

No. 958—HIGH COURT OF JUSTICE (KING'S BENCH DIVISION)—
18TH, 19TH AND 28TH JULY, 1933

COURT OF APPEAL—28TH, 29TH AND 30TH NOVEMBER, 1933

HOUSE OF LORDS—8TH, 11TH AND 12TH MARCH AND 8TH APRIL, 1935

HANDLEY PAGE *v.* BUTTERWORTH (H.M. INSPECTOR OF TAXES)⁽¹⁾

Income tax, Schedule D—Royal Commission on Awards to Inventors—Ex gratia award in respect of unpatented inventions—Ownership of amount awarded—Agency.

The Appellant was the manager of an aircraft construction company which worked out designs for certain types of bombing aeroplanes. These designs were not capable of being registered, or of being the subject of letters patent, although certain minor features had been patented, including some by the Appellant which had been used by the company under a verbal licence. During the war the company was required to impart to other constructors in the United Kingdom and to the United States Government the information necessary to enable them to build machines from the designs.

In 1919 an agreement was entered into between the Appellant and the company which provided, inter alia, for (1) the payment by the company to the Appellant of a specific sum stated to be due from the company to him for royalties in respect of designs and inventions, including the before-mentioned patents, up to 31st December, 1918; (2) the payment by the company to the Appellant of all royalties or remuneration received by it under a claim to be made by the company at the Appellant's request for the use of the designs and inventions by H.M. Government or the United States Government up to 31st December, 1918; (3) the sale by the Appellant to the company of his rights and interests in the designs and inventions; and (4) the issue to the Appellant of ordinary shares in the company as consideration for the sale. Later in 1919 the Appellant assigned to the company a number of patents including those covering the minor features in the aeroplane designs. Claims were made in December, 1919, by the company to the Royal Commission on Awards to Inventors in respect of the user of the aeroplane designs and the patents, etc., by H.M. Government and by the United States Government, the Appellant being mentioned in the claims as a person interested in the letters patent pursuant to the assignment made by him to the company in 1919. In May, 1922, the Royal Commission, under the powers conferred upon it

⁽¹⁾ Reported (K.B. & C.A.) 150 L.T. 262; (H.L.) 153 L.T. 34.

under head (3) of the Royal Warrant, recommended to the Treasury an ex gratia payment as remuneration to the company for such user by H.M. Government down to 1st May, 1922. The claim in respect of the user by the United States Government was not then dealt with, and in 1923 it was agreed between the parties concerned that it should be considered by a body consisting of the Royal Commission sitting jointly with the American Commission for the Adjustment of Foreign Claims. A fresh claim, made by the company and the Appellant jointly, was then presented to the Joint Commission which, in March, 1923, awarded to the claimants a sum in respect of the American user down to that date. Both the sums awarded were paid to the company during the year 1923-24.

The Appellant made claims against the company in respect of these awards, and in 1927 the company agreed to admit in full the amount of his claim "in respect of compensation for sale of assets "by disclosure of plans" "subject to his undertaking to meet any "claim against the company for Income Tax payable in respect of "the value of the awards now agreed to be due to him." He was assessed to Income Tax for the year 1923-24 in respect of the amount received by him from the company as "Royal Commission "Award in respect of the user of certain Patents and Designs" and the General Commissioners confirmed the assessment on appeal.

Held, that the Appellant was not liable to Income Tax in respect of any part of the awards, which were wholly received by the company in its own right and not as the Appellant's agent, the sum paid to him by the company in 1927 being in discharge of its contractual obligation to him under the 1919 agreement.

CASE

Stated under the Income Tax Act, 1918, Section 149, by the Commissioners for the General Purposes of the Income Tax Acts for the Division of the Hundred of Gore for the opinion of the King's Bench Division of the High Court of Justice.

1. At a meeting of the said Commissioners for the General Purposes of the Income Tax Acts for the Division of the Hundred of Gore held at the Court House, Hendon, on the 29th October, 1930, Frederick Handley Page (hereinafter called "the Appellant") appealed against two assessments to Income Tax made upon him under the provisions of Schedule D of the Income Tax Acts for the years ended 5th April, 1923, and 5th April, 1924, respectively, in the sums of £39,000 each expressed in column 4 of the assessment under the heading of "Description of Trade, Profession, Vocation, "Concern or other profit chargeable under Schedule D" as "Royal "Commission Award in respect of the user of certain Patents and "Designs." The said assessments were made alternatively to protect the position of the Revenue in case any question should arise as to the year of receipt of the subject matters of the assess-

ments. At the hearing of the appeal the assessment for the year ended 5th April, 1923, was abandoned on behalf of the Respondent and we accordingly discharged it. It was agreed that if there was liability the assessment of £39,000 for the year ended 5th April, 1924, should be reduced to £30,483.

2. The following facts were admitted or proved :—

A Company called Handley Page Limited (hereinafter called "the Company") was registered under the Companies (Consolidation) Act, 1908, as a private Company on the 17th June, 1909, for the purposes *inter alia* of acquiring from the Appellant the business of an engineer carried on by him at Woolwich together with the goodwill plant machinery etc. and also an invention and a design of which the Appellant was the author and registered proprietor. The terms upon which the Company acquired the said business and other assets are set out in an Agreement between the Appellant and the Company dated 27th July, 1909, of which a copy is annexed hereto marked "A" and forms part of this Case⁽¹⁾. This Agreement provides *inter alia* as follows :—

CLAUSE 1. The purchase price to be £500 for the invention and design and the business and goodwill thereof; benefit of contracts plant machinery and effects; the Vendor to indemnify the Company against all debts existing at date of said Agreement.

CLAUSE 3. The purchase price of £500 to be satisfied by allotment to Vendor (Appellant) or as he should direct of 25 fully paid up shares of £20 each in the Company.

CLAUSES 10 to 15. Company to employ Vendor at a salary and percentage of profits.

CLAUSE 20. The Vendor for a period of five years to disclose to Company any improvements on existing inventions or designs; and also any further inventions or designs he might make.

CLAUSE 21. The consideration for the undertaking in Clause 20 to be a payment by the Company to the Vendor of £1,000.

3. On the outbreak of War the Company, which then owned and was carrying on the business and was entitled to the goodwill thereof, to the services of a skilled staff and in particular to the services of the Appellant, worked out designs for large bombing aeroplanes which when made in accordance with those designs were known as the "O" and "V" types of aeroplane. These designs were not capable of being registered and were not in fact registered designs nor could they be made, nor were they in fact made the subject of Letters Patent, though certain minor features were patented from time to time. In the evolution of these designs many questions of great technical difficulty were solved by the Company's technical staff.

(1) Not included in the present print.

4. In 1917 H.M. Government resolved that machines should be made from the Company's designs and accordingly required the Company to impart the knowledge necessary to enable Government Contractors in various parts of the country to construct machines in accordance with the designs. The Company in complying with this requirement distributed blue prints and drawings of the machines and imparted the necessary knowledge to such contractors (including the Company's competitors in trade) by whom large numbers of "O" and "V" machines were constructed.

5. By an Agreement expressed to be supplemental to the above mentioned agreement of 27th July, 1909, entered into between the Appellant and the Company on the 28th May, 1918, a copy of which marked "B" is annexed hereto and forms part of this Case⁽¹⁾, it was recited that no improvements or further inventions had been made by the Vendor during the said period of five years and that since the expiration of the said term of five years the Vendor had made certain improvements on existing inventions and designs and had also made certain further inventions and designs for which protection had been obtained all of which further inventions and designs were recited in the Agreement to be the sole property of the Vendor and to have been used by the Company pursuant to a verbal licence granted to the Company by the Vendor upon the terms that the Vendor should be paid a sum to be agreed upon and it was agreed (Clause 1) that the Company should pay to the Vendor :—

(a) 10 per cent. on prices charged by the Company in respect of aeroplanes, etc., and

(b) 15 per cent. on prices charged by Company in respect of bomb gear at any time theretofore manufactured and sold by the Company under the Letters Patent inventions or designs in the Schedule to the Agreement.

CLAUSE 2 of the Agreement provided for the like percentages to be paid to Vendor on the same items manufactured and sold by the Company after the date of the Agreement.

6. Just before the entry of the United States of America into the War the Company had an opportunity of selling in America all its rights in the before-mentioned designs for a very large sum of money.

Before however the Company could take advantage of this opportunity the United States of America became a belligerent power with the result that by Agreement between His Majesty's Government and the Government of the United States the Company was required by His Majesty's Government to hand over all its blue prints and designs relating to the said types of aeroplane to the American Government and was required to instruct that Government how to build the said machines from the said designs.

(¹) Not included in the present print.

The Company accordingly handed over all its blue prints and designs as aforesaid and sent its draughtsmen and six foremen to America. By reason of the foregoing and by reason of the matters referred to in paragraphs 3 and 4 hereof the Company parted with its trade secrets and lost its goodwill in relation to the said designs. In fact the disclosure of the said designs enabled several American Companies to make large twin engine machines which previously had never been made in America.

7. A further Agreement was entered into between the Appellant and the Company on the 11th April, 1919, by which time large numbers of aeroplanes had been manufactured by the Company in accordance with the said designs. A copy of this Agreement marked " C " is annexed hereto and forms part of this Case⁽¹⁾.

This Agreement referred to the two previous Agreements (marked " A " and " B ") and further recited as follows :—

" And whereas there is due from the Company to the Vendor the sum of one hundred and eight thousand eight hundred pounds for royalties payable up to and including the Thirty-first December One thousand nine hundred and eighteen in respect of the inventions designs provisional protection letters patent and registered design mentioned in the second and third parts of the Schedule hereto and whereas the said inventions and designs have been used by His Majesty's Government and with such Government's consent by the Government of the United States of America during the present War and the Company has at the request of the Vendor claimed from His Majesty's Government royalties or remuneration for such use and it has been agreed that all such royalties or remuneration as may be received by the Company for such use up to the Thirty-first day of December One thousand nine hundred and eighteen shall be paid and shall belong to the Vendor but that all royalties or remuneration for such user after the Thirty-first day of December One thousand nine hundred and eighteen belong to the Company."

By this Agreement it was provided :—

CLAUSE 1 that the before-mentioned Agreements of 27th July, 1909, and 28th May, 1918, were cancelled as from the 31st December, 1918, save as thereafter mentioned.

CLAUSE 2 of this Agreement provided for the payment of £108,800 in satisfaction of the royalties due to the Vendor for user by the Company and remuneration up to 31st December, 1918. The said clause also provided as follows :—

" And (the Company) shall also pay to the Vendor all such royalties or remuneration as the Company shall receive for the use of the said inventions and designs by

(1) Not included in the present print.

“ His Majesty’s Government or the Government of the United States of America up to the 31st December 1918.
“ Should any question arise between the parties hereto as to what proportion of any sum which may be received from the Government the Vendor is entitled to the same shall be submitted to the Auditors of the Company for the time being whose certificate thereon shall be final and binding on both parties.”

CLAUSE 3 provided for the sale by the Vendor of his rights and interests in the inventions drawings letters patents designs etc. specified in the Schedules to the Agreements.

CLAUSE 4 provided that the Vendor would at request and cost of the Company apply for and assign to the Company Letters Patent for the said inventions.

CLAUSE 5 provided that the assignments to the Company should contain covenants by the Appellant to communicate all improvements and inventions connected with aircraft that he might make or discover or become entitled to during the 7 years from the 1st of January, 1919.

CLAUSE 6 provided that the consideration for the sale should be 140,000 fully paid £1 Ordinary Shares in the Company to be issued and allotted to the Vendor or his nominees.

CLAUSE 8 provided that the Appellant should serve the Company as Managing Director for 7 years from 1st January, 1919, with power in the Appellant to extend that period for a further 3 years.

8. This Agreement was entered into because it was intended to turn the Company into a public company (this was done shortly afterwards the Company’s capital being then increased by £150,000) and it was considered necessary that the Appellant should have sold to the Company everything which might be his in relation to aircraft and to have it clear that as from the date of the Agreement he had no other interest in the Company than the share consideration plus the amount of Royalties up to the 31st December, 1918, and in addition all such royalties or remuneration as the Company should receive for the use of the inventions and designs by H.M. Government or the Government of the United States of America up to the 31st December, 1918. The patents which the Company became entitled to under this Agreement included the Appellant’s Slotted Wing Patents and this together with the right to the benefit of all patents taken out in the said seven years was of immense value to the Company.

