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à la une

IP / IT / Media Department

Enjoy your reading!

The tax rules applying to trademarks: from creation to assignment

A trademark can be an asset of the business, or be attached to a specific clientele, or just be an intangible movable asset when it is not exploited. Each is taxed differently.
The brand strategy to be adopted can also be problematic, despite the various (albeit unofficial) methods which exist. The burden and the fiscal risks of operations involving a trademark depend on its value. The assistance of an expert is therefore strongly recommended!

Creation or purchase of a trademark – An intangible element of the fixed assets

Creation

• According to Article 38 quinquies of Appendix III of the French Tax Code (CGI), the value at which a trademark is recorded in the balance sheet corresponds to the sum of the following costs:

- production cost (raw materials, supplies consumed),
- direct or indirect production expenses,
- financial costs which the taxpayer can choose to record as an expense.

• Costs of priority and filing searches (INPI, OHIM, WIPO): these are deductible expenses (BOI, 4 A-13-05, No. 13)
• Renewal costs: for the Tax Administration, these are deductible expenses (BOI, 4 A-13-05, No. 13).

Acquisition

The cost of acquiring a trademark with the aim of exploiting: it is not a deductible expense since the trademark is a fixed asset (DB 4 C-2111 No. 12, 30.10.97).

• Value at which it is recorded in the assets of the balance sheet: acquisition cost
• Renewal costs: a priori, deductible expenses.

Amortization

A trademark is an intangible element of the fixed assets. However, unlike the other fixed asserts, as the ten-year protection of a trademark can be renewed, its protection is considered to be unlimited in time, so that no amortisation can be recorded.

Registration duties, VAT: cf. assignment.

Licensing of a trademark – Expense or fixed asset?

To exploit a trademark it does not own, the licensee company in principle pays its owner a licence fee.

In the hands of the licensee

• Principle: The various management costs are deductible from the company's net income, subject to complying with the following conditions: the amount of the licence fees must be in proportion to the turnover realised from the exploitation of the trademark or from the business sector, and must represent the consideration for a real service.
• Exception: immobilisation of the licence fees, which according to the constant case law of the Council of State, must remain the exception.
According to the Council of State, the licence fees paid must be immobilised when the licence agreement has the three following characteristics, which are all and in particular for the last subject to interpretation: exclusivity; sufficient sustainability; transferability of the licensed rights (particularly, EC, 21.08.96, No. 154488). The wording of the licence agreement is therefore critical…

VAT

The licensing of an exploited trademark is subject to VAT, whereas no duties have to be paid for the licensing over a limited period of a non-exploited trademark, then considered to be a simple intangible movable asset.

In the hands of the licensor

• Legal entity paying corporate tax: the licence fees are taxed at the standard legal rate (33.33%).
• Individual:
- (Manufacturer's) trademark: the income the inventor or his heirs receive from the licensing falls within the scope of Professional Earnings (Art. 92-2 of the CGI), and Industrial and Commercial Income in the other cases.
- Brand name: the income from the licensing in any case falls within the scope of Industrial and Commercial Income.

Trademark assignment

In the hands of the assignor

• Legal entity paying corporate tax: The assignment of an exploited trademark, which is an element of the fixed assets, results in a profit taxable at the ordinary legal rate (33.33%).
• Individual:
- The assignment of a (manufacturer's) trademark by its inventor or his heirs falls within the scope of Professional Earnings (Art. 92-2 of the CGI), and Industrial and Commercial Income in the other cases.
- The assignment of a brand name in any case falls within the scope of Industrial and Commercial Income.
- The assignment of a non-exploited trademark falls within the scope of private capital gains taxed according to the progressive scale.
The distinction between (manufacturer's) trademarks and brand names is problematic, which makes the method of taxing capital gains on assignments of exploited trademarks somewhat ambiguous.

Registration duties

- Assignment of an exploited trademark with the business or clientele attached to it: payment of the duty under Article 719 of the CGI (5% above EUR 23,000).
- Isolated assignment of an exploited trademark (very rare in practice): fixed duty when voluntarily presented for registration, i.e. EUR 125 (Article 680 of the CGI).

