Seminar 12 and 13 April 2010: The Legal and Tax treatment of sports image rights agreements.

By Lieke van Berkel

Day 1: 12 April 2010

1. Introduction[1]

This two-day seminar has been devoted to the legal and tax treatment of sports image rights agreements. The first day the focus has been on the tax sheltering aspects in a number of selected European territories: the United Kingdom, Guernsey, Spain, Italy, and Luxembourg. Notably the three greatest football countries have been covered as well as two possible European tax efficient territories. The second day attention was given to the structuring of the arrangements. Under the ste**e**ring chairmanship of Prof. Ian Blacksh**a**w interaction with the audience added to the practiciality of the presentation of the expert speakers.

The introduction to the seminar was of course presented by Prof. Ian Blackshaw. Sport is a very important component of the world economy. In the EU, the money that is earned in the sports world delivers 2% of the GNP of all countries. It is a lot to play for. Branding has played a significant part in this process. This is called the 'commodification' of sport. Sport and the players are more and more seen as 'commodities' that can be commercialized. Sport is also a big part of the entertainment industry. In this industry**,** sports persons have become celebrities and marketing icons**;** their personality rights, more specific their image rights, are increasingly being used and exploited by different companies. Therefore it is very important to define these image rights to know how to protect these rights and their exploitation and how they can be used best and described in legal agreements. The discussion is not only on the basis of what sports image rights are but also, who owns these rights. This is even more important in the case of a sports man, who is a professional player and a member of a team for example and most common in the football world. SportsBusiness International therefore kept up a poll on their website, to investigate this. A majority of the sports industry executives, 55%, polled that sports men themselves should have control over their own image rights and their commercial exploitation. 21,6% of the questioned people were of the opinion that the rights should be jointly held by ''all interested parties" and 16,5% said that the club or team, to whom the sports men is a member of, should control the rights. Only 3.7% was of the opinion that the national sports governing body or the league should hold the rights. This article also shows that there is a lack of clarity about the commercial sports marketing contracts and about the ownership of the rights. Therefore there is a need for more clarity about precise provisions or agreements that deal with the exploitation of these vulnerable and, at the same time, very valuable rights. In some countries the market of sports image rights is more developed than in other countries. Image rights are described differently country by country, therefore also protected differently and under different sections of the law. In most European countries the sports image rights market is well developed. But also within Europe, it differs per country. Continental Europe provides a better protection of the

image rights in general, th**an,** for example, the United Kingdom does. The UK law does not provide for a specific definition of image rights, while the continental law system does, describing image rights as 'right of personality' and they are most of the time also protected by the 'right of privacy' and the 'right of publicity'. With this two day seminar, an effort is being made to provide for more clarity, to describe the image rights, to compare the legal and tax treatment of different countries and to see the possible ways to arrange these image rights agreements.

2. The United Kingdom Tax point of view

Mr. Stephen Woodhouse of Deloitte London provided an introduction to the tax treatment of income from sports image rights. In every type of professional sports, legal and tax considerations are important. Substantial amount are paid with tax on these payments being a high cost.

There is no specific definition of image rights in UK law. However, where structured and administered correctly, income earned from the exploitation of image rights is not treated as income of employment, but as a separate income component. Key is that the payment should be for the exploitation of the image and not be connected with the exercise of the employment. The possibility of identifying the image rights income separately from the employment remuneration is a vital key element. Image rights can be used, but sports clubs and players always need to bear in mind that the attribution of income for the exploitation of the image needs to be made in the correct way.

The main element is that the image of a player represents an individual and independent image. The image should constitute a separate value from their playing ability in order to demonstrate its exploitation.
The value of a player's image right can grow or diminish over time, which raises the question of whether you can identify an accurate value in the early stage. Therefore you should set up a structure in which the value of the image is monitored overtime. For example, procedures should be in place to deal with the impact of negative publicity on the value of an image right.

From the audience of the seminar it became clear that in Italy the situation from a tax perspective is relatively unsophisticated. The taxation of sportmen is not as clear as in the UK. Sportsmen pay taxes on wages as income from self -employment. This tax treatment is also used for the taxation of income from the exploitation of image rights. In Italy the image right is not an enforceable right for a company and Italian citizens cannot transfer this personality right. In Sweden, players do not apparently have any right over their image rights. One reason for this is that in Sweden only a small number of players are involved with relatively low income levels.

