GUJ HC: Sale Consideration On Assignment Of Self-Generated Trademarks Not Taxable As Capital Asset

Facts and Issue

The assessee, a pharmaceutical company had formed a 50:50 joint venture company with another company and under a Deed of Assignment dated 15-6-2000, transferred 22 veterinary trademarks/brand names along with goodwill concerned with the goods for which such marks were registered/used, for consideration of Rs. 29.10 crores. The assessee contended that this sum was a capital receipt since trademarks were self-generated assets and that the amendment to section 55(2)(a) operated prospectively from 1-4-2002.

Case of the Department

The Assessing Officer completed the assessment u/s 143(3) and held that trademarks were sold along with goodwill and applied section 55(2)(a) to tax the receipt as capital gains by taking cost of acquisition at nil. The AO treated the said amendment by the Finance Act, 2001 as clarificatory, and alternatively sought to tax the said amount as business income u/s 28(iv) while also invoking section 41(1).

On appeal, the Commissioner (Appeals) held that the consideration of Rs. 29.10 crores was taxable as capital gains. Both the assessee and the revenue challenged that order before the Tribunal.

Case of the Assessee

The Tribunal, accepted the contentions of the assessee and held that the transferred assets were self-generated trademarks/brand names having no ascertainable cost of acquisition, that registration expenses were not cost of acquisition, and that the assignment was of trademarks and not goodwill of the assessee's business.

Reasoning and Order of the High Court

The substantial question that was raised before the High Court was:

> "Whether the Appellate Tribunal is right in law and on facts in reversing the order of CIT(A) wherein it was held that the consideration of Rs.29.10 crores received by the assessee for assignment of trademark / brand name was liable to tax as capital gain?"

The High Court noticed that the Tribunal had primarily placed reliance on the judgment of the Supreme Court in the case of CIT v. B.C. Srinivasa Setty (128 ITR 294) (SC) in which it was held that where cost of acquisition was Nil charge of capital gains tax would fail.

It held that prior to amendment in section 55(2)(a), with effect from 1-4-2002, read with sections 45 and 48, the consideration received on transfer of 'trademark', was not chargeable to tax and would not be an 'asset' to attract the charging provisions of section 45(1), and its assignment/ transfer was not subject to income tax under the head of 'capital gains'.

The High Court agreed with the findings of the Tribunal that the assessee had transferred the trademark, but not the goodwill. This it did on a reading of the assignment deed. It held that what was transferred was 22 trademarks; the pharmaceutical business of the assessee was not entirely transferred, and it retained substantial business with it. The High Court held that no goodwill of the pharmaceutical business was transferred on transfer of the 22 registered trademarks.

The High Court agreed with the assessee that the cost of acquisition in relation to a trademark or brand name associated with the business came within the purview of taxability subsequent to 1-4-2002.

The High Court also held that provisions of section 28(iv) would not apply to the sale consideration for assignment of trade marks, could not be treated as the value of any benefit or perquisite arising from the business or a profession, more particularly, the same being intangible assets and the cost of acquisition whereof could not be ascertained.

The Court also held that the Assessing Officer had not made out any case for taxing the sale consideration of trademarks as profit chargeable to tax u/s 41(1).

The High Court also applied the decision of the Bombay High Court in the case of *Fernhill Laboratories and Industrial Establishment* (*supra*) wherein it was held that the amendment to section 55(2)(*a*) of the Act was introduced w.e.f 01.04.2002.

The High Court also made a reference to the decision of the Karnataka High Court in the case of *Associated Electronics & Electrical Industries (Bangalore) (P.) Ltd.* (), wherein the High Court elaborately dealt with the meaning of 'goodwill' and it was further held therein that 'trade mark' and 'goodwill' are two distinct separate concepts. Section 55(2)(*b*) of the Act prior to the amendment provided for the levy of tax on capital gains in relation to a capital asset, being goodwill of a business. Insertion of the words, "registered trademarks or brand name associated with the business" by the Finance Act, 2001 depicts the intention of the Legislature to levy tax in relation to capital asset, being a trade mark or brand name associated with the business, which was not exigible to tax during the relevant assessment year.

The High Court upheld the view taken by the Tribunal that the trademarks/brand names under consideration are required to be treated as "capital assets" and held that the trademarks/brand names in the case of the Assessee were clearly required to be held as "self-generated"

Citation:

Zydus Lifesciences Ltd. [2026] 185 taxmann.com 644 (Gujarat)

Our Comments

The decisions of the Supreme Court in the case of S.C.Cambatta & Co. (P) Ltd. and R.C. Cooper referred to in the order of the High Court explain the concept of goodwill. The reference in the High Court's order to the Trade and Merchandise Marks Act 1958 highlights the distinction between trade mark and goodwill. This analysis could be useful in present times when goodwill has been made a non-depreciable asset and needs to be carved out from the other set of assets transferred on business reorganization.