

Maximizing Brand Value: Top Tax Strategies for Brand Owners

Barton Bassett, MORGAN LEWIS

Jeremy Lack, ALTENBURGER LTD legal + tax

Melody L. Schottle, EXXON MOBIL CORPORATION

Moderator: Karen Butcher, MORGAN LEWIS



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Agenda

- Importance of trademarks in IP strategy
- General Principles: Trademarks and Tax
- Specific ownership/licensing scenarios
 - License / sub-license
 - Trademark holding company
 - Cost-sharing
- Review of trademark and tax implications



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The 3 stages of an IP strategy

1 – Creation & recognition (IDENTIFY)

(Through registration and automatically)

- a) Cross-disciplinary team reviews
- b) IP audits

2 – Value Generation (MANAGE)

- a) Preservation
- b) Leveraging value
- c) Revenue generation (licensing and sales)
- d) Financial considerations (budgets, taxes & accounting)

3 – Enforcement (PROTECT)

- Need to budget and plan globally over the long term
- Need to use the right experts at each stage for all 3 steps
- Need to be properly organized internally & internationally

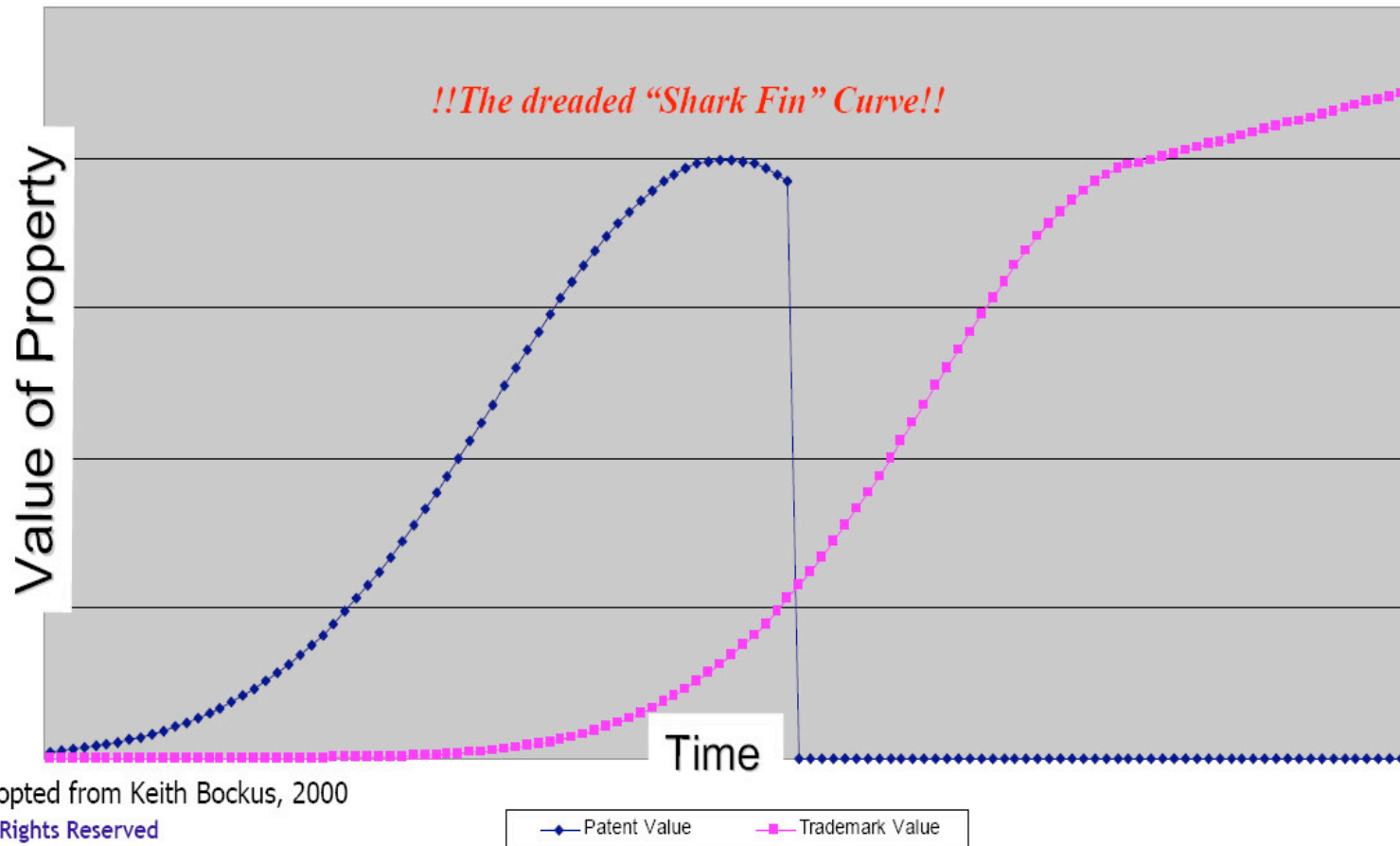


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The 7 Building Blocks

Type	Purpose	Method of Creation	Potential Lifespan
Copyrights	Rights relating to original/creative works, including literary, dramatic, musical, artistic works (incl. software).	Automatic ©	Life of author + 50-70 years
Databases	Additional <i>sui generis</i> rights for substantial investments in obtaining, verifying or presenting data.	Automatic	15 years from creation
Trade secrets	Rights given to owners of confidential information (technical or commercial) that is valuable, specific, and ascertainable, and which is treated as such.	Automatic, but must be continuously maintained as such	Indefinite
Domain Names	Right to a unique alpha-numeric address on the Internet, obtained from ICANN.	Registration only	Indefinite, if renewed
Designs”	Rights to original appearance of the whole or a part of an industrial or handcrafted product resulting from the features of the lines, contours, colors, shape, texture, and/or materials used.	Mainly registration, but can be automatic (e.g., unregistered EU)	14 (USA) or 25 (EU) years if renewed (unreg'd EU = 3 years)
