Has your client secured a not-so-hidden asset?

WV Legal Perspectives

By John Moore

When clients are buying or selling businesses, a value is always attributed to goodwill. The *CICA Handbook* affords goodwill the following definition: "the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liability assumed."

Goodwill in the marketplace can be a different thing. It will encompass the reputation of a business as perceived by its clients and the general public. Consideration should be given to how businesses protect this second type of goodwill.

Part of the overall concept of goodwill is brand recognition. Businesses work hard to develop a reputation for quality in the marketplace and want to be certain that the general public can discern between wares and/or services provided by them and those provided by other entities. One way of distinguishing the wares and/or services provided by one company from the wares and/or services provided by another is by the use of a trademark. Generally speaking, a trademark may be a word or words, a design or logo, or a combination thereof which acts to indicate the origin of a ware or service.

For example, one of the most visible uses of trade-marks is in automobiles. If we see the name Camry on an automobile, we understand that the automobile was manufactured by Toyota and have certain expectations as to the quality of the automobile. It would be a problem for Toyota if we could not be sure that every automobile bearing the name Camry was indeed manufactured by such corporation.

Many businesses use trademarks without even realizing they are doing so and, more importantly, not realizing the value that such businesses are creating. Often a business may put a slogan or a particular saying in its advertising or on correspondence.

A consulting firm may use the term your partner in the human resources field in such a manner, and in doing so it is creating value and may have the right to protect its value.

Trademark protection involves the ability of a business to prevent another business from identifying its wares or services to the public in a way that would cause confusion in the marketplace about where the particular wares or services originated.

Often businesses assume that they have adequately protected their trademark because they have incorporated a corporation using such trade-mark as the corporation's name, or have registered such trademark as a business name; however, these methods often do not adequately protect the trademark rights to the extent desired.

Trademark protections are often found wanting.

The steps a business may have taken to protect its trademark become evident when a rival using a similar trade-mark enters the marketplace.

If a client has taken no prior steps to protect its trademark, its primary option (other than strongly worded cease and desist letters) is to rely on the tort of passing off in order to protect this part of its goodwill.

These rights are enforced through the courts. There are limitations to the enforcement of these rights:

(a) any common law rights are limited to the geographic area where the trademark is actually used, and third parties may be able to obtain common law rights to use the trademark, or a confusingly similar trademark, in other geographic areas in Canada;

(b) in any enforcement action, the affected party must prove that it has goodwill in the trade-mark, that the use by the third party is misrepresentation and is confusing to the public; and

(c) that the party has suffered or will likely suffer damages through the use of the trademark by the third party.

A client may choose to apply to register its use of the trademark through the Canadian Intellectual Property Office.

Although the process is somewhat lengthy (often up to a year), the advantages of registration are significant.

The owner of a registered trademark has the right to use that trade-mark throughout Canada in association with its wares and/or services. This might be particularly important for clients who rely on the internet for their business.

In addition, in any enforcement action through the courts, the registration creates a presumption that the registrant is exclusively entitled to use the trademark for its particular wares and/or services.

As such, the registrant then only has to establish that the infringing party has caused confusion in Canada and that damages have been, or are likely to be, suffered.

Another consideration for businesses is the enhanced value the registration of a trademark may provide when that business is being sold.

A registered trade-mark may give a potential purchaser more comfort that (a) some forethought has been given to protecting this asset of the business, and (b) the vendor has obtained the intellectual property rights that are confirmed through registration and is in a position to enforce same against third parties.

Whether this type of goodwill is an integral part of a business's marketing or is a hidden asset, businesses and their advisors should always consider whether these intellectual property assets are worth protecting, and if so, the steps to be taken to protect same.

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CRA reversal means foundations can now incur debts

By THERESA MAN

On October 21, 2005 the Canada Revenue Agency reversed its strict position with respect to public and private foundations incurring debts for the purpose of acquiring investment, enabling both to now do so.

