HIGH COURT OF JUSTICE (CHANCERY DIVISION)—26TH AND 27TH APRIL, AND 1ST AND 18TH MAY, 1956

COURT OF APPEAL—27TH, 28TH, 29TH AND 30TH NOVEMBER, AND 3RD, 4TH AND 13TH DECEMBER, 1956

HOUSE OF LORDS—30TH AND 31ST OCTOBER, 4TH AND 6TH NOVEMBER, AND 4TH DECEMBER, 1957

Evans Medical Supplies, Ltd.

v.

Moriarty (H.M. Inspector of Taxes)[1]

Income Tax, Schedule D—Disclosure of secret processes and provision of other information in consideration of lump sum payment—Whether sum received capital or income.

The Appellant Company, which manufactured pharmaceutical products and had a world-wide trade, carried on business in Burma through an agency. In 1953 *the Burmese Government wished itself to establish an industry there for the production of pharmaceutical and other products, and the Company secured a contract, dated* 20*th October,* 1953, *from the Burmese Government to assist in setting up this industry. The Company undertook to disclose secret processes to the Burmese Government and to provide other information in consideration of the payment of a "capital sum of* £100,000*". The Company also undertook to provide certain services and to manage the proposed factory in return for an annual fee, which was admitted to be subject to tax. No similar agreement had been entered into by the Company with any other foreign Government or any other party.*

The profits of the Company's trade as wholesale druggists were assessed to Income Tax under Case I *of Schedule D for the year* 1954–55 *on the footing that the sum of* £100,000 *should be included as a trading receipt. On appeal to the Special Commissioners the Company contended that the sum of* £100,000 *was a capital sum received either for the sale of fixed capital or for the granting to the Burmese Government of an exclusive licence, and that in any event it did not arise in the course of a trade. The Crown contended,* inter alia, *that on a true construction of the agreement the sum in question was, like the annual fee admitted to be subject to tax, received by the Company for providing services in the course of a trade. The Special Commissioners held that the agreement should be read as a whole as one for the provision of services, and that the sum of* £100,000 *had been properly included in computing the Company's profits for Income Tax purposes.*

The Chancery Division held that the sum in question was a capital payment.

The Court of Appeal held unanimously (1) *that there was evidence to support the Special Commissioners' finding that the sum of* £100,000 *arose*

[1] Reported (Ch. D.) [1956] 1 W.L.R. 794; 100 S.J. 471; [1956] 2 All E.R. 706; 221 L.T.Jo. 341; (C.A.) [1957] 1 W.L.R. 288; 101 S.J. 147; [1957] 1 All E.R. 336; 223 L.T.Jo. 76; (H.L.) [1958] 1 W.L.R. 66; 102 S.J. 67; [1957] 3 All E.R. 718; 224 L.T.Jo. 346.

to the Company as a receipt of its trade; but (2) *that the sum in question, to the extent that it was attributable to the disclosure of secret processes, was a capital receipt. The Court ordered the case to be remitted to the Commissioners to determine the part so attributable.*

The House of Lords, dismissing the Crown's appeal and allowing the Company's cross-appeal, restored the Order of the Chancery Division.

Lords Simonds, Tucker and Denning held that, the Case having been stated by the Commissioners and the appeal argued throughout on the footing that the sum of £100,000 *was indivisible, it was not open to the Court of Appeal to direct apportionment between consideration for the disclosure of secret processes and consideration for other matters.*

Lords Simonds and Tucker were of opinion that the Company had parted with a capital asset for a purchase price. Lord Denning considered that there was nothing wrong in the Commissioners' finding that the amount in question was a payment for services, but that it was not received in the course of the Company's existing trade of wholesale druggists, etc., and therefore could not be brought into the assessment of the Company's existing trade for 1954–55.

Lord Morton of Henryton, dissenting as to the cross-appeal, agreed with the judgments in the Court of Appeal.

Lord Keith of Avonholm, dissenting, was of opinion that there was ample evidence that the Company was trading in "know-how" and that it was no more than a legitimate extension of their existing trade.

CASE

Stated under the Income Tax Act, 1952, Section 64, by the Commissioners for the Special Purposes of the Income Tax Acts for the opinion of the High Court of Justice.

1. At a meeting of the Commissioners for the Special Purposes of the Income Tax Acts held on 24th and 25th February, 1955, Evans Medical Supplies, Ltd. (hereinafter called "the Company"), appealed against an assessment for the year 1954–55 made upon it under Case I, Schedule D, in the sum of £281,163, less capital allowances £56,305, in respect of its profits as wholesale druggists. The sole question for our determination was whether a sum of £100,000 paid to the Company by the Government of the Union of Burma (hereinafter called "the Burmese Government") in the circumstances hereinafter described was a receipt of the Company's trade liable to be included in the computation of its profits for the purposes of the said assessment for 1954–55.

2. At the hearing of this appeal evidence was given before us by Mr. Ian Victor Lyon Fergusson, chairman and managing director of the Company.

The following documents were put in evidence before us and are attached to and form part of this Case[1]:

Exhibit A Agreement dated 20th October, 1953, between the Company and the Burmese Government;

„ B Memorandum and articles of association of the Company;

[1] Not included in the present print.

Exhibit C Report and accounts of the Company for the year ended 31st December, 1953 ;

„ D Supplement to the report and accounts of the Company for the year ended 31st December, 1953.

The following documents were also put in evidence before us, but are not part of the Case stated by us. They are available for the information of the High Court:

Specimen package specification ;

Sketch of containers used by the Company for certain of its products ;

Layout plans for the factory and formulae.

The facts found by us on the foregoing evidence, or admitted or proved before us, are stated in the following paragraphs numbered 3 to 12 inclusive.

3. The Company was incorporated on 24th November, 1925,

> "to carry on business as Manufacturing Chemists, Wholesale Druggists, Drug Grinders, Importers, Exporters and Manufacturers of Pharmaceutical, Medicinal, Bacteriological and Chemical Preparations and Articles"

(exhibit B, clause 3 (i), memorandum of association). The Company took over a business which began in the year 1809, and is one of the leading pharmaceutical manufacturers, with a world-wide trade.

4. The Company carries on its trade abroad, in some cases by means of subsidiary companies in various countries, in other cases by means of foreign agencies, and for a considerable period prior to the year 1953 it had an agency in Burma. In the year 1953 the Burmese Government decided to build a factory and laboratories in Burma for the purpose of establishing an industry there for the production of pharmaceutical and other products. Accordingly, the Burmese Government despatched a trade mission to Europe with a view to inducing some leading firm of manufacturing chemists to advise as to the erection of such a factory and the supply of equipment for manufacture, and to impart to them the processes, formulae and knowledge necessary to the production and manufacture of pharmaceutical products in Burma.

5. The said trade mission got into touch with firms of wholesale manufacturing chemists on the continent of Europe and also, through the medium of United Kingdom Government Departments, with the Association of the British Pharmaceutical Industry, and finally treated with three leading firms of manufacturing chemists in the United Kingdom of which the Company is one. There was keen competition with several continental firms, and the British Government was anxious that a British firm should, if possible, come to terms with the Burmese Government. Negotiations were opened between the Company and the trade mission on behalf of the Burmese Government, and the Company at first suggested a lump sum of £350,000 for the sale of drawings, designs, plans, and technical and other data, and "know-how" necessary for the establishment, erection and installation of the factory and the commencement of production, and for management services for a period of years. The Burmese Government were unwilling to agree upon a single lump sum, but desired that part of the consideration should take the form of fees based on production. The Company then made fresh proposals, which were accepted on behalf of the Burmese Government and embodied in the agreement of 20th October, 1953 (exhibit A).

6. The said agreement, which is in five parts with a schedule, provided, under part I, that the Company should provide the knowledge which would make large-scale manufacture of medical products possible in Burma. The

said facilities were to be exclusive to the Burmese Government and were not during the currency of the agreement, which was a period of seven years subject to renewal (part IV, paragraph 1), to be furnished to any other person or corporation in Burma.

The consideration for the foregoing is described in part I as

> "a capital sum of £100,000 . . . payable in the United Kingdom free from any deduction whatsoever".

7. Under part II of the agreement, the Company agreed to act as purchasing agent for all plant and equipment; to advise on the selection of architects and consulting engineers and on the design and layout of a factory on a site chosen by the Burmese Government; to train Burmese nationals in the United Kingdom and in Burma for all technical and administrative positions; to provide experienced European staff in the interim period; and to manage the factory for an initial period of seven years. The remuneration for the said services was to be an annual fee, during the currency of the agreement, of 5 per cent. of the value of all products produced at the factory or the sum of £25,000, whichever sum was the greater. Under paragraph 6 of part II, the Company was also entitled to be reimbursed for moneys expended on behalf of the Burmese Government and to remuneration of the Company's directors and employees who proceeded to Burma.

8. Under paragraph 2 of part IV, the Burmese Government agreed not to export, without prior assent of the Company, to any other country any of the goods manufactured under the agreement. But, in the event of the consent of the Company to the export of goods from Burma being given, there was provision for a royalty upon such goods to be mutually agreed or, failing agreement, to be paid at a rate not exceeding 10 per cent. of the sales value.

9. (i) Under part V, the Burmese Government undertook not to divulge to any other Government, person, body or corporation, information conveyed to them by the Company without written consent of the Company.

(ii) Under paragraph 2 of part V, it is stated to be

> "the desire and intention of the parties to this Agreement to enter into similar agreements in respect of other pharmaceutical and similar products",

viz., products additional to those specified in the schedule.

10. (i) The schedule referred to, forming part of the said agreement (exhibit A), specifies two main classes of biological products (A) and (B) and a number of pharmaceutical products enumerated under a few broad descriptions (C), (D) and (E). All the products referred to are general types and do not include any of the Company's proprietary products. By far the most valuable from the Company's point of view were the secret processes involved in the preparation, storage and packaging of certain human and veterinary anti-toxins, sera and vaccines.

(ii) The secret processes referred to in sub-paragraph (i) above have been evolved at great cost in several fields over a period of 50 years, and the Company considers that such secret processes are superior to those evolved by other companies. At least two other companies in the United Kingdom, and firms in Western Germany and Holland, have the necessary knowledge to prepare such products and do, in fact, prepare them. The Company has, however, over a number of years experimented and perfected its own methods of preparing and conserving these products and has never, until it entered into this agreement with the Burmese Government, communicated these methods to any other person or corporation.

(iii) The pharmaceutical products, as broadly classified in the schedule to the agreement, number about 3,500 out of 6,500 such products actually manufactured by the Company. Here again, there is no secret as to the composition of the various ointments, pastes, tablets and capsules. The ingredients are set out in the British Pharmacopoeia, and similar products are manufactured by other British and foreign manufacturing chemists. The secret processes consist in the actual methods of preparation of the products and also in the method of storing and packaging. For example, a special type of ampoule is used by the Company for certain of its products, and the Company, by its agreement, undertook to impart its own methods of manufacture and packing to the Burmese Government.

(iv) The processes referred to in sub-paragraphs (i), (ii) and (iii) above cannot be learned by the study of textbooks. Knowledge of these processes is in some cases imparted by the Company to the Burmese Government by training suitable Burmese or European staff for employment in the factory in Burma. In other cases the knowledge is being imparted by the direct communication of written information.

11. The Company might have erected its own factory in Burma, but its directors were convinced that the Burmese Government was determined to have its own chemical industry in Burma and that several continental firms were willing and able to provide the Burmese Government with the means to do so. In entering into the agreement, the Company chose the method of developing its business which seemed to its directors to be the best available in the circumstances. No similar agreement with any other foreign government or any other party had been made by the Company. Since entering into the agreement, the Company has retained its agency in Burma and has continued to supply this agency with its own products. The Company's Burmese agency will become progressively less important as the Government factory in Burma comes into production. At the time of the hearing of this appeal (February, 1955) the factory was not completed but, as provided by paragraph 1 of part IV of the agreement, the minimum sum of £25,000 was being paid as from 20th October, 1953.

It was common ground between the parties in this appeal that the annual sum of £25,000 was a receipt of the Company's trade as wholesale druggists, to be brought into account in computing its profits for purposes of the said assessment to Income Tax for the year 1954–55. The sole issue before us was as to the sum of £100,000, described in part I of the agreement as the capital sum of £100,000.

12. For international reasons the Company desired not to disclose in its published accounts the said sum of £100,000. Accordingly, with the approval of the Board of Trade, only general reference was made in the chairman's report, on page 10 of the Company's accounts for the year ended 31st December, 1953 (exhibit C), and in the supplement to the report on pages 4 and 5 (exhibit D). The actual sum was included in the balance sheet and profit and loss accounts, with other figures not material to this case, under the headings "Undistributed profits including reserves" (exhibit C, page 4), "Tax refund for exceptional depreciation, tax provision no longer required and a capital receipt" (exhibit C, page 5), "Transfer from profit and loss appropriation account" (exhibit C, page 6). It was common ground between the parties in this appeal that this method of accounting for the said sum of £100,000 was not material to the question whether such sum was properly to be included in computing the profits of the Company's trade for the said year 1954–55.

13. It was contended on behalf of the Company:

(i) that under part I of the agreement, to which the sum of £100,000 was solely annexed, the Company was parting with items of fixed capital;

(ii) that, in the alternative, the said sum of £100,000 was a sum received by the Company for an exclusive licence to the Burmese Government;

(iii) that, in either event, the said sum of £100,000 was, as described in part I of the said agreement, a capital sum;

(iv) that, in any event, the sum received by the Company for disposing of the fruits of its experience did not arise in the course of a trade carried on by the Company;

(v) that, in any event, the said sum of £100,000 was not properly included in computing for Income Tax purposes the profit of the Company for the said year 1954–55.

14. It was contended on behalf of the Respondent:

(i) that, on the true construction of the said agreement, the said sum of £100,000, no less than the annual sum of £25,000, was received by the Company for providing services in the course of carrying on its trade as wholesale druggists;

(ii) that, on the true construction of the said agreement, parts I and II were interlocking and interdependent, and involved services to be rendered to the Burmese Government, and that the payment of the said sum of £100,000 was only the first instalment of remuneration for such services;

(iii) that the disposal of secret processes by the Company was not the sale or assignment of property of the Company, but a method of developing and exploiting its business by imparting its knowledge and experience to the Burmese Government in return for a consideration of an income nature;

(iv) that the provision of the facilities agreed to be furnished under part I of the said agreement was within the trading objects of the Company, and, in so far as the said sum of £100,000 was received in consideration for provision of these facilities, it arose to the Company either from the trade it had previously carried on or from a new trade which it had commenced to carry on on 20th October, 1953;

(v) that, in any event, the said sum of £100,000 was properly included in computing for Income Tax purposes the profits of the Company for the said year 1954–55.

15. We, the Commissioners who heard this appeal:

(i) Held that it was not possible, on the evidence set out in paragraphs 3 to 12 above, to consider each part of the agreement of 20th October, 1953, separately. While the factory was in course of erection, while the training of staff was proceeding and while plant and machinery were being obtained, payments, which the Company admitted to be of an income nature, were being made, and we were unable to take the view that the said sum of £100,000 was paid simply for the sale or assignment to the Burmese Government of secret processes analogous to patents.