Patents	Rights to exclude others from making, using or selling inventions that are useful, novel and non-obvious in exchange for publishing this information. The inventions must be sufficiently described to be practicable by a person of ordinary skill in the art. The claims define the scope of the right.	Registration only	20 years from date of application (if they issue)
Trademarks	Rights to exclusive use of words, symbols, objects, colors, sounds, smells etc., by which consumers can identify the source of products or services.	Use (™) or registration (®) by classes of goods	Indefinite, if registrations are renewed, and brand is used

An Emphasis on Brands



Source: David Robertson, IMD



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Cross-Disciplinary Thinking (Tax + IP)

What we can do by re-analysing corporate assets in this manner?

- Identification of intangibles & auditing of IP => new revenue streams
- Isolation & structuring of IP assets => clear ownership & administration
- Creation of tax-optimised international structures (e.g., IP holding and licensing companies)
- Ongoing Corporate, Tax + IP legal advice and services (licensing, litigation, corporate transactions etc) opens new opportunities.



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Trademark Principles

- Consider:
 - Ownership of brands
 - Single owner? Multiple affiliate owners?
 - Management of brand
 - Centralized v. decentralized decision-making
- Use by third parties (non-owners)
 - Related companies = implied license?
 - Does company structure matter, e.g., vertical, horizontal?
 - Unrelated company use = license required



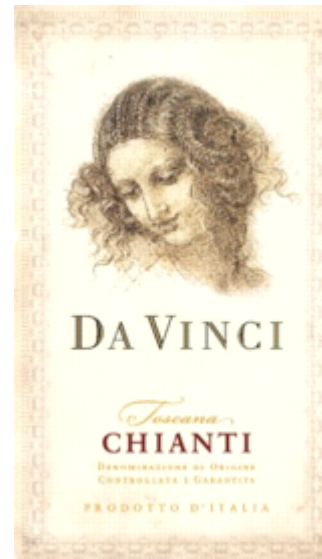
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Trademark Principles (cont'd)

U.S. owner of DA VINCI trademark for wine licensed rights to Renaissance Vineyards:



Sued new U.S. competitor:



Court: First brand owner has abandoned rights because it did not maintain **quality control** over licensee (“naked license”)

Barcamerica International USA Trust v. Tyfield Importers Inc., 289 F3d 589 (9th Cir. 2002)



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Trademark Principles (cont'd)

