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Reclaiming our Technological Posterity at the Intersection of Intellectual Property and Taxation: Uncovering how Patent Pools are Key to Recovering the Benefits of Charitable IP Contributions

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Reclaiming our Technological Posterity at the Intersection of Intellectual Property and Taxation: Uncovering how Patent Pools are Key to Recovering the Benefits of Charitable IP Contributions

by Kevin Christopher[*]

Summary

The American Jobs Creation Act of 2004 significantly limited the tax benefits to companies for charitable donations of intellectual property. This has arguably restricted within the U.S. the influence and distribution of technology to limited or non-developing user groups, such as nonprofits and universities. Notwithstanding this decrease in benefits, the growth of an international licensing model may provide a new domestic framework for exploiting tax provisions surrounding charitable IP contributions through the operational mechanics of patent pools. Increased consideration of patent pools is important for other reasons as well. The growth of university commercialization offices facilitating enhanced industry-academic relations and the increasing complexity of commercial products, most notably in the biotech field, are just a sampling of factors calling for broadened use of large-scale collaborative models of exchange.

How, then, can U.S. firms take advantage of implicit pecuniary and non-pecuniary benefits through the patent pool structure; or, more specifically, how can firms donate their shelved, unworkable patents towards a common good, while also taking advantage of goodwill and federal tax incentives? While this article does not offer a prettily packaged answer to the question, it does provide a useful analysis of the relevant IP and taxation principles and concerns that must be factored into any attempt at a soluble approach towards a balancing of the respective federal and societal interests involved. This article fits squarely at the intersection of intellectual property and tax law, exploring cooperative developments seeking to disseminate intellectual property while circumventing tax limitations of the Jobs Act.

In order to test the workability of a tax-friendly patent pool, one must first grasp the relevant law and theory establishing patent pools generally, and more specifically patent pools as charitable contribution stores. Section I thus surveys environmental conditions leading to the creation of modern patent pools, and defines modern patent pools. Section II surveys the landscape of the U.S. federal tax provisions governing technology transfer, with a particular emphasis on establishing intellectual property transfers as charitable contributions. Section III makes use of the IP and tax related principles and rules though a case study involving an international patent pool devoted to environmental sustainability and cleantech innovation.

I. Creation and Supporting Environments of Modern Patent Pools

Modern patent pools are relational constructs designed to overcome common problems associated ith corporate ownership of advanced technologies. These relationships are fused by shared interests of product development; they are also stressed by the competitive positions of researchers and executives involved, and by the oversight of antitrust and tax regulators. These facilitators and hindrances are analyzed in greater detail below.

A. A Brief Note on the Cooperative Landscape of Academia

This article explores the functions of patent pools, which are intellectual property collectives of otherwise-competing corporate entities. Because sandbox etiquette learned in the laboratory spills over to the boardroom, it is worthwhile to first consider in this critique some cooperative strains of patent pools amongst academic researchers.[1] In the academic arena, "user innovators" have adopted a widespread "social norm" of ignoring others' intellectual property rights during the course of research.[2] A general lack

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1. Insular institutional norms may negatively influence the later work of researchers, students, and even administrators. Fortunately, academic institutions are increasingly investing in programs dedicated to mentoring entrepreneurial researchers in the business arts. Notable examples include the California Institute for Quantitative Biosciences (http://qb3.org/) and the IC^2 Institute at the University of Texas (http://www.ic2.utexas.edu/).

2. Katherine J. Strandburg, *User Innovator Community Norms at the Boundary Between Academic and Industrial Research*, 77

of enforcement sustains this practice, and is likely due to an emphasis on innovation *per se*, as opposed to a commercial emphasis on innovation for profit.[3] In other words, academics seek glory in publication, rather than proliferation, and in this vein tread harshly on the discovery rights of their colleagues. This self-interested approach to publication leads to a normalized takings research mentality. However, when requests are properly made for use of protected technologies during the course of research, there is widespread dissatisfaction with delay and general resistance to peer-related lending and facilitation.[4] In sum, academic research environments tend to foster a general mindset of resistance to cooperative relationships, stemming mostly from competitive pursuits of publication that inevitably impact institutional prestige, funding, and royalties.[5]

At the intersection of academic science and industry, commercialization partnerships have greatly increased, exemplified by a tripling of university funding sourced from private industry, with a concurrent five-fold increase in the share of domestic patents sourced at the university level.[6] Still, university-sourced patents represent a mere six percent of the United States Patent and Trademark Office's ("USPTO") annual registry.[7] While collegial commercialization developments are outside the focus of this article, it should be noted that universities present valuable proving grounds for novel methods of innovation, both in the laboratory and executive boardroom.[8]

B. Cooperative Corporate America and the Role of the Patent Pool

For commercial developers, the landscape of innovation and invention is more complex. While academics work on specific projects within narrowed academic fields, commercial developers make products interfacing numerous technological fields, often already covered by thousands of patents and trade secrets.[9] Due to the USPTO's specificity requirements,[10] even the most basic products incorporate patents to numerous subcomponents resulting in "IP thickets" that hinder development of many socially beneficial technologies.[11] Modern product developers often find themselves in a web of licensing, stymieing otherwise straightforward executive agendas.[12] Navigating patent thickets have thus led to innovative forms of IP transactions, including "patent trolls,"[13] whereby third-

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Fordham L. Rev. 2237, 2257 (2009).

3. Katherine J. Strandburg, *Norms and the Sharing of Research Materials and Tacit Knowledge*, *in* Working within the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 85, 85 (Rochelle C. Dreyfuss et al. eds., 2010). *But see* Bronwyn H. Hall, *On Copyright and Patent Protection for Software and Databases: A Tale of Two Worlds, in* Econ., L. & Intell. Prop. 259, 261 (Ove Granstrand ed. 2003) (noting that "in reality R&D environments display a continuum between the most private industry settings and the 'open source' community").

4. *See* Strandburg, *supra* note 3, at 87 (Interestingly, whether a scientific tool requested by a collegial entity is patented has little impact on a solicited holder's refusal to share materials).

5. *See*, e.g., the University of California San Francisco, Office of Technology Management, academicaffairs.ucsf.edu/welcome2009/OTMflyer.pdf ("Without strong research, there will be no commercialization").

6. *See* Hall, *supra* note 3, at 264-65.

7. *Id.*

8. *See, e.g.,* Ron Leuty, *UCSF harvesting Big Pharma deals: Pfizer, Bayer and Sanofi seed new crop of* drugs, S.F. Bus. Times, Jan. 21, 2011, *available at* http://www.bizjournals.com/sanfrancisco/print-edition/2011/01/21/ucsf-harvesting-big-pharma-deals.html (reporting on direct industry investment into UCSF research in excess of $100 million); Carol Mimura, *Nuanced Management of IP Rights: Shaping Industry-University Relationships to Promote Social Impact, in* Working within the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 269, 285 (Rochelle C. Dreyfuss et al. eds., 2010) (discussing the Socially Responsible Licensing Program at the University of California, Berkeley, an effort to provide accessible pharmaceuticals to developing countries).

9. *See* O'Connor, *IP Transactions as Facilitators of the Globalized Innovation Economy, in* Working within the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 204, 204 (Rochelle C. Dreyfuss et al. eds., 2010).

10. *See generally* 35 U.S.C. §§ 101-03, 112 (2011) (outlining requirements of novelty, non-obviousness, and written specificity for inventions seeking patent protection).

