CORTLAI [redacted]

Unincorp. Bus. Tax Determinations A-Z

STATE OF NEW YORK

DEPARTMENT OF TAXATION AND FINANCE

LAW BUREAU
~~LEGAL ENFORCEMENT UNIT~~
80 CENTRE ST.
NEW YORK, N. Y. 10013

Klotz, Michael

BENJAMIN B. BERINSTEIN
REGIONAL TAX SUPERVISOR
EDWARD H. BEST
COUNSEL
ABRAHAM BLOOM
SENIOR ATTORNEY IN CHARGE

STATE TAX COMMISSION
JOSEPH H. MURPHY, PRESIDENT
~~RAY J. WILKINSON~~
~~JAMES E. MAGOVERN~~

ADDRESS YOUR REPLY
FOR THE ATTENTION OF

Miss Evelyn King
Hearing Officer

May 29th, 1968

Commissioner Samuel E. Lepler
80 Centre Street
New York, New York 10013

Re: In the Matter of the Petition of MICHAEL KLOTZ for a Redetermination of a Deficiency or for a Refund of Unincorporated Business Taxes under Article 23 of the Tax Law for the year 1961.

Dear Commissioner Lepler:

I enclose Supplemental Memorandum, as requested, which I trust will be of some assistance to you in reaching a determination in the above matter.

Sincerely,

Evelyn King

EK:dob
Enclosure

cc: Edward H. Best, Counsel

L 9 (2-67)

BUREAU OF LAW
MEMORANDUM

TO: Commissioner Samuel E. Lepler

FROM: Evelyn King, Hearing Officer

SUBJECT: MICHAEL KLOTZ

Petition for a Redetermination of a Deficiency or for a Refund of Unincorporated Business Taxes under Article 23 of the Tax Law for the year 1961.

As suggested, I am submitting the following informal memorandum to be read in conjunction with the formal memorandum submitted February 20, 1968 to the State Tax Commission.

(1) The petitioner does not claim exemption from Unincorporated Business Tax as a lawyer, engineer or a chemist. He claims exemption as a foreign patents consultant upon the ground that his services rendered to patent attorneys and, mainly, to corporate patent departments in prosecuting their patent applications before the patent offices of foreign countries were professional in nature in that such services required knowledge of an advanced type in a given field of science or learning gained by a prolonged course of specialized instruction or study.

(2) The petitioner did not hold a degree in law and was not licensed to practice law in New York State and was not practicing law. If he had been, he would have been doing so illegally, without a license, and would be subject to Unincorporated Business Tax. The petitioner did hold a degree in chemistry, engineer-chemist, from the University of Rouen but was not licensed to practice professional engineering in New York State. He was not and did not claim to be practicing engineering. He was not working as a chemist. The petitioner was not admitted to practice before the United States Patent Office.

(3) Petitioner was possessed of no advanced knowledge in the field of law. He was a layman with a specialized knowledge relevant to patent systems and practice. Petitioner was possessed of an advanced knowledge of engineering and chemistry.

(4) In my opinion, petitioner's advanced knowledge in the field of engineering and chemistry, although extremely useful, was not necessary to his work as a foreign patents consultant.

(5) This point is illustrated by the fact that his work, if conducted in the preparation and prosecution of applications for United States Patents, could have been done by a patent agent not

holding a degree in engineering or chemistry, possessed of basic training in scientific and technical matters, but knowledge less than that of an advanced type in the field of engineering or chemistry gained by a prolonged course of instruction or study.

(6) The Law Bureau's memoranda dated December 12, 1962, January 11, 1963 and March 13, 1963, attached to the original memorandum submitted herein, conclude:

> (a) That the income of a patent agent (not a lawyer) admitted before the United States Patent Office from patent and trademark work before the United States Patent Office is exempt from Unincorporated Business Tax;
>
> (b) That the income of a patent agent (not a lawyer), including those admitted to practice before the United States Patent Office, from foreign patent and trademark work is not exempt from Unincorporated Business Tax.

(7) The basis for this conclusion is that the patent agent (not a lawyer) practicing before the United States Patent Office meets the standards for professional exemption because he is required by the Rules of the Patent Office to be possessed of good moral character and good repute and possessed of the legal and scientific and technical qualifications necessary to enable him to render applicants for patents valuable services and to submit to and pass an examination in that regard; that he is further required under the Rules of Practice of the Patent Office (37 CFR Chap. 1.344) "to conform to the standards of ethical and professional conduct generally applicable for attorneys before the Courts of the United States." Exemption is denied to the patent agent (not a lawyer) working in the field of foreign patents, even though admitted to practice before the United States Patent Office, upon the ground that in his activities he is subject to no regulation as to who can engage in that activity and that he need conform to no enforceable code of ethics.

(8) Knowledge of an advanced type in a given field of science or learning gained by a prolonged course of specialized instruction and study was not, in my opinion, the basis for the Bureau's memoranda holding the net income of a patent agent from the practice before the United States Patent Office exempt from tax as derived from the practice of a profession. Under the Rules of the United States Patent Office, the patent agent is not required to be possessed of such advanced knowledge. A lesser amount of formal education, other than a degree in engineering or science, together with a showing of extended practical experience of an engineering or scientific nature, may be accepted.

(9) Conversely, the possession of knowledge of an advanced type, gained by a prolonged course of specialized instruction and study, does not require a holding that a man is engaged in a profession, sic, the unlicensed engineer, the unlicensed lawyer, or the man possessing such advanced knowledge where such knowledge is merely useful but not necessary to his activities.