- Clearest structure from trademark perspective:
 - Single brand owner globally
 - Brand owner makes key decisions; may solicit input
 - Written agreements with any other companies using trademarks, whether related or unrelated
 - Brand owner actually exercises control over quality of products sold under the brand
- Brand owner in optimal position from trademark perspective



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Tax Principles

- Transfers of IP rights are subject to the arm's length rule – requiring market compensation
- Many jurisdictions (such as the U.S.) prohibit/limit taxpayers from transferring IP in tax-free transactions.
- Royalty payments may be subject to withholding taxes (n.b., not in NL, LU or CH), which may qualify for preferred treaty rates
- The U.S. taxes a U.S. corporation on its worldwide income. Some earnings of non-U.S. subsidiaries are not subject to immediate U.S. taxation until such earnings are repatriated (commonly referred to as “tax deferral”)



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Tax Principles (cont'd)

Selecting prospective international locations

- Significantly lower effective tax rates (ETRs) than country of initial parent/IP owner
- Signatory to key international IP treaties and a strong domestic IP regime
- A good tax-treaty network including NAFTA, EU and Asia
- A low withholding tax (WHT) on dividends to parent company, and no WHT on royalties or on interest.
- Clear rules on foreign source income and capital gains on related assets

Need to understand local structures and compliance requirements for new companies

- Passive stock holding company v. IP holding company
- Passive v. active licensee
- Possibly regulatory or reporting obligations
- Range of IP assets included
- Any local safe harbor provisions (e.g., IP debt-to-equity ratio, maximum depreciation rates, min. no. of employees, etc)

Ability to obtain tax rulings (preferably in advance)

- Corporate income tax advantages
- Cost structure and fees payable to related or unrelated foreign parties (advance pricing agreements)
- Valuation of the IP upon entry and upon exit

Possibility of combinations with other good tax regimes

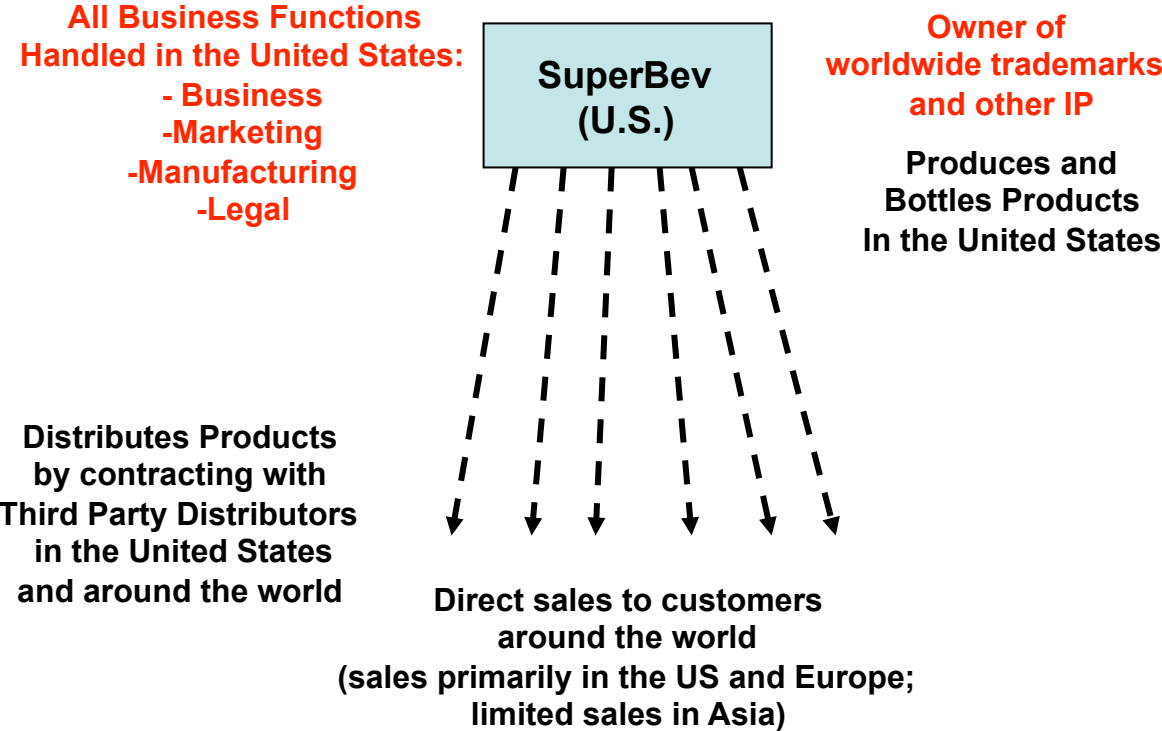
- E.g., combining the IP company with another tax treaty jurisdiction to maximize corporate tax benefits
- E.g., possible links with tax havens (0% tax) (e.g., branch offices)
- E.g., ability to benefit from split ownership regimes (equitable v. legal) and recognition of trusts/fiduciary ownership.



