India

The Principle of *Mobilia Sequuntur Personam* and the Situs of Intangible Property: The Brew of Foster’s High Court Case

Aseem Chawla,
Pranshu Goel and
Shubhangi Arora

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This article examines the decision of the Delhi High Court to apply the doctrine of *mobilia sequuntur personam* to restrict India’s jurisdiction to tax gains derived by the Foster’s brewing group on the sale of intellectual property used in India. The authors address the reasoning behind the decision of the Authority for Advance Rulings in favour of the Indian tax authority and its subsequent rejection by the High Court. They also discuss how the High Court decision could have been enhanced by incorporating a more comprehensive discussion of overseas precedents.

Few rules in our time are so well established that they may not be called upon any day to justify their existence as means adapted to an end. If they do not function, they are diseased. If they are diseased, they must not propagate their kind. Sometimes they are cut out and extirpated altogether. Sometimes they are left with the shadow of continued life, but sterilized, truncated, impotent for harm.

Benjamin N. Cardozo

1. Introduction

Over time, businesses have explored new territories and opportunities. The way they have been organized has undergone a tremendous overhaul. New and efficient structures have been discovered. A global presence, innovative products and designs, new technology, brand building, financial and tax planning are some of the key factors which have helped enterprises reach the masses across the globe. The world has witnessed disappearing national economic boundaries and distance being reduced to a number, allowing an enormous increase in the exchange and flow of resources among the economies of the world.

Multinational companies (MNCs) have expanded their operations worldwide and are now facing crucial taxation issues with respect to the ownership of their intangible assets by group companies in different tax jurisdictions, including tax-favourable jurisdictions.

In this time of hue and cry, when MNCs are witnessing immense resentment from people across the world for their alleged tax evasion, the Indian High Court has provided relief to an Australian MNC, regarding taxability of gains on the sale of its foreign-owned trademarks, which were registered and used in India.

2. Facts

The taxpayer, CUB Pvt. Ltd., formerly known as Foster’s Australia Limited (Foster’s Australia), entered into a brand licence agreement (BLA) in 1997 with its Indian subsidiary, Foster’s India Ltd. (FIL). Under the BLA, Foster’s Australia licensed the use of four of its trademarks relating to brewing, packaging, labelling and selling Foster’s beer, which allowed FIL an exclusive right to use the trademarks of Foster’s Australia within India and an authorization to use the Foster’s mark as part of FIL’s corporate name.

In 2006, the Foster’s global group was acquired by the SAB Miller group. Pursuant to that acquisition, Foster’s Australia entered into an “India sale and purchase agreement” (ISPA), which was executed in Australia, and under which Foster’s Australia sold 16 of its trademarks (which included the four trademarks previously licensed to FIL, Foster’s brand intellectual property (IP), and an exclusive and perpetual licence in relation to Foster’s brewing IP confined to India) to SAB Miller group’s nominee, Skol Breweries Ltd (Skol).

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2. CUB Pvt Ltd. v. Union of India WP(C) 6902/2008.
As a condition precedent to the ISPA, it was necessary to terminate the BLA between Foster’s Australia and FIL. Accordingly, on 12 September 2006 a deed of termination of the BLA was executed in Australia, and the trademarks were assigned to Skol.

To avoid adverse tax implications and to seek clarity on the taxability in India of gains on the transfer of its right, title and interest in the trademarks and brand IP, and the grant of the exclusive perpetual licence of its brewing IP, Foster’s Australia made an application to the Indian Authority for Advance Rulings (the AAR), contending that all the rights and interests in the trademarks, brand IP and brewing IP were restored and vested with the Foster’s Australia upon the termination of the BLA and, due to the termination, the situs of the intangible property rights was in Australia as the rights were vested with Foster’s Australia.[9]

3. AAR Ruling

Capital gains arising from the alienation of a capital asset are usually taxable in a source state only if the asset is situated in that jurisdiction. Therefore, determination of the situs of an asset in a cross-border scenario is crucial to ascertain whether or not a state has the right to tax the capital gains.

