

"Protecting and Licensing Nonprofit Trademarks: Key
Trademark and Tax Law Issues"

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Trademarks Have Come of Age

- What is a trademark/brand?
 - Brand names, acronyms, logos, slogans
- Consider:
 - who is controlling trademarks in today's nonprofit organizations
 - what the marketplace says about trademarks
 - what legal activities say about trademarks

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Every Nonprofit Has Brands to Protect

- Where are the trademarks?
- Have you applied to register your key brands?
- Have you searched/cleared and applied to register brands you intend to use?
- Even the firefighters are branding
- The “Bet the Organization” Moment: Think Trademarks
 - establishing a brand is not like setting up a legal entity; the “likelihood of confusion” standard

The Rise in Legal Battles Among Nonprofits Over Trademarks

- “Charity Brawl: Nonprofits Aren’t So Generous When a Name’s at Stake,” *The Wall Street Journal*
 - Susan G. Komen for the Cure
 - the pink ribbon; KITES FOR A CURE
 - The theme of lost donations
 - LIVESTRONG versus HEADstrong
 - Wounded Warrior Project versus Wounded Warriors Inc.
 - Sunshine Kids Club of California

Clearing Trademarks: Selection and How to Work with Marketing Executives

- The Hierarchy of Distinctiveness
 - Fanciful
 - Arbitrary
 - Suggestive
 - Descriptive
 - Generic
- Worlds Apart? How to Bridge the Gap Between Legal and Marketing Departments
 - Six steps

Registering Trademarks: Descriptive Names, Acronyms, and Certification Marks

- Descriptive names versus acronyms
- Supplemental Register versus Principal Register
- Certification marks versus:
 - traditional trademarks
 - collective membership marks

Registering Trademarks Abroad: Generally and Under the Madrid Protocol

- Country-by-country basis
- European Community exception
- The problem of “first to file” countries
- The Madrid Protocol: King of the Road, or Hit the Road Jack?
 - Advantages
 - Disadvantages

Managing Trademarks: The Trademark Audit and Working with Outside Counsel

- Key marks
- Key goods/services
- Key countries
- Tolerance for risk
- Budgeting
- Consolidation
- Secrets to working with outside counsel

Enforcing Trademarks: Trademark Notices; Policing

- TM versus SM
- TM/SM versus ®
- The requirement of policing
- How to do it
- Nonprofit perspective

Licensing Trademarks: The Problem of Naked Licensing

- Nonprofits: Don't Get Caught Naked (Licensing)
 - *Freestyle* and the problem of abandonment
 - The effects of abandonment
 - What is “quality control”?
 - Collective membership marks as a possible solution
 - *Birthright* and the issue of whether nonprofits get off easy

Licensing Trademarks: Three Steps to Take to Avoid Naked Licensing

- (1) Treat marks used by members/chapters as collective membership marks
- (2) Change bylaws and/or policy manual to include trademark license
- (3) Enforce the license found in the bylaws and/or policy manual

Tax Considerations When Licensing Trademarks: General

- Tax-exempt organizations are exempt from federal income tax on related income only, subject to key exceptions
- Income generated from unrelated activities, such as through actively assisting a company sell its (unrelated) products and services, could give rise to unrelated business income tax exposure
- Excessive unrelated business income could give rise to risk of revocation of exempt status

Basic Rules of UBIT; Unrelated Business Income and Specific Exceptions

- Elements of income that is subject to UBIT—income is generated from an activity:
 - that is a trade or business;
 - that is regularly carried on;
 - that is not substantially related to the organization’s exempt purposes
- Exceptions include: royalty income, corporate sponsorship income, volunteer labor, donated goods, convention and trade show, rents, dividends, interest

Exceptions to UBIT: Structuring Agreements and Relationships

- Even if the underlying activity may not be related to the organization's exempt purpose, transactions still can be structured to minimize exposure to UBIT
- Contract provisions are key; actual performance of the parties must be consistent with contract
- Largest factor in these relationships is the degree to which the tax-exempt is required to perform marketing or services in relation to the program

Royalties: Definition of Royalty

- “Payments received for the right to use intangible property rights...such definition does not include payments for services.” *Sierra Club v. Commissioner*
- Components
 - Name, mark and mailing list
 - Third-Party Product
 - e.g. affinity card, not medical journal
 - No active promotion (or quantify value and pay tax)
 - Announcement letter okay
 - Quality control measures okay