The case of Geiffert v. Mealey (1944) 293 N. Y. 583, cited by petitioner in his brief submitted, wherein the practice of landscape architecture was held to be a profession and exempt from Unincorporated Business Tax is clearly distinguishable. The petitioner was a pioneer in his field. He held no degree as none was given when he was pioneering. Formal courses of study leading to degrees in landscape architecture were later offered by many institutions of higher learning. The decision was based upon the reasoning of Teague v. Graves (1941) 261 N. Y. 652, Aff. No Op. 287 N. Y. 549, which recognized the activities of an industrial designer as a profession, wherein the Court stated at Page 654, "The graduates from universities, institutes and schools who will have scholastic degrees as industrial designers doubtless will be regarded as professional men. It is paradoxical that the petitioner and his present associates now engaged in the field who are lecturing in these courses and teach these students should be classified otherwise."

The implicit finding of both the Teague v. Graves and Geiffert v. Mealey cases is that the petitioner was possessed of knowledge of an advanced type in a given field of science and learning not merely useful but necessary to the practice of industrial designing and landscape architecture. The Court in both cases merely admitted the necessity for recognizing in law, as in our universities, new professions which have been called into being to take care of modern requirements of our expanding civilization. Petitioner in the instant case, in my opinion, meets none of the standards of a professional as prescribed by the Courts in the cases of Geiffert v. Mealey and Teague v. Graves.

The hypothetical question was propounded, "Could a disbarred lawyer working for a law firm as a legal consultant to the law partners (which is forbidden), admittedly possessed of knowledge of an advanced type in the field of law be held to be engaged in the practice of a profession exempt from Unincorporated Business Tax?" The answer is "no".

Although it is true, as was stated in Teague v. Graves, licensing by the state and supervision of activities are unsatisfactory standards by which to classify the nature of the occupation (citing licensing of liquor dealers, plumbers, undertakers, etc.), it is also true that where the nature of the occupation would otherwise be

professional, if licensing and regulations do exist, considered necessary for the practice of the profession upon which they are imposed, the obligation to meet their requirements must be met in order to claim professional status.

Parenthetically, chiropractors practicing in this State, whose activities are closely allied to the practice of medicine, were originally denied professional status under Section 386 of the Tax Law, now Section 703, and only later granted professional status when licensed by the legislature (Education Law, Section 6550 et seq.) under provisions requiring the applicant for a license (with saving grandfather clauses) to be possessed of good moral character, general basic education and appropriate specialized knowledge gained by a specified prolonged course of instruction and study and to submit to and pass examination in that regard; the licensed chiropractor being further required, if his license is to be maintained, to conform to standards of ethical and professional conduct appropriate to the practice of chiropractic. Oyer v. State Tax Commission (1956) 3 A.D. and 632, Aff. 2nd N. Y. 942 and Strayer v. State Tax Commission (1955) 285 App. Div. 739.

The inquiry under Section 703(c) of the Tax Law always is: "Is the taxpayer engaged in the practice of a profession?" If a man is disbarred from the practice of his profession, regardless of the advanced knowledge he may possess in his given field of science and learning, he is not engaged in the practice of a recognized profession. In sacrificing his grant from the body politic, the disbarred lawyer sacrificed its advantages.

To summarize:

1. The activities of the petitioner, resident of and working in the State of New York, as a foreign patents consultant were not, in my opinion, of a professional character as the advanced knowledge in the field of engineering and chemistry utilized by him in his work as a foreign patents consultant, although extremely useful, was not essential to the production of his income; the petitioner could have pursued his particular occupation under normal conditions of business and competition without such advanced knowledge.

2. The petitioner, as a foreign patents consultant, was subject in his activities to no mandatory inquiry into his good moral character and repute nor as to his legal and scientific and technical qualifications; nor was he required to conform to any enforceable code of ethics in the prosecution of his work.

3. Federal and State regulatory bodies have the authority to prescribe licensing, registration, regulatory and other requirements deemed necessary for admission to the practice of a profession and which must be met before the grant of professional status is made.

4. In a proper case, the State Tax Commission may recognize professional status by reason of such licensing and regulation and conformity thereto.

5. Where such licensing, registration, regulatory and other requirements deemed necessary to the granting of professional status are not met, professional status is denied.

6. Where such licensing, registration, regulatory and other requirements are not prescribed, as in the instant case, and anyone can enter the field, a showing greater than that made by the petitioner must be made. He must show that, regardless of licensing or registration or regulation, his income was derived from the practice of a recognized profession.

7. The petitioner failed to make such a showing. His income was not derived from the practice of law, engineering or from work as a chemist. His income as a foreign patents consultant was derived, in my opinion, from the advantageous utilization of his knowledge in each of these fields.

8. It is appropriate and proper for the State Tax Commission to withhold the recognition of professional status to residents of this State free from registration and regulation in their work in this State performed in relation to foreign patent applications where it would be denied to other residents of this State with similar educational attainments performing similar work in relation to patent applications before the United States Patent Office but not admitted to practice before the United States Patent Office by conforming to their rules for registration.

9. If rules and regulations are imposed with good reason upon residents of the State of New York practicing before the United States Patent Office, to which they must conform to be entitled to professional status, the lack of similar rules and regulations governing similar work performed within the State of New York for use before foreign patent offices is sufficient basis for determining that the grant of professional status by this State is not withheld arbitrarily, but with good reason.

Nicholas King
Hearing Officer

May 29, 1968
EK:dob

cc: Edward H. Best, Counsel

L 9 (12-67)

Unincorp. Bus. Tax
Determinations A-Z
Klotz, Michael

BUREAU OF LAW

MEMORANDUM

TO: State Tax Commission

FROM: Evelyn King, Hearing Officer

SUBJECT: MICHAEL KLOTZ

Petition for a redetermination of a deficiency or for a refund of unincorporated business taxes under Article 23 of the Tax Law for the year 1961.

