Stokely USA, Inc. v. Commissioner, 100 T. C. 439 (1993)

A transferee may amortize the cost of a trademark if the transferor retains a significant power, right, or continuing interest in the subject matter of the trademark, even if the restriction is limited in scope or duration.

Summary

Stokely USA, Inc. purchased trademarks from Quaker Oats Foundation for $1,584,500, subject to restrictions including a 20-year prohibition on using the trademarks for pork and beans products. The Tax Court held that this restriction constituted a significant retained interest, allowing Stokely to amortize the cost over 10 years. The court reasoned that the restriction significantly impacted Stokely's business and Quaker Oats' market position, despite not being listed as a significant right under the statute. This decision clarifies that restrictions on trademark use, if significant in context, can trigger amortization, affecting how trademark transactions are structured and taxed.

Facts

Stokely USA, Inc. , formerly Oconomowoc Canning Company, acquired trademarks including Stokely's and Stokely's Finest from the Quaker Oats Foundation for $1,584,500 in 1984. The trademarks were subject to several restrictions: (1) a 5-year right for the Foundation to disapprove any assignment of the trademarks; (2) a 20-year prohibition on using the trademarks in connection with pork and beans products; (3) perpetual prohibition on using the name "Van Camp" on any products; and (4) geographic limitations on use in Canada and certain European countries.

Procedural History

The Commissioner of Internal Revenue disallowed Stokely's deductions for amortization of the trademark cost. Stokely petitioned the U. S. Tax Court for redetermination of the deficiencies. The court ruled in favor of Stokely, allowing the amortization deductions based on the significance of the pork and beans restriction.

Issue(s)

1. Whether the 5-year right retained by the Foundation to disapprove assignment of the trademarks is a significant power, right, or continuing interest under Section 1253(a)?
2. Whether the 20-year restriction on using the trademarks for pork and beans products is a significant power, right, or continuing interest under Section 1253(a)?

Holding

1. No, because the 5-year right to disapprove assignment is not listed as significant under Section 1253(b)(2) and there is insufficient evidence to show it was significant

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under the circumstances.
2. Yes, because the 20-year restriction on using the trademarks for pork and beans products was a significant power, right, or continuing interest with respect to the subject matter of the trademarks, as it impacted both Stokely's business and Quaker Oats' market position.

Court's Reasoning

The court analyzed the significance of the retained rights under Section 1253(a), which does not require the retained right to be coextensive with the duration of the interest transferred. The court distinguished between the "interest transferred" and the "subject matter" of the trademark, noting that the subject matter can be broader and not necessarily limited in time. The court found that the pork and beans restriction was significant because it prevented Stokely from entering a lucrative market and protected Quaker Oats' Van Camp's brand. The court rejected the Commissioner's argument that the restriction was not significant because it did not grant "active, operational control" over Stokely's business, emphasizing that the restriction's impact on both parties' business interests was substantial. The court also noted that the list of significant rights in Section 1253(b)(2) is nonexclusive, allowing for other rights to be considered significant under the circumstances.

Practical Implications

This decision impacts how trademark transactions are structured and taxed. It clarifies that a transferor's retained right to restrict the use of a trademark can be significant enough to trigger amortization, even if not listed in Section 1253(b)(2). Practitioners should consider the practical impact of any restrictions on the transferee's business when structuring trademark deals. Businesses acquiring trademarks should be aware that significant restrictions can allow them to amortize the cost over time, potentially improving cash flow. Conversely, transferors must carefully consider the tax implications of retaining rights or imposing restrictions. Subsequent cases have applied this ruling to various contexts, emphasizing the importance of the factual circumstances in determining the significance of retained rights.

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