

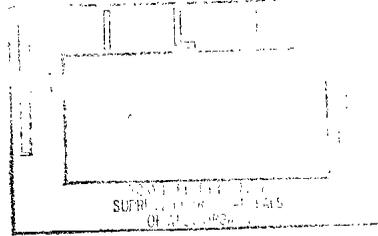
IN THE SUPREME COURT OF APPEALS OF WEST VIRGINIA

NO. 11-0252

(Circuit Court Civil Action No. 10-AA-02)

**CRAIG A. GRIFFITH, WEST VIRGINIA
STATE TAX COMMISSIONER,**

Respondent Below, Petitioner,



v.

CONAGRA BRANDS, INC.,

Petitioner Below, Respondent.

**BRIEF OF THE PETITIONER CRAIG A. GRIFFITH,
WEST VIRGINIA STATE TAX COMMISSIONER**

**DARRELL V. McGRAW, JR.
ATTORNEY GENERAL**

**KATHERINE A. SCHULTZ
SENIOR DEPUTY ATTORNEY GENERAL
State Bar No. 3302
CHARLI FULTON
SENIOR ASSISTANT ATTORNEY GENERAL
State Bar No. 1314
State Capitol Complex
Building 1, Room W-435
Charleston, West Virginia 25305
(304) 558-2522
kas@wvago.gov
Ccf@wvago.gov**

TABLE OF CONTENTS

	Page
I. ASSIGNMENTS OF ERROR	1
II. STATEMENT OF THE CASE	2
III. SUMMARY OF ARGUMENT	7
IV. STATEMENT REGARDING ORAL ARGUMENT AND DECISION	9
V. STANDARD OF REVIEW	9
VI. ARGUMENT	11
A. CAB’S USE OF ITS INTANGIBLE PROPERTY TO PRODUCE BUSINESS INCOME FROM SALES IN WEST VIRGINIA FALLS SQUARELY WITHIN THE STATUTORY DEFINITION OF DOING BUSINESS; THEREFORE, THE CIRCUIT COURT ERRED IN HOLDING THAT CAB WAS NOT SUBJECT TO CORPORATION NET INCOME TAX (“CNIT”) AND BUSINESS FRANCHISE TAX (“BFT”)	11
1. The Intangible Holding Company Arrangement	11
2. The Business Franchise Tax and Corporation Net Income Tax Statutes Reach ConAgra Brands	12
B. CAB’S PURPOSEFUL DIRECTION OF ITS TRADEMARKS INTO WEST VIRGINIA SATISFIES THE DUE PROCESS CLAUSE OF THE UNITED STATES CONSTITUTION; THEREFORE, THE CIRCUIT COURT HOLDING THAT THE IMPOSITION OF CNIT AND BFT WAS UNLAWFUL IS ERRONEOUS	17
C. THE CIRCUIT COURT ERRED WHEN IT FAILED TO APPLY THE <i>MBNA</i> SUBSTANTIAL ECONOMIC PRESENCE TEST IN DETERMINING COMPLIANCE WITH THE SUBSTANTIAL NEXUS PRONG OF THE <i>COMPLETE AUTO</i> TEST	22

D. THE CIRCUIT COURT MISAPPLIED THE *COMPLETE AUTO/MBNA* TEST IN THE CONTEXT OF THIS CASE: INTANGIBLE PROPERTY BY ITS VERY NATURE HAS NO PHYSICAL PRESENCE; THEREFORE, THE COURT MUST LOOK TO WHERE THE INTANGIBLE IS BEING USED AND EARNING MONEY TO DETERMINE WHETHER THERE IS SUBSTANTIAL NEXUS BETWEEN THE TAXPAYER AND THE STATE 28

VII. CONCLUSION 38

TABLE OF AUTHORITIES

CASES

<i>A & F Trademark Inc. v. Tolson</i> , 605 S.E.2d 187 (N.C. App. 2004)	34
<i>American Dairy Queen Corp. v. Taxation and Revenue Department of New Mexico</i> , 605 P.2d 251 (N.M. App. 1979)	30, 33
<i>Apollo Civic Theatre, Inc. v. State Tax Com'r</i> , 223 W. Va. 79, 672 S.E.2d 215 (2008)	15
<i>Appalachian Power Co. v. State Tax Department</i> , 195 W. Va. 573, 466 S.E.2d 424 (1995)	9
<i>Asahi Metal Industry Company v. Superior Court of California</i> , 480 U.S. 102 (1987)	21
<i>Barclays Bank PLC v. Franchise Tax Board</i> , 512 U.S. 298 (1994)	27
<i>Bayer Material Science, LLC v. State Tax Com'r</i> , 223 W. Va. 38, 672 S.E.2d 174 (2008) ...	10
<i>Bridges v. Geoffrey, Inc.</i> , 984 So.2d 115 (La. Ct. App. 2008)	36
<i>Burger King Corp. v. Rudzewicz</i> , 471 U.S. 462 (1985)	20, 21
<i>Capital One Bank v. Commissioner of Revenue</i> , 899 N.E.2d 76 (Mass. 2009)	36
<i>Clements v. Fashing</i> , 457 U.S. 957 (1982)	10
<i>Commonwealth Edison Co. v. Montana</i> , 453 U.S. 609 (1981)	12, 14, 22
<i>Complete Auto Transit, Inc. v. Brady</i> , 430 U.S. 274 (1977)	passim
<i>Corliss v. Jefferson County Board of Zoning Appeals</i> , 214 W. Va. 535, 591 S.E.2d 93 (2003)	9
<i>D.H. Holmes Co. Ltd. v. McNamara</i> , 486 U.S. 24 (1988)	14, 20
<i>Davies Warehouse Co. v. Bowles</i> , 321 U.S. 144 (1944)	10
<i>Department of Revenue of Wash. v. Association of Wash. Stevedoring Cos.</i> , 435 U.S. 734 (1978)	27

3

Geoffrey, Inc. v. Commissioner of Revenue, 899 N.E.2d 87 (Mass. 2009) 29, 35, 36, 37, 38

Geoffrey, Inc. v. Oklahoma Tax Commission, 132 P.3d 632 (Okla. 2005) 34

Geoffrey, Inc. v. S.C. Tax Com'n, 437 S.E.2d 13 (S. C. 1993) passim

Hartley Marine Corp. v. Mierke, 196 W. Va. 669, 474 S.E.2d 599 (1996) 12, 18, 20, 22

Hill by Hill v. Showa Denko, K.K., 188 W. Va. 654, 425 S.E.2d 609 (1992) 21

In re Tax Assessment of Foster Foundation's Woodlands Retirement Community,
223 W. Va. 14, 672 S.E.2d 150 (2008) 10

KFC Corporation v. Iowa Department of Revenue, 792 N.W.2d 308 (Iowa 2010) 37

KMart Properties, Inc. v. Taxation & Revenue Department of N.M., 139 N.M. 177, 131
P.3d 27 (Ct. App. 2001) 36

Kennedy v. Louisiana, 128 S. Ct. 2641 (2008) 10

Lanco, Inc. v. Director of Taxation, 879 A.2d 1234 (N.J. Super. 2005) passim

MeadWestvaco Corp. ex rel. Mead Corp. v. Illinois Department of Rev., 553 U.S. 16
(2008) 17, 19

Mobil Oil Corp. v. Commissioner of Taxes, 445 U.S. 425 (1980) 27, 32

Muscatell v. Cline, 196 W. Va. 588, 474 S.E.2d 518 (1996) 9

National Mutual Insurance Co. v. Tidewater Transfer Co., 337 U.S. 582 (1949) 11

Oklahoma Tax Commission v. Jefferson Lines, Inc., 514 U.S. 175 (1995) 20

Pennsylvania and West Virginia Supply Corp. v. Rose, 179 W. Va. 317, 368 S.E.2d 101
(1988) 15

Proactive Tech., Inc. v. Denver Place Assoc. Ltd., 141 P.3d 959 (Colo. Ct. App. 2006) 14

Quill Corp. v. North Dakota, 504 U.S. 298 (1992) passim

Rostad v. On-Deck, Inc., 372 N.W.2d 717 (Minn. 1985) 19

<i>Secretary, Department of Revenue, State of Louisiana v. Gap (Apparel), Inc.</i> , 886 So. 2d 459 (La. App. 1 Cir. 2004)	30
<i>State v. Miller</i> , 145 W. Va. 59, 112 S.E.2d 472 (1960)	11
<i>Sussex Community Serv. Ass'n v. Virginia Soc. for Mentally Retarded Children, Inc.</i> , 467 S.E.2d 468, 469 (Va. 1996)	13
<i>Tax Commissioner v. MBNA American Bank, N.A.</i> , 220 W. Va. 163, 640 S.E.2d 226 (2006)	passim
<i>Telebright Corp., Inc. v. Director</i> , 25 N.J. Tax 333 (2010)	14
<i>Thomas v. Firestone Tire and Rubber Co.</i> , 164 W. Va. 763, 266 S.E.2d 905 (1980)	14
<i>Toombs v. Citizens' Bank</i> , 281 U.S. 643 (1930)	10
<i>Town of Burnsville v. Kwik-Pik, Inc.</i> , 185 W. Va. 696, 408 S.E.2d 646 (1991)	15
<i>Trinova Corp. v. Michigan Department of Treasury</i> , 498 U.S. 358 (1991)	18
<i>Tug Valley Recovery Ctr., Inc. v. Mingo Co. Commission</i> , 164 W. Va. 94, 261 S.E.2d 165 (1979)	13
<i>United Bank, Inc. v. Stone Gate Homeowners Ass'n, Inc.</i> , 220 W. Va. 375, 647 S.E.2d 811 (2007)	13
<i>United States v. Gonzales</i> , 520 U.S. 1, 5 (1997)	13
<i>U.S. Steel Min. Co., LLC v. Helton</i> , 219 W. Va. 1, 631 S.E.2d 559 (2005)	10, 12
<i>Verizon West Virginia Inc. v. West Virginia Bureau of Employment Programs, Workers' Compensation Division</i> , 214 W. Va. 95, 586 S.E.2d 170 (2003)	9
<i>Virginia v. Imperial Coal Sales Co., Inc.</i> , 293 U.S. 15 (1934)	32
<i>Western Maryland Railway Co. v. Goodwin</i> , 167 W. Va. 804, 282 S.E.2d 240 (1981) ...	12, 18
<i>Wheeling Steel Corp. v. Fox</i> , 298 U.S. 193 (1936)	30
<i>Wisconsin v. J.C. Penney Co.</i> , 311 U.S. 435 (1940)	12, 27
<i>World-Wide Volkswagen Corp. v. Woodson</i> , 444 U.S. 286 (1980)	18