A hearing in the above matter was held before me at 80 Centre Street, New York, New York on August 15, 1967.

The issue involved is whether the activities of the taxpayer as advisor and consultant to U. S. patent attorneys, especially corporate patent departments in prosecuting their foreign patent applications before the Patent Offices of foreign countries, constituted the practice of a profession exempt from unincorporated business tax.

The taxpayer filed a personal income tax return for the year 1961 describing his occupation as Foreign Patents Consultant. He maintained an office in his home, a one-room apartment with a kitchenette, out of which he worked, allocating 30% of the rent to office expense. He employed no help. More than 80% of the taxpayer's gross income was derived from personal services actually rendered by taxpayer. Capital was not a material income producing factor.

The taxpayer has a Degree in Chemistry, Engineer-Chemist, from the University of Rouen, France. He studied law in England but did not receive a degree. From 1949 to 1953 taxpayer worked in England with Unilever Corporation as a Patent Assistant. During this period taxpayer acquired the rudiments of the art of drafting patent specifications and prosecuting them to obtain patents in foreign countries. Taxpayer then went to Canada, where taxpayer was duly registered as a Canadian Patent Agent, and worked with a patent law firm in Ottawa until 1957. In 1957, taxpayer came to this country and for a year and a half worked with Haseltine, Lake & Co., International Patent Agents. Taxpayer became an independent consultant in 1958.

Taxpayer has published original papers in professional journals devoted to the study and practice of patents and is a member of long standing of many professional organizations devoted to patent law and practice.

The work of the taxpayer as adviser and consultant to U. S. patent attorneys and principally to the Patent Departments of Merck & Co. and Eastman Kodak, U. S. corporations, consisted of studying the objections of the examiners of foreign Patent Offices and in preparing arguments to counter those objections in connection with applications for chemical patents in foreign countries. The subject of these arguments was chemical. The work of taxpayer was submitted by the U. S. patent attorneys to their own agents in the foreign countries involved. Taxpayer did not prepare or assist in the preparation of licensing agreements or prepare any arguments or briefs in connection with trademarks.

The taxpayer was never admitted as an attorney to practice law in New York or any other state or territory of the United States or before the U. S. Courts. The taxpayer was never admitted and registered to practice before the U. S. Patent Office. The taxpayer held no license from any department or authority of the State of New York.

I am of the opinion that the activities of the taxpayer working in the field of foreign patents, do not meet the essential characteristics of a profession; that no standards of ethical and professional conduct are imposed by law or regulation on foreign patent agents not registered to practice before the Patent Office as in the case of patent agents admitted to practice before the United States Patent Office, 37 CFR, Chapter 1, Sec. 1.341 et seq., more particularly Sec. 1.344; nor was taxpayer subject to the standards of ethical and professional conduct imposed by law upon those licensed to practice law or engineering. See Law Bureau Memorandum of December 12, 1962, re: Langnor, Parry, Card and Langnor; Hazeltine, Lake & Co.; Michael S. Striker; Leon Strauss; Nelson Littell; Law Bureau Memorandum of January 11, 1963, re: Michael S. Striker; Law Bureau Memorandum of March 13, 1963, re: Michael S. Striker, Leon M. Strauss, Nelson Littell (memoranda attached).

I am further of the opinion that the advantageous utilization of professional knowledge by the taxpayer in the field of chemical engineering and law in his activities as a foreign patents consultant did not constitute the practice of a recognized profession but constituted the carrying on of an unincorporated business, the income of which is subject to unincorporated business taxes pursuant to Section 703(c) of the Tax Law. Sundberg v. Bragalini (1958), 7 A D 2d 15, reargd. denied, 7 A D 2d 953.

For the reasons stated above, I recommend that the determination of the Tax Commission in the above matter be substantially in the form submitted herewith.

/s/ EVELYN KING
Hearing Officer

February 20, 1968
EK:nn

Enc.

3-18-68

L 9 (5-62)

See opinion attached 12/12/62; 1/11/63 Mar. 13, 1963

BUREAU OF LAW

MEMORANDUM

TO:

FROM: Deputy Commissioner Igoe

SUBJECT: E. H. Best, Counsel

Michael S. Striker
Leon M. Strauss
Nelson Littell

Rule 341 Rules of Practice of the U.S. Patent Office in Patent Cases
Sec. 384

The Commission has authorized the reopening of the hearing in the Striker matter to obtain certain further evidence. The Striker file is, therefore, returned herewith for that purpose.

In the Striker matter, a proposed determination was prepared which exempted Striker from the unincorporated business tax on the ground that his activities as a patent agent constituted the practice of a profession. The proposed determination made no distinction as between patent work and trademark work nor as between income from patent and trademark work before the United States Patent Office and income from patent and trademark work in foreign countries. There is evidence in the record that Striker had income from foreign patent and trademark work as well as from work before the United States Patent Office (Record, pp. 32-33). During the tax years in question, 1952-56, Striker was admitted to practice before the United States Patent Office. He was admitted to the New York Bar in June 1957.

The Commission has decided that a patent agent admitted to practice before the United States Patent Office is exempt from unincorporated business tax in relation to his income from work before the United States Patent Office. Therefore, the question of the taxability of patent agents on their income from foreign patent and trademark work remains. In the opinion of this Bureau, such income is taxable. A memorandum prepared for the Commission by this Bureau reaching such a conclusion is attached hereto for the assistance of the hearing officer.