3**. Guernsey: General principles of tax treatment of image rights**

Mr. Jason Romer of Collas Day explained that Guernsey is centrally positioned for the developed and developing international financial centers. It has great big experience in dealing with the important subject of taxation of income from inter alia image rights. Guernsey is on the G20 White list and has a vary favorable tax regime. Guernsey has an internationally recognized

specialized finance centre and has a zero % corporate tax rate. Guernsey also has legal, banking and accounting expertise and corporate cell structures facilitating ownership of image rights. Especially because of the Tax regime of Guernsey, the Island is interesting for image rights agreements, but other EU countries look suspicious to the tax regime of Guernsey because of their zero % rate. There is no tax on transfers or what so ever. Guernsey provides for a very transparent system.

Guernsey currenlt offers protected for intellectual property rights under Intellectual Property legislation. The advantages of the IP legislation of Guernsey are:

- Legal protection;
- Cost savings;
- Efficiencies for speed of registration: in small jurisdictions it is faster, approximately 12 weeks for the registration of a trademark. In Guernsey there is an option for a primary trademark, same as in other countries. But also a possibility for a supported registration, this registration takes 6 weeks to register. It is also possible to get the registration in another country and bring it back to Guernsey;
- Tax efficiencies;
- The different legal frameworks for IP exploitation;
- The time zone;
- The expertise and relevant knowledge.

Guernsey is not an EU member, and therefore also not bound by the EU legislation. The legislation that Guernsey now provides for is modern and flexible. The legislation enclose design rights, copyright, trademarks, database rights and plant breeders rights.

As in the UK Guernsy has on this moment not yet a possibility for registering (sports) image rights. The closest other right is a trademark, and the distinctiveness of a brand. The image right can be seen under the trademark protection as a *specific distinction of a person or individual* and can therefore protected under the trademark law. Currently new specific legislation is uneerway which will enclose; patent, innovation warranty, a real definition on image rights and their protection, which is expected this year.

- The forthcoming image right legislation will be a Statutory right in law. A right that needs to be balanced, because otherwise one cannot even publish newspapers anymore without infringing the right of press freedom. The income from image right exploitation will be seen separately from employment income. The closest other right is a trademark, the distinctiveness of a brand. The image right can be seen under the trademark protection as a *specific distinction of a person or individual* and therefore protected under the trademark law. A player could have an employment contact with the club and a separate contract with a company regarding his or her your image. In some countries Guernsey is on the black list for income tax purposes, however, it is on the white list of the OECD. Guernsey has internationally accepted and robust IP legislation and the forthcoming legislation is expted to allow for protection at a level that currently doe snot yet exist

4. Spain: general tax principles

Angel Juarez of Juarez Associados Abogados (Barcelona and Madrid) explained that for the understanding of the Spanish tax rules for income from the exploitation of sports image rights, Art. 92 of the IITA is important. Article 92 concerns the personal attribution of image rights payments, and establishes a 15% 'safe harbor'. This 15% rule restrictis the payment of income from exploitation of image rights to 15% of the total remuneration paid by the employer to the player. This rule was made before the introduction of the Beckham law (providing for a favourable tax treatment for incoming professionals), but it is still in place.

The Art. 92 IITA rule applies only to employed resident taxpayers. If Art. 92 IITA does not apply, then the safe harbor of 15% is thus not available. If Art. 92 IITA applies, the image rights income is attributed to the player and marginal tax rates apply (up to 43%). The test for the applicability of Art. 92 IITA is the earlier mentioned 15% threshold. The measurement of this threshold is to be made on the level of the employer. The key elements for the measurement are that the payments are made by the employer in respect of:

- Employment services rendered by the employee; and
- The use of the image of the employee:
  - Whether made by the employee or any other third person
  - Whether in cash or in kind.

The 15% safe harbor was set up during a time in which many sports clubs where facing bankrupcy due to tax reassessments because of the fact that the wages and remuneration paid to players were taxwise not properly arranged.The introduction of the 15% safe harbor was part of a recovery plan for the clubs. Different reactions to avoid the safe harbor where made by various clubs. For example:

- Barcelona created a scheme to get around this 15% rule. The income from exploitation of image rights would not be paid to the player by the club but by the TV company exploiting the broadcasting rights of FC Barcelona. The payments from the TV company to FC Barcelona would then be reduced in the amount of the direct payments by the TV company to the players employed by FC Barcelona. The reasoning from FC Barcelona was that the attribution rule in Art 92 IITA because the payment was done by a company other than the players' employer. This scheme was not accepted. The Supreme Court concluded that the TV company acted just as a paying agent on behalf of the club.
- Real Madrid did not pay players for use of their image rights, but they paid for a sublicense of the image rights registered as a trademark in Hungary. Real Madrid got a sublicense from the Hungarian company, this was intended to be seen as a royalty not as an image right. Also this scheme was not accepted and did not work.