9. By an Indenture dated 21st October, 1919 (a copy of which is annexed hereto marked “ D ” and forms part of this Case⁽¹⁾) the Vendor assigned to the Company the various inventions etc. specified

(¹) Not included in the present print.

in the Schedules to this document in consideration of the allotment to him or his nominees of 140,000 shares in the Company and in pursuance of the Agreement dated 11th April, 1919 (marked " C "(¹)).

10. A Royal Commission on awards to Inventors was appointed by His Majesty's Royal Warrant on the 19th March, 1919. A copy of the said Royal Warrant is annexed hereto marked " E " and forms part of this Case(¹).

The Warrant having recited Section 29 of the Patents and Designs Act, 1907, further recited as follows :—

" and whereas there may also have been the like exceptional
 " user of inventions designs drawings or processes which though
 " not protected against the Crown under the said Act or other-
 " wise may have been of such merit or utility as to render it
 " proper that the inventor author or owner thereof should
 " receive some remuneration from the Treasury in respect of
 " such user."

The Warrant then sets out the powers conferred upon the Commission under three heads as follows :—

" (1) In any case of user or alleged user of any patented
 " invention for the services of the Crown by any Government
 " Department and of default of Agreement as to the terms of
 " user, the Commissioners, upon the application of the patentee
 " and agreement to accept their determination, may proceed to
 " settle and may settle the terms of user in lieu and place of
 " the Treasury"

" (2) In any case where the terms of user of any patented
 " inventions or any terms as to assignment of an inven-
 " tion under Section 30 of the Act have been agreed or are in
 " course of agreement between the patentee and any Govern-
 " ment Department the Commissioners may on the application
 " of the Treasury make any recommendations as to the giving
 " or withholding by the Treasury of approval of such agreement
 " or proposed agreement and may assist in adjusting or deter-
 " mining any term or terms of any proposed agreement as to
 " which the parties may not be fully agreed."

" (3) In any case of user or alleged user for the services of
 " the Crown by any Government Department of any inventions,
 " designs, drawings or processes, which though not conferring
 " any monopoly against the Crown or any statutory right to
 " payment or compensation may nevertheless appear from their
 " exceptional utility or otherwise to entitle the inventor, author
 " or owner thereof to some remuneration for such user (includ-
 " ing user by way of selling for use, licensing or otherwise
 " dealing with any articles made in accordance therewith) the
 " Commissioners may, on the request of the Treasury, enquire

(¹) Not included in the present print.

“ into the circumstances of the case and make a recommenda-
“ tion to the Treasury as to the remuneration (if any) that is
“ proper to be allowed therefor.”

11. A copy of the first report issued by the Royal Commission on the 14th December, 1920, is annexed hereto marked “ F ” and forms part of this Case⁽¹⁾. Our attention was in particular directed to the following paragraphs of the said report.

PARAGRAPH 2. “ We have dealt with cases arising under
“ each of the three Heads or Clauses of Your Majesty’s Original
“ Warrant; and in so doing have recognised the marked dis-
“ tinction which exists and is indicated in the terms of the
“ Warrant between cases falling under the first two heads of
“ the Warrant on the one hand and those falling under the
“ third head thereof on the other hand. In view of this dis-
“ tinction it is necessary in this Report to deal separately with
“ these two classes of case the first being claims in respect of
“ the user of inventions protected by Letters Patent and the
“ second comprising claims in respect of inventions which are
“ not so protected.”

PARAGRAPH 4. “ Now the operation of Section 29 of the
“ Act of 1907 is somewhat peculiar for after giving the patentee
“ the same rights against the Crown as against a subject it
“ proceeds by the superadded proviso to take away as regards
“ the Crown the one fundamental right of the patentee from
“ which his other rights follow namely the right of monopoly
“ or prohibition; and to give the Crown by its departments or
“ contractors the right to use the patented invention for the
“ Crown’s services upon certain stated terms. The effect of
“ the section is however fairly clear and is to give a patentee
“ rights against the Crown in those cases and those cases
“ only where he would have had rights against a subject; but
“ to substitute for his right of monopoly or prohibition as
“ against a subject a right as against the Crown of compensa-
“ tion or remuneration for the user made of his invention.”

PARAGRAPH 18. “ The third head of the Warrant is that
“ which includes by far the largest proportion of the applica-
“ tions that have been made to the Commission. This head
“ comprises all cases in which there has been a user for the
“ service of the Crown of any inventions designs drawings or
“ processes which though not conferring any monopoly against
“ the Crown or any statutory right to payment or compensa-
“ tion may nevertheless appear from their exceptional utility
“ or otherwise to entitle the inventor author or owner thereof
“ to some remuneration for such user. And the function of
“ the Commission is upon the request of the Treasury to
“ enquire into the circumstances of each case and to make a

(1) Not included in the present print.

“ recommendation to the Treasury as to the remuneration (if
 “ any) that is proper to be allowed. The wording of this
 “ part of the Warrant at once suggests several important dis-
 “ tinctions between cases under the first two heads of the
 “ Warrant and cases under the third head with regard to the
 “ inventions designs drawings or processes therein mentioned
 “ which may be conveniently designated by the collective title
 “ of ‘ Unpatented Inventions.’ ”

PARAGRAPH 19. “ In the first place applicants under this
 “ head are not relying on any statutory or other legal right but
 “ are merely seeking a recommendation for the exercise in their
 “ favour of the bounty of the Crown. And the terms and
 “ conditions on which this bounty may be sought for and
 “ exercised are obviously entirely within the discretion of the
 “ Crown. Secondly, the subject matter which may entitle an
 “ applicant to obtain a recommendation under this third head is
 “ far less strictly defined than that dealt with under either of
 “ the first two heads. There it is essential that the claimant
 “ should have an invention protected by Letters Patent. Here
 “ though something in the nature of definite invention is
 “ indicated the line of demarcation is much wider and vaguer
 “ and in many cases doubts may arise whether the applicants
 “ are within the terms of the Warrant. And thirdly, it will
 “ be noticed that the powers and duties of the Commission
 “ under this head only arise upon the request of the Treasury.”

PARAGRAPH 24. “ As regards claims under patents, an
 “ admission of the validity of a patent implies the admission
 “ of at least three important requirements namely: (1) real
 “ invention (2) utility and (3) sufficiency of description, and
 “ relieves the claimant from the obligation of giving any proof
 “ in any of these respects. In the case of unpatented inven-
 “ tions or alleged inventions, all these presumptions or
 “ admissions are wanting. And since by the terms and
 “ language of the Warrant it is clear that the unpatented
 “ inventions under the third head are of the same general
 “ character and description as the patented inventions under
 “ the first two heads it is necessary for a claimant in respect
 “ of an unpatented invention to prove that requirements
 “ analogous to though not necessarily identical with those
 “ above mentioned have been satisfied.”

PARAGRAPH 26. “ There is another and still more impor-
 “ tant feature in which a claim in respect of an unpatented
 “ invention differs from one in respect of a patented invention.
 “ In the latter case the owner of the patent has a monopoly
 “ against the public and the Crown alike and is protected
 “ against or compensated for any use whatever of the subject
 “ matter of the invention quite irrespective of the origin of
 “ such use and although it may have been caused by a wholly

“ independent discovery and take place in entire ignorance
“ of the patentee’s invention. That is the legal result of the
“ express monopoly which on a balance of advantage and dis-
“ advantage it has been thought proper in this country and in
“ most other civilised countries to give to patentees in return
“ for the publication of their inventions. And this legal result
“ has to be recognised notwithstanding that in particular cases
“ it may operate too favourably to the patentees and too
“ unfavourably to independent discoverers.”

PARAGRAPH 27. “ But in the case of unpatented inven-
“ tions there is no legal monopoly or right to which effect has to
“ be given. The question in each case is merely one of a volun-
“ tary reward on the part of the Crown to an inventor whose
“ invention or device has been of exceptional utility to the
“ service of the Crown. And as between inventors of similar
“ inventions or devices each claiming that it is his discovery
“ that has benefited the Crown and been used by it though
“ priority of discovery and still more priority of communication
“ are considerations which obviously tell in favour of the earlier
“ discoverer or communicator (if only as raising some presump-
“ tion that the later discovery was in some measure due to
“ the earlier) they are not necessarily conclusive and may be
“ balanced or outweighed by other counteracting considera-
“ tions. The ultimate decision must depend on how far if at
“ all the invention of each claimant (whether proximately or
“ remotely) caused or contributed to the use of the particular
“ invention or device by the Crown. Or in other words to
“ obtain a recommendation for a reward in respect of an
“ unpatented invention, the claimant must show that his
“ invention or device formed at least a link in the chain of
“ causation leading to the use of the invention.”

12. A claim dated 3rd December, 1919, was made by the Com-
pany under sub-heads (1) and (3) of the Royal Warrant for com-
pensation in respect of the user by the British Government of the
“ O ” Type Twin Engine Aeroplane. A copy of this claim marked
“ G ” is annexed hereto and forms part of this Case⁽¹⁾. The
Appellant was included in the claim as a party interested in the
Letters Patent.

13. A copy of the counter-statement made on behalf of the
Government was produced to us. A copy thereof marked “ H ” is
annexed hereto and forms part of this Case⁽¹⁾.

Clause 1 of the counter-statement states that no admission was
made as to the validity of the patents or designs specified in the
said claim; that the same were in respect of minor features of
design and that the Department was willing that compensation
should be assessed under head (3) of the Royal Warrant.

(1) Not included in the present print.

14. An identical claim was made in respect of the user by the British Government of the " V " Type Four Engine Aeroplane.

15. The said claims were duly heard before the Royal Commission, and dealt with as falling under head (3) of the Royal Warrant. Accordingly the claim for compensation for user of the said Letters Patent was abandoned at the hearing. On the 15th May, 1922, the Royal Commission issued their recommendation, of which a copy, marked " I ", is annexed hereto and forms part of this Case⁽¹⁾. The said recommendation was in the following terms :—

" Claims Nos. 380 and 773.

THE ROYAL COMMISSION ON AWARDS TO INVENTORS

Applications of Messrs. Handley Page Ltd. in respect of

- (1) The " O " Type Twin Engine Aeroplane, and
- (2) The " V " Type Four Engine Aeroplane.

Recommendation.

The Commission having enquired into the circumstances of the case recommend to the Lords Commissioners of His Majesty's Treasury that the sum of £30,000 (Thirty thousand pounds) is proper to be paid by way of remuneration to the Applicants Messrs. Handley Page Ltd. in respect of user by the Crown of all " O " Type Twin Engine Aeroplanes and " V " Type Four Engine Aeroplanes, which down to the 1st May, 1922, had been or were being manufactured for the services of the Crown by Companies Firms or Persons other than the Applicants and of all parts or appliances of or in connection with the said Aeroplanes including those protected by the Letters Patent or applications therefor set out in the Schedule hereto.

In arriving at the sum hereinbefore recommended the Commission have not taken into consideration any contractual claim which the Applicants may have in respect of services alleged by them to have been rendered at the request of His Majesty's Government in providing a separate " drawing office and blue print department " and an " outside contracts department " and supplying therefrom to Contractors blue prints drawings and other articles and in furnishing instruction and assistance and the services of trained staff.

(1) Not included in the present print.

Schedule.

Patent Nos. :—

16042 of 1915
 16821 „ „
 16822 „ „
 17066 „ „
 17067 „ „
 4593 „ 1918
 4594 „ „
 4595 „ „
 4732 „ „
 6684 „ „
 16003 „ „
 13471 „ 1919
 13469 „ „
 13472 „ „
 1956 „ „
 129338
 132478

P. Tindal Robertson,
 Secretary.

Date : 15th May, 1922.

(Signed) Charles H. Sargant,
 Chairman."

16. In addition to the claim for compensation for user by the British Government of the subject matters of those claims a further claim was made on 3rd December, 1919, in respect of the user of the "O" Type Twin Engine Aeroplane by the Government of the United States of America. The claim is substantially in the same form as the British user claims. A copy of this claim marked "J" is annexed hereto and forms part of this Case⁽¹⁾.