STATUTES

W. Va. Code § 11-24-3a(a)(11)	13
W. Va. Code § 11-23-3(b)(1)	15, 16
W. Va. Code § 11-23-3(b)(8)	13, 16
W. Va. Code § 11-23-5(a) (1996)	25, 26
W. Va. Code §§ 11-23-5a(d)	25
W. Va. Code § 11-23-5(n)(4)	15, 16
W. Va. Code § 11-23-6(a)	13, 16
W. Va. Code § 11-24-1	13, 17
W. Va. Code § 11-24-3a(1) (1991)	15
W. Va. Code § 11-24-3a(a)(2)	16
W. Va. Code § 11-24-3(b)(1)	17
W. Va. Code § 11-24-4(1)	12
W. Va. Code § 11-24-7(b) (1996)	25
W. Va. Code § 11-24-7(d)	26
W. Va. Code § 11-24-7(f)(4)	16, 17

OTHER

1 J.R. Hellerstein & W. Hellerstein, <i>State Taxation</i> § 6.11 (3d ed. 2007)	18, 19
Andrew W. Swain & John D. Snethen, <i>A Taxing Question: The Nexus Quagmire Strikes Again</i> , 15 Bus. L. Today 51, 52 (2006)	12
Jerome R. Hellerstein's <i>Geoffrey and the Physical Presence Nexus Requirement of Quill</i> , 8 State Tax Notes 671, 676 (1995)	34

3

Kirk J. Stark, <i>State Tax Shelters and U.S. Fiscal Federalism</i> , 26 Va. Tax. Rev. 789, 791 (2007)	12
Sheldon H. Laskin, <i>Only A Name? Trademark Royalties, Nexus, and Taxing That Which Enriches</i> , 22 Akron Tax J. 1 (2007)	30
<i>Webster's Third New International Dictionary</i> 97 (1976)	13
W. Va. R. Civ. P. 25	2

IN THE SUPREME COURT OF APPEALS OF WEST VIRGINIA

NO. 11-0252

**CRAIG A. GRIFFITH, WEST VIRGINIA
STATE TAX COMMISSIONER,**

Respondent Below, Petitioner,

v.

CONAGRA BRANDS, INC.,

Petitioner Below, Respondent.

**BRIEF OF THE PETITIONER CRAIG A. GRIFFITH,
WEST VIRGINIA STATE TAX COMMISSIONER**

I.

ASSIGNMENTS OF ERROR

1. CAB's use of its intangible property to produce business income from sales in West Virginia falls squarely within the statutory definition of doing business; therefore, the Circuit Court erred in holding that CAB was not subject to Corporation Net Income Tax ("CNIT") and Business Franchise Tax ("BFT").
2. CAB's purposeful direction of its trademarks in West Virginia satisfies the Due Process Clause of the United States Constitution; therefore, the Circuit Court holding that the imposition of CNIT and BFT was unlawful is erroneous.
3. The Circuit Court erred when it failed to apply the *MBNA* substantial economic presence test in determining compliance with the substantial nexus prong of the *Complete Auto* test.
4. The Circuit Court misapplied the *Complete Auto/MBNA* test in the context of this case: intangible property by its very nature has no physical presence; therefore, the court must look to where the intangible is being used and earning money to determine whether there is substantial nexus between the taxpayer and the State.

II.

STATEMENT OF THE CASE

A Multistate Tax Commission audit (hereinafter “audit”) of ConAgra Brands (“CAB”) resulted in the Tax Division’s¹ issuing a corporation net income tax (CNIT) assessment from June 1, 2000 to May 31, 2003 for \$44,012.00 in tax and \$16,789.00 in interest (through August 31, 2006) for a total of \$60,801.00. Appendix, Vol. 1, 00115. The Division also issued an assessment against CAB for business franchise tax (BFT) in the amount of \$12,501.00 for the period of June 1, 2000 to May 31, 2003, with an interest amount of \$4,541.00 (through August 31, 2006) for a total of \$17,042.00. Appendix, Vol. 1, 00132. CAB appealed to the Office of Tax Appeals (OTA) (Appendix, Vol. 1, 00001-00026), which affirmed the assessments. Appendix, Vol. 5, 00835. CAB alleged that (1) there is no statutory authority for the imposition of the taxes, (2) the imposition of the taxes violates the Due Process Clause of the United States Constitution; and (3) the imposition of the taxes violates the Commerce Clause of the United States Constitution.² Appendix, Vol. 4, 00762-00778. Thereafter, CAB appealed to the Circuit Court of Berkeley County. Appendix, Vol. 5, 00838-00844. The Circuit Court reversed OTA’s finding that West Virginia’s imposition of CNIT and BFT imposed on the royalties CAB received from sales in West Virginia were lawful.

¹ Craig Griffith has replaced Christopher Morris as State Tax Commissioner and he is, therefore, substituted as a party. W. Va. R. Civ. P. 25.

² CAB’s Commerce Clause challenge relates to the 1st and 4th prong of *Complete Auto Transit, Inc. v. Brady*, 430 U.S. 274 (1977). Under *Complete Auto*’s four-part test, a tax against a Commerce Clause challenge will be sustained so long as the “tax [1] is applied to an activity with a substantial nexus with the taxing State, [2] is fairly apportioned, [3] does not discriminate against interstate commerce, and [4] is fairly related to the services provided by the State.” *Complete Auto*, 430 U.S. at 279. Thus, there is no challenge by CAB that the taxes imposed are improperly apportioned or discriminatorily imposed. OTA Dec., pg. 19, Appendix, Vol. 5, 00832.

Appendix, Vol. 5, 00970. In making its determination that the tax assessment should be vacated the Circuit Court concluded at Paragraph 30,

ConAgra Brands, Inc. reported and paid income tax to states in which it owned or rented property, provided services or made sales to customers through its employees or agents.

Appendix, Vol. 5, 00964. There is no evidence in the record supporting this finding. Additionally, Paragraph 31 in the Circuit Court's Findings of Fact is a Conclusion of Law, rather than a Finding of Fact. Appendix, Vol. 5, 00964. Although CAB's contracts state that the agreements are governed by the laws of Nebraska, this contractual provision does not necessarily bind the Court under conflict of laws jurisprudence. Furthermore, Paragraph 32 in the Circuit Court Findings of Fact is also unsupported by any evidence of record. The Administrative Law Judge made a Findings of Fact that ConAgra Brands *took the position* that it did not file tax returns in West Virginia on the basis of not having a connection to the State, which differs from the paragraph 32 Finding of Fact.

The State Tax Commissioner made a timely appeal to this Court seeking reversal of the Circuit Court's Order.

CAB is a Nebraska Corporation that is a wholly owned subsidiary of ConAgra Foods, Inc. Stip. Fact 1,³ Appendix, Vol. 4, 00733. Prior to the creation of CAB, ConAgra Foods and its subsidiaries acted as independent operating companies, resulting in inconsistent, disjointed, and inefficient trademark management, making it difficult to maintain uniform brand image and thereby protect the value of the various trademarks and tradenames. OTA Dec. 23, 25, Appendix, Vol. 5, 00819. CAB was created to centrally manage and provide for uniformity of brand image and brand

³ The Parties stipulated certain facts and the Office of Tax Appeals made additional findings of fact. Stipulated facts are cited herein as "Stip. Fact ____" and the Additional Findings of Fact are cited herein as "OTA Dec ____."

presentation for the highly valued trademarks and tradenames ConAgra Foods and its subsidiaries used and to protect the trademarks and tradenames from infringement. OTA Dec. 22, 26, Appendix, Vol. 5, 00819. Additionally, the impact on taxes was given consideration in the formation of CAB. OTA Dec. 31, Appendix, Vol. 5, 00820. The interrelationship between ConAgra Foods and CAB and the reduction of tax paid is more fully set out below.

On January 2, 1997, several agreements were executed pertinent to this litigation: (1) ConAgra Foods transferred its trademarks to CAB; (2) ConAgra Foods agreed to pay CAB royalties for use of the trademarks; (3) ConAgra Food affiliates transferred their trademarks to CAB; (4) the affiliates agreed to pay royalties to CAB for use of the trademarks; (5) CAB acquired trademarks and trade names from unrelated entities, and (6) CAB licensed its trademarks and trade names to unrelated third parties. Stip. Facts 2-7, Appendix, Vol. 4, 00733-00734. The transfer of the trademarks from ConAgra Foods (hereinafter "Foods") to CAB was made without any apparent consideration in cash, assets, or their equivalents. OTA Dec. 29, Appendix, Vol. 5, 00820. However, when Foods transferred its trademarks to CAB, without receiving any consideration, it agreed to pay CAB for the use of its previously owned trademarks.⁴ OTA Dec. 30, Appendix, Vol. 5, 00820. *See also*, Appendix, Vol. 2, 00385-00415.

CAB as the owner of the trademarks (described below) licenses the use of its trademarks to a wide variety of manufacturers of food and other household products. To exercise their rights under the licensing agreements, the licensees first place the trademark and tradenames CAB license to them

⁴ ConAgra Food and its affiliates deduct the royalties they pay to CAB from gross income as an expense when determining taxable income for state tax purposes. Stip. Fact 11, Appendix, Vol. 4, 00734.

on products of the licensees in facilities outside West Virginia. Stip. Fact 12.⁵, Appendix, Vol. 4, 00734. Products bearing CAB's trademarks and trade names can be found in many, perhaps most, retail stores in West Virginia that sell food products. They include prepared poultry, such as turkey and chicken, processed and smoked meats, breads, pastas, canned food, boxed processed dishes, frozen food, jarred food, sandwich spreads, pre-packaged meals, entrees and side dishes, dairy products, desserts, condiments and canned, bottled and frozen drinks. OTA Dec. 16-17, Appendix, Vol. 5, 00830.