The AAR ruled that Foster’s IP rights fell under the purview of capital assets in section 2(14) of the Income-tax Act 1961 (the Act), the term “capital asset” being defined as “property of any kind held by an assessee”. Clearly, property of any kind can be said to include any intangible property, such as IP.

The situs of such capital asset, i.e. IP comprising Foster’s trademarks and brand IP, was said to be in India. It was contended by the tax authority that a trademark is a right that comes into existence not because of its registration but because of its usage. Applying the “tangible presence” doctrine, the AAR equated the trademark with its usage and the goodwill developed by it. The contention that goodwill is territorial and exists where the business exists or is developed was held good by the AAR.

It was further contended by the tax authority that the registration of any IP (which, in this case, was in Australia) has no bearing on its place of ownership. Reliance was placed on the decision of the Supreme Court of India in CIT v Finlay Mills Ltd, [4] where it was held that the registration of a trademark does not create an asset. Even though registration does involve certain remedies for its protection, ownership is not established by registration. Goodwill developed in India by the trademark had relevance, rather than its registration.

The AAR determined that IP can have more than one situs as it can be used in more than one location, and the termination of the BLA and its transfer were simultaneous so that there was no vesting of the IP rights with Foster’s Australia since the extinguishment and activation happened simultaneously.

The AAR relied on Geoffrey’s Inc. v. South Carolina Tax Commission,[5] Kmart Properties Inc. v. Taxation and Revenue Department [6] and Commissioners of Inland Revenue v. Muller & Co.,[7] in holding that the situs that IP may acquire for taxation purposes may be at a place other than the place of domicile of its owner if the IP has become an integral part of a business. These judgements iterated that taxation is to be levied according to where commercial use of intangible property lies and where the goodwill is developed or acquired, and not at the place of domicile of the owner.

The transfer of the brewing rights, which were held in the tangible form of a brewing manual, were said to be held by Foster’s Australia because they reverted to Australia at the effective date of transfer and then vested with Skol.

Foster’s Australia alternatively contended that, if the situs lay in more than one country (i.e. Australia and India) only profits that were attributable to India – and not the whole of the profits – were taxable in India. This contention was rejected by the AAR on the grounds that no such concept existed under the Act.

In In Re: Pfizer Corporation v. Unknown,[8] relied upon by the Revenue Authority, the transfer of technology information in the form of a dossier was said to be the transfer of a capital asset. Section 55(2),[9] which deals with the cost of acquisition of a capital asset, made it clear that goodwill, trademarks and brand names associated with a business and other incorporeal rights are treated as capital assets. Thus, the income arising from the transfer of such capital assets situated in India is deemed to be taxable income under section 9(1)(i)

3. A ruling from the AAR can be sought by an applicant on any question of law or fact specified in an application in relation to a transaction which has been undertaken, or is proposed to be undertaken, by a non-resident applicant. Although there is no appeal procedure prescribed in the Income-tax Act 1961 against the rulings of AAR, the High Court may admit a writ petition against a ruling when it is felt that the ruling is perverse or contrary to the provisions of that act or treaties: see Verizon Data Services India Pvt Ltd v. Authority for Advance Rulings and Other WP 14921/2011, High Court (Madras), 9 Aug. 2011 and UAE Exchange Centre Ltd v. Union of India (2009) 313 ITR 94, High Court (Delhi).

9. Section 55(2) states that:
   “[For the purposes of sections 48 and 49, “cost of acquisition”–
   [(a) in relation to a capital asset, being goodwill of a business [or a trade mark or brand name associated with a business] [or a right to manufacture, produce or process any article or thing] [or right to carry on any business], tenancy rights, stage carriage permits or loom hours,–
   (i) in the case of acquisition of such asset by the assessee by purchase from a previous owner, means the amount of the purchase price; and
   (ii) in any other case ... shall be taken to be nil; ...”