17. By an Agreement dated the 11th January, 1923, and made between the Company and the Appellant of the first part the President of the Air Council (for and on behalf of His Majesty) of the second part and the Assistant Secretary of War, War Dept., U.S.A., of the third part after reciting that the Company and the Appellant (therein referred to as the Claimants) claimed compensation for the communication information and assistance made and given by them as hereinbefore stated (including any question of Patent Rights and use of inventions and designs by the U.S. Government), it was agreed that the claims of the Claimants should be considered and the amount (if any) proper to be paid to

(1) Not included in the present print.

the Claimants determined by The Royal Commission aforesaid sitting conjointly with the Commission appointed by The War Department of the U.S.A. (thereinafter called the Joint Commission) and provisions were made under which the claim was to be brought before the Joint Commission. A copy of this Agreement is annexed hereto marked " K " and may be referred to as part of this Case⁽¹⁾.

The Claimants duly lodged their claim pursuant to the agreement of reference and the U.S. Government lodged a counter-statement copies of these documents being annexed hereto marked " L " and " M " respectively and forming part of this Case⁽¹⁾. The principles on which the Joint Commission proceeded were precisely the same as the Royal Commission.

18. The claim in respect of American user of the " O " type of Aeroplane was duly heard before the Joint Commission who made their award on the 21st March, 1923, that the amount proper to be paid to the claimants was £9,000. A copy of the said award marked " N " is annexed hereto and forms part of this Case⁽¹⁾. The said award reads as follows :—

“ THE ROYAL COMMISSION ON AWARDS TO INVENTORS

and

THE AMERICAN COMMISSION FOR THE ADJUSTMENT OF FOREIGN
CLAIMS

The Royal Commission on Awards to Inventors and the Commission for the Adjustment of Foreign Claims appointed by the War Department United States of America (hereinafter called the Joint Commission) having taken into consideration the matters referred to them by the Memorandum of Agreement dated the eleventh day of January, 1923, and made between Handley Page Limited and Frederick Handley Page (hereinafter called the Claimants) of the first part the President of the Air Council of the second part and the Assistant Secretary of War of the United States of America of the third part and having heard the respective parties thereon Award and Determine that the amount proper to be paid by His Majesty's Government to the Claimants in respect of the communication to and/or user by or on behalf of the Government of the United States of the invention or inventions design or designs in the said Memorandum of Agreement mentioned is the sum of Nine thousand pounds (£9,000).

(¹) Not included in the present print.

The said sum is awarded and is to be taken in full satisfaction of all claims by the Claimants which are mentioned in the said agreement down to the date hereof.

(Signed) Charles H. Sargant,

Chairman of the Royal Commission on Awards to Inventors.

The Seal of the Commission for the Adjustment of Foreign Claims was affixed hereto in our presence.

Jos. I. McMullen,
Chairman.

Leon C. Boineau,
Recorder.

P. Tindal Robertson,
Secretary to the Joint Commission.

Dated the 21st day of March, 1923."

The said sum of £9,000 was paid in cash to the Company.

19. In an Agreement dated 17th October, 1923, made between the Treasury Solicitor, The Disposals and Liquidation Commission, and Handley Page, Limited, it was recited that the Company was indebted in the sum of £86,554 10s. 10d. to the Crown in respect of accounts between the parties and in the sum of £67,000 in respect of the purchase by the Company of certain lands at Hendon. The Agreement further recited that the Government had agreed to accept £35,000 in settlement of the claim for £86,554 10s. 10d. and £67,000 in respect of the claims under the Agreement for purchase of the land. The Agreement provided that the Company thereby assigned to the Treasury Solicitor the benefit of the award dated 15th May, 1922, and the benefit of the sum of £30,000 payable to the Company thereunder. The Company thereby requested the Treasury to pay the £30,000 to the Treasury Solicitor in lieu of the Company towards satisfaction of the sums owing by the Company to the Treasury and this was done. A copy of this Agreement marked " O " is annexed hereto and forms part of this Case⁽¹⁾.

20. At the date of the said Agreement the Appellant was the Managing Director of the Company and there was no evidence before us to suggest that the Appellant objected to the Agreement being carried out.

21. In the Balance Sheet of the Company as at the 31st December, 1924, the amount of the two awards, viz. : £39,000, was shown as in " Suspense Account ". A copy of the Balance Sheet marked " P " is annexed hereto and forms part of this Case⁽¹⁾. The Company made substantial losses for all relevant years.

(1) Not included in the present print.

22. At a meeting of the Directors of the Company held on the 14th February, 1927, the following Resolution was passed :—

“ Extract from Minutes of a Board Meeting of the Directors of Handley Page Limited held on 14th February, 1927 :—

Mr. Handley Page's proposals for a settlement of his claims against the Company in regard to the ' O ' and ' V ' and ' American User ' Awards were discussed and subject to his undertaking to meet any claim against the Company for Income Tax payable in respect of the value of the Awards now agreed to be due to him it was resolved that his claim for approximately £30,400 in respect of compensation for sale of assets by disclosure of plans be admitted in full in consideration of which he would release to the Company the sum of approximately £2,400—the Company in turn agreeing to bear tax on the latter amount should it be assessed against them. It was further resolved that the net amount of approximately £28,000 due be paid to him over a period of five years, bearing in the meantime interest at the rate of six per cent. per annum ; such interest to commence from the date of this arrangement subject to the scheme for re-organisation going through.

Certified true copy,

E. A. Easy,
Secretary.”

23. The Appellant admitted in evidence before us that he had in fact received the said sum of £30,483 in cash from the Company in accordance with this Minute. A transcript of the evidence given by the Appellant before us marked “ Q ” is annexed hereto and forms part of this Case⁽¹⁾.

24. The following cases were referred to in the course of the hearing of the appeal before us :—

Constantinesco v. Rex, 42 T.L.R. 383 ; C.A., 42 T.L.R. 685⁽²⁾.

Mills v. Jones, 44 T.L.R. 351⁽³⁾.

25. On behalf of the Appellant it was contended :—

- (i) That the sums awarded by the Royal Commission and by the Joint Commission being in respect of user of the designs of the “ O ” and “ V ” type aeroplanes which were at all times the absolute property of the Company were not sums awarded to the Appellant.
- (ii) That the Appellant not being entitled to any sums that might be awarded could not and did not reserve to himself the right to receive any part of the sums awarded to the Company and did not in fact receive the sums awarded or any part thereof.

(1) Not included in the present print.

(2) 11 T.C. 730.

(3) 14 T.C. 769.

- (iii) That the sum of £30,483 was part of the purchase price paid by the Company for the assets sold to it and for the benefit of the services of the Appellant acquired by it by the Agreement of the 11th April, 1919.
- (iv) That the said sum was capital in the Appellant's hands.
- (v) That the sums awarded by the Royal Commission and by the Joint Commission were *ex gratia* payments in the nature of bounty and were not taxable.
- (vi) Alternatively if, contrary to the Appellant's contentions, any taxable profit arose to the Appellant such profit did not arise and (in this alternative) is not chargeable in the year of assessment.
- (vii) That the assessment should be discharged.

26. On behalf of the Respondent it was contended :—

- (a) That under the Agreement of the 11th April, 1919, the Appellant had specifically reserved to himself the right to receive the whole of any award which might be made in respect of the use of the inventions and designs up to 31st December, 1918.
- (b) That this was no part of the consideration for the assignment of the patents and designs but that such consideration was specifically stated in the Agreement and did not include any part of any award which might be made.
- (c) That the fact that Mr. Handley Page, who was the Managing Director of the Company, allowed the money to be used by the Company in paying the Company's debts for a time was immaterial.
- (d) That Mr. Handley Page did in fact receive £30,483 as his share of the awards and that the said sum represented income properly included in the assessment made upon him.
- (e) That the terms of the awards clearly stated that the payments were made for "user" and that although the payments were made under head (3) such payments could not so far as concerning their nature as payments for user be distinguished in principle from payments made under the other sub-headings of the Royal Warrant.

27. We having considered the evidence and arguments adduced before us decided to confirm the assessment for 1923-24 in the figures agreed, viz. £30,483, and we discharged the assessment for 1922-23.

28. The Appellant immediately upon our determination of the appeal declared to us his dissatisfaction therewith as being erroneous in point of law and in due course required us to state and sign a Case

for the opinion of the High Court pursuant to the Income Tax Act, 1918, Section 149, which Case we have stated and do sign accordingly.

T. CHARLES, J. HOW, CHAS. WRIGHT,	}	Commissioners for the General Purposes of the Income Tax Acts.
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The Court House,
 Hendon, N.W.9.

The case came before Finlay, *J.*, in the King's Bench Division on the 18th and 19th July, 1933, when judgment was reserved. On the 28th July, 1933, judgment was given in favour of the Crown, with costs.

Mr. A. M. Latter, K.C., and Mr. Cyril L. King appeared as Counsel for the Appellant and the Attorney-General (Sir Thomas Inskip, K.C.) and Mr. Reginald P. Hills for the Crown.

JUDGMENT

Finlay, J.—This case raises two points. The first is whether a sum of money paid on the recommendation of the Royal Commission on Awards to Inventors is assessable to tax, and the second is whether the assessment on the Appellant was correctly made. The facts are set out in a series of paragraphs beginning with paragraph 2 in the Case. The company, called Handley Page, Limited, was registered on the 17th June, 1909, and it was registered for the purpose of acquiring from the Appellant, Mr. Handley Page, the business of an engineer together with goodwill, plant, and so forth, and, what is exceedingly important, an invention and a design of which the Appellant was the author. An agreement, less important than another agreement which has to be considered, was arrived at on the 27th July, 1909. That agreement provides for a purchase price and a modest amount for the employment of the vendor at a salary and a percentage of profits, and it provided that the vendor for a period of five years was to disclose to the company any improvement of existing inventions or designs. When the Great War broke out the company, having the services of a skilled staff and, in particular, the services of Mr. Handley Page, the Appellant, worked out designs for large bombing aeroplanes, and they made two types of aeroplanes known as the "O" type and the "V" type of aeroplane. The designs for those aeroplanes were not capable of being registered and they were not registered, nor were they made the subject of letters patent. There was a series of letters patent, but those, though not by any means without importance, related to comparatively minor matters.

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The real big thing was this design for these large bombing aeroplanes and that was, as I say, not registered, nor was it capable of registration. Then in 1917 the Government resolved that machines should be made from this design. The company were accordingly required to communicate the design to other people in various parts of the country in order that they might make machines to that design, and they accordingly distributed blue prints and drawings and imparted to other contractors—no doubt rivals of theirs in trade—the knowledge necessary to enable them to make these bombing machines, and they were made. There was another agreement on the 28th May, 1918, marked " B ", which it is not, I think, necessary to review in detail, but it is sufficient to refer, as I shall refer in detail, to the most important agreement, that is, the agreement of the 11th April, 1919.

Just before the United States of America came into the war, it was found that the company had an opportunity of selling its rights in the design for a large sum of money. At that critical moment the United States came into the war as a belligerent and, thereupon, the company were required by His Majesty's Government to hand over its blue prints and designs to the American Government, and it was required of them to instruct that Government how to build the machines. The company accordingly handed over its blue prints and they sent a sufficient number of foremen and others to America to enable the process to be adequately explained to the Americans.

That brings me to the agreement which is the critical point in this case, the agreement of the 11th April, 1919, which is marked " C ". That refers to the two previous agreements and it also recites that there was " due from the Company to the Vendor the sum of One hundred and eight thousand eight hundred pounds for royalties payable up to and including the Thirty-first December One thousand nine hundred and eighteen in respect of the inventions designs provisional protection letters patent and registered design mentioned in the second and third parts of the Schedule hereto." Those things are set out in the second and third parts of the schedule. In earlier recitals reference had been made to the invention and design, that being an invention and design which was not capable of being registered.