The Spanish safe harbor on tax gets a lot of criticism from companies and clubs:

- Clubs are not making money on their activities, thus the 15% is artificial and inconsistent;
- It creates legal uncertainty: image rights are not transferable because they are personal, but in tax law it is possible to transfer these rights via the safe harbor system.

The only way for Spanish resident taxpayers to use the benefit of the 15% safe harbor is to be hired by a Spanish club. It even does not matter if your image is worth anything. Also, players can still conclude other image right exploitation contracts with companies estalished in their previous country of residence or elsewhere.

2 possible options for getting round the 15% limitation would be the following:

- Suppose Nike wants to use the image of Ronaldo. Nike pays 1 million to the club of Ronaldo, 40% of the payment goes to Ronaldo; or
- Supose the payment goes directly to Ronaldo, Nike pays 1 million to the company of Ronaldo, and his company pays 40% to the club. This option is apparently used the most in practice.
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5. Luxembourg tax treatment

Luxembourg was presented by Mr. Lars Gosling of AS Avocats from Luxembourg. Mr. Gosling started by mentioning that if Luxembourg would be on any list, it would be on the white list,. But as a matter of fact Luxembourg is not on any list.

The Law of Luxembourg makes clear that; ‘everybody is entitled to his private life and is protected for this’. Therefore the image right is not a valued right, not material or commercial, therefore you cannot make an agreement regarding it. But what one can do is to make an agreement on the use of it.

The new advantageous tax regime for income from the use of image rights applies from January 2008. Art 50 bis of the Luxembourg tax code provides for the two main characteristics of the regime: 5.72% income tax rate and an exempion from net worth tax over the Intellectual property. Individuals (resident and non-resident) who carry on a business inLuxe,bourg and Luxembourg corporate entities are entitled to the application of this regime. The Luxembourg IP regime applies to th following types of property:- software copyrights (important for IT companies), patents, designs, models, trademarks relevant in the sports industry) and domain names. Other conditions for application of the regime include: the qualified IP must have been created or acquired after December 31st 2007, the Luxco must not have acquired the qualified IP from a direct “Associated Company" and the qualified IP related expenses need to be activated.

The IP regime elements that are specifically relevant for Sports image rights are trademarks and domain names.Commercial use of one's image right may be accomplished by first protecting the name by registering a trademark. This can also be used to protect a logo, signature, photo or domain name.

The commercial use of the IP by Luxco can beachieved through: the creation of IP by Luxco, by acquisition of legal title over IP or acquisition of IP licence by Luxco. Exploitation of the IP can take place by production of goods, or by licensing of the IP to third parties. Eventually the IP can be disposed of, and several exit strategies may be used. Exit strategies include disposal of Lux Co or by migration of the Lux co to a third country.

6. Tax treatment of Italy

The Italian tax treatment of income from image rights was explained by Mr. Marco Ettore of the firm CBA (Milan). Italy does not have a specific tax treatment on sportsmen like Spain. For icnome tax purposes there is no difference between income from employment and other income. There is a distinction between resident and non-resident taxpayers. An individual is considered to be resident in Italy if he registered as a resident person, if in Italy his domicile (centre of most relevant economic interests) and place of habitual home. Italian nationals who have emigrated to a blacklisted country are deemed to remain resident in Italy unless evidence of te contrary is given.

Resident taxpayers are taxed on their worldwide income. The income from exploitation of image right is then taxed on the normal progressive tax rates. With respect to a non-resident sportsmen, the tax treaties that the country of residence has concluded with Italy (if any) is important. If no tax treaty exists, then the tax rate om income from exploitation of image rights is 30%. If a tax treaty applies, both the rules of the countries need to be matched. The income of sports image rights is the income from independent personal services and will be taxed this way.

Italian resident individual sportsperson may feel the need to find a structure for lowering the tax burden on their income. As a sportsmen you may need to try to set up entities to reduce the amount of taxes that needs to be paid. For example Italian resident sportspersons could set up an entity in Luxembourg in order to have it exploit their image rights. However, Italy does not have exhaustive judgments and case law on this type of structure. It should be noted that the Italian tax authorities have the power to attribute to the taxpayer the income that seems related to other subjects in case of an abuse of law (infringement of constitution in Italy) and in case of fictions (e.g. if the real intention would be a direct contract from A to C, but first a contract is concluded with B to go around this). The attribution can be made on the basis of simple presumptions (serious precise and concordant).