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Original Structure

Typical US Tax Rate
= 35-45%



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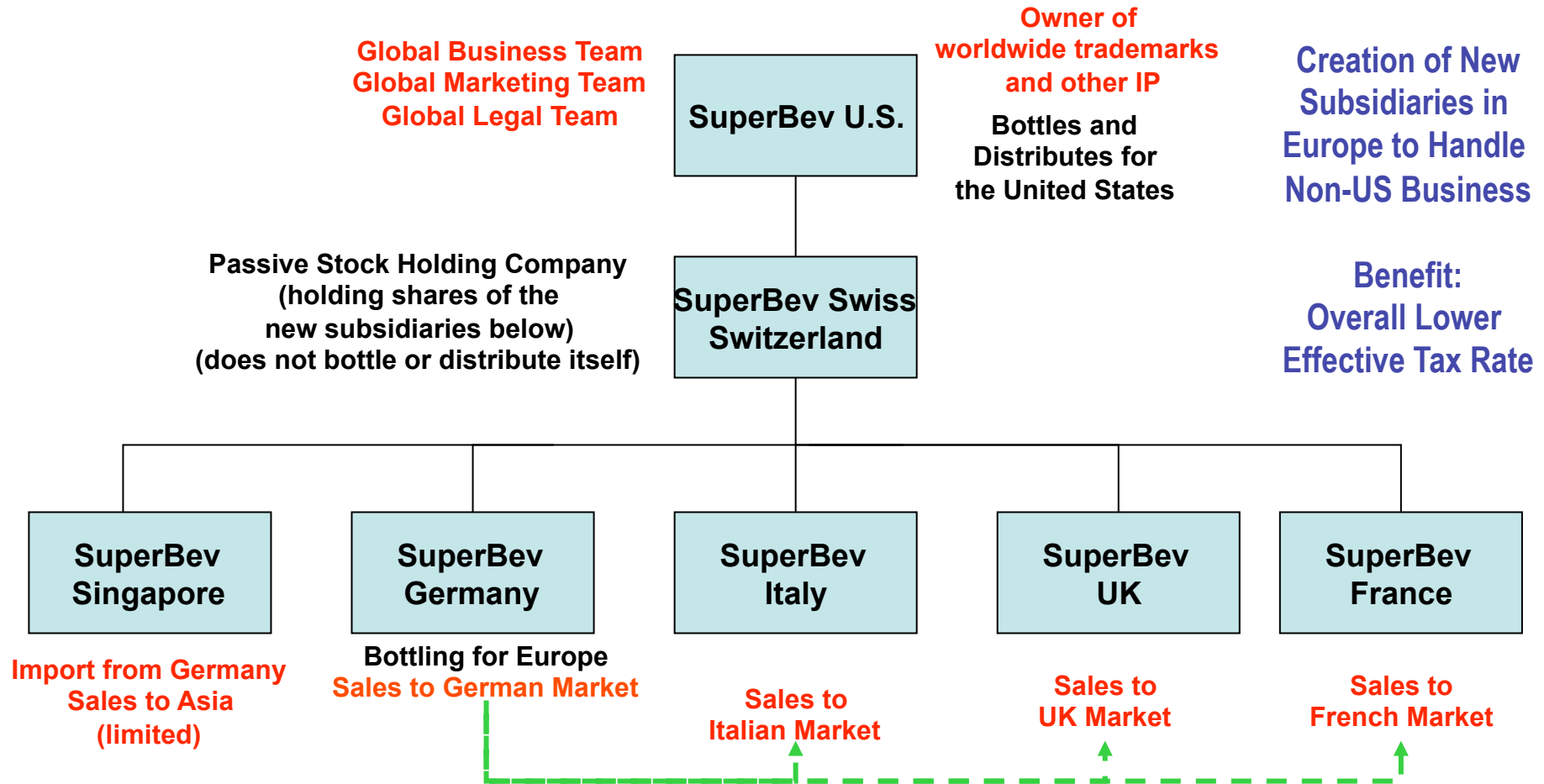
Questions for Each Structure

