

Su®®ending Trade Name - Key to Concession under GST?

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Introduction

The famous Shakespeare quote, “*What’s in a name?*” has lost its’ relevance in the present day scenario with a highly competitive environment. The new game of name- *Trademark* has gained significance. Trademark is one of the most important intellectual property (IP) right which protects a brand. The goodwill attached to brands has now become the guiding factor for consumer’s decision to purchase such branded products. IP rights, though in an intangible form, substantially increases the value of products and also provides various rights and remedies for protecting its’ position in a competitive market. If a brand name is registered, the person gets exclusive rights to use such brand name and can file a suit for infringement of his registered trademark/brand name. However, there are certain equitable rights attached to unregistered brand names as well that can be enforced in a court of law like that of remedy against *passing off*, which prevents one person from misrepresenting his goods or services as that of another.

Gradually, due importance of the value of such IP is being recognized under the GST regime as well. However, the GST regime has ushered perplexity regarding the difference in the rates of tax levied on the supply of branded and unbranded goods. It is also to be noted that no such distinction has been created between branded and unbranded services even though a brand name for services can be registered as a trademark.

Position under GST

As per Notification No. 01/2017-Central Tax (Rate) dated 28.06.2017, various goods such as *paneer, honey, wheat, rye, barley, oats, rice, maize, etc* were categorized in the 5% rate slab if the following conditions were satisfied -

- Products were packed in a unit container; **and**
- Products were bearing a registered brand name.

On the other hand, as per Notification No. 02/2017- Central Tax (Rate) dated 28.06.2017, if these products were not packed in a unit container or were not bearing a registered brand name, these products were exempted from tax.

As per the abovementioned notifications, a registered brand name was described to mean-

A brand name or trade name, that is to say, a name or a mark, such as symbol, monogram, label, signature or invented word or writing which is used in relation to such specified goods for the purpose of indicating, or so as to indicate a connection in the course of trade between such specified goods and some person using such name or mark with or without any indication of the identity of that person, and which is registered under the Trade Marks Act, 1999.

Further, a press release dated 05.07.2017 clarified that Section 2(w) read with Section 2(t) of the Trade Marks Act, 1999 provides that a registered trademark which is actually on the Register of Trade Marks and is remaining in force. It was reiterated that only if the brand name or trade name is actually on the Register of Trade Marks and is in force under the Trade Marks Act, 1999, the exemption benefit¹ will be applicable on the supply of such goods.

Post-Mortem of Exemption Benefit – Current Position

It was being reported² that all the businesses selling branded food were deregistering their brands to get the exemption benefit, thereby surrendering their registered brand names without giving due weightage to the value of their IP rights. Consequently, when the GST Council met on 09.09.2017 to discuss the issues persisting after GST implementation, tax rates applicable on 134 products were reviewed and certain changes were made to the rate notifications with respect to branded and unbranded products. As a result, *vide* Notifications No. 27/2017 and 28/2017-Central Tax (Rate) dated 22.09.2017, the condition of the product bearing a registered brand name was amended to the following –

- *Should bear a **registered brand name**; or*
- *Bear a **brand name** on which an actionable claim or enforceable right in a court of law is available (other than those where any actionable claim or any enforceable right in respect of such brand name has been voluntarily foregone, subject to the conditions mentioned at **Annexure** to Notification No. 27/2017-Central Tax (Rate) dated 22.09.2017.*

Moreover, the following meaning of brand name was added –

The phrase brand name means brand name or trade name, that is to say, a name or a mark, such as symbol, monogram, label, signature or invented word or writing which is used in relation to such specified goods for the purpose of indicating or so as to indicate a connection in the course of trade between such specified goods and some person using such name or mark with or without any indication of the identity of that person.

The Fitment Committee also proposed to the GST Council to consider 15th May, 2017, as the cut-off date for considering a brand as registered for the purpose of levy of GST, irrespective of whether or not the brand is subsequently deregistered. Hence, the meaning of the phrase “registered brand name” was amended to mean –

(A) A brand registered as on the 15th May, 2017 under the Trade Marks Act, 1999 irrespective of whether or not the brand is subsequently deregistered;

¹ As per Notification No. 02/2017- Central Tax (Rate) dated 28.06.2017

² <http://economictimes.indiatimes.com/markets/stocks/news/confusion-over-branded-food-gst/articleshow/60472951.cms>

(B) A brand registered on the 15th May, 2017 under the Copyright Act, 1957 (14 of 1957);
(C) A brand registered as on the 15th May, 2017 under any law for the time being in force in any other country.

Therefore, now, the person undertaking packing of goods in unit containers which bears a brand name shall have to file an affidavit before the jurisdictional Commissioner and print with indelible ink on the unit container, that he is voluntarily foregoing his actionable claim or enforceable right on such brand name. Moreover, *vide* Notification No. 34/2017-Central Tax (Rate) and 35/2017-Central Tax (Rate) dated 13.10.2017 provided the procedure for filing this affidavit where the person having an enforceable right or actionable claim over the brand name and the person undertaking packing of the goods are two different persons.