In view of the above, the Striker hearing should be reopened and the following evidence obtained.

1. The gross income of Striker from his patent and trademark work before the United States Patent Office during the years at issue.

2. The gross income of Striker from foreign patent and trademark matters and his income from drafting licensing agreements, foreign and domestic, if any.

3. Further evidence should be taken as to Striker's expenses. Where his expenses can be segregated between the above two types of income, such a segregation should be obtained. As to the rest of his expenses, a division should be made on the basis of the ratio of gross income from United States patent and trademark work to total gross income from his patent and trademark activities or on the basis of any other division which is considered reasonable.

After the above evidence has been submitted, a proposed determination should be prepared which exempts Striker's income from patent and trademark work before the United States Patent Office as income from the practice of a profession. Striker's income from his foreign patent and trademark work and his gross income from drafting licensing agreements, foreign and domestic, if any, should be held taxable.

I would recommend that the attorney for Striker be advised that the Commission is willing to exempt his income from work before the United States Patent Office but his other income is considered taxable. It may be possible to dispose of this matter on that basis, particularly since Striker was admitted to the New York Bar in June 1957.

There are also pending applications for revision by Leon Strauss and Nelson Littell seeking exemption from the unincorporated business tax on the ground that the work of patent agents constitutes the practice of a profession. Both are patent agents admitted to practice before the United States Patent Office but neither is a lawyer. Formal hearings as to these cases have not yet been held. These two cases should be handled in the same manner as is set out above for the Striker matter. A breakdown of their income and expenses as indicated above should be obtained. Their income from patent and trademark matters before the United States Patent Office should be declared exempt. Their income, if any, from foreign patent and trademark matters as well as from drafting licensing agreements, foreign and domestic, if any, should be held taxable.

The Strauss and Littell files are returned herewith.

Counsel

SH:el
Encs.
March 13, 1963

L 9 (3-61)

2196

BUREAU OF LAW

MEMORANDUM

TO: Commissioners Murphy, Palestin and Macduff

FROM: E. H. Best, Counsel

SUBJECT: Michael S. Striker

Recently several matters concerning patent agents were presented to the Commission in relation to liability for unincorporated business tax. This memorandum relates to a request to reopen the formal hearing held in the above patent agent matter. A determination was signed by the Commission in that matter but has not been issued to the taxpayer as yet.

The work of patent agents falls into several categories. They represent American and foreign clients who wish to file patents and trademarks in the U. S. Patent Office and protect them in proceedings before that office. They also represent American companies who wish to file patents and trademarks in foreign countries and protect them. They also draft licensing agreements for use of patents and trademarks.

In Matter of Striker the Commission signed a determination exempting a patent agent from unincorporated business tax on the ground that his activities constituted the practice of a profession. The determination made no distinction as between patent work and trademark work nor as between income from patent and trademark work before the U. S. Patent Office and income from patent and trademark work in foreign countries. There is evidence in the record that Striker had income from foreign patent and trademark work as well as from work before the U. S. Patent Office. During the tax years in question, 1952-1956, Striker was admitted to practice before the U. S. Patent Office. He was admitted to the New York Bar in June 1957.

Recently, the Commission also approved a settlement in the case of Langner, Parry, Card & Langner under which the firm has paid some $200,000 in settlement of its unincorporated business tax liability for all years or periods prior to June 1, 1960. That firm was and is exclusively engaged in filing and protecting patents and trademarks in foreign countries. Prior to May 26, 1960, the firm had certain members who were not lawyers but were

I approve
1-17-63

Approved. See pencilling on p. 2.
OK JMM 2-8-63
2/6/63

admitted before the U. S. Patent Office or before the patent offices of certain foreign countries. Since that date, all members of the firm attached to the firm's New York office have been admitted to the New York State Bar. Under the settlement, the firm has been exempted from June 1, 1960 on so long as all the members of its New York office are members of the New York Bar and its activities continue to come within the professional exemption.

There are also pending unincorporated business tax assessments against Haseltine, Lake & Co. None of the partners in this firm are lawyers, but they are all admitted to practice before the U. S. Patent Office. The bulk of this firm's practice, however, is the filing of patents and trademarks in foreign countries through foreign attorneys and agents and protecting these patents and marks. The firm also files patents and trademarks in the U. S. Patent Office and protects them. As part of an unauthorized practice of the law proceeding brought by the New York County Lawyers Association, both the Langner firm and the Haseltine firm have agreed to receive work only from attorneys.

While all these matters were pending in December of last year, they were brought to the attention of Commissioner Murphy so that a rule could be formulated covering the various activities carried on by patent agents and to insure consistent action by the Commission. As a result of that conference, it was decided to adopt the following rules in relation to the liability of patent agents under the Unincorporated Business Tax Law. A patent agent registered before the U. S. Patent Office would be exempt as a professional as to his income from trademark and patent work before the U. S. Patent Office, but the income of non-lawyers, including patent agents admitted to practice before the U. S. Patent Office, from their foreign patent and trademark work would be taxable. The basis for this conclusion is set out in a memorandum dated December 12, 1962 prepared by the Law Bureau, a copy of which is attached hereto.

It was agreed to proceed with the pending matters as follows:

1. The Langner, Parry settlement was to be completed as approved by the Commission. This settlement has now been completed, the firm having paid the $200,000. Prior to the payment, the attorney for that firm was informed that the Commission intends to follow a rule under which patent agents registered before the U. S. Patent Office

would be exempt as to their income from work before that office and non-lawyers would be taxed on their foreign and patent trademark work income.