The Italian tax shelter structure that is set up for sportsmen who are resident in Italy has to comply with provisions concerning residence of legal entities, CFC legislation and anti fictitious interposition rules. The consequence is that such structure needs to be effective and localized in non tax haven countries. The tax shelter structure set up for sportsmen who are nonresident in Italy, on their side, need, in case of distribution of dividends, to comply with provisions concerning the anti abuse rules applicable to conduit companies. In each case an applicable tax treaty, if any, needs to be analysed for determing the concrete tax treatment.

7. The United Kingdom: Tax aspects

The presentation on the United Kingdom was made by Ms. Debbie Masterton of Deloitte LLP. In the United Kingdom the use of payments for image rights can for tax purposes be advantageous for both players and clubs. If structured correctly, there should be no income tax withholding obligation or social security on payments to the image rights company by the club. Dividend payments by companies owning or exploiting image rights are taxed at effective rates from 25% up to 36.1% in 2010/2011. The income that is received by the image rights company is liable to corporation tax, the rate depending on the size of the company's profit. The income that is left in the company is taxed at (currently) 18% (which has now risen to 28% with effect from 23 June 2010 for higher rate taxpayers) when the company is wound up.

The position for non UK domiciled individuals is slightly different. Generally, if a sportsperson is not born in the UK, the person is not subject to the UK tax on any income that is earned overseas and not remitted to the UK, provided a remittance basis claim is made.

For some time now the UK tax authorities (HMRC) have entered into discussions with the football clubs regarding the taxation of payments for image rights of the players. In many cases the HMRC believes that image rights are simply a 'cover' for normal remuneration. As such, these payments should be taxed as normal income from employment. Their assertion (HMRC) is that the value placed on the image rights is not commercial and that there is not enough done to exploit the image, thus the income from the promotional services performed is not commensurate with the payments made under the Image Rights contract. If HMRC were successful in a challenge the payments under the Image Rights contract would be taxed as normal employment income.

It needs to be clear from the structure of the contract which activities are from image rights and what is normal employment income. One cannot just come up with an amount to be paid under a separate image right agreement without a commercial justification. The parties should undertake a valuation of the image rights, taking into account the expected income the club expects to generate from exploitation of the image plus the value of the ability to control the player's activities in such a way as to both ensure the player devotes his time and energy to sporting activities as well as preventing inappropriate use of the image which the club considers would damage their brand. Furthermore, the club should consider how to exploit the image rights acquired and take steps to do so. If there is no evidence supporting the value and no efforts made to exploit the image rights acquired under the Image Rights contract, the payments will likely be viewed as part of the employment income and also taxed that way. However, if properly structured and exploited, HMRC should not ignore such Image Rights contracts and argue that the agreement is merely a smoke-screen for additional remuneration.

In addition, UK case law demonstrates that genuine payments for image rights should be taxed separately from employment income. For example: Sports club and Ors v HMRC: the case was won by the taxpayer, the income was not taxed as income of the employment, because the intention and actual exploitation made clear that the income from the image right was separate and distinct to the payments for playing.

8. Art. 17 of the OECD Model Convention

Mr. Angel Juarez presented his views on the application of Article 17 of the OECD Model Convention to sports image rights. An image right includes the right to privacy, and the right to publicity such as name, image, voice, signature, likeliness, fame, personal characteristics, and trademarks. Whether the payments are for an activity or not is the important element for the tax payments. There is no specific article in the OECD model on Image rights payments. Only art. 17 makes a reference on image rights by mentioning the sponsorship fees. Art. 7 and Art. 15 are also relevant for this subject. There is also a small role for art. 12 involving royalties. But Image rights do not fall under the definition of royalties in art. 12 because the definition is a closed definition which does not include personality rights such as image rights. Articles 17 and 15 are based on the place where the activity takes place. Art. 17 involves income derived by entertainers from their personal activities as such, but not from other sources not involving any activity at all (e.g. dividend or interest). If there is no activity then Art. 17 is not applicable. Another criteria is that there needs to be a public performance element in the activity, an entertainment criteria.

The Commentary to Article 17 of the OECD model is not always constituent in its wording. The wording can be read as contradictory. E.g. paragraph 9 of the Commentary to Art. 17 requires a direct link between the income and the public exhibition. But furtheron the same Commentary describes that also an indirect link is possible and also that just appearances instead of public exhibition are possible. This contradiction is probably the result of the required consensus building process between the OECD countries.

