News Analysis: An Examination of India's CUB (Foster's) Case

by Vaishali Mane

In a landmark decision in the case of *CUB Pty Ltd. v. Union of India*, the Delhi High Court has held that income accruing from the transfer of intangible assets licensed for use in India was not taxable in India because the situs of ownership was elsewhere.

The petitioner (formerly AB Fosters Australia Ltd.) had earlier sought a ruling from India's Authority for Advance Rulings (AAR), asking if income arising from the transfer, to a U.K. company, of the right and title to and interest in Foster's trademarks licensed for use in India was taxable in India under the Income Tax Act 1961 and the Australia-India income tax treaty. The AAR held that income accruing in India is taxable in India. The petitioner then filed a writ petition before the High Court of Delhi.

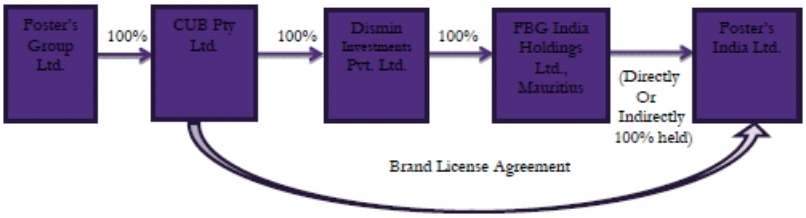
This decision is based on legal ownership, and the High Court has concluded the proceedings based on the situs of the legal owner. Nonetheless, the Revenue Department and the AAR brought to the forefront the view that because the trademarks are related to business operations in India, the consideration for those trademarks must be taxed in India. This indirectly points to the concept of economic ownership of marketing intangibles, which has been litigated at length in the Indian transfer pricing arena.

The concept of economic ownership has been debated in cases such as *LG Electronics* (Special Bench of the Delhi Income Tax Appellate Tribunal), *Sony Ericsson* (Delhi High Court), *Maruti Suzuki* (Delhi Income Tax Appellate Tribunal), etc., and this has evolved over time, not only in India, but internationally. Action 8 of the OECD's base erosion and profit-shifting project also deals with marketing intangibles and economic ownership.

The Indirect Route

The petitioner owned various brands, including Foster's, which comprises trademarks, logos, devices, brand guidelines, advertising material, technology, and know-how, including recipes and brewing specifications. It had licensed the Foster's brand to its Indian subsidiary, Foster's India, through a business license agreement that enabled Foster's India to market, brew, process, and package Foster's beer in India.

The holding of the petitioner's indirect subsidiary, Foster's India Ltd. (Foster's India), was through an indirect route, which is depicted below:



Foster's India, which was directly held by FBG India Holdings Ltd. Mauritius, was indirectly transferred to SAB Miller U.K., by virtue of a share agreement in which the Foster's trademarks and brand intellectual property (intangible assets) were also transferred to SAB Miller. An exclusive, perpetual license relating to Foster's brewing IP was also transferred to the U.K. company. The sales and purchase agreement between the petitioner and SAB Miller was executed in Melbourne, Australia.

The petitioner's contentions and the AAR's response are as follows:

Sr No	Petitioner's Contention	AAR Ruling
1	Can the Foster's brand and brewing IP rights be found to be capital assets situated in India and can the consideration received in connection therewith be treated as income that is accruing or arising in India, even when both the owner and the purchaser are foreign companies?	The marketing intangibles comprising Foster's trademark and brand were used for nearly a decade and had their abode in India on the date of transfer of the assets. The clauses in the agreement provided that Foster's India had to promote and develop the sales and reputation of Foster's beer and to generate considerable goodwill in the Indian market.
2	The intangible assets have no geographical location and have no situs apart from the domicile of the owner; therefore, the consideration relating to the transfer cannot be subjected to tax in India. Further, the place of contract is also outside India.	No legal principle was available to support such a broad proposition, according to the AAR. The petitioner's contention that the place of execution determines the situs was also rejected. The AAR further held that the trademarks and brand IP can be said to be located in India, where the business of Foster's India was being carried on in conjunction with the petitioner. The situs cannot be confined only to the place of contract, it said.
3	Petitioner contended that the business license agreement was terminated prior to the sales and purchase agreement, so the rights and interest in the intangible asset were restored and vested with the petitioner. Thus, the situs of the assets on the date of sale cannot be said to be within India.	The AAR rejected the contention of the petitioner as there was no factual and legal basis for the same. It held that trademarks and brand IP are predominant components of the business in India and cannot be said to have relinquished their value in India upon completion of assignment.
4	Registration of trademark has no bearing on the aspects of situs or location, as the same does not exist because of registration but rather, because of usage.	The AAR agreed that the registration of the asset does not create an asset but confers statutory remedies for its effective protection. However, it stated that the registration of trademarks in India is one of the relevant factors that confirms that the trademarks have gained recognition in India and are an inextricable component of the business in India.
5	The brewing IP is a capital asset situated outside India on the effective date of transfer and hence cannot be subjected to tax in India.	The AAR held that the core of the brewing IP is the brewing manual, which is a result of the research and development efforts of the petitioner and which reverted back to the petitioner in Australia by the effective date of the transfer. Further, it was held that this was similar to the case of Pfizer Corp. Therefore, the transfer of brewing IP cannot be subject to tax in India.

The petitioner next filed a writ petition before the Delhi High Court.

Contention Before the High Court

The petitioner argued the intangible assets have no physical presence and therefore should be governed by the internationally accepted maxim of *mobilia sequuntur personam*. This is a common law Latin doctrine that means that the situs of the owner of an intangible asset is the closest approximation of the situs of the intangible asset. The petitioner also relied on the decision of the U.S. Supreme Court in *Curry v. McCanless*, 307 U.S. 357 (59 Sup. Ct. 900, 906, 83 L.Ed. 1339, 123 A.L.R. 162), in which the above-mentioned maxim was repeatedly and consistently maintained.

The petitioner also contended that the license granted under the brand licensing agreement conferred only a limited right for the use of the trademarks and did not result in the transfer of any proprietary interest therein. Thus, there was no transfer of the proprietary right creating a shift of the situs of the trademarks to India, it said. The petitioner also noted that a distinction must be drawn between the trademark and the right to use the trademark. Further, the petitioner submitted that the registration of the trademark does not entail the creation of the trademark, nor does it have an impact on its location.

The Revenue Department, in contrast, argued that the intangible assets were used, registered, and nurtured in India and therefore, had taken root in India and were subject to tax in India. Because the intangible assets were located in India, the income arising from the transfer of the assets by a nonresident would be deemed taxable in India, it said.

High Court's Decision

The High Court acknowledged that an intangible asset does not have a physical form and that it is difficult to determine its location.

With regard to a share or interest in a company registered or incorporated outside India, the court pointed out that a very restrictive Explanation 5 has been added to ITA section 9(1). It says that a capital asset, being any share or interest in a company or entity registered or incorporated outside India, will be deemed, and will always be deemed, to have been situated in India if the share or interest substantially derives, directly or indirectly, its value from assets located in India.

The court noted that the legislature has specifically provided for some particular situations, such as in the case of equity shares, but it said there is no such provision for intangible assets. Hence, the intent of the legislature is very clear, the court said. The legislature, through a deeming fiction, could have provided for the location of an intangible capital asset, such as intellectual property rights, but it has not done so.

In the absence of local legislation, the principle of *mobilia sequuntur personam* must be followed, the court said. This is an internationally accepted rule, unless it is altered by local legislation. Hence, the income accruing to the petitioner from the transfer of its right, title, or interest in and to the trademarks and brand IP is not taxable in India under the ITA, the court held.

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