After the recital, which I have just read, having reference to the patents and designs set out in the second and third parts of the schedule, this recital follows: " And whereas the said inventions and designs have been used by His Majesty's Government and with such Government's consent by the Government of the United States of America during the present War and the Company has at the request of the Vendor claimed from His Majesty's Government royalties or remuneration for such use and it has been agreed that all such royalties or remuneration as may be

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“ received by the Company for such use up to the Thirty-first day of December One thousand nine hundred and eighteen shall be paid and shall belong to the Vendor but that all royalties or remuneration for such user after the Thirty-first day of December One thousand nine hundred and eighteen shall belong to the Company.” Then the operative part of the agreement says that the company is to “ pay to the Vendor the said sum of £108,800 in full satisfaction of the said royalties due to him as aforesaid and all remuneration to which he shall be entitled under the said agreement of the 27th July 1909 up to the said 31st day of December 1918 and shall also pay to the Vendor all such royalties or remuneration as the Company shall receive for the use of the said inventions and designs by His Majesty’s Government or the Government of the United States of America up to the 31st December 1918 Should any question arise between the parties hereto as to what proportion of any sum which may be received from the Government the Vendor is entitled to the same shall be submitted to the Auditors of the Company for the time being whose certificate thereon shall be final and binding on both parties hereto. 3. The Vendor shall sell and the Company shall purchase all the Vendor’s rights and interests to and in the inventions drawings letters patent applications for letters patent and design specified in the first second and third parts of the Schedule hereto.” The first part of the schedule is the drawing showing the design for the Handley Page “ O ” type aeroplane and the like for the Handley Page “ V ” type aeroplane, and those, it is common ground, were the really important things. Parts 2 and 3 of the schedule set out certain letters patent and certain applications for letters patent and those, though not without their importance, were admittedly subordinate. That is the most important agreement.

It is now necessary, in order to appreciate the point, to turn to what happened before the Royal Commission on Awards to Inventors. The Royal Warrant which constituted that Commission is made part of the Case and is annexed to the Case as document “ E ”. That Commission was appointed to deal with three separate things. The second is unimportant, but the first and third are vital. The first is : “ In any case of user or alleged user of any patented invention for the services of the Crown by any Government Department and of default of Agreement as to the terms of user, the Commissioners, upon the application of the patentee and agreement to accept their determination may proceed to settle and may settle the terms of user in lieu and place of the Treasury : Provided that the Commissioners shall not actually award to the patentee any sum or sums of money whether by way of a gross sum or by way of royalty or otherwise which shall together exceed an aggregate sum of £50,000,” and

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so on. Head (3) is quite different. It is this: "In any case of user or alleged user for the services of the Crown by any Government Department of any inventions, designs, drawings or processes, which though not conferring any monopoly against the Crown or any statutory right to payment or compensation may nevertheless appear from their exceptional utility or otherwise to entitle the inventor, author or owner thereof to some remuneration for such user (including user by way of selling for use, licensing or otherwise dealing with any articles made in accordance therewith) the Commissioners may, on the request of the Treasury, enquire into the circumstances of the case and make a recommendation to the Treasury as to the remuneration (if any) that is proper to be allowed therefor."

There is no question at all that, with regard to the first of these heads to which I have referred, any sum awarded is assessable to tax. That, I say, is clear, because more than one case, including the *Constantinesco* case⁽¹⁾, has established that. The third head is different and there is apparently no decision with regard to that. Reference was very properly made to the Report of the Royal Commission in which they referred in clear terms to the distinction. In paragraph 19 they say: "In the first place applicants under 'this head'—that is the third head—are not relying on any statutory or other legal right but are merely seeking a recommendation for the exercise in their favour of the bounty of the Crown. And the terms and conditions on which this bounty may be sought for and exercised are obviously entirely within the discretion of the Crown."

A claim was made by the company to the Commission. It was a claim under both sub-heads (1) and (3) of the Royal Warrant, and it was a claim in respect of the user by the British Government of the "O" type aeroplane. The claim is set out in document "G", and the substance of it can be concisely put. It is, as I said, a claim under both clauses (1) and (3) of the Royal Warrant. "The subject of this claim", it says, "is the design of the 'Handley Page 'O' Type Twin Engine Aeroplane—the only really successful large bomb carrying machine produced either in Great Britain or by any of the Allied and Associated Powers." Then it says—and this is important—"Minor features of the 'O' type design are protected by the following patents"; making clear what is indeed common ground and is not disputed, that the really important thing is the unregistered and unregistrable design, and these patents were merely a minor matter. Then 7 (b) is in these terms: "In the middle of the year 1917, the Aircraft Production Department of the Ministry of Munitions received demands from the Forces for a large number of bombing machines and orders were placed with other contractors for the

⁽¹⁾ *Constantinesco v. Rex*, 11 T.C. 730.

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“ supply of large quantities of Handley Page aeroplanes. The
“ Claimants at the request of the Department of Aircraft Produc-
“ tion and in order to increase the output of these machines
“ imparted the special knowledge they had acquired in the con-
“ struction of bombing machines to other Government Contractors,
“ handed over to them all the necessary drawings, etc., and dis-
“ patched trained staffs of Engineers and others to all parts of
“ the Country to instruct fully the other Contractors in the art of
“ constructing Handley Page aeroplanes. For these services the
“ Claimants have received no payment whatsoever.” To that the
Government put in a counter-statement, and this is the important
point in it: they begin by saying that no admission is made as to
the validity of the letters patent, but they add, and they are on
common ground here, that they are in respect of minor features
of the design, and they add that the Department is willing that
compensation therefor should be assessed under clause (3) of the
Royal Warrant in connection with the general design of “ O ”
type aeroplanes.

Then another identical claim was made in respect of the “ V ”
type aeroplane. Those claims came on to be heard, and they were
dealt with as falling under head (3) of the Royal Warrant, and it
is quite easy to see why they were so dealt with. The substantial
claim was the claim in respect of the design; the patents were,
so to speak, minor and incidental matters, and, having regard
especially to the admission of the Government that there was a
claim to be dealt with under head (3), it was perfectly natural that
they should be dealt with under head (3), and they were so dealt
with and a recommendation was accordingly made: “ The Com-
“ mission having inquired into the circumstances of the case
“ recommend to the Lords Commissioners of His Majesty’s
“ Treasury that the sum of £30,000 is proper to be paid
“ by way of remuneration to the applicants in respect of
“ user by the Crown of all ‘ O ’ Type Twin Engine Aeroplanes
“ and ‘ V ’ Type and of all parts or appliances of or in
“ connection with the said aeroplanes, including those protected
“ by the Letters Patent or applications therefor set out in the
“ Schedule hereto;” and then the various letters patent are set
out in the schedule.

It seems to me plain what that is doing. That is lumping
together the whole thing and saying that the minor matter, the
letters patent, can quite properly be dealt with together with the
main claim, and that the main claim is one which can properly be
dealt with, and indeed must be dealt with, under head (3). It is
proper to mention, and it is not entirely without importance, I
think, that the Commission expressly excluded any contractual
claim which the applicants might have in respect of services
rendered in providing drawing office and blue-print department,

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and so forth, and that, I think, has reference to that part of the claim which relates to special services rendered or alleged to have been rendered by the applicants in instructing other people by means of blue-prints and sending out workmen, and so forth. That is the position with regard to that claim.

A claim was made in respect of the user by the American Government. Nothing appears to me to turn upon it. It does not differ from the other claim, but a sum of £9,000 was awarded and was paid to the company in respect of that. There was an agreement—but again nothing seems to me to turn upon it—to set off in respect of certain payments.

The only other matter which I think it is necessary to refer to is the resolution of the 14th February, 1927, and that is in these terms: "Mr. Handley Page's proposals for a settlement of his claims against the Company in regard to the 'O' and 'V' and 'American User' Awards were discussed and subject to his undertaking to meet any claim against the Company for Income Tax payable in respect of the value of the Awards now agreed to be due to him it was resolved that his claim for approximately £30,400 in respect of compensation for sale of assets by disclosure of plans be admitted in full in consideration of which he would release to the Company the sum of approximately £2,400—the Company in turn agreeing to bear tax on the latter amount should it be assessed against them. It was further resolved that the net amount of approximately £28,000 due be paid to him over a period of five years, bearing in the meantime interest at the rate of six per cent. per annum." The Appellant admitted that, in accordance with that, he had received that sum of £30,000 odd.

That really raises the whole of the materials. It is quite clear that the company received the money. Some details and matters of account had to be gone into, and there is no doubt at all, in substance, that, at a considerably later date, the company paid the money over to Mr. Handley Page, the Appellant.

The first point is as to whether this is assessable to Income Tax, and it was strenuously argued that it was not. My attention was very properly called to the distinction, and there is a distinction, between head (1) and head (3), and it was said that, while it is clear, of course, since *Constantinesco's* case⁽¹⁾, that an award under head (1) is assessable, the award under head (3) is not assessable because, so it was said, it is a mere gift. It was pointed out with truth that the Commission had no power to award, that all they could do was to make a recommendation to the Treasury and, on that, it was said that this was a mere present, a mere voluntary payment, and that it was not assessable.

(1) 11 T.C. 730.

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It was also argued that this was capital. That argument I may deal with at once. I do not think it can succeed. That was not, I think, a payment in respect of capital. It is no doubt true that probably a communication of the design to other people would depreciate and greatly depreciate its value. It is in respect of that largely that the sum was awarded, but, none the less, I think that the sum was truly awarded in respect of the user of a secret process and I cannot see that that can be regarded as a capital payment. It is, I think, just remuneration to the person for the use of his exceedingly valuable invention or secret process. It is clear, of course, that this was from the point of view of the person paying it a voluntary payment. The Treasury might, I suppose, have rejected the recommendation, and no action would in any form have lain against them if they had said: "We do reject the recommendation." But that is not, I think, the test. Here it seems to me that the sum received under head (3) when it is received is really in the same position as the sum received under head (1). In each case, the sum is handed over by the Government to the inventor and, in each case, it is in respect of the user of something valuable which he has invented. The real difference is this, and my attention was properly called to it. Differences between head (1) and head (3), I think, do not affect the matter, once the payment has been made. It was a voluntary payment; it need not have been made; but when it is made it seems to me that it is assessable to Income Tax. If you take the case of a person carrying on a business and, in the course of that business, having a secret process, it would seem to be quite clear that a sum of this sort being received would have to be brought into charge as part of the profits and gains of the business. If there is no business, the form of the assessment may differ, but the substance of it remains the same, and the substance, on my view of this matter, is that once you get a sum paid, once you get it paid in respect of the matter set out under head (3), then it is immaterial that it need not have been paid. It is immaterial that payment could not have been legally enforced if it had been withheld. The payment, when once it is made, is truly a payment of an income character, and it is, I think, assessable in the hands of the recipient.

I entertain no doubt that the Appellant has, in fact, received this sum, but it was strenuously argued, and particularly with regard to the terms of the agreement called "C", that he was not entitled to it, and my attention was called to the special reference in some of the recitals and in part of the operative words to the inventions, and so forth, set out in parts 2 and 3 of the schedule. I have read the agreement several times and I think that, when it is read, when it is looked at in the light of the events and when it is remembered that the substantial claim was a claim in respect of these two unregistrable designs and that the patents were

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merely incidental, when that is remembered, I cannot doubt that the intention of the agreement was, and I think, correctly construed, its terms mean that the sum recovered from the Government, not merely in respect of the patents but in respect of the inventions looked at as a whole, was to belong to Mr. Handley Page. Of course, when, as the result of an arrangement, the claim was pursued under head (3) but abandoned under head (1), it is a very startling thing if that affected the destination of the money to be recovered. I do not think it did, and on the true view of that agreement—I am fully conscious of the difficulties of construction about it—I think, if it is read as a whole, it becomes apparent that the intention was that, as between the company and Mr. Handley Page, the company was to hand over to Mr. Handley Page what it got as the result of the application which it was making—apparently letters had been written about it before, but the formal claim was after the agreement—the result of the application, I say, which it was making to the Royal Commission. That, I think, represents the common sense of the thing, because no reason that I can see can be suggested why the sums in respect of these subsidiary things should be handed over but the sums for the main thing retained. That the company and Mr. Handley Page, who must, of course, have known all about the claim which was put forward and all about the conduct of the claim, did not think it made any difference is, I think, made clear from the circumstance that they assented to the convenient course which was taken of making the whole of the claim a claim under head (3). There may or may not be some doubt about that, but the fact is that any dispute there was has been solved in what I think must be the right way by Mr. Handley Page receiving the sum which was awarded. I think the true view, then, is that the sum paid to the company was paid to them for and on behalf of Mr. Handley Page. They were the agents to receive it and they received it for him, and the agreement which was arrived at—I agree, an agreement much later in date—seems to show that, as the result, perhaps, of some dispute, that was the view which the parties ultimately took.