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of the Act,[10] which deals with the taxation of gains from the transfer of capital assets by a non-resident when the asset is situated in India. In Foster’s case, the intangible assets were located in India, duly registered under the Indian law, put to use in India and gained economic value and goodwill through their presence in India.

The AAR applied the “tangible presence” doctrine that the intangibles, though registered in Australia, had their presence in India as they were developed and generated goodwill for the company while they were in Indian territory.

While it is obvious that deciding the situs of intangible property is a tricky business, the AAR nevertheless did not consider that, if after the signing of BLA and in furtherance of grant of the licence by Foster’s Australia to FIL, the situs of the intangibles shifted from Australia to India, then after the termination of the BLA the situs of the intangible property shifted from India to Australia.

4. High Court Decision

Aggrieved by the AAR’s ruling, Foster’s Australia lodged a civil writ petition with the Delhi High Court.

The contentions that Foster’s Australia placed before the High Court were, firstly, that the doctrine of *mobilia sequuntur personam* has been repeatedly and consistently used to determine the taxable situs of intangible property. Relying on that principle, it was argued that the situs of the trademark would be that of its owner, i.e. Foster’s Australia, as the intangibles were subject to the immediate control of Foster’s Australia. In the absence of any physical situs of intangible property, the domicile of the owner is the nearest approximation of its situs.

Secondly, in the absence of a deeming provision providing for the situs of intangible assets in the Act, numerous foreign judicial precedents[11] have upheld the application of the principle of *mobilia sequuntur personam*.

Thirdly, making a distinction between a trademark and the right to use the trademark, the licence to use the trademark under the BLA conferred only a limited right of use of the trademark, and did not involve the transfer of any proprietary right. Accordingly, there was no shift in the situs of the trademark to India and, even if there were, the termination of the BLA transferred the right back to its owner (i.e. Foster’s Australia).

Fourthly, the right to use a trademark generates only royalty income, which is paid to the owner, while the situs of the trademark remains that of the owner of the trademark. If the grant of a licence resulted in the transfer of the situs of the trademark to the licensee, the serious consequences of multiple taxation would result.

Finally, the AAR’s reliance on Geoffrey Inc. [12] and Muller & Co. [13] was misplaced as the decisions in those cases were based on completely different sets of facts and issues. Further, Kmart Properties Inc. [14] had subsequently been overruled; hence, no reliance could be placed on that decision.

The Revenue, on the other hand, reiterated the AAR’s findings, viz. that the situs of the IP was where the business was carried out and where it would be protected under local law, i.e. in India. The Revenue argued that the Foster’s brand had no value when it was initially introduced in India in 1997, but when Foster’s Australia sold the trademark and the related IP rights with respect to Indian territory, substantial proceeds were received from the SAB Miller group, representing the value Foster’s Australia had gained from its operations in India. Such income which had accrued to Foster’s Australia was in respect of the transfer of capital assets situated in India and was liable to tax in India.

The Revenue further contended that the principle of *mobilia sequuntur personam* could not be relied upon for the simple reason that, in a situation where the owner of a trademark migrates to another country after registration, spending and promoting its trademarks in a country, the situs of the intangible property still lies in the country where the business is carried out and where the intangible property is protected by local law.

4.1. Principle of *mobilia sequuntur personam*

The common law principle of *mobilia sequuntur personam* states that, as the asset is under the immediate control of its owner, the situs of the domicile of the owner of the asset is the closest approximation of the situs of the asset itself: personal property held by a person is governed by the same laws that govern that person.