(ii) Even if the view were taken that the main part of the consideration of £100,000 was received by the Company for imparting these

secret processes to the Burmese Government, we were still of opinion that the Company had not sold or assigned any property. For example, other British and continental firms admittedly had the knowledge and did prepare anti-toxins, and the Company, after the signing of the agreement as much as before, was still in a position to prepare such products according to the formulae and methods which it had perfected, which remained secret, except to the extent that some of them had been imparted to the Burmese Government.

(iii) Considering as we do that the whole agreement must be read together, we think that it is one for the provision of services. The provision by the Company under part I of the agreement of what, in clause (D) of that part, are called " facilities " is not in our opinion the sale or assignment of a capital asset in consideration of a capital price, nor is it the grant of a licence in consideration of a capital payment.

(iv) We also rejected the Company's alternative contention that the said sum did not arise to the Company as a receipt of its trade as wholesale druggists because it had never previously entered into such an agreement. On the contrary, we held that the Company had, on the evidence in this case, chosen the method which appeared to its directors to be the best means of exploiting its business as wholesale druggists in Burma, such method being in our opinion clearly within the powers taken by the Company in its memorandum of association. We therefore held that the said sum of £100,000 arose to the Company either in the course of the trade which it had hitherto carried on or in the course of a new trade which it commenced to carry on on 20th October, 1953, and that in either event the said sum was properly included in the computation for Income Tax purposes of the Company's profits as wholesale druggists for the said year 1954–55.

(v) Accordingly, we dismissed the Company's appeal and adjourned it for agreement of figures in accordance with our decision in principle.

Figures having been subsequently agreed, we confirmed the said assessment for 1954–55 in the sum of £281,163, less £56,305 capital allowances.

16. The Company immediately after the determination of the appeal declared to us its dissatisfaction therewith as being erroneous in point of law and, on 5th April, 1955, required us to state a Case for the opinion of the High Court pursuant to the Income Tax Act, 1952, Section 64, which Case we have stated and do sign accordingly.

17. The point of law for the opinion of the High Court is whether, on the facts found by us and set forth in paragraphs 3 to 12 inclusive, there is evidence on which we could properly arrive at our determination that the said sum of £100,000 was properly included in the computation for Income Tax purposes of the profits of the Company's trade for the said year 1954–55, and whether on the facts so found our determination was correct in law.

A. W. Baldwin,
R. W. Quayle,
} Commissioners for the Special Purposes of the Income Tax Acts.

Turnstile House,
94-99, High Holborn,
London, W.C.1.

26th October, 1955.

The case came before Upjohn, J., in the Chancery Division on 26th and 27th April, and 1st May, 1956, when judgment was reserved. On 18th May, 1956, judgment was given against the Crown, with costs.

Mr. John Senter, Q.C., and Mr. Anthony Barber appeared as Counsel for the Company, and Sir Frank Soskice, Q.C., and Sir Reginald Hills for the Crown.

Upjohn, J.—This is an appeal by Evans Medical Supplies, Ltd., which I shall call " the Company ", from a decision of the Special Commissioners whereby the Company was assessed in a certain sum for the year 1954–55 in respect of its profits as wholesale druggists. The sole question is whether a sum of £100,000 paid to the Company by the Government of the Union of Burma, whom I will call " the Burmese Government ", under an agreement, to which I will refer later and will call " the agreement ", was a receipt of the Company's trade which fell to be included in the computation of its profits for the purposes of the assessment.

The facts are fully set out in the Case Stated and I propose to make only a brief résumé of them. The Company carries on the business of manufacturers of pharmaceutical products and wholesale druggists, in which field it occupies a leading position and has a world-wide trade. In connection with its business it produces proprietary products with which this case is not concerned and also some 6,500 pharmaceutical products of known composition or mixture. The Company has over many years at great cost evolved many secret processes in connection with the preparation, storage and packing of these known products, which processes it considers are superior to other processes evolved by its competitors. The Company sells its products wholesale and the assessment under appeal is upon its profits as wholesale druggists. It trades abroad through subsidiary companies or agencies. Before the agreement the Company did not communicate any of its secret processes to any other company or person.

The Company carried on its business in Burma through an agency, but in 1953 the Burmese Government evinced a desire itself to establish an industry there for the production of pharmaceutical and other products. In the face of great competition from other leading firms of manufacturing chemists in this country and from several continental firms, the Company secured the contract from the Burmese Government to assist in setting up the industry. This contract is contained in the agreement which is dated 20th October, 1953. It is in five parts and is annexed to the Case Stated, and its relevant provisions are fully summarised in paragraphs 6 to 10 thereof. I do not propose therefore to read any part of it except the recitals, which are not set out in the Case Stated but which I think are important. They are as follows:

> " Whereas: (1) The Government of the Union of Burma propose to build in Burma a factory and laboratories (hereinafter together referred to as 'the factory') for the purpose of establishing an industry there for the production of pharmaceutical and other products (2) Evans Medical has developed and owns processes formulae and knowledge relating to the manufacture of pharmaceutical products and to the use of machinery plant appliances and devices used in such manufacture (3) For facilitating the building and running of such factory Evans Medical propose to supply the Government of the Union of Burma with information and to organise the factory in the manner hereinafter mentioned ".

(Upjohn, J.)

Part I of the agreement sets out the obligations of the Company in consideration of the payment to the Company of "the capital sum of £100,000". The use of the word "capital" is of little import in such an agreement;

> "[it] is a mere label attached to the [£100,000] with an eye, no doubt, to tax considerations"

(see Lord Greene, M.R., in *Rustproof Metal Window Co., Ltd.* v. *Commissioners of Inland Revenue*, 29 T.C. 243, at page 271). It was suggested, though faintly, that the agreement did not provide for the disposal to the Burmese Government of the Company's secret processes and it was said that "know-how" was not appropriate to describe a secret process. True, Lord Evershed, M.R., in *Stevenson Jordan and Harrison, Ltd.* v. *Macdonald and Evans*, [1952] 1 T.L.R. 101, at page 104, said:

> "'Know-how' seems to me to indicate something essentially different from secret and confidential information. It indicates the way in which a skilled man does his job, and is an expression of his individual skill and experience."

But the word "know-how" is a modern and very useful colloquial expression of no precise meaning and, when used in the agreement in the context of the recitals and not in relation to the expertise of an individual workman, is very apt and appropriate to include the Company's knowledge of processes of preparation, packing and preservation of their products, especially having regard to the importance of such matters in tropical countries.

Two questions arise. The first logically is whether apart altogether from the true construction of the agreement the receipt of the £100,000 falls to be brought in as a trading receipt as part of the Company's annual profits or gains from any trade carried on by it whether in the United Kingdom or elsewhere. Secondly, whether even if the Company is not carrying on such a trade the receipt is upon the true construction of the agreement capital or income.

Upon the first question, Sir Frank Soskice, for the Crown, concedes that to come within the Section you must find not only a receipt as a result of a trading operation, but it must be a profit arising from the carrying on of a trade. Upon that matter he has a conclusion of the Special Commissioners in his favour in these terms:

> "We also rejected the Company's alternative contention that the said sum did not arise to the Company as a receipt of its trade as wholesale druggists because it had never previously entered into such an agreement. On the contrary, we held that the Company had, on the evidence in this case, chosen the method which appeared to its directors to be the best means of exploiting its business as wholesale druggists in Burma, such method being in our opinion clearly within the powers taken by the Company in its memorandum of association. We therefore held that the said sum of £100,000 arose to the Company either in the course of the trade which it had hitherto carried on or in the course of a new trade which it commenced to carry on on 20th October, 1953, and that in either event the said sum was properly included in the computation for Income Tax purposes of the Company's profits as wholesale druggists for the said year 1954-55."

Had there been any evidence that the Company was starting a new trade in the sense that it was going to exploit its secret processes by disclosing them to chosen instruments in other countries, that would be a very different matter, but there was no finding of fact in paragraphs 3 to 12 of the Case Stated (where the facts are set out) that any such new trade began on 20th October, 1953, and Sir Frank rightly abandoned any reliance upon a new trade. Further, he very properly told me that the Commissioners were in error in stating in paragraph 14 (iv) that the Crown ever suggested there was a new

trade. Apparently, all that the representative of the Crown suggested was that when the Company entered into the agreement it extended an existing trade, which he (Sir Frank) concedes carried the matter no further. I would also point out that a finding that the receipt of the sum was " in the course of the trade ", to use the Commissioners' own language, does not carry the matter home, but I will assume that the Commissioners intended to mean that the said receipt was a trading receipt in the course of carrying on the trade.

I was referred to three cases on this point: *Californian Copper Syndicate* v. *Harris*(1), *Rees Roturbo Development Syndicate, Ltd.* v. *Ducker*(2) and *Green* v. *J. Gliksten & Son, Ltd.*(3); but the question is essentially a question of fact, and those cases do not really assist me on the facts of this case. For myself, I do not see how the receipt of £100,000 under the agreement can be said to be part of the profits or gains of the Company in their trade of wholesale druggists. With all respect to the Special Commissioners, the Company was not " exploiting " its business in the only sense in which that word is relevant, that is, of carrying on its trade of wholesale druggists in Burma, but in and by the agreement it entered into the entirely new activity of acting as adviser of the Burmese Government by assisting to set up a completely new industry there which involved the disclosure to the Government of secrets never disclosed to anyone before, and also involved the gradual cessation of its own wholesale trading activities there, for it was found as a fact that

> " The Company's Burmese agency will become progressively less important as the Government factory in Burma comes into production."

I am content to rest my judgment on this part of the case by saying that, in my view, there was no evidence to support the Commissioners' determination or, in Lord Radcliffe's words(4),

> " the true and only reasonable conclusion contradicts the determination."

I turn then to the second question, namely, assuming the transaction carried out by the agreement not to be a transaction giving rise *per se* to a trading receipt, ought the receipt of £100,000 to be regarded as a receipt for the purposes of Income Tax of an income nature or of a capital nature?

I was referred to many cases on the point, but most of them are only illustrations of the broad principles laid down by Lord Greene, M.R., in *Nethersole* v. *Withers*, 28 T.C. 501. In that case Miss Nethersole, a celebrated actress, had obtained from the late Mr. Rudyard Kipling the right to dramatise his book " The Light that Failed ". She was found as a fact not to be carrying on a profession or vocation in respect of dramatic and film rights of that book, and the question was whether a lump sum payment that she received in respect of the assignment to a film company of the sole sound and film rights for a period of ten years was capital or income for tax purposes. Lord Greene, M.R., after reviewing *Constantinesco* v. *Rex*(5), and *Desoutter Bros., Ltd.* v. *J. E. Hanger & Co., Ltd.*(6), and *Commissioners of Inland Revenue* v. *British Salmson Aero Engines, Ltd.*(7), said (at page 512) in reference to the last-mentioned case:

> " This decision is a clear authority, so far as this Court is concerned, that a lump sum payment received for the grant of a patent licence for a term of years may be a capital and not a revenue receipt; whether or not it is so must depend on any particular facts which, in the particular case, may throw light upon its real character, including, of course, the terms of

(1) 5 T.C. 159. (2) 13 T.C. 366. (3) 14 T.C. 364.
(4) *See* Edwards *v.* Bairstow, 36 T.C. 207, at p. 229.
(5) 11 T.C. 730. (6) [1936] 1 All E.R. 535. (7) 22 T.C. 29.

(Upjohn, J.)

the agreement under which the licence is granted. If the lump sum is arrived at by reference to some anticipated quantum of user it will, we think, normally be income in the hands of the recipient. If it is not, and if there is nothing else in the case which points to an income character, it must, in our opinion, be regarded as capital. This distinction is in some respects analogous to the familiar and perhaps equally fine distinction between payments of a purchase price by instalments and payment of a purchase price by way of an annuity over a period of years.

In the present case, whether the agreement operates (as we think) as an assignment, or as a licence, the result is, in our opinion, the same. But, as we have indicated, there are other circumstances which in any event make it impossible to regard this sum as a revenue receipt. In addition to the assignment or licence, whichever it may be, the agreement operates as a partial realisation by Miss Nethersole of her capital asset, viz., the copyright in the play. She confers rights upon the company which, as we have pointed out, cannot, if exercised, fail to affect injuriously the value of her copyright. Any consideration referable to this could not, we think, in any view be anything but capital. It is obviously impossible to split the sum received, and the Crown cannot in any event point to any part of that sum as being revenue."

That case went to the House of Lords, where Lord Simon said(1):

"The judgment of the Master of the Rolls in the present case seems to me to summarise very accurately the effect of the earlier decisions, and I would in particular adopt his observation that 'a lump sum payment received for the grant of a patent licence for a term of years may be a capital and not a revenue receipt; whether or not it is so must depend on any particular facts which, in the particular case, may throw light upon its real character, including, of course, the terms of the agreement under which the licence is granted.'"

In the subsequent case of *Rustproof Metal Window Co., Ltd.* v. *Commissioners of Inland Revenue*(2), Lord Greene, M.R., quoted the passage I have already read down to the sentence which reads:

"If it is not, and if there is nothing else in the case which points to an income character, it must, in our opinion, be regarded as capital",

and added (at page 268):

"If I have any comment to make on this language it is that the concluding sentence possibly puts the point too high in favour of capital. It is, however, qualified by the crucial words 'if there is nothing else in the case which points to an income character'."

That was a clear case where the consideration was made in reference to the anticipated quantum of user, for it licensed the manufacture of 75,000 ammunition boxes and provided for repayment of part of the consideration if the contract was determined before the manufacture of the whole of them had been completed.

Now, those cases and the cases to which Lord Greene, M.R., referred were cases of patents or copyrights, continuing rights protected against all the world in territories where the patent or copyright ran, and I do not forget Lord Porter's solemn warning in the *Nethersole* case(3) that copyright occupies a position and character of its own dependent on the Copyright Act. Nevertheless, secret processes bear a marked analogy to patent rights and copyright. In *Handley Page* v. *Butterworth*, 19 T.C. 328, at page 359, Romer, L.J., pointed out that a patentee has a monopoly which is a capital asset in his hands and he can prevent others from utilising it; he can exploit it in a variety of ways: by exercising the invention himself, by granting licences in consideration of royalty payments which will be taxable notwithstanding that the capital asset is yearly diminishing in value, or by selling it or surrendering it. The learned Lord Justice continued:

"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,

(1) 28 T.C., at p. 518. (2) 29 T.C. 243. (3) 28 T.C. 501.

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 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."

Sir Frank Soskice conceded that the authorities established that, if a grantor disposes of a capital asset in a monopoly or secret process for a lump sum consideration, that consideration will be a capital receipt. The same, he says, is true if the grantor grants an exclusive licence which precludes the grantor from himself exercising his monopoly or secret process in the area the subject-matter of the grant, but it is otherwise, he says, if the grantor grants either a non-exclusive licence or an exclusive licence which, however, permits the grantor to continue his own activities in the area. In those last-mentioned cases, he says, the grantor has not disposed of a capital asset and what he receives, even if it be a lump sum payment, is a revenue payment for a licence or services rendered. Further, he submitted that in order to support a payment as a capital payment, you must show some dissipation of an asset—see Lord Hanworth, M.R., in the *Handley Page* case, 19 T.C. 328, at page 357—and here, he said, you are not dissipating it, but exploiting it.