The trademarks and trade names in lists attached to the contracts is a veritable laundry list of familiar brand names. OTA Dec., pg. 17, n.5, Appendix, Vol. 5, 00830. Products with CAB's trademarks include, among others, Armour, Banquet, Country Pride, Country Skillet, Eckrich, Healthy Choice, Kid Cuisine, Morton, Taste O' Sea, Act II, Sergeant's (pet supplies), Hunt's, Wesson, Orville Redenbacher, Peter Pan, La Choy, Swiss Miss, Manwich, Van Camp's, Chun King, Butterball, Swift, Swift Premium, Hebrew National, Reddi Whip, Wolfgang Puck. Appendix, Vol. 2, 00238-00269.

CAB derived its income from the royalty payments made by these licensees for their use of CAB trademarks and trade names including ConAgra Food, Inc., ConAgra Food subsidiaries, and unrelated third parties. Stip. Fact 9, Appendix, Vol. 4, 00734. The licensees distributed their products bearing CAB's trademarks and tradenames throughout the United States-including to

⁵ Prior to creating CAB, ConAgra Food and other ConAgra Food subsidiaries paid the expenses associated with the use of their trademarks and trade names. Stip. Fact 10, Appendix, Vol. 4, 00734. CAB pays all expenses connected with the trademarks and trade names' use, including defending them from infringement and directing and overseeing the national marketing by developing marketing strategies and purchasing the placement of advertisements with national media outlets. Stip. Fact 8, Appendix, Vol. 4, 00734.

wholesalers and retailers located in West Virginia and provided services to their clients and customers in West Virginia. Stip. Facts 13-15, Appendix, Vol. 4, 00734-00735. CAB maintained no inventory of merchandise or material for sale, distribution, or manufacture in West Virginia, and did not sell or distribute merchandise to its licensees, their customers, or any other business entity in West Virginia, did not provide any services to its licensees, their customers, or any other business entity in West Virginia, and had no agents or employees in West Virginia, did not rent offices, warehouses, or other such facilities in West Virginia, and did not direct and/or dictate how the licensees distributed the products bearing the licensed trademarks or tradenames. Stip. Facts 16-21, Appendix, Vol. 4, 00735. The royalties from CAB's trademarks presence in the State are reflected below.

The royalties paid to CAB ranged from 2.5 to 6% of the net sales proceeds. Appendix, Vol. 5, 00831. The Multi-State Tax Audit of CAB reflects that the royalties it received attributable to sales in West Virginia for the three tax years in question totaled \$1,156,165. Appendix, Vol. 1, 00128. For tax year 2001, CAB received royalties of \$314,021; for 2002 royalties received were \$437,944; and for 2003 royalties received were \$404,200. Appendix, Vol. 1, 00128. The amount of revenue apportioned to West Virginia in the audit reflects royalties attributable to sales in West Virginia which calculation or apportionment has not been challenged by CAB.⁶ Thus, CAB's royalties derive from the substantial sales of the aforesaid products which bear its trademark in West Virginia.

⁶ CAB challenges only the constitutional nexus of the taxes imposed on the royalties they received from sales in West Virginia and not the amount of the taxes imposed, how they are apportioned, or whether they are discriminatory.

For the years in dispute, CAB has been taxed on the \$1,156,165 of royalties it received from sales of its licensees in West Virginia. Therefore, the Administrative Law Judge found that CAB's income was directly related to substantial sales in West Virginia. Specifically, the Administrative Law Judge stated the following with regard to the relevant sales in West Virginia:

According to the audit conducted by the Multistate Tax Commission, these four licensees made sales of Petitioner's trademarked or trade-named products of somewhere between \$19,269,000 and \$46,247,000 for the *three years* that were the subject of the audit, or between \$6,423,139.00 and \$15,415,522.00 *per year*. As noted, the actual figure almost certainly is between these two figures. Even if one takes the lower of the two figures, there is substantial penetration of West Virginia's economic forum. The Petitioner has earned substantial royalties which are attributed to West Virginia sales.

OTA Dec. at 18 (emphasis added), Appendix, Vol. 5, 00831.

III.

SUMMARY OF ARGUMENT

CAB challenges the CNIT and BFT imposed on the royalties it receives from the licensing of its intangibles for use in West Virginia. It alleges that these taxes are (A) not authorized by the statutes, and (B) imposed in violation of the Due Process and Commerce Clauses of the United States Constitution.

The statutes impose tax on income generated and capital used to generate income in the State. There is no question that the taxes are imposed on intangibles such as CAB's trademarks and trade names; however, CAB asserts that it is not doing business here because its licensees bring products into West Virginia bearing its trademarked and trade names. This ignores the fact that CAB's trademarks and trade names were purposefully directed to West Virginia, and it received royalties directly related to sales in West Virginia. Plainly stated, without CAB's trademarks' and trade

names' presence in the State, it would not receive the royalties that are being taxed. Until CAB's trademarks go into the market place, it is not able to receive royalties from the sale of the products to which its trademarks and trade names attach. Therefore, the CNIT and BFT are lawfully imposed under the applicable statute.

CAB next alleges that imposition of the taxes violates the Due Process Clause. The purposeful direction of its trademarks and trade names resulted in West Virginia sales estimated to range between \$19,269,000 to \$46,247,000 in the three years in question. This is more than enough to support imposition of the tax because CAB receives benefits, including but not limited to, our road system to get the products to the market and to enable West Virginia citizens to get to the thousands of retailers where these products are sold.

CAB next challenges the taxes under the Commerce Clause. Specifically, CAB alleges that substantial nexus is lacking. However, substantial economic nexus exists because CAB purposefully directs its intangibles to West Virginia, and the presence and use of its trademarks here directly resulted in the income that is being taxed. To generate the more than one million dollars in income received by CAB, between \$19,269,000 and \$46,247,000 in sales occurred here. The economic realities are that but for the intangibles' presence and use in West Virginia, CAB would have received no income from West Virginia sales. *MBNA*, and the great weight of authority from other jurisdictions that have examined the issue, have held that intangibles can be taxed where they produce income, regardless of whether the taxpayer has employees or property in the State. The Circuit Court's reversal of the OTA decision ignored this law and imposed a requirement of privity that no other court has imposed.

Therefore, the Circuit Court's order should be reversed and the CNIT and BFT taxes should be reinstated.

IV.

STATEMENT REGARDING ORAL ARGUMENT AND DECISION

The Petitioner requests Rule 20 Oral Argument in this case because it involves an issue of fundamental importance. Furthermore, because this case seeks a reversal of the Circuit Court, a Memorandum and Decision is not appropriate. *See* Rule 21(d).

V.

STANDARD OF REVIEW

Because the Circuit Court amended the Final Order of OTA:

“this Court reviews the final order of the circuit court and the ultimate disposition by it of an administrative law case under an abuse of discretion standard and reviews questions of law *de novo*” Syl. Pt. 2, *Muscatell v. Cline*, 196 W. Va. 588, 474 S.E.2d 518 (1996).

Syl. Pt. 2, *Corliss v. Jefferson County Board of Zoning Appeals*, 214 W. Va. 535, 591 S.E.2d 93 (2003).

Interpretation of the CNIT and BFT statutes presents a legal question subject to *de novo* review:

“Interpreting a statute or an administrative rule or regulation presents a purely legal question subject to *de novo* review.” Syl. Pt. 1, *Appalachian Power Co. v. State Tax Dept.*, 195 W. Va. 573, 466 S.E.2d 424 (1995)

Syl. Pt. 3, *Verizon West Virginia Inc. v. West Virginia Bureau of Employment Programs, Workers' Compensation Division*, 214 W. Va. 95, 586 S.E.2d 170 (2003).

c “Where the issue on an appeal from the circuit court is clearly a question of law or involving an interpretation of a statute, we apply a *de novo* standard of review.’ Syllabus point 1, *Chrystal R.M. v. Charlie A.L.*, 194 W. Va. 138, 459 S.E.2d 415 (1995).”

Syl. Pt. 1, *Bayer Material Science, LLC v. State Tax Com’r*, 223 W. Va. 38, 672 S.E.2d 174 (2008).

““When the constitutionality of a statute is questioned every reasonable construction of the statute must be resorted to by a court in order to sustain constitutionality, and any doubt must be resolved in favor of the constitutionality of the legislative enactment.” Point 3, Syllabus, *Willis v. O’Brien*, 151 W. Va. 628[, 153 S.E.2d 178 (1967)].’ Syllabus Point 1, *State ex rel. Haden v. Calco Awning & Window Corp.*, 153 W. Va. 524, 170 S.E.2d 362 (1969).” Syllabus point 1, *U.S. Steel Mining Co., LLC v. Helton*, 219 W. Va. 1, 631 S.E.2d 559 (2005), *cert. denied*, 547 U.S. 1179, 126 S.Ct. 2355, 165 L.Ed.2d 279 (2006).

Syl. Pt. 2, *Bayer Material Science, LLC v. State Tax Com’r*, 223 W. Va. 38, 672 S.E.2d 174 (2008).

The “determination of whether a state tax violates the Commerce Clause is reviewed *de novo*.” *Tax Commissioner v. MBNA American Bank, N.A.*, 220 W. Va. 163, 165, 640 S.E.2d 226, 228 (2006). This plenary review must be conducted though, against some well established principles.

“Legislatures are ordinarily assumed to have acted constitutionally[.]” *Clements v. Fashing*, 457 U. S. 957, 963 (1982), so that all state statutes are presumed constitutional, *see, e.g., Davies Warehouse Co. v. Bowles*, 321 U.S. 144, 153 (1944); *In re Tax Assessment of Foster Foundation’s Woodlands Retirement Community*, 223 W. Va. 14, 22, 672 S.E.2d 150, 158 (2008). Thus, “[i]n assailing the constitutionality of a state statute, the burden rests upon appellant to establish that it infringes the constitutional guarantee which he invokes[.]” *Toombs v. Citizens’ Bank*, 281 U.S. 643, 647 (1930); this imposes a “heavy burden,” *Kennedy v. Louisiana*, 128 S. Ct. 2641, 2678 (2008) (Alito, J., dissenting), as that party must make “a clear showing that [the statute] transgresses

constitutional limitations.” *National Mut. Ins. Co. v. Tidewater Transfer Co.*, 337 U.S. 582, 604 (1949) (plurality opinion); *State v. Miller*, 145 W. Va. 59, 68, 112 S.E.2d 472, 478 (1960) (“Statutes are presumed to be constitutional and can never be declared to be unconstitutional except when they are clearly and plainly so.”).

