

# "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

## 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](http://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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