



Transfer of trade mark cannot be considered as transfer of goodwill as they are two separate assets

The Bangalore Income Tax Appellate Tribunal (the Tribunal) in recent case¹ held that transfer of trade mark is not transfer of goodwill as the goodwill of a business cannot be sold without selling business itself. Thus, the trade mark and goodwill are two different assets. Further, since the capital gains on sale of trade mark came into effect from 1 April 2002 there was no capital gain on sale of trade mark for the year under consideration.

Facts of the case

- The taxpayer company was engaged in the manufacture and marketing of electrical appliances under the name "Sharp".
- The trade mark "Sharp" was registered on 7 December 1961 and about 21 items were being manufactured by the taxpayer under the said name.
- However, conflict arises between the M/s. Sharp Corporation of Japan, (SC) internationally acclaimed leading manufacturer of electric and electronic items and the taxpayer over using of same brand name "Sharp".
- Consequently, a tripartite agreement was entered on 20 June 1995, between the taxpayer, the SC and one of the directors of the taxpayer company.

Some of the important clauses of the settlement agreement are as follows:

¹ Associated Electronic & Electrical Industries Pvt. Ltd. v. DCIT (2009-TIOL-263-ITAT-BANG)

- The taxpayer assigned all its rights in the trade mark 'Sharp' in favour of Sharp Corporation after acknowledging the ownership of the trade mark "Sharp" with Sharp Corporation.
- In return, The SC will pay INR 35 million to the taxpayer for rights transferred by it.
- SC agreed to grant a non-assignable, non-transferable, royalty free and sole license to the taxpayer to use the trade mark 'sharp' in respect of six items out of the 21 items manufactured by the taxpayer.
- The taxpayer declared in writing accepting that it would discontinue using the trademark other than for six items mentioned above and the agreement also obliges the taxpayer not to use the word "Sharp" as part of its name or trading style.
- The taxpayer agreed to not to use the trademarks as part of its business or corporate name and will not commit any infringement of the trademark except under a valid license from SC.
- The Assessing Officer (AO) held that the amount received from the SC was for the transfer of goodwill and therefore, was taxable under the head Capital Gains.
- The Commissioner of Income Tax [CIT(A)] rejected the taxpayer's plea and held that the asset transferred was goodwill and not trade mark and accordingly, the consideration received by the taxpayer was taxable under the head Capital Gains.

Issue before the Tribunal

- Whether the asset transferred to SC by the taxpayer was trade mark or goodwill?

Taxpayer's Contentions

- The asset transferred to the SC was trade mark and not goodwill.
- The assessment due to capital gains is contrary to law and facts.
- Since the trade mark did not have any cost of acquisition, by applying the judgment of Supreme Court² there was no taxability.

Tax Department's Contentions

- Amount received by the taxpayer was in the nature of goodwill and the cost of acquisition of the same was 'nil'.

² B.C.Srinivasa Setty (1981) 128 ITR 294 (SC)

Tribunal's Ruling

The Tribunal after considering the definition of goodwill and trade mark held that:

- The goodwill and trade mark are two different and separate assets and after looking into the facts the Tribunal found that the asset transferred in the given case was not goodwill but it was trade mark as the taxpayer was still having the right to use the trade mark 'Sharp' in respect of six items.
- Further, the Tribunal also held that goodwill of a business can be sold only along with the business to which it was attached and not independent of it because it is that element of value which inheres in the fixed and favourable consideration of customers, arising from an established and well-known and well connected business.
- Since the asset transferred was not goodwill but trade mark, taxability of capital gain does not arise as the capital gains on sale of trade mark was introduced by the Finance Act with effect from 1 April 2002 and the year under consideration was assessment year 1996-97 and prior years.

Our Comments

This is a very interesting ruling where the difference between the goodwill and the trade mark has been brought out clearly. The Tribunal has observed that the trademark can be transferred separately, either with or without the goodwill of the business whereas goodwill cannot be sold without the business itself and therefore transfer of trademark cannot be regarded as transfer of goodwill.

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**For further information about KPMG in India and our services,
please contact:**

Bangalore

Maruthi Infotech Centre, 11-12/1
Inner Ring Road
Koramangala, Bangalore 560071
Phone: + 91 80 3980 6000 Fax: +91 80 3980 6999

Chennai

KPMG House
No.10, Mahatma Gandhi Road,
Nungambakkam High Road,
Chennai 600034
Phone: +91 44 39145000 Fax: +91 44 39145999

Delhi

DLF Cyber City, Building no. 10, Block B, Phase II
Gurgaon, Haryana 122 002
Phone: +91 124 307 4000 Fax: +91 124 254 9195

Hyderabad

KPMG, 8-2-618/2
Reliance Humsafar, 4th Floor
Road No.11, Banjara Hills
Hyderabad - 500 034
Phone: +91 40 66305000/23350060 Fax: + 91 40 6630 5299

Kolkata

KPMG Infinity Benchmark
Plot No. G-1, 10th floor Block - EP & GP,
Sector – V, Salt Lake City
Kolkata - 700091
Phone: +91 33 4403 4000 Fax: +91 33 4403 4199

Mumbai

KPMG House, Kamala Mills Compound, 448 Senapati Bapat Marg
Lower Parel, Mumbai 400 013
Phone: +91 22 39896000 Fax: + 91 22 39836000

Pune

703, 7th Floor Godrej Castlemaine, Next to Ruby Hall Clinic,
Bund Garden Road, Pune 411001
Phone: +91 20 30585764/65 Fax: +91 20 3058 5775