11. *See* Rebecca S. Eisenberg, *Bargaining Over the Transfer of Proprietary Research Tools: Is this Market Failing or Emerging?, in* Expanding the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 223, 223 (Rochelle C. Dreyfuss, et al. eds., 2001) ("As intellectual property claims proliferate in rapidly advancing fields of technology, new research paths often cross the boundaries of many prior patents. Without an exemption from infringement liability, subsequent innovators need licenses from multiple predecessors to pursue such research projects. Whether this state of affairs promotes innovation or retards it is an empirical question of considerable complexity."); Michael A. Heller, *The Tragedy of the Anticommons: Property in the Transition from Marx to Markets*, 111 Harv. L. Rev. 621, 684 (1988); Merges, *Institutions for Intellectual Property Transactions: The Case of Patent Pools, in* Expanding the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 123, 126 (Rochelle C. Dreyfuss, et al. eds., 2001) ("The basic idea is that granting too many property rights of too small a scale can preclude effective exploitation of economic resources.")

12. *See* O'Connor, *supra* note 9, at 204.

13. Joe Brennan, et al., *Patent Trolls in the U.S., Japan, Taiwan, and Europe*, 13 CASRIP Newsletter (Spring/Summer 2006), *available at* http://www.law.washington.edu/Casrip/Newsletter/default.aspx?year=2006&article=newsv13i2BrennanEt

party speculators or aggregators buy up IP to enforce or resell the rights, and patent pools, a more cooperative framework of IP centralization.[14]

1. *Historical Basis and Evolution of the Patent Pool*

Patent rights are property rights employing a "tradeoff model" balancing the costs of monopoly with a legal inducement of innovation.[15] Patent pools began with "repeat-play" bargaining groups anticipating sustained business interactions involving one another's property rights.[16] These early innovators formed the administrative entities recognizable today and are responsible for broad licensing of bundled IP rights assigned by member donors.[17] Today, organizations like the American Society of Composers, Authors, and Publishers ("ASCAP"), have bundled IP rights to issue blanket licenses, thereby significantly reducing transaction costs for expansive, centralized commercial inventories.[18] In turn, royalties are distributed according to weighted value of licensed property.[19]

2. *Principles of Modern Patent Pools*

Patent pools mirror the blanket issuance framework used by ASCAP, though in this sense patent inventories are administered primarily to donor members, with varying reservations for third-party licensing.[20] Simply stated, a patent pool is created when patent holders assign or license their rights to an independent entity with authority to exploit those rights through further licensing or manufacturing endeavors.[21] Licensees benefit from pools by way of "all-in-one license[s]" circumventing the need for individually securing licenses from patent owners.[22] On the one hand, patent pools "regularize frequent interactions" among technologically complex industries with complementary patents, while on the other hand, patent pools provide a one-stop shop for diffuse producers and bulk purchasers.[23] Patent pools also eliminate stacking licenses or reduce defensive aggregation, decrease patent litigation, enhance technical exchange of non-patented work, and generally stimulate funding to all pool members.[24] Drawbacks associated with patent pools include skepticism over industry coordination as a detriment to consumer interests, as well as uncertainty in the form of coalition stability.[25] Moreover, patent pools may "shield invalid patents…entail inequitable renumerations… [and] have anticompetitive effects.[26] Scholars generally disagree as to the proportional benefits of patent pool membership with respect to producers versus consumers, large-scale as opposed to small-scale developers, and private groups contrasted with public groups.[27]

Al (identifying a patent troll, patent extortionist, patent parasite, patent pirate, patent speculator, patent mafia, or patent rougue as "somebody who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases they never practiced at all.").

14. *See* O'Connor, *supra* note 9, at 204.

15. *See Standard Oil Co. Ind. v. Unites States*, 283 U.S. 163, 167-68 (1931); Merges, *supra* note 11, at 123; *see also* Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources to Invention, in* The Rate and Direction of Inventive Activities (Richard R. Nelson ed., 1962), *reprinted in* Essays in the Theory of Risk-Bearing (Markham Pub. Co. ed., 1971).

16. Merges, *supra* note 11, at 128.

17. *Id.*

18. *Id.* at 129.

19. *Id.*

20. *Id.*

21. *Id.* at 133 (While helpful to distinguish the modern modes of pooling, Professor Merges' singular definition is adequate for purposes of this article); *see also* Verbeure, *Patent Pooling for Gene-based Diagnostic Testing: Conceptual Framework*, *in* Gene Patents and Collaborative Licensing Models: Patent Pools, Clearinghouses, Open Source Models and Liability Regimes 3, 5 (Geertui Van Overwalle ed. 2009) (discusses three types of patent pools unofficially known as "joint licensing schemes," "patent pools with a licensing administrator," and "patent platforms.").

22. Verbeure, *supra* note 21, at 5.

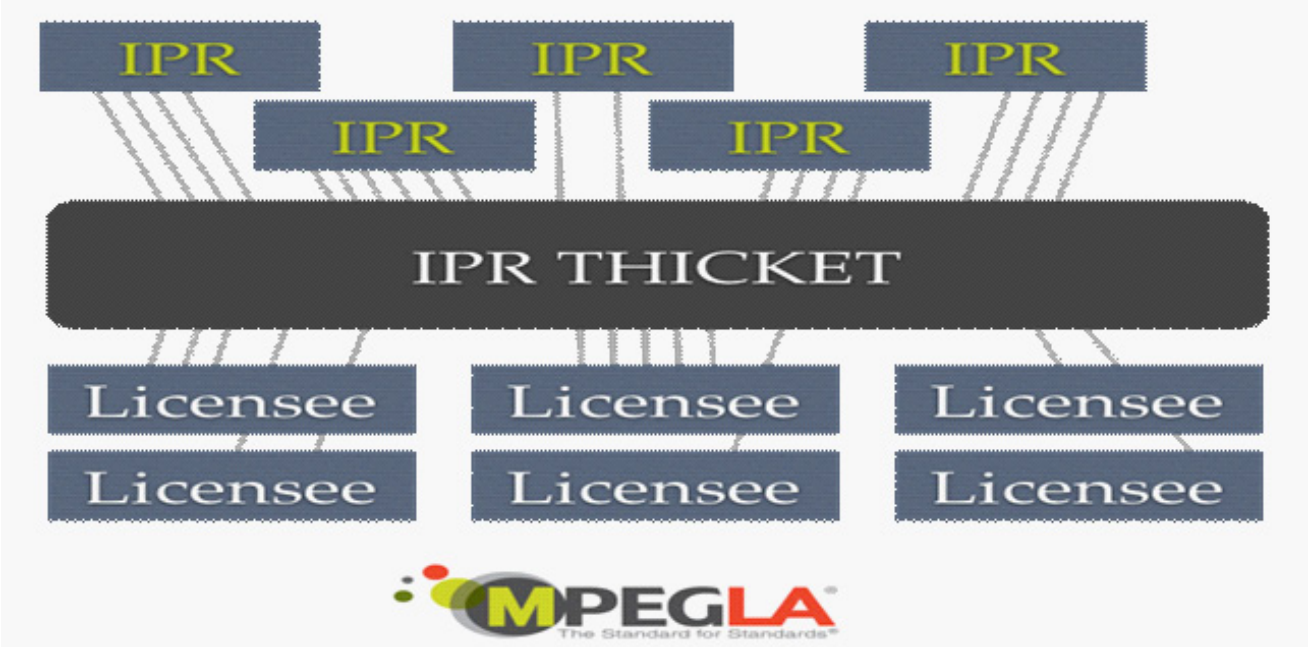
23. Merges, *supra* note 11, at 130.

24. *See* Geertrui Van Overwalle, *Designing Models to Clear Patent Thickets in Genetics, in* Working within the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 305, 309 (Rochelle C. Dreyfuss et. al , Diane L. Zimmerman, & Harry First eds., 2010).

25. *See* Steffen Brenner, *Optimal formation rules for patent pools,* 40 Econ. Theory 373, 374 (2009).

26. *See* Van Overwalle, *supra* note 24 at 309.

