
Goodwill is IPR?

1. What is Intellectual Property Right?

1.1. As per the World Intellectual Property Organization (WIPO), Intellectual Property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names, and images used in commerce. These usually take the form of Trademarks, Copyrights, Patents, and Industrial Designs, etc.

1.2. The term 'Intellectual Property Right' (IPR) has not been defined in GST Law. But as in pre-GST regime, wherein a lot of ruckus over the definition of IPR was concerned hence the government vide the Circular *MF (DR) circular No. B2/8/2004-TRU dated 10-9-2004* clarified the definition by stating that -

09. Intellectual property services (other than copyrights):

9.1 Intellectual property emerges from the application of intellect, which may be in the form of an invention, design, product, process, technology, book, goodwill etc. In India, legislations are made in respect of certain Intellectual Property Rights (i.e. IPRs) such as patents, copyrights, trademarks and designs. The definition of taxable service includes only such IPRs (except copyright) that are prescribed under law for the time being in force. As the phrase 'law for the time being in force' implies such laws as are applicable in India, IPRs covered under Indian law in force at present alone are chargeable to service tax and IPRs like integrated circuits or undisclosed information (not covered by Indian law) would not be covered under taxable services. Intellectual property rights are like any other property right. They allow creators, or owners, of patents, trademarks or copyrighted works to benefit from their work or investment in a creation.

1.3. 'Intellectual Property Service' is defined in Section 65(55b) of the Finance Act, as under:-

'Intellectual property service' means

(a) Transferring temporarily or

(b) Permitting the use or enjoyment of any intellectual property right.

'Intellectual property right' is defined under section 65(55a) of the Finance Act, 1994 as "any right to intangible property namely, trademarks, design patents or any other similar intangible property, under any law for the time being in force, but does not include copyright".

1.4. The intangible nature of intellectual property presents difficulties when compared with traditional property like land or goods. Unlike traditional property, intellectual property is

“indivisible”, since an unlimited number of people can “consume” an intellectual good without it being depleted.

1.5. IPR - Goods or Services IPR itself is a ‘Good’ but license to use IPR is a service’.

1.6. Permanent transfer of IPR is Goods: Intellectual Property Right is a property of a creator and if the creator permanent transfers the right on property, it is considered as a supply of Goods.

1.7. Temporary transfer of right to use IPR is Services: - The creator of IPR temporary transfers the right to use of any Intellectual Property Right (IPR) is a supply of services. He may permit the use or enjoyment of IPR to others for consideration.

1.8. As per Para c of schedule II of the CGST Act, “Temporary transfer or permitting the use or enjoyment of any Intellectual Property Right (IPR)” is ‘supply of service’.

1.9. Transfer of IPR is Taxable under GST: - Both the permanent transfer of IPR and temporary transfer are subject to GST. The temporary transfer includes permitting use or enjoyment of IPR. In regard to the tax rate, as per SAC 99733 which relates to '**Licensing Services for the right to use Intellectual Property and similar products**'.

2. What is Goodwill?

2.1 Although the classical theory regarding the goodwill and trademark says that, the two are inseparable but the contemporary law evolved to an extent that now a trademark is treated separately from goodwill and hence a trademark can be transferred with goodwill as well as without goodwill.

2.2 Goodwill is also an intangible asset that cannot be easily defined. In the words of **Lord Macnaghten, in the case of Commissioner of Inland Revenue v, Muller & co's Margarine Ltd** can be described as *"it is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in customers. It is the one thing that distinguishes an old-established business from a new business at its first start. The goodwill of a business must emanate from a particular center or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has the power of attraction sufficient to bring customers home to the source from which it emanates."*

In Context with ‘The Indian Trade Marks Act, 1999’:-

2.3 As per The Indian Trade Marks Act, 1999 (*hereinafter referred to as "Act"*), a trademark can be assignable with or without the goodwill of the business either in respect of all the goods or services or part thereof. Indian law according to Sec. 37 of the Act recognize the right of the proprietor in trademark & in Sec. 38, 39 of the Act by which registered or

unregistered trademark can be assignable and transmissible with or without goodwill subject to restrictions laid down in Sec. 40 of Trade Marks Act, 1999.

