SECTION 14 - TAX STRATEGIES DEEMED TO BE WITHIN THE PRIOR ART INTRODUCTORY EXAMPLES

Note: The recently signed America Invents Act includes Section 14 which provides that any tax strategy for reducing, avoiding or deferring a tax liability "shall be deemed insufficient to differentiate a claimed invention from the prior art" under 35 U.S.C. § 102 and 103, whether that strategy is known or unknown. In other words, when applying prior art under §§ 102 or 103, your references need not teach any limitations directed to a tax strategy within a claim as these are considered to be within the prior art. Here, a "tax liability" refers to any tax under Federal, state or local law, or even under the law of any foreign jurisdiction.

Issues under Section 14 arise where the claim recites a plan for reducing, avoiding, or deferring a tax liability. The determination of whether a tax strategy is involved is not only a claim-by-claim analysis, but also a limitation-by-limitation analysis within a particular claim and can be very fact specific. Where a claim presents potential Section 14 issues, please consult your SPE to discuss whether any limitations in that claim should be considered within the prior art. Where the scope of the claim is unclear as to whether a tax strategy is claimed, clarification may be sought through 35 U.S.C. 112 in the usual manner.

Section 14 applies regardless of the statutory class of the claim. All claims are to be examined for compliance with 35 U.S.C. §§ 101 and 112 independently of whether Section 14 applies.

Example A - Electronic Tax Return Preparation

Summary: Section 14 does not apply to any part of an invention that is used solely for preparing a tax or information return or other tax filing.

> 1. An apparatus for collecting and transmitting tax data comprising:
> means for collecting tax data from a taxpayer;
> means for processing said tax data collected from said taxpayer to obtain processed tax return data;
> means for preparing an electronic tax return using said tax return data; and
> means for transmitting the electronic tax return to a taxing authority.

Broadest Reasonable Interpretation:

This claim is directed to an apparatus for collecting and processing tax data, then preparing and transmitting an electronic tax return. In light of the specification, the means for collecting tax data is disclosed as a graphical user interface that prompts a user to input tax data; the means for processing collected data is a computer programmed to

properly format the collected data for the electronic tax return form; the means for preparing the tax return is the computer further programmed to populate an electronic form with the formatted data; and the means for transmitting is a modem to send out the completed tax return over a communication link.

Analysis/Conclusion:

For the purposes of Sec. 14, even though tax data is handled by the apparatus, the claim falls into the tax filing preparation exclusion. The claimed apparatus merely prepares an electronic tax return by taking input data, formatting it into an electronic form and transmitting it. None of the structure or functionality of the apparatus is concerned with any tax strategy; i.e., a plan for reducing, avoiding, or deferring a tax liability. The claim is directed merely to the internal computer operations necessary to get entered tax data formatted properly and sent out. In other words, no limitations in the claim are directed to a tax strategy for reducing, avoiding or deferring a tax liability as no steps are taken that explicitly or implicitly change any such liability. As a result, since the claimed apparatus is solely for preparing a tax return, it falls into the exclusion specified in Sec. 14(c)(1). Therefore, the entirety of the claim should be evaluated in view of the prior art under §§ 102 and 103.

Example B - Payroll Processing

Summary: Section 14 does not apply to tax-related inventions that are not strategies for reducing, avoiding, or deferring tax liability.

> 2. A computer implemented method for payroll processing for an employer having employees for whom the payroll is created, comprising:
>
> storing on a first computer, payroll data for each employee including wage information, tax status, and deduction information;
>
> receiving at the first computer the payroll data for the employees;
>
> calculating at the first computer paycheck information for each employee, the paycheck information including wages, tax withholding status, and deductions for the
> employee;
>
> transmitting from the first computer to a remote computer the calculated paycheck information for direct deposit of paycheck amounts for selected employees, and payment of the employer's tax liabilities; and
>
> printing at the first computer paychecks and direct deposit notices for distribution to the employees of the employer; and
>
> entering into an account register a transaction deducting the paid tax liabilities.

Broadest Reasonable Interpretation:

This claim is directed to a computerized payroll accounting method. The broadest reasonable interpretation of the calculating step in light of the specification is merely to do the math to apply pre-determined Federal, state and local tax rates as well as apply pre-determined deductions to the wages. The step of calculation is disclosed to involve only a rote sequence of numerical operations that is performed without regard to any amount of tax liability resulting from the calculation. The storing, receiving, transmitting, printing and entering steps are all directed to data manipulation for financial management purposes.

Analysis/Conclusion:

For the purposes of Sec. 14, even though tax data is handled by the apparatus, the claim falls into the financial management exclusion. Even though tax related data is handled by the method, pre-existing tax liabilities and deductions are merely applied to the wages without concern for any particular tax strategy. The steps merely provide the automated support for payroll and accounting processing. In other words, no limitations of the claim are directed to a tax strategy for reducing, avoiding or deferring tax liability as no steps are taken that explicitly or implicitly change any liability. Thus, the method does not limit the use of any tax strategy by any taxpayer or tax advisor. As a result, since the claimed method is solely for financial management, it falls into the exclusion specified in Sec. 14(c)(2). Therefore, the entirety of the claim should be evaluated in view of the prior art under §§ 102 and 103.