9. Concluding remarks

Prof Blacksahw concluded the first day by mentioning that image rights involve more aspects and elements than thought at first sight. It is a fascinating subject. The model convention, the tax law as well as the national laws are important. There is still no clarity on the protection of the image rights under the UK law. If this uncertainty will be solved, it all will be more clear. Guernsey is a very special case and after acceptance of the planned new legislation on image rights Guernsey may be able to compete in this field with other territories such as Luxembourg.

Day 2: 13 April 2010

1. Introduction

During the second day of the seminar attention was mainly given to the practical aspects of drafting sports image rights agreements and putting the structures into place. The importance of properly writing things down in a contract was firmly underlined by Prof. Blackshaw. The second day was also about explaining the agreements on sports image rights from the common law point of view and the European civil law point of view. In the English common law system, the intention of the parties is essential. It is virtually impossible in the common law system to go outside the contract – only in very exceptional circumstances where the intention of the parties is not clear. The continental law does make this possible, because of the fact that next to the contract, a look can be taken at what both parties talked about. Preliminary contractual agreements are important in the continental law system and you can already be bound by pre-contract conversations and negotiations. Therefore it is even more important under the common law system to write everything down. Only in very exceptional circumstances you can go around the contract. With some clauses in the agreement, you can fill this gap, for example by adding a good faith clause in the agreement. Parties are then bound to act toward each other in 'good faith':

Prof. Blackshaw explained that drafting a sports image right agreement is not easy to do and there is no one model that fits for every case. Therefore you have to be careful with model agreements, every case has his own facts! The deal supposed to be laid down in the agreement as specific as possible and it needs to have a business essence. It is important to speak well with the client before drafting an agreement and make sure to write everything down. Be careful not to draft in a vacuum. Meet the client, the preparation and the meeting is the essential part of drafting an agreement. Make sure everything is made clear to the client, explain everything. Especially with licensing of a sports image right and territorial issues you have to be secure, because you also deal with EU competition law and in such cases it is even more important to prepare and explain. By studying the model and the conversation with the client, you see the gaps and on this point there is still a possibility to go back to the client and talk about the elements that are still unclear**;** after that, you can conclude it.

Typically sports image rights agreements have some complex financial provisions, especially in the case of licensing and royalties that are paid for these licenses. Mathematical formula are used to explain these provisions, these formula explain the essence of the financial provision better than words. Use schedules as appendi**c**es next to the explanation in words. Also pay attention to any inconsistency between the body of the agreement and the appendi**c**es. Be careful with recitals, recitals do not have to be used. Some essential provisions need to be included in a sports image rights agreement. For a trademark licensing agreement, the following provisions should be supplemented:

- Exclusivity provision
- Quality control provisions

- Performance clause: the licensee should promote the product in the territory of the agreement. Be careful to make these clauses realistic and include the right to terminate.
- Distribution channels clause: these clauses are also important for the quality and the image of the trademark you want to protect.
- Assignments and sublicensing: include a provision that the image right can only be assigned with the prior written consent of the licensor.

In the UK it is not possible to withdraw this consent without a reasonable reason. Other European countries do give this option by paying damages. You include in the assigning clause that the agreement can be assigned to an associated company. If these clauses are not drafted properly it can cause a lot of trouble. It is also possible to include a morality clause in the agreement, but again be careful with these, make sure you maintain complete flexibility, because negative publicity is also publicity and it still needs to be possible to deal with it. At the end of the day you want to protect the intellectual property. Therefore the morality clause should be objective. The good faith clause is the umbrella for this counterbalance.

In many commercial agreements you will find also the following clauses:

- Best endeavors clauses: also be careful with these, be reasonable, if you include this clause the other party have a heavy obligation under this clause. “Not to leave any stone unturned”.
- Penalty clauses: pre assessment of the breach. Under the continental law system these clauses are enforceable. The common law system does not allow these clauses to be enforceable, they are only for the pre assessment. But because of the fact that image rights are personality rights and therefore fundamental rights, it is difficult to put a penalty on a infringement of them.
- Entire agreement clause: these clauses contain the phrase that this is the agreement and that only this agreement is used. These clauses can be very problematic, because of the fact that oral understandings can differ from the concluding provisions in the agreement. A common law judge does not look further than this clause, so be careful.