2. The Haseltine, Lake firm was to be informed that the firm's income from patent and trademark work before the U. S. Patent Office would be considered exempt but its income from patent and trademark work in foreign countries would be considered taxable. That firm has been so informed and a conference on the matter is scheduled.

3. As to the Striker matter, it was decided that the formal hearing should be reopened to the extent of finding out how much of the income involved was obtained from foreign patent and trademark work and whether Striker had any income from drafting licensing agreements.

As indicated above, the Commission has signed a determination exempting Striker from the unincorporated business tax but this determination was not sent out in order to avoid the Commission taking an inconsistent position and to await a formulation of a rule covering all the activities of patent agents. In view of the above, it is requested that the Commission grant permission to reopen the Striker hearing to receive evidence as to the matter referred to above. Please inform the Law Bureau as to whether or not the Commission agrees to this.

The Striker file is forwarded herewith.

E. H. Best
Counsel

SH:el
Enc.

January 11, 1963

L 9 (5-62)

BUREAU OF LAW

MEMORANDUM

TO:

FROM:

SUBJECT:

Liability of patent agents for unincorporated business tax on their income from filing and protecting patents and trademarks

Langner, Parry, Card and Langner
Haseltine, Lake & Co.
Michael S. Striker
Leon Strauss
Nelson Littell

The work of patent agents falls into several categories. They represent American and foreign clients who wish to file patents and trademarks in the U. S. Patent Office and wish to protect them in proceedings before that office. They also represent American companies who wish to file patents and trademarks in foreign countries and protect them. They also draft licensing agreements for use of patents and trademarks.

We are informed that the two largest firms in the United States who represent American companies filing patents and trademarks in foreign countries are Langner, Parry, Card and Langner and Haseltine, Lake & Co. An unauthorized practice of the law proceedings was commenced against Langner, Parry by the New York County Lawyers Association and possibly against Haseltine as well. The proceeding was settled under an agreement that both the Langner and Haseltine firms would only receive their foreign work from private attorneys or the legal departments of corporations. After receiving the matters from the attorneys, these firms prepare the matters for submission to foreign attorneys and agents for filing and processing. In many cases their preparatory work is claimed to be extensive. Neither the Langner firm nor Haseltine, Lake represent the companies directly in the foreign countries. Rather, they forward the patent and trademark work to foreign patent attorneys or agents who are admitted in the various countries. The applications and other documents are filed under the signatures of foreign attorneys or agents. Where extensive administrative proceedings are necessary or litigation arises again, these firms do not represent the companies but merely act as advisers to the foreign patent attorneys and agents who conduct the foreign administrative proceedings or litigation.

In Matter of Striker, the Commission has recently signed a determination exempting a patent agent from the

unincorporated business tax on the ground that he is registered to practice before the U. S. Patent Office. (However, the determination has not been released to the taxpayer as yet.) The determination made no distinction as between patent work and trademark work nor as between income from patent and trademark work before the U. S. Patent Office and income from patent and trademark work in foreign countries. The determination covered the years 1952 through 1956. Strikor was admitted to the New York Bar in June 1957.

The Commission also approved a settlement in the case of Langner, Parry, Card and Langner. That firm was and is exclusively engaged in foreign patent and trademark work. Since May 26, 1960 all members of the firm attached to the firm's New York office have been admitted to the New York State Bar. Under the settlement, the firm agreed to pay some $200,000 in settlement of its unincorporated business tax liability for all years or periods prior to May 31, 1960. The agreement would also exempt the firm in the future so long as all the members of its New York office are members of the New York Bar and its activities continue to come within the professional exemption.

There are also pending unincorporated business tax assessments against Haseltine, Lake & Co. The members of this firm were all admitted to practice before the U. S. Patent Office prior to 1957. The bulk of this firm's practice is the filing of patents and trademarks in foreign countries through foreign attorneys and agents and protecting these patents and marks. This firm, however, also files and protects United States patents and trademarks for foreign and American clients. In its application for revision, the firm states "Taxpayer by long custom and policy reaching back to 1904 has rendered its service as international patent and trademark agents and United States patent and trademark agents exclusively to the legal profession and legal departments of companies which departments are headed by lawyers." As indicated above, as part of the unauthorized practice of the law proceeding the firm also agreed to receive its work only from attorneys.

A preliminary conference was held in Commissioner Murphy's office with the attorney for the above firm. He was requested to submit evidence that the third partner in the firm was admitted to practice before the U. S. Patent Office. This information was relevant both in relation to exemption of the firm's patent work before the U. S. Patent Office and its trademark work. Under a rule promulgated by the U. S. Patent Office in 1960, only attorneys can represent clients in trademark cases before the patent office except that any person admitted to practice as a patent agent prior to January 1, 1957 can continue to represent clients in trademark cases (37 CFR 2.12). Such evidence has been submitted.

The question is whether the dispositions in the Langner and Striker matters are consistent and how the Vasoltine matter should be handled so that it is in harmony with the result in the other two matters.

The determination of the Tax Commission in the Striker matter that patent agents are exempt from tax is a proper interpretation of the term professional as used in the Unincorporated Business Tax Law. The conclusion that a patent agent practicing before the U. S. Patent Office is exempt is based primarily upon the requirements of the Patent Office for admission to the examination to practice before the Patent Office. Those requirements are set out in an interpretation of Rule 341 of the Rules of Practice of the U. S. Patent Office in Patent Cases. That interpretation, issued by the Patent Office, is quoted below:

> "All attorneys at law complying with section (a) of the Rule are admitted to the examination.
>
> "A person seeking registration as a patent agent (section (b)) is admitted to the examination, if he has a degree in engineering or science, or the equivalent thereof, from a college or school of recognized standing. A lesser amount of formal education together with a showing of extended practical experience of an engineering or scientific nature or of a long apprenticeship under a registered patent attorney or agent may be accepted. Each such case is judged individually on the basis of the showing furnished by an applicant with the application form he submits for admission to an announced examination. The showing should include a corroborating statement from applicant's employer."