<u>Example C – Tax Deferral</u>
Summary: A claim solely drawn to a plan for deferring tax liability is deemed to be within the prior art per Section 14.

> 3. A method for deferring federal taxation of corporate profits, said method comprising:
>
> forming a Parent Section 17 Federal Tribal (FT) Corporation;
>
> forming a Subsidiary Section 17 Federal Tribal (FT) Corporation, which is controlled by said Parent Section 17 FT Corporation;
>
> forming at least one pass-through entity, which is linked to the Subsidiary Section 17 FT Corporation, said pass-through entity having federal tax exempt status as a disregarded entity, and equity voting rights and investment basis taxation rights;
>
> wherein said pass-through entity is authorized to sell equity interests therein which are representative of equity capital investments received from non-tribal members; and whereby said business structure provides an opportunity for said non-tribal investors to receive an enhanced return on investment as a

consequence of the tax-exempt status of the FT Corporation, and a degree of control over their equity capital investments.

Broadest Reasonable Interpretation:

This claim is directed to a method for deferring federal taxes by forming a particular business structure. Even though one may e.g. form a Federal Tribal Corporation for reasons other than this particular tax strategy, each step of the method is disclosed for the purpose of securing the tax benefits taught regarding the corporate profits.

Analysis/Conclusion:

This claim explicitly recites deferring federal taxation of corporate profits in the preamble, and each of the steps are disclosed for securing the tax deferral benefits taught. Here, the claimed invention recites a plan for satisfying the qualification requirements for a desired tax-favored entity status, and the provisions of Sec. 14 apply. Although the claim stops at merely forming the business structure; i.e., the result of performing the method does not specifically yield any deferral of taxes, the claim recites a plan for deferring taxes (a tax strategy), and the provision of Section 14 applies.

Because each of the steps relates to the tax strategy, the entirety of the claim is "deemed insufficient to differentiate" from the prior art under §§ 102 or 103. Thus, this claim could be rejected under §§ 102 or 103 merely as a matter of law per Sec. 14. As with each of these examples, this claim should be examined for compliance with 35 U.S.C. §§ 101 and 112.

<u>Example D – Tax Reduction</u>
Summary: a claim reciting tax strategy limitations will be examined as if those limitations are present in the prior art.

4. A non-transitory computer readable medium having stored thereon instructions which when executed by a computer perform a method for minimizing the worldwide tax costs of a multinational group of companies, the method comprising:

determining taxable income and calculating a baseline tax exposure for each business entity within a multinational group of companies;

identifying intercompany transactions within the group that have the effect of reducing the tax costs in the countries in which receiving and paying companies are located;

calculating a tax cost of the identified transactions; and

routing and executing the identified transactions among different group entities to reduce the tax cost.

Broadest Reasonable Interpretation:

This claim is directed to a computer readable medium for minimizing worldwide tax costs by identifying transactions that would reduce tax costs and actually executing those transactions among different entities to obtain the tax reduction. The instructions to perform the step of determining taxable income and calculating taxes for each business entity are disclosed as a baseline tax calculation performed without regard to reducing, avoiding, or deferring tax liability. The steps of identifying transactions, calculating cost and routing and executing transactions are disclosed as being performed for the purposes of implementing the disclosed strategy once the baseline data is gathered.

Analysis/Conclusion:

This claim explicitly recites instructions to achieve a reduction in taxes by routing and executing various transactions among the entities in a multinational group of companies. Note that section 14 covers any liability for tax under any Federal, state, or local law, or the law of any foreign jurisdiction and also includes "any statute, rule, regulation, or ordinance that levies, imposes or assesses such tax liability." The determining step does not explicitly or inherently require the performance of any action towards reducing, avoiding, or deterring tax liability, the determining step would not be considered to be within the prior art per Section 14. However, the "identifying", "calculating", "and routing and executing" steps of the claim are explicitly directed to a tax strategy for reducing, avoiding or deferring tax liability. The "minimizing" step in the preamble, to the extent that it would be given patentable weight (if any), would also be considered to be directed to a tax strategy per Section 14.

As indicated in Sec. 14(a), for the purposes of evaluation under 35 U.S.C. §§ 102 or 103, the tax strategy embodied in the last three steps of the claim is "deemed insufficient to differentiate a claimed invention from the prior art." In other words, these steps relating to the tax strategy are considered to be within the prior art and will not contribute to novelty or nonobviousness.