27. *See* Yochai Benkler, *A Political Economy of the Public Domain: Markets in Information Goods Versus the Marketplace of Ideas*, *in* Expanding the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 267, 273 ("[I]ncreases in the scope and reach of property rights benefit commercial producers who sell information goods, at the expense both of noncommercial producers and of producers who appropriate the benefits of their production by means other than the sale of rights…Moreover, increases in the scope and reach of property rights favor large scale organizations that own information inventories over small scale organizations (including individuals) that do not own such inventories."); *see also* Ashish Arora, Andrea Fosfuri, & Alfonso Gambardella, *Markets for Technology and Corporate Strategy*, *in* Econ., L & Intell. Prop. 77, 105 (Ove Granstrand ed. 2003) (pointing out the opportunities for startups and small firms to profit from technology trade "even if they are unable to mobilize the costly assets to develop, produce and sell [their proprietary technologies]"); Rudy Santore, Michael McKee & David Bjornstad, *Patent Pools as a Solution to Efficient Licensing of Complementary Patents? Some Experimental Evidence*, 53 J. L. & Econ. 167, 182 (2010) ("Our laboratory experiments show that profit-seeking agents can coordinate licensing arrangements in complicated situations fairly effectively with the opportunity to set prices jointly. In the case of strictly complementary patents,



3. Structuring a Patent Pool

Upon its establishment, the first priorities for a patent pool are determining rates for access to the entire pool and how income will be distributed to donor members.[28] Patent pool makers must consider how exchange and enforcement costs will drive membership, with lower transactional costs inviting increased activity.[29] As an important note for the tax discussion below, a patent pool "regularizes the *valuation* of individual patents" by creating "a division of royalties according to the value attributed by the parties to their respective claims."[30] A pool must also consider whether its administrative functions will be executed through an independent group or an independently operated subgroup of particular donors.[31] Typical administrative powers include adding and subtracting property rights to or from the bundle of rights, restructuring royalty payments, and settling disputes.[32]

An effective patent pool contains three essential elements: contributing members with access to all pooled patents, available licensing plans for non-contributing members, and a formulaic distribution of licensing fees that weighs the contributory importance of pooled technologies.[33] A pooling collective should offer a streamlined and accessible menu of prices and terms to licensees only after "extensive internal consultation"[34] involving patent attorneys, technical experts, and legal counsel – a "long, complex, multi-

the gains arising from permitting collusion (measured as market efficiency) appear to be substantial, and the extreme examples of coordination failure are avoided."); Verbuere, *supra* note 21, at 26 ("Patent pools may raise visibility and accessibility towards smaller or public genetic laboratories and thus may increase the actual amount of collected royalties by increasing its mass, thereby bridging the gap between potential and actual revenue."). *But see* Jorge A. Goldstein, *Critical Analysis of Patent Pools*, *in* Gene Patents and Collaborative Licensing Models: Patent Pools, Clearinghouses, Open Source Models and Liability Regimes 50, 56 (Geertrui Van Overwalle ed. 2009) ("Especially in the biopharmaceutical sector, players are confronted by large costs and long regulatory times, and are not inclined to pool their IP with that of others who may not have invested the large sums required for drug or diagnostic approvals. The biopharma culture is much more like that of a solitary long-distance runner with one winner and multiple also-rans, that that of a team of synchronized swimmers."); Brenner, *supra* note 25 at 374 ("In general, the social and private benefits of pool creation do not coincide.").

28. *See* Merges, *supra* note 11, at 131.

29. *Id.* at 132; *see also* Brenner, *supra* note 25, at 374 (observing that the benefit to social welfare is a function of decreased competition, increased membership, and reduced pricing).

30. *See* Merges, *supra* note 11, at 133; *see also Standard Oil Co. Ind. v. Unites States*, 283 U.S. 163, 167-68 (1931).

31. *See* Lawrence A. Horn, *Case 1. The MPEG LA Licensing Model: What Problems Does it Solve in BioPharma and Genetics?*, *in* Gene Patents and Collaborative Licensing Models: Patent Pools, Clearnighouses, Open Source Models and Liability Regimes 33, 36 (Geertui Van Overwalle ed. 2009) ("The license administrator is neither licensor nor licensee (nor an affiliate of any); both are customers, thus assuring impartial administration of the joint license with a goal of balancing reasonable access for users with reasonable return to patent owners. Each licensing program is administered separately, fairly and impartially.").

32. *See* Merges, *supra* note 11, at 140.

33. *Id.* at 129.

34. *Id.* at 131.

step process."[35] Patents included in the pool must be enforceable under antitrust laws, and must not exclude complimentary patents.[36] Patentees should preserve some authority over licensing conditions and should commit under non-exclusive terms.[37] Indeed, a survey of sixty-three patents from 1895 to 2001 found that pools of complimentary patents generally featured independent licensing provisions and grantbacks.[38]

4. Model Patent Pools and Industry Impact

Patent pools can be "creatures of necessity" when previously registered patents control foundational technologies necessary for entry into a high-tech commercial field, or towards development of certain commercial products.[39] Inasmuch, successful patent pools are usually those linked to complex technologies that could not otherwise be broadly developed, if at all. As discussed below, patent pools are currently responsible for important consumer electronics, and are poised to serve as vehicles for biotech development.

a. MPEG-LA & MPEG-2

MPEG-2 was first created by the licensing agent MPEG-LA to combine 29 video compression patents among 9 international patent holders.[40] MPEG-LA administers the pool and licenses the patent portfolio to outside developers.[41] In 2001, MPEG-LA included fourteen patent-holding members with fifty-six essential patents.[42] Today, MPEG-LA includes twenty-seven members with hundreds of essential patents and over 1500 licensees.[43] Some notable features of the MPEG-2 pool include the following: (i) blanket licensing; (ii) a royalty based system according to representation; (iii) expert administrative valuation procedures for determining royalties and licensing fees; (iv) a negotiation framework for determining value of new entries to the pool combined with expert analysis initially surveying 8,000 patents for inclusion; (v) categorization according to "essential patents" (foundational) and "related patents" (improvement); (vi) opt out provisions directed to pool members to protect bargaining leverage, not applicable to essential patents; and finally, (vii) a dispute resolution program.[44]

b. DVD4C & DVD6C

In addition to the MPEG-LA patent pool, another successful single-technology patent pool involves DVD technology. The modern patent pools DVD4C and DVD6C were originally a collaborative ten-member pool administering DVD technologies that eventually split into two pools for ideological reasons.[45] The DVD4C pool now consists of four of the ten core members, while DVD6C retains the other six members and includes a portfolio of over 800 patents.[46] The DVD pools are noteworthy because two competing pools covering the same technology were able to further the industry as a whole.[47] The members of the patent pools administer their respective members, while employing an independent expert for valuation purposes.[48] Other single-technology patent pools have included digital video broadcasting, synthetic fibers, flat-panel speakers, and RAM memory chips.[49] Notwithstanding that advantages of the patent pool, some goods produced by the "sweat of the brow," including some software, books, musical compositions, games, and audio and video productions, have little use for collaborative arrangements such as patent pools since there are few obstacles to producing viable and useful products in those industries.[50]

35. *See* Verbeure, *supra* note 21, at 7.

36. *See* Richard Gilbert, *The Essentiality Test for Patent Pools*, *in* Working within the Boundaries of Intellectual Property: Innovation Policy for the Knowledge Society 326, 341-43 (Rochelle C. Dreyfuss et al. eds., 2010).

37. *See* Verbeure, *supra* note 21, at 7, 14; *see also Princo Corp. v. Intern'l Trade Comm'n,* 2010 WL 338593 (August 30, 2010); Thomas V. Vakerics, Antitrust Basics, § 11.02 at 6, 7 (2009) ("It is well established that a patentee may license or assign its patent, vesting a licensee with full rights under the patent or a limited right to practice the teachings of the patent. In licensing a patent, it is also well established that a licensor may impose restrictions on the use of the patent, even where those restrictions are designed to limit competition in practicing the patent.").

