Tax Strategies Unpatentable Under America Invents Act

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This article is the third in a series considering a section of the new patent statute and how it may affect your business.

Another provision of the Leahy-Smith Patent Reform Act that went into effect immediately on September 16, 2011, Section 14 affects the patentability – or more accurately, un-patentability – of tax strategies. The new law provides that "any strategy for reducing, avoiding, or deferring tax liability … shall be deemed insufficient to differentiate a claimed invention from the prior art." This provision of the Act applies to all cases pending on, or filed on or after the date of enactment.

By deeming tax strategies to be within the prior art, those strategies are effectively rendered unpatentable from the date of the enactment. That is, applicants will no longer be able to rely on the novelty or non-obviousness of a tax strategy to distinguish their claims over the prior art. This section preserves the ability to interpret the tax laws and to implement those interpretations in the public domain, so that they can be used by all taxpayers and their tax advisors. Tax liability is defined as any liability for a tax under any Federal, State, or local law, or the law of any foreign jurisdiction, including any statute, rule, regulation, or ordinance that levies, imposes, or assesses such tax liability.

Despite this change, inventions or parts of inventions directed to tax return preparation and tax filing methods, software, and systems are excluded from the scope of the new provision. Also excluded are financial management methods, software and systems to the extent the invention is severable from any tax strategy or does not limit the use of any tax strategy by any taxpayer or tax advisor. Applications related to such inventions may be patentable if other provisions of the statute, such as novelty, nonobviousness and utility, are satisfied . Senator Grassley, in his statements on the Senate floor, expressly stated that tax preparation software, such as TurboTax, is not a tax strategy, and along with Senator Baucus inserted these exclusions to make that clear.

Finally, the Act is not to construed to imply that other business methods are patentable or valid.