One way to visualize this would be to underline the limitations in the claim that are not "deemed insufficient to differentiate" under Section 14. Here, the instructions for routing and executing clearly generate the tax savings, and the instructions for identifying and calculating are necessarily done in accordance with the tax savings strategy and are thus included in the tax strategy. The initial data gathering step of determining taxable income and calculating taxes, under its broadest reasonable interpretation, is severable from the tax strategy. Thus, the claim can be viewed as:

> 4. <u>A non-transitory computer readable medium having stored thereon instructions which when executed by a computer perform a method</u> for minimizing the worldwide tax costs of a multinational group of companies, <u>the method comprising:</u>

determining taxable income and calculating a baseline tax exposure for each business entity within a multinational group of companies;

identifying intercompany transactions within the group that have the effect of reducing the tax costs in the countries in which receiving and paying companies are located;

calculating a tax cost of the identified transactions; and

routing and executing the identified transactions among different group entities to reduce the tax cost.

As a result, for example, a single reference that taught a non-transitory computer readable medium with instructions thereon to perform the underlined first step above would be sufficient to make a rejection of this claim under 35 U.S.C. § 103.

Where a claim contains tax strategy limitations, and a single prior art reference discloses the claim as a whole except for the tax strategy limitations, a rejection of the claim may be made under 103 over that prior art reference. The language of § 102 requires that the claimed invention be "patented" or "described" in a single patent or printed publication. The language of § 103 states that a patent may not be obtained "if the differences between the claimed invention and the prior art" would have been obvious. Section 14 of the AIA states that any tax strategy "shall be deemed insufficient to differentiate a claimed invention from the prior art." The use of the "differentiate" language suggests that § 103 is a proper statutory basis for rejection over a single prior art reference where the claim differs from the prior art only by tax strategy limitations.

Where a claimed invention differs from a patent or publication only by the tax strategy limitations of the claimed invention, Section 14 causes the tax strategy limitations to be insufficient to differentiate the claimed invention from the patent or publication. Therefore, the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious. The claim is therefore unpatentable under § 103 over the prior art patent or publication. The following sample rejection illustrates this point.

Sample rejection:

Claim 4 is rejected under 35 U.S.C. 103(a) as obvious over Smith in view of Sec. 14 of the America Invents Act.

The claim limitations *"minimizing the worldwide tax costs of a multinational group of companies"* and *"identifying intercompany transactions within the group that have the effect of reducing the tax costs in the countries in which receiving and paying companies are located; calculating a tax cost of the identified transactions; and routing and executing the identified transactions among different group entities to reduce the tax cost"* are steps which act to reduce tax liability of the group of companies. These steps therefore recite a strategy for reducing, avoiding, or deferring tax liability ("tax strategy") pursuant to Section 14 of the Leahy-Smith America Invents Act. Accordingly, these

claim limitations are being treated as being within the prior art and are insufficient to differentiate the invention of claim 4 from the prior art.

Smith teaches a "non-transitory computer readable medium having stored thereon instructions which when executed by a computer perform a method", "the method comprising: determining taxable income and calculating taxes for each business entity within a multinational group of companies." See fig. X and col. Y lines a-b of Smith. While Smith does not specifically teach the "minimizing", "identifying", "calculating", "and routing and executing" limitations identified above as tax strategy limitations, these limitations fail to distinguish the claims from the Smith reference, pursuant to Sec. 14 of the AIA. Thus, the differences between the claimed invention and the invention disclosed by Smith are insufficient to differentiate the claimed invention, and claim 1 is therefore unpatentable under § 103.

See USPTO memo "Tax Strategies Are Deemed To Be Within the Prior Art" dated September 20, 2011, at http://www.uspto.gov/patents/law/exam/memoranda.jsp.

Example E - Manufacturing a Hybrid Vehicle:
Summary: a tax strategy per Section 14 requires a plan for reducing, deferring, or avoiding a tax liability.

5. A method of manufacturing a hybrid vehicle, the method comprising:
providing a chassis configured to movably support a plurality of wheels;
providing a drive system comprising a gasoline powered engine coupled to an electrical generator and a battery pack;
coupling the drive system to the chassis at an orientation that positions the generator in front of the engine;
supporting an operator compartment at a forward position along the chassis, wherein the operator compartment is substantially disposed over the generator; and
coupling the generator to at least one electric drive motor powering a wheel of the vehicle.

Broadest Reasonable Interpretation:

This claim is directed to manufacturing a hybrid vehicle. Each step is specifically directed to manipulating the recited physical components to form a vehicle that is powered by a gasoline engine and a generator with a battery pack.

Analysis/Conclusion:

For the purposes of Sec. 14, even though hybrid vehicles currently enjoy certain tax incentives, the claim above is merely directed to manufacturing the hybrid vehicle.

None of the steps of the method are concerned with effecting any particular tax strategy as the claim is solely directed to the physical manipulation of the vehicle components during assembly to achieve a technical solution. In other words, no limitations in the claim are directed to a tax strategy for reducing, avoiding or deferring a tax liability as no steps are taken that explicitly or implicitly change any such liability, if a tax liability can even be said to exist. Thus, the method does not limit the use of any tax strategy by any taxpayer or tax advisor and Sec. 14 does not apply.