38. *See* Josh Lerner, Marcin Strojwas & Jean Tirole, *The Design of Patent Pools: The Determinants of Licensing Rules*, 38 RAND J. of Econ. no. 3, 610-25 (2007); *see also* Vakerics, *supra* note 37, at 10 ("A grantback provision requires the licensee to license back to the licensor any related technology, including patented technology, which the licensee may develop during the life of the original license agreement…grantbacks are in fairly common use throughout the United States in patent licensing agreements.").

39. *See* Merges, *supra* note 11, at 134.

40. *See* MPEG-LA, http://www.mpegla.com/main/default.aspx (MPEG-LA is the self-touted "pioneer of patent pools") (last visited April 10, 2011); *see also* Merges, *supra* note 11, at 147.

41. *See* MPEG-LA, *supra* note 40.

42. *Id.*

43. *Id.* at http://www.mpegla.com/main/programs/M2/Pages/Intro.aspx (last visited April 10, 2011).

44. *See* Merges, *supra* note 11, at 147-49.

45. *Id.* at 150-52; *see also* Van Overwalle *supra* note 24, at 310.

46. *See* Van Overwalle, *supra* note 24, at 310.

47. *See* Merges, *supra* note 11, at 147-49.

48. *Id.* at 152.

49. *Id.* at 154.

50. *See* Hall, *supra* note 3, at 261; *see also* Benkler, *supra*

c. Potential For Biotech

The USPTO has long endorsed patent pools in the biotech industry.[51] The biotech industry is particularly noteworthy "because of the density of the relationships and the speed and complexity of its organizing process."[52] Yet despite the speed of its scientific developments, biotech suffers from similar delays that plague academia.[53] Other difficulties particular to biotech include inflated valuation for unproven discoveries.[54]

d. Corporate Appeal of Pooling

Academics studying IP development have observed a rise of corporate strategic alliances, indicating the heightened importance of transactions for deployment of information technology.[55] Within this burgeoning transactional economy, globalization and favorable market forces have led to large-scale exploitation of technology through licensing arrangements.[56] Similarly, diversity of scalable technologies, along with the diffusion of technological producers, means that companies committed to internal research and development departments are unnecessarily "reinventing the wheel."[57] These companies that have not explored pooling arrangements are missing valuable commercial opportunities for research and development investment.

II. Federal Tax Standards for Technology Transfer and Patent Donations

Patent rights granted to patentees are arguably extensions of a government's taxation powers, thus it is no surprise that the field of patent law is strictly regulated under existing U.S. tax laws.[58] Specifically, "[in] the patent area, the most frequently arising issues with respect to the tax laws are whether a transfer of patent rights is a sale or a non-exclusive license; whether royalties from a patent are capital gains or ordinary income; and…whether and when royalties are deductible."[59] The "patent pool paradox"[60] raises additional tax issues for the effective transfer of patent rights as charitable contributions.[61] The following sections explore the parameters of tax benefits available to participants in patent pools through licensing or donative arrangements.

A. Historical Governance of Patent Transfers

A patent right is a property right and is

note 27, at 269 ("[B]ecause people and organizations who produce information for different motivations and with different organizational constraints are likely to produce different types of information content, decisions about property rights in information content must be held to a normative accounting in terms of their effects on the patterns of, strategies for, and ultimately the locations and content of information production in our society.").

51. *See* Jeanne Clark, Joe Piccolo, Brian Stanton, & Karin Tyson, *Patent Pools: A Solution to the Problem of Access in Biotechnology Patents?* 8 USPTO White Paper (2000) ("For example, the recent patent pool encompassing MPEG-2 technology led to the rapid formation of a standardized protocol to protect copyrighted works on the Internet. Similarly, patent pools can eliminate the problems associated with blocking patents or stacking licenses in the field of biotechnology, while at the same time encouraging the cooperative efforts needed to realize the true economic and social benefits of genomic inventions.").

52. Walter W. Powell, *Networks of Learning in Biotechnology: Opportunities and Constraints Associated with Relational Contracting in a Knowledge-Intensive Field, in* Expanding the Boundaries of Intellectual Property Transactions: Innovation Policy for the Knowledge Society 251, 263 (Rochelle C. Dreyfuss, et al. eds., 2001).

53. *See* Eisenberg, *supra* note 11, at 225 (noting that in the biotech industry lengthy negotiations "over the transfer of proprietary research tools present[s] a considerable and growing obstacle to progress in biomedical research and product development"); *see also* Powell, *supra* note 52, at 259 ("As the structure of the [biotechnology] field became shaped more and more by interorganizational relations, the nature of competition was altered. The participants had to adjust to the novel view that it was no longer necessary to have exclusive, proprietary ownership of an asset in order to extract value from it.").

54. *See* Eisenberg, *supra* note 11, at 243 ("[T]ool users within each sector share the perception that tool-providers in other sectors are asking too much and overvaluing the contribution of particular tools relative to other inputs that contribute to future valuable discoveries.").

55. *See* Ashish et al., *supra* note 27, at 80 (observing alliances "ranging from R&D joint ventures and partnerships, spin-offs, corporate venture capital, licensing deals, and a variety of 'outsourcing' deals").

56. *Id.* at 89.

57. *Id.* at 95-96; *see also* Wesley M. Cohen, Akira Goto, Akiya Nagata, Richard R. Nelson & John P. Wash, *R&D Information Flows and Patenting in Japan and the United States*, *in* Econ., L. & Intell. Prop. 123, 135 (Ove Granstrand ed. 2003) ("[I]n complex product industries, firms rarely have proprietary control over all the essential complementary components of the technologies they are developing. Firms hold rights over technologies that others need, and vice-versa, creating a condition of mutual dependence that fosters extensive cross-licensing, related negotiations and information sharing.").

58. *See* Ove Granstrand, *Innovations and Intellectual Property Studies: An Introduction and Overview of a Developing Field*, 15, *in* Econ., L. & Intell. Prop. 9, 15 (Ove Granstrand ed. 2003) ("Handing out privileges and property rights was (and is) simply a handy way for rulers and governments to influence the economics of innovation…In fact, this policy could be seen as a special use of taxation powers, in the sense that some of these powers are handed over under certain conditions to innovators who, at their discretion for a limited time, can tax consumers through higher prices on the innovations.").

59. I.R.S. Non-Docketed Advice Rev. 5395 (Aug. 7, 1998).

60. I.R.S. Chief Counsel Advisory 201025072, at *3 (Jan. 27, 2009) (General Counsel presentation).

61. *See* 47A C.J.S. *Internal Revenue* § 211 (2011).

transferable.[62] The transferred right is "the right to exclude."[63] Since charitable contributions of patent rights are a relatively recent phenomenon, much of the legal record has concerned corporate or trustee dealings.[64] Notwithstanding, it is clear that until recently the standard for valuation of transferred patent rights, whether pooled or not, was fair market value. Conversely, acquired patents were extended amortization rights for basis in cost.[65] It was during this era that companies such as Dow Chemical and Xerox recouped millions from over-inflated patent portfolios through strategic tax-friendly transfers.[66]

B. Modern Governance of Charitable IP Donations

The American Jobs Creation Act of 2004 altered this landscape dramatically, eliminating the fair market value standard.[67] While the Act does not establish new standards for effective contributions,[68] it reduces the monetary incentives for charitable IP donations.[69] The intent of the Act was "to prevent taxpayers from claiming a deduction in excess of basis with respect to charitable contributions of intellectual property," fueled by the "highly speculative" nature of IP valuation resulting in charities receiving assets "of questionable value" offsetting significant tax benefits to donor taxpayers.[70]

Title 26 of the U.S. Code, Section 170, governing charitable IP contributions, can now be summarized as follows:[71]

1. A contribution is deductible only if made to an organization… organized and operated for religious, charitable, scientific,

62. *See* Vakerics, *supra* note 37, at 3 ("The patent laws specifically provide that patents shall have the attributed of personal property. The fact that patents are a form of property has also been recognized by the Supreme Court. More precisely, a patent is generally viewed as a form of intellectual property, as the patent grant itself is an intangible legal right. As a form of property, a patent can be the subject of an assignment which transfers title to the patent from the patentee to the assignee.").