The High Court followed the landmark judgement of the Court of Appeal of California, Third Appellate District in *Rainier Brewing Company v. Chas. J. McColgan*, [15] which examined the question of whether the doctrine of *mobilia sequuntur personam* is applicable in determining the situs of property. The Court of Appeal observed that:

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10. Section 9 (1) states that:
   “The following incomes shall be deemed to accrue or arise in India:–
   (i) all income accruing or arising, whether directly or indirectly, through or from any business connection in India, or through or from any property in India, or through or from any asset or source of income in India ... or through the transfer of a capital asset situate in India.”
12. Supra n. 5.
13. Supra n. 7.
15. Supra n. 11.


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It is immaterial that the plaintiff, prior to the transfer of its trade-mark and good will to be used in the State of Washington, also owned and conveyed a warehouse and equipment which it owned in Seattle. It still remains true that plaintiff’s domicile and principal place of business was in California and not in Washington. All of the facts and circumstances of this case indicate that the domicile and principal place of business was in San Francisco. That was, therefore, the situs of the intangible property rights represented by the proceeds from the transfer of the trade-mark and good will of the business. The receipts from that source, and not from the actual sales of beer in Washington, were attributable to the good will of the business attached to the trade-mark which had its situs in [California]. That property interest did follow the “personam” of the corporation to its domicile in California. The doctrine of “mobilia sequuntur personam” appears to apply in full force to the facts of this case. ... It is immaterial whether those property rights in intangible property may also be attributable to the contract, which the court suggests merely created the relationship of debtor and creditor between plaintiff and the Seattle Brewing Company. That contract may be considered as mere evidence of the terms and conditions upon which the trade-mark for use in Washington was transferred. Even though the contract itself may not warrant the commissioner in attributing the receipts therein provided for to it, which we do not concede, the fact remains that they were attributable to the transferred trademark and attached goodwill of the corporation whose business was located in [California]. That fixes the situs of the taxable property.

... The term “mobilia sequuntur personam” is a maxim defined as meaning, “Movables follow the [law of the] person.” (58 C.J.S. 837.) In Miller v. McColgan 17 Cal.2d 432 [110 P.2d 419, 134 A.L.R. 1424], it is said at page 443: “The doctrine of mobilia sequuntur personam has been repeatedly and consistently maintained in determining the taxable situs of intangible property, and as recently as the 1938-1939 term the Supreme Court of the United States recognized it in Curry v. McCanless 307 U.S. 357 [59 Sup.Ct. 900, 906, 83 L.Ed. 1339, 123 A.L.R. 162] ... .”

Therefore, the High Court reversed the decision of the AAR and held that the gain on the transfer of the trademarks was not taxable in India. The Court acknowledged the situation whereby it is difficult to determine the situs of an intangible asset which neither has any physical form nor is located at a particular place, unlike tangible assets which have a physical form and exist at specific locations.

The High Court held that the Legislature could have provided for determining the situs of intangible assets by incorporating a deeming fiction in the Act, as it had done in the case of the sale of shares by inserting Explanation 5 to section 9(1)(i) into the Act.[16]

Unlike Explanation 5, there is no such provision regarding IP rights. Thus, the principle of mobilia sequuntur personam must be taken into consideration so that the situs of the domicile of the owner of an intangible asset is the closest approximation of the situs of the asset. Therefore, it was held that the situs of Foster’s Australia’s trademarks was not in India since the owner of them was not located in India at the time of the transaction.

5. Analysis

While the High Court’s decision may seem reasonably valid, it would not be inappropriate to suggest that it is laconic, as the Court did not consider and explain some key aspects, which would have helped to provide a deeper analysis of the issue. This is not to suggest that the judgement was incorrect in any manner; rather, that the reasoning could have been elucidated better because, in fact, there are some exceptions to the principle. Instruction may be obtained from other judicial pronouncements, of which the High Court failed to take cognizance.

The practical difficulties in determining the actual situs of intangible property, compared to tangible personal property, are obvious. As a result, the maxim mobilia sequuntur personam has fared far better to determine the situs of intangible property and, generally speaking, still remains the legal rule of thumb which is applied to establish the situs of intangible personal property.