The result therefore of all this is that, in my view, this appeal fails. I think that this sum was assessable to tax. I think that the assessment was correctly made upon Mr. Handley Page, and correctly made upon him because the sum, though received by the company, was received by the company on his behalf. The result is that this appeal fails and will be dismissed with costs.

An appeal having been entered against the decision in the King's Bench Division, the case came before the Court of Appeal (Lord Hanworth, *M.R.*, and Slesser and Romer, *L.JJ.*) on the 28th, 29th and 30th November, 1933. On the last named date judgment was given unanimously against the Crown, with costs, reversing the decision of the Court below.

Mr. A. M. Latter, *K.C.*, and Mr. Cyril L. King appeared as Counsel for the Appellant and the Attorney-General (Sir Thomas Inskip, *K.C.*) and Mr. Reginald P. Hills for the Crown.

JUDGMENT

Lord Hanworth, *M.R.*—We need not trouble you, Mr. Latter.

This case is a difficult one, and its difficulty is illustrated by the fact that Mr. Justice Finlay has come to a different conclusion from that at which this Court arrives.

It is necessary to state the facts upon which the point comes before this Court. It is a claim by the Appellant, Mr. Frederick Handley Page, that, in the assessment made upon him in the year 1923-24 (there were two years, but the one year is taken now), was wrongly included an assessment in respect of a sum of £39,000 which he had received from the Government. The £39,000 was paid to him in two sums of £30,000 and £9,000. The sum in the first case, the £30,000, was in respect of matters, with which I must deal in fuller detail, *vis-à-vis* His Majesty's Government, and the £9,000 was in reference to the matters dealt with *vis-à-vis* the American Government. Mr. Handley Page was a person who was interested in, and a leader in, the making of aeroplanes and, after the war, a claim was made in respect of the user and appropriation which had been made by the Government of certain matters and things which belonged to Mr. Handley Page. The form of the claim is this: "Particulars of Claim under Clauses 1 and 3 of the "Royal Warrant dated 19th March, 1919, that is, claims in respect "of the user of designs and patented inventions where no terms of "user have been agreed between the patentees and the Government "Department concerned." As we all know, there was a Royal Commission set up for the purpose of making awards to inventors. That was its primary purpose, but the constitution and the duties which it had to perform are found in the Case and are set out in three separate heads. The first was that they should give a grant of money "in any case of user or alleged user of any patented "invention for the services of the Crown by any Government "Department and of default of Agreement as to the terms of "user . . ." The second duty imposed upon them was that, where there have been terms agreed, but the particular sum to be paid consequent upon any agreement has not been determined, then the Royal Commission should assist in adjusting and determining any term or terms which fall to be adjusted and ascertained

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under the agreement; and, thirdly, the duty was imposed upon them that "in any case of user or alleged user for the services of the Crown by any Government Department of any inventions, designs, drawings or processes, which, though not conferring any monopoly against the Crown or any statutory right to payment or compensation, may nevertheless appear from their exceptional utility or otherwise to entitle the inventor, author or owner thereof to some remuneration for such user . . . the Commissioners may, on the request of the Treasury, enquire into the circumstances of the case and make a recommendation to the Treasury as to the remuneration (if any) that is proper to be allowed therefor." It is plain, therefore, that those three duties were imposed upon the Commission—(1) the user of a patented article; (2) assisting in reaching the ascertainment of an amount where terms had been agreed that there should be a user; and (3) the ascertainment of a sum where the Commission thought that it was appropriate that a sum should be recommended to be given by the Treasury. But it is quite plain that under (3) what was ascertained was not ascertained in pursuance of a right, but in pursuance of compensation which might, nevertheless, appear to be appropriate to the facts which had taken place.

It is to be remembered that, in the case of patented articles, there was, under the Act of 1907, a right to be paid a sum by the Crown. Section 29 of the Act of 1907 gave a right against His Majesty the King, as the inventor had against the subject, and the sum which was to be paid was, in default of agreement, to be settled by the Treasury, and such cases have been known. That was repealed by Section 8 of the Act of 1919, and then there was given a right to the Crown to use patented inventions, but, in case of a dispute arising as to what should be paid therefor, that was to be referred to the Court for decision, the Court being the High Court, and then there was to be a sum ascertained. In lieu of following the method of that procedure, it will be seen that, under the Warrant, the Commissioners were entrusted with the duty of the cases under (1), where there was a good patented article used, or (2), where there was an agreement, but (3) was added in, which lay on the borderline, where it was not possible to say there was an agreement, and yet it should seem good to the Commissioners that some remuneration should be granted. It is not in dispute that certain patents, certain designs, certain knowledge, which belonged to the Appellant, were made use of by the Government, but, in many cases, what was made use of was not the subject matter of patents, because for many reasons they could not be patented.

The claim that is made deserves to be looked at. It is found in exhibit G to the Case Stated. It says this: "The subject of this claim is the design of the Handley Page 'O' Type Twin Engine Aeroplane—the only really successful large bomb carrying machine

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“ produced either in Great Britain or by any of the Allied and
“ Associated Powers. The only really successful large bomb carry-
“ ing machine produced by the opposing belligerents was the
“ German Gotha, the design of which was copied from an ‘ O ’
“ type aeroplane which accidentally landed in German territory.
“ Minor features of the ‘ O ’ type design are protected by ” certain
patents, and the particulars with full names of the persons who were
interested in the patents are “ Frederick Handley Page, pursuant to
“ an assignment by him ” made to the company; and then it says :
“ A statement that the claimant elects to accept the decision or
“ recommendation of the Royal Commission under the terms of the
“ Royal Warrant in lieu of the settlement by the Treasury under
“ Section 29 of the Patents and Designs Act, 1907.” Then
particulars are given of the alleged user. First of all, they say they
are designers of certain aeroplanes, and then (b) : “ In the middle
“ of the year 1917, the Aircraft Production Department of the
“ Ministry of Munitions received demands from the Forces for a
“ large number of bombing machines, and orders were placed with
“ other contractors for the supply of large quantities of Handley
“ Page aeroplanes. The Claimants at the request of the Depart-
“ ment of Aircraft Production and in order to increase the output
“ of these machines imparted the special knowledge they had
“ acquired in the construction of bombing machines to other
“ Government Contractors, handed over to them all the necessary
“ drawings, etc., and dispatched trained staffs of Engineers and
“ others to all parts of the country to instruct fully the other
“ Contractors in the art of constructing Handley Page aeroplanes.
“ For these services the Claimants have received no payment what-
“ soever ”; and in (c) they say : “ The aeroplanes so produced
“ proved of great value.” Paragraph 9 is as follows : “ The
“ Claimants have made no terms with such users ”—that is, His
Majesty’s Government—“ but, owing to the action of the latter,
“ the American Government have used this design and
“ probably others. The user by the American Govern-
“ ment is the subject of a separate claim.” To that,
there was a counter-statement put in on behalf of His
Majesty’s Government, and they said this : “ No admission is made
“ as to the validity of any of the Letters Patent or registered
“ designs mentioned in paragraph 3 of the Particulars of Claim
“ herein. The same are in respect of minor features of design and
“ the Department is willing that compensation therefor should be
“ assessed under clause 3 of the Royal Warrant of 19th March,
“ 1919, in connection with the general design of ‘ O ’ type aero-
“ planes.” Then they mention the extent of the user by the
Government, and they say, with regard to their objections and
remarks on paragraph 8 of the Particulars of Claim : “ The design
“ of both the said aeroplanes was worked out by the Air Depart-
“ ment of the Admiralty in collaboration with the Applicant under

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" the following circumstances "—I will not read the whole of that, but they say in effect that what did happen was that " the said " design was the subject of modifications in detail which were the " result of discussion and collaboration between the applicants and " the Air Department Admiralty and numerous tests were made " from time to time during the said period by the Advisory Com- " mittee on Aeronautics for the purpose of elucidating points of " difficulty in connection with the said design." Then they say : " By reason of the premises, the Applicants have been enabled to " secure contracts "—for very large sums of money—" all the " experimental and extra costs of the said machine due to modifi- " cations of design " being paid by the Government ; they say that the design now reached " is of considerable value . . . the " Applicants have been adequately remunerated for the part taken " by them in the said design." There was a further claim in respect of the " V " type which followed the same lines.

When we come to see what happened, we are told in the Case at paragraph 15 : " The said claims were duly " heard before the Royal Commission, and dealt with as falling " under head (3) of the Royal Warrant."—that is, under the *ex gratia* clause—" Accordingly, the claim for compensation for " user of the said Letters Patent was abandoned at the hearing. On " the 15th May, 1922, the Royal Commission issued their recom- " mendation, of which a copy, marked ' I ', is annexed hereto and " forms part of this Case." That is, as plain as can be, a statement that all questions of right which might arise to the applicants under Section 29, or the revised Section 8 of the Act of 1919, were set aside and the whole matter was dealt with under clause (3) of the Warrant. Hearing it in that way, the Commissioners arrived at the sum to be paid as £30,000, and they say that, in arriving at the sum, they have not taken into consideration any contractual claim which the Applicants could have in respect of a drawing office, in respect of supplying prints of the drawings, and in furnishing instruction and assistance and the services of trained staff. To my mind, that makes it quite plain, upon these facts, that there was nothing, in respect of which a Petition of Right would lie, that was taken into account in this determination of this £30,000. Such matters are set aside, and £30,000 is arrived at as the sum to be taken in virtue of the collaboration and assistance which had, in that sense, been rendered to the common pool of knowledge out of which the aeroplanes ultimately emerged. It is common ground that these *ex gratia* payments were merely recommended to the Treasury. There was no means whereby, such as under the Petitions of Right Act, a claim could be made which would ultimately have a legal sanction and could be brought effectively against the Treasury ; it was that the Treasury were going to honour

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the recommendation of the Royal Commission. And in respect of what?—Something that they had come to the conclusion ought to be recommended under head (3).

I do not want to be misunderstood, or that this judgment should be going too far. It is quite true that if this sum could be treated as a sum which was received by the company in the course of carrying on their business, if it was a sum which was due to a possibly unusual system of carrying on their business, but yet was a part of the business which they undertook and did carry on and in respect of which they provided services or plant or materials, I should hesitate long before I said that it was not a taxable item under Schedule D. But it appears to me that the circumstances under which the decision of the Commissioners was reached are such as to differentiate this claim from anything which could be called the result of the carrying on of the business of the company. You may have a case in which a single payment is made but yet is made in the course of business; that is illustrated by the linen case, *Martin v. Lowry*⁽¹⁾, which is a well-known case. You may have a case in which the work that is done, although it is the making of individual out and out contracts, yet is a part of the business which is carried on by the trader. But in the present case it seems to me that when one looks at the counter-statement put in by the Respondent to the claim, it is a negation of there being any right, a negation of there being services rendered, a negation of the user of the property of the Appellant; it is merely a statement that there was some collaboration for which the Applicant had been adequately remunerated. That paragraph which I have read, paragraph 15 of the Case, seems to me of great importance, because it shows that any claim except that which fell under head (3) of the Royal Warrant was abandoned.

Now let me go back to the most recent case of what may be called "voluntary payments". In *Stedeford v. Beloe*, 16 T.C. 505, Lord Dunedin, at page 521, reads the words of Schedule D and says: "Now it must be a real profit under Schedule D and it has been held again and again that a mere voluntary gift is not such a profit because it is not, in the true sense of the word, income. It is merely a casual payment which depends upon somebody else's goodwill." I apply those words to the facts of the present case. Can I in any way say that this sum, which has been reached in the confused circumstances set out in the counter-statement and which took place during the war, is a sum which has been reached in the course of the carrying on of their business? I do not find myself able to bring this payment within those words of Lord Dunedin and, therefore, it seems to me that the appeal must succeed on that ground. Equally, I find myself unable to

(¹) 11 T.C. 297.

