

## **Receipt on settlement of dispute on use of trademark is tax free when trademark itself is cancelled**

**Summary – The Hyderabad ITAT in a recent case of Orient Blackswan (P.) Ltd., (the Assessee) held that Compensation received by assessee an Indian publication house upon settlement of a trademark dispute in which trademark itself had been cancelled would be capital receipt not taxable under section 28(va)(b)**

### **Facts**

- The assessee, an Indian based publication house, was holding trademark in the name of 'Orient Longman' which was registered since 1980. Owing to disputes regarding the use of trademark, assessee entered into a settlement agreement with Longman Communications Ltd., London (ICI), which is presently known as Pearson Group, UK for not using the trademark 'Longman' while carrying on the business in the field of printing and publishing. The assessee was previously named and styled as Orient Longman Pvt. Ltd. The assessee was required to change the name of the entity excluding the word 'Longman' as per a Tomlin Order. Accordingly, the name of this assessee was changed to Orient Blackswan Pvt. Ltd. Pursuant to this, assessee received compensation (as per the compromise order passed by UK court) for losing the right to use the word 'Longman' which was a part of its trademark and similarly, the Pearson Group were estopped from using the word 'Orient'.
- During relevant assessment year the Assessing Officer held that the amount received for losing right to use the trademark should be taxable as business profits in terms of section 28(va)(b).
- On appeal the Commissioner (Appeals) confirmed the order of the Assessing Officer.
- On appeal to the Tribunal:

### **Held**

- The assessee in the instant case has received certain consideration by virtue of settlement agreement entered into with Pearson Group. The settlement agreement was vetted by the Tomlin Order of the U.K. Court. In terms of the settlement agreement the assessee or its associates shall not be entitled to use the word 'Longman' while carrying on their business in the field of printing and publishing. It is the case on behalf of the assessee that the trademark obtained is styled as 'Orient Longman' and not 'Longman'. The assessee in terms of the settlement agreement is required to drop the word 'Longman', while its right to use the word 'Orient' which is integral part of the trademark has not been parted with. Likewise without prejudice to the right of Pearson Group to use the word 'Longman' it will not be entitled to use the word 'Longman' in combination with the word 'Orient' or any name confusingly similar to the name 'Orient' in India or any where else in the world. In this background the question that arises for our consideration is whether the amount received in consideration of losing the right to use the word 'Longman' which is part of its trademark

hitherto is an income chargeable to income-tax under the head 'Profits and gains of business or profession' in terms of section 28(va) or not.

- It is trite that capital receipts are not chargeable to tax save and except express provision for taxability in this regard. Therefore, a capital receipt can be brought to taxation only when such receipt strictly falls within the purview of such provision which in the instant case is section 28(va)(b). While the revenue holds that such receipts fall under the provision of section 28(va)(b), the case of the assessee is three-fold. Firstly, the receipt is not an income to trigger section 28. Secondly, the alleged receipt did not arise in the course of trade or business *per se* and therefore not a business receipt. Thirdly, trademark is registered in the name of 'Orient Longman' and when the word 'Orient' which is integral part of the trademark continues to be available to the assessee for its commercial exploitation as going concern, the question of sharing of trademark or otherwise does not arise at all. It is the case of the assessee that the trademark 'Orient Longman' can neither be used by the assessee nor by the Longman/Pearson group. The trademark *per se* has not been released in favour of Pearson group. As a result of the settlement, while the word 'Orient' will be exclusively available to the assessee, the right to use of other word 'Longman' will stand extinguished. The agreement was towards settling various disputes on the use of name 'Longman' and does not relate to any transfer of trademark etc. While the assessee is precluded from using the name 'Longman', the corresponding Pearson Group is also precluded from using the name 'Orient'. Thus, mutual obligations exists on both parties to the agreement.
- It is noted that the settlement agreement has not been entered into in the ordinary course of business, therefore compensation received under a negative covenant for impairment of right to use the word 'Longman' is in the nature of capital receipt. Such receipt towards relinquishment of right to use word 'Longman' cannot be taxed unless it is shown that it falls within the purview of section 28(va)(b).
- To determine the applicability of section 28(va)(b) in the context of the facts of the present case, it is noticed that the assessee has been restrained from using the word 'Longman' by the court from doing so. As a sequel to the court order, the assessee is required to cancel the trademark. The trademark is no longer available for use by the assessee. Notwithstanding the fact that certain capital receipts have brought to tax as chargeable income under section 28(va), the extended meaning of taxable income is controlled by the words 'not sharing'. Section 28(va)(b) only deals with payment received for not sharing trademark etc. this would presuppose that the assessee should own the trademark and for a given consideration, has agreed no to share it with any other person. The word 'sharing' postulates there must be someone to use the trademark. But in the present case, the sharing or otherwise is not possible when trade mark itself ceases to exist.
- Hence, in the totality of circumstances, the payment received cannot be brought to tax as business income under section 28(va). Hence, there is merit in the appeal of the assessee.
- In the result, all the appeals of the assessee are allowed.