63. *Special Equipment v. Coe*, 324 U.S. 370, 378 (1945).

64. *See Charitable Contributions of Intellectual Property*, Licensing Econ. Rev., (Oct 2003); *see also, e.g.*, *Appeal of National Pneumatic Co.*, 5 B.T.A. 637 (1926) ("No hard and fast rule can be laid down for determining the value of patents paid in for capital stock of a corporation…The value is a question of fact in any case."); *Mitchell Camera Corp. v. Comm'r,* 1947 WL 8088, at *1 (T.C. June 24, 1947) (bemoaning the absence of a statutory formula for determining depreciation of acquired patents); *Cutter Lab. Inc., v. Lyophile-Cryochem Corp*., 179 F.2d 80, 80 (9th Cir. 1949) (addressing patent pools and evaluating the royalty-free exchange between two firms concentrated on different technologies); *Talge v. United States*, 229 F. Supp. 836, 836 (W.D. Mo. 1964) (distinguishing gift tax from income tax responsibilities for patents transferred in trust); *Thomson v. U.S.,* 1969 WL 175, at *1 (E.D.N.Y. Dec. 31, 1969) (advising against wholesale denial of capital gains treatment for royalty-based exchange of patents).

65. I.R.S. Non-Docketed Advice Rev. 5395 (Aug. 7, 1998); *see also* Catherine L. Hammond, *The Amortization of Intangible Assets: § 197 of the Internal Revenue Code Settles the Confusion*, 27 Conn. L. Rev. 915, 933-34 (1995).

66. *See* Ashish et al., *supra* note 27, at 90 ("In 1997 Xerox had 8,000 patents, earning only $8.5 million in revenues, not covering even the maintenance costs. Xerox set in motion a systematic process for cataloguing and evaluating its patent portfolio, pruning and giving away (often to universities) patents it did not wish to keep."); Ron Layton & Peter Bloch, *Please Donate Patents on the Shelf; Tax Benefits can be Focused for Greater Good*, Legal Times Magazine, Mar. 15, 2004, at 2 ("The value of donations has been clearly significant. Speaking for Dow Chemical at a 2001 conference, Rick Gross provided some hard numbers. He said Dow had discovered that '25 percent of our patents had no business value. We downsized the portfolio over 10,000 patents and saved over $40 million in five years. Additionally, the donation of unused intellectual property resulted in millions of dollars of tax credits over the past six years.'").

67. *See* Pub. L. No. 108-357, § 882, 118 Stat. 1418, 1627 (2004); Xuan-Thao Nguyen & Jeffrey A. Maine, *Giving Intellectual Property*, 39 U.C. Davis L. Rev. 1721, 1746 (2006) ("[The Act] eliminates the fair market value standard and reduces the amount a donor can deduct. The new legislation applies to most forms of intellectual property, including patents, certain copyrights, trademarks, trade names, trade secrets, and know-how, certain software, and similar intellectual property or applications or registrations of such property."); *see also* 47A C.J.S. *Internal Revenue* § 211, *supra* note 61, at 3 ("The 2004 Jobs Creation Act adds the rules that a deduction for the contribution of patents and other intellectual property is limited to the fair market value of the patent of the donor's basis in it, whichever is less. The donor can take an additional deduction, however, for income earned by the donee from the contributed property; the amount of the deduction is limited by a sliding percentage scale provided in the Code.").

68. I.R.S. Non-Docketed Advice Rev. 5395 (Aug. 7, 1998) ("Where less than substantial rights to a patent are transferred, the right conveyed is merely a license, giving the licensee no title in the patent."); *see also* 47A C.J.S. *Internal Revenue* § 211, *supra* note 61, at 2 ("Generally, a charitable deduction will be disallowed, where the taxpayer retains control over the purported gift. Delivery of a charitable contribution under the Code occurs when title in the property vests in the donee so as to provide the donee with power to exercise dominion and control…As a rule, a contribution in the statutory sense proceeds from a 'detached and disinterested generosity' and not from the anticipation of economic benefit, or other specific, measurable quid pro quo."); Rev. Rul. 2003-28, 2003-1 C.B. 594 (denying a charitable contribution to a donee contributing a patent to a university but "retaini[ng] a substantial right such as the right to license the patent to others"); Nguyen & Maine, *supra* note 67, at 1739-40 ("In order to qualify for an income tax charitable deduction under [S]ection 170 of the Internal Revenue Code…the taxpayer must transfer "all substantial rights" in a patent, defined as 'all rights which are of value at the time the rights to the patent are transferred.").

69. *See* Nguyen & Maine, *supra* note 67, at 1725.

70. *See* S. Rep. No. 108-192, at 217 (2003).

71. *See e.g.,* Joseph E. Olsen, *Federal Taxation of IP Transfers* § 5.12 (2009).

literary or educational purposes… with no earnings inuring to the benefit of any private shareholder or individual…and the organization must not attempt to influence legislation;[72]

2. The amount of charitable deduction is limited to the lesser of the basis of the property or fair market value;[73]
3. Further deduction is allowable to the taxpayer according to a sliding scale of the future income that the charitable organization receives from the donation;[74] and,
4. This qualified deduction extends only up to twelve years beyond the donation,[75] and applies to amounts in excess of the original claimed deduction.[76]

Other restrictions for charitable contributions include:

1. Distributions from donor advised funds that are for non-charitable purposes are taxable, as are certain transactions between a donor advised fund and its donors, donor advisors, or related persons;[77]
2. Transfers of property to a charitable organization that are directly related to the donor's business and made with a reasonable expectation of financial return equivalent to the value of the transfers do not qualify for a charitable deduction but may qualify as a trade or business expense;[78]
3. "Contribution in the statutory sense proceeds from a detached and disinterested generosity and not from the anticipation of economic benefit, or other specific, measurable quid pro quo; and a taxpayer will be denied a charitable deduction for a conveyance of property motivated by an expectation of such substantial benefit as would provide a quid pro quo for the transfer and thereby destroy its charitable nature[;]"[79]
4. The fair market value of an undivided interest in a patent contributed to an appropriate organization is an allowable deduction as a charitable contribution;[80]
5. Patents are extended limited amortization rights when considering general business expensing;[81]
6. No deduction is allowed for a patent transfer when a donor retains the right to license the patent to others; rather, a deduction is allowed if a fully transferred patent is attached with certain restrictions for future license or transfer.[82]
7. Fraudulent intent could still be found when operating within all

72. *See* I.R.C. § 170(c).
73. *See* § 170(e)(1)(B)(iii).
74. *See* §§ 170(m)(1), 6050L. A donor is allowed an additional charitable deduction based on a sliding-scale percentage of qualified donee income from donated qualified intellectual property over a to-year period. "Qualified donee income" is any net income received by or accrued to the donee that is allocable to qualified intellectual property. "Qualified intellectual property" includes patents and other intellectual property but does not include property to certain private nonoperating (grant-making) foundations. This additional deduction is allowed only to the extent that it exceeds the deduction amount originally claimed on the property contribution.
75. *See* § 170(m)(7).
76. *See* § 170(m)(2).
77. *See* §§ 4966-67.
78. *See* Treas. Reg. § 1.170A-1(c)(5) (2008).
79. *See* 47A C.J.S. *Internal Revenue* § 211, *supra* note 61, at 2.
80. *See* Rev. Rul. 58-260, 1958-1 C.B. 126.
81. *See* I.R.C. § 197; *see also* Treas. Reg. § 1.167(a)-6(a); Hammond, *supra* note 65 at 933-34. "Section 197 allows for the straight-line method of amortization for almost all intangible assets over a fifteen-year period. This rule applies to § 197 intangibles that were acquired in connection with a trade or business or in a separate transaction, but it does not apply to self-created intangible assets, such as the cost of creating a customer relationship through advertising." Patents qualify for amortization only to the extent that they were acquired through the acquisition of a trade or business.
82. *See* Rev. Rul. 2003-28, *supra* note 68, at 1, 5.

the rules of tax governance.[83]

C. Standards of Exemption for Recipients of Donated IP

The discussion above focused on tax benefits available *to a corporation donating IP to a qualifying charitable organization.* In *Bluetooth SIG Inc. v. United States*, the issue was whether an organization similar to a patent pool was entitled to exemption from federal income tax as a business league.[84] This is the secondary tax analysis in forming a patent pool: whether a patent pool could be structured for maximum tax benefit.