VI.

ARGUMENT

A. CAB’S USE OF ITS INTANGIBLE PROPERTY TO PRODUCE BUSINESS INCOME FROM SALES IN WEST VIRGINIA FALLS SQUARELY WITHIN THE STATUTORY DEFINITION OF DOING BUSINESS; THEREFORE, THE CIRCUIT COURT ERRED IN HOLDING THAT CAB WAS NOT SUBJECT TO CORPORATION NET INCOME TAX (“CNIT”) AND BUSINESS FRANCHISE TAX (“BFT”).⁷

As set out more fully above, it is undisputed that CAB was created as a wholly-owned subsidiary of ConAgra Foods (hereinafter “Foods”) as part of a tax strategy. Appendix, Vol. 4, 00733. Foods paid CAB for use of its previously owned trademark and then received a tax deduction. Appendix, Vol. 4, 00733. The question for this Court is whether this arrangement has succeeded in allowing CAB to receive royalties directly attributable to West Virginia sales without paying its share of income and franchise taxes.

1. The Intangible Holding Company Arrangement.

The use of an intangible holding company (“IHC”) (or a passive investment company, a passive investment subsidiary, a special purpose entity, an intangible property company, or a trademark holding company—all of which are roughly the same) lets “corporations avoid otherwise valid state income taxes. They also provide tax savings through business expense and dividend

⁷ The issues raised in this assignment of error are found in the Appendix at: 00012; 00014; 00027-29; 00762-65; 00859-868; 00892-97; 00919-25; 00965-00957.

deductions.” Andrew W. Swain & John D. Snethen, *A Taxing Question: The Nexus Quagmire Strikes Again*, 15 BUS. L. TODAY 51, 52 (2006). The IHC “is a separate corporation created by a parent or an operating company. This arrangement avoids creating a physical nexus between the PIC and a state taxing jurisdiction.” *Id.* “The parent company transfers intangible assets (trademarks, trade names, service marks, patents, copyrights, customer lists and goodwill) to the [IHC].” *Id.* “The [IHC] licenses use of the intangibles back to the company for a royalty. The company deducts this from state income tax as a business expense.” *Id.* In short, “a good chunk of . . . income has mysteriously vanished from the tax system. . . . One half expects David Copperfield to show up and take a bow.” Kirk J. Stark, *State Tax Shelters and U.S. Fiscal Federalism*, 26 Va. Tax Rev. 789, 791 (2007). “It is really quite something.” *Id.*

2. The Business Franchise Tax and Corporation Net Income Tax Statutes Reach ConAgra Brands.

“A state is free to pursue its own fiscal policies, unembarrassed by the Constitution, if by the practical operation of a tax the State has exerted its power in relation to opportunities which it has given, to protection which it has afforded, to benefits which it has conferred by the fact of being an orderly, civilized society.” *Western Maryland Ry. Co. v. Goodwin*, 167 W. Va. 804, 827, 282 S.E.2d 240, 254 (1981) (quoting *Wisconsin v. J.C. Penney Co.*, 311 U.S. 435, 444 (1940)). *Accord Commonwealth Edison Co. v. Montana*, 453 U.S. 609, 625 (1981); *U.S. Steel Min. Co., LLC v. Helton*, 219 W. Va. 1, 16, 631 S.E.2d 559, 574 (2005) (Davis, J., concurring); *Hartley Marine Corp. v. Mierke*, 196 W. Va. 669, 681, 474 S.E.2d 599, 611 (1996).

CAB claims that neither the BFT Act nor the CNIT Act reaches its conduct. The Legislature’s explicit language in both the BFT and the CNIT Act extends the respective taxes to

CAB.

The BFT Act provides, “[a]n annual business franchise tax is hereby imposed on the privilege of doing business in this state and in respect of the benefits and protection conferred.” W. Va. Code § 11-23-6(a). The Act further provides, “‘doing business’ means any activity of a corporation or partnership which enjoys the benefits and protection of the government and laws of this state[.]” *Id.* § 11-23-3(b)(8).

The CNIT provides, in pertinent part, “a tax is hereby imposed for each taxable year at the rate of six percent per annum on the West Virginia taxable income of every domestic or foreign corporation engaging in business in this state *or deriving income from property, activity or other sources in this state*[.]” W. Va. Code § 11-24-4(1) (emphasis added). The CNIT Act defines engaging in business or doing business as “any activity of a corporation which enjoys the benefits and protection of government and laws in this state.” *Id.* § 11-24-3a(a)(11).

“In the absence of any specific indication to the contrary, words used in a statute will be given their common, ordinary and accepted meaning.” Syl. Pt. 1, *Tug Valley Recovery Ctr., Inc. v. Mingo Co. Comm’n*, 164 W. Va. 94, 261 S.E.2d 165 (1979). Both West Virginia Code § 11-23-3(b)(8) and West Virginia Code § 11-24-3a(a)(11) employ the word “any.” Read naturally, the word ‘any’ has an expansive meaning, that is, ‘one or some indiscriminately of whatever kind[.]’” *United States v. Gonzales*, 520 U.S. 1, 5 (1997) (quoting *Webster’s Third New International Dictionary* 97 (1976)), and “is generally considered to apply without limitation.” *Sussex Community Serv. Ass’n v. Virginia Soc. for Mentally Retarded Children, Inc.*, 467 S.E.2d 468, 469 (Va. 1996). “In common parlance, the adjective ‘any’ refers to ‘all.’” *United Bank, Inc. v. Stone Gate Homeowners Ass’n, Inc.*, 220 W. Va. 375, 380, 647 S.E.2d 811, 816 (2007); it is “a term of expansion without restriction

or limitation in statutory construction.” *Proactive Tech., Inc. v. Denver Place Assoc. Ltd.*, 141 P.3d 959, 961 (Colo. Ct. App. 2006). And, “[t]he word ‘any,’ when used in a statute, should be construed to mean any.” Syl. Pt. 2, *Thomas v. Firestone Tire and Rubber Co.*, 164 W. Va. 763, 266 S.E.2d 905 (1980). Thus, “[d]oing business’ . . . is intended to be interpreted expansively.” *Telebright Corp., Inc. v. Director*, 25 N.J. Tax 333, 344 (2010).

Because both the BFT Act and the CNIT Act extend to activities of corporation or partnership enjoying the benefits and protection of the government and laws of this State, the Legislature has established its intent that the BFT Act and the CNIT Act extend as far as the Constitution will allow the statutes to go. “The Court has, however, long since rejected any suggestion that a state tax or regulation affecting interstate commerce is immune from Commerce Clause scrutiny because it attaches only to a ‘local’ or intrastate activity. Correspondingly, the Court has rejected the notion that state taxes levied on interstate commerce are *per se* invalid.” *Commonwealth Edison Co. v. Montana*, 453 U.S. 609, 615 (1981) (citations omitted); *D.H. Holmes Co. Ltd. v. McNamara*, 486 U.S. 24, 30 (1988) (noting that in 1977, the Supreme Court “abandoned the abstract notion that interstate commerce ‘itself’ cannot be taxed by the States.”).

Additionally, the BFT defines (and defined in 2001-2003) business income as “income arising from transactions and activity in the regular course of the taxpayer’s trade or business and includes income from tangible and intangible property if the acquisition, management and disposition of the property or the rendering of services in connection therewith constitute integral parts of the taxpayer’s regular trade or business operations” and includes all income which is apportionable under the Constitution of the United States. W. Va. Code § 11-23-3(b)(1). And, West

Virginia Code § 11-23-5(n)(4) defines (and defined in 2001-2003) income-producing activity as follows:

The term “income -producing activity” applies to each separate item of income and means the transactions and activity directly engaged in by the taxpayer in the regular course of its trade or business for the ultimate purpose of obtaining gain or profit. . . . “Income -producing activity” includes, but is not limited to, the following: . . . (4) The sale, licensing or other use of intangible personal property. . . .

The definition not only uses the expansive terminology “includes, but is not limited to,”⁸ (*see Apollo Civic Theatre, Inc. v. State Tax Com’r*, 223 W. Va. 79, 87, 672 S.E.2d 215, 223 (2008)), but also explicitly includes [t]he . . . licensing . . . of intangible personal property.” W. Va. Code § 11-23-5(n)(4).

Similarly, the CNIT similarly defines (and defined in 2001-2003) business income as, “income arising from transactions and activity in the regular course of the taxpayer’s trade or business and includes income from tangible and intangible property if the acquisition, management and disposition of the property or the rendering of services in connection therewith constitute integral parts of the taxpayer’s regular trade or business operations.” *Compare* W. Va. Code § 11-24-3a(1) (1991) *with* W. Va. Code § 11-24-3a(a)(2). And the CNIT defines (and defined in 2001-2003) income producing activity as follows:

⁸ While it is true that *ambiguous* tax statutes are interpreted in favor of the taxpayer, *Pennsylvania and West Virginia Supply Corp. v. Rose*, 179 W. Va. 317, 319, 368 S.E.2d 101, 103, (1988) (“The circuit court is correct in saying that unclear tax laws must be construed in favor of the taxpayer”), nonetheless, “[i]n the construction of tax laws, we still must apply our general rules of statutory construction with a view toward upholding the legislative intent. Strict construction should not be used to defeat tax legislation that is reasonably clear in its meaning.” Syl. pt. 5, *Town of Burnsville v. Kwik-Pik, Inc.*, 185 W. Va. 696, 408 S.E.2d 646 (1991). Strict construction is not talismanic absolving the Court of applying appropriate intellectual vigor in examining a statute.

The term “income-producing activity” applies to each separate item of income and means the transactions and activity directly engaged in by the taxpayer in the regular course of its trade or business for the ultimate purpose of obtaining gain or profit. . . . “Income-producing activity” includes, but is not limited to, the following: . . . (4) The sale, licensing or other use of intangible personal property.

W. Va. Code § 11-23-5(n)(4).

Like the BFT, CNIT uses the expansive terminology “including, but not limited to,” and explicitly includes, “[t]he sale, licensing or other use of intangible personal property.” W. Va. Code § 11-24-7(f)(4).