As the United States Supreme Court remarked in Union Transit Company v. Kentucky: [17]

... there is an obvious distinction between the tangible and intangible property, in the fact that the latter is held secretly; that there is no method by which its existence or ownership can be ascertained in the State of its situs, except perhaps in the case of mortgages or shares of stock. So if the owner be discovered, there is no way by which he can be reached by process in a State other than that of his domicil, or the collection of the tax otherwise enforced. In this class of cases the tendency of modern authorities is to apply the maxim mobilia sequuntur personam, and to hold that the property may be taxed at the domicil of the owner as the real situs of the debt, and also, more particularly in the case of mortgages, in the State where the property is retained.

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16. Explanation 5 to Section 9(1)(i) of the Act states:
“... the maxim “mobilia sequuntur personam” is a maxim defined as meaning, “Movables follow the [law of the] person.” (58 C.J.S. 837.) In Miller v. McColgan 17 Cal.2d 432 [110 P.2d 419, 134 A.L.R. 1424], it is said at page 443: “The doctrine of mobilia sequuntur personam has been repeatedly and consistently maintained in determining the taxable situs of intangible property, and as recently as the 1938-1939 term the Supreme Court of the United States recognized it in Curry v. McCanless 307 U.S. 357 [59 Sup.Ct. 900, 906, 83 L.Ed. 1339, 123 A.L.R. 162] ... .”

17. (1903) 199 U.S. 194, 205. See also Louisville & Jeffersonville Ferry Co. v. Kentucky (1903) 88 U.S. 385, 397, 398 and Board of Assessors v. Comptoir National (1903) 191 U.S. 388, 403.
Subsequently, the Court remarked in *Buck v. Beach*:[18]

Generally speaking, intangible property in the nature of a debt may be regarded, for the purposes of taxation, as situated at the domicil of the creditor and within the jurisdiction of the State where he has such domicil. It is property within that State.

As Dennis notes:[19]

The leading Supreme Court cases illustrating the general rule that intangible personal property has its *situs* for taxation in the State of its owner’s domicile and not elsewhere are the case of State Tax on Foreign-held Bonds,[20] and *Kirtland v. Hotchkiss*.[21] Although they have been much discussed, and the former frequently criticised, somewhat qualified and as to certain dicta overruled, it is believed that they are still law, that the rule which they illustrate is still for all practical purposes the general rule, and that the more recent decisions qualifying this rule cannot be properly understood and correlated without a thorough understanding of these two basic cases.

*Mobilia sequuntur personam*, being a widely accepted principle, is valuable in establishing the correct location of an intangible asset. The rule comes into play when defining the situs of intangible property. However, the maxim is wholly inadequate as a principle to determine upon whom a tax liability falls. It should be noted that the principle was first used in the real estate sector to establish the location of immovable property, and was a satisfactory solution to that question.

However, *mobilia sequuntur personam* has no more truth in one case than in another. In *Blackstone v. Miller*,[22] Justice Holmes pointed out that: “[w]hen logic and the policy of a State conflict with a fiction due to historical tradition, the fiction must give way”.

Similarly, in *Liverpool Insurance Co. v. Orleans Assessors*,[23] Justice Hughes said:

> The legal fiction, expressed in the maxim *mobilia sequuntur personam* yields to the fact of actual control elsewhere. And in the case of credits, though intangible, arising as did those in the present instance, the control adequate to confer jurisdiction may be found in the sovereignty of the debtor’s domicil.