Bluetooth Special Interest Group ("SIG") was a Delaware nonprofit created as the administrative executor of Bluetooth patents and trademarks transferred from Ericsson, Toshiba, IBM, Intel, and Nokia. [85] As the aggregator of these Bluetooth patents and trademarks, Bluetooth SIG develops technological specifications,[86] promotes the technology,[87] enforces its trademark,[88] and certifies member technologies.[89] SIG's 4,000 members were grouped according to membership classes; namely, those with greater development activities paid larger membership fees in exchange for reduced licensing fees.[90] In the years following its inception, SIG's revenues(income) increased exponentially from about $300,000 in 2000, to over $6.7 million in 2002, with corresponding increases in assets and profits.[91]

In 2002, SIG applied for a tax exemption under I.R.C. § 501(c)(6), which exempts, among others, "[b]usiness leagues" and "boards of trade."[92] The IRS rejected SIG's application, drawing a distinction between a business league's promotion of improved business conditions and SIG's promotion of a specific technology and discredited SIG's proposal for "particular services to particular individuals."[93] Relying upon Treasury Regulation § 1.501(c)(6)-1,[94] the Ninth Circuit applied a six-factor test to SIG's status as a 501(c)(6) nonprofit, finding that SIG failed the fourth and fifth prongs related to "engage[ment] in a business ordinarily conducted for profit," and "activities that are directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons."[95] The court reasoned that under the fourth prong, an association owning patents and promoting uniform practices associated with relevant patented technologies, while also granting licenses to its members under those patents, could not be an exempt business association.[96] Relying upon Revenue Ruling 70-80, the court found that SIG failed the fifth prong of the six-factor test for failing to "benefit all or nearly all members" of a particular consumer-related industry.[97] Essentially, any promotional activity of a trademark resulting in a competitive advantage within an industry prevents a finding of acceptable business league activity.[98] By extension, within a collective, like SIG, fee structures that serve to reduce membership fees in exchange for enhanced surplus-producing

83. *See* S. Rep. No. 108-192, at 220 (2003) ("The fact that a right to receive payments meets the statutory standard of qualified interest does not immunize the contribution from such present-law rules. Accordingly, under the provision, a donor's contribution of intellectual property and right to receive payments could, depending on the facts and circumstances, result in impermissible private inurement or benefit, or be treated as an excess benefit transaction for purposes of intermediate sanctions.").

84. *Bluetooth SIG Inc. v. United States*, 611 F.3d 617, 617 (9th Cir. 2010).

85. *See id.* at 618-19 (identifying Bluetooth as wireless data transmission technology providing "a language for electronic devices to talk to one another").

86. *See id.* at 619 (observing that Bluetooth SIG develops specifications "through meetings, conferences, working groups, and by sharing research results.").

87. *See id.* (noting that Bluetooth promoted products by "conduct[ing] market research, sponsor[ing] trade fairs, and publish[ing] handouts and flyers for trade shows and other events.").

88. *See id.* (noting that SIG employed counsel to protect its brand both domestically and abroad).

89. See *id.* (noting that SIG collected member fees for compliance testing of new products and for any subsequent development).

90. *See id.* at 620 (observing that original drafters of the pool were extended special class privileges, extended to only three other companies during the course of operation).

91. *See id.* (stating that most of SIG's revenue was derived from membership fees and product registration fees, in equal portion).

92. *See id.* at 620-21.

93. *See id.* at 621 (denoting the IRS' reasoning to particularized service concerned the special status of Bluetooth developers, especially those within the higher ranks).

94. *See* Treas. Reg. 1.501(c)(6)-1 (1960) ("An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.").

95. *See Bluetooth SIG, supra* note 84, 611 F.3d at 622-24.

96. *Id.*; *see also* Rev. Rul. 58-294, 1958-1 C.B. 244 (holding that an association did not qualify as a business league under section 501(c)(6) when too heavily involved in ownership and promotion of patented products).

97. *Bluetooth SIG, supra* note 84, 611 F.3d at 624-25; *see also* Rev. Rul. 70-80, 1970-1 C.B. 130 (stating that a "nonprofit trade association of manufacturers whose principal activity is the promotion of its members' products under the associaiton's registered trademark does not qualify for exemption under section 501(c)(6) of the Code").

98. *See Bluetooth SIG, supra* note 84, 611 F.3d at 625.

licensing fees do not benefit a definite industry overall.[99] Moreover, SIG's fee structure benefits some members over others, which is itself a bar to the business league exemption.[100] Finally, an organization wishing to be recognized as a business league for tax purposes cannot make its primary mission the enhancement of its brand.[101]

III. Case Study: Applying US Tax Standards to the Eco-Patent Commons

A. What is the Eco-Patent Commons?

One interesting case to consider is the Eco-Patent Commons ("Commons"), a patent pool promoting tax benefits and public responsiveness of pooling cleantech resources.[102] The emergence of the Commons can be traced to a resurgence of both environmental awareness and corporate social responsibilities.[103] Leading companies are recognizing the finite nature of key resources and publicly seeking to "dematerialize" their businesses.[104] But while global responsiveness may lead to universal gain, one drawback to the modern sustainable consciousness involves the systematic corporate greenwashing[105] of industrial and retail goods.[106] The Commons, a partnership between private and nonprofit organizations, takes a novel approach to environmentalism and corporate social responsibility by fostering environmentally beneficial technologies through the cooperative mechanisms of the patent pool.[107] The modus at work is a collective effort to donate shelved patents from which other members, and even outside businesses and individuals, could draw from free of charge.[108] Multilateral environmental and climate change agreements have emphasized the need to distribute environmentally sustainable technologies, and open access to patents is one way to meet this demand.[109]

The Commons is housed within the World Sustainable Business Council, a "CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development."[110] The Commons itself holds over one hundred "eco-friendly patents" pledged by eleven worldwide companies, including Bosch, Dow, DuPont, Fuji-Xerox, IBM, Pitney Bowes, Ricoh, Sony, Taisei, and Xerox.[111] The Commons purport a philanthropic and industrial interest.[112] While a membership fee is anticipated,

99. *Id.* at 626.

100. *Id.* at 627-28.

101. *Id.* at 628-29 ("Everything that SIG does supports, in one way or another, the Bluetooth brand which is the organization's central asset and focus…Any benefit on the wireless communication industry or non-Bluetooth manufacturers was, in fact, merely incidental.").

102. *See, e.g.*, World Bus. Council for Sustainable Dev. (WBCSD), http://www.wbcsd.org (last visited Mar. 18, 2011).

103. *See* Paul Herman, The HIP Investor: Make Bigger Profits by Building a Better World 28 (2010) (noting American and Chinese consumer and investor sensitivities to corporate behavior).

104. *Id.* at 20.

105. *See* SourceWatch, *Greenwashing*, http://www.sourcewatch.org/index.php?title=Greenwashing (last visited April 10, 2011) ("Greenwashing is the unjustified appropriation of environmental virtue by a company, an industry, a government, a politician or even a non-government organization to create a pro-environmental image, sell a product or a policy, or to try and rehabilitate their standing with the public decision makers after being embroiled in controversy.").