The business franchise tax is imposed on the privilege of doing business in West Virginia. W. Va. Code § 11-23-6(a). It applies to CAB because it did business in West Virginia: it licensed the use of its intangibles here, which is an activity of a corporation that enjoys the benefits and protection of the government and laws of this State. W. Va. Code § 11-23-3(b)(8). CAB had business income in West Virginia within the meaning of W. Va. Code § 11-23-3(b)(1). Business income includes income from intangible property if the acquisition, management, and disposition of the property or the rendering of services in connection therewith are integral parts of the taxpayer’s regular business. W. Va. Code § 11-23-3(b)(1). CAB’s entire business consists of acquiring, managing, licensing, and servicing intangible property. Moreover, CAB’s licensing of intangible property is explicitly included in the statutory definition of “income-producing activity.” W. Va. Code § 11-23-5(n)(4). Thus, CAB’s licensing of intangibles and production of royalties arising from West Virginia sales fall clearly within the coverage of the BFT.

The corporation net income tax is imposed on the West Virginia income of every corporation doing business in this State or deriving income from property or activities in this State. W. Va. Code

§ 11-24-1. CAB's activity of licensing its intangibles and the royalty income that this activity produces bring CAB's royalties clearly within the coverage of the CNIT. These royalties are business income within the meaning of W. Va. Code § 11-24-3(b)(1), which explicitly includes income from intangible property. Likewise, this licensing of intangible property is explicitly included in the definition of income-producing activity. W. Va. Code § 11-24-7(f)(4). Accordingly, CAB's royalties arising from its licensing of intangibles in West Virginia are subject to West Virginia corporation net income tax.

B. CAB'S PURPOSEFUL DIRECTION OF ITS TRADEMARKS INTO WEST VIRGINIA SATISFIES THE DUE PROCESS CLAUSE OF THE UNITED STATES CONSTITUTION; THEREFORE, THE CIRCUIT COURT HOLDING THAT THE IMPOSITION OF CNIT AND BFT WAS UNLAWFUL IS ERRONEOUS.⁹

“The Commerce Clause and the Due Process Clause impose distinct but parallel limitations on a State’s power to tax out-of-state activities.” *MeadWestvaco Corp. ex rel. Mead Corp. v. Illinois Dep’t of Rev.*, 553 U.S. 16, 24 (2008). Due process “demands that there exist some definite link, some minimum connection, between a state and the person, property or transaction it seeks to tax as well as a rational relationship between the tax and the values connected with the taxing State.” *Id.* (citations and internal quotations omitted). “[T]here can be no serious dispute over the constitutional power of a state to tax income derived from sources within the state. Accordingly, if a taxpayer derives income from the use of intangible property in the state, the state has the constitutional power to tax that income, whose source it may reasonably attribute to the state.” 1 J.R. Hellerstein & W. Hellerstein, *State Taxation* § 6.11 (3d ed. 2007). “In short, the dispute [here] is

⁹ The issues raised in this assignment of error are found in the Appendix at: 00027-29; 00765; 00787-88; 00799-801; 00821-25; 00833-34; 00865; 00897-903; 00926-27; 00960; 00966-70.

essentially about ‘personal’ jurisdiction’ over physically remote persons to require them to comply with a direct tax payment obligation with respect to income over which the state ordinarily has clear ‘subject matter jurisdiction.’” *Id.*

The United States Supreme Court has crafted a four part test under *Complete Auto Transit, Inc. v. Brady*, 430 U.S. 274 (1977), that encompasses both Due Process and Commerce Clause concerns. *Trinova Corp. v. Michigan Dept. of Treasury*, 498 U.S. 358, 373 (1991). Thus, analysis under *Complete Auto*’s four part test exhausts analysis under both Due Process and the Commerce Clause. *Hartley Marine Corp. v. Mierke*, 196 W. Va. 669, 681 n.19, 474 S.E.2d 599, 611 n.19 (1996).

A substantial nexus exists when a taxpayer engages in “purposive, revenue generating activities in the State[.]” *Western Maryland Ry. Co.*, 167 W. Va. at 809, 282 S.E.2d at 244. In this case, as the OTA correctly found, there is a substantial nexus between CAB and West Virginia. The entry of CAB’s trademarked or trade named goods is purposive, not accidental. Indeed CAB was specifically charged with “directing and overseeing . . . *national* marketing by developing marketing strategies and purchasing the placement of advertisements with national media outlets.” Stip. Fact ¶ 8 (emphasis added), Appendix, Vol. 4, 00734.

Indeed, such licensing contracts anticipate the sale of the licensed products in West Virginia. *ConAgra Brands, Inc. v. Morris*, Docket Nos. 06-544 N & 06-545 FN, Final Dec. at 10 (W. Va. Off. Tax. App. Jan. 6, 2010). Appendix, Vol. 5, 00823 See *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297-298 (1980) (“The forum State does not exceed its powers under the Due Process Clause if it asserts personal jurisdiction over a corporation that delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum State.”);

Rostad v. On-Deck, Inc., 372 N.W.2d 717, 722 (Minn. 1985) (“The source of the contacts is, in the first instance, from On-Deck itself. It wanted a national market, a market including Minnesota, so it contracted with others to achieve its distribution goals. Through savvy marketing, the bat weight became a desirable item, desirable enough that somebody purchased this bat weight and desirable enough that, when found, it was put to use at its intended purpose. On-Deck will not now be allowed to hide behind the structuring of its distribution system when On-Deck’s intent was to enter the market here and profit thereby.”). And, indeed, CAB derived substantial income from West Virginia

CAB “encouraged [West Virginia] consumers to shop at [licensee stores] through an implicit promise, manifested by the trademarks, that the products at those stores would be of good quality and value; [it] relied on [licensee] employees . . . to maintain a positive retail environment, including store cleanliness and proper merchandise display.” *Id.* at 93. Further, the royalties the licensees’ paid to CAB were in large measure a percentage of the licensees’ sales of the trademarked or trade named goods. This, in and of itself, constitutes a substantial nexus with West Virginia. 1 J.R. Hellerstein & W. Hellerstein, *State Taxation* § 6.11[2] n.232 (3d ed. 2007) (“Since Geoffrey earned income every time a [licensee] made a sale in South Carolina, it is hard to resist the conclusion that, as a matter of constitutional law, South Carolina had a sufficient connection with such income to tax at least an apportioned share of it.”).

Further, “the taxing power exerted by the state bears fiscal relation to protection, opportunities and benefits given by the state—that is, whether the state has given anything for which it can ask return.” *MeadWestvaco Corp.*, 553 U.S. at 24 (citations and internal quotations omitted). West Virginia meets this criteria. West Virginia has given a number of things to CAB justifying the fairness of CAB’s supporting the government of West Virginia. For example, West Virginia

provides the roads and bridges which allow the trademarked named goods to be transported into and sold in West Virginia, *Hartley Marine Corp.*, 196 W. Va. 669, 680-81 & 681 n.18, 474 S.E.2d 610 - 11 & 610 n.18, as well as providing the means of access to the goods by West Virginia consumers through such roads and through public transit. See *D.H. Holmes Co. v. McNamara*, 486 U.S. 24, 32 (1988). Both of these “contribute to the viability of Appellants' business operations” since the money CAB makes on its business is in large part a function of the amount of its trademarked and trade named goods sold. These benefits and the “usual and usually forgotten advantages conferred by the State’s maintenance of a civilized society, are justifications enough for the imposition of a tax.” *Oklahoma Tax Comm’n v. Jefferson Lines, Inc.*, 514 U.S. 175, 200 (1995).

As indicated, *supra*, CAB systematically, and purposefully allows its intangible trademarks to enter the West Virginia marketplace. As a result, it received royalties of \$1,156,165 arising from its West Virginia sales for the three years in question. Appendix, Vol. 1, 00128. For tax year 2001, CAB received royalties of \$314,021; for 2002, \$437,944; and for 2003, \$404,200, Appendix, Vol. 1, 00128. Gross sales for the *three years* were estimated to be between \$19,269,000 and \$46,247,000 or between \$6,423,139.00 and \$15,415,522.00 *per year*. The Circuit Court’s holding that the CNIT and BFT violate the Due Process Clause Order at 60 (Appendix, Vol. 5, 00970), ignores *Quill*, which stated:

[I]f a foreign corporation purposefully avails itself of the benefits of an economic market in the forum State, it may subject itself to the State’s *in personam* jurisdiction even if it has no physical presence in the State. As we explained in *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 105 S.Ct. 2174, 85 L.Ed2d 528 (1985):

“Jurisdiction in these circumstances may not be avoided merely because the defendant did not *physically* enter the forum State. Although territorial

presence frequently will enhance a potential defendant's affiliation with a State and reinforce the reasonable foreseeability of suit there, it is an inescapable fact of modern commercial life that a substantial amount of business is transacted solely by mail and wire communications across state lines, thus obviating the need for physical presence within a State in which business is conducted."

Quill, 504 U.S. at 307-308, quoting *Burger King Corp.*, 471 U.S. at 476.

CAB has purposefully exploited West Virginia's marketplace and therefore, under *Quill*, CAB's Due Process challenge fails.

Instead of relying on *Quill*, the more recent pronouncement of the Supreme Court regarding Due Process and the Commerce Clause, the Circuit Court relied on *Asahi Metal Industry Company v. Superior Court of California*, 480 U.S. 102 (1987). The Circuit Court's reliance on *Asahi* is wrong. The portion of the opinion relied on by the Circuit Court was not the majority opinion. Rather, the *Asahi* Court split - with no majority opinion regarding whether placing of items in the stream of commerce is enough to satisfy Due Process. The Court in the instant case however, sided with the four Justices who found placement of an article in the stream of commerce adequate to satisfy the Due Process Clause.

In *Hill by Hill v. Showa Denko, K.K.*, 188 W. Va. 654, 425 S.E.2d. 609 (1992) this Court held at Syllabus Point 2:

Personal jurisdiction "premised on the placement of a product into the stream of commerce is consistent with the Due Process Clause" and can be exercised without the need to show additional conduct by the defendant aimed at the forum state. *Asahi Metal Industry Co. v. Superior Court of California*, 480 U.S. 102, 117, 107 S.Ct. 1026, 1034, 94 L.Ed2d 92 (1987).

Additionally, to the extent the Court placed any weight on Conclusion of Law 55, such reliance is misplaced because even assuming, *arguendo*, that CAB will have no occasion to use our Courts, other than in the present action, taxes are not paid on a *quid pro quo* basis. *Commonwealth Edison Co. v. Montana*, 453 U.S. 609 (1981), and *Hartley Marine, supra*.