The propositions so propounded in relation to the grant of a non-exclusive licence, or an exclusive licence not excluding the grantor himself, seem to me to conflict with the statement of the law enunciated by Lord Greene, M.R., and, in particular, that part of his statement approved by Lord Simon, and also with the decision in *Desoutter Bros., Ltd.* v. *J. E. Hanger & Co., Ltd.*, [1936] 1 All E.R. 535, which was mentioned without any disapproval by Lord Greene, M.R., in the *Nethersole* case(1). In the *Desoutter* case, the grantor granted a licence to use a patented invention for five years in consideration of a lump sum payment payable by instalments. It was held that the payment was capital notwithstanding that the licence was not stated to be exclusive and there was no dissipation but rather exploitation of the patent.

I approach the consideration of this contract, therefore, in the light of the broad principles laid down by Lord Greene, M.R. The effect of the contract was this. The Company parted with its secret processes to the Burmese Government for ever, but upon the terms that the Government would not without the consent of the Company impart such information to another, such consent not to be unreasonably withheld. The Company remained at liberty to carry on its wholesale trade there, and, in legal theory, could no doubt have thereafter set up a competing factory in Burma. In addition, the Company was to supply technical data, drawings, designs and plans for the erection of a factory and of the installation of machinery appropriate and suitable for the manufacture of these known pharmaceutical products and for their processing by these secret processes. After the expiry of the contract (but not before) the Company was at liberty to impart its

(1) 28 T.C. 501.

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" know-how " in relation to these matters to others in Burma. In part II of the agreement, in consideration of an annual fee admittedly subject to tax, the Company undertook the training of personnel and also to act as purchasing agent of the Burmese Government.

The Commissioners' conclusions on this part of the case are set out in paragraph 15 (i) to (iii) and may be summarised in this way: (i) that each part of the agreement could not be considered separately, and that £100,000 was not paid simply for the sale or assignment to the Burmese Government of secret processes; (ii) that the Company had not sold or assigned any property; (iii) reading the agreement as a whole together, the agreement was one for the provision of services. These contentions were naturally supported by Sir Frank Soskice, who compared the services to be rendered by the Company to the services rendered by a barrister, an architect or an accountant, and he put in the forefront of his argument that this was no real sale by the Company of its secret processes but the provision of confidential information rather on the lines of *Exchange Telegraph Co., Ltd.* v. *Gregory & Co.*, [1896] 1 Q.B. 147.

In my judgment, the Commissioners have misunderstood and misconstrued the agreement. While the agreement must be read as a whole, the question to be asked is what, upon the proper construction of the agreement, was the *quid pro quo* for payment of the £100,000? I cannot see that it bears any relationship to the services rendered by a professional man in the course of carrying on his profession. I have already pointed out that the Company was not carrying on a trade in providing such services.

The Company was bound to provide its expert knowledge, its " know-how " in the manufacture of pharmaceutical products, in the erection of a suitable factory and the provision of proper machinery in order to enable the Burmese Government to set up a new industry once and for all in Burma; the recitals are all important. The Company was, in fact, parting for ever with its secret information in its methods of preparation, packing and preservation to the Burmese Government; that may not in law amount to an assignment of all its rights in Burma, for the Company in legal theory, though hardly in practical Burmese politics, remained at liberty to use the processes itself in Burma. Of course, it also remained at liberty to carry on its business of wholesale druggists there by selling its products made in this country, in Burma, through its usual agents. But it was parting for ever with part of a valuable asset, and was doing so to enable an entirely new and competing industry to be set up there. That industry, established by the skill and " know-how " of the Company, could embark on an export trade which could compete with the Company's own products in other countries. In that sense the Company was dissipating its asset, and it must be remembered that a secret process once communicated to another is in jeopardy; if it gets into the wrong hands, the grantor has no protection. Even if it be a necessary ingredient to support a capital payment to show some dissipation of a capital asset (which, in my judgment, it is not), that element seems to me to be present here.

Bearing all these considerations in mind, I reach the conclusion that, upon the true construction of the agreement viewed in the light of the facts of this particular case, the payment of £100,000 is what it is described to be, a capital payment. I allow the appeal. The matter must be remitted to the Commissioners to adjust figures on that footing.

The Crown must pay the costs of the appeal.

Mr. John Senter.—If your Lordship pleases.

The Crown having appealed against the above decision, the case came before the Court of Appeal (Lord Evershed, M.R., and Birkett and Romer, L.JJ.), on 27th, 28th, 29th and 30th November, and 3rd and 4th December, 1956, when judgment was reserved. On 13th December, 1956, the Court decided unanimously that the case should be remitted to the Special Commissioners to apportion the sum in question between consideration for the disclosure of secret processes and other matters. The Crown was awarded half its costs in the Court of Appeal and discharged from paying the Company's costs below.

Sir Frank Soskice, Q.C., and Sir Reginald Hills (Mr. Montagu Temple with them) appeared as Counsel for the Crown, and Mr. John Senter, Q.C., and Mr. Anthony Barber for the Company.

Lord Evershed, M.R.—The question raised on this appeal is whether a sum of £100,000 paid to Evans Medical Supplies, Ltd. (whom I will hereafter call " the Company "), by the Government of Burma pursuant to an agreement dated 20th October, 1953, was rightly included in the Company's assessment for Income Tax for the year 1954–55 as part of the annual profits or gains arising to the Company from its trade during the year of assessment under Case I of Schedule D, now incorporated in Section 122 of the Income Tax Act, 1952.

The Case Stated shows that the Company's business, which took its rise in 1809, was in the year of assessment one of world-wide scope and renown and consisted of the manufacture and sale all over the world of pharmaceutical, medicinal, bacteriological and chemical preparations of all kinds. The Company itself was incorporated in the year 1925.

In 1953, it entered into the agreement of 20th October with a representative of the Government of Burma, out of which the present question has arisen. Paragraphs 4 and 5 of the Case Stated show that the Government of Burma, having determined on its own account to produce in Burma pharmaceutical and other products of the kind which the Company manufactured and which were then wholly imported into Burma from Europe, despatched a trade mission to negotiate with some European firm or company the terms on which the Government might be adequately advised and assisted in the establishment of local production in Burma. There was keen competition among firms and companies qualified for this privilege. The choice of the Burmese Government fell, however, in the end upon the Company, and the agreement of 20th October, 1953, records the bargain made by the Company with the Government of Burma.

The agreement begins by certain recitals, thus :

> "(1) The Government of the Union of Burma propose to build in Burma a factory and laboratories (hereinafter together referred to as 'the factory') for the purpose of establishing an industry there for the production of pharmaceutical and other products (2) Evans Medical has developed and owns processes formulae and knowledge relating to the manufacture of pharmaceutical products and to the use of machinery plant appliances and devices used in such manufacture (3) For facilitating the building and running of such factory Evans Medical propose to supply the Government of the Union of Burma with information and to organise the factory in the manner hereinafter mentioned".

The agreement is then divided into separate parts—I, II, III, IV and V—and it may be said that the second and third recitals relate particularly to parts I and II respectively. The first part, which I will read substantially in full, is as follows:

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> "In consideration of the payment to Evans Medical by the Government of the Union of Burma of the capital sum of £100,000 (one hundred thousand pounds sterling) payable in the United Kingdom free from any deduction whatsoever (A) Evans Medical will provide and make available to the Government of the Union of Burma all drawings designs and plans and technical and other data and 'know-how' necessary for the establishment erection and installation of the factory and the commencement of production thereat of the pharmaceutical and other products mentioned in the Schedule hereto (B) Evans Medical will supply to the Government of the Union of Burma designs and lay-out for the erection of plant including machinery and equipment and all other requisites and shall supply full data and specifications with drawings and instructions and all other information relating to the sources and manufacturers and suppliers of such machinery and equipment (C) Evans Medical will make available to the Government of the Union of Burma all information relating to the supply of prototype machinery and equipment . . . (D) Evans Medical hereby undertake that during the currency of this Agreement the facilities hereby agreed to be furnished to the Government of the Union of Burma under the preceding sub-clauses of this clause shall be exclusive to the said Government and shall not"

—that is, the facilities supplied by Evans Medical shall not—

> "during the currency hereof be furnished to any other person or corporation in Burma".

Part II is of greater length and consists of eight clauses, many of them subdivided. I shall not read them all. But under the first clause Evans Medical undertook to advise the Government about how to proceed with the building and operation of the factory, and also provided that they would act as purchasing agents for the purchase of the plant. Clause 2 put upon the Company an obligation to act as managers, and, according to clause 3, they therefore undertook to provide and train all the necessary staff, particularly to train Burmese nationals for the purpose. In clause 5 it is provided that

> "As remuneration for the services provided for in Part II of this Agreement the Government of the Union of Burma will pay to Evans Medical a fee in respect of each year of the continuance of this Agreement amounting"

to whichever should be the greater of two sums, 5 per cent. of the value of the products produced at the factory or £25,000 sterling. There were further provisions as to that payment. In clause 6 was a provision for repaying disbursements. The rest of part II I can, I think, for present purposes pass over.

Part III consists of one single sentence:

> "With the exception of Part I of this Agreement"

—that is the first obligation to give advice and all the rest of it—

> "this Agreement shall apply to alcohol and medicinal yeast".

Part IV states the term of the agreement, and it will be recalled that in paragraph (D) of part I the obligations as to non-disclosure to anyone else in Burma were expressed to be for the currency of the agreement.

> "The period during which this Agreement shall remain in force shall be seven years from the date hereof but this Agreement may be renewed on the same or similar terms",

and it is said that the parties should consider renewal by a certain date. Clause 2 provides:

> "Subject as hereinafter mentioned the Government of the Union of Burma will not without the written consent of Evans Medical export to any other country any of the goods manufactured in accordance with the provisions of this Agreement";

and there were provisos which qualified, to some extent not material for present purposes, that obligation.

Part V contained two provisions.

> "1. The Government of the Union of Burma will not divulge to any other Government person body or corporation such information as is conveyed to them by Evans Medical under the provisions of this Agreement without the written consent of Evans Medical which consent is not to be unreasonably withheld".

The last provision was more an aspiration than a bargain:

> "It is the desire and intention of the parties to this Agreement to enter into similar agreements in respect of other pharmaceutical and similar products as may be mutually agreed from time to time".

The schedule, which had been referred to, as will be recalled, in part I, contained under five heads various types of pharmaceutical, medicinal, bacteriological, chemical and similar products. The first was "Human and Veterinary Antitoxins Sera and Vaccines Toxins and Toxoids". The second was "Vaccine Lymph", and the third, fourth and fifth were other types of products. I have mentioned, however, specifically (A) and (B) for reasons which will later appear.

I have recited the terms of the agreement at length, since one of the complaints made by the Company of the determination of the Special Commissioners is that it proceeded upon an erroneous interpretation of the agreement, in so far as the Commissioners declined to treat the consideration moving from the Company in return for the payment of £100,000 provided by part I as limited by the terms of part I itself.

In the first three sub-paragraphs of paragraph 15 of the Case, it is stated in this way:

> "We, the Commissioners who heard this appeal: (i) Held that it was not possible, on the evidence set out in paragraphs 3 to 12 above, to consider each part of the agreement of 20th October, 1953, separately. While the factory was in course of erection, while the training of staff was proceeding . . . payments, which the Company admitted to be of an income nature, were being made, and we were unable to take the view that the said sum of £100,000 was paid simply for the sale or assignment to the Burmese Government of secret processes analogous to patents. (ii) Even if the view were taken that the main part of the consideration of £100,000 was received for imparting these secret processes to the Burmese Government, we were still of opinion that the Company had not sold or assigned any property. For example, other British and continental firms admittedly had the knowledge and did prepare anti-toxins, and the Company, after the signing of the agreement as much as before, was still in a position to prepare such products according to the formulae and methods which it had perfected, which remained secret, except to the extent that some of them had been imparted to the Burmese Government. (iii) Considering as we do that the whole agreement must be read together, we think that it is one for the provision of services. The provision by the Company under part I of the agreement of what, in clause (D) of that Part, are called 'facilities' is not in our opinion the sale or assignment of a capital asset in consideration of a capital price, nor is it the grant of a licence in consideration of a capital payment."

It is an obvious truism that as a general rule no part of any written document can be read or construed save in the relevant context provided by the document as a whole; and, to do them justice, I am not entirely clear that the Commissioners meant by the language I have read from paragraph 15 of the Case to do more than acknowledge the general rule. At the same time, I think it is true that the obligations which the Company undertook in return for the payment were confined to those specified in the four paragraphs lettered (A) to (D) of the agreement, and if the Commissioners intended otherwise, then they were wrong. Having said so much, I doubt whether the solution of the present problem is thereby much advanced. Part I of the agreement cannot on any view be considered in complete isolation from

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the rest of the agreement. To take one example, the duration of the obligations imposed in paragraph (D) involves a necessary reference to part IV. Broadly speaking, it may fairly and justly be said that the obligations undertaken by the Company in part I were obligations not merely to impart secret formulae, but were obligations to give to the Burmese Government the necessary instructions, information and advice to enable the Government to erect and establish the local factory capable of producing thenceforward the required supply of pharmaceutical and other articles. By way of contrast, part II imposed on the Company an obligation for a specified period to manage the production business, when started, and for that purpose to train the necessary Burmese personnel, and in the meantime to provide trained personnel themselves. For the former obligation, the single sum of £100,000 was to be paid by the Burmese Government; for the latter, an annual sum of not less than £25,000, from the date of the agreement. Put as briefly as possible—and this is the substance of the Company's case—the payment of £100,000 was a single lump sum payment, the price which the Government of Burma agreed to pay in order to be given the necessary information so as to be put in the required position to enable them to set up in Burma the means of production of the required pharmaceutical and other articles.

But, in my judgment, this analysis of the agreement does not in the end much advance the solution of the questions which have to be determined. These are stated by the Judge thus: first, whether the transaction recorded in the agreement fell within the scope of the Company's business as it was carried out at the time the agreement was made; and second, whether, if it did, nevertheless the sum of £100,000 ought in the Company's hands to be treated as capital and not as income or as part of the annual profits or gains arising from the Company's trade. If either of these questions ought properly to be answered in the negative, then the Company is entitled to succeed on this appeal.

The learned Judge so answered both questions. As regards the first, the Commissioners undoubtedly, in my judgment, purported to give an affirmative answer, to find as a fact upon the evidence that the 1953 agreement, though of a special and unprecedented character imposed by special conditions dictated by Burmese Government policy, was none the less within the general scope of the Company's continuing and existing business operations—the means which the Company's board of directors chose as best adapted in the circumstances for the development of its business interests. The learned Judge, however, though of opinion that the question was one of fact exclusively, came to the conclusion that the determination of the Commissioners could not be supported(1).

> "I am content to rest my judgment on this part of the case by saying that, in my view, there was no evidence to support the Commissioners' determination or, in Lord Radcliffe's words, 'the true and only reasonable conclusion contradicts the determination.'"

Upon this matter, I am, with all respect to the learned Judge, unable to agree with him. Upon this question, as also upon the second, it seems to me that the difficulties of the learned Judge may have been increased by the suggestion originally put forward by or on behalf of the Crown that the transaction entered into with the Burmese Government constituted a new departure on the Company's part, an embarking by it upon a distinct trade or business different from that (sometimes in the Case called, though I venture to think inadequately, "wholesale druggists") in which the Company had

(1) *See* page 549 *ante*.

previously engaged. Had this been in truth the case, the Crown would plainly have been in difficulty in sustaining the claim for the inclusion of the £100,000 in the general sum of taxable profits arising from the Company's then trade for the taxable year in question. During the hearing before him, Upjohn, J., as we were informed, strongly pressed learned Counsel for the Crown upon this part of their contentions as recorded in paragraph 14 (iv) of the Case Stated, and the particular contention was ultimately abandoned before him by the Crown. It may be that this course of events in some degree influenced the Judge's conclusion. Agreeing with him, however, that the question is one "essentially of fact", I have found it impossible to accept his view that there was no evidence to support the Commissioners' determination.