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accept the view which commended itself to the learned Judge; he says this⁽¹⁾: "In each case, the sum is handed over by the Government to the inventor and, in each case, it is in respect of the user of something valuable which he has invented." I cannot so find the facts in the Case; but he goes on: "The real difference is this, and my attention was properly called to it. Differences between head (1) and head (3), I think, do not affect the matter, once the payment has been made. It was a voluntary payment"—and there the learned Judge and I are in agreement—"it need not have been made; but when it is made it seems to me that it is assessable to Income Tax." Somehow or another, although it was a voluntary payment, yet, when it had reached the hands of a business concern, it was to be treated as a sum, a profit and gain, reached and received in the course of business. It is upon that point that I find myself unable to agree with the learned Judge.

But there is another point upon which I think the case also succeeds. What is this sum—a large sum, a considerable sum? What is it paid for? There was here a dissipation of the knowledge and experience of the Applicant. It was placed at the disposal of all and sundry who were engaged in making these aeroplanes and supplying them to the Government. They were required to place their experience, their knowledge and such inventive faculties as they employed in their business, at the benefit of the other contractors. It seems to me that that was the very negation of carrying on the business of the Handley Page concern. No one in business, in his wisdom or prudence, would have so dealt with his facilities; I do not want to use the word "property", because I am by no means sure as to whether or not what was done was handing over of property; it seems to me rather that they were contributing to a common pool their experience, their knowledge and the drawings and the like, most of them, if I understand, incapable of being either registered and, in so far as they were apparently patentable articles, not capable of being patented. But they brought all that into the common pool, and what was the result? They had enabled their competitors to enjoy the fruit of their research and labours during a number of years and to call that a sum which is received in the course of carrying on the business seems to me to neglect the very first meaning of the terms. From this point of view, it appears to me that the two sums of £30,000 and £9,000 can be treated as a capital payment and not as income at all. Whichever view commends itself to those who may have to consider this question at all, it seems to me it was in the nature of a capital payment. In the case of their claim against the United States, it is said in their claim in paragraph 8: "Relying on the assurance as aforesaid, the Claimants did not attempt to enter into any legal arrangement with the United States Government, and, so far as they have been

(¹) See page 350 *ante*.

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“able to determine their position, it would appear they have no legal “rights against the United States Government.” Would they, apart from any contract, apart from any agreement, have made all this research and experience available to those who were, if not competitors, at least their rivals in business? That seems to me to be a view which is in strong contrast with the actual facts, and it appears to me, therefore, that these two payments may be considered equally as a matter of capital payments; they had made their contribution and, for that contribution, it was held that they were entitled to be remunerated *ex gratia*.

For these reasons, it appears to me that these two sums do not come within the ambit of profits and gains in the course of their business, and once they have been paid and reached the hands of the company, they do not lose the character or characteristics under which they were paid; they remain the same, and they cannot be altered after their receipt into the hands of the company. For those reasons, it appears to me that the appeal must be allowed, with costs here and below, and the assessment discharged.

Slessor, L.J.—I agree that this appeal should be allowed. I can state my reasons very shortly. I am of opinion that this sum of money which was awarded to the company by the Royal Commission was in the nature of capital in their hands. I think that the learned Judge has laid too much emphasis on the word “user” which is given as the ground of the compensation in the finding of the Royal Commission, where they say that, having enquired into the circumstances, the sum of £30,000 is proper to be paid by way of remuneration “in respect of user” by the Crown of the twin engine aeroplanes. On that the learned Judge says this⁽¹⁾: “It “was also argued that this was capital. That argument I may deal “with at once. I do not think it can succeed. That was not, I “think, a payment in respect of capital. It is no doubt true that “probably a communication of the design to other people would “depreciate and greatly depreciate its value. It is in respect of that “largely that the sum was awarded, but, none the less, I think “that the sum was truly awarded in respect of the user of a secret “process and I cannot see that that can be regarded as a capital “payment.”

When the facts of this case, as stated in the Case, are examined, it is found that, so far from there being a user in the sense that there was a user in the *Mills* bomb case⁽²⁾ and in the case of *Constantinesco*⁽³⁾, where the patents remained in the hands of the patentees, here what was done, either by request or by compulsion, was that the Appellant parted with the whole of his property in the subject matter. For what was his property? His property was the

⁽¹⁾ See page 350 *ante*.

⁽²⁾ *Mills v. Jones*, 14 T.C. 769.

⁽³⁾ *Constantinesco v. Rex*, 11 T.C. 730.

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knowledge which he had acquired of the methods for constructing these machines and in paragraph 4 it is stated that he was required to impart the knowledge necessary to enable Government contractors in various parts of the world to construct the machines, and that he complied with that requirement, so that he did not give them a mere user of a patent or a mere user of his property, but he handed over the whole, the substratum of his property. He had, in substance, nothing of his business left. His property was his secret process and his knowledge, and that property was, at the request or by compulsion of the Government, dissipated among all his competitors. To speak of "user" as if there were some tree producing fruit, seems to me an entire misconception of the facts. The whole tree, root and branch, was lost to him, and the award was given in compensation for the total loss of the substratum of his business. Once those facts are realised, I think it must necessarily follow that this was in the nature of a capital payment and not income.

Romer, L.J.—I, too, agree that this appeal must be allowed, on the ground that these payments were capital payments and were not in the nature of profits or gains within the meaning of those words as used in Schedule D.

I can state my reasons for arriving at that conclusion, I think, quite shortly. A patentee has, of course, a monopoly, and that monopoly, which is a right of preventing other people utilising his invention, is a capital asset in his hands. He may exploit that capital asset in either or both of the following ways: he can himself exercise his invention for profit, or he can grant licences to others to do so on payment of royalty. The profit he derives by exercising the invention himself or the profit he derives from the royalty are profits and gains within the meaning of Schedule D, notwithstanding the fact that every year his capital asset is diminishing in value. If, on the other hand, he sells the monopoly, or if—I cannot remember that such a case has ever happened—he surrenders his monopoly in consideration of a payment, the payment he received for the sale of the patent or the payment he received for surrendering his monopoly would be a capital asset in his hands and none the less so because, after surrendering the monopoly, he himself was in a position which enabled him, in competition with the rest of the world, still to exercise his own invention. The owner of a secret process, such as was possessed by Mr. Handley Page, stands in a very analogous position; he has not a monopoly at law, but he has a monopoly in fact—a monopoly in fact arising from the possession by him of the secret knowledge of the process that he is carrying on. That secret knowledge is as much his capital asset as is the patent monopoly the capital asset of the patentee, and, like the patent, he can use that capital asset in either or both of the following ways: he can himself carry on the secret process or

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he may—it is very seldom done owing to the obvious danger involved—grant a licence to a third person to carry on the secret process, securing himself against his secret process being divulged by that third party to others. In both these cases the profits he derives from carrying on the secret process himself and the royalty he might derive from the licensee would be annual profits or gains within the meaning of Schedule D. But, supposing he sells his secret process, or supposing, as here, he surrenders his *quasi* monopoly by making it public to the world, then I say that, if he gets paid for doing either one or the other of those things, the money he receives in payment is a capital asset. Here, at the invitation of the Government, he surrendered to the world his secret knowledge, and his capital asset thereupon ceased to exist. The payment in question, in my opinion, was made to him for the surrender of his capital asset and, in his hands, is capital money not taxable under Schedule D or any other Schedule.

Mr. Latter.—My Lord, there are two matters I ought to mention to your Lordship. One is that we have not, of course, abandoned our second point, but your Lordships thought it convenient to deal with it separately.

Lord Hanworth, M.R.—No; you can treat that as reserved.

Mr. Latter.—If your Lordship pleases. The second matter I ought to mention is that duty has been paid by Mr. Handley Page and, in those circumstances, I do not think my learned friend will dispute that I am entitled to an Order for repayment with interest. The rate of interest has arisen in a case before the House of Lords this year, and they put it at 4 per cent. I do not know whether your Lordships think that that is a proper rate?

Lord Hanworth, M.R.—I think that is right, Mr. Hills?

Mr. Hills.—Yes, my Lord, I think that is right.

Lord Hanworth, M.R.—There will be repayment with interest at 4 per cent.

Mr. Latter.—If your Lordship pleases.

The Crown having appealed against the decision in the Court of Appeal, the case came before the House of Lords (Lords Atkin, Tomlin, Russell of Killowen, Macmillan and Wright) on the 8th, 11th and 12th March, 1935, when judgment was reserved. On the 8th April, 1935, judgment was given unanimously against the Crown, with costs, confirming, on other grounds, the decision of the Court below.

The Attorney-General (Sir Thomas Inskip, K.C.) and Mr. Reginald P. Hills appeared as Counsel for the Crown and Mr. A. M. Latter, K.C., and Mr. Cyril L. King for the Respondent.

JUDGMENT

Lord Atkin.—My Lords, I have had the opportunity of reading the opinion which is about to be delivered by my noble and learned friend Lord Tomlin, and I entirely concur in it and have nothing to add.

Lord Tomlin.—My Lords, two assessments to Income Tax were made upon the Respondent under the provisions of Schedule D of the Income Tax Acts for the years ending respectively the 5th April, 1923, and the 5th April, 1924, each for the sum of £39,000 described in column 4 of the assessment under the heading of "Description of Trade, Profession, Vocation, Concern, or other profit chargeable under Schedule D" as "Royal Commission Award in respect of the user of certain Patents and Designs."

On an appeal to the General Commissioners for the purpose of the Income Tax Acts the Appellant (who is the Inspector of Taxes) abandoned the assessment for the year ending 5th April, 1923, and agreed to the reduction of the figure of £39,000 in the other assessment to £30,483. The Commissioners affirmed the assessment of £30,483 for the year ending 5th April, 1924. On appeal Mr. Justice Finlay affirmed the Commissioners' decision, but the Court of Appeal have set the assessment aside.

To understand the nature of the case a story of some length and complexity has to be unfolded.

In and prior to the year 1909 the Respondent carried on business as an engineer in Woolwich and owned an invention in relation to aeroplanes for which provisional protection had been obtained and also a registered design for a propeller. Neither the invention nor design formed any part of the design for either of the types of aeroplane which will be presently mentioned.

On the 17th June, 1909, a limited company called Handley Page, Ltd., with a nominal capital of £10,000 in 500 shares of £20 each, was registered as a private company to take over the Respondent's business. On the 27th July, 1909, the Respondent and the Company entered into an agreement by which the Respondent sold and the Company purchased for £500 (to be satisfied by the allotment of 25 fully-paid shares of £20 each in the Company) the invention and design to which I have referred, the Respondent's business and the goodwill thereof, the benefit of all contracts and agreements of the Respondent in relation to the business, and certain plant, machinery, and effects.

By the agreement the Respondent was appointed whole-time manager of the business for life at a salary which included a sum equal to 20 per cent. on the net annual profits earned by the Company when not less than 10 per cent. for the year had been divided by way of dividend on shares. Any improvements on the existing invention or design and any further invention or design

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made by the Respondent within five years from the registration of the Company were under the terms of the agreement to belong to the Company, and as consideration for this provision the Respondent was allotted a further 50 fully-paid shares of the Company of £20 each. In fact no improvement, invention or design was made during the five years in question.

Paragraphs 3, 4 and 6 of the Case Stated (in which the present Respondent is referred to as the Appellant) contain findings to the following effect:—" 3. On the outbreak of War the Company, " which then owned and was carrying on the business and was " entitled to the goodwill thereof, to the services of a skilled staff " and in particular to the services of the Appellant, worked out " designs for large bombing aeroplanes which when made in " accordance with those designs were known as the ' O ' and ' V ' " types of aeroplane. These designs were not capable of being " registered and were not in fact registered designs nor could they " be made, nor were they in fact made the subject of Letters " Patent, though certain minor features were patented from time " to time. In the evolution of these designs many questions of " great technical difficulty were solved by the Company's technical " staff. 4. In 1917 H.M. Government resolved that machines " should be made from the Company's designs and accordingly " required the Company to impart the knowledge necessary to " enable Government Contractors in various parts of the country " to construct machines in accordance with the designs. The Com- " pany in complying with this requirement distributed blue prints " and drawings of the machines and imparted the necessary " knowledge to such contractors (including the Company's com- " petitors in trade) by whom large numbers of ' O ' and ' V ' " machines were constructed. 6. Just before the entry of the " United States of America into the War the Company had an " opportunity of selling in America all its rights in the before- " mentioned designs for a very large sum of money. " Before, however, the Company could take advantage of this " opportunity the United States of America became a belligerent " power with the result that by Agreement between His Majesty's " Government and the Government of the United States the " Company was required by His Majesty's Government to hand " over all its blue prints and designs relating to the said types " of aeroplane to the American Government and was required to " instruct that Government how to build the said machines from " the said designs. The Company accordingly handed over all its " blue prints and designs as aforesaid and sent its draughtsmen and " six foremen to America. By reason of the foregoing and by " reason of the matters referred to in paragraphs 3 and 4 hereof " the Company parted with its trade secrets and lost its goodwill " in relation to the said designs. In fact the disclosure of the said

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“ designs enabled several American companies to make large twin engine machines which previously had never been made in America.”

