

Cub Pty Ltd. vs. Uoi

Cub Pty Ltd. vs. Uoi

SooperKanoon Citation : sooperkanoon.com/1183424

Court : Delhi

Decided On : Jul-25-2016

Judge : Badar Durrez Ahmed & Sanjeev Sachdeva

Appeal No. : W.P. (C) No. 6902 of 2008

Appellant : CUB Pty Ltd.

Respondent : UOI

Judgement :

Badar Durrez Ahmed, J.

1. The question that arises for consideration in this writ petition pertains to the situs or location of intellectual property rights such as logos, brands, trademarks, which are capital assets, but intangible in nature. In terms of Section 9(1)(i) of the Income Tax Act, 1961, all income accruing or arising, directly or indirectly, inter alia, through the transfer of a capital asset situate in India, shall be deemed to have accrued or arisen in India. The petitioner had sought an advance ruling from the Authority for Advance Ruling (Income Tax), New Delhi (hereinafter referred to as 'the AAR) on, inter alia, the following question:-

(i) On the facts and circumstances of the case, whether the receipt arising to the applicant, from the transfer of its right, title and interest in and to the trademarks, Foster's Brand Intellectual Property and grant of exclusive perpetual licence of

Foster Brewing Intellectual Property is taxable in India, having regard to the provisions of the Income Tax Act, 1961 and the Double Taxation Avoidance Agreement between India and Australia?

2. By virtue of its order dated 14.05.2008, the AAR has answered the said question by holding that the income 'accrued' to the applicant, from the transfer of its right, title and interest in and to the trademarks and Foster's Brand Intellectual Property is taxable in India under the Income Tax Act, 1961. Insofar as the income attributable to the grant of perpetual and irrevocable licence in relation to Brewing Intellectual Property rights is concerned, the same is not liable to be taxed under the Income Tax Act, 1961.

3. The petitioner is aggrieved by the fact that the AAR has observed that the income 'accrued' to the petitioner from the transfer of its right, title and interest in and to the trademarks and the Foster's Brand Intellectual Property is taxable in India under the Income Tax Act, 1961. The AAR arrived at its said ruling after holding that the said intellectual property rights of the petitioner, which were the subject matter of assignment/transfer, were situate in India. The plea of the petitioner is that in the case of intangible capital assets the situs thereof has to be determined by the situs of the owner. This is so because the assets, being intangible, do not exist in any physical form and, therefore, cannot be said to be located at any physical place, unlike a tangible capital asset which exists in physical form and has a specific physical location. It is the case of the petitioner that because of the nature of an intangible capital asset, the common law principle 'mobilia sequuntur personam' has been evolved, whereby a fiction is created to the effect that the situs of an intangible capital asset would be the situs of the owner of that asset. In this backdrop, it has been contended that since the owner of the intangible assets in question was located in Australia, the petitioner, being an Australian company, the intangible assets, which include the intellectual property rights of the petitioner, were also located in Australia. Therefore, the transfer of those assets would not result in any income deemed to have accrued in India and would not be exigible to tax in India.

4. On the other hand, the AAR was of the view that since the intellectual property rights, which are the subject matter of the present petition, pertain to India, in the sense that they were used in India, nurtured in India and some of them were registered in India, the same had taken roots in India and, therefore, were completely situate in India. In coming to this conclusion, the AAR did not accept the applicability of the 'mobilia sequuntur personam' principle to the facts of the present case and in doing so placed reliance, inter alia, (i) Geoffrey Inc. v. South Carolina Tax Commission: 437 S.E. 2d 13 : (1993) 313 SC 15; (ii) Kmart Properties Inc. v. Taxation and Revenue Department: 139 NM 177 : 2006 NMCA 26; and (iii) Commissioners of Inland Revenue v. Muller and Company: [1901] AC 217 (HL). The learned counsel for the revenue has supported the decision of the AAR and contended that the transaction in question, which involved the transfer of intellectual property rights, had a clear relation to the use of such rights in India and, therefore, they were clearly assets which were located in India.