The situation which in Burma faced this world-wide business was that, as a matter of policy, the Government of that country had determined to undertake locally themselves or through some Government agency the production of the pharmaceutical and other articles which had hitherto been imported into Burma from abroad. That being so, what, as a matter of business, was the Company to do? The evidence of the Company's chairman and managing director upon the matter (given, no doubt, in answer to questions put by one or other of the Commissioners but none the less reliable on that account) is recorded as follows in paragraph 11 of the Case:

> "In entering into the agreement, the Company chose the method of developing its business which seemed to its directors to be the best available in the circumstances."

This evidence is picked up, as it were, and repeated in the Commissioners' conclusions in paragraph 15 (iv) of the Case:

> "We also rejected the Company's alternative contention that the said sum did not arise to the Company as a receipt of its trade as wholesale druggists because it had never previously entered into such an agreement. On the contrary, we held that the Company had, on the evidence in this case, chosen the method which appeared to its directors to be the best means of exploiting its business as wholesale druggists in Burma, such method being in our opinion clearly within the powers taken by the Company in its memorandum of association."

Mr. Senter subjected this paragraph to considerable textual criticism. Thus, he said that the reference to the memorandum and articles indicated that the Commissioners had regarded the fact that what was done in October, 1953, was *intra vires* the Company's memorandum as being conclusive of the question of fact which they had to determine. I do not agree. It does not seem to me that the Commissioners were doing more than note (as Bankes, L.J., did in *British Dyestuffs Corporation (Blackley), Ltd.* v. *Commissioners of Inland Revenue*, 12 T.C. 586) that what was done was in fact within the scope of the Company's business powers.

Mr. Senter also strongly criticised the final sentence of paragraph 15 (iv), which reads as follows:

> "We therefore held that the said sum of £100,000 arose to the Company either in the course of the trade which it had hitherto carried on or in the course of a new trade which it commenced to carry on on 20th October, 1953, and that in either event the said sum was properly included in the computation for Income Tax purposes of the Company's profits as wholesale druggists for the said year 1954-55."

The sentence undoubtedly reflects the argument of the Crown that the agreement marked the adoption by the Company of a new and distinct trade, to which I have already referred. But, in my judgment, the sentence records the determination of liability—possibly not with entire accuracy in the circum-

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stances—which flowed from the finding of fact in the all-important sentence preceding it, which in turn echoed the clear finding, based on the evidence of the chairman and managing director, contained in paragraph 11 of the Case. I add a reference to a supplement issued by the directors to the Company's report and accounts for the year 1953, which was exhibit D. In that document occur the following observations:

> "Experience and technology, let us call it know-how, is becoming an increasingly important export commodity. Under-developed countries are no longer content to buy goods of the Western World, they want to make the goods themselves. So the West must be prepared to sell Know-How. . . . Some time ago the Burmese Government decided to set up a pharmaceutical industry to make Burma less dependent on outside supplies of necessary medical goods. It was no use, in Britain, to shed tears about the possible loss of future exports. Burma meant to have her new industry, and many Continental firms were willing and able to provide her with the means to do so. Evans Medical, with the approval of Her Majesty's Government, joined in the competition. On 20th October the agreement was signed".

Then it states what was the substance of the agreement. In my judgment, it cannot be doubted, with all respect to the learned Judge, that there was ample evidence to justify the Commissioners' conclusion of fact in paragraph 15 (iv) of the Case Stated.

The reference of Upjohn, J., to Lord Radcliffe in the passage from his judgment which I have read, was a reference to the noble Lord's speech in *Edwards* v. *Bairstow*, 36 T.C. 207 (at page 229). The question there was whether the purchase for resale by the taxpayer of certain spinning machinery and its later resale in parcels at a substantial profit constituted "an adventure in the nature of trade". The question had been answered negatively by the Special Commissioners, and this Court, affirming the decision of the Judge of first instance, had thought (in reliance upon certain earlier decisions) that the determination of the Special Commissioners ought not to be disturbed. The House of Lords, on the other hand, held that the question whether the facts, as found to have occurred, did or did not constitute "an adventure in the nature of trade" was, in truth, one of law, and that the facts found pointed irresistibly and inevitably to the result that they did.

I quite agree with Mr. Senter that the principle stated by Lord Radcliffe cannot be confined to the simple question whether particular deals constituted "an adventure in the nature of trade". Whatever the specific question is—whether particular facts fall or do not fall within some formula in the Statute—that question must ultimately depend upon a proper interpretation of the formula. No such question, however, here arises. The point here is whether what the Company did was done by it in the course of its trade then being carried on; and that question, as the Judge himself stated, is essentially one of fact and does not involve any question of interpretation of the terms of the Statute.

There remains the second question, namely, is the £100,000, though received in the course of trade generally, capital or income in the hands of the Company? The learned Judge answered, Yes. He said(1):

> "The effect of the contract was this. The Company parted with its secret processes to the Burmese Government for ever, but upon the terms that the Government would not without the consent of the Company impart such information to another, such consent not to be unreasonably withheld. The Company remained at liberty to carry on its wholesale trade there, and, in legal theory, could no doubt have thereafter set up a competing factory in Burma. In addition, the Company was to supply technical data, drawings, designs and plans for the erection of a factory and of the installation of

(1) *See* page 551 *ante*.

> machinery appropriate and suitable for the manufacture of these known pharmaceutical products and for their processing by these secret processes. After the expiry of the contract (but not before) the Company was at liberty to impart its 'know-how' in relation to these matters to others in Burma."

The learned Judge thought, and I agree with him, that for this purpose the recitals which I have already read (particularly the second recital) were important. As appears from the passage I have read, in his view the Company was "parting for ever" with an asset. So again he says[1]:

> "The Company was, in fact, parting for ever with its secret information in its methods of preparation, packing and preservation . . . it was parting for ever with part of a valuable asset, and was doing so to enable an entirely new and competing industry to be set up there. That industry, established by the skill and 'know-how' of the Company, could embark on an export trade which could compete with the Company's own products in other countries. In that sense the Company was dissipating its asset, and it must be remembered that a secret process once communicated to another is in jeopardy; if it gets into the wrong hands, the grantor has no protection."

In reference to that paragraph, it will however be recalled that the Burmese Government was under obligation (subject to certain qualifications) not to export the goods and information save with the consent of the Company. The Commissioners had taken a different view, as evidenced from paragraph 15 (ii) and (iii) of the Case already recited. In their opinion, part I amounted to no more than an obligation to provide services without any sale or assignment.

I have found this point one of considerable difficulty, but I take as my test the proposition stated by Bankes, L.J., in the *Dyestuffs* case, 12 T.C. 586, at page 596:

> "The real question is, looking at this matter, is the transaction in substance a parting by the Company, with part of its property for a purchase price, or is it a method of trading by which it acquires this particular sum of money as part of the profits and gains of that trade?"

On the side of the Crown it is said, first, that the obligations in part I and part II of the agreement are really of the same kind. They are, as the Commissioners describe them, obligations to provide services. Second, it is said that although there are references to secret processes in the argument and also in the learned Judge's judgment and in the Case, there is, save in the recital in part I, no mention in terms of such secret processes at all. Therefore, the disclosure of secret processes was merely incidental to the main obligation; and it does not follow, as Sir Reginald Hills pointed out, that a payment is not an income payment merely because some capital assets are thereby involved. Consequently, third, once it is agreed or held that the transaction was within the scope of the ordinary existing business of the Company, there is nothing amounting to a parting at all with a capital asset.

To my mind, these arguments are formidable. There is no evidence that the £100,000 was "paid for the Company's superiority" in this field of business. There are no grounds, as Sir Frank Soskice observed, for saying that any secret processes or knowledge were necessarily impaired; it may be that their value might be enhanced. In other words, on this argument, there is no capital asset involved, and, in any case, no parting with it.

On the other side, Mr. Senter has said that the secret processes were in fact extremely valuable assets, and that the obligation in part I was to give the benefit of them to the Burmese Government. In other words, says he, the sum paid by the Burmese Government was to put them in a position to

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[1] *See* page 552 *ante*.

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start up their work. An example was given in the course of the argument of a well-known beverage, made according to a secret formula. If the proprietors of that beverage agreed to disclose that formula to someone else, there is no doubt that that someone else would pay a very large price for it, and no doubt also, I should have thought, that the sum received by the proprietors would be capital in their hands.

It will be seen that the question of secret processes looms, therefore, very large, and I refer particularly to paragraph 10 (i) and (ii) of the Case Stated.

> "The schedule referred to, forming part of the said agreement . . ., specifies two main classes of biological products (A) and (B) and a number of pharmaceutical products enumerated under . . . (C), (D) and (E). All the products referred to are general types and do not include any of the Company's proprietary products. By far the most valuable from the Company's point of view were the secret processes involved in the preparation, storage and packaging of certain human and veterinary anti-toxins, sera and vaccines",

being products of the kind mentioned in paragraph (A) of the schedule.

> "(ii) The secret processes referred to in sub-paragraph (i) above have been evolved at great cost in several fields over a period of 50 years, and the Company considers that such secret processes are superior to those evolved by other companies. At least two other companies in the United Kingdom, and firms in Western Germany and Holland, have the necessary knowledge to prepare such products and do, in fact, prepare them. The Company has, however, over a number of years experimented and perfected its own methods of preparing and conserving these products and has never, until it entered into this agreement with the Burmese Government, communicated these methods to any other person or corporation."

We were referred to a very large number of cases. For the most part, they deal with such obvious subject-matters of property as patents or copyrights and show that a parting with some interest in these, even though limited, may be equivalent to parting with a capital asset, especially when supported by restrictive covenants. Lord Greene, M.R., said in *Nethersole* v. *Withers,* 28 T.C. 501, that the only principle to be extracted was that each case depended on its own circumstances, which, states the Master of the Rolls, "is not very helpful". Later, however, in his judgment in that case, he used these words, at page 512, after referring to *Commissioners of Inland Revenue* v. *British Salmson Aero Engines, Ltd.*[1]:

> "This decision is a clear authority, so far as this Court is concerned, that a lump sum payment received for the grant of a patent licence for a term of years may be a capital and not a revenue receipt; whether or not it is so must depend on any particular facts which, in the particular case, may throw light upon its real character, including, of course, the terms of the agreement under which the licence is granted. If the lump sum is arrived at by reference to some anticipated quantum of user it will, we think, normally be income in the hands of the recipient. If it is not, and if there is nothing else in the case which points to an income character, it must, in our opinion, be regarded as capital. This distinction is in some respects analogous to the familiar and perhaps equally fine distinction between payments of a purchase price by instalments and payment of a purchase price by way of an annuity over a period of years."

One case, however, is more directly in point, namely, *Handley Page* v. *Butterworth,* 19 T.C. 328. In that case, part of the payment received by the taxpayer was in respect of the disclosure by him of secret processes. The question arose, therefore, as it has arisen here, whether the disclosure could be regarded sensibly as in the nature of the sale of some asset or piece of property. In that connection, the late Lord Romer, when sitting as a member of this Court, said, at pages 359–60:

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(1) 22 T.C. 29.

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> "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 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."

I note, however, that in that case Mr. Handley Page had disclosed his secret processes to the world and had therefore destroyed the secret processes as such. Here the disclosure is only made to one person, and the substantial benefit of these processes still remains with the Company.

If the true view of the transaction is that the obligations under part I are, in substance, obligations to give advice and instruction for completing the factory and getting it ready to start production, and if communication of the secret knowledge and processes is but incidental, then it would appear to me, having regard to the answer which I have already given to question (1), that question (2) should likewise be answered in the same sense as it was answered by the Commissioners; that is, that no sale or disposition of a capital asset has been involved, but that the £100,000 was a fee for general services rendered in the course of business.

It was pointed out in support of this view that, as I have already recited, the obligations in part I, like those in part II, would endure over a period of time. It was also observed that the factory has not yet, in fact, been built; and Mr. Senter agreed, as I understood him, that the Company would have to disclose relevant information and "know-how" acquired at least up to the date when the factory was completed. Paragraph (D) of part I is in terms linked with the whole period of the agreement, and by those terms the Company undertakes not to furnish "facilities" to anyone else in Burma. In these respects, there is an obvious similarity between part I and part II. This is not a case of making once and for all and at one time disclosure of some secret formula or secret formulae, as in the suggested case of the beverage which I have mentioned. Moreover, there is undoubtedly some overlap between part I and part II—the obligation to

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give advice so as to enable the Government to proceed with the building of the factory in paragraph 1 (A) of part II is, so far as I can see, equally covered by part I (A).

If, therefore, the alternatives available to the Court were to decide the second question either wholly in favour of the Company or wholly in favour of the Crown, I should myself feel, on the evidence and the other material available, strongly inclined, if not compelled, with all respect to the learned Judge, to adopt the latter alternative. But I think these are not the only choices and that there is a middle course, having regard to the findings in paragraph 10 (i) and (ii) of the Case and to the law as it has been laid down in the *Handley Page* case(1). I am not satisfied that it would be just to conclude that the disclosure of the secret processes was merely incidental to the general obligations. In my judgment, the Company ought at least to have the opportunity of establishing that the disclosure of these processes was an important part of the obligation, and that to a substantial extent, at any rate, the sum of £100,000 ought (upon apportionment if necessary) to be attributable to this disclosure and, to that extent, to be treated as a capital receipt. For it is not, in my judgment, an answer to Mr. Senter's argument in this respect that the Company did not part with the information in the sense of making it over wholly to the other party so as to exclude the further use of it by the Company anywhere in the world. The cases on patents, for example *Margerison* v. *Tyresoles, Ltd.*, 25 T.C. 59, show that it is not a sufficient answer to a claim to treat money received as capital that only limited and non-exclusive rights were granted. In the example given of the beverage, it would be idle to say that the large price paid for disclosure was not capital because the proprietor still remained in possession of the secret himself, and still remained entitled to trade as before.

I would on the whole, therefore, refer the case back to the Commissioners to enquire and determine to what extent the £100,000 should be attributed to the transmission by the Company to the Burmese Government of their secret processes. This Court somewhat rarely refers back cases to the Commissioners for further findings; but, having regard to the terms of their existing findings (in paragraph 10 (i) particularly), I think this is a case in which justice requires that we should exercise that discretion. But the right to treat the £100,000 as capital must be limited to the extent to which it was referable to secret processes properly so-called; that is, to formulae or secret processes truly analogous to the subject-matter of letters patent, copyright and things of that kind. It would not, for example, include the sort of information recorded in the plans which were shown to us illustrating the way in which the Company would lay out the factory and dispose the apparatus therein. Plans and designs of that kind only represent, I think, the recorded fruit of practical manufacturing or operational experience.

The form of the Order may require to be considered so as to give the greatest possible help to the Commissioners and to the parties, and this can be discussed by Counsel after my brethren have delivered their judgments.

I would discharge the Order made by the learned Judge and substitute the Order which I have indicated in its place.

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(1) 19 T.C. 328.