2.4 On the other hand, U.S. legislation under Sec. 10 of the Trademark Act (Lanhman Act) 1946, recognize the only assignment of the trademark with goodwill and assignment without goodwill is termed as an assignment in gross and invalid, therefore assignee acquires no rights in such transfer.

2.5 The transfer of proprietary rights in trademark is similar to any other asset, the difference, however, comes in reference to the goodwill attached to it. It is the goodwill that creates the value of a trademark and in the contemporary period, the same is also a separable part of the trademark. Goodwill provides bargaining power in the hand of the seller and therefore same is been recognized under the law in reference to the transfer of rights in a trademark. A trademark that is transferred with goodwill will get much higher value in comparison to the trademark which is transferred without goodwill.

3. Weather Goodwill is IPR?

3.1 India is a member to TRIPS and Article 21 of the TRIPS dealing with Licensing and Assignment mandates that:-

"... The owner of a registered trademark shall have the right to assign the trademark with or without the transfer of the business to which the trademark belongs." Section 39 of the (Indian) Trade Marks Act, 1999 allows for the assignment of an unregistered trademark with or without the goodwill of the business concerned.'

3.2 In **Ramnik Vallabhdas Madhavani Vs. Taraben Pravinlal Madhvani reported in (2004) 1 SCC 497**, it was observed by the Hon'ble Supreme Court that *'the term goodwill signifies the value of the business in the hands of a successor, so far as increased by the continuity of the undertaking being preserved in the shape of the right to use the old name and otherwise. It is something more than a mere chance or probability of old customers maintaining their connection, though this is a material part of the practical fruits'*.

3.3 In the case of **M/S. HYUNDAI MOTOR INDIA LTD. VERSUS COMMISSIONER OF GST & CENTRAL EXCISE CHENNAI OUTER COMMISSIONERATE 2018 (12) TMI 866 - CESTAT CHENNAI**, wherein CESTAT observed below-mentioned points:-

Brief of the Case: -

- The appellants are engaged in the manufacture of cars and parts thereof and are registered with the Central Excise Department. They also had an independent spares parts division with separate central excise registration. In addition to the manufacture of spare parts, this division used to procure parts from vendors also.

The items manufactured and procured were sold by the spare parts division to their dealers.

- The appellants sold the spare parts business division to Mobis India Ltd. under a Business Transfer Agreement dated 26.4.2007 as a going concern with effect from 1.5.2007. The consideration for the said transfer was agreed at ₹ 425.25 crores. A separate Trade Mark Licensing Agreement was executed on 30.4.2007 as per which Mobis India Ltd. would pay 8.5% of their annual domestic sales to the appellant as the fee for trademark license granted to them for a period of 10 years commencing from 1.5.2007 till 30.4.2007.
- During the audit of Mobis India Ltd. conducted by the internal audit wing of LTU, Chennai, it was noticed that in their auditor's report for 2007 - 08, fixed assets, current assets and current liabilities had been mentioned as acquired at book values and that the company had also paid consideration towards vendors and dealer network and goodwill based on the valuation carried out by an independent evaluator.
- The valuation indicated goodwill value at ₹ 80.29 crores. These amounts were also indicated under "Related party disclosure" and under "fixed assets" in the annual report of Mobis India Ltd.
- Based on the valuation indicated in the accounts of Mobis India Ltd., the department was of the view that the amount of ₹ 425.25 crores received as consideration for the transfer of the business included the transfer of goodwill also.
- Thus goodwill was all along part of the consideration for the sale of spare parts division of appellant to Mobis India Ltd. Goodwill is the intangible property and classified as intellectual property and the transfer of the same would fall within section 65(105)(zzr) of the Finance Act, 1994.
- Further, the same has been clarified by the Board vide Circular No.80/10/2004-ST dated 17.9.2004. Even though the value of goodwill was shown as ₹ 80.29 crores by Mobis India Ltd. in their balance sheet, the notional value of goodwill was fixed at 8.5% of the total sale consideration (Rs.425 crores) on the basis of the agreement dated 30.4.2007 and this worked out to be ₹ 33.31 crores.
- Thus, according to the department, out of ₹ 425 cores paid as consideration for the sale of an ongoing business to Mobis India Ltd., ₹ 33.31 crores appears to be the value of goodwill transferred to Mobis India Ltd. Show cause notice was issued

proposing to demand service tax on the value of ₹ 33.31 crores to the tune of ₹ 3,66,47,575/- along with interest and also for imposing penalties.