FACTS

5. It would be necessary to set down the factual backdrop in which the question has arisen for our consideration. The petitioner (CUB Pty. Limited, formerly known as Foster's Australia Limited) had a 100% subsidiary - Dismin India Private Limited (Dismin). In turn, Dismin held 100% shares of FBG, Mauritius, which, in turn, held 100% shares of Foster's India Limited. The latter company, namely, Foster's India Limited was incorporated on 26.09.1995. On 13.10.1997, a brand licence agreement (BLA) was executed between the petitioner and Foster's India Limited. By virtue of the BLA, Foster's India Limited was licensed to use in India four of the trademarks owned by the petitioner. They were:-

(i)	FORSTER's and F logo
(ii)	F logo
(iii)	FORSTER's
(iv)	Kangaroo Device

In consideration of this licence, the petitioner received royalty and was subjected to withholding tax in India. It is pertinent to note that the BLA permitted Foster's India Limited to use the said licensed trademarks in India. The BLA did not transfer any other right to Foster's India Limited. In other words, the licensed trademarks continued to remain the absolute property of the petitioner. Foster's India Limited was only permitted to use the said four licensed trademarks in India as a licensee.

6. On 04.08.2006, an agreement, known as 'India sale purchase agreement' (ISPA), was executed in Melbourne between Dismin, the petitioner, Foster's Group Limited, SABMiller (A and A2) (hereinafter referred to as the said SABMiller) and SABMiller Africa and Asia B.V. The said transaction was a composite agreement which provided for:-

(i) Sale of shares of FBG Mauritius by Dismin to SABMiller (A and A2);

(ii) Sale of the following by the Petitioner to SABMiller (A and A2)/its nominee:

(a) 16 Trademarks, including the said four licensed trademarks;

(b) Foster's Brand Intellectual Property; and

(c) Grant of exclusive and perpetual license in relation to Foster's Brewing Intellectual Property confined to India, to SABMiller. Purchase price as mentioned under the ISP Agreement was USD 120 million.

7. As a result of the ISPA, SABMiller (A and A2) became the owner of FBG Mauritius and thereby the owner of Foster's India Limited. Furthermore, 16 trademarks, which were owned by the petitioner (which included the said four licensed trademarks), were sold/assigned to SABMiller (A and A2) and/or its nominee. Clause 5.3 of the ISPA is relevant as it relates to pre-completion transactions. To the extent relevant, the said Clause 5.3 is reproduced herein below:-

"5.3 Pre Completion transactions

(a) On or before Completion, each of FGL, Dismin and, where applicable, Foster's Australia, must procure (at its own cost and expense) each of the following to

occur:

(i) and (ii)** ** **

(iii) the termination of each of the:

(A) Brand Licence Agreement; and

(B) Technical Licence and Services Agreement;

** ** **"

It is, therefore, clear that under the ISPA, prior to the completion of the sale and purchase of the sale shares, the trademarks, the Foster's Brand Intellectual Property and the licence of the Foster's Brewing Intellectual Property in accordance with clauses 6 and 7, the BLA was required to be terminated. It will be remembered that the BLA had been entered into between the petitioner and Foster's India Private Limited, whereby the former had licensed four trademarks to the latter for use in India.

8. On 12.09.2006, a deed of termination of the BLA was executed in Australia. On the very same day, that is, on 12.09.2006, a deed of assignment was executed in Australia, whereby the petitioner assigned the said 16 trademarks to Skol Breweries Limited [nominee of SABMiller (A and A2)].

9. On 22.09.2006, the petitioner moved an application before the AAR under Section 245-Q of the Income Tax Act, 1961, seeking an advance ruling on, inter alia, the question extracted earlier in this judgment. By the impugned order dated 09.05.2008, the AAR held the income arising from the transaction of the transfer of the 16 trademarks to be deemed income accruing in India on the basis of its finding that the said intellectual property rights were capital assets situate in India. Being aggrieved by the said ruling, the petitioner had initially filed a Special Leave Petition, being SLP (Civil) No. 21519/2008 before the Supreme Court of India. But, on 08.09.2008, the same was withdrawn by the petitioner with liberty to move the High Court. And, that is how the present petition has been filed challenging the ruling given by the AAR.

ARGUMENTS:

10. On behalf of the petitioner, Mr Ganesh, the learned senior advocate, contended that the origin of the Forster's mark was unquestionably in Australia. The petitioner was the owner of the said brand/mark and the petitioner is an Australian company. The petitioner has also granted licences to use the trademarks in various countries across the world (approximately between 70-100 countries), including India. It was submitted that a licence to use a trademark confers only a limited right for the use of the mark and there is no assignment of any proprietary interest therein. It was, therefore, submitted that the initial licence granted under the BLA did not confer any proprietary rights in Foster's India Limited. It was contended that as the trademarks were originally adopted by the petitioner in Australia, admittedly the intellectual property rights therein vested in the petitioner and the situs of those rights was clearly Australia. He submitted that by the grant of the licence under the BLA, since there was no transfer of any proprietary right, there was no shift in the situs of the trademarks to India. It was submitted that a distinction has to be drawn between the trademark and the right to use the trademark. According to Mr Ganesh, the situs of the trademark would be that of its owner. The right to use a trademark only generates royalty, which is paid to the owner, but the situs of the trademark remains that of the owner of the trademark. It was also contended by Mr Ganesh that if the contention that the grant of licence results in transfer of the situs of the trademark to the licensee countries were to be accepted, serious and major consequences involving multiple taxation would result. It was also contended that registration of trademarks in India did not imply the migration of the intellectual property rights to India. According to him, registration of a trademark only recognizes a right which pre-exists in the trademark. It was contended that the rights in a trademark are of common law origin and are protected thereunder. A trademark does not derive its existence from any statute and is protected even in the absence thereof. The statute, more or less, fortifies the common law by conferring a statutory title to the trademark on the owner. Mr Ganesh referred to the decision in the case of *Norwich Pharmacal Company v. Commissioner of Internal Revenue*: 1934 BTA Lexis 1344, wherein it was observed as under:-

"Rights in trade-marks are of common law origin, *General Baking Co. v. Gorman*, 3 Fed.(2d) 891; certiorari denied, 268 U.S. 705. The right to a trade-mark exists at common law, *L. H. Harris Drug Co. v. Stucky*, 46 Fed. 624, and has long been protected thereby, *Piggly Wiggly Corp. v. Saunders*, 1 Fed.(2d) 572; *affd.*, 30 Fed.(2d) 385. A trade-mark does not derive its existence from any statute, state or Federal, but exists independent of statutes, and is protected even in the absence thereof. Trade-marks are not created by the trade-mark statutes. Such statutes merely fortify the common law right to a trade mark by conferring the statutory title on the owner. Authorities cited, *supra*, and *La Croix v. May*, 15 Fed. 236."

11. The learned counsel for the petitioner submitted that the location of a trademark is governed by the common law maxim of '*mobilia sequuntur personam*'. According to this principle or doctrine, the personal property held by a person is governed by the same laws that govern that person. This principle has been applied to determine the situs of intangibles which entails that the situs of intangible assets are to be determined on the basis of the situs of the owner of such intangible assets. It was submitted that the principle behind this doctrine was that intangibles are subject to the immediate control of the owner and since the intangibles themselves do not have any real situs, the domicile of the owner is the nearest approximation to their location. Reliance was placed on the decision of the Court of Appeal of California, Third Appellate District in the case of *Rainier Brewing Company v. CHAS. J. McColgan*: 94 Cal. App. 2d 118; 1949 Cal. App. LEXIS 1499, wherein it was observed as under:-

"It is immaterial that the plaintiff, prior to the transfer of its trade-mark and goodwill to be used in the State of Washington, also owned and conveyed a warehouse and equipment which it owned in Seattle. It still remains true, as conceded by the written stipulation of facts and the findings of the court, that plaintiffs domicile and principal place of business was in California and not in Washington. All of the facts and circumstances of this case indicate that the domicile and principal place of business was in San Francisco. That was, therefore, the situs of the intangible property rights represented by the proceeds from the transfer of the trade-mark and good will of the business. The receipts from that source, and not from the actual sales of beer in Washington, were attributable to the good will of the

business attached to the trade-mark which had its situs in this state. That property interest did follow the "personam" of the corporation to its domicile in California. The doctrine of "mobilia sequuntur personam" appears to apply in full force to the facts of this case. We conclude that the commissioner properly and lawfully assessed [*8] and taxed to plaintiff the proceeds received in the year 1938, from the transfer of the trade-mark and good will of plaintiffs business. It is immaterial whether those property rights in intangible property may also be attributable to the contract, which the court suggests merely created the relationship of debtor and creditor between plaintiff and [*122] the Seattle Brewing Company. That contract may be considered as mere evidence of the terms and conditions upon which the trade-mark for use in Washington was transferred. Even though the contract itself may not warrant the commissioner in attributing the receipts therein provided for to it, which we do not concede, the fact remains that they were attributable to the transferred trade mark and attached goodwill of the corporation whose business was located in this state. That fixes the situs of the taxable property."