Birkett, L.J.—I agree with the judgment of the Master of the Rolls, to which we have just listened, and I have had the opportunity of reading and considering in advance the judgment which is about to be delivered by Romer, L.J., and I agree with it. These two judgments, in my opinion, cover most adequately and most fully every aspect of this case, both of fact and of law, and I feel that any further judgment would savour, inevitably, of repetition. I am most anxious to avoid that, for no useful purpose is to be served by saying again what has been so well said before. Therefore, I am content in this appeal to express my full agreement with the judgment delivered by the Master of the Rolls and that about to be delivered by Romer, L.J.

Romer, L.J.—I respectfully agree with the Master of the Rolls, and for the reasons which he has stated, in the conclusion that there was evidence before the Special Commissioners upon which they could properly find that the sum of £100,000 now in question was received by the Respondent Company in the course of its trade. There is nothing that I desire to add upon that aspect of the case, and I propose to confine such observations as I have to make to the question whether the sum should, for purposes of taxation, be treated in the hands of the Company as income or as capital.

Upjohn, J., reversing the decision of the Commissioners, held that the £100,000 ought properly to be regarded as capital; and in so far as it represented consideration moving from the Burmese Government for the communication to them of the Company's secret processes (properly so called) I am in agreement with the learned Judge.

The Commissioners, in my judgment, approached this question on a misconstruction of the agreement of 20th October, 1953. Their relevant finding on the matter is stated in paragraph 15 (i) of the Case as follows:

> "We . . . Held that it was not possible on the evidence . . . to consider each part of the agreement . . . separately. While the factory was in course of erection, while the training of staff was proceeding and while plant and machinery were being obtained, payments, which the Company admitted to be of an income nature, were being made, and we were unable to take the view that the said sum of £100,000 was paid simply for the sale or assignment to the Burmese Government of secret processes analogous to patents."

It appears to me from this reasoning that the Commissioners were construing the agreement in the light of what was done under it, which is not, in my judgment, a permissible course to adopt. Whether they would have come to a different conclusion if they had construed the language of the document in the light only of admissible surrounding circumstances, I do not know.

It is, of course, quite true that regard must be had to a written instrument as a whole in order to ascertain the meaning of each and every part of it; and it would be permissible, and indeed, obligatory, to consider the whole of the 1953 agreement in inquiring, for example, as to the true nature of the activities into which the Company was entering and whether such activities did or did not constitute a new or different trade from that which it had carried on before. But where the Commissioners went wrong, as I think, was to alter a clear and specific provision in the agreement because of the general complexion which they attributed to the agreement as a whole. The document is divided into five parts. Under part I, the Company, in consideration of the payment to them of £100,000, undertook the obligations which were set forth in that part. Under part II, the Company undertook the further obligations therein mentioned and "as remuneration for the services provided for in part II" were to receive the annual payments provided for by paragraph 5 of that part. It appears to me that the parties

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to the agreement deliberately isolated the consideration payable to the Company under part I from that to which the Company would become entitled under part II. If the Company had fully discharged the obligations undertaken by it under the first part and the Burmese Government had then diverted away from the Company the obligations which it had agreed to discharge under the second part, it seems reasonably clear to me that the Company could have successfully sued for the £100,000. From this it follows, and is in my opinion the fact, that the £100,000 was solely referable to the promises given by the Company under part I of the agreement and none the less because there appears to be some degree of overlap between those promises and the services which it agreed to perform under part II. Accordingly, the only relevant investigation, for the purposes of this aspect of the matter, is as to what the Company had to do in order to earn the £100,000 as distinct from what it had to do before it could claim the annual remuneration.

It appears to me sufficiently clear that one of the obligations imposed upon and accepted by the Company under part I of the agreement was to communicate to the Burmese Government the "know-how" relating to its secret processes. The relevant recital in the agreement as to these is the second which, so far as is material, provides:

> "Evans Medical has developed and owns processes formulae and knowledge relating to the manufacture of pharmaceutical products".

Paragraph (A) of part I provides:

> "Evans Medical will provide and make available to the Government of the Union of Burma all . . . technical and other data and 'know-how' necessary for the . . . commencement of production thereat"

—that is, the factory which was to be built—

> "of the pharmaceutical and other products mentioned in the Schedule hereto".

This obligation is clearly linked up with, and was intended to implement, the second recital; and under it the Company bound itself to communicate to the Government the "processes formulae and knowledge" mentioned in that recital. That this is the effect of paragraph (A) of part I is, I think, plain, for the Government could not commence production of the scheduled products unless they knew how to make them; and some at least of such products were made under formulae, and in accordance with processes, which were secret. I therefore conclude that part, at all events, of the £100,000 which was to be paid to the Company was in respect of secret information as to pharmaceutical products which the Company was to impart to the Government.

That this information was of value sufficiently appears from certain findings of the Commissioners which are stated in the Case. By paragraph 4 the Commissioners, after referring to the Burmese Government's decision in 1953 to build a factory and laboratories for the purpose of establishing an industry for the production of pharmaceutical and other products, said:

> "Accordingly, the Burmese Government despatched a trade mission to Europe with a view to inducing some leading firm of manufacturing chemists to advise as to the erection of such a factory and the supply of equipment for manufacture, and to impart to them the processes, formulae and knowledge necessary to the production and manufacture of pharmaceutical products in Burma."

Then in paragraph 10 of the Case it is stated that all the products referred to in the schedule to the agreement

> "are general types and do not include any of the Company's proprietary products. By far the most valuable from the Company's point of view were the secret processes involved in the preparation, storage and packaging of certain

> human and veterinary anti-toxins, sera and vaccines. The secret processes referred to . . . have been evolved at great cost in several fields over a period of 50 years, and the Company considers that such secret processes are superior to those evolved by other companies. . . . The Company has, however, over a number of years experimented and perfected its own methods of preparing and conserving these products and has never, until it entered into this agreement with the Burmese Government, communicated these methods to any other person or corporation. . . . The secret processes consist in the actual methods of preparation of the products and also in the method of storing and packaging. . . . The processes . . . cannot be learned by the study of textbooks."

Notwithstanding these findings the Commissioners decided that the whole of the £100,000 in question ought properly to be regarded as taxable profits of the Company's trade. They did so for two reasons. First, they thought that the whole agreement must be read together; and finding that, so read, it was an agreement for the provision by the Company of services, they declined to regard the £100,000 as referable only to the obligations which the Company assumed under part I. In this they were, in my judgment, as I have already said, mistaken. But secondly they held that

> "Even if the view were taken that the main part of the consideration of £100,000 was received by the Company for imparting these secret processes to the Burmese Government, we were still of opinion that the Company had not sold or assigned any property. . . . The provision by the Company under part I of the agreement of what, in clause (D) of that part, are called 'facilities' is not in our opinion the sale or assignment of a capital asset in consideration of a capital price, nor is it the grant of a licence in consideration of a capital payment."

Upjohn, J., took a different view. After pointing out that the Commissioners had misconstrued the agreement in the manner which I have already indicated, he said[1] that the Company

> "was parting for ever with part of a valuable asset, and was doing so to enable an entirely new and competing industry to be set up there. That industry, established by the skill and 'know-how' of the Company, could embark on an export trade which could compete with the Company's own products in other countries. In that sense the Company was dissipating its asset and it must be remembered that a secret process once communicated to another is in jeopardy; if it gets into the wrong hands, the grantor has no protection."

I find myself in complete agreement with this analysis of the position.

As to the decision of the Commissioners, they were, I think, in strictness correct in saying that the Company had not "sold or assigned any property". The Company had not sold or assigned anything. What it did was to share commercial information which was known only to itself, information as to secret processes. In my judgment, however, it was not open to the Commissioners, in view of the decision of this Court in *Handley Page* v. *Butterworth*, 19 T.C. 328, to hold that the secret processes which the Company owned were not "property". In referring in that case to certain designs which the well-known aircraft designer Mr. Frederick Handley Page had worked out, but which were not capable of being registered or of being the subject of letters patent, Slesser, L.J., said (at pages 358–9):

> ". . . what was his property? His property was the knowledge which he had acquired of the methods of constructing these machines. . . . His property was his secret process and his knowledge".

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[1] *See* page 552 *ante*.

(Romer, L.J.)

Romer, L.J., said (at page 359):

> "The owner of a secret process . . . 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".

The position, then, is in my opinion that at the date of the agreement the Company was in possession of certain secret knowledge relating to pharmaceutical products; that that knowledge constituted property of a capital nature; that under the agreement it bound itself to communicate that knowledge to the Burmese Government; and that the obligation which the Company so incurred constituted a part, at least, of the consideration for which the Company was to receive £100,000. Why, then, should that part of this sum which was properly referable to the imparting by the Company of its secret processes be regarded as taxable income? The answer of the Crown is that the Company did not part with any capital asset and that the knowledge of the secret processes which the Company had is still vested in it; that the Company could still continue to exploit this knowledge for its own commercial purposes and that there was nothing in the agreement to prevent it from doing so or from carrying on its operations in Burma or elsewhere in the same way as it had been doing before; and that consequently there was no justification for the view that the value of the secret processes to the Company had been in any way impaired by the communication of those processes to the Burmese Government.

This appears to me to be an unrealistic way of regarding the position. The value of the processes to the Company lay in the fact that they were secret; and those in question ceased to be secret from the moment when they were communicated to the Burmese Government. True it is that by part V of the agreement the Government pledged itself not to divulge the information to anyone else without the Company's consent; but they became possessed of the information themselves and they would possess it for ever. When, in addition to this, it is realised that the Government wanted the information in order to inaugurate and carry on the manufacture and sale in Burma of products in which the Company had hitherto enjoyed a factual monopoly, I cannot doubt but that the imparting of the information diminished the value to the Company of its secret processes. What then is the result?

> ". . . . if the property",

said Lord Greene, M.R., in *Nethersole* v. *Withers*, 28 T.C. 501, at page 511,

> "is permanently diminished or injuriously affected, it means that the owner has to that extent realised part of the capital of his property as distinct from merely exploiting its income-producing character."

Lord Greene was there speaking of copyright, but in my opinion exactly the same principle applies in the case of secret processes.

> ". . . supposing",

said Romer, L.J., in *Handley Page* v. *Butterworth*[1],

> "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."

The difference between sharing a secret process with the world and sharing it with only one organisation is undoubtedly a difference in degree, but

(1) 19 T.C. 328, at p. 360.

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it cannot be regarded as a difference in kind; in the former case a capital asset is destroyed, whilst in the latter case its value is, in Lord Greene's words, " permanently diminished or injuriously affected ".

Upjohn, J., treated the whole of the £100,000 as being attributable to the impairment of the value of the Company's secret processes. This, I think, is unduly favourable to the Company, for the subject-matter of part I of the agreement extended also to such things as drawings, designs and plans and information relating to the supply of prototype machinery, etc., none of which, so far as I can see, is analogous to secret processes, though we have no detailed information about them. It may be, as Sir Frank Soskice suggested in an alternative submission, that the diminution in value of the Company's secret processes resulting from the agreement is not great having regard to the world-wide activities of the Company. This may or may not be so; as, however, on the true construction of the agreement, some part at least of the £100,000 related to the imparting of information as to the secret processes, that part, in my judgment, reflects the diminution in value of a capital asset of the Company and is accordingly not subject to tax. The case should therefore be remitted to the Commissioners so as to afford to the Company an opportunity of proving what proportion of the £100,000 should be treated, having regard to all the relevant circumstances, as referable to the secret processes which were imparted to the Government; and that part, when ascertained, should be deducted from the assessment which has been made upon the Company.

Lord Evershed, M.R.—The form of Order which was suggested is that we refer it back to the Commissioners in order that they should say to what extent the £100,000 is referable to secret processes—that is, formulae or other material truly analogous. The first question is whether that is sufficient direction. Mr. Senter, I hope we have made it clear to you, at any rate, what we want to exclude: we do not agree with you about these plans.

Mr. John Senter.—I fully appreciate that. May I address the Court shortly on this point? I think there is no difficulty at all as regards the exclusion. That is perfectly clear. Your Lordships do not think that plans, information as to suppliers, or anything of that kind is of a capital character.

Lord Evershed, M.R.—The secret processes are.

Mr. Senter.—The secret processes are. The only point which I conceive might cause difficulty on a further hearing before the Special Commissioners is whether your Lordship means " analogous to patents " as in the *Handley Page* case[1].

Lord Evershed, M.R.—I do not mean necessarily that they would be patentable. Lord Romer's phrase was " truly analogous ".

Mr. Senter.—Yes, my Lord.

Romer, L.J.—What is bothering me is whether the Commissioners have the technical experience to decide matters of that kind. They are well versed in tax matters, but not in patent law.

Mr. Senter.—They have to deal with things like stud farms and all kinds of unfamiliar subjects on occasions.

Lord Evershed, M.R.—They rely upon the assistance of the Bar.

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(1) 19 T.C. 328.

Mr. Senter.—They would have to. My Lord, if I may mention another thing to which the Crown always attaches importance—I ought to say this in fairness to my learned friend—this is a case in which effect cannot be given to the direction in your Lordships' judgments without hearing evidence on the question of value.

Birkett, L.J.—Or on the question of what is a secret process. I can imagine endless controversy. You may say, this is our process for making aspirin. The Crown may say, ten firms make it the same way.

Mr. Senter.—I think on that part of the case the Commissioners had sufficient grasp of the material before them to know what they have to deal with, with your Lordships' guidance.

Lord Evershed, M.R.—In a way, I think to some extent we are passing the thing to you. I thought you ought to have a proper chance of saying you should at least attribute some of the £100,000—it may be the whole of it—to what was the subject-matter properly described as a secret process——

Romer, L.J.—I do not think anyone can define it more closely than that.

Mr. Senter.—I do not think so. I think the context is there, with your Lordships' guidance as to what they ought to do.

Lord Evershed, M.R.—As he was not in the case, it may be a little unfair on Mr. Temple to have to deal with this. Mr. Senter, when you have seen our judgments, would you consider it with Sir Frank—or Mr. Barber with Sir Reginald—and if there is any question on the form of the Order perhaps you could mention it, but it must be done this Term. This is an absolute categorical command; after this Term we shall say we have never heard of the case.

Mr. Senter.—Your Lordships are fortunate in that! I have checked my recollection of what happened in *Leeming* v. *Jones*(1) which, your Lordships will remember, came up largely in the *Bairstow* case(2). That was the first case where there was a remission by Rowlatt, J., to find whether or not there was a concern in the nature of trade. That came back to his Court, and I apprehend the proper course——

Lord Evershed, M.R.—What would be the course? It is now remitted to the Special Commissioners. Would it come back here, or to the Judge?

Mr. Senter.—I have had a word with my learned friend, Mr. King, who is so much more experienced in these matters than I, and he confirms what I thought; it would go to the Commissioners with your Lordships' Order embodying this direction, and then it would come back to this Court.

Mr. Montagu Temple.—My Lord, I am not sure what is the correct request I should make to you with regard to reserving the right of appeal to the House of Lords.

Lord Evershed, M.R.—We will come to that in a moment; I was not forgetting it. What we have to have in mind is how the Order will be drawn up, because presumably the Order will have to say what happens after it has been back. It may not go back; the thing may go to the House of Lords and become academic.

Mr. Temple.—I am sure the Crown is grateful for your suggestion that there should be time for considering that, especially as my colleague, Sir Reginald Hills, is not here.