(Circular entitled "General Requirements for Admission to the Examination for Registration to Practice Before the Patent Office" dated March 1960 issued by the U. S. Patent Office (see Leon Strauss file enclosed herewith for copy))

The record in the Striker matter does not indicate whether Striker has income from trademark work as well as United States patent work before the U. S. Patent Office. If income from United States trademark work does exist, it has been exempted under the determination.

During 1952 through 1956, the years the Striker hearing covers, any person admitted to the patent office could represent clients in trademark matters (37 CFR 100.42). Striker was admitted to practice before the patent office in 1941. The fact that he could have represented clients in trademark matters even after 1957 on the basis of the grandfather clause even if he were not an attorney serves as a basis for exempting his United States trademark income earned in prior years. In any event, policy considerations dictate this rule as a proper method of treating trademark

income earned prior to the period covered by the new rule limiting the practice to attorneys and those qualifying under the grandfather clause.

The record indicates that Striker had income from filing and protecting patents and trademarks in foreign countries and that this work was done through foreign attorneys (pp. 32-33).

As indicated in the Law Bureau's memorandums of June 15, 1962 and November 27, 1962, the decision to tax the Langner firm which is only engaged in foreign patent and trademark work is correct. Prior to May 26, 1960, not all the members of that firm were attorneys. Rather, some were attorneys admitted to practice in New York; others were members of the bars of other states and countries; some were agents or attorneys authorized to practice before the U. S. Patent Office while others were authorized to practice before the patent offices of foreign countries. Thus, since the firm was not made up of lawyers admitted to practice before the New York Bar, the firm could not practice law in New York up until 1960. From that time, all members of the firm were admitted to the bar of some state and all members of the firm in the New York office were admitted to the New York Bar.

Matter of New York County Lawyers Association (Roel), 3 N. Y. 2d 224, appeal dismissed 355 U. S. 604, is an unauthorized practice of the law case brought against a lawyer admitted in Mexico, but not in New York. The Court of Appeals there stated at page 229:

> "Whether a person gives advice as to New York law, Federal law, the law of a sister State, or the law of a foreign country, he is giving legal advice. Likewise, when legal documents are prepared for a layman by a person in the business of preparing such documents, that person is practicing law whether the documents be prepared in conformity with the law of New York or any other law. To hold otherwise would be to state that a member of the New York Bar only practices law when he deals with local law, a manifestly anomalous statement.
>
> "This result accords with that reached in Matter of Pace (170 App. Div. 818) where attorneys assisting a Delaware corporation in filling out forms in connection with the incorporation of three companies under Delaware law were found guilty of aiding the

> corporation in its illegal practice of law (see, also, Matter of New York County Lawyers Assn. [Anonymous], 207 Misc. 698)." (emphasis my own)

The only distinction from the activities of the Langner and Haseltine firms and what is described above is the fact that these firms only advise attorneys. It is clear that the nature of their work, except for that fact, is the practice of law as defined by the Court of Appeals. However, from the point of view of the Tax Commission, the fact that they cannot directly represent laymen indicates more strongly that their services are not professional in nature. It is the attorney who has the ultimate responsibility.

The Court of Appeals expressed this concept in the Roel case, supra, at page 232.

> "When counsel who are admitted to the Bar of this State are retained in a matter involving foreign law, they are responsible to the client for the proper conduct of the matter, and may not claim that they are not required to know the law of the foreign State (Degen v. Steinbrink, 202 App. Div. 477, affd. 236 N. Y. 669). Moreover, the conduct of attorneys admitted here may be regulated by our courts (Matter of Gomez-Franco, 274 App. Div. 56; Matter of Anonymous, 274 App. Div. 89; see Caldwell v. Caldwell, 298 N. Y. 146, 147), and dealt with when they engage in unethical practices; . . . A foreign law specialist, on the other hand, is not subject to discipline; he need not be a lawyer of any jurisdiction; he may be without good character; and his activities may not even be regulated under the present state of the law."

It would appear that the settlement of the unauthorized practice proceeding referred to above was also based upon the same principle since the settlement was grounded in an agreement by these firms not to represent clients directly but only through their attorneys.

The fact that a person may be admitted to practice before a patent office in a foreign country does not authorize him to advise as to the law of that jurisdiction in New York State. This is clearly the result required by the Roel case, supra, since the court held that an attorney admitted in Mexico could not advise as to Mexican law in New York State unless he was admitted to the New York Bar. Thus, even though

Striker and some of the partners in Langner are admitted to practice before foreign bars or patent offices, this does not change the result as to the foreign patent and trademark income. It should be noted that under the rules of practice before the patent office there is a provision for the admission of foreign patent attorneys and agents having the same qualifications required of an American patent agent on the basis of reciprocity (37 CFR 1.341(e)). However, in a letter dated September 21, 1961 the attorneys for the Haseltine firm state that they had been informed that no other country grants reciprocity to United States attorneys and agents. Therefore, it would appear that the rule has no practical effect at present.

