
The Delhi High Court lays down the law relating to situs of intellectual property rights such as trademarks, brands and logos

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Background:

Certain trademarks and brands belonging to Cub Pty Ltd. (formerly known as Foster's Australia Ltd.), an Australian company, were *inter alia* transferred to SABMiller. A ruling¹ was sought from the Authority for Advance Rulings (AAR) on whether consideration arising to it from transfer of such intellectual property would be taxable in India.

Under section 9(1)(i) of the Income-tax Act, 1961, gains arising from the transfer of capital assets *situated* in India are taxable in India. While the situs of tangible assets is easily ascertainable, determining the situs of intangible poses several challenges.

The AAR ruled that intellectual property in the form of trademarks, brands and logos which were an integral part of the business of Foster's India were situated in India. Accordingly, it concluded that the resultant gains were taxable in India. This ruling was challenged before the Delhi High Court by way of a writ petition².

Decision of the Delhi High Court - Highlights

It was contended on behalf of the Petitioner before the High Court that:

¹ Foster's Australia Ltd., In Re. 2008 (302) ITR 289 (AAR)

² Cub Pty Ltd. (formerly known as Foster's Australia Ltd.) v. Union of India (WP(C) 6902/ 2008) decided on 25 July 2016

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- a) The owner of the trademarks in question was an Australian company. Consequently, the situs of the trademark would be that of its owner. In this regard, reliance was placed on the common law principle of *mobililia sequuntur personam* (i.e. that personal property held by a person is governed by the same laws that govern that person). It was contended that intangibles are subject to the immediate control of their owner, and since the intangibles themselves do not have any real situs, the domicile of the owner is the nearest approximation of their situs.
 - b) The registration of a trademark does not entail the creation of a trademark, nor does it have any impact on its location. The registration of a trademark only recognizes a right which pre-exists under common law.

These propositions were challenged by the Revenue, which contended that the brand had generated goodwill in the Indian market, and that they could therefore be said to have a tangible presence in India. The fact that the trademarks were registered in India was also relied upon to support the contention that their situs was in India. The Revenue also contended that the trademarks were in the nature of business intangibles and that their situs would be where the business is carried out and where they would be protected under local law, which in the instant case would be in India.

The Court rejected the arguments of the Revenue and held that:

- a) In the context of intangible assets which do not have a physical form, Parliament could have, by a deeming fiction, provided for the location of intangible capital assets. Since no such provision has been made, the principle of *mobililia sequuntur personam* would have to be followed.
- b) The situs of the owner of an intangible asset would be the closest approximation of the situs of an intangible asset. This internationally accepted norm would apply in the absence of any modification thereto under local legislation.
- c) Since the owner of the trademarks and other intangible assets involved was not located in India at the time of the transaction, the situs of such assets would not be in India.

Our comments:

This decision of the Delhi High Court will provide clarity on one of the most contentious issues in the Indian tax space today. With transactions involving transfers of intellectual property rights becoming increasingly common, this decision will help provide much needed clarity on the scope of India's taxing powers over such transactions.

The principles laid down in this decision, though rendered in the context of logos, brands and trademarks, could also have a bearing on the situs of other intangible rights. Specifically, with the definition of 'capital asset' undergoing a significant expansion by virtue of the Finance Act, 2012, this decision may help in the determination of situs in a large number of cases.

Having said this, the principles laid down in this case may not be capable of direct application in all cases involving transfers of intangible assets. Specifically, it is useful to note that in this case, the Court did not accept the Revenue's contention that the registration of trademarks in India resulted in their *situs* being in India. Although there is no detailed discussion on this issue in the Court's findings, presumably, the Court found merit in the Petitioner's submission that the registration of a trademark merely recognizes a pre-existing common law right. This specific argument may potentially not be available in the case of other intangible/intellectual property rights, which arise from statute rather than common law. Consequently, this decision of the Delhi High Court, although far-reaching, is unlikely to be the last word on the subject.

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