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(1) 15 T.C. 333. (2) 36 T.C. 207.

Lord Evershed, M.R.—You will have to inform Sir Reginald of the stern nature of what I said about mentioning it this Term. What is put to me, which rather appeals to me, is this : If you go back to the Special Commissioners, they will find more facts. If either of you are dissatisfied, you will ask them to state a Case.

Mr. Senter.—They would in any case.

Lord Evershed, M.R.—Then the next move would be to go to the Revenue Court, surely.

Mr. Senter.—If they said, in the light of your Lordships' direction, that they recognise that £X was of a capital character and they reduced the assessment accordingly, all that would need to be done would be to bring that to the Court of Appeal so that that assessment should become final.

Romer, L.J.—The Commissioners have made an assessment, have they not, and you say that assessment was £100,000 too much. Supposing it goes back to the Commissioners : they hear it and they attribute £75,000 to secret processes (that is a hypothetical figure), why not reduce the assessment by £75,000 and leave it at that, and if either side wants it, they can state a Case. But, subject to that, surely that would be the end of the matter.

Lord Evershed, M.R.—It is conceivable that the Commissioners would say: We think £30,000 ought to be attributable to capital, for the following reasons ; and the reasons would, on the face of them, be wrong in law. You or the Crown would say: State a Case ; and go back to the Judge.

Mr. Senter.—You are directing the Special Commissioners to revise the assessment in accordance with the terms of your Lordships' judgments.

Lord Evershed, M.R.—I think perhaps Counsel had better consider it. My own inclination would be to think that, having remitted it to the Special Commissioners, we should say nothing more, and reserve liberty to apply, if you like ; and the next step to be taken might depend on what they said. Perhaps you would consider that with Sir Frank—or Mr. Barber with Sir Reginald. I am rather encouraged by what you have said, that the general formula based on the *Handley Page* decision[1] would suffice and provide a sufficient general guide. You cannot be too precise. There has to be a commonsense view in the end ; it is almost a jury question.

Mr. Senter.—Yes, my Lord.

Lord Evershed, M.R.—If that is right, then Mr. Temple is going to raise the question of appeal to the House of Lords. I should have thought this was a case where we ought to give leave to appeal against this Order, but no one is quite sure at the moment who has won.

Mr. Senter : Would your Lordship deal with the question of costs in this Court? I think I am entitled to them now.

Lord Evershed, M.R.—You are entitled to the costs in this Court, are you?

Mr. Senter.—Yes, my Lord.

Lord Evershed, M.R.—I should think the Crown is entitled to costs in this Court. They have had the Judge's Order set aside.

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(1) 19 T.C. 328.

Mr. Senter.—Have I not successfully sustained the position against the view of the Commissioners that this is a capital receipt?

Lord Evershed, M.R.—You put the argument, Mr. Senter, as to costs here and below, and, if Mr. Temple would like to deal with it, well and good, but if he would rather adjourn it until Sir Reginald comes, I am quite content. What do you say?

Mr. Senter.—Very shortly, the argument is this. I was faced with a decision of the Special Commissioners——

Lord Evershed, M.R.—Not here. You came here as Respondent to this appeal, with the judgment in your favour.

Mr. Senter.—Yes, my Lord; but on two distinct grounds the learned Judge and your Lordships have held that the Special Commissioners, in the learned Judge's words(1), " misunderstood and misconstrued the agreement." Now, my Lord, as I understand the basis of your Lordship's judgment and that of my Lord, Romer, L.J., your Lordships agree on that part of the reasoning of the learned Judge, but go on to say that the learned Judge did not consider the break-up of the £100,000. With the greatest possible respect to the doubt which your Lordship has indicated, this is surely a retention of the learned Judge's decision on that part of the case, and merely a question as to quantum.

Romer, L.J.—It may be that you will get very little of the £100,000.

Lord Evershed, M.R.—The test we sometimes apply is, was the appellant justified in coming to the Court of Appeal? He was faced with a decision against him which entirely acquitted you from tax. He has that set aside, but it has been remitted to the Special Commissioners to find what if any part of the £100,000 ought to be attributed to capital. I should think you have a very poor case for asking for very much. However, that is your point.

Mr. Senter.—If I may say so, with great respect, I had expected that your Lordships would regard this as substantially in favour of the Company.

Lord Evershed, M.R.—Well, I am sorry to make you go away sadly. It is one of those cases where both parties should go away feeling they have had a good day.

Mr. Senter.—There were two points in the case, and although your Lordship in particular has been adverse to the argument I advanced on that point, which I frankly admit to the Court, your Lordship regards the second point as being of itself sufficient to say, No.

Lord Evershed, M.R.—I cannot see anything in the Case. Did the Special Commissioners make any award as to costs?

Mr. Senter.—They cannot, my Lord.

Lord Evershed, M.R.—I thought not. The Crown was ordered to pay your costs below?

Mr. Senter.—Yes.

Lord Evershed, M.R.—This is not a case in which we can throw upon the Special Commissioners any jurisdiction to award costs. It is impossible. Supposing you eventually came out with flying colours and the whole £100,000; you might say that you ought really to have all the costs everywhere. If, on the other hand, you get nothing, the Crown ought to have all the costs everywhere; and we have to try and do the best we can.

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(1) *See* page 552 *ante*.

Mr. Senter.—It is awfully difficult to reserve this.

Lord Evershed, M.R.—You mean give you liberty to come back here on the matter of costs?

Birkett, L.J.—The real trouble is that you contended that this £100,000 was a capital payment. The Crown said this £100,000 is not a capital payment, but an income payment. The decision of this Court is partly capital and partly income, depending upon how much is decided by the Special Commissioners. That is the situation.

Mr. Senter.—Yes.

Lord Evershed, M.R.—It might conceivably be wholly one and none of the other—or the other way round.

Mr. Senter.—Your Lordships have taken a very important different view, if I may say so after merely hearing the judgments, from the learned Judge. The view of the learned Judge on the case, as I understand it (I do not want to re-open your Lordships' judgments in any way) was that it would be fatal to my clients if they had argued under either head. Your Lordships have taken a different view on that altogether.

Lord Evershed, M.R.—If we had thought that the consideration for the secret processes would be really incidental and relatively trivial, then I should have thought, speaking for myself, that we should not have sent it back; but, on the face of the findings so far, it does seem that the Commissioners who heard the evidence thought that to a real and substantial extent the essence did lie in the disposal of these processes. So, to that extent, you are of course——

Mr. Senter.—May I say that I am addressing the Court with precisely the same thought in mind, and that is why I had expected your Lordships would regard this as a decision in favour of the Company. I say the alternative would be liberty to apply to this Court after the remission—in other words, the remission to this Court of the question of costs, and leave them to be dealt with then.

Lord Evershed, M.R.—Well, Mr. Temple, would you rather we postponed this until Sir Reginald is here? I am not suggesting you would not be fully competent to deal with it, of course.

Mr. Temple.—I would like to say this. Whatever view is taken, it cannot be said that the Crown has lost the case in this Court, and the extent of its success would seem to depend upon what view the Special Commissioners take of the value of these secret processes. Up to the present, the Crown has had no opportunity, so I am instructed, of considering what value the Evans company put on these secret processes. It has had no opportunity at all, and therefore the whole matter will have to be considered, and it may be (the Crown will so argue, I feel sure) that the value in relation to the whole sum will be very small, in view of the general terms of the agreement. In that case, we should be substantially successful. But, on the other hand, they may decide it was more; so what I would like to suggest to your Lordship is that the question of costs should be reserved.

(The Court conferred.)

Lord Evershed, M.R.—Well, I have discussed this matter with my brethren. This is not said by way of criticism of anyone, but one has to remember this. It would not surprise me if it were years before this case

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was finally decided after going back to the Special Commissioners. I do not mean a great many years; but years. It is very difficult to come back; the Court may be differently constituted, and so forth. We have to try and do the best we can now. After all, there is a large sum involved. We think a fair result would be to award half the costs in this Court to the Crown, and no costs in the Court below. In any event, that is finished with.

Mr. Temple.—Might I have an opportunity of discussing this——

Lord Evershed, M.R.—You may take it that that is what we think we ought to do.

Mr. Temple.—I do not think I can object to that, my Lord.

Lord Evershed, M.R.—I do not think you can.

Mr. Senter.—The costs in the Court below remain undisturbed?

Lord Evershed, M.R.—No, neither side gets any costs below, and you pay half the costs of the Crown here. We think the Crown was well justified in coming to the Court of Appeal. So be it.

There remains the question of appeal to the House of Lords. It will follow, Mr. Senter, in remitting it back—we make no conditions—that there will be power to call such evidence as is thought proper.

Mr. Senter.—I am sure Mr. Temple will agree that that ought to be in the Order. It has given rise to a good deal of debate.

Lord Evershed, M.R.—Very well; we will put that in.

Mr. Senter.—Power to hear further evidence on that point.

Lord Evershed, M.R.—And there will be general liberty to apply to this Court, subject to you and Counsel for the Crown agreeing some other form of Order; but we do not attempt to state in the Order what might happen or would happen after the Commissioners have heard the thing again. I do venture to suggest that the right procedure might depend on the form of the Commissioners' findings.

Mr. Senter.—Yes, my Lord. I ought to mention to your Lordship that I have found the case which my learned friend, Mr. King, mentioned to me—one of the few remissions in the Court of Appeal—but there is no record of the debate in the original hearing; there is merely a remission to the Commissioners, and then a report of the case before the Court of Appeal. Evidently it came straight back.

Lord Evershed, M.R.—If we simply referred it to them to consider and find the answer to a certain question, it might be different. But here they have to reconsider the basis of the assessment, and it might be proper to bring it back. But it might not, and the liberty to apply will preserve it.

Mr. Senter.—Yes, indeed.

Lord Evershed, M.R.—Then Mr. Temple has indicated that he wants to go to the House of Lords.

Mr. Senter.—Yes.

Lord Evershed, M.R.—Would you like leave, too?

Mr. Senter.—I think this will be a convenient moment to say, Yes, because it might be very inconvenient to say otherwise.

Lord Evershed, M.R.—We think it is a case where we should give leave both to the Crown and to you.

Mr. Senter.—May I say that I apprehend from what has fallen from your Lordship that it would not be a case for permission? It would be leave for either side?

Lord Evershed, M.R.—Yes. Just leave to either side to appeal to the House of Lords.

On 20th December, 1956, on the application of both parties, it was further ordered by the Court of Appeal that the Commissioners should, if so required by either party, state a Supplemental Case.

Both parties having appealed against the above decision, the case came before the House of Lords (Viscount Simonds and Lords Morton of Henryton, Tucker, Keith of Avonholm and Denning) on 30th and 31st October, and 4th and 6th November, 1957, when judgment was reserved. On 4th December, 1957, judgment was given against the Crown, with costs (Lord Morton of Henryton dissenting as to the Company's cross-appeal and Lord Keith of Avonholm dissenting as to both appeals).

Sir Frank Soskice, Q.C., and Mr. Alan Orr appeared as Counsel for the Crown, and Mr. John Senter, Q.C., and Mr. Desmond Miller for the Company.

Viscount Simonds.—My Lords, the Respondent Company, Evans Medical Supplies, Ltd., and its predecessors have for a long time carried on in the United Kingdom and elsewhere the business of manufacturing chemists, wholesale druggists and kindred trades. It has a world-wide trade and reputation. In the year 1953 it carried on business in Burma through an agency in that country. On 20th October, 1953, it entered into an agreement with the Government of the Union of Burma under which it became entitled to receive and received the sum of £100,000 and certain other sums therein mentioned. It will be necessary for me to refer in some detail to this agreement.

The Company was duly assessed in respect of its profits as wholesale druggists for the year 1954–55 under Case I of Schedule D, and in this assessment the sum of £100,000 was treated as a receipt of its trade liable to be included in the computation of its profits. Against this assessment the Company appealed to the Commissioners for the Special Purposes of the Income Tax Acts, who upheld the assessment but at the instance of the Company stated a Case for the opinion of the High Court. The case came on for hearing before Upjohn, J., who allowed the appeal of the Respondent Company and reversed the determination of the Special Commissioners. From his judgment the Crown appealed to the Court of Appeal. That Court discharged the Order of the learned Judge and ordered that the case be remitted to the Special Commissioners with the direction

> "to ascertain in accordance with the judgments and subsequent proceedings of the Court of Appeal what part, if any, of the amount of One hundred thousand pounds (£100,000) should be attributed to the imparting of the secret processes to the Government of Burma, such part to be treated as a capital receipt, and to adjust the assessment accordingly, and with power to the parties to call such evidence as they may consider necessary",

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and it was further ordered that the Commissioners should, if required by either party, state a Supplemental Case setting forth the facts and their determination. Neither party had asked for, or suggested the propriety of, such an apportionment. The Crown has appealed against the Order, inviting your Lordships to restore the determination of the Commissioners; the Respondent Company has cross-appealed, claiming that the judgment of Upjohn, J., should be restored. Both sides have argued throughout on the basis of "all or nothing".

My Lords, largely, I think, as a result of the way in which the case was originally presented on behalf of the Crown and the consequent form of the Commissioners' determination, a number of difficulties have been created which might well have been avoided. Essentially the case seems to me to be a very simple one except only on one point which has caused me some anxiety. Inasmuch as the Case Stated raises amongst other questions the familiar one whether there was evidence upon which they could make their determination, it will be necessary to refer to the Case in some detail. The Commissioners, after stating the question as I have already stated it, refer to the fact that at the hearing of the appeal evidence was given by a Mr. Fergusson, the chairman and managing director of the Company, and that certain documents, including the agreement of 20th October, 1953, had been put in evidence and formed part of the Case. They then refer to the incorporation and objects of the Company as stated in its memorandum of association, and mention that it took over a business which began in the year 1809 and is one of the leading pharmaceutical manufacturers with a world-wide trade. Paragraphs 4 and 5 of the Case have been relied on by one side or the other, and I set them out verbatim.

> "4. The Company carries on its trade abroad, in some cases by means of subsidiary companies in various countries, in other cases by means of foreign agencies, and for a considerable period prior to the year 1953 it had an agency in Burma. In the year 1953 the Burmese Government decided to build a factory and laboratories in Burma for the purpose of establishing an industry there for the production of pharmaceutical and other products. Accordingly, the Burmese Government despatched a trade mission to Europe with a view to inducing some leading firm of manufacturing chemists to advise as to the erection of such a factory and the supply of equipment for manufacture, and to impart to them the processes, formulae and knowledge necessary to the production and manufacture of pharmaceutical products in Burma. 5. The said trade mission got into touch with firms of wholesale manufacturing chemists on the continent of Europe and also, through the medium of United Kingdom Government Departments, with the Association of the British Pharmaceutical Industry, and finally treated with three leading firms of manufacturing chemists in the United Kingdom of which the Company is one. There was keen competition with several continental firms, and the British Government was anxious that a British firm should, if possible, come to terms with the Burmese Government. Negotiations were opened between the Company and the trade mission on behalf of the Burmese Government, and the Company at first suggested a lump sum of £350,000 for the sale of drawings, designs, plans, and technical and other data, and 'know-how' necessary for the establishment, erection and installation of the factory and the commencement of production, and for management services for a period of years. The Burmese Government were unwilling to agree upon a single lump sum, but desired that part of the consideration should take the form of fees based on production. The Company then made fresh proposals, which were accepted on behalf of the Burmese Government and embodied in the agreement of 20th October, 1953 (exhibit A)."

