
Kluwer Trademark Blog

Tax haven licensing manoeuvres fall through legal cracks

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This is about how a hugely successful Austrian furniture giant turned the wheels a bit too far trying to save taxes through restructuring and licensing. An Austrian story, which, however, could probably have taken place anywhere in the European Union.

In a judgment of 27 November 2020 (case ref. Ra 2019/15/0162), the Highest Administrative Court of Austria (Verwaltungsgerichtshof) declared license payments to a trademark holding company in a tax haven (precisely: Malta) not to be tax deductible where the operating company (in Austria) remained fully in charge of all brand use, development, and management (including the resulting cost), and was, as such, the **beneficial owner** of the trademarks (full text in German [here](#)).

The attempt to save taxes had been made by XXXLutz, a discount furniture store chain headquartered in Wels, Austria. Founded as “Möbel Lutz” (“*Furniture Lutz*”) in 1945 with just one small store, it has grown to become a furniture giant, allegedly the second largest worldwide in 2020 (<https://xxlgroup.com/xxxlutz-gruppe/>). Its house mark XXXLutz (created in 1999) and its other two core marks “Möbelix” (from 1996) and “Mömax” (from 2002) are very well known and indeed household brands in Austria (and elsewhere, including Germany).



[Depiction: The XXXLutz “trilogy” of trademarks, storefront in 1030 Vienna, for source and copyright see footnote][1]

With success often comes the wish for tax optimization. In the course of a group restructuring in 2007, first, the real estate division was spun off from the (then) “trading business/brands” company, and then the trading business was spun off to a new company (short “**Trading Company**”). The rights to the group’s trademarks remained with the original company, renamed “XXXLutz Marken GmbH” (short “**TM Company**”), which subsequently transferred all trademark rights, estimated at € 383 million, to a Maltese operating facility, and in January 2008, relocated also its place of management to the Maltese paradise.

The TM Company then licensed the company’s trademarks to the Trading Company in return for a (turnover-dependent) licence fee (resulting in approximately € 50 – 53 million per year), and the TM Company deducted these as business expenses from its corporate taxes in the years 2008, 2009 (and in the following years, according to [press reports](#)). The regular Austrian corporate tax rate is 25% while the factual income taxation of the TM company’s licence income in Malta was only 5%.

Following [critical press reports](#) in 2013 and 2014, the tax authorities audited the corporate tax of the years 2008 and 2009 and did not recognise the licence expenses for 2008 and 2009 as business expenses. A long legal battle followed, ending with the judgment here reported. XXXLutz lost in all instances.

The Verwaltungsgerichtshof considered the TM Company to be merely a trustee, while the Trading Company had remained the **beneficial owner** of the trademarks. The entire trademark value had been created before the spin-off, and no new trademarks had been registered during the audit period. The entire advertising strategy was determined by the licensee – the Trading Company – which also bore the cost thereof (roughly € 56 and 68 million in 2008 and 2009, respectively). The licensor, in turn, had almost no advertising expenses, and also its operating costs were extremely low – and indeed disproportionate to the tasks of a company that was supposed to manage corporate trademark rights valued almost € 400 million. In the view of the Court, all this could only be explained by the fact that, even after the spin-off, all decisive **trademark administration, maintenance and management tasks** remained with the Trading Company in Austria, while the Maltese TM Company only acted in a supporting capacity.

As a result, the licence payments were not business expenses and as such not tax deductible, but subject to the full 25% corporate tax in Austria (instead of 5% in Malta).

The case is said to have even had an impact on Austrian tax laws: A reform in 2015 put a statutory limit to the deductibility of license payments that are subject to an actual tax burden of less than 10%. However, this only applies where the *licensor* is the beneficial owner of the trademarks and controls trademark administration, maintenance and management. Otherwise, if the licensor is only a trustee, the licensee is not entitled to any tax deduction of its license payments!

[1] Depiction: View of *Kelsenstraße 9, Landstraßer Gürtel, 1030 Vienna* – XXXLutz, © *Ewald Judt*, source: https://austria-forum.org/af/Bilder_und_Videos/Bilder_Wien/1030/9146, slightly cropped, under CC license <https://austria-forum.org/af/Lizenzen/CC-BY-4.0>.

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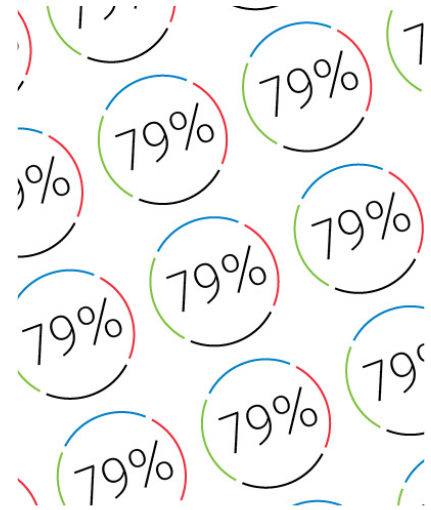
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