- Any risks to the trademarks in moving to the new structure?
- For each risk identified: can it be mitigated and, if so, how?
 - Licenses or other agreements?
 - If licenses, to whom and what scope?
 - Ways of working?
 - Other?



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Structure 1: Intra-Group License



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Structure 1: Questions

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Structure 1: Discussion

- Which affiliates require a license?
 - Manufacturing, repackaging?
 - Sales, distribution?
 - Advertising activities?
- Compare: licensing requirements by country
- Exclusive v. non-exclusive license
- Must license be in writing? Key clauses?
- Must license be registered?



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Structure 1: Discussion

- Product differentiation
- Local protection measures
- Enforcement issues
- Standard ADR clauses
- Anti-competition issues
- Other Issues



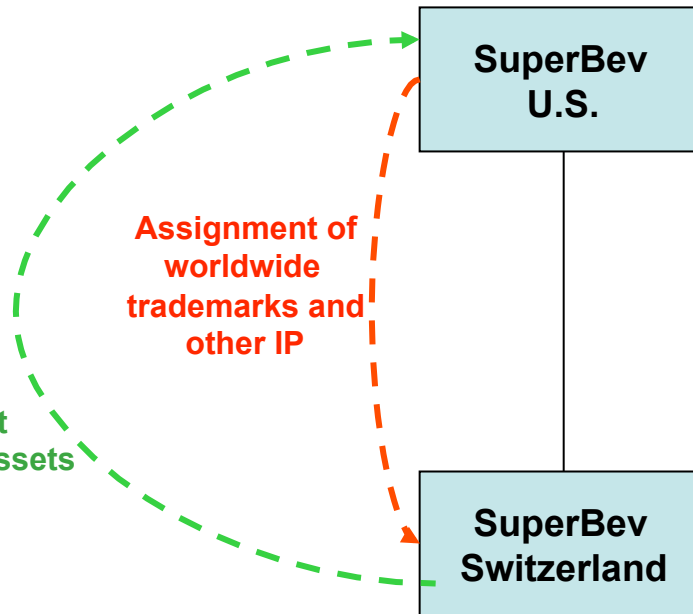
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Structure 2: Holding Company

Transfer of IP Assets to Non-US Holding Company

Benefit: Overall Lower Effective Tax Rate

One-Time Payment for transfer of IP assets



Assignment of worldwide trademarks and other IP

Global Business Team
Global Marketing Team
Global Legal Team

Handles Manufacturing and Distribution in U.S.

IP Holding Company
New Owner of trademarks and other IP worldwide

Manufacturing and Distribution Handled by Affiliates / Third Parties Throughout the World



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Structure 2: Discussion

- Transfer of portfolio to non-US owner
 - Logical from view of overall business/assets?
 - Will this set up conflict with business objectives?
 - What activities should IP holding company perform as global trademark owner?
 - Is non-US holding company paying costs to US parent for services performed in the US?



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Structure 2: Discussion

- If global portfolio is transferred (including US rights), how to license back to the US parent company?
 - When would license be required?
 - Does it have to be in writing?
 - How would quality control be exercised?
 - Can quality control obligations be delegated?
 - Are there enforcement implications?
 - Pros and cons of excluding US from transfer
 - Pros and cons of splitting ownership
 - Legal versus equitable? Geographical?
- Licenses to affiliates in other countries