I come, then, to the agreement, and as I regard it as the vital point of this case I must refer to it at length. The recitals have rightly been regarded as of importance. They are as follows:

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"(1) The Government of the Union of Burma propose to build in Burma a factory and laboratories (hereinafter together referred to as 'the factory') for the purpose of establishing an industry there for the production of pharmaceutical and other products (2) Evans Medical [i.e., the Respondent Company] has developed and owns processes formulae and knowledge relating to the manufacture of pharmaceutical products and to the use of machinery plant appliances and devices used in such manufacture (3) For facilitating the building and running of such factory Evans Medical propose to supply the Government of the Union of Burma with information and to organise the factory in the manner hereinafter mentioned".

The operative part of the agreement is divided into five parts, and again I think it desirable to set out the provisions of part I in full. They are as follows:

"In consideration of the payment to Evans Medical by the Government of the Union of Burma of the capital sum of £100,000 (One hundred thousand pounds sterling) payable in the United Kingdom free from any deduction whatsoever (A) Evans Medical will provide and make available to the Government of the Union of Burma all drawings designs and plans and technical and other data and 'know-how' necessary for the establishment erection and installation of the factory and the commencement of production thereat of the pharmaceutical and other products mentioned in the Schedule hereto (B) Evans Medical will supply to the Government of the Union of Burma designs and lay-out for the erection of plant including machinery and equipment and all other requisites and shall supply full data and specifications with drawings and instructions and all other information relating to the sources and manufacturers and suppliers of such machinery and equipment (C) Evans Medical will make available to the Government of the Union of Burma all information relating to the supply of prototype machinery and equipment for the manufacture of the pharmaceutical and other products mentioned in the Schedule hereto (D) Evans Medical hereby undertake that during the currency of this Agreement the facilities hereby agreed to be furnished to the Government of the Union of Burma under the preceding sub-clauses of this clause shall be exclusive to the said Government and shall not during the currency hereof be furnished to any other person or corporation in Burma".

Part II of the agreement provides for the giving of advice and rendering of services by the Company to the Government. It is, for instance, to advise the Government as to the building and operation of the factory, to act as purchasing agent for the Government, to act as managers, to engage and train the staff, to procure and train as quickly as possible Burmese nationals in Europe and Burma and cause such nationals to be appointed to positions of responsibility in the factory, and to render similar services. It then provides that, as remuneration for the services provided for in that part of the agreement, the Government would pay to the Company a fee in respect of each year of the continuance of the agreement of either 5 per cent. of the value of all products, whether or not specified in the Schedule thereto, produced at the factory in accordance with the provisions of that agreement or the sum of £25,000 whichever sum should be the greater. This part contained a number of other provisions, to which I need not refer. Nor need I refer to part III. Part IV provided that the agreement should remain in force for seven years, but might be renewed as therein mentioned, and contained the term that the Government would not without the consent of the Company export to any other country any of the goods manufactured in accordance with the provisions of that agreement except as therein mentioned. Part V contained the perhaps important term that the Government would not divulge to anyone the information conveyed to them by the Company under that agreement without the written consent of the Company, such consent not to be unreasonably withheld.

(Viscount Simonds.)

Having referred to this agreement, the Commissioners proceed, in paragraphs 10 and 11, as follows:

> "10. (i) The schedule referred to, forming part of the said agreement (exhibit A), specifies two main classes of biological products (A) and (B) and a number of pharmaceutical products enumerated under a few broad descriptions (C), (D) and (E). All the products referred to are general types and do not include any of the Company's proprietary products. By far the most valuable from the Company's point of view were the secret processes involved in the preparation, storage and packaging of certain human and veterinary anti-toxins, sera and vaccines. (ii) The secret processes referred to in sub-paragraph (i) above have been evolved at great cost in several fields over a period of 50 years, and the Company considers that such secret processes are superior to those evolved by other companies. At least two other companies in the United Kingdom, and firms in Western Germany and Holland, have the necessary knowledge to prepare such products and do, in fact, prepare them. The Company has, however, over a number of years experimented and perfected its own methods of preparing and conserving these products and has never, until it entered into this agreement with the Burmese Government, communicated these methods to any other person or corporation. (iii) The pharmaceutical products, as broadly classified in the schedule to the agreement, number about 3,500 out of 6,500 such products actually manufactured by the Company. Here again, there is no secret as to the composition of the various ointments, pastes, tablets and capsules. The ingredients are set out in the British Pharmacopoeia, and similar products are manufactured by other British and foreign manufacturing chemists. The secret processes consist in the actual methods of preparation of the products and also in the method of storing and packaging. For example, a special type of ampoule is used by the Company for certain of its products, and the Company, by its agreement, undertook to impart its own methods of manufacture and packing to the Burmese Government. (iv) The processes referred to in sub-paragraphs (i), (ii) and (iii) above cannot be learned by the study of textbooks. Knowledge of these processes is in some cases imparted by the Company to the Burmese Government by training suitable Burmese or European staff for employment in the factory in Burma. In other cases the knowledge is being imparted by the direct communication of written information.
>
> 11. The Company might have erected its own factory in Burma, but its directors were convinced that the Burmese Government was determined to have its own chemical industry in Burma and that several continental firms were willing and able to provide the Burmese Government with the means to do so. In entering into the agreement, the Company chose the method of developing its business which seemed to its directors to be the best available in the circumstances. No similar agreement with any other foreign government or any other party had been made by the Company. Since entering into the agreement, the Company has retained its agency in Burma and has continued to supply this agency with its own products. The Company's Burmese agency will become progressively less important as the Government factory in Burma comes into production. At the time of the hearing of this appeal (February, 1955) the factory was not completed but, as provided by paragraph 1 of part IV of the agreement, the minimum sum of £25,000 was being paid as from 20th October, 1953."

I have thought it necessary to set these findings out at length, because, in a case such as this in which one question is whether there was evidence upon which the Commissioners could properly arrive at their determination, it may do them less than justice to attempt to paraphrase. The same consideration applies to their statement of the contentions of the parties and their own determination. Accordingly I set out these also.

> "13. It was contended on behalf of the Company: (i) that under part I of the agreement, to which the sum of £100,000 was solely annexed, the Company was parting with items of fixed capital; (ii) that, in the alternative, the said sum of £100,000 was a sum received by the Company for an exclusive licence to the Burmese Government; (iii) that, in either event, the said sum of £100,000 was, as described in part I of the said agreement, a capital sum; (iv) that, in any event, the sum received by the Company for disposing of the fruits of its experience did not arise in the course of a trade carried on by the Company;

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(v) that, in any event, the said sum of £100,000 was not properly included in computing for Income Tax purposes the profit of the Company for the said year 1954-55.

14. It was contended on behalf of the Respondent: (i) that, on the true construction of the said agreement, the said sum of £100,000, no less than the annual sum of £25,000, was received by the Company for providing services in the course of carrying on its trade as wholesale druggists; (ii) that, on the true construction of the said agreement, parts I and II were interlocking and interdependent, and involved services to be rendered to the Burmese Government, and that the payment of the said sum of £100,000 was only the first instalment of remuneration for such services; (iii) that the disposal of secret processes by the Company was not the sale or assignment of property of the Company, but a method of developing and exploiting its business by imparting its knowledge and experience to the Burmese Government in return for a consideration of an income nature; (iv) that the provision of the facilities agreed to be furnished under part I of the said agreement was within the trading objects of the Company, and, in so far as the said sum of £100,000 was received in consideration for provision of these facilities, it arose to the Company either from the trade it had previously carried on or from a new trade which it had commenced to carry on on 20th October, 1953; (v) that, in any event, the said sum of £100,000 was properly included in computing for Income Tax purposes the profits of the Company for the said year 1954-55.

15. We, the Commissioners who heard this appeal: (i) Held that it was not possible, on the evidence set out in paragraphs 3 to 12 above, to consider each part of the agreement of 20th October, 1953, separately. While the factory was in course of erection, while the training of staff was proceeding and while plant and machinery were being obtained, payments, which the Company admitted to be of an income nature, were being made, and we were unable to take the view that the said sum of £100,000 was paid simply for the sale or assignment to the Burmese Government of secret processes analogous to patents. (ii) Even if the view were taken that the main part of the consideration of £100,000 was received by the Company for imparting these secret processes to the Burmese Government, we were still of the opinion that the Company had not sold or assigned any property. For example, other British and continental firms admittedly had the knowledge and did prepare anti-toxins, and the Company, after the signing of the agreement as much as before, was still in a position to prepare such products according to the formulae and methods which it had perfected, which remained secret, except to the extent that some of them had been imparted to the Burmese Government. (iii) Considering as we do that the whole agreement must be read together, we think that it is one for the provision of services. The provision by the Company under part I of the agreement of what, in clause (D) of that part, are called 'facilities' is not in our opinion the sale or assignment of a capital asset in consideration of a capital price, nor is it the grant of a licence in consideration of a capital payment. (iv) We also rejected the Company's alternative contention that the said sum did not arise to the Company as a receipt of its trade as wholesale druggists because it had never previously entered into such an agreement. On the contrary, we held that the Company had, on the evidence in this case, chosen the method which appeared to its directors to be the best means of exploiting its business as wholesale druggists in Burma, such method being in our opinion clearly within the powers taken by the Company in its memorandum of association. We therefore held that the said sum of £100,000 arose to the Company either in the course of the trade which it had hitherto carried on or in the course of a new trade which it commenced to carry on on 20th October, 1953, and that in either event the said sum was properly included in the computation for Income Tax purposes of the Company's profits as wholesale druggists for the said year 1954-55."

Finally they stated the point of law for the opinion of the High Court in these terms:

"17. The point of law for the opinion of the High Court is whether, on the facts found by us and set forth in paragraphs 3 to 12 inclusive, there is evidence on which we could properly arrive at our determination that the said sum of £100,000 was properly included in the computation for Income Tax purposes of the profits of the Company's trade for the said year 1954-55, and whether on the facts so found our determination was correct in law."

(Viscount Simonds.)

My Lords, it is always easy to be wise after the event, and I would not be unduly critical of the way in which the Commissioners discharge their very difficult task. But it is clear that much confusion has arisen in this case from the fact that the Crown was permitted to put forward alternative contentions and that the Commissioners' determination was stated in an alternative form. That part of paragraph 15 (iv) of the Case which begins with the words "We therefore" clearly cannot be supported unless there is a finding of fact that the Company did commence to carry on a new trade on 20th October, 1953, in the course of which this sum of £100,000 arose to the Company. But there is no such finding, and if there was, the sum could not possibly be included in the computation of the Company's profits as wholesale druggists for the year 1954–55. It would not, I think, on this ground alone be improper to say that the Commissioners' determination cannot stand. But I prefer to rest my opinion on broader grounds, which are substantially those of Upjohn, J., and the Court of Appeal.

In my opinion, the fundamental error of the Commissioners lay in a misconstruction of the agreement which is the basis of their determination in paragraph 15 (i), (ii) and (iii) of the Case. I agree so fully with the way in which Romer, L.J., has dealt with this part of the case that I will adopt his words. After a careful analysis of the agreement he says(1):

> "From this it follows, and is in my opinion the fact, that the £100,000 was solely referable to the promises given by the Company under part I of the agreement and none the less because there appears to be some degree of overlap between those promises and the services which it agreed to perform under part II. Accordingly, the only relevant investigation, for the purposes of this aspect of the matter, is as to what the Company had to do in order to earn the £100,000 as distinct from what it had to do before it could claim the annual remuneration."

This is wholly at variance with the view of the Commissioners that the whole agreement must be read together. I repeat their words: first,

> "We . . . held that it was not possible . . . to consider each part of the agreement of 20th October, 1953, separately";

and secondly,

> "Considering as we do that the whole agreement must be read together, we think that it is one for the provision of services."

I could not accept the conclusion that the agreement, even if its parts are read together, could be regarded as one for the provision of services and nothing else. For part I is still there. It was an error of the Commissioners to treat the consideration which moved from the Company under that part as being for services and nothing else. This argument was persisted in before the House, but it so flatly contradicts the language of the agreement that I need say no more about it.

It was no doubt the corollary of their view that the agreement was one for the provision of services that the Commissioners should say that in any event the Company had not "sold or assigned any property" to the Government. Here again they fell into an error which vitiates their determination. For it is manifest that a secret process, whether in composition or methods of storing and packing, is something which can be disposed of for value and that by imparting the secret to another its owner does something which could not fairly be described as "rendering a service". I would not think that authority is needed for so obvious a proposition, but it may be found in *Handley Page* v. *Butterworth*, 19 T.C. 328.

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(1) *See* page 564 *ante*.

(Viscount Simonds.)

It still remains to ask whether, assuming that the £100,000 was in whole or in part consideration for the sale and purchase of an asset or assets, such assets were, to use the language of the Company's first contention, "items of fixed capital". This is a question frequently arising in Income Tax cases, and I should be disposed in general to accept the determination of the Commissioners. For the line is often difficult to draw. But in the present case, bearing in mind particularly what Lord Radcliffe said in *Edwards* v. *Bairstow*(1), [1956] A.C. 14, I come to the conclusion that the view of the Commissioners cannot be sustained. It was perhaps a doubt in the mind of the Inspector of Taxes whether this sum could be regarded as an income receipt of the Company's trade as "wholesale druggists" which led to the alternative suggestion of a new trade. But, however that may be, the evidence—I am now looking at the question propounded in the Case—is overwhelming that the Company parted with a capital asset and received for it a capital sum. Of paramount, if not decisive, importance is the agreement itself. I need not repeat its recitals or its terms. The Company parted with something for which the Government was prepared to pay no less than £100,000. Its possession had secured for the Company a substantial share of the Burmese market: its loss will mean, in the words of the Commissioners, that "the Company's Burmese agency will become progressively less important", or, in other words, that the Company has parted with an asset which was the source, or one of the sources, of its profit. I venture to repeat the question stated by Bankes, L.J., in *British Dyestuffs Corporation (Blackley), Ltd.* v. *Commissioners of Inland Revenue,* 12 T.C. 586, at page 596:

> ". . . looking at this matter, is the transaction in substance a parting by the Company with part of its property for a purchase price, or is it a method of trading by which it acquires this particular sum of money as part of the profits and gains of that trade?"

I look accordingly at this transaction and, with all respect to those who take a different view, do not see how the question can be answered except by saying that the Company has parted with its property for a purchase price, and when I say "its property" I mean, as Bankes, L.J., meant, a capital asset. In this respect I see no difference between a patent and a secret process, and for that view I find ample authority in the decision of the Court of Appeal in *Handley Page* v. *Butterworth,* 19 T.C. 328.

A contention was put forward on behalf of the Crown that, even if the divulging of a secret process to the whole world could be regarded as parting with a capital asset, the same could not be said of divulging it to one other. This does not make sense. The whole value of the secret might conceivably not be lost at once to the original owner, but that its value must be greatly diminished is obvious: in the present case it is doubtful whether within a measurable time it will have any value at all, at any rate so far as the Burmese market is concerned. I adopt, with respect, the apt words of Lord Fleming in *Trustees of Earl Haig* v. *Commissioners of Inland Revenue,* 22 T.C. 725, at page 735:

> ". . . the transaction here in question was not merely a use of the subject *salva rei substantia* but necessarily involved the realisation of a considerable part of its capital value."

