Legislative Attacks on Tax Strategy and Business Method Patents Continue

By Jay P. Lessler, Partner

The America Invents Act (AIA) continues the legislative attack on tax strategy and business method patents. More than ten years ago, Congress took its first swipe at business method patents by creating a prior-user defense to infringement of such patents. Congress has now created a new procedure for attacking existing business method patents within the U.S. Patent and Trademark Office (PTO), and a heightened patentability standard for inventions involving tax strategies.

Tax Strategies

The AIA aims to prevent patents broadly covering tax strategies. The AIA does not expressly prohibit tax strategy patents. Rather, the AIA provides that, for purposes of determining novelty and non-obviousness, "any strategy for reducing, avoiding, or deferring tax liability [referred to as a "tax strategy"], 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." A tax strategy (such as a tax-favored structure) by itself cannot be used to establish patentability. According to the PTO, this provision aims to keep the ability to interpret the tax law and to implement such an interpretation in the public domain, available to all taxpayers and their advisors.

Congress has made exceptions to this provision for tax return preparation and financial management software. Specifically, the provision does not apply to technology used solely for (1) preparing a tax or information return or other tax filing, or (2) financial management to the extent it is severable from any tax strategy or does not limit the use of any tax strategy by any taxpayer or tax advisor. The tax strategy provision of the AIA applies to all patent applications pending on, or filed on or after, September 16, 2011, and to any patent issued on or after September 16, 2011.

While there is now a heightened patentability standard for patents involving tax strategies, patent applicants may focus on the nuts and bolts aspects of creating and running a new tax strategy, which may fall under one of the exceptions for tax preparation and financial management software.

Transitional Proceedings for Business Method Patents

The AIA also makes available a special post-grant review proceeding (referred to as a "transitional proceeding") within the PTO for covered business method patents. Unlike regular post-grant review proceedings which have a nine month deadline from a patent's grant date to request, a request for a transitional proceeding can be made anytime up

until September 16, 2020. Transitional proceedings can only be requested for a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service (excluding "technological inventions"). The PTO has indicated that it will broadly construe which patents are covered by this provision, pointing out that according to its legislative history, this provision was drafted to encompass patents "claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity." Transitional proceedings can only be requested by a party sued for infringement of the patent or charged with infringement under the patent.

During a transitional proceeding, any ground of invalidity, such as lack of written description, enablement, novelty, or obviousness, can be raised. The only prior art which may be considered in a transitional proceeding, however, is: (i) prior art described by pre-AIA §102(a) (e.g., a patent or printed publication before the invention by the patentee), and (ii) disclosure of the invention more than 1 year before the earliest effective filing date of the patent.

After a final written decision in the transitional proceeding, the petitioner of the transitional proceeding is estopped from later asserting any ground of invalidity raised during the transitional proceeding in district court or an international trade commission (ITC) proceeding. Interestingly, the estoppel effect is greater for subsequent PTO proceedings. The petitioner cannot in a later PTO proceeding, such as a reexamination or *inter partes* review, assert any ground of invalidity raised or *which could have been* raised during the transitional proceeding.

When a party is sued for infringement of a business method patent, it is not uncommon for the party to seek reexamination of the patent at the PTO and request a stay of the court proceedings while the reexamination is conduct. The AIA foresees this same occurrence with transitional proceedings for business method patents. The AIA requires a court considering whether to grant such a stay based on a transitional proceeding to consider the following factors: (i) whether stay, or the denial thereof, will simplify the issues in question and streamline the trial, (ii) whether discovery is complete and whether a trial date has been set, (iii) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and (iv) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court. Either party may take an immediate interlocutory appeal from the district court's decision to grant or deny a stay to the Court of Appeals for the Federal Circuit, and the Federal Circuit may review the decision *de novo*.

Those who have been sued or charged with infringement of a business method patent may wish to pursue a transitional proceeding as it may lead to a stay of any ongoing litigation (and thus of any discovery), and provide cheaper and faster resolution of the dispute. It should also be kept in mind that the PTO is broadly interpreting the transitional proceeding provision, and therefore, it may apply to patents other than those expressly directed to a business idea.

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