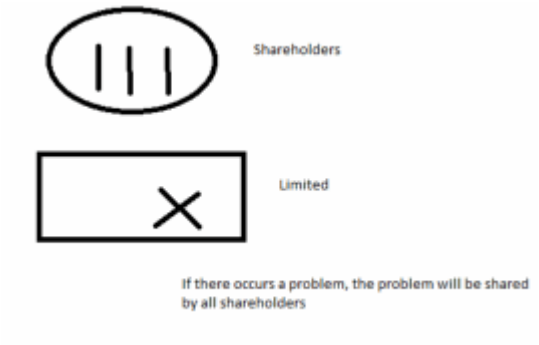
As already mentioned, in continental civil law**,** the preliminary contractual agreements are important. Parties already are legally bound to these agreements if these agreements are in a certain stage of negotiation. If the parties do not finalise the negotiations, they are liable for damages. In continental law**,** parties can already go to Court with these preliminary agreements. In the common law system**,** it is not possible to enforce these agreements which are only preliminary because an ‘agreement to agree’ is not a legally binding contract.

2. Guernsey

Mr. Jason Romer dealt with the situation on Guernsey. There is no specific definition of sports image rights in the UK. Guernsey also does not have a specific definition yet. However, Guernsey is coming with a new definition this year. In Guernsey the question is if it is possible to register an image right as a trademark. The problem is that an image right is an indisposable right.

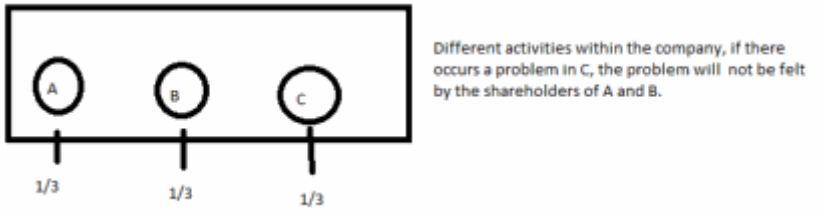
Via a trademark registration it is made disposable, therefore a conflict occurs. The Guernsey law therefore sees it more as an extra/subsidiary right next to the personality right.

It is difficult to figure out what is the best way to structure an agreement, because there is always a conflict between what the club wants and what the players want. Guernsey comes up with a new way to structure the agreement for a sports image right agreement.



Normal structure:

New Guernsey structure:



The new structure of Guernsey is used to go around the CFC legislation. This new structure is used already a lot in the UK and this scheme is also very useful for the arrangement of image rights. It is possible to split the shares within the cell, but from all cells the shares are ordinary shares, thus 1/3 of the share of the company. With 20 cells, the shareholder only hold 5% of the whole company, but the shareholder is 100% in control in his own cell. This structure is set out in different structures and agreements. Option 1, the PCC model, as set out on the sheets, there the company is always represented by the cell, the shares in the cell will be held by the trust. It is possible to offer all sorts of products via the cells. This structure is more in the interest of the the club than for the interest of the player.

The second option that was set out on the sheets was the ICC model, the incorporated cell model. Via this structure the club can set up the main ICC and then create separate ICC's and take some percentage of these separate ICC's. The benefit of this structure is that it can be easily transferred

to another country or club if the player moves. It gives the club more control over the player, the club owns the shares of the company, the player gives their image right to this company. The royalties are earned by the players cell and these benefits will then be transferred to the player. The trust is led by the trustee, trustees only have to take action when dividend is made.

It depends on what side you are, the club or the player, when drafting an agreement and choose between the different options and schemes. Option 1 is more in favor of the club, option 2 has more advantages for the player. Both schemes are especially meant to arrange the overseas image rights companies. The specific Image rights legislation in Guernsey is on his way. But next to this upcoming legislation, Guernsey has already a wide variety of suitable structures.

3. Spain

Angel Juarez of Juarez Associados Abogados (Barcelona and Madrid) explained that in Spain the image right is seen as a right of personality. Therefore the right is protected under the Constitution. Art. 18 of the Constitution of Spain and Art. 8 of the Human Rights Convention are the basis of protection is Spain. The right is divided in the right of privacy and the right of publicity. Because of this specific classification of the right, the economic aspects of the image rights are not protected by these articles. The rights of personality are not transferable, but you can license them. An individual can revoke the license, but damages must then be paid. For the arrangement of the agreement the value of the license is important and the way the license is granted to the company.

In practice in Spain countries that are on the black list are avoided for locating the companies. Trusts are not usually used in Spain. As there no written law regarding trusts in Spain, a case by case approach is therefore possible. Next to the protection articles mentioned above, it is important to always pay attention to art. 17 OECD and art. 92 IITA for the tax aspects of the agreement as mentioned earlier during the seminar.

