



Global Business Tax Alert
Sharp Insights

The Delhi High Court overruling the AAR's conclusion has held that 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. Hence, the offshore Brand –IP transfer by Fosters Australia to SAB Miller is not taxable under the domestic law (i.e. Income Tax Act, 1961).

Issue no: GBTA/37/2016

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Facts of the Case:

- The petitioner (CUB Pty. Limited, formerly known as Foster's Australia Limited) had a 100% subsidiary - Dismin India Private Limited (Dismin) which held 100% shares of FBG, Mauritius, which, in turn, held 100% shares of Foster's India Limited (incorporated on 26.09.1995).
- On 13.10.1997, a brand licence agreement (BLA) was executed between the petitioner and Foster's India Limited (Foster's India). By virtue of the BLA, Foster's India was licensed **to use in India four of the trademarks owned by the petitioner** (i.e., FORSTER's & F logo, F logo, FORSTER's, Kangaroo Device). In other words, the licensed trademarks continued to remain the absolute property of the petitioner. Foster's India was only permitted to use the said four licensed trademarks in India as a licensee.
- In consideration of this licence, the petitioner received royalty and was subjected to withholding tax in India.
- 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 & A2) (hereinafter referred to as the said SABMiller) and SABMiller Africa & Asia B.V. The said transaction was a composite agreement which provided for
 - i. Sale of shares of FBG Mauritius by Dismin to SABMiller;
 - ii. Sale of the following by the Petitioner to SABMiller /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.
- As a result of the ISPA, SABMiller became the owner of FBG Mauritius and thereby the owner of Foster's India. Furthermore, 16 trademarks, which were owned by the petitioner (which included the said four licensed trademarks), were sold/assigned to SABMiller and/or its nominee.
- 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 was required to be terminated.
- On 12.09.2006, a deed of termination of the BLA was executed in Australia and on the very same day, a deed of assignment was executed in Australia, whereby the petitioner assigned the said 16 trademarks to Skol Breweries Limited [nominee of SABMiller].
- Thereafter, 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 following question

Question before the AAR

"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?"

AAR Held as under:

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.

Aggrieved by the ruling of the AAR the petitioner filed

Arguments by the assessee

- The origin of the Forster's mark was in Australia and 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.
- 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. A distinction has to be drawn between the trademark and the right to use the trademark.
- 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. Hence, the initial licence granted under the BLA did not confer any proprietary rights in Foster's India. Since the trademarks were originally adopted by the petitioner in Australia, the intellectual property rights therein vested in the petitioner and the situs of those rights was Australia.
- 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 registration of trademarks in India did not imply the migration of the intellectual property rights to India. Registration of a trademark only recognizes a right which pre-exists in the trademark.
- 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. 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.
- It was further contented 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 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.

Arguments by the revenue

Deriving the support from the ruling of the AAR the revenue raised the following contentions:

- 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 till the date of the ISPA in 2006. In other words, 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 mere fact that some of the trademarks were used elsewhere also, their existence in India could not be denied. The intellectual property belonging to the petitioner had its 'tangible presence' in India at the time of the transfer.
- 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.
- 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 since no other rights except India specific intellectual property rights were the subject matter of the transaction in question.
- 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 liable to tax in India.
- 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.
- It was contended that the maxim of '*mobilia sequuntur personam*' would not apply in the present case, since these are 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. 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.

Decision of the High Court

- 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 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

The view taken by the AAR on the question placed before it, 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.

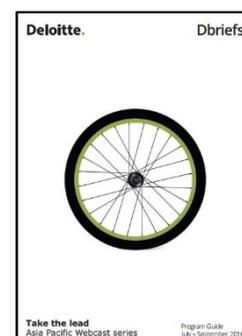
Upcoming Dbriefs – Register

Using the limited liability partnership (LLP) option for tax and regulatory efficiencies

28 July, 11:30 AM – 12:30 PM IST

The LLP entity was introduced into India in 2008. It has gained more prominence over the last two years, with the number of registered LLPs increasing substantially during that period. This unique form of business entity integrates the features of corporations and partnerships, offering cost efficiency and operational flexibility. The Indian government has promoted the use of LLPs by issuing FAQs and guidance, as well as simplifying the process for setting-up an LLP. Understand the technical and practical implications and opportunities from using an LLP for inbound investment into India.

[Register](#)



Contacts

Ahmedabad

Heritage, 3rd Floor,
Near Gujarat Vidyapith,
Off Ashram Road,
Ahmedabad – 380 014.
Tel: + 91 (079) 2758 2542
Fax: + 91 (079) 2758 2551

Coimbatore

Shanmugha Manram
41, Race Course,
Coimbatore
Tamil Nadu - 641018
Tel: + 91 (0422) 439 2801
Fax: +91 (0422) 222 3615

Kolkata

Bengal Intelligent Park Building
Alpha, 1st floor, Block EP and GP
Sector V, Salt Lake Electronics
Complex,
Kolkata - 700 091.
Tel : + 91 (033) 6612 1000
Fax : + 91 (033) 6612 1001

Bangalore

Deloitte Centre, Anchorage II,
100/2, Richmond Road,
Bangalore 560 025.
Tel: +91 (080) 6627 6000
Fax: +91 (080) 6627 6010

Delhi/Gurgaon

Building 10,
Tower B, 7th Floor,
DLF Cyber City,
Gurgaon 122 002
Tel : +91 (0124) 679 2000
Fax : + 91 (0124) 679 2012

Mumbai

Indiabulls Finance Centre,
Tower 3, 28th Floor,
Elphinstone Mill Compound,
Senapati Bapat Marg, Elphinstone
(W),
Mumbai – 400013
Tel: + 91 (022) 6185 4000
Fax: + 91 (022) 6185 4101

Chennai

No.52, Venkatanarayana Road,
7th Floor, ASV N Ramana Tower,
T-Nagar,
Chennai 600 017.
Tel: +91 (044) 6688 5000
Fax: +91 (044) 6688 5050

Hyderabad

1-8-384 and 385, 3rd Floor,
Gowra Grand S.P.Road,
Begumpet,
Secunderabad – 500 003.
Tel: +91 (040) 6603 2600
Fax: +91 (040) 6603 2714

Pune

106, B-Wing, 7th Floor,
ICC Trade Tower,
Senapati Bapat Road,
Pune – 411 016.
Tel: + 91 (020) 6624 4600
Fax: +91 (020) 6624 4605



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