified stock options to a family member grantee, the stock options having a stated exercise price and a stated period of exercise, **the method performed at least in part within a signal processing device** and comprising:
>
> establishing a Grantor Retained Annuity Trust (GRAT);
>
> funding said GRAT with assets comprising stock options, the stock options having a determined value at the time the transfer is made;
>
> setting a term for said GRAT and a schedule and amount of annuity payments to be made from said GRAT;
>
> and performing a valuation of the stock options as each annuity payment is made and determining the number of stock options to include in the annuity payment.

The routine recitation of "a signal processing device" or other generic electronic equipment or computer hardware should not raise this method to the level of patentable subject matter. That type of generic recitation does not meet the Supreme Court's standard of a "particular machine." A taxpayer should not face the prospect of infringement liability because he or she followed the advice of tax counsel regarding a way of structuring his or her affairs to minimize taxes merely because a clever patent draftsman inserted a clause referring to a generic, non-novel "device."

* * *

Thus, tax strategies are not patentable at least because they do not meet the Supreme Court's criteria for patentable processes laid out in *Diehr*. Tax strategies do not transform or reduce an article to a different state or thing, and they are not tied to a particular machine, even when they are implemented using a computer.

III. Tax Strategies Are Not Patentable Because They Do Not "Promote The Progress Of Useful Arts"

The Patent Clause of the U.S. Constitution directs Congress to provide patent protection to "promote the Progress of . . . useful Arts." U.S. Const.,

Art. I, § 8, cl. 8. The Supreme Court has cautioned that "[t]his is the *standard* expressed in the Constitution and it may not be ignored." *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 6 (1966) (emphasis in original). As the Patent Office points out, this clause is intended to protect innovations in science and technology. *See* PTO Supplemental Brief at 11 and n.4. This Court also recently explained that "[t]he Constitution explicitly limited patentability to the national purpose of advancing the useful arts – the process today called technological innovation." *In re Comiskey*, 499 F.3d 1365, 1375 (Fed. Cir. 2007) (citation and internal quotation omitted). *See also* Karl B. Lutz, *Patents and Science: A Clarification of the Patent Clause of the U.S. Constitution*, 18 Geo. Wash. L. Rev. 50, 54 (1949) ("The term 'useful arts,' as used in the Constitution . . . is best represented in modern language by the word 'technology.'") Tax strategies are not "technological" innovations. They are not in the fields of mechanical, chemical, electrical, civil, or nuclear engineering. They are not in the fields of physics, biology, chemistry, optics, astronomy, or any other scientific or technical discipline. Rather, tax strategies are based on interpreting tax laws and regulations in a manner to reduce, minimize, or defer a taxpayer's tax liability as permitted by the tax laws. Accordingly, tax strategies are not patentable because they are not "useful Arts" and do not represent a "technological innovation."

Further, patents are not needed to encourage the creation of new tax strategies. Indeed, "it would be hard to identify a subject less in need of further innovation than tax planning. Existing economic incentives already provide ample inducement for the development, promotion, and implementation of tax planning strategies."[3] People already have substantial incentives to comply with tax laws and lower their taxes. Taxpayers also have a right to minimize their taxes within the limit of the law. Thus, even if one taxpayer or tax practitioner is the first to use a particular tax strategy, that individual should not be able to prevent other taxpayers from complying with the law in the same way.

As Justice Stevens recognized, sometimes "*too much* patent protection can impede rather than 'promote the Progress of Science and useful Arts,' the constitutional objective of patent and copyright protection." *Lab. Corp. of Am. v. Metabolite Labs., Inc.*, 126 S. Ct. 2921, 2922 (2006) (Stevens, J.,