106. *See* Dr. Arlo Brady, *The Greenrush: Eco-branding*, Brandchannel (August 27, 2007), http://www.brandchannel.com/brand_speak.asp?bs_id=174 ("The far ranging reach of the current greenrush has meant that globally, individuals are now coming into contact with green political and green business brands and messaging on a regular basis. This increasing familiarity and exposure to background noise has resulted in a growing climate of suspicion . . . Many now believe that politicians and business leaders are just developing clever marketing/branding campaigns designed solely to increase sales or votes.").

107. *See* World Bus. Council for Sustainable Dev. (WBCSD), *Eco-Patent Commons Overview*, http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=MTQ3NQ&doOpen=1&ClickMenu=LeftMenu (last visited Mar. 18, 2011) ("The Eco-Patent Commons, launched by IBM, Nokia, Pitney Bowes and Sony in partnership with the WBCSD, was founded on the commitment that anyone who wants to bring environmental benefits to market can use these patents to protect the environment and enable collaboration between businesses that foster new innovation.").

108. *See* Jo Bowman, *The Eco-Patent Commons: Caring Through Sharing*, *in* 3 WIPO Magazine, Mar. 2009, at 11.

109. Krishna Ravi Srinivas, *Sink or Swim: Eco-patent Commons and the Transfer of Environmentally Sustainable Technologies,* International Centre for Sustainable Development (May 2008), http://ictsd.org/i/news/bioresreview/12098.

110. *See* World Bus. Council for Sustainable Dev. (WBCSD), *About the WBCSD*, http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=NjA&doOpen=1&ClickMenu=LeftMenu ((last visited Mar. 18, 2011).

111. *See* WBCSD, *Eco-Patent Commons Overview*, *supra* note 107; *see also* Bowman, *supra* note 108, at 11 (noting that patents include "technology for removing liquid contaminants from groundwater," a "method for recycling optical disks," and "a system for recycling old mobile phone handsets").

112. *See* World Bus. Council for Sustainable Dev. (WBCSD), *Eco-Patent Q&A*, http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=MTU2Mg&doOpen=1&ClickMenu=LeftMenu (last visited Mar. 18, 2011) ("While the Eco-Patent Commons clearly has an important philanthropic aspect, its benefits to the business pledging patents go beyond philanthropy. By forming a Commons, members and non-members obtain free access to patents pledged by others, and the opportunity to leverage the Commons to further innovate and

technology selection for patent inclusion is left to donor businesses, and charitable contribution status related to patent renewal fees is inconclusive.[113]

B. Are Charitable Contributions of IP Deductible in the Case of the Commons?

The first analysis is whether domestic donors would be able to exploit beneficial tax provisions through assignment of patent rights to a collective licensing entity, such as the Eco-Patent Commons. This analysis must take into consideration the relevant tax provisions discussed above. Specifically, the analysis centers around determination of several factors, including: the functional nature of the pool; the value of the donation and/or future income within explicit limitations; the degree of relation between the transferring parties; the relevancy of the donation to the donor's business; the expectation of financial return; the anticipation of other benefit; whether ownership of the patent has been properly relinquished; and evidence of intentional circumvention of the Jobs Act framework.[114]

1. Is the Commons a qualified recipient?

In order to qualify as a charitable contribution, a collective in this instance must be a non-political, charitable or scientific organization that does not benefit any private shareholder or individual.[115] The Commons is a nonprofit located in Geneva promoting environmental awareness, efficiency, and innovation.[116] Under this standard, the Commons would seem to qualify as a qualified charitable recipient. The Commons' objective of fostering environmentally friendly technologies is seemingly indistinguishable from the objectives of similar environmental organizations, scientific organizations, or universities serving similar functions.

2. Is there value in the type of IP donated to the Commons?

The value of a charitable donation for tax purposes is limited to the lesser of the donated instrument's basis or fair market value, with an additional provision for equivalent gains to the charitable organization in excess of the reported tax claim.[117] Critics of the Commons state that the majority of the patents held by the Commons are not very useful, since the intellectual property obstacles to green tech transfer are relatively few and usability of donated property is questionable.[118] Moreover, some donor parties to the Commons have freely confessed the limited market value of donated property.[119] Given the testimonial indifferences to shelved patents, and the complexities involved in aggregating enough property rights to develop a product for market from a pool sourced in goodwill, it is difficult to conceptualize a standard, or even range, of return for most charitable IP supporting tax credits.

3. What is the nature of donor/donee relations within the Commons?

Some transactions between interrelated parties are taxable.[120] In this case, substantial donors in conjunction with the WBCSD established the Commons jointly.[121] If those foundational donor

establish business relationships with businesses that have similar interests.").

113. *Id.* (It is *possible* that there could be tax benefits for making donations or pledges of patents, but it *may be difficult* to structure the Commons to enable that benefit, and it *may require* a greater degree of governance and operational cost than is currently being envisioned for the initiative. In any event, this benefit *would greatly depend* on the pledger and facts surrounding its tax situation.") (emphasis added).

114. *See infra* Section II.

115. *See* 26 U.S.C. I.R.C. § 170(c).

116. *See* World Bus. Council for Sustainable Dev. (WBCSD), *History of the WBCSD,* http://www.wbcsd.org/templates/TemplateWBCSD2/layout.asp?type=p&MenuId=NDEx&doOpen=1&ClickMenu=LeftMenu (last visited April 10, 2011); *see also* WBCSD*, How to Join the Eco-Patent Commons,* http://www.wbcsd.org/web/projects/ecopatent/EcoPatentGroundRules.pdf (last visited April 10, 2011).

117. *See* I.R.C. § 170(e)(1)(B)(iii); *see also* § 170(m)(1)-(2), (7).

118. *See* Hideo Doi, *Japan's Green Technology Plan: Managing Intellectual Property,* International Centre for Sustainable Development (May 7, 2010), http://ictsd.org/i/press/ictsd-in-the-news/75439/. *See generally* John H. Barton, *Intellectual Property and Access to Clean Energy Technologies in Developing Countries: An Analysis of Solar Photovoltaic, Biofuel and Wind Technologies,* ICTSD Trade and Sustainable Energy Series Issue Paper No. 2, International Centre for Sunstainable Development (December 2007); *see also* Srinivas, *supra* note 109 (noting that "while the patents available under the Eco-Patent Commons represent a starting point, they have a very limited application in the further development of technologies in key sectors").

119. *See* Steven Seidenberg, *Patent Giveaway: Companies Donate Patents to Promote Ecologically Friendly Innovation,* Inside Counsel, (April 1, 2009) (http://www.insidecounsel.com/Issues/2009/April-2009/Pages/Patent-Giveaway.aspx) ("Many patents for green technology will never be donated to the EPC, and that's fine with EPC's backers. They expect businesses will hang on to patents that generate significant revenue"); *id.* (wherein Julie Rakestraw of DuPont notes, "If we won't commercialize it, and it's within EPC guidelines, that makes it a really good candidate for donating to the Commons").

120. *See* I.R.C. §§ 4966-67 (noting that interrelated parties include those with conflicts of interest brought about by personal stakes or invested interests in both donor and donee).

121. *See* WBCSD, *Eco-Patent Commons Overview*, *supra* note 107.

parties are involved in a manner which indirectly benefits their companies, for instance in designing beneficial licensing structures as discussed in *Bluetooth SIG*, then any donations based upon such interactions could be barred from charitable status.

