



Trademark management

Taxing decisions for trademark managers

While it can be expensive to acquire, maintain and enforce trademark rights in the United States, it is crucial to bear in mind that some of the costs associated with trademark management may be subject to significant tax deductions

During the current economic climate trademark managers and law firms are acutely aware of the cost of prosecuting, enforcing and defending trademark rights. Especially in common law countries, like the United States, where trademark rights are acquired through the use of a mark in commerce, there may be a tendency on the part of business owners to delay (or forgo altogether) the filing of trademark applications. Trademark owners confronted with evidence of activities that infringe their marks domestically or abroad may also balk at the cost associated with the enforcement of trademark rights.

In addition to the many reasons why rights holders should be proactive and vigilant in the prosecution and enforcement of trademark rights, there are also tax considerations associated with the prosecution, enforcement, acquisition and defence of trademark rights. Although the intricacies of accounting and tax law should be discussed with a qualified tax professional, it may be helpful for trademark attorneys and managers to have an understanding of some of the tax implications associated with managing marks in the United States.

US taxpayers, including individuals and corporations, may be entitled to deductions of certain trademark costs. US federal statutes and regulations provide that certain expenditures on trademarks (or trade names) incurred during a taxable year may be treated as deferred expenses. This amortization is an attempt to distribute and deduct evenly the costs associated with the ownership of an intangible asset, such as a trademark, over the economic life of the asset. Such treatment is arguably appropriate given the unique nature of trademarks, which have no fixed lifespan and no necessary depreciation, but which may be associated with significant costs from acquisition and enforcement. Under US federal tax laws, a variety of costs

incurred in trademark management may be deducted over a period of years following the incurrence of such costs. An annual audit of the business's trademarks is warranted to determine if any trademarks (or trade names) have been discontinued or will soon become obsolete. The information from such an audit may impact how any such identified assets are amortized.

Costs of prosecution, defence and enforcement

Certain costs associated with trademark selection, prosecution, defence and enforcement may be deducted ratably by the trademark owner pursuant to Title 26, §1.177-1 of the Code of Federal Regulations. Expenditures that may be deducted under this regulation include all costs that are "directly connected" with the acquisition, protection, expansion, registration or defence of a trademark or trade name. Such costs include federal and state trademark prosecution costs as well as the costs of prosecuting foreign trademark applications.

Attorneys' fees associated with the prosecution of a trademark registration may also be deducted pursuant to this regulation, in addition to the costs associated with the selection and design of the mark itself, including fees to outside artists or consultants. Furthermore, the costs of trademark litigation can be amortized by litigants under this rule. However, the costs associated with the purchase of an existing trademark, trade name or business are not covered and are considered below.

If the rights holder elects to amortize the trademark prosecution, defence and enforcement costs under this rule, it must make a filing with the Internal Revenue Service and must keep all the relevant expenditures in a separate account in its accounting records for each trademark or trade name owned. The owner may then deduct these costs ratably over a number of continuous months as chosen by the taxpayer, but in no event less than 60 months (five years). The regulations also provide that all trademark expenditures are properly chargeable to capital account for the purposes of determining adjustments to the basis of property held by the taxpayer.

Trademark acquisition and renewal costs

Under US federal law, the costs associated with the acquisition of an existing trademark must, as well as the cost of trademark renewals, be amortized pursuant to 26 USC § 197. The amount of the deduction is determined by amortizing the adjusted basis of the trademark over a period of 15 years, beginning with the month in which the trademark was acquired. The adjusted basis is essentially the original cost of acquiring the trademark (including associated legal fees) less any depreciation or loss associated with the trademark. The costs of acquiring a trade name or the goodwill associated with a business or trademark must also be amortized under this statute.

Such amortized deductions are not, however, available to parties to transactions where the parties are related entities. Under 'anti-churning' rules, the taxpayer cannot deduct the costs of acquiring the mark where its acquisition does not substantially change the ownership or use of the mark. For example, in a sale from a parent corporation to a wholly owned subsidiary or holding company, the transferee could not deduct the expenses pursuant to this statute. Similarly, if the licensor of a trademark transfers the ownership of the mark to a third party, but the licensee continues to use the mark exclusively, the transferee would not be eligible for this deduction.

It should also be mentioned that, under US law, a trademark must be transferred with its associated goodwill. Interest in an intent-to-use trademark application should be transferred only if there is an ongoing, existing business related to such trademark. That business and its associated goodwill must be transferred along with the interest in the trademark application. Any other transfer of an interest in an intent-to-use application may render such application and resulting registration void.

Taking counsel

Trademark attorneys and managers who have a practice in the United States should take counsel from an accounting or tax professional to ensure that trademark expenses receive proper treatment under US law. [WTR](#)

Jeffrey L Van Hoosear is a partner with Knobbe Martens Olson & Bear LLP in Orange County and **Jeffrey H Larson** is an associate at the firm.

jvanhoosear@kmob.com
jeffrey.larson@kmob.com