It is relevant to highlight here that even if the brand is not registered, an enforceable right or remedy in the nature of passing off right is available to a prior user of such brand. However, clarification on the validity of the affidavit and for opting out of the exemption by cancelling the effect of the affidavit needs to be given by the GST Council.

Saving GST or Registration of Trademark?

Making only those goods taxable which bear a “registered” brand name had led to various small traders and companies apply for deregistration of their brands to the Trademark Registry Offices. For many traders, the decision to be taken was whether to save taxes or to retain the rights attached to its brand name. To an extent, this issue was addressed by the GST Council by providing that the traders can escape the 5% GST only if they choose to forgo any actionable claim or their brand name by filing an affidavit. But the problem still persists for traders to weigh the options of saving 5% GST or to forego its’ rights relating to the brand name. Further, the Commerce Ministry is also concerned that deregistering trademarks may lead to promotion of counterfeit products in the market that could create health hazards in the industry.³ The benefit of exemption of unbranded products also benefits those companies which have a boosting revenue but their brands are not registered. On the contrary, the benefit could be provided on the basis of packaged and loose food items irrespective of (?) branding of such products to avoid any such glitches.

Can a Company/Manufacturer Name be a Brand Name?

There is a possibility of a packaged product on which the name of the manufacturer is printed. This is in compliance with The Legal Metrology Act, 2009, FSSAI Act⁴, etc. The question that arises is whether printing of such name as a statutory compliance may require the person to submit the affidavit of foregoing its’ rights? This can only happen if such name of the manufacturer can be considered as a ‘brand name’.

In the case of *Tarai Food Ltd. v. Commissioner*⁵, the Apex Court observed that *the words brand name*

³<http://www.livemint.com/Industry/emVIeZzrmmdgevwbNg1zZL/GST-Commerce-ministry-to-write-to-finance-ministry-over-tra.html>

⁴ The Food Safety and Standards Act, 2006

⁵ [2006 (198) E.L.T. 323 (S.C.)]

connotes such a mark, symbol, design or name which is unique to the particular manufacturer which when used on a particular product would establish a connection between the product and the manufacturer. More importantly, it was pointed out that if the manufacturer's name in each and every case can be considered as a brand name, then there will be no such thing as *unbranded products* since it is a legal compliance to affix the name of the manufacturer on the packaged item. The identity of the seller cannot be always equated to a brand name.

Though the trademark law does not preclude any person from adopting his own personal name or surname as a trade mark in connection with his trade, *prima facie*, such a trade mark should be "*capable of distinguishing the goods or services of the applicant from those of others having the same name or surname*". A manufacturer or trader normally desires to use as a mark something associated with his name. Generally he does not use as a trade mark his full personal or business name but a characteristic part of such name, an abbreviation or merely the surname. But this legitimate desire or interest on his part must be reconciled with the desire or interest of a competitor to use his own identical or similar personal or business name or abbreviation or surname.

On the other hand, a trade name means a name under which goods are sold by a certain person and which, by established usage, has become known to the public as indicating that those goods are the goods of that person. In fact it is very common for trade names to be used as trademarks and the law permits registration of trade names as trademarks. However, the general test applied is: *Is it a name which other traders are likely in the ordinary course of their business and without any improper motive, to desire to use?*

Therefore, the purpose and intent of the provision cannot be such that all such persons who sell unbranded products are put to the inconvenience of submitting the affidavit merely because they are compulsorily supposed to affix their name and address. On account of this, a clear distinction has to be established between the name of the company/manufacturer and a brand name.

Retrospective Operation for granting exemption benefit

The insertion of the date of 15th May, 2017 for the purpose of examining the validity of the brand name registration has left many baffled. The insertion of this date has definitely resolved the problem of deregistering the brand names. However, the legal validity of notifying a backdate in the month of September, 2017 comes into question. GST was implemented with effect from 01.07.2017 pan-India. For deciding the tax rate of certain goods, can the Government notify a date before the GST implementation date? Suppose a trademark registration is cancelled on 16.05.2017, then in that case how can it still come under the scope of "registered brand name" by the mere insertion of this arbitrary cut-off date? The amending notifications also do not cover those brand names which are registered after the said date.

End to the Confusion?

Despite the public perception and the existing chaos regarding branded goods, to an extent, the situation is clearer that using reputed brands will attract taxes since the purchase of branded

products by consumers gives them confidence and provides consistency of quality. By widening the definition of registered brand name, now, the benefit of exemption cannot be granted to a number of packaged food sellers who have a brand name but have yet not applied for a trademark by making them submit the affidavit. Moreover, big companies may not be willing to risk a brand by abandoning all rights attached to it to save 5% GST. On this account, the intent of law to provide level playing field to all the participants in the market is pretty clear. Having said that, the Finance Ministry still needs to resolve ancillary issues connected with this issue. Importantly, all the small scale traders who are claiming the exemption for their products can submit the affidavit as a precautionary measure in the format as prescribed.

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- Indirect Taxes Committee