View of CESTAT

- From the definition of intellectual property right laid in Section 65(55a), it is clear only IPR which comes under any law in force would come within the ambit of the definition. Though goodwill may be in the nature of the intangible right, there is no law that recognizes it as an intellectual property right. In fact, goodwill is attached to an ongoing business whereas IPR is not always so.
- The right over IPR may be obtained by an individual also. Goodwill of a company may include the value of IPR held by him but not the vice versa. According to the department, the words 'any other similar intangible property' would include goodwill also. We fail to agree with this argument.
- The Hon'ble High Court of Karnataka in the case of Associated Electronics and Electrical Industries (Bangalore) Pvt. Ltd. (supra), has observed that 'trademark and goodwill are two distinctly separate concepts. That goodwill of business has no existence except in connection with the continuing businesses.
- The Tribunal in the case of Alstom T&D (supra) had occasion to analyze a similar issue wherein a trademark that was registered/recognized outside India was subject to levy of service tax under IPR service.
- The Tribunal relied upon various decisions and held that the transfer of such trademark which has not been recognized or registered within India will not fall within the ambit of Intellectual Property Right Service.
- From the above discussion, we are of the considered opinion that the transfer of goodwill will not fall within the definition of IPR service as stated in Section 65(55b) of the Finance Act, 1994.

Now said case gives the contrary view on the fact that goodwill and IPR are different from each other. That is because of the contention taken by the revenue, wherein it valued the goodwill on the basis of the fictitious fact that the surplus-value named as goodwill was considered as the part of the trademark license agreement. To buttress my view, In the case of **COMMISSIONER OF INCOME TAX - IV VERSUS HINDUSTAN COCA-COLA BEVERAGES PVT. LTD. 2011 (1) TMI 30 - DELHI HIGH COURT** Other Citation: [2011] 238 CTR, wherein Hon'ble High Court held that:-

“Regard being had to the concept of „goodwill“ and the statutory scheme, the claim of the assessee and the delineation thereon by the tribunal are to be scanned and appreciated. The claim of the assessee-respondent, as is discernible, is that the assessing officer had treated the transactions keeping in view the concept of business or commercial rights of similar nature and put it in the compartment of intangible assets. To effectively understand what would constitute an intangible asset, certain aspects, like the nature of goodwill involved, how the goodwill has been generated, how it has been valued, an agreement under which it has been acquired, what intangible asset it represents, namely, trademark, right, patent, etc. and further whether it would come within the clause, namely, „any other business or commercial rights which are of similar nature“ are to be borne in mind.”

Going through the case, it can be observed that, the AR could not prove the nexus of calculation of goodwill with the ‘Transaction value’ of Trademark but the AR emphasized the definition given for IPR in Service tax laws. Though there cannot be fictitious calculation in the law, just to affirm the correctness of demand but there must be an affirmed view for such inclusion of the value of ‘goodwill’ in the valuation of IPR attached to it.

Conclusion Remarks

It is pertinent to note that, though the definition of Goodwill has not been provided in the GST laws, it has been decided by various courts that, the goodwill itself derives the value from the trademark or know-how of particular concern. As cited earlier that as per Indian laws, the assignment of the trademark can be with goodwill or without goodwill. Which gives us a prima facie view that goodwill is inseparable from any other assets falling under the preview of Intellectual property right. There might be different arrangements for calculations or agreements while transferring such IPR along with goodwill.