4. Luxembourg

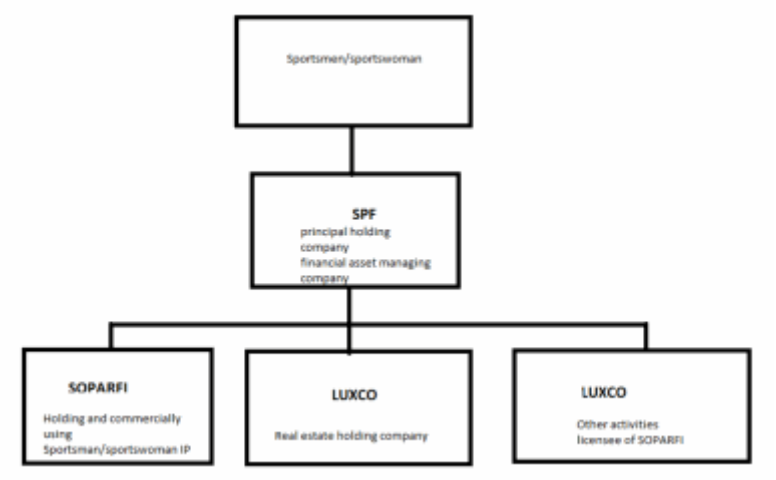
Mr. Lars Gosling of AS Avocats explained that the arrangement of sports image rights in Luxembourg goes via the Intellectual property law. A structure based on IP law is set out for the sports image rights. benefits of Luxemburg include its membership of the EU, and readily access to the reduced tax rate of 5,72%.

An IP structure may in Luxembourg be arranged through the societe de participations finacieres (SOPARFI). The SOPARFI is the holding company which can carry out commercial and other operations. The SOPARFI. The SOPARFI exists in two different legal forms: the societe a responsabilite Limitee (Sarl): Private limited companies and the Societe Anonyme (SA): public limited company.The SA is mostly used.

The IP that can be registered under the IP law in Luxembourg are trademarks and domain names. The SOPARFI can acquire the use of the image right via three different ways: by creating a qualified IP, by purchasing the legal title of the qualified IP or by purchasing the license of a qualified IP.

As parent company of the SOPARFI one can use the socalled ‘Luxembourg private wealth management company´ (SPF). SPF is the holding company of the financial instruments and assets. The shareholders of the companies must be individuals and cannot have a corporate structure, therefore a group of individuals or a foundation etc is possible.

As a summary, the structure of the IP scheme in Luxembourg for arranging a sports image right can be drafted as follows:



5. Italy

Mr. Luca Ferrari presented the issue of the protection of image rights in Italy. Image rights, which include all individual’s characteristics taken as a whole are recognised as rights of personality. The Universal declaration on Human Rights is one the international declarations that deal with this right. The Declaration describes the concept of name, portrait and identity as elements of the right of personality. The image rights are arranged under the Italian Private international law in Italy. Art. 24 of the law states that; *‘an individual’s personality rights are defined and ruled by her/his national law’*. For Italian citizens, the application of Italian law is imperative -therefore it cannot be derogated by agreement- (at least) with respect to the nature and content of image rights.

The Italian Courts established the precept that*; the image right cannot be the object of the agreement or of the license, because the right is inherent to the person and, as such, non assignable and non negotiable.* Thus, an agreement that has the image right as the sole or principal object, is null and void and of no effect. But separate from the Courts decision, the exploitation of an image right is still possible with consent of the owner of the image right, via a license for using the image right. There is a possibility to set up a company for the exploitation of the image right, but the image right cannot constitute the asset of a company and the image right cannot form the substance matter of a licensing sponsorship endorsement agreement. Therefore, under Italian law image rights cannot be held in a trust, assigned by a contract or conveyed by deed. The possibility the Italian law gives is managing the right of publicity by an agent or

consultant. The agent can set up a company to exploit the image right. The commercial risk can be taken by the agent if the agreement has a real business intent. However, for this scheme to work, the consent of the image right owner is essential. Without consent nothing can be down. The consent can be withdrawn at any time. However, in addition to contractual liability for breach of contractual obligations, the exercise of the withdrawal right without good faith entails liability in tort and damages must be paid.

Under Italian law, another possibility is given to arrange image rights, via trademark law. Name and image can be registered as a trademark under Article 7 of the Code of Intellectual Property. But the possibility is limited to substituting a trademark for an Image right licensing. For the use of merchandising the trademark is useful, like for perfume, but this is not a very useful option for the image, because of Art. 19 of the Code. This Article states: *'the individual or entity applying for trademark registration must have at least the intention to use it in the manufacturing or trading of products or in the provision of services'* . The real protection for the image right derives from the joint provisions of Art. 10 of the Civil Code and Art. 96 of the law on Copyright. Art. 96 of the Copyright law states that *a person's likeness cannot be displayed, reproduced or sold without the latter's consent*. Again, consent is the fundamental element. There are some exceptions for this consent, mentioned in Art. 97 of the Copyright law. However, the consent is always necessary if the person's image is used for commercial purposes. Under Art. 10, if the image is displayed without the necessary consent or causes prejudice to the dignity and reputation of the image's owner, the latter can apply to the judiciary to request a cease and desist order and to claim damages.