C. THE CIRCUIT COURT ERRED WHEN IT FAILED TO APPLY THE MBNA SUBSTANTIAL ECONOMIC PRESENCE TEST IN DETERMINING COMPLIANCE WITH THE SUBSTANTIAL NEXUS PRONG OF THE COMPLETE AUTO TEST.¹⁰

As discussed, *supra*, CAB has purposefully directed its trademarks to West Virginia. CAB expects that its trademarks will come into West Virginia, and it profits handsomely because of sales here. If CAB didn't want its trademarks here, it could exclude West Virginia as a potential market for its trademark and forego the royalties it receives. Thus, the imposition of CNIT and BFT satisfy the requirements of the Due Process Clause.

In *MBNA*, this court held that there is no constitutional requirement of physical presence applicable to business franchise and corporation income taxes. *MBNA*, 220 W. Va. at 169, 640 S.E.2d at 232. Instead, this court adopted a "substantial economic presence" standard as an appropriate indicator of whether substantial nexus exists under the *Complete Auto* test. This Court determined that a substantial economic presence standard incorporates Due Process purposeful direction toward a state while examining the degree to which a taxpayer has exploited the local market. *MBNA*, 220 W. Va. at 171, 640 S.E.2d at 234. This involves an examination respecting both the quality and quantity of its economic presence. *Id.* In addition, the court must consider the frequency, quantity, and systematic nature of its contacts with the state. *Id.*

¹⁰ The issues raised in this assignment of error are found in the Appendix at: 00008; 00020; 00027-29; 00767; 00788; 00800-02; 00825-34; 00869-70; 00875; 00897-903; 00967-70.

The evidence below was that CAB had a substantial economic presence in West Virginia. Products bearing its trademarks and trade names are found in most retail stores that sell food products. The trademarks and trade names that constitute the intangibles are “a veritable laundry list of familiar brand names.” CAB oversees a marketing and advertising strategy that reaches West Virginia and is designed to exploit the local market. CAB wants its intangibles sold in this State, benefits from the sales of these intangibles in this state, does nothing to prevent the marketing and use of these intangibles in this state, and encourages marketing and use of the intangibles in this state.

Based on the presence of its intangibles in West Virginia, CAB receives royalties ranging between 2.5% and 6% of the total sales amounts. Extrapolating from the royalties received, the ALJ calculated that the licensed product sales totaled between \$19.3 and \$46.2 million for the three-year period at issue. This constitutes substantial penetration of West Virginia’s economic forum. These figures also demonstrate the frequency, quantity and systematic nature of its contacts with the State. Accordingly, CAB has substantial economic presence in the State of West Virginia.

As further support for the fact that CAB has substantial economic presence with West Virginia, this Court needs to look no further than footnote 11 of the MBNA opinion. In *MBNA*, the West Virginia Tax Commissioner cited several cases in support of the proposition that *Quill’s* physical presence requirement applies only to sales and use taxes but not to corporate income taxes. *MBNA*, 220 W. Va. at 168, 640 S.E.2d at 231, citing *Lanco, Inc. v. Director of Taxation*, 879 A.2d 1234 (N.J. Super. 2005); *Geoffrey, Inc. v. S.C. Tax Com’n*, 437 S.E.2d 13 (S. C. 1993).¹¹ The *MBNA*

¹¹ The Commissioner cites some of these same cases, and others to the same effect, in the instant case. As the Commissioner points out, the South Carolina Supreme Court held in *Geoffrey, Inc. v. S.C. Tax Com’n, supra*, that “by licensing intangibles for use in this State and deriving income from their use here,

Court declined to rely on these cases because they were distinguishable from *MBNA* on their facts. *MBNA*, 220 W. Va. at 168 n.11, 640 S.E.2d at 231 n.11. However, the Court's language implied that the presence of intangible property used in a state by a licensee could provide sufficient nexus for tax purposes:

We find the persuasiveness of these cases to be limited, however, because the primary issue in each case is whether a state has jurisdiction to impose a state income tax on foreign corporations with no physical presence in the taxing state but whose intangibles, such as a trademark, are used in the state by a licensee. These courts reason, in part, that the intangibles located in the state provide a sufficient nexus for income tax purposes. In the instant case, there is no claim that MBNA has intangibles in West Virginia that provide a sufficient nexus for tax purposes.

MBNA, 220 W. Va. at 168 n.11, 640 S.E.2d at 231 n.11. Thus, it appears that the West Virginia Supreme Court viewed the presence of intangibles in a state as providing a more substantial tax nexus than that under review in *MBNA*.

Contrary to this Court's holding in *MBNA*, the Circuit Court relied on a mechanistic analysis of its own creation and then decided that the taxes at issue do not pass the test. Specifically, the Circuit Court concluded that:

52. Without violating the Due Process or Commerce Clauses. The Legislature may, for CNIT and BFT purposes, *create a rebuttable statutory* presumption of taxable substantial nexus with the State by an out-of-state company, without a physical presence in the State, based on a quantitative degree of that company's systematic and continuous activity of soliciting and/or conducting business with customers in West Virginia. *Tax Commissioner v. MBNA America Bank N.A.* 220 W. Va. 163, 640 S.E.2d 226 (2006), cert. denied, 551 US 1141, 127 S. Ct. 2997 (2007).

Geoffrey has a 'substantial nexus' with South Carolina [under *Complete Auto*]." *Geoffrey*, 437 S.E.2d at 18.

53. With respect to the periods in question, the only such statutory presumptions of taxable substantial nexus created by the Legislature, for CNIT and BFT purposes, were for “financial organization.” W. Va. Code §§ 11-23-5a(d) and 11-24-7b(d).

54. ConAgra Brands, Inc. is not a “financial organization” for CNIT or BFT purposes. W. Va. Code § § 11-23-3(b)(13) and 11-24-3a(a)(14).

Final Order at 9-10 (emphasis added), Appendix, Vol. 5, 00968-00969. Conclusion 52 is erroneous because: (1) The Circuit Court created a rebuttable presumption not found in the BFT or CNIT applicable to corporations; and (2) The Circuit Court failed to apply the substantial economic presence test adopted in *MBNA*.

The Circuit Court required that the Legislature create a rebuttable presumption for non-financial organizations, based on the fact that the Legislature included such presumptions for financial organizations. There is no legal basis for this requirement. Financial organizations are different from other corporations and partnerships; financial organizations have particular characteristics not shared by other entities and conduct their business in a manner unlike other business entities. W. Va. Code § 11-23-5(a) (1996); W. Va. Code § 11-24-7(b) (1996). The Circuit Court mixed apples and oranges, but in any event simply misreads the Constitution, pertinent case law, and the applicable statutes.

Secondly, Syl. Pt 2 of *MBNA* states the following with regard to physical presence:

The United States Supreme Court’s determination in *Quill Corp. v. North Dakota*, 504 U. S. 298, 112 S. Ct. 1904, 119 L. Ed.2d 91 (1992), that an entity’s physical presence in a state is required to meet the “substantial nexus” prong of *Complete Auto Transit, Inc. v. Brady*, 430 U.S. 274, 97 S.Ct. 1076, 51 L.Ed.2d 326 (1977), applies only to state sales and use taxes and not to state business franchise and corporation net income taxes.

Contrary to the Circuit Court's determination, the *MBNA* Court did not hold that the CNIT or BFT can only be applied to businesses without physical presence if the tax meets the rebuttable presumption contained in W. Va. Code §§ 11-23-5a(d) and 11-24-7(d). Plainly stated, the *MBNA* Court flatly refused to extend the physical presence requirement applicable to sales and use tax to CNIT or BFT. The refusal to extend the physical presence requirement in the absence of controlling precedent was not tied to the rebuttable presumptions contained in W. Va. Code §§ 11-23-5a(d) and 11-24-7(d), which apply only to financial organizations like MBNA. The rebuttable presumptions contained in those statutes do not apply to CAB because, as the Circuit Court correctly pointed out, it is not a financial organization. *See* Final Order Conclusion of Law at 54, Appendix, Vol. 5, 00969. Furthermore, the Circuit Court's creation of a rebuttable presumption, contrary to *MBNA*, creates a physical presence requirement in violation of the clear holding of *MBNA*.

The Circuit Court adopted CAB's position that it should not be taxed because after it licenses it trademark for use in West Virginia it does virtually nothing more. In Conclusion of Law at 58, the Circuit Court stated:

As to the products, bearing labels imprinted with the trademarks and trade names licensed by ConAgra Brands' to its licensees, when in West Virginia, either in the hands of those licensees, or the licensees' retailer customers, neither the third-party suppliers of ingredients to the licensees for the products, nor the third-party suppliers of those labels, nor ConAgra Brands, Inc., have, purely by virtue of supplying those ingredients or labels, or licensing the use of those trademarks and trade names, the minimum, much less the substantial connection, with West Virginia to satisfy either the Due Process or Commerce Clauses or, thus, to allow West Virginia to impose its CNIT and/or BFT on them.

Final Order at p. 10-11, Appendix, Vol. 5, 00969-00970.

However, this conclusion disregards the economic realities of trademark licensing transactions. The realities are that the licensor of the trademark retains the property right in those intangibles and makes contractual demands of its licensees, including the maintenance of quality, maintenance of goodwill, and the payment of royalties. In exchange for that, the licensees receive the right to use the trademarks in developing, distributing, marketing, and selling licensed goods in the United States, including West Virginia. Thus, under this arrangement CAB permits its licensees to sell the trademarked products in West Virginia, and CAB financially benefits from those sales. Ownership of the trade names and trademarks would be virtually worthless without this penetration of economic markets by CAB's licensees. Thus, the Circuit Court's determination ignores the frequency, quantity and systematic nature of CAB's contact with West Virginia. Its contact with West Virginia includes licensing trademarks that it knows will come to West Virginia, from which it received royalties for the years in question attributable to sales in West Virginia. "The fact that a tax is contingent upon events brought to pass without a state does not destroy the nexus between such a tax and transactions within a state for which the tax is an exaction." *J.C. Penney Co.*, 311 U.S. at 445. While a business may have numerous "'taxable events' that occur outside [West Virginia][,] [t]hat fact alone does not prevent the State from including income earned from those events in the preapportionment tax base." *Mobil Oil Corp. v. Commissioner of Taxes*, 445 U.S. 425, 440 (1980). "The [Commerce] Clause does not shield interstate (or foreign) commerce from its 'fair share of the state tax burden.'" *Barclays Bank PLC v. Franchise Tax Bd.*, 512 U.S. 298, 310 (1994) (quoting *Department of Revenue of Wash. v. Association of Wash. Stevedoring Cos.*, 435 U.S. 734, 750 (1978)). Where a business has systematic and continuous business activities producing substantial income in a particular state, the more income produced the more the business has taken advantage

of the benefits afforded by the state—benefits which are not magically produced, but which must be paid for. Thus, there is a sufficient economic presence creating a substantial nexus. *MBNA*, 220 W. Va. at 173, 640 S.E.2d at 236.