The only problem remaining is whether the Roel decision is so strong that even patent agents practicing before the U. S. Patent Office must be held to be taxable because they are engaged in the unauthorized practice of the law. There are indications in the decision that advice in certain areas of Federal patent law would constitute unauthorized practice of the law even when given by a patent agent admitted to practice before the U. S. Patent Office. The court so held in the case of advice on certain areas of the Federal Tax Law by an accountant (Application of New York County Lawyers Association, Bercu, 273 App. Div. 542, aff'd 299 N. Y. 728). An Illinois lower court, when faced directly with the question of unauthorized practice of the law by a patent agent admitted before the U. S. Patent Office, held that his work before the patent office itself was unauthorized practice (Chicago Bar Association v. Kellogg, 338 Ill. App. 618, 88 N. E. 2d 519).

Despite the above, within the meaning of the Unincorporated Business Tax Law the patent agent before the U. S. Patent Office as regards work before that office still meets the standards for the professional exemption. The patent office requires a law degree or an engineering or science degree or substitute experience to qualify for the admission examination. Also, under the rules of practice of the patent office registered attorneys and agents must conform to the standards of ethical and professional conduct generally applicable to attorneys before the courts of the United States (37 CFR 1.344). The patent agents work in the foreign field does not meet these essential characteristics of a profession. Anyone can enter the foreign field. There is no regulation as to who can engage in that activity and there is no enforceable code of ethics.

In view of the above, the following is recommended:

(1) The Langner, Parry settlement should be completed as approved by the Commission. To make full

disclosure, it might be proper to inform the firm that the Commission has determined that patent agents registered before the U. S. Patent Office are exempt as to their income from trademark and patent work before the U. S. Patent Office but has decided that income of non-lawyers, including patent agents admitted to practice before the U. S. Patent Office, from foreign and patent trademark work is taxable.

(2) The attorney for the firm of Haseltine, Lake & Co. should be informed that the firm's income from patent and trademark work before the U. S. Patent Office will be considered exempt from the unincorporated business tax but its income from foreign patent and trademark work will be considered taxable. Its income, if any, from drafting licensing agreements, foreign or domestic, will also be held taxable.

(3) In relation to the Striker determination, I suggest that it be reopened to the extent of finding how much of the income involved was obtained from foreign patent and trademark work. That income should be held taxable while his income from patent and trademark work before the U. S. Patent Office should be held exempt. His income, if any, from drafting licensing agreements, foreign and domestic, should be considered taxable.

There are also pending applications for revision by Leon Strauss and Nelson Littell seeking exemption from the unincorporated business tax. Both are patent agents admitted to practice before the U. S. Patent Office. Neither of these cases have gone to formal hearing. In view of the foregoing, the income of these persons from patent work before the U. S. Patent Office should be exempt. Their income from United States trademark applications should be exempt as well if they can show they come within the grandfather clause for practice in trademark matters before the U. S. Patent Office. Their income, if any, from foreign patent and trademark work should be held taxable. In addition, their income, if any, from drafting licensing agreements, foreign and domestic, should also be taxed.

December 12, 1962

. 9 (5-61)

Nov. 19, 1962

BUREAU OF LAW

MEMORANDUM

TO: Commissioners Murphy, Palestin & Macduff

FROM: E. H. Best, Counsel

SUBJECT: Formal Hearing - Michael S. Striker
Years 1952 through 1956 - Art. 16-A

The sole question to be determined herein is whether or not the activities of the taxpayer as a patent agent constitute the practice of a profession within the meaning and intent of section 386 of the Tax Law.

The taxpayer, a patent attorney, holds several European degrees including that in economics and engineering and was a German patent attorney. He came to the United States and worked as a patent agent during the years involved. After being admitted to the bar in 1956 he became a patent attorney. The hearing officer has held that the activities of the taxpayer as a patent agent constitute the practice of a profession within the meaning and intent of section 386 of the Tax Law. I concur.

Accordingly the determination is approved. Kindly return the entire file to this office after disposition.

Counsel

Enc.
MS:SC
November 19, 1962

Approved: TMcG

L 9 (8-61)

BUREAU OF LAW

MEMORANDUM

TO: E. H. Best, Counsel

FROM: Mr. Schapiro

SUBJECT: Possible professional exemptions for patent attorneys and/or patent agencies.

Three matters have been forwarded to this Bureau for a repeat opinion as to whether patent attorneys and/or agents should be granted professional exemptions from the UBT tax. One is the Matter of Michael S. Striker, in which a formal hearing has been held and a proposed determination finding professional status has been prepared by Mr. Gifford, and is supported by Mr. Arvis Johnson in a memorandum attached to the file. The other two matters, Leon M. Strauss and Nelson Littell, are on the formal calendar but no hearings have, as yet, been held.

The Littell matter concerns UBT taxes for the period 1952-1958. Prior to 1952 the taxpayer, Littell, was practicing as a patent attorney. He was disbarred in 1952 and thereafter solely practiced as a patent agent. (By memorandum dated January 23, 1957, from Commissioner Kassell to Commissioner Greene, this bureau held that on the basis of William D. Traub v. Allen J. Goodrich et al., 2 N Y 2d 759, affg. 286 App. Div. 927, a patent agent is not in the practice of a profession.) The Traub case concerned a practitioner before the Interstate Commerce Commission (it is to be noted that since that case the requirements of the Interstate Commerce Commission have been made more rigorous and a certain amount of education is now required).

The present requirements of an applicant for a patent agent license from one who is not a lawyer are that the applicant must have an engineering degree, equivalent education or a combination of equivalent experience and education and must pass a technical examination. Certainly, if an industrial engineer can be deemed to be a professional, over which profession there is no regulatory agency, and which profession has a mixed engineering and business basis, then a patent agent with its intensive education requirements, its control by a Federal regulatory agency, and its application of engineering problems should be deemed a profession also.