Up to this point the position upon these findings seems reasonably plain. The designs for the “O” and “V” types of aeroplane and the minor patented features were worked out by and belonged to the Company and any compensation which might become payable by reason of the action of the Government in regard to these designs and patents would apparently be payable wholly to the Company.

Compensation was later on paid in respect of these matters and the question is whether, having regard to what was subsequently done and to the circumstances of the case generally, the Respondent has been properly charged to tax in respect of the year ending 5th April, 1924, in a sum of £30,483, as though it were part of such compensation.

In 1918, after the Government had compelled disclosure of the designs of the “O” and “V” types of aeroplane, and after these designs and the minor patented features had first come to be used in the United Kingdom by or on behalf of His Majesty's Government, and in America by or on behalf of the Government of the United States of America, the Respondent and the Company entered into a further agreement dated the 28th May, 1918. This agreement was expressed to be made between the Respondent (therein called the Vendor) of the one part and the Company of the other part, and to be supplemental to the agreement of the 27th July, 1909, and after a recital that no improvement, invention or design had been made during the five years mentioned in the principal agreement, the following recitals and provisions appeared, namely:—“ And whereas since the expiration of the said term of five years the Vendor has made improvements upon the said invention and design ” [that is the invention and design mentioned in the principal agreement] “ and has made further inventions and designs and has applied for and obtained provisional protections and Letters Patent and registered designs in respect of such improvements and further inventions and designs which provisional protection Letters Patent and registered designs are more particularly specified in the schedule hereto And whereas the improvements and further inventions and designs and the provisional protection Letters Patent and registered designs in respect thereof are the sole property of the Vendor as the Company hereby admit and acknowledge which improvements further inventions and designs have pursuant to a verbal licence granted to the Company by the Vendor been hitherto used and exercised by the Company in their business upon terms that the Vendor should be paid by the Company in consideration of such licence such sum as should be thereafter agreed Now it is hereby agreed

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“ as follows :—1. As consideration for the said licence the Com-
 “ pany shall pay to the Vendor (a) 10% on the prices charged by
 “ the Company in respect of all such aeroplanes hydroplanes air-
 “ ships aeronautical apparatus machines engines and accessories
 “ (except bomb-gear) and (b) 15% on the prices charged by the
 “ Company in respect of all bomb-gear at any time heretofore
 “ manufactured and sold by the Company under any of the said
 “ Letters Patent inventions or designs set forth in the said
 “ schedule. 2. The Company shall so long as the said licence
 “ continues pay to the Vendor the like percentages in respect of all
 “ such aeroplanes hydroplanes airships aeronautical apparatus
 “ machines engines and accessories including bomb-gear as the
 “ Company shall manufacture and sell after the date of this agree-
 “ ment. 3. The said licence shall continue on the terms aforesaid
 “ until revoked by notice in writing addressed by the Vendor to the
 “ Company which he may give at any time.”

The schedule to this agreement contained particulars of two British Letters Patent and of three applications for other British Letters Patent and particulars of a registered design. One of these Letters Patent and the three applications for Letters Patent were concerned with some of the minor features of the design of the “O” type of aeroplane, for the user of which compensation was afterwards paid. Except to this extent the agreement seems to have had no reference to the design either of the “O” or “V” type of aeroplane, though the effect of Clause 1 (a) may be that the 10 per cent. therein mentioned became payable on the price charged for any type of aeroplane which embodied any of the features covered by the particulars in the schedule. The only things referred to in the recitals are: (1) improvements upon the original invention and design which have nothing to do with this case; and (2) further inventions and designs particularised in the schedule. Of the particulars in the schedule only the four items to which I have referred are material to this case. With regard to those four items, the statement in the recitals that they were the sole property of the Respondent seems on the face of it to be at variance with the findings of the Case Stated, but the four items relate only to minor features.

On the 19th March, 1919, the Royal Commission on Awards to Inventors was erected by Royal Warrant of His Majesty. By the Warrant the powers of the Commissioners were set out under three heads. The first and third of these heads so far as material to the present appeal were as follows:—“(1) In any case of user or
 “ alleged user of any patented invention for the services of the
 “ Crown by any Government Department and of default of Agree-
 “ ment as to the terms of user, the Commissioners, upon the
 “ application of the patentee and agreement to accept their deter-
 “ mination may proceed to settle and may settle the terms of user

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“ in lieu and place of the Treasury. (3) In any case of
“ user or alleged user for the services of the Crown by any
“ Government Department of any inventions, designs, drawings or
“ processes, which though not conferring any monopoly against the
“ Crown or any statutory right to payment or compensation may
“ nevertheless appear from their exceptional utility or otherwise to
“ entitle the inventor, author or owner thereof to some remunera-
“ tion for such user (including user by way of selling for use,
“ licensing or otherwise dealing with any articles made in accord-
“ ance therewith) the Commissioners may, on the request of the
“ Treasury, enquire into the circumstances of the case and may
“ make a recommendation to the Treasury as to the remuneration
“ (if any) that is proper to be allowed therefor.”

It is to be noted that under head (1) the Commissioners' duty was in certain circumstances to settle and award the amount which a patentee was legally entitled to for the use of his patent for the service of the Crown, while under head (3) the cases dealt with were cases in which there was no patent or other source of legal monopoly relied on and therefore no claim of right, and in which the Commission only recommended to the Treasury a payment by way of bounty.

It is also to be observed that the Commission had no power to determine the validity of a patent; accordingly if the validity of the patent of a claimant under head (1) was not admitted by the Crown, the claimant had either before coming to the Commission to go to the ordinary courts of law to establish the validity of his patent or else to waive his claim under his patent and seek some compensation by way of bounty under head (3) of the Royal Warrant.

There was a subsequent Royal Warrant of the 3rd October, 1920, which further regulated the Commissioners' powers, but it did not affect the position as I have stated it under the original Warrant.

On the 11th April, 1919, a new agreement was entered into between the Respondent and the Company in which the Respondent is referred to as the Vendor. This new agreement referred to the two previous agreements and recited as follows:—“ And whereas
“ there is due from the Company to the Vendor the sum of One
“ hundred and eight thousand eight hundred pounds for royalties
“ payable up to and including the Thirty-first December One
“ thousand nine hundred and eighteen in respect of the inventions
“ designs provisional protection letters patent and registered design
“ mentioned in the second and third parts of the Schedule hereto
“ And whereas the said inventions and designs have been used by
“ His Majesty's Government and with such Government's consent
“ by the Government of the United States of America during the
“ present War and the Company has at the request of the Vendor

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“ claimed from His Majesty’s Government royalties or remuneration for such use and it has been agreed that all such royalties or remuneration as may be received by the Company for such use up to the Thirty-first day of December One thousand nine hundred and eighteen shall be paid and shall belong to the Vendor, but that all royalties or remuneration for such user after the Thirty-first day of December One thousand nine hundred and eighteen shall belong to the Company And whereas it was provided by the said agreement of the Twenty-eight May One thousand nine hundred and eighteen that the licence therein mentioned shall continue on the terms therein provided until revoked by notice in writing addressed by the Vendor to the Company.”

The operative part of the new agreement provided (Clause 1) that the two earlier agreements and the licence with regard to the applications and inventions set forth in the third part of the schedule to the new agreement should be cancelled as from the 31st December, 1918, save as was thereafter mentioned, and (Clause 2) that the Respondent should be paid by the Company £108,800 in satisfaction of the royalties due to him for user by the Company and remuneration up to the 31st December, 1918. The second Clause also provided as follows :—“And [the Company] shall also pay to the Vendor all such royalties or remuneration as the Company shall receive for the use of the said inventions and designs by His Majesty’s Government or the Government of the United States of America up to the 31st December 1918 Should any question arise between the parties hereto as to what proportion of any sum which may be received from the Government the Vendor is entitled to the same shall be submitted to the Auditors of the Company for the time being whose certificate thereon shall be final and binding on both parties hereto.”

Clause 3 provided for the sale by the Respondent of all his rights and interests to and in the inventions, drawings, Letters Patent, applications for Letters Patent and design specified in the first, second and third parts of the schedule to the agreement, and all rights of the Respondent to obtain protection in foreign countries or the Dominions.

The agreement also contained provisions for an assignment to the Company of the Letters Patent or other rights sold, and that such assignment should contain *inter alia* a covenant by the Respondent to communicate to the Company all such further inventions in connection with aircraft as he might make or discover or to which he might become entitled during the period of seven years from 1st January, 1919.

The consideration for the sale and covenants was to be the issue by the Company to the Respondent of 140,000 fully-paid ordinary shares of £1 each and the Respondent was to hold office as

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managing director for a term of seven years from 1st January, 1919, upon the terms mentioned in the agreement.

The schedule to the agreement was divided into three parts. The first part was as follows:—"Drawings showing the design of "the Handley Page 'O' type aeroplane. The like Handley "Page 'V' type aeroplane." The second part was the same as the schedule to the agreement of the 28th May, 1918, with the omission of a patent for bomb-releasing gear which has nothing to do with the appeal. The third part contained particulars of applications for four British Letters Patent relating to other minor features of the design of the "O" type of aeroplane.

Subsequently a deed of assignment was executed by which the Respondent assigned to the Company a large number of patents including seventeen Letters Patent covering minor features of the designs of the "O" and "V" types mentioned in the award of the Royal Commission to which I shall presently refer; these seventeen Letters Patent or applications for Letters Patent included (a) the four Letters Patent and applications for Letters Patent already mentioned by me, of which particulars were set out both in the schedule to the agreement of the 28th May, 1918, and in the second part of the schedule to the agreement of the 11th April, 1919, and (b) the four applications for Letters Patent set out in the third part of the schedule to the agreement of the 11th April, 1919.

According to the findings of the Case Stated: (1) at the time when the agreement of the 11th April, 1919, was entered into large numbers of aeroplanes had been manufactured by the Company in accordance with the designs of the "O" and "V" type (see paragraph 7); and (2) the agreement of the 11th April, 1919, was entered into because it was intended to turn the Company into a public company (as was shortly afterwards done, the capital being increased by £150,000), and it was considered necessary that the Appellant should have sold to the Company everything which might be his in relation to aircraft and to have it clear that as from the date of this new agreement he had no other interest in the Company than the share consideration.

On the 3rd December, 1919, the Company presented two claims to the Royal Commission on Awards to Inventors, one relating to the design for the "O" type of aeroplane and the other relating to the design for the "V" type of aeroplane. Each claim was in the same form, *mutatis mutandis*. Each claim showed the claimants to be the Company and the Company only. The subject of the claim was stated to be the design of the Handley Page "O" type (or "V" type) twin-engine aeroplane, with minor features protected by specified patents and registered designs. Under heading 4 of the claim, "particulars of "any other parties interested in the Patents", the Respondent's name was mentioned with the words "pursuant to an Assignment "by him to the Claimants dated 21st day of October, 1919."

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Under heading (7) of the claim, "particulars of the alleged user," the Company set out *inter alia* the following:—
 "(7) (a) The Claimants are the designers and constructors of aeroplanes registered as a limited liability company in June, 1909, and since that date have been engaged in experimental work designing improved types of aeroplanes. At the outbreak of War they were specialising in the development of large weight carrying aeroplanes, and in 1915, a small contract was placed with them by the Air Department of the Admiralty for the supply of large machines for bombing purposes. (b) In the middle of the year 1917, the Aircraft Production Department of the Ministry of Munitions received demands from the Forces for a large number of bombing machines and orders were placed with other contractors for the supply of large quantities of Handley Page aeroplanes. The Claimants at the request of the Department of Aircraft Production and in order to increase the output of these machines imparted the special knowledge they had acquired in the construction of bombing machines to other Government Contractors, handed over to them all the necessary drawings, etc., and dispatched trained staffs of Engineers and others to all parts of the Country to instruct fully the other Contractors in the art of constructing Handley Page aeroplanes. For these services the Claimants have received no payment whatsoever."