Since June 1, 1950 public and private foundations have been prohibited from incurring debts other than debts for current operating expenses, the purchase and sale of investments, or the administration of charitable activities.

Paragraphs 149.1(3)(d) and 149.1(4)(d) of the *Income Tax Act* provide that the incurring of such debts by charitable foundations could be cause for revocation of their charitable status. This restriction does not apply to charitable organizations.

CRA's former policy

Previously, CRA had strictly interpreted the Act's use of the phrase "debts incurred in connection with the purchase and sale of investment" as applying to a miscellaneous type of debt such as brokerage fees or other incidental amounts that could relate either to the purchase or the sale of investments.

CRA maintained that foundations were prohibited from incurring debts for the purpose of purchasing investments, or using the loan proceeds to discharge debts which were, when incurred, permitted under the Act, as set out in technical interpretations dated April 4, 1997 (#9700205) and October 4, 1995 (#9428885).

In this regard, CRA relied on the "ordinary rules of statutory interpretation" applied in the 1994 decision of the Supreme Court of Canada in *Corporation Notre-Dame de Bon-Secours v. Commuanuté urbaine de Québec and City of Québec*.

In that case, the court held that "the words of an Act are to be read in their entire context in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act and the intention of parliament," and that the "first consideration should therefore be to determine the purpose of the legislation, whether as a whole or as expressed in a particular provision."

CRA indicated that the words "debts for current operating expenses" and "debts incurred in the course of administering charitable activities" would be "an indication of short term debt of smaller amounts and not long term debt or loans for purposes

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of purchasing investments in that such acquisitions have a connotation of long term larger amounts." CRA took the position that this would exclude a debt relating to the purchase price as there is no similar loan or debt which would arise on a sale.

CRA's new policy

On October 21, CRA issued a new technical interpretation (2005-015475117), stating that CRA had revised its position such that debts incurred by charitable foundations for the purpose of acquiring investments are now acceptable debts. CRA explained that the reason for the change in their policy was because "jurisprudence has confirmed that the phrase 'in connection with' has a very broad meaning."

In this regard, CRA made reference to the 1983 Supreme Court of Canada decision in *Nowegijick v. The Queen*.

The court in the Nowegijick case, in deciding whether the taxpayer in question was exempt from tax under the *Indian Act*, held that the phrase "in respect of'" are "words of the widest possible scope."

The phrase "import[s] such meanings as 'in relation to', 'with reference to' or 'in connection with'" and is "probably the widest of any expression intended to convey some connection between two related subject matters."

Interestingly, the court in that case decided on the meaning of the phrase "in respect of," not the meaning of the phrase "in connection with," which is contained in paragraphs 149.1(3)(d) and 149.1(4)(d) of the Act. It is not clear from the 2005 technical interpretation what other "jurisprudence" it is referring to or why CRA did not rely on the 1983 *Nowegijick* decision when issuing its earlier technical interpretations in the 1990s.

CRA indicated in the 2005 technical interpretation that it is now acceptable for a foundation's directors and members to give interest-free loans to the foundation to enable the foundation to acquire investments, pay current operating expenses or expend on charitable activities. CRA explained that:

- The borrowed money would increase the investment capital and therefore would give rise to a disbursement quota requirement.
- The lender would not be entitled to a charitable donation tax credit if the loan is repaid by the foundation.
- If the lender forgives all or part of the debt, then the lender would be entitled to a charitable donation tax credit for the part of the debt that is forgiven at the time when the debt is forgiven.

However, debt arrangements would continue to be reviewed by CRA, especially those involving non arm's-length parties, in order to ensure that there are no other issues, such as personal benefit. CRA's change in policy in this regard is a welcome one for foundations.

Theresa Man, B.Sc., LL.B., practices at Carters Professional Corporation in charity and not-for-profit law, with an emphasis on tax issues and is pursuing an LL.M. in tax law. More details are available in *Charity Law Bulletin No.86* at: www.charitylaw.ca.