The courts have upheld an exception to the *mobilia sequuntur personam* principle and acknowledged that intangible assets:

> ‘may acquire a situs for taxation other than at the domicile of their owner if they have become integral parts of some local business’. [24] Despite its efforts to avoid taxation of intangibles by more than one jurisdiction, the Court eventually recognized that intangibles associated with several states often create more than one set of legal relationships. The Court was reluctant to say that the intangible interests were linked more to one state than to another.[25] In such circumstances the Court finally decided that it could not justify the withdrawal from one state of its power to tax,[26] and held that due process of the fifth amendment does not require the fixation of a single exclusive place of taxation of intangibles.[27][28]

The Congressional Research Service of the United States Library of Congress makes a similar point:

> … the presumption persists that intangible property is taxable by the state of origin ... [which] is in line with the dictum uttered by Chief Justice Stone in *Curry v. McCanless* ... to the effect that the taxation of a corporation by a state where it does business,
measured by the value of the intangibles used in its business there, does not preclude the state of incorporation from imposing a tax measured by all its intangibles.\textsuperscript{29}

This suggests that the High Court did not acknowledge the other aspects, leaving the matter unsettled for upcoming decisions.

Although the principle of \textit{mobilia sequuntur personam} derives the situs of intangible assets from the domicile of their owner, and permits taxation of the property at that location, an exception would allow a state to tax gains on the disposal of intangible property if it acquired a “business situs” in that state. “Business situs” means that intangible assets may acquire a situs of their own in a state other than that of the legal domicile of the owning corporation when they are used as an integral part of its business conducted in such other state.\textsuperscript{30} That would also permit multiple taxation of intangible property when it had legal relationships with more than one jurisdiction, but in that case relief from double taxation would apply in the normal way.

To further establish the situs of intangible property, a circular issued by the Central Board of Direct Taxes\textsuperscript{31} should have also been taken into consideration.\textsuperscript{32} This circular states that where the asset is located is essentially a question of fact and will have to be decided in the light of evidence. It highlighted that copyright or a licence to use any copyrighted material, patent, trademark or design is considered to be located in India if the rights arising therefrom are exercisable in India and such patents, trademarks and designs are located in India if they are registered in India.

Legal and economic ownership should also have been considered by the High Court. Ownership of an intangible can be of two kinds: (1) de jure (i.e. “legal” ownership based on legal registration and like formalities) or (2) “economic” or de facto (i.e. ownership based on contribution towards, or critical decision-making in respect of, an intangible asset’s development). This is characterized by the quantum of expenditure, its direction, scope, nature and other such modalities pertaining to the development of the intangible asset. The locus of legal and economic ownership may coincide, but that depends on the facts of each case. This concept was examined and relied upon in \textit{Sony Ericsson Mobile Communications India Pvt. Ltd. v. CIT},\textsuperscript{33} where the Delhi High Court held that retailers or dealers that sell branded electronic products do not become economic owners of the products sold by them. In Foster’s case, economic ownership also lay with the legal owner, i.e. with Foster’s Australia.

6. Summary

The relief provided by the Delhi High Court to Foster’s Australia with respect to taxability of its gains on transfer of intangible property – based on the situs of the intangible property being in Australia, albeit that it was economically present in India – has settled the dust. Nevertheless, it would be worthwhile to know the opinion of the Supreme Court of India, if the Revenue decides to file a special leave petition on questions of law.

The pronouncement, though favourable to the taxpayer and much appreciated by the applicants, erred in not considering all of the issues surrounding the taxability of intangibles; rather, it shifted its focus solely towards the principle of \textit{mobilia sequuntur personam}.

It would also be interesting to examine this issue in the context of India’s new general anti-avoidance rules (GAAR), i.e. whether the indirect transfer of intangible property legally owned outside India, but used for economic benefit in India, can be taxed in India if its legal ownership structure is considered an impermissible tax avoidance arrangement.


\textsuperscript{30} \textit{United Gas Corporation v. Fontenot} (1961) 129 So. 2d 776.

\textsuperscript{31} Being the apex board concerned with administering direct taxes in India.

\textsuperscript{32} No. 392 [F. No. 321/78/75WT], dated 24 Aug. 1984.

\textsuperscript{33} TS-96-HC-2015(DEL)-TP.