** ** *

"The term "mobilia sequuntur personam" is a maxim defined as meaning, "Movables follow the [law of the] person." (58 C.J.S. 837.) In *Miller v. McColgan*, 17 Cal.2d 432 [110 P.2d 419, 134 A.L.R. 1424], it is said at page 443: "The doctrine of mobilia sequuntur personam has been repeatedly and consistently maintained in determining the taxable situs of intangible property, and as recently as the 1938-1939 term the Supreme Court of the United States recognized it in *Curry v. McCanless*, 307 U.S. 357 [59 Sup.Ct. 900, 906, 83 L.Ed. 1339, 123 A.L.R. 162], . . ." (Quoting with approval, to that effect, from the last cited authority.)"

(underlining added)

12. It was further submitted on behalf of the petitioner that the common law rule of 'mobilia sequuntur personam' continues to operate and be applicable in the absence of any contrary statutory provisions especially providing for the situs of intangibles. It was further submitted that it is within the jurisdiction of the legislature to promulgate specific provision for determination of situs of the trademarks.

However, in India, since the legislature has not specifically provided for the situs of trademarks, therefore, the common law rule of 'mobilia sequuntur personam' would be applicable. Reliance was placed on the following decisions:-

- (i) Reliable Stores Corp. v. City of Detroit: 260 Mich. 2 (Pg 2 and 3);
- (ii) Humble Oil and Refining Co. v. Calvert: 414 S.W.2d 172 (Tex. 1967) (Pg 8);
- (iii) David M. Howell v. The Village of Cassopolis: 35 Mich. 471 (Pg 2);
- (iv) Bradley et al. v. Bauder: 36 Ohio St. 28 (Pg 5);
- (v) In re Truscon Steel Co.: 246 Mich. 174 (Pg 2); and
- (vi) Fordhman Law Review: Vol. 4 Issue 2 Article 9 (page 355)

13. It was also contended by Mr Ganesh that the registration of a trademark does not entail creation of a trademark nor does it have any impact on its location. Reliance was placed on the Supreme Court decision in Commissioner of Income Tax, Bombay v. Finlay Mills Limited: (1951) 20 ITR 475(SC). It was, therefore, contended that the mere fact that the trademarks were registered in India also did not mean that the situs of the trademarks had been shifted from Australia to India.

14. Mr N. P. Sahni appearing on behalf of the respondent/revenue supported the ruling of the AAR. He drew our attention to the said decision and, in particular, to paragraph 7 thereof, where the AAR noted that the crucial question that needs to be addressed is whether the capital assets transferred by and through the ISPA read with the deed of assignment were situate in India - an expression that is employed in Section 9(1)(i) of the Income Tax Act, 1961. If they were, then the income arising from the transfer of the capital asset by a non-resident would be deemed to his income liable to be taxed in India. Thus, the question to be answered is whether the trademarks and other related intellectual property rights, which were transferred by virtue of the ISPA and the deed of assignment, were located in India?

15. The AAR came to the conclusion that the trademarks registered in India, together with the other features of the Foster's brand, had undoubtedly generated

appreciable goodwill in the Indian market and such goodwill had been nurtured in India by the reason of coordinated efforts of the petitioner and Foster's India Private Limited till the date of the ISPA in 2006. The AAR was, therefore, of the view that it was reasonable to hold that the marketing intangibles comprising the Foster's trademarks and brand, which were in use for nearly a decade, had their abode in India by the crucial date of transfer of the said capital assets. The AAR was also of the view that even assuming that some of the trademarks were used elsewhere also, their existence in India could not be denied. The AAR used the expression that intellectual property belonging to the petitioner had its 'tangible presence' in India at the time of the transfer. The AAR also took the view that the registration of the petitioner's trademark was one of the relevant factors pointing to the roots that the trademarks had taken and the recognition they had gained in India. The AAR also took the view that the termination of the BLA was not antecedent to the deed of assignment. This observation was straightaway criticized by Mr Ganesh as being wrong inasmuch as the termination of the BLA was a condition precedent to the assignment as noted in Clause 5.3 of the ISPA. We would tend to agree with Mr Ganesh on this aspect of the matter. At this point, it may be stated that Mr Ganesh had raised an argument that if the grant of a licence shifted the situs of the trademarks from Australia to India, the cancellation of the very same licence would, in any event, entail shifting back of the situs of the trademark to Australia. His argument was that if this were to be accepted, then clearly at the time when the deed of assignment was made, the situs of the trademark was firmly located in Australia and, therefore, could not be the subject matter of taxation in India.

