

INTRODUCTION

Trade mark law is perhaps one of the oldest, most pervasive and complex areas of intellectual property law, elements of which can be traced back to the ancient Egyptians. Trade marks can be found at common law as well as in statutes and treaties, and can be found in both the national and international contexts. Perhaps because trade marks are generally associated with commerce — most public trade mark disputes are over high-profile commercial brands — charitable and not-for-profit organizations generally do not recognize the importance of trade marks in their non-commercial world. Consider, for example, the growing trend of trade marks to not just identify the source of products, but to create new commodities in which the trade mark becomes part of the product.¹ Instead of the discreet mark to identify the source, the mark is prominently displayed on clothing and accessories. Examples would be ROOTS, GAP and NIKE. In many instances the product is less important than the trade mark, as the trade mark denotes status, loyalty, belonging or admiration. Accordingly, trade marks in their own right have been valuable assets for sports teams and movies, bringing into question the traditional theory that one of the benefits of trade marks was in reducing consumer search costs by requiring the producer of the trade marked good to “maintain a consistent quality over time and across consumers”.²

But the traditional economic analysis of trade marks law or the newer concept of trade marks as valuable commodities may have little resonance for organizations that traditionally depend on the philanthropic nature of individuals in order to support their good works. Yet, in recent years, trade mark issues have taken on a greater significance for charitable and not-for-profit organizations and, as a result, are requiring these organizations to become more familiar with the issues surrounding one of their most valuable assets.

¹ Alex Kozinski, “Trademarks Unplugged” (1993) 68 N.Y.U.L. Rev. 960.

² William M. Landes & Richard A. Posner, “Trademark Law: An Economic Perspective” (1987) 30 J.L. & Econ. 265 at 269.

DEFINING CHARITABLE AND NOT-FOR-PROFIT ORGANIZATIONS³

It is important to recognize that while all charities are not-for-profit organizations, not all not-for-profit organizations are charities. As such, care should be taken when referring to such organizations. Additionally, despite the growth in the number and size of charitable and not-for-profit organizations in Canada,⁴ the legal framework from both the federal and provincial governments has not kept pace, relying heavily upon concepts developed in the seventeenth and nineteenth centuries, thereby leaving the distinction between the various types of charities and not-for-profit organizations in a somewhat confused state. This is particularly so for members of the public, who often use the terms interchangeably.

Charitable and not-for-profit organizations operate on a not-for-profit basis, in that both must devote all of their resources to their activities and neither may distribute any income to members, officers, directors, or trustees. Both are exempt from tax on their income (with some exception for not-for-profit organizations), and both will often have similar governance structures. Charitable and not-for-profit organizations are, however, two distinct types of legal entities with different legal obligations and rights. An organization which has charitable objects is much more limited in the types of activities it can engage in, but in return, receives substantial advantages in carrying out its objects by being able to issue charitable receipts for income tax purposes in response to donations that are received.

At law, charity has a specific meaning that often eludes the popular conception. For an organization to be considered charitable at law, its objects or purposes must be undertaken to achieve a charitable purpose. Presently, only four categories or heads of charity are recognized in

³ This section is reprinted in part by permission of LexisNexis Canada Inc. from Terrance S. Carter & Karen J. Cooper, “The Legal Context of Not-for-Profit Management” in Vic Murray, ed., *The Management of Charitable and Not-for-Profit Organizations in Canada* (Toronto: LexisNexis Canada) [forthcoming]. For detailed commentary on the law of charitable and not-for-profit organizations, see Donald J. Burgeois, *The Law of Charitable and Not-for-Profit Organizations*, 3d ed. (Markham, Ont.: Butterworths, 2002).

⁴ For example, Statistics Canada released the results of its survey of charitable and not-for-profit organizations in 2004, which indicated that there were approximately 161,000 such organizations in Canada in 2003. These organizations had revenues totalling \$112 billion (\$8 billion of which came from individual donations), and they drew upon two billion volunteer hours and 139 million memberships. See Michael H. Hall *et al.*, *Cornerstones of the Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations* (Ottawa: Statistics Canada, 2004) at 7, 9 and 10.