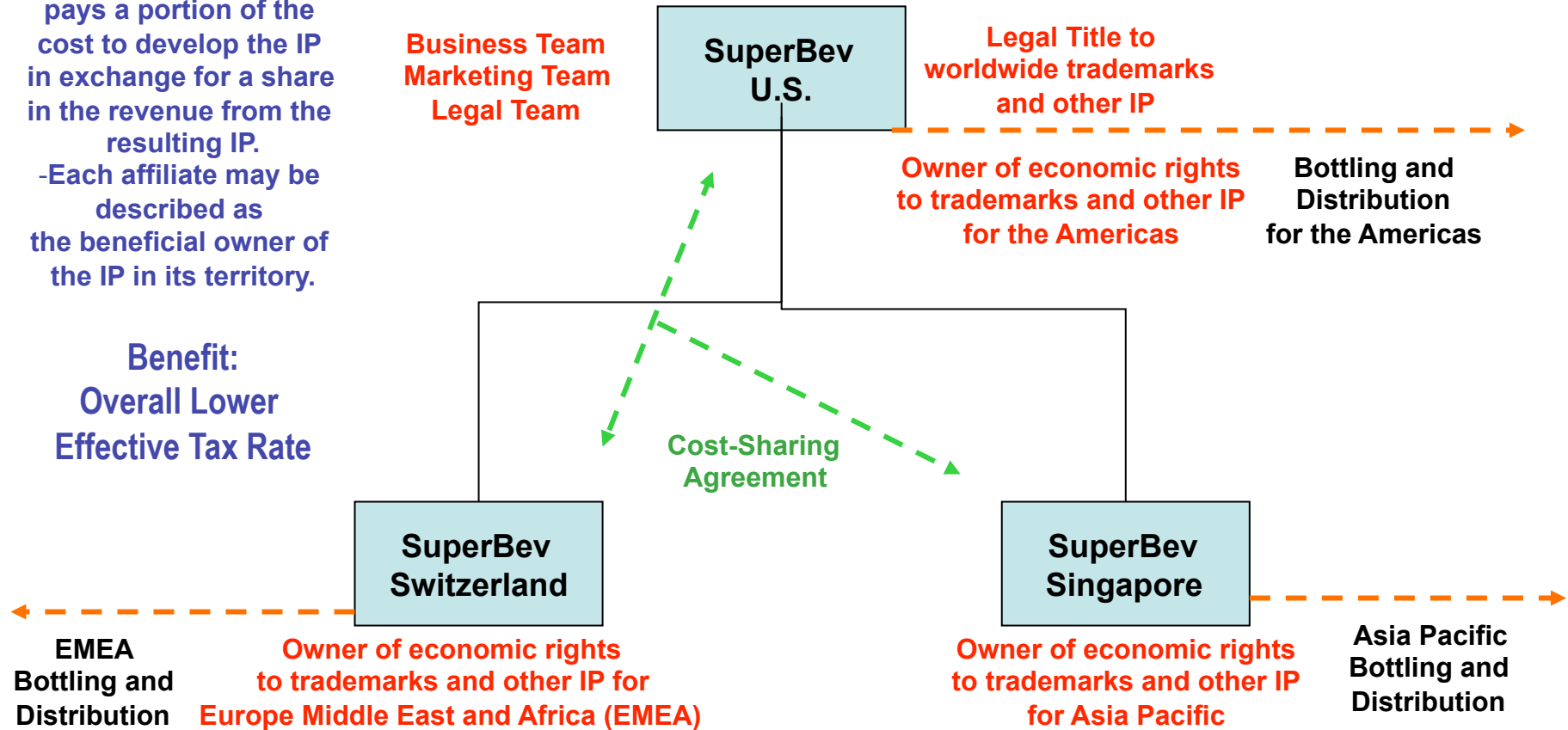


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Structure 3: Cost-Sharing

Each of the 3 affiliates pays a portion of the cost to develop the IP in exchange for a share in the revenue from the resulting IP.
 -Each affiliate may be described as the beneficial owner of the IP in its territory.

Benefit:
 Overall Lower Effective Tax Rate



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Structure 3: Questions

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Structure 3: Discussion

- Could separation of “legal” and “beneficial” trademark ownership be construed as abandonment by trademark owner?
- Valuation
- Administrative costs/time
- Issues raised by exclusive territories
- Impact on enforcement
- Business reorganizations may be hampered by CSA “game-playing”



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Review of Trademark/Tax Interplay

- Review of key points
- Questions?



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