16. The AAR also relied on Geoffrey's case (supra), Kmart's case (supra) and Muller's case (supra). According to Mr Ganesh, Muller's case was related to goodwill and not trademarks and the Kmart's case (supra) could not have been relied upon because it had been overruled by the Supreme Court in a subsequent decision. Insofar as Jeofferey's case (supra) was concerned, Mr Ganesh pointed out that the same was in respect of income from intangibles, which is different from capital gains from the transfer of intangible assets.

17. Mr Sahni, reiterating the reasoning and finding of the AAR, submitted that the transfer of intellectual property rights which are the subject matter of the present petition were only in respect of those rights which were within the territory of India. It was submitted that though the petitioner was the owner of the Foster's brand trademarks on a global basis, no other rights except India specific intellectual property rights were the subject matter of the transaction in question. He also submitted that when the brand was initially introduced in India, it had no value. But, when the petitioner sold the trademark and the brand intellectual property rights with respect to the territory of India, substantial proceeds were received by them from SABMiller. This clearly represents the value it had gained from its operations in India. It was, therefore, contended that this was income which had accrued to the petitioner in respect of transfer of capital assets situate in India and was clearly liable to tax in India. It was also submitted by Mr Sahni that merely because the composite agreement of the transactions had taken place outside India, did not render any income arising from the said transactions to be not taxable in India.

18. Mr Sahni submitted that there was a fallacy in the arguments made on behalf of the petitioner placing reliance on the maxim of *Imobilia sequuntur personam*'. As an example, he submitted that suppose an Australian had registered trademarks and had spent and promoted the said trademarks only in India, could it still be said that since the said Australian was a resident of Australia, the situs of the trademark could also lie in Australia. A further question was posed that if the Australian migrated to another country, would the situs shift to that country? These questions were answered by Mr Sahni himself, obviously as - 'no'. According to Mr Sahni, these were business intangibles and the situs of the same would be where the business is carried out and where the intangibles would be protected under the local law. It was submitted by Mr Sahni that the trademarks and other intellectual property rights, to the extent they related to India, would have to be deemed to be located in India and it did not matter as to where the owner was located. Consequently, it was submitted that the principle of *'mobilia sequuntur personam'* would not apply in the present case and, therefore, no interference with the ruling of the AAR was called for.

DISCUSSION:

19. The issue of situs of an intangible asset, such as the intellectual property rights in trademarks, brands, logos etc. is indeed a tricky one. Insofar as the tangible assets are concerned, there is absolutely no difficulty. They exist in physical form and their existence is at specific locations. Thus, fixing their situs does not pose any problem. An intangible capital asset, by its very nature, does not have any physical form. Therefore, it does not exist in a physical form at any particular location. The legislature could have, through a deeming fiction, provided for the location of an intangible capital asset, such as intellectual property rights, but, it has not done so insofar as India is concerned. With regard to a share or interest in a company registered/incorporated outside India, Explanation 5 has been added to Section 9(1)(i) of the Income Tax Act, 1961 by virtue of the Finance Act, 2012 with retrospective effect from 01.04.1962. The said Explanation 5 reads as under: -

"Explanation 5. - For the removal of doubts, it is hereby clarified that an asset or a capital asset being any share or interest in a company or entity registered or incorporated outside India shall be deemed to be and shall always be deemed to have been situated in India, if the share or interest derives, directly or indirectly, its value substantially from the assets located in India."

20. Thus, the legislature, where it wanted to specifically provide for a particular situation, as in the case of shares, where the share derives, directly or indirectly, its value substantially from assets located in India, it did so. There is no such provision with regard to intangible assets, such as trademarks, brands, logos, i.e., intellectual property rights. Therefore, the well accepted principle of 'mobilia sequuntur personam' would have to be followed. The situs of the owner of an intangible asset would be the closest approximation of the situs of an intangible asset. This is an internationally accepted rule, unless it is altered by local legislation. Since there is no such alteration in the Indian context, we would agree with the submissions made on behalf of the petitioner that the situs of the trademarks and intellectual property rights, which were assigned pursuant to the ISPA, would not be in India. This is so because the owner thereof was not located in India at the time of the transaction.

CONCLUSION

21. As a consequence of the foregoing discussion, the view taken by the AAR on question (1), which was placed before the AAR, cannot be accepted and the answer to the said question would be that the income accruing to the petitioner from the transfer of its right, title or interest in and to the trademarks in Foster's brand intellectual property is not taxable in India under the Income Tax Act, 1961. That being the case, question (2), which was posed before the AAR, would not arise. The writ petition is allowed.

There shall be no order as to costs.

SooperKanoon - India's Premier Online Legal Search - sooperkanoon.com