4. Are patents donated to the Commons extensions of donor businesses?

Transfers of property to a charitable organization that are directly related to the donor's business and made with a reasonable expectation of financial return equivalent to the value of the transfers do not qualify for a charitable deduction.[122] The Commons promotes environmental efficiency and renewable energy technologies, though donor organizations are not necessarily active in either industry.[123] The first clause in the conflicts rule would thus hinge on general corporate benefit. In discussing corporate gain, some donors have cited opportunistic gain, the opportunity to draw upon others' technologies, or entertain a valuable network of expertise.[124] Critics, meanwhile, have asserted reputational benefits, noting that the Commons is free of charge, or that competing companies typically engage in intercompany exchange solely to avoid impending litigation.[125] Nonpecuniary gains, such as these, would likely not undermine the rule. However, because donors retain ownership of donated property in the sense of renewal fees, a presumption of some financial gain could arise. To illustrate in a practical scenario, a donor company could assign the pool the licensing rights of a blocked patent in the hopes that similar assignments from others would create sufficient licensing rights in toto for future product development; this new potential, whether construed as costs saved from negotiated licenses or a kind of market expansion, would signify a financial return.

5. Are donations made to the Commons detached and disinterested?

A taxpayer will be denied a charitable deduction for a conveyance of property motivated by an expectation of such substantial benefit as would provide a quid pro quo for the transfer and thereby destroy its charitable nature.[126] Here, the nonpecuniary interests discussed in the previous section would likely demonstrate expectations distinguishable from "detached and disinterested generosity."[127] Any donation motivated by improved public relations, increased marketability, or other intangible gains, would not qualify as a charitable deduction.

6. Are any rights withheld by donors giving to the Commons?

No deduction is allowed for a patent transfer when a donor retains the right to license the patent to others, but a deduction is allowed for a transfer carrying certain restrictions for future license or transfer, limited by the reduction in fair market value that the restriction creates.[128] Members to the Commons "join by placing at least one patent into the database, which they continue to maintain, paying fees as needed."[129] As noted by an IBM executive, the Commons only employs the "ecological uses" of donated patents, meaning donors retain exclusive rights to license mainline uses of patents.[130] Effectively, "you can have your cake and eat it too."[131] Any retained rights, whether to license outside of or within the pool, would be barred by charitable recognition. Lastly, Congress suggested that a bar to recognition may be applied when operating outside of the purpose and scope of the rules.[132]

C. Is the Commons Exempt from Taxation as a 501(c)(6) Organization?

Applying *Bluetooth SIG* to the same model, a framework for tax-exempt status of the patent pool can be illuminated. In *Bluetooth SIG*, the Ninth Circuit focused on two principles that are relevant to the Commons example: 1) engagement in a business ordinarily performed for profit, and 2) personalized performance.[133] More specifically, the court barred SIG

122. *See* Treas. Reg. § 1.170A-1(c)(5) (2008).

123. *See* Seidenberg, *supra* note 119 (expressing that green technology "is interdisciplinary and covers such a wide variety of technology – from biotech to business methods, from material science to physics, from mechanical engineering (wind power) to photovoltaics, geology (geothermal) and ocean sciences (tidal power)").

124. Id*; see also* Bowman, *supra* note 108 (quoting Donal O'Connell of Nokia).

125. *See* Doi, *supra* note 118.

126. *See* 47A C.J.S. *Internal Revenue* § 211, *supra* note 61.

127. *Id.*

128. *See* Rev. Rul. 2003-28, *supra* note 68.

129. Srivinas, *supra* note 109.

130. Seidenberg, *supra* note 119.

131. *Id.*

132. *See* S. Rep. No. 108-192, *220 (2003). (warning that technical obeyance of the newly minted tax rules "could, depending on the facts and circumstances, result in impermissible private inurement or private benefit, or be treated as an axcess benefit transaction for purposes of intermediate sanctions").

133. *See Bluetooth SIG, supra* note 84, 611 F.3d at 617, 622.

from representation as a business league under section 501(c)(6) for the following reasons: owning patents and promoting them as such; granting licenses with respect to owned patents; conducting operations not benefiting substantially all members of a defined trade; branding to give itself, members, or its products a competitive edge; profiteering; administering inequitable treatment within the pool; and, self-branding as its central focus.[134]

Similarly to SIG, the Commons is engaging in business ordinarily performed for profit. As discussed above, the Commons licenses its intellectual property freely to members within and, in some instances, beyond the pool. Currently, the very nature of licensing is at odds with the tax code: while donor companies hope for future profitable uses of their donated property in order to increase charitable deductions,[135] an administrative pool, whether serving the public interest or not, is restricted from conducting business in a way ordinarily considered enterprising or profitable.[136] Here, a tax analysis would likely turn upon a myopic focus on use of an enterprising tool, as opposed to the broader consideration of social gains in the fields of innovation and environmental stewardship.. Perhaps one example of a distinction would be if patents were licensed freely, not to member contributors, but to third world or other neglected representative groups.[137]

The Commons may also incorporate a certain degree of personalized performance. The Commons is still in its infancy, having yet to even establish standard funding protocols.[138] Furthermore, the Commons is not limited to a specific technology, or even industry, as was the case in *Bluetooth SIG*.[139] As observed, green tech itself is an interdisciplinary idea covering diverse technologies from biotech to business methods.[140] The Commons accepts properties from all fields, as long as they have in their donated form a "purely environmental aim."[141] In practice, this ranges from methods for recycling mobile phones to automotive patents.[142]. Nevertheless, the potential for greenwashing is apparent in this fund. A recent WBCSD press release announced that HP "became the latest company to release some of its intellectual property to the public good, with three green patents added to the [Commons].[143] Because the Commons was created by corporate interests, and is evidently still administered by such, the resulting functionality of the Commons may arguably serve as little more than a vertically integrated PR machine.[144] Too much self-interested investment in the Eco-Patent Commons at the expense of environmental goals or cleantech innovation could preclude exemption.

D. Summary

Having analyzed a popular, socially beneficial international patent pool for the applicability of United States tax provisions rewarding charitable dissemination of IP, some conclusions can be made about the state of United States tax policy. First, there is limited opportunity for domestic patent pools to mirror the goodwill successes of the Commons. In that sense, little has changed since the bleak 2006 report by Xuan-Thao Nguyen and Jeffrey A. Maine, critiquing United States policy limitations that dissuade charitable IP giving, and thus national IP development.[145] However, there are clear loopholes through which a patent pool may operate to encourage charitable giving upon careful crafting. Thus, a patent pool with a social or charitable mission receiving contributions of *valid and valuable* patents may qualify its donors for charitable deductions if 1) relational boundaries are observed, 2) donors are not motivated *primarily* by pecuniary or nonpecuniary interests of a commercially beneficial nature, 3) and patents are donated wholly and purposefully without reservation. If the current collective greenwashing becomes actual greenthinking, a U.S. Commons with maximized tax benefits is viable, for the cleantech industry at least, even under restrictive tax policies.

134. *Id.* at 622-29; *see also* Rev. Rul. 58-294, 1958-1 C.B. 244; Rev. Rul. 70-80, 1970-1 C.B. 130.

135. *See* 26 U.S.C.I.R.C. § 170(e)(1)(B)(iii); *see also* 26 U.S.C.I.R.C. § 170(m)(1)-(2), (7).

136. *See Bluetooth SIG, supra* note 84, 611 F.3d at 622; *see also* Rev. Rul. 58-294, 1958-1 C.B. 244.

137. *See generally* Mimura, *supra* note 8.

138. *See* WBCSD, *Eco-Patent Q&A*, *supra* note 112.

139. *See Bluetooth SIG, supra* note 84, 611 F.3d at 624.

140. *See* Seidenberg, *supra* note 119.

141. Bowman, *supra* note 108 (quoting Maria Mendiluce of the Commons).

142. *See* Bowman, *supra* note 108.

143. *See* World Bus. Council For Sustainable Dev. (WBCSD), *Press Release* (July 1, 2010) http://www.wbcsd.org. The author is unfamiliar with any green patenting or other color-coding practices of the USPTO.

144. In the June 2010 Commons newsletter, primary contacts include a vice president and corporate counsel of IBM.

145. *See* Nguyen & Maine, *supra* note 67.