Canadian law. In the seminal decision of *Special Commissioners of Income Tax v. Pemsel*,⁵ Lord MacNaghten identified four heads of charity: relief of poverty, advancement of education, advancement of religion, and other purposes beneficial to the community not falling under any of the preceding heads. This definition is mirrored in Ontario's *Charities Accounting Act*⁶ (the "CAA"), and although the federal *Income Tax Act*⁷ (the "ITA") does not make specific reference to these categories, both the Charities Directorate of Canada Revenue Agency ("CRA") and the courts rely on the same categories in regulating the sector. The Supreme Court of Canada, in *Vancouver Society of Immigrant and Visible Minority Women v. Canada (Minister of National Revenue)*,⁸ clarified the Canadian approach to recognizing charities, noting that while the ITA focuses on the character of the activity undertaken by the organization, thereby linking them to the categories established in *Pemsel*, the focus should be on the purpose in furtherance of which an activity is carried out in order to determine whether charitable status should be granted. An organization with objects and activities that fall into one of these four categories will qualify as a registered charity for the purposes of the ITA. A registered charity may take one of three legal forms, depending upon the types of activities undertaken and the relationship between the organization and its main source of funds: (1) a charitable organization; (2) a public foundation; or (3) a private foundation.

Under the ITA, a non-profit organization is defined as a

... club, society or association that ... was not a charity ... and that was organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit, no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder ...⁹

The ITA clearly establishes that, for its purposes, non-profit organizations and charities are two mutually exclusive categories of organizations, and expressly provides that a non-profit organization is not a charity. As such, any organization whose objects and activities fall exclusively within the four heads of charity discussed above is not a non-profit organization and should seek registration as a charity under the ITA in order to avoid being taxed on its income. Although a non-profit organization, like a charity, has tax

⁵ [1891] A.C. 531 (H.L.) [hereinafter "*Pemsel*"].

⁶ R.S.O. 1990, c. C.10.

⁷ R.S.C. 1985 (5th Supp.), c. 1.

⁸ [1999] S.C.J. No. 5, [1999] 1 S.C.R. 10 [hereinafter "*Vancouver Society*"].

⁹ *Income Tax Act*, R.S.C. 1985 (5th Supp.), c. 1, s. 149(1)(l).

exempt status and does not pay tax on income or capital gains (except income from property of an organization whose main purpose is to provide dining, recreation, or sporting facilities), it is not able to issue charitable receipts for income tax purposes. However, it is not required to disburse a specified percentage of its earnings.

TRADE MARKS AND CHARITABLE AND NOT-FOR-PROFIT ORGANIZATIONS

Regardless of a charitable organization's status under the ITA, both statute and the common law place a heavy burden upon its directors to ensure that all assets of an organization are properly identified, protected and applied in fulfilment of the organization's objects, particularly if it is a charity. The assets of an organization in this regard include the organization's intellectual property. This follows from the fiduciary obligation placed upon directors of a charity (as opposed to a not-for-profit organization) to act as trustee-like stewards of the charitable property entrusted to them and to take appropriate steps to protect those charitable assets. As such, familiarity with trade mark issues is especially important for today's charities. Yet the protection of an organization's trade marks should be just as important to a not-for-profit organization, as the trade marks of both charitable and not-for-profit organizations may be the most valuable asset the organization owns, and failure to protect this asset could have serious and, in some situations, even disastrous consequences for both the organization and its directors.

Of course, directors of these organizations cannot take steps to protect the trade marks of a charitable or not-for-profit organization if they do not know anything about trade marks or how vulnerable the intellectual property rights are that are associated with trade marks. As a result, directors need to take the initiative to learn about trade marks, the nature of the intellectual property rights in trade marks, the risks to trade mark rights, and the steps required to protect trade mark rights.

Consequently, some general familiarity with trade mark issues should be a practical necessity for lawyers who advise the more than 161,000 charitable and not-for-profit organizations that currently are in operation in Canada,¹⁰ as it is often the general practitioner and not the trade mark agent who is in the best position to bring trade mark matters to a client's attention.

¹⁰ Michael H. Hall, *et al.*, *Cornerstones of the Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations* (Ottawa: Statistics Canada, 2004) at 4.

This is particularly so for charitable and not-for-profit organizations which seldom, if ever, contact a trade mark agent, partly as a result of the perceived expense involved and partly because of a general lack of understanding of trade mark issues.

More often than not, it is only after a problem develops that charitable or not-for-profit organizations become aware of trade marks issues, learning with surprise or dismay that it is too late to do anything to reverse the damage that has been done. As can be expected, there is little point in the lawyer explaining trade mark issues to the organization's directors after the fact. Instead, what is needed is proactive legal risk management advice concerning trade mark issues. Therefore, it is increasingly important that lawyers who are advising charitable and not-for-profit organizations become familiar with trade mark issues affecting their clients.

Unfortunately, while there are a number of resources available on trade marks in general, the focus tends to be on for-profit business, and there are few resource materials available for the charitable or not-for-profit organization. This book is an attempt to fill this void by providing an overview of some of the key trade mark concepts for charitable or not-for-profit organizations and the lawyers who advise them. Although this book focuses on trade mark issues that are unique to charitable and not-for-profit clients, the comments and observations contained herein may have equal application for for-profit clients as well.