In summary, CAB and the Circuit Court, ignore the fundamental reality that (A) the trademarks have value and (B) CAB's royalties are dependent on its intangibles being in West Virginia. Because the Circuit Court ignored the holding and the persuasive direction provided in footnote 11 of *MBNA*, the Circuit Court's disallowance of the assessment against CAB was erroneous. Just as in *MBNA*, CAB's income for sales in West Virginia is dependent on someone else's product. *MBNA* received no income absent a sale of someone else's product. Similarly, without a turkey to attach the Butterball trademark to, CAB receives no revenue. Therefore, the activities of CAB, like the activities of *MBNA*, justify the imposition of the tax. Following the Circuit Court's logic, the only value in the *MBNA* credit card is the card itself and not what it can purchase.

D. THE CIRCUIT COURT MISAPPLIED THE *COMPLETE AUTO/MBNA* TEST IN THE CONTEXT OF THIS CASE: INTANGIBLE PROPERTY BY ITS VERY NATURE HAS NO PHYSICAL PRESENCE; THEREFORE, THE COURT MUST LOOK TO WHERE THE INTANGIBLE IS BEING USED AND EARNING MONEY TO DETERMINE WHETHER THERE IS SUBSTANTIAL NEXUS BETWEEN THE TAXPAYER AND THE STATE.¹²

Under the Commerce Clause of the United States Constitution, a tax will survive scrutiny so long as (1) there is substantial nexus between the State and the activity that is sought to be taxed; (2) the tax is fairly apportioned; (3) the tax does not discriminate against interstate commerce; and (4) the tax is fairly related to the benefits provided by the State. *Complete Auto Transit, Inc. v.*

¹² The issues raised in this assignment of error are found in the Appendix at: 00774; 00776; 00789; 00822; 00829; 00870; 00873-79; 00884; 00902-03; 00913-16; 00968-70.

Brady, 430 U.S. 274 (1977). In *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992), the United States Supreme Court upheld the requirement that a vendor must have a physical presence in a state before the state may require it to collect a sales or use tax, articulating the practical reasons for such a bright-line rule and relying on the doctrine of *stare decisis*. *Id.* at 310-318. However, the Court noted that it had not adopted such a physical presence requirement in cases involving other types of taxes. *Id.* at 317-318. The issue of whether substantial nexus under the *Complete Auto* test requires a physical presence has been the subject of considerable litigation and a developed body of jurisprudence since the decision in *Quill*. The rule that has developed from this jurisprudence is that physical presence is not required except in cases involving sales and use taxes. Rather, there is sufficient nexus under the Commerce Clause when a taxpayer domiciled in one state carries on business in another state through the licensing of its intangible property that generates income for the taxpayer. *Geoffrey, Inc. v. Commissioner of Revenue*, 899N.E.2d 87, 92 (Mass. 2008). *See also*, cases cited therein.

Although the taxpayer in this case did not explicitly argue that physical presence is required, it asked the court to impose a requirement of contractual privity that, in effect, serves as a proxy for the physical presence requirement. In so holding, the circuit court held that when a foreign licensor, with no physical presence in the state, also has no privity with retailers in that state, the licensor is not, by virtue of its privity with intermediary licensees subject to a tax on its income derived by its business relations with the licensees. Final Order at 56, Appendix, Vol. 5, 00969. The Court also held that the presence of products bearing the taxpayer's trademarks and trade names, whether in the hands of CAB licensees or the licensees' retail customers, do not establish the substantial connection with West Virginia that is required to satisfy the Commerce Clause. Final Order at 58, Appendix,

Vol. 5, 00969-00970. The court imposed a privity requirement that is not found anywhere in the well-developed jurisprudence of taxation of intangibles and failed to apply the substantial economic presence test as set forth in this Court's decision in *Tax Commissioner v. MBNA Bank*, 220 W. Va. 163, 169, 640 S.E.2d 226, 232 (2006), *cert. denied sub nom., FIA Card Services, N.A. v. Tax Commissioner of West Virginia*, 551 U.S. 1147 (2007). The circuit court's Order ignores the recent Commerce Clause decisions that have signaled a retreat from formalistic constrictions of a stringent physical presence test in favor of a more flexible substantive approach. *Lanco, Inc. v. Director, Division of Taxation*, 879 A.2d 1234, 1239 (N.J. Super. 2005).

Intangible property by its very nature has no physical presence; therefore, other rules must be developed to determine whether use of the property has sufficient tax nexus to support taxation under the Commerce Clause. *Secretary, Dept. of Revenue, State of Louisiana v. Gap (Apparel), Inc.*, 886 So.2d 459, 462 (La. App. 1 Cir. 2004). The United States Supreme Court long ago described the issue: "When we deal with intangible property, such as credits and choses in action generally, we encounter the difficulty that by reason of the absence of physical characteristics they have no situs in the physical sense, but have the situs attributable to them in legal conception." *Wheeling Steel Corp. v. Fox*, 298 U.S. 193, 209 (1936). *See also*, Sheldon H. Laskin, *Only A Name? Trademark Royalties, Nexus, and Taxing That Which Enriches*, 22 Akron Tax J. 1 (2007). Courts both before and after *Quill* have held that the presence of intangible property within a state lays the foundation for the assessment of a tax, regardless of whether there is physical presence. *American Dairy Queen Corp. v. Taxation and Revenue Dept. of New Mexico*, 605 P.2d 251, 255 (N.M. App. 1979). When such trademarks and related intangibles are used in a state to produce income, that use establishes that the taxpayer was engaged in business in the state. *Id.*

Modern jurisprudence is nearly unanimous in holding that the use of intangibles in a state to produce income is sufficient nexus to satisfy Commerce Clause requirements. The seminal case is *Geoffrey, Inc. v. South Carolina Tax Commission*, 437 S.E.2d 13(S.C. 1993). In that case, the taxpayer was a subsidiary of Toys R Us. Geoffrey owned trademarks and other intangibles and licensed them for use in South Carolina, receiving royalty income from the licensed use. Geoffrey challenged the assessment of business franchise and corporate income tax on it, claiming that it did not do business in South Carolina and did not have a sufficient nexus with South Carolina for its royalty income to be taxable there. The South Carolina Supreme Court considered the taxpayer's challenges based on both Due Process and Commerce Clauses. The court first noted that the net effect of the use of an intangible holding company corporate structure has been the production of "nowhere" income that escapes all state taxation. *Geoffrey* (S. Car.) 437 S.E.2d at 15, n.1. The court noted that in 1990, Geoffrey without any full time employees, had an income of \$55,000,000 and pay no income tax to any state. *Id.* In its Due Process analysis, the South Carolina court stated that Geoffrey's business was the ownership, licensing, and management of trademarks, trade names, and franchises. *Id.* at 16. By choosing to license its trademarks and trade names for use by Toys R Us in many states, Geoffrey contemplated and purposely sought the benefit of economic contact with those states. *Id.* Geoffrey was aware of, consented to, and benefitted from Toys R Us's use of Geoffrey's intangibles in South Carolina. Therefore, the court rejected Geoffrey's claim that it had not purposely directed its activities toward South Carolina's economic forum. The court held that by licensing intangibles for use in South Carolina and receiving income in exchange for their use, Geoffrey had the minimum connection with the state that was required by Due Process. *Id.* The court also concluded that the presence of these intangibles within the state of South Carolina was

also sufficient to sustain a tax and that this was settled law. *Id.*, citing *Virginia v. Imperial Coal Sales Co., Inc.*, 293 U.S. 15 (1934). In *Imperial Coal*, the United States Supreme Court stated:

It is not the character of the property that makes it subject to such a tax, but the fact that the property has a situs within the state and that the owner should give appropriate support to the government that protects it. That duty is not less when the property is intangible than when it is tangible.

Imperial Coal, 293 U.S. at 20.

The South Carolina Court rejected Geoffrey's claim that under the doctrine of *mobilia sequuntur personam*, the situs of its intangibles was its corporate headquarters. The court noted that the United States Supreme Court had rejected such a position as to intangible property. The Supreme Court stated that although a fictionalized situs of intangible property was sometimes invoked to avoid multiple taxation of ownership, there was nothing talismanic about the concept of "business situs" or "commercial domicile" that automatically renders those concepts applicable when taxation of income from intangibles was at issue. *Id.* at 17, quoting *Mobile Oil Corp. v. Commissioner of Taxes of Vermont*, 445 U.S. 425 (1980). The Supreme Court also recognized that the reason for a single place of taxation was not appropriate when the taxpayer's activities with respect to the intangible property involved relations with more than one jurisdiction. *Id.*

The South Carolina Supreme Court rejected Geoffrey's claim that its intangible assets were located exclusively in Delaware. In doing so, it quoted the United States Supreme Court as follows:

Very different considerations, both theoretical and practical, apply to the taxation of intangibles, that is, rights which are not related to physical things. Such rights are but relationships between persons, natural or corporate, which the law recognizes by attaching to them certain sanctions enforceable in courts. The power of government over them and the protection which it gives them cannot be exerted through control of a physical thing. *They can be made effective only*

through control over and protection afforded to those persons whose relationships are the origin of the rights. . . . Obviously, as sources of actual or potential wealth-which is an appropriate measure of any tax imposed on ownership or its exercise-they cannot be dissociated from the persons from whose relationships they are derived. (Citations omitted).