Royalties: Passive Versus Active Participation

- **General rule:** The less an organization does the more likely income is to be characterized as royalty income
- Evidence of royalty relationship:
 - Payment relates to use of a **valuable right**
 - Organization's activities are generally limited to **those necessary to protect its reputation**
 - Review use of logo for quality and style
 - Limit the use of logo to approved circumstances
- Evidence of other (usually service) relationship:
 - **Personal service** component to relationship (*i.e.*, appearance or endorsement requirement)
 - **Significant activities** or rights such as approval of editorial content and preparing articles in a publication
 - Existence of a **quid pro quo** transaction

Royalties: Key Royalty Agreement Terms

- Make clear that a *license* is being provided and being paid for with a *royalty*
- Avoid using a service contract as a template; avoid using the term *commission*
- If the party that wishes to use your name, logo, or other property (mailing list) insists on the exempt organization being actively involved, consider bifurcated agreements

Corporate Sponsorship Income: Acknowledgment Vs. Advertising

- In some instances, exempt organizations may license their trademarks in connection with a sponsorship relationship—usually an exchange of licenses occurs here
- Code includes a safe harbor for corporate sponsorship income, provided that there is nothing of value provided in return
- May *acknowledge* sponsor (logos, name, etc.) but *advertising* likely causes a portion of sponsorship payment to be taxable

Corporate Sponsorship Income: Eligible for Safe Harbor?

- Safe harbor does not apply to:
 - Items/services of over 2% in return value
 - Contingent payments
 - Exclusive provider arrangements
- Safe harbor does apply to mere acknowledgment benefits
- Note that being outside safe harbor does not necessarily mean income is taxable

Corporate Sponsorship Income: Key Sponsorship Agreement Terms

- Specify exact form of acknowledgment
- Specify all return benefits
- Specify value of taxable benefits
- Have right to approve any copy relating to sponsorship or using tax-exempt's name/logo
- Specify site to which hyperlinks will link

Cause-Related Marketing: Benefits Versus Risks

- Attributes
 - Commercial entity uses your name or logo in its advertisements with promise to pay a portion of purchase price to you
 - Passive
 - Lack of control
- Rewards
 - Increased donations
 - Increased awareness of your organization
- Risks
 - No control over where advertisements are displayed
 - Possible state reporting requirements
 - Problems with having underlying product associated with your organization

Cause-Related Marketing: Commercial Co-Ventures

- Commercial Co-Venture (“CCV”) – An arrangement between a charity and a commercial entity under which the commercial entity advertises in a sales or marketing campaign that the purchase or use of its goods or services will benefit a charity or charitable purpose
- *“When you buy our new iPhone app, 50% of the purchase price will go to the Lincoln Center!”*
- Frequently referred to as “charitable sales promotions” or “cause-related marketing”
- Excellent fundraising and marketing mechanism for both the charity and commercial co-venturer

Cause-Related Marketing: Better Business Bureau Standards

- BBB Wise Giving Alliance Standards for Charity Accountability – www.bbb.org/us/charity-standards
- **BBB Standard 19**
 - Should clearly disclose how charity benefits from sales promotion.
 - Ensure that sales promotions disclose the following at the point of solicitation:
 - the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to ABC charity for every XYZ company product sold)
 - the duration of the campaign (e.g., the month of October) and
 - any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of \$200,000)

Cause-Related Marketing: Key Tips for Managing Relationships

- **Identify CCVs.** Ensure staff is able to recognize a charitable sales promotion and informed about CCV regulations. Consider developing a checklist of issues to address in selecting and working with commercial entities
- **Advance Planning.** Pick co-venturer wisely—you want them to be established, organized, and serious about compliance. Give yourself and co-venturer plenty of time to meet state requirements—particularly disclosures on ad copy—well in advance of start date
- **Written Contract.** Required by most regulating states, the written contract should contain any required terms and standard legal protections, and should be signed by charity officer (or two, in MA)
- **Monitor Co-Venturer for Compliance.** Nobody wants a state investigation. It is in the charity's best interests to encourage the co-venturer to meet state requirements and to enforce terms of the CCV contract, both before and after to the start of the promotion

Questions?

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