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[3] *Statement of Ellen Aprill*, Professor of Law, and John E. Anderson Chair in Tax Law, Loyola Law School, Los Angeles, California, Testimony Before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means (July 13, 2006), available at http://waysandmeans.house.gov/hearings.asp?formmode=view&id=5106. The House subsequently approved the Patent Reform Act of 2007, which would amend Section 101 to ban patents on "tax planning methods." *See* Report to Accompany H.R. 1908, Sec. 10 (Sept. 4, 2007). A similar proposal was introduced in the Senate's Judiciary Committee, S. 2369, Sec. 1 (November 15, 2007), but not as part of the Senate's version of the Patent Reform Act, S. 1145.

dissenting from dismissal of writ of certiorari) (emphasis in original). That is especially true for tax strategies, even though they are not a useful art. For tax strategies, *any* patent protection is "overprotection." Patent protection of tax strategies undermines Congressional authority, creates inequalities between taxpayers, and preempts the public's right to freely use and comply with the provisions of the tax laws.

Even if this Court holds that patents on some business methods promote the "useful arts," it should recognize that tax strategies have important distinctions from other types of business methods that make tax strategies unsuitable for patent protection. First, tax strategies are based on interpretations of, and affect compliance with, the tax laws. Unlike other business methods, certain legally required actions could constitute infringement of tax strategy patents. For example, a taxpayer might use a tax strategy based on advice from a lawyer or other tax professional, who would then prepare and file a tax return reflecting that strategy. If that strategy is patented, the tax professional's advice, the taxpayer's reliance on the advice, the taxpayer's use of the underlying business transaction, the preparation of the tax return, and even the filing of the tax return itself, could each constitute direct or indirect patent infringement. However, once a taxpayer has concluded a transaction, the preparer and the taxpayer are

legally obligated to properly reflect the impact of the transaction on the tax return. Congress cannot have intended that compliance with legal obligations should constitute patent infringement.

Second, the professional obligations of privilege and confidentiality that lawyers and accountants have towards their clients raise issues that are not encountered with other types of business methods. Tax practitioners have obligations of client confidentiality and privilege under the Tax Code, the AICPA Code of Professional Conduct, and state law. *See*, *e.g.*, 26 U.S.C. §§ 6713, 7216 (2006); AICPA Code of Professional Conduct § 301 (June 2006), *available at* http://www.aicpa.org/about/code/index.html. These privilege and confidentiality obligations (1) restrict the ability of accused infringers to defend against infringement suits and (2) preclude a fair evaluation of the novelty or validity of tax strategies. The attorney-client privilege provides a severe handicap to proving the invalidity of a tax strategy patent, because a lawyer charged with infringement can not waive a prior client's privilege to show that a strategy was in prior use. As a result of these confidentiality and privilege obligations, tax professionals charged with infringement might be unable to prove a valid prior use under 35 U.S.C. § 273 or prove that a patented strategy is anticipated or obvious under 35 U.S.C. §§ 102-103. The inability of tax professionals to defend

themselves against tax strategy patents puts them at risk of potential exploitation by patent holders, a risk not faced by users of other types of business methods.

CONCLUSION

For the foregoing reasons, this Court should hold that: (1) a process is not eligible for patent protection under Section 101 if it preempts the public from using or complying with provisions of the law, including the tax law; (2) claims to tax strategies and other legal methods are unpatentable subject matter under *Diamond v. Diehr* even if they recite the routine addition of, for example, general purpose computer hardware; and (3) regardless of whether other business methods are patentable, *State Street* is overruled to the extent that it can be interpreted to allow patents for tax strategies and other methods of interpreting or applying the laws.

Respectfully submitted,

Dated: April 7, 2008

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CERTIFICATE OF COMPLIANCE

I hereby certify that this brief complies with the type-volume limitations under Fed. R. App. P. 29(d) and Fed. R. App. P. 32(a)(7)(B)(i) and contains 5,022 words according to the word processing system used to prepare this Brief.

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Heather M. Schneider

CERTIFICATE OF SERVICE

I hereby certify that on April 7, 2008, I caused two copies of the foregoing BRIEF FOR *AMICUS CURIAE* AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN SUPPORT OF APPELLEE to be served by Federal Express (next business day delivery) on the parties, addressed as follows:

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