Id. at 17-18 (emphasis added by the court). Thus, the real source of Geoffrey's income was not a paper agreement, but rather South Carolina's Toys R Us customers. *Id.*, at 18. By providing an orderly society in which Toys R Us conducted its business, South Carolina made it possible for Geoffrey to earn income pursuant to the royalty agreement. *Id.* That Geoffrey received protection, benefits, and opportunities from South Carolina was manifested by the fact that it earned income in South Carolina. *Id.*

The court then considered the Commerce Clause standard under the *Complete Auto* test. The court stated that it was well settled that taxpayer need not have a tangible, physical presence in a state for income to be taxable there. The presence of intangible property alone is sufficient to establish nexus. *Geoffrey* (S. Car.), at 18, citing *American Dairy Queen*, 605 P.2d at 255. The court held that by licensing intangibles for use in South Carolina and deriving income from their use there, Geoffrey had a "substantial nexus" with South Carolina. The court noted that its due process analysis of the benefits conferred upon Geoffrey applies with equal force to the Commerce Clause issue. *Id.*, at n.5. Thus, under Commerce Clause analysis the court again looked to the fact that the real source of Geoffrey's income was not a paper agreement, but South Carolina's Toys R Us customers.

In *Lanco, Inc. v. Director, Division of Taxation*, the Superior Court of New Jersey Appellate Division considered a Commerce Clause challenge to the taxation of intangible property which the taxpayer used in New Jersey and for which it received royalties. The court began with the

proposition that *Quill* does not apply to taxes other than sales and use taxes and the “well-settled” proposition that a taxpayer need not have a tangible physical presence for income to be taxable. 879 A.2d 1238. Rather, the presence of intangible property alone is sufficient to establish nexus. *Id.* The New Jersey court based its reasoning on a North Carolina case, *A & F Trademark Inc. v. Tolson*, 605 S.E.2d 187 (N.C. App. 2004).

In *A & F Trademark*, the North Carolina Court of Appeals upheld the assessment of corporate franchise and income taxes against wholly-owned, non-domiciliary subsidiary corporations of Limited, Inc. The North Carolina court declined to adopt the broader reading of *Quill* as requiring a physical presence for income tax purposes for three primary reasons. First, the tone in the *Quill* opinion hardly indicated a sweeping endorsement of the bright-line test it preserved, and the Supreme Court’s hesitancy to embrace the test counseled against expansion of it. *Id.* at 1239. Second, retention of the physical presence test in *Quill* was based on the principle of *stare decisis* and the industries’ “substantial reliance” on the physical-presence test, which had “become part of the basic frame work of a sizable industry.” *Lanco, Inc.* at 1240, quoting *Quill*, 504 U.S. at 317. Third, the North Carolina court relied on Jerome R. Hellerstein’s *Geoffrey and the Physical Presence Nexus Requirement of Quill*, 8 State Tax Notes 671, 676 (1995), which found “important distinctions between sales and use taxes [as compared to income and franchise taxes] ‘that makes the physical presence test of the vendor use tax collection cases inappropriate as a nexus test’” for taxation beyond the use and sales taxes. *Lanco*, at 1240, quoting *A & F Trademark*, 605 S.E.2d at 194-195.

In *Geoffrey, Inc. v. Oklahoma Tax Commission*, 132 P.3d 632 (Okla. 2005), Geoffrey again brought a Commerce Clause challenge to the imposition of corporate income tax on its income from

the licensing of intangibles in the State of Oklahoma. The Oklahoma court agreed with the *Lanco* court that the physical presence test in *Quill* applied only to sales and use taxes but not to other types of tax. *Id.* at 637. In addition, the court agreed with Lanco's three reasons for declining to adopt the broader reading of *Quill*. *Id.* Sales and use taxes are based on the vendor's activity within the state while income and franchise taxes are based on the use of the taxpayer's property in the state to generate income, rather than activity. *Id.* The Oklahoma court also agreed with the *Geoffrey* (S. Car.) court's benefits analysis: (1) the real source of Geoffrey's income was not a paper agreement but rather the Oklahoma customers; (2) Oklahoma made it possible for Geoffrey to earn income by providing an orderly society; (3) Geoffrey received benefits, protection, and opportunities from Oklahoma as evidenced by the fact that it earned income there; and (4) the tax was rationally related to the benefits, protection, and opportunities provided by Oklahoma because only that portion of Geoffrey's income generated from the use of its intangibles within Oklahoma was being taxed. *Id.*, at 638-639.

In *Geoffrey, Inc. v. Commissioner of Revenue*, 899 N.E.2d 87 (Mass. 2009), Geoffrey appealed the assessment of excise taxes on it, contending that the assessment violated the Commerce Clause because Geoffrey had no physical presence in Massachusetts. Geoffrey owned trademarks and other intellectual property valued at \$1.5 billion. *Id.* at 89. It licensed these intangible properties to Toys R Us and related retailers in Massachusetts and received royalties in varying percentages from that licensing. The Massachusetts court first noted that the physical presence issue had already

been decided in *Capital One Bank v. Commissioner of Revenue*, 899 N.E.2d 76 (Mass. 2009).¹³

Geoffrey, at 88. It then summarized its agreement with the major cases as follows:

We now conclude that substantial nexus can be established where a taxpayer domiciled in one State carries on business in another State through the licensing of its intangible property that generates income for the taxpayer. In reaching this conclusion, we join other jurisdictions that have considered the physical presence issue in the context of intangible property and have upheld the imposition of income-based tax assessments. See *Geoffrey, Inc. v. South Carolina Tax Comm'n*, 313 S.C. 15, 23-24, 437 S.E.2d 13, cert. denied, 510 U.S. 992, 114 S.Ct. 550, 126 L.Ed.2d 451 (1993) (licensing intangible property for use in taxing State and deriving income from such use established substantial nexus for imposition of income-based tax in conformity with commerce clause); *Bridges v. Geoffrey, Inc.*, 984 So.2d 115, 128 (La. Ct. App. 2008) (same); *Geoffrey, Inc. v. Oklahoma Tax Comm'n*, 132 P.3d 632, 638-639 (Okla. Civ. App. 2005) (same). See also *Lanco, Inc. v. Director, Div. of Taxation*, 379 N.J.Super. 562, 573, 879 A.2d 1234 (App. Div. 2005), aff'd, 188 N.J. 380, 383, 908 A.2d 176 (2006) (per curiam), cert. denied, 551 U.S. 1131, 127 S.Ct. 2974, 168 L.Ed.2d 702 (2007) (concluding that State may constitutionally subject foreign corporation to business tax where corporation lacks physical presence in State but derives income from licensing agreement with company conducting retail operations in State); *KMart Props., Inc. v. Taxation & Revenue Dep't of N.M.*, 139 N.M. 177, 186, 131 P.3d 27 (Ct. App. 2001) (stating that "the use of KPI's marks within New Mexico's economic market, for the purpose of generating substantial income for KPI, establishes a sufficient nexus between that income and the legitimate interests of the state and justifies the imposition of a state income tax"), rev'd on other grounds, 139 N.M. 172, 131 P.3d 22 (2005); *A & F Trademark, Inc. v. Tolson*, 167 N.C. App. 150, 162, 605 S.E.2d 187 (2004), cert. denied, 546 U.S. 821, 126 S.Ct. 353, 163 L.Ed.2d 62 (2005) (concluding that where out-of-State company licenses trademarks to related in-State retail company, there exists substantial nexus with taxing State to satisfy commerce clause). See generally 1 J.R. Hellerstein & W. Hellerstein, *State Taxation* § 6.11 (3d ed. 2007) (exploitation of intangible property rights in State as basis for

¹³ That case relied heavily on this Court's decision in *Tax Commissioner v. MBNA American Bank, N.A.*, *supra*. See *Capital One Bank*, 899 N.E.2d at 84-86.

jurisdiction to tax out-of-State persons deriving income from such property)

Geoffrey, 899 N.E.2d at 92-93.¹⁴

The above cases make it clear: the presence and use of intangibles in a state to produce income is sufficient nexus to meet the *Complete Auto* “substantial nexus” requirement. In the instant case, CAB has such substantial nexus by virtue of using its intangible property to produce income in West Virginia. CAB licensed the use of its trademarks and trade names to licensees whose products were sold in West Virginia. CAB received more than \$1 million in royalties - a percentage of the sales proceeds - as a result of its trademarks and trade names being used in West Virginia. Under the law, that is all that is required to meet the substantial nexus requirement of *Complete Auto*. Therefore, the circuit court erred by adding a requirement of privity, and imposition of the taxes at issue does not violate the Commerce Clause.

¹⁴ See *KFC Corporation v. Iowa Department of Revenue*, 792 N.W.2d 308 (Iowa 2010) for a thorough and scholarly review of Dormant Commerce Clause jurisprudence of taxation in interstate commerce, in particular, taxation of proceeds from the use of intangible property. In it, the Iowa Supreme Court discusses this Court’s decision in *MBNA* and characterizes the holding as having gone even further than the cases (*Geoffrey* and its progeny) dealing with intangible property. *KFC*, 792 N.W.2d at 321-322.

VII.

CONCLUSION

The Tax Commissioner requests reversal of the Circuit Court's decision and reinstatement of the CNIT and BFT tax assessments at issue in this case.

Respectfully submitted,

**CRAIG A. GRIFFITH, WEST VIRGINIA
STATE TAX COMMISSIONER,**

By Counsel

**DARRELL V. McGRAW, JR.
ATTORNEY GENERAL**



**KATHERINE A. SCHULTZ, WWSB # 3302
SENIOR DEPUTY ATTORNEY GENERAL
CHARLI FULTON, WWSB #1314
SENIOR ASSISTANT ATTORNEY GENERAL
OFFICE OF THE ATTORNEY GENERAL
Building 1, Room W-435
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305
(304) 558-2522**

IN THE SUPREME COURT OF APPEALS OF WEST VIRGINIA

NO. 11-0252

CRAIG A. GRIFFITH, WEST VIRGINIA
STATE TAX COMMISSIONER,

Respondent Below, Petitioner,

v.

CONAGRA BRANDS, INC.,

Petitioner Below, Respondent.

CERTIFICATE OF SERVICE

I, Katherine A. Schultz, Senior Deputy Attorney General and counsel for Petitioner, hereby certify that on the 11th day of May, 2011, I served the foregoing *Brief of the Petitioner Craig A. Griffith, West Virginia State Tax Commissioner* upon the following by federal express, addressed as follows:

Michael E. Caryl, Esquire
Floyd M. Sayre, III, Esquire
Bowles Rice McDavid Graff & Love LLP
101 S. Queen Street
Martinsburg, West Virginia 25401


Katherine A. Schultz