The claims were proceeded with under head (3) of the Royal Warrant, the patent rights in the minor features being waived. On the same date the Company lodged a further claim in respect of the design of the "O" type against the British Government in respect of the American Government's user.

The Company was the sole claimant. Particulars of the invention were set out in the following terms:—" (3) The subject of this claim is the design of the Handley Page 'O' Type Twin Engine Aeroplane—the only really successful large bomb carrying machine produced either in Great Britain or by any of the Allied and Associated Powers. The only really successful large bomb carrying machines produced by the opposing belligerents was the German Gotha, the design of which was copied from an 'O' type aeroplane which accidentally landed in German territory." Particulars of patents, patent applications and registered designs protecting minor features of this design were also set out. Particulars of this alleged user were given as follows:—" (7) The British Government handed over the drawings of the Handley Page 'O' type aeroplane to representatives of the Government of the United States of America, and these were thereupon used by American Contractors in the construction in America of Handley Page aeroplanes. The claimants were moreover entirely prohibited from constructing these machines in

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“ the United States and thereby lost a considerable revenue both in
“ profits on sales and in royalties on machines not constructed by
“ them. Furthermore, the Claimants have lost a considerable
“ goodwill in the United States as their designs and trade secrets
“ have been handed over to trade competitors in the United States.
“ The reputation of the Claimants has also suffered by the fact that
“ machines made by other firms in America may have proved
“ faulty owing to inferior materials and workmanship which the
“ Claimants would not have permitted had they supervised the
“ manufacture thereof.”

The claimants claimed as compensation for the past, present and future user of this type of machine by the Government of the United States of America and for the losses which the Company had suffered the lump sum of £250,000.

On the 15th May, 1922, the Royal Commission made one award in respect of the two claims of the Company in relation to the user of the designs of the two types of machines by the British Government. The award so far as material was in the following form :
“ The Commission having enquired into the circumstances of the
“ case recommend to the Lords Commissioners of His Majesty’s
“ Treasury that the sum of £30,000 (thirty thousand pounds) is
“ proper to be paid by way of remuneration to the Applicants
“ Messrs. Handley Page, Limited, in respect of user by the Crown
“ of all ‘ O ’ Type Twin Engine Aeroplanes and ‘ V ’ Type Four
“ Engine Aeroplanes, which down to the 1st May, 1922, had been or
“ were being manufactured for the service of the Crown by com-
“ panies, firms or persons other than the Applicants and of all parts
“ or appliances of or in connection with the said aeroplanes includ-
“ ing those protected by the Letters Patent or applications therefor
“ set out in the schedule hereto.” The Letters Patent or applica-
tions set out in the schedule were the seventeen patents or applications for patents to which I have already referred.

Difficulties arose in connection with the claims arising out of the American user and as a result of an agreement with the American Government dated the 11th January, 1923, these claims were dealt with by a body consisting of the Royal Commission and the American Commission for the Adjustment of Foreign Claims sitting together and new particulars of claim were put in on the 25th January, 1923. On this occasion the Respondent’s name was joined with the Company as one of the claimants apparently because the claim was now in part based upon an alleged contract made by the British Government with the Respondent on behalf of the Company to be responsible for compensation in respect of the user by the American Government.

On the 21st March, 1923, the joint body made one award upon the claims in respect of American user in the following terms :—
“ The Royal Commission on Awards to Inventors and the Commis-
“ sion for the Adjustment of Foreign Claims appointed by the

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“ War Department, United States of America (hereinafter called
“ the Joint Commission), having taken into consideration the
“ matters referred to them by the Memorandum of Agreement dated
“ the eleventh day of January, 1923, and made between Handley
“ Page, Limited, and Frederick Handley Page (hereinafter called
“ the Claimants) of the first part the President of the Air Council of
“ the second part and the Assistant Secretary of War of the
“ United States of America of the third part and having heard the
“ respective parties thereon Award and Determine that the amount
“ proper to be paid by His Majesty’s Government to the Claimants
“ in respect of the communication to and/or user by or on behalf
“ of the Government of the United States of the invention or
“ inventions design or designs in the said Memorandum of Agree-
“ ment mentioned is the sum of nine thousand pounds sterling
“ (£9,000). The said sum is awarded and is to be taken in full
“ satisfaction of all claims by the Claimants which are mentioned
“ in the said agreement down to the date hereof.”

The sum of £30,000 recommended for payment by the Royal Commission by their award of the 15th May, 1922, was paid to the Company in October, 1923, by means of a settlement in account with the Treasury under an agreement dated the 17th October, 1923. The £9,000 awarded by the joint body by the award of the 21st March, 1923, was paid to the Company in the course of the year ending 5th April, 1924.

The question whether as between the Respondent and the Company the former was entitled to be paid anything by the Company in respect of the £39,000 received by the Company under the awards does not appear to have been dealt with until some years later. The minutes of a board meeting of the directors of the Company held on the 14th February, 1927, contain the following entry:—“ Mr. Handley Page’s proposals for a settlement of his
“ claims against the Company in regard to the ‘ O ’ and ‘ V ’ and
“ ‘ American User ’ Awards were discussed and subject to his
“ undertaking to meet any claim against the Company for Income
“ Tax payable in respect of the value of the Awards now agreed
“ to be due to him it was resolved that his claim for approximately
“ £30,400 in respect of compensation for sale of assets by dis-
“ closure of plans be admitted in full in consideration of which he
“ would release to the Company the sum of approximately £2,400—
“ the Company in turn agreeing to bear tax on the latter amount
“ should it be assessed against them. It was further resolved that
“ the net amount of approximately £28,000 due be paid to him
“ over a period of five years, bearing in the meantime interest at
“ the rate of six per cent. per annum; such interest to commence
“ from the date of this arrangement subject to the scheme for
“ re-organisation going through.” It is admitted that the Respondent under this minute received from the Company the sum

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of £30,483, though there is nothing to show how this amount was arrived at. This is the sum in respect of which the Respondent has been assessed to Income Tax under Schedule D for the year ending the 5th April, 1924.

At first sight it seems paradoxical that the Respondent should be assessed for tax for the year ending the 5th April, 1924, for a sum of £30,483 as being a sum awarded by the Royal Commission when in fact no sum was ever awarded to him by the Royal Commission (except so far as he may be said to have been one of the claimants to whom the £9,000 was awarded by the joint body) and such sum as he did receive was paid to him not by the Treasury under any award but by the Company in the year 1927 "in settlement of his claims against the Company". The Crown, however, says that all the claims were made by the Company on behalf of themselves and the Respondent, and their receipts in 1923 of the amounts awarded were receipts, so far as the Respondent was entitled to the money, as agent for him and were therefore receipts by him in 1923 and that the fact of there being a dispute between the Company and the Respondent as to the amount of the latter's share remaining unsettled till 1927 makes no difference to the position. Further, they say that the amounts awarded were taxable items of receipts under Schedule D, relying upon the decision in *Constantinesco v. Rex*, 42 T.L.R. 383 and 685⁽¹⁾, where an award under head (1) of the Royal Warrant was dealt with.

The Respondent on the other hand denies the agency of the Company, contends that the £30,483 was paid to him in satisfaction of a contractual claim against the Company and was not received under any award and cannot be treated as received before it was actually received by him, and in any case further contends that any sum receivable as the result of an award under head (3) of the Royal Commission is a matter of bounty and is also of a capital nature and is not therefore assessable to Income Tax under Schedule D.

The General Commissioners gave no reason for affirming the assessment. Mr. Justice Finlay dismissed the appeal from the General Commissioners, holding, as I understand, that the Company were the agents of the Respondent and must be treated as having received the sum of £30,483 for him in 1923 and that the same was in the nature of a profit assessable to tax under Schedule D.

The Court of Appeal, without considering the relations between the Company and the Respondent, held that the assessment must be discharged. The Master of the Rolls took the view that any payment made in respect of an award under head (3) of the Royal Warrant was voluntary and not taxable under Schedule D and all three members of the Court held that such a payment was in the nature of a capital payment and not taxable under Schedule D.

(1) 11 T.C. 730.

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Now, I confess that I do not think it possible to dispose of this case without first reaching a conclusion as to the rights *inter se* of the Company and the Respondent, and as to the character in which the claims were put forward by the Company. This is not easy to do by reason of the obscurity of some of the documents, and the difficulty of reconciling some of the passages contained in them with the findings of the Case Stated.

No doubt, until the Company became a public company and issued shares to the public, the Respondent and the Company, though in law separate entities, were for practical purposes the same. The Respondent controlled the Company; he was its whole-time manager, and probably mainly its inventive mind. So far as actual patents or applications for patents standing in his name are concerned, they may well have been his property though used by the Company in its business.

But the claims against the Government were in respect of designs for types of aeroplanes worked out in the Company's shop, with the Company's material and by the Company's staff including, of course, the Respondent. These designs were not registrable as designs and were not covered (except in minor details) by patents. In such a design there is no legal monopoly or property. There is property no doubt in the drawings and plans in which it is embodied, and if the design is kept secret it may be protected by those remedies which are available against breaches of confidence.

Bearing these conclusions in mind and having regard to all the circumstances and documents which I have related and set out, I think that there is no substantial irreconcilability between the documents and the findings in paragraphs 3, 5 and 6 of the Case Stated.

It seems to me that the Respondent had, so far as the subject of the claims is concerned, no property in the designs except to the extent that minor features were covered by patents in his name and when he affected to sell all his rights and interests in, *inter alia*, the drawings mentioned in part three of the schedule to the agreement of the 11th April, 1919, he was only in effect saying "So far as those drawings embody features covered by my patents, you are to have any rights after the 31st December, 1918."

I think that the designs of the "O" and "V" types (so far as they can be the subject of property and subject to the Respondent's claim in respect of the patented minor features) belonged to the Company and that throughout the period covered by the claims the Company had the right to the designs and the right to use under their agreements with the Respondent the patented features. The forms of the claims before the Royal Commission make it plain that the designs in their entirety were regarded by the Company as theirs to use and that the Company

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were claiming on the footing of the damage suffered by the Company and on no other footing, and were claiming on their own behalf and not on behalf of or as agent for the Respondent.

Nevertheless, under the agreements the Respondent had, I think, a definite contractual right against the Company to an appropriate payment by the Company for user in respect of those features which were covered by patents belonging to him prior to the 31st December, 1918, but this was an unascertained contractual claim. In no sense had he any right to any part of the actual moneys paid to the Company by the Treasury. The fact that £30,000 was paid by a settlement in account with the Treasury without apparently the Respondent requiring any provision to be made for him out of it seems in accordance with this view. I think that the Company could do what they liked with the money payable to them by the Treasury.

I do not think that the joinder of the Respondent in the American claims makes any difference to the position. He was in my judgment joined *pro forma* only because of an allegation of an agreement made between the British Government and him acting on behalf of the Company.

If this be, and I think it is, the right view, the question of the agency of the Company disappears and the Attorney-General candidly and fairly admitted before your Lordships' House that if the plea of the agency of the Company could not be sustained the appeal must fail. I think that the sum of £30,483 was only received by the Respondent when it was paid to him in 1927 by the Company in discharge of its contractual obligation to him.

This conclusion renders it unnecessary to consider the questions passed upon in the Court of Appeal and I do not desire to give any indication of opinion one way or the other in regard to them.

My Lords, in my opinion this appeal fails and should be dismissed with costs.

Lord Macmillan.—My Lords, I agree.

Lord Wright.—My Lords, I also agree.

Lord Atkin.—My Lords, I am asked by my noble and learned friend **Lord Russell of Killowen** to say that he also agrees.

Questions put:

That the Order appealed from be reversed.

The Not Contents have it.

That the Order appealed from be affirmed, and that this appeal be dismissed with costs.

The Contents have it.

[Solicitors :—Kimber Bull, Howland, Clappé & Co. ; Solicitor of Inland Revenue.]

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