The exploitation of the image right of sportsmen can be subject of a conflict between the interest of the clubs and that of the player. In principle, the image right is the right of publicity of the player himself, who is free to commercially exploit his own image. Upon conclusion of the employment contract, the club acquires the right to use the player's image as part of the team's image. The sports association can limit the advertising activities which are personally undertaken by the athlete, but this limitation is subject to several criteria that should apply before the club can interfere with this right. The Collective Bargaining Agreement, which is now in force between clubs and football players, unfortunately does not regulate the subject of image rights. The image rights are arranged through the right of publicity by the "Convention for the Regulation of agreements concerning promotional and advertising activities which involve football clubs and their players", whereby the latter are entitled, unless waived, to a part of the club's profit deriving from the promotional activities using the players' image. In practice, however, in most cases the individual contractual forms foresee such a waiver. There is still no case law on this subject, therefore these agreements are still a risk. There is also a possibility to arrange an individual image right contract between the Italian clubs and the player, but this is very rare and not the rule.

6. **United Kingdom**

Mr. Stephen Woodhouse of Deloitte explained that the use of sports image rights agreements may be advantageous for both the club and the player. The main advantages for the club are: the profit of the image right for the club, no employer social security liability on payments to the image

rights company. Certain players insist on image rights arrangements when agreeing to join a club and as a result they can be pivotal in negotiations with top players. Also, with such an agreement the club has control over the image therefore the club can control the time the player devotes to non playing activities and ensure they do not undertake activities which are detrimental to the club.
Where image rights payments operate effectively, there are benefits for the player:

*Opportunity to increase the earnings based on their image rather than on their playing ability;
*Free to concentrate on the employment with the club and be fully aware of the commercial obligations under the Image Rights Contracts;
*The income under the image rights agreement is not subject to employee social security;
*The income can be extracted from the image rights company under the more favorable (at the time of writing) capital gains tax regime if done on liquidation of the company.

The UK does not have a specific definition of image rights and no specific law that protects these rights. Therefore there are some practical difficulties and considerations that occur during the drafting of a sports image right agreement with the key element being the allocation of remuneration for substantive duties. There are no set guidelines for this but the agreement should reflect the commercial substance and reality.
Also, clubs should make sure that they have specific agreed processes in place to be followed when entering into an agreement. Board discussions should agree the commercial rationale for using image rights agreements. The board discussions, with regards to individual players, should demonstrate the decisions regarding payments based on commercial considerations.
Also, the agreements should be professionally drafted for the particular contract being established rather than generic template documentations.

7. European (EC) Law

Angel Juarez of Juarez Associados Abogados then explained that image rights agreements are not only subject to national laws of the country in which players and clubs have their bases, but for EU Member States also European law is important for drafting the agreements. European law provides for 4 basic freedoms: free movement of goods, services, capital and persons. Next to these 4 freedoms, the European citizenship is important. When drafting an agreement, the four freedoms need to be respected. The basis of the four freedoms is the protection against discrimination based on nationality. Always make sure that the agreement is not discriminating or in violation with the European law. Not only the four freedoms of the EU law are important, but also the provisions of competition law are important in a case of sports image rights, because markets are being divided while drafting an image right agreement and several clauses are included in the agreement to arrange the supplying of the image right.

8. Conclusion

Sports law in general, and more specific sports marketing involves a lot of aspects on commercial, legal, tax and practical grounds. It is therefore of much importance to arrange everything well in a contract. Especially for a licensing agreement, the most used way to arrange a sports image right, it is important to write everything down and arrange everything in a business, commercial and financial sense. Always watch the applicable rules of the law and of the taxes, both on national and EU level. Always get advice from nationals of the country or the area in which you want to arrange an agreement. Take an overview and professional advice, especially on taxes, because image rights involve a lot of money! There is a lot to play for!

Keep in mind that sometime the deals you did not close, are better than the deals you did do. Do not always have the feeling that you need to conclude the deal. But watch out in which stadium of negotiations you are if you conclude a contract by continental law and on what point you do not agree on, because you can already be liable for damages on certain preliminary contractual agreements.

notes

[1] Further information may be obtained by acquiring the conference proceedings. If interested, please contact NOLOT Seminars at erica@nolot.nl.