The Littell matter raises the question as to the ethical standards of the "profession of patent agents" which permits a disbarred attorney, who can no longer be deemed to be a patent attorney, to continue as a patent agent. There is nothing in the record to show the reason for such disbarrment. Therefore, although emotionally the case is weak in the matter of Littell, it is much stronger in the case of Leon M. Strauss who is a European patent attorney and graduate engineer practicing as a patent agent in the United States. It is extremely persuasive in the case of Michael S. Striker in which a formal hearing has been held, in which the taxpayer, presently a practicing patent attorney, is a graduate economist, engineer, attorney, student of medical jurisprudence, patent attorney in Europe and a patent agent practicing in the United States for a period of time before he was admitted to the bar. This period of time in issue was for the interim practice as a patent agent. The taxpayer's attorney has written recent letters urging that at the very least this case is an exception and that the taxpayer's knowledge and professional skill did not change by virtue of the fact of his admission to the bar. It is my opinion, however, that although it is possible to make an exception in this case because of the facts herein, it is far better to have a general opinion as to the professional status of a patent agent.

Accordingly, I am sending a memorandum from you to the Commission sustaining the determination.

_____
Senior Attorney

MS:SC
November 19, 1962

[redacted]

[redacted]

[redacted]

[redacted]

Ehrhart Klein having filed a petition for redetermination of a deficiency or for a refund of Unincorporated Business Taxes under Article 23 of the Tax Law for the year 1965, and a hearing having been held at the office of the State Tax Commission, 80 Centre Street, New York, New York on August 13, 1967 before Evelyn King, Hearing Officer of the Department of Taxation and Finance, at which hearing taxpayer appeared in person and testified, and the matter having been duly examined and considered,

The State Tax Commission hereby finds:

(1) That the taxpayer filed a New York State Income Tax return for the year 1965 describing his occupation as Foreign Patents Consultant; that the taxpayer did not file any Unincorporated Business Tax return for said year on the ground that it was claimed that the activities of the taxpayer constituted the practice of a recognized profession.

(2) That on March 23, 1966, the Department of Taxation and Finance issued a Statement of Audit Changes against the taxpayer holding the business activities of the taxpayer constituted the operation of an unincorporated business subject to Unincorporated Business Tax and, accordingly, issued a Notice of Deficiency in the sum of $[redacted], including interest.

(3) That taxpayer has a Degree in Chemistry, Engineer Chemist, from the University of Iowa; that he studied law in England, but did not receive a degree; that from 1919 to 1923 taxpayer served with Vickers Corporation in England as a patent draftsman, during which period taxpayer acquired the rudiments of the art of drafting patent specifications and prosecuting them to obtain patents in foreign countries; that taxpayer then went to Canada where taxpayer was duly registered as a Canadian Patent Agent and worked with a patent law firm in Ottawa until 1927; that in 1927 taxpayer came to this country and for a year and a half worked with Hamilton, Lake & Co., International Patent Agents; that taxpayer became an Independent consultant in 1929; that taxpayer has published original papers in professional journals devoted to the study and practice of patents and is a member of long standing of many professional organizations devoted to patent law and practice.

(4) That during the year 1945, the taxpayer maintained an office in the City of New York in his home, one of which he owned; that the taxpayer employed no help; that more than 90% of the taxpayer's gross income was derived from personal services actually rendered by taxpayer; that capital was not a material income-producing factor.

(5) That during the year 1945 taxpayer was engaged as an advisor and consultant to United States patent attorneys and principally to the patent departments of Merck & Co. and Eastman Kodak, United States corporations, to assist them in prosecuting their patent applications before the patent offices of foreign countries; that the work of the taxpayer consisted of studying the objections of the examiners of foreign patent offices and in preparing arguments to answer those objections in connection with applications for chemical patents; that the arguments prepared by the taxpayer were based on an understanding of the chemical inventions and any references which might have been cited against the applications; that the work of the taxpayer would be submitted by the United States patent attorneys to the foreign patent

offices through their agents in the foreign countries involved; that during the year 19[illegible] taxpayer was an independent contractor and not an employee of the principals he represented.

(6) That the taxpayer was never admitted as an attorney to practice law in New York or any other state or territory of the United States or before the United States Courts; that the taxpayer was never admitted and registered to practice before the United States Patent Office; that the taxpayer held no license from any department or authority of the State of New York.

(7) That the taxpayer failed to establish that he was subject to standards of ethical and professional conduct imposed by regulation or law upon those registered to practice before the United States Patent Office or those licensed to practice engineering in the State of New York.

(8) That the activities of the taxpayer as a foreign patent consultant did not meet the essential characteristics of a profession within the intent and meaning of Section 708(c) of the Tax Law.

Based upon the foregoing findings and all of the evidence presented herein,

The State Tax Commission hereby

[illegible]:

(A) That the taxpayer's activities during the year 19[illegible] as a foreign patent consultant did not constitute the practice of a recognized profession; that taxpayer's income derived therefrom for the year in issue was derived from a business carried on by him solely within the State of New York subject to unincorporated business taxes within the intent and meaning of Section 708(a) of the Tax Law.

(B) That, accordingly, the Notice of Deficiency for the year 19[illegible] was properly issued and that the tax and interest stated

[redacted] are correct and are true and that, together with any other lawful interest and statutory charges, that the taxpayer's petition for a redetermination of a deficiency or for a refund of overpayment [redacted] under Article 22 of the Tax Law for the year 1971 be and the same is hereby denied.

[redacted] Albany, New York on this 28th day of May, 1975.

[redacted]

/s/ JOSEPH H. MURPHY

/s/ A. BRUCE MANLEY

/s/ SAMUEL E. LEPLER