NEWS FLASH

- **Acknowledgement that local government authorities have a genuine right to their name**

Does a local government authority own rights to its own name like an individual or a legal entity?

The Paris Court of Appeal ruled in this way in its 12 December 2007 judgment, considering that "*just like an individual or a legal entity, a local government authority has the right to protect its name against any unjustified commercial exploitation*".

The affair started back in August 2003 when the manager of the audiovisual production company TéléParis filed the trademark "Paris l'Eté" ("Paris in the Summer") in anticipation of broadcasting a summer programme.

On the basis of Article L. 711-4 h) of the Intellectual Property Code, which prohibits the filing of a trademark if it infringes prior rights and in particular the name, image or reputation of a local government authority, the City of Paris sued the company before the Paris First Instance Court, which dismissed its claims.

However, on 12 December 2007, the Paris Court of Appeal overturned this judgment and upheld the claims of the City of Paris, judging that the filing of the trademark "Paris l'Eté" could give its holder a right which was exclusive and thereby infringe the prior rights held by the City of Paris over its name, as the general public could be misled by the "*appearance of an official guarantee of the product or service*".

Contrasting with the previous case law based only on the risk of confusion, to annul a trademark infringing the rights of a local government authority, the Paris Court of Appeal adopted different grounds when it held that the City of Paris often uses its name in association with the expression "l'Eté" to refer to a certain number of cultural and sporting events.

The judges explained that the filing of the trademark "Paris l'Eté" is *an unjustified exploitation of the name Paris and that there was a risk it would be prejudicial to the City, either because it prevented it from gaining a commercial profit from the use of its name, or because there was a risk that its identity, prestige or reputation would be harmed*.

It should be noted that the grounds seem to be inspired at least by the provisions of Article L 713-5 of the Intellectual Property Code, which stipulates that any person making use of a famous trademark to designate products or services which are not the same incurs his liability, provided that this use constitutes an unjustified exploitation of the trademark in question.

- **Acknowledgement that local government authorities have a genuine right to their name**

According to Article 6.II of the law No. 2004-575 of 21 June 2004, known as the LCEN, Internet access and hosting providers must have and keep "*data which could identify whoever has contributed to the creation of the content or one of the contents of the services they provide*".

As the decree of 24 March 2006, on the retention of data from electronic communications, sets aside the cases where the retention is linked to the application of the LCEN, this obligation, which can be sanctioned under criminal law if not respected, must be the subject of an implementing decree – currently at the draft stage.

Although no details have been given about what kind of data are concerned and how long and by what method they must be kept, case law sometimes applies the obligation under Article 6.II of the LCEN to providers which host Internet sites.

As an illustration, in a cased judged on 12 December 2007 by the Paris Court of Appeal, Benetton accused Google, which hosted a blog considered to be manifestly unlawful, of not having communicated the full name and address of the blog's holder.

Google on its side considered that as there was no legal or regulatory definition of the data concerned by Article 6.II, it had fulfilled its obligation by providing Benetton with the Internet user's IP address.

According to the judges, Google's communication of the Internet user's IP address, even though personal data, could only identify a computer and was therefore not sufficient to identify the blogger.

Article 6.III.2 of the LCEN was the starting point of the judges' reasoning: an individual who publishes an Internet site on a non-professional basis and who wishes to remain anonymous towards the public must nevertheless give the hosting provider his personal identification data (full name, domicile, telephone number).

Consequently, the decision is clear: Google, which is presumed to have this information, did not comply with its obligations under Article 6.II of the LCEN by not communicating it to Benetton.

On the one hand, the question legitimately arises of whether the IP address might not be more reliable as identification data than the information voluntarily surrendered by the Internet users and, on the other hand, in view of this decision, it would seem that the hosting provider's liability can be incurred pursuant to Article 6.III because of erroneous or imaginative identification data provided by the Internet users.

P.D.G.B Société d'Avocats
174, avenue Victor Hugo
75116 Paris
Tel. : 00 (01) 44.05.21.21
Fax : 00 (01) 44 05 21 05
www.pdgb.com

Julie JACOB - Benjamin JACOB – Thierry JESTIN
Clémence de LISLEROY - Sandy HERVE
Sandy BRUMBERG