To place more reliance on the contention that goodwill and IPR are inseparable and goodwill to be considered as part of the IPR only, please refer below-mentioned case laws:-

- In **Ramdev Food Products Pvt. Ltd. v. Arvinbhai Rambhai Patel and Ors. AIR 2006**, it was held that a prima facie case of irreparable injury has been made out by the Appellant. It may not be necessary to show more than the loss of goodwill and reputation to fulfill the condition of irreparable injury. If the first two prerequisites are fulfilled, the irreparable loss can be presumed to have taken place.
- In **Laxmikant V. Patel v. Chetanbhai Shah and Anr., AIR 2001 SC 763**, it was stated: A person may sell his goods or deliver his services such as in case of a

profession under a trading name or style. With the lapse of time such business or services associated with a person acquire a reputation or goodwill which becomes a property which is protected by Courts.

- In **Uniply Industries Ltd. v. Unicorn Plywood (P) Ltd.** [2001(3) SCALE 642; **S. Rajendra Babu and K. G. Balakrishnan JJ**], The Supreme Court observed: There are many precedents that for inherently distinctive marks ownership is governed by priority of use of such marks. The first user in the sale of goods or services is the owner, who is senior to the others. These marks are given legal protection against infringement immediately upon adoption and use in trade, if two companies make use of the same trade mark and the gist of passing off in relation to goodwill and reputation to goods.
- The **Calcutta High Court in East and Hosiery Mills Pvt. Ltd. v. Agarwal Textiles Mills, AIR 1971 (Cal)**, considered the resemblance in respect of the get up of the two marks phonetically 'Moti' and 'Sacha Moti'. It was found by the Court that 'Sacha Moti' was used by the defendants to imitate the name 'Moti' of the plaintiffs. There is phonetic similarity between the words. The explanation that the name 'Moti' has been taken from Moti Ram Gupta, father of one of the partners of the defendant firm was not accepted by the Calcutta High Court in the above case. Therefore, even though the defendant used his father's name, it was held that the defendant's use of the name and mark was likely to deceive or cause confusion or injury to the goodwill of the plaintiff's business.
- In **T.V. Venugopal v. Ushodaya Enterprises Ltd., (2011) 4 SCC 85**, the Supreme Court noted that the respondent's mark "Eenadu" had acquired extraordinary reputation and goodwill in the State of Andhra Pradesh. It was held that the Appellant was clearly attempting to utilise the reputation and goodwill of the Respondents. The Court reasoned that allowing the Appellant to use the mark would create confusion in the mind of the consumers, leading the consumers to think that the incense sticks were manufactured by the Respondent's company. The Court said that permitting the Appellant to use the trade mark would lead to the erosion of the extra-ordinary reputation and goodwill acquired by the Respondent. The law is consistent that no one can be permitted to encroach upon the reputation and goodwill of other parties. This approach is in consonance with protecting the proprietary rights of the Respondent company.

- In the case of **Easygroup IP Licensing Ltd & Anr V. Easyjet Aviation Services Pvt Ltd & Anr**[DEL]CS(OS) 157/2010 Vipin Sanghi, J. [Decided on 19/08/2013], the supreme court cited that, It is also pertinent to note that the suit trademark is a coined word. No explanation has been offered by the defendants as to why they chose the suit trademark. The defendants have chosen not to contest the present proceedings and, therefore, the only valid inference that can be drawn is that the defendants adopted the impugned trademark to ride on the plaintiffs' goodwill and popularity.

Now, let's discuss the concept of 'Passing off':

Passing off action depends upon the principle that nobody has a right to represent his goods as the goods of some body else. That is, a man shall not sell his goods or services under the pretence that they were those of another person.

The modern tort of passing off has below-mentioned elements—

1. a misrepresentation;
2. made by a trader in the course of his trade;
3. to prospective customers of his or ultimate consumers of goods or services supplied to them;
4. Which is calculated to injure business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence); and which causes actual damage to a business or goods of the trader by whom the action is brought or will probably do so.

Now it can be seen as in IPR lawsuits, wherein court observed that any sort of infringement suit, wherein there was a loss of 'goodwill' component as well along with particular IPR.

Hence I will conclude my view stating that Goodwill is to be considered as an IPR provided with a fact that IPR relates to a going concern entity. Because even if the value of IPR to which goodwill's value is attached may be deteriorated but goodwill's value cannot fall below zero.

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