

## *Chapter 1*

# **Why Inventors Need to Know About Law, Business and Taxes**

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Genius is not always rewarded. Hungry for cash, John “Doc” Pemberton sold the world’s most famous trade secret—the formula for Coca-Cola, for less than \$900. Charles Goodyear had a brilliant innovation—rubber that could be used year-round. But Goodyear made many bad deals, failed to protect his patent rights and died in 1860 owing over \$200,000. Charles Stahlberg woke the world up with his alarm-clock invention but then, because of business debts, was forced to sell all rights cheaply to the Westclox company. George Ferris had two brilliant ideas—the Ferris wheel and the amusement park—but debts forced him to auction his wheel and eventually he was driven to bankruptcy. Adolph Sax patented his saxophone but died penniless after spending all his money on attorneys to fight patent battles.

From Gutenberg (yes, he died penniless as well) to today, developing a great invention has never been a guarantee of financial success. There are many reasons for these financial failures—bad luck, bad timing, the world’s indifference to innovation—but one of the most significant causes is the inventor’s lack of basic knowledge in three areas:

- **law**—the array of laws, such as patent law, that protect inventions and thereby enable inventors to make money from them
- **business**—the knowledge of how to properly organize and run inventing activities like a real business, and
- **taxes**—the ability to take advantage of the tax laws to help underwrite inventing efforts.

This book is intended to help the independent inventor fill this knowledge gap. Whether you’re a full- or part-time inventor, just starting out or highly experienced with many patents to your name, reading this book will enable you to answer such crucial questions as:

- If I invent something on the job, who owns it—my employer or me? (See Chapter 11.)
- Can I deduct my home-workshop expenses from my taxes? (See Chapter 7.)
- Should I incorporate my inventing business? (See Chapter 2.)
- How can I pay the low 20% capital gains tax rate on my inventing income? (See Chapter 8.)

Reading this book won’t guarantee you’ll get rich from inventing, but at least you’ll be able to avoid some of the mistakes other inventors have made.

## A. Business, Tax or Law?

This book is divided into three conceptual parts:

**Starting and Running Your Business.** Chapters 2 through 4, 9 and 10 cover starting and running your inventing business, including choosing your form of business, record keeping and hiring employees and contractors.

**Taxes.** Chapters 5 through 8 cover the tax aspects of inventing, including such issues as showing the IRS that your inventing is not a hobby, deducting your inventing expenses and paying taxes on inventing income.

**Ownership and Exploitation.** Chapters 11 through 17 cover laws regarding ownership

and exploitation of your invention. These laws include intellectual property laws for inventors such as patents, trademarks, trade secrets and copyrights, as well the law relating to invention licensing.

Chapter 18, *Help Beyond the Book*, tells you how to do further research on your own, and, if necessary, hire an attorney. If you need an answer for a specific question, start with the table of contents at the front of the book. If you don't find the topic you're interested in there, check the detailed index at the back of the book.

## B. What's Not in This Book

This book does not cover everything inventors need to know. Specifically, it is not about:

- **How to file for a patent.** This book provides an overview of all forms of

intellectual property law, including patents, but it does not explain how to file for a patent. This topic is covered in more detail in *Patent It Yourself*, by David Pressman (Nolo).

- **How to file a provisional patent application.** *Patent Pending In 24 Hours*, by Richard Stim & David Pressman (Nolo) explains how to prepare a provisional patent application.
- **How to do a patent search.** *Patent Searching Made Easy*, by David Hitchcock (Nolo), offers guidance on patent searching.
- **How to do a patent drawing.** If you want to create your own patent drawings, check out *How to Make Patent Drawings Yourself*, by Jack Lo & David Pressman (Nolo). ■