My Lords, I think that the Commissioners have in this part of the case been led into error by two things: first, by the introduction by the

(1) 36 T.C. 207.

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Crown of the suggestion of a new trade, consisting presumably of imparting information as to secret processes and other matters, with which I have already dealt; secondly, by the construction they put upon, and the weight they gave to, the evidence of Mr. Fergusson. In paragraph 11 of the Case it is summarised thus:

> "In entering into the agreement, the Company chose the method of developing its business which seemed to its directors to be the best available in the circumstances."

In paragraph 15 (iv) they say:

> ". . . we held that the Company had, on the evidence in this case, chosen the method which appeared to its directors to be the best means of exploiting its business as wholesale druggists in Burma".

I am inclined to agree with learned Counsel for the Company that there has been a significant change in the language of the two paragraphs, but I do not attach much importance to it. For the decisive fact is not what was the Company's motive in entering into the agreement but what it in fact effected. I cannot, however, suppose that Mr. Fergusson, if he spoke of the best available method of developing the Company's business, had in mind any fine distinction between an income and a capital receipt, or, indeed, had anything in mind except that, if the Government were to become competitors in Burma, the Company's prudent course was to cut its loss as best it could and use the proceeds in the development of its business elsewhere. I should not care to attribute to any man of business the notion that the best way of developing the Company's business in Burma was to take a step which might effectually put an end to it. I conclude, therefore, that the Crown's appeal must be dismissed, and I come to the cross-appeal. Here I have felt greater difficulty.

My Lords, as I observed at the outset of this opinion, both sides have argued this case from the beginning, before the Commissioners and Upjohn, J., and the Court of Appeal, upon what I have called the "all or nothing" basis. The Crown, appealing from the Order of Upjohn, J., moved that his Order should be reversed and the determination of the Commissioners affirmed. It is true that the usual formal words follow, "or that such further or other Order be made as to the Court may seem just". But there was no specific suggestion that the sum of £100,000 could or should be split up, part being regarded as a capital and part as an income receipt. It is probable that, if such a suggestion had been made at the outset, evidence would have been directed to the point. Should the taxpayer now, when it has been decisively determined that the £100,000 was not a sum paid for the provision of services and nothing else, at this stage be subjected to the further or alternative claim that some part at least of that sum was so paid? I have been persuaded by what has fallen from your Lordships that he should not, and in particular by the opinion, which I have had the privilege of reading, of my noble and learned friend Lord Denning. It would have been reasonable to come to a different conclusion if there had been any concealment by the Company of relevant facts which have now come to light. But that has not been the case. Knowing all that was material to know, the Crown deliberately made a challenge which has been rejected. I do not think they should be allowed to make another. I may add that I am the more ready to adopt this view because I think that both sides were probably right in throughout regarding the whole sum of £100,000 as indivisible. It would, I believe, pass the wit of man to apportion the sum between the items comprised in part I of the agreement which are clearly, less clearly, or doubtfully of a capital

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nature. Nor would the problem be rendered easier by the fact that an item which might in isolation not be regarded as a capital asset could in its context be so regarded. I should, for instance, think it difficult to separate the value of a secret imparted to the Government and the value of the service rendered in imparting it. I have therefore come to the conclusion that the cross-appeal should be allowed.

In the result I move your Lordships that the appeal of the Crown should be dismissed and the cross-appeal of the Company allowed, that the judgment of Upjohn, J., should be restored, and that the Crown should pay the costs of the Company here and in the Court of Appeal.

Lord Morton of Henryton.—My Lords, the relevant facts of this case have been fully stated by my noble and learned friend Viscount Simonds, and I shall not repeat them. The case has given rise to a remarkable difference of opinion on the question whether the sum of £100,000 now in question was, in the hands of the Respondent Company, an income receipt or a capital receipt. The Special Commissioners found that it was wholly income, Upjohn, J., held that it was wholly capital, and the Court of Appeal took the view that it was capital in so far only as it was to be attributed to the imparting to the Government of Burma of the secret processes mentioned in paragraph 10 of the Case Stated, and remitted the case to the Special Commissioners to ascertain what part, if any, of the £100,000 should be so attributed.

My Lords, I think that this is a difficult and borderline case, but in my opinion the Court of Appeal arrived at the right conclusion. I am content to adopt the reasoning of the Master of the Rolls and Romer, L.J., in which Birkett, L.J., concurred, and I shall not take up your Lordships' time by repeating that reasoning in language of my own; but having regard to the course of the argument in your Lordships' House, I shall add a few words on two questions. They are, first, whether having regard to the evidence and to the terms of the agreement of 20th October, 1953, it is possible to sever the imparting of the secret processes from the rest of the consideration moving from the Company under part I of that agreement; secondly, whether the course of the proceedings in this House and in the Courts below affords any reason for reversing the Order made by the Court of Appeal.

My Lords, I realise fully that, if the Order of that Court stands, it will be no easy task for the Commissioners to ascertain what part, if any, of the £100,000 should be attributed to the imparting of the secret processes to the Government of Burma, but I do not regard the difficulties as insuperable. Paragraph 10 of the Case Stated shows that the Commissioners already have a considerable amount of knowledge as to the nature of these secret processes, and no doubt further evidence would be given before them as to the value to be attributed to the imparting thereof, on the terms set out in the agreement, as compared with the value of the other matters mentioned in part I of the agreement. And to my mind the imparting of these secret processes, even if it can properly be described as a "service", is a service different in kind from all other services mentioned in part I. However the imparting may be carried out, it is completed when the secret processes come into the knowledge of the Government of Burma; and I agree with the Court of Appeal in thinking that when that event happens the Company will have sold a part of its property

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which is a capital asset. It appears to me that this part of the Company's property could have been sold by itself, even if nothing else had been included in part I; and if so it must surely be possible to identify it and single it out from the rest of part I.

As to the course of the proceedings, Counsel for the Crown have contended strenuously that the £100,000 is wholly income, while Counsel for the Company have contended, no less strenuously, that it is wholly capital; but Mr. Senter, for the Company, not unnaturally asked your Lordships, if you could not accept his primary contention, to uphold the Order of the Court of Appeal. I see no injustice, either to the Company or to the Crown, in taking this course; indeed, it seems to me the only possible course if the true view is that the part of the £100,000 paid for the imparting of the secret processes was a capital receipt, and that there was evidence which justified the Special Commissioners in finding that the balance thereof was an income receipt.

I would dismiss the appeal and the cross-appeal.

Lord Tucker.—My Lords, for the reasons which have been stated by my noble and learned friend Viscount Simonds, I agree that the appeal should be dismissed and the cross-appeal allowed.

Lord Keith of Avonholm.—My Lords, this appeal relates to an assessment made under Case I of Schedule D of the Income Tax Act, 1952, and so is concerned with a tax charged in respect of a trade carried on in the United Kingdom or elsewhere. As stated by the Special Commissioners in the Case Stated, the sole question for their determination was whether a sum of £100,000 paid to the Company by the Burmese Government in the circumstances described in the Case was a receipt of the Company's trade liable to be included in the computation of its profits for the purposes of the assessment for 1954–55. The Commissioners have found that the said sum was properly included in such computation, and the question is whether on the facts found their determination was correct in law.

I do not repeat the facts found, which have already been sufficiently stated. If I may summarise the position in a few words, the Company, which had for many years prior to 1953 been selling its pharmaceutical and other products through an agency in Burma, found itself faced with a challenge to the continuance of this trade in the decision of the Burmese Government to set up a factory in Burma and acquire from some firm of manufacturing chemists the processes, formulae and knowledge necessary for the production of pharmaceutical products there. The Company, in the face of keen competition and with the encouragement of the British Government, secured an agreement with the Burmese Government to give effect to this purpose. It is expressly found as a fact by the Commissioners that in entering into the agreement the Company chose the method of developing its business which seemed to its directors to be the best available in the circumstances. This finding cannot, in my opinion, be challenged, and it may be supplemented by a quotation from a brochure of the Company which is made part of the Case:

> "The agreement will, during the next seven years, add several million pounds to U.K. exports. A considerable part of the exports will consist entirely of 'know-how' and will require no raw materials."

Upjohn, J., took the view that the effect of the agreement was to contradict the determination of the Commissioners, which he took to mean, I think correctly, that the receipt of the £100,000 under the agreement was

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a trading receipt in the course of carrying on the trade. If the learned Judge was correct, that, I think, was an end of the case, for it was only on a trading receipt that the Company was being assessed. He went on, however, to consider whether the £100,000 was a receipt of an income or capital nature. The Court of Appeal, on the other hand, took the view that the £100,000 was received by the Company in the course of its trade, but appear to have taken the view that, in so far as part of the £100,000 can be attributed to the imparting of secret information or secret processes to the Burmese Government, there was the realisation of a capital asset, and that only the balance of the £100,000 can be regarded as a trading receipt. I find myself unable to agree with the learned Judge or wholly with the learned Lords Justices of the Court of Appeal.

I turn at once to the agreement, which is the crucial part of the case. I do not, however, regard the circumstances in which the agreement was made as unimportant. The Company intended it, as the Commissioners found, to be a trading agreement. But it may, of course, contain terms which as regards some or part of the sums received under the agreement prevent them from being treated as trading receipts. I accept it that the £100,000 was the consideration for what the Company undertook to do under part I of the agreement. What did it undertake to do? A large part of part I covers, in my view, nothing but the provision of services which might have been supplied by other concerns with whom the Company had been in competition to secure the agreement. Such are the provision of drawings, designs, plans and other data for the establishment, erection and installation of the factory; designs and lay-out for the erection of plant, etc., and data and specifications with drawings and instructions and all other information relating to the sources and manufacturers and suppliers of machinery and equipment. I shall assume, though it is not expressly stated in part I of the agreement, that the information to be supplied included information on secret processes used by the Company. There is a reference to "know-how", and this may be significantly related to the reference to "know-how" in the quotation from the brochure already given.

A person in trade or business who has a secret process which he decides to sell may do so in various situations. He may be retiring from business and selling his business to a purchaser. Obviously this is a capital transaction that attracts no tax. Again, he may remain in business, but being unable from lack of capital or otherwise to develop his secret process he may sell it outright to another trader. That again would be the sale of a capital asset which would not attract tax. A third type of case would be where the trader imparts his secret knowledge to some other trader, but retains the right to use it in his own business and, it may be, to share it further with other traders. In such a case it may be said that the secret knowledge is no longer secret knowledge. But that is not perhaps strictly accurate. It is not so secret as it was, but it may still retain a value. And if a trader, having developed some secret process, made a practice of turning it to profit by selling it like a commodity to other interested parties, possibly with restrictive conditions attached, there would seem to be no sound reason for saying that he was doing anything other than trading in "know-how". Like stock-in-trade, it might ultimately run down. But in the manifold opportunities of commercial and trading life it might remain a source of profit for a very considerable time. The point to be emphasised is that there is really no difference between trading in "know-how" consisting of a secret process and any other kind of "know-how". I would observe that

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trading in "know-how" is not quite the same thing as turning one's property to a profitable use. A man may rent his house, or license the use of his patent, without being engaged in trade. With either the trader or the property-owner similar considerations may come into play in deciding whether a receipt is a capital or a revenue receipt, but where the receipt is a receipt in the course of trade that may be sufficient to turn the scale in favour of holding a receipt which has the appearance of a capital receipt to be a revenue receipt. Illustrations may be seen in *Californian Copper Syndicate* v. *Harris*, 5 T.C. 159, and *Rees Roturbo Development Syndicate, Ltd.* v. *Ducker*, 13 T.C. 366. The issue in this case is well focussed in a sentence of Bankes, L.J., in *British Dyestuffs Corporation (Blackley), Ltd.* v. *Commissioners of Inland Revenue*, 12 T.C. 586, at page 596:

> "The real question is, looking at this matter, is the transaction in substance a parting by the Company with part of its property for a purchase price, or is it a method of trading by which it acquires this particular sum of money as part of the profits and gains of that trade?"

The question, then, and the only question as I see it, is: Was the company trading in "know-how" or realising "know-how"? In my opinion, there was ample evidence on which the Commissioners could arrive at the conclusion that it was trading in "know-how". I find it impossible to hold that they

> "acted without any evidence or upon a view of the facts which could not reasonably be entertained",

to use the language of my noble and learned friend Viscount Simonds in the case of *Edwards* v. *Bairstow*[1], [1956] A.C. 14 (at page 29). If the Company had undertaken to build and equip the factory for production it could hardly be doubted that any profit would have been a profit or gain of trade. Instead it undertook to supply the necessary "know-how" for building and equipping the factory. It is, to my mind, immaterial if included in this "know-how" was information known only to itself. That only goes to show that secret information was thrown into the general pool of things provided. If part of the information, facilities and services was provided as a trading operation, and this, to my mind, is an inescapable conclusion, then the whole, in my opinion, was supplied as a trading operation. I find it impossible to split the £100,000 into a non-trading receipt and a trading receipt according as the information supplied was secret and non-secret.

Further, alongside and contemporaneously with the obligation of part I, the Company was carrying out the obligations of part II of the agreement. These included training Burmese and others in what must, *ex hypothesi*, have been both secret and non-secret "know-how". The annual payments made by the Burmese Government under part II are accepted as payments that attract tax and, as I see it, necessarily so because they are payments for the supply of services. The Special Commissioners have held that the payment under part I was also for the supply of services, and I think they were right in so holding. The services may have been different in kind from those given under part II, but both were directed to the same end. I cannot see any essential difference that would lead to the conclusion that one set of services led to a profit-earning or trading receipt and the other to the realisation of a capital asset.

Lastly, though this is more by way of addendum to what I have already said, the agreement imposed on the Burmese Government an obligation of secrecy not to divulge such information as was conveyed to them by the

(1) 36 T.C. 207, at p. 224.

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Company without the written consent of the Company, which was not to be unreasonably withheld. Also the Burmese Government was not, without the written consent of the Company, to export any goods manufactured under the agreement, with certain exceptions, and if consent was given the Company was to be paid a royalty on exports for a period not exceeding 14 years. These stipulations in themselves go a long way to prevent the agreement resulting in the dissipation of a valuable asset. There is a great difference between giving away knowledge to the world at large or for the exclusive use of a buyer to the exclusion of the seller and selling the knowledge to selected individuals from time to time while retaining the right to continue using the knowledge oneself. In the present case the Company could repeat the process, if not *ad infinitum,* at least for a very considerable time, to governments or individuals all over the world with considerable profit to itself.

I would refer to only a few of the cases cited during the hearing. None of them seems to me to touch the particular circumstances of this case, and they are more useful to point differences rather than similarities. Reference was made to *Nethersole* v. *Withers,* 28 T.C. 501. It was, I think, relied on by Upjohn, J., to some extent. I do not get much assistance, however, from that case. The critical finding of the Commissioners was that Miss Nethersole was not carrying on a profession or vocation at the material time. The question was whether Miss Nethersole was liable in tax under Case VI of Schedule D as having received sums of a revenue nature. What the Court of Appeal and the House of Lords held was that there was a sale or assignment by Miss Nethersole of her rights in a play and that the sums received were capital: the price, in other words, received from the realisation of her property. Lord Simon said(1):

> "Here we have the sale and transfer outright of an item of property which previously belonged to the Respondent, not the licence to use it granted by its unchanged owner, and this does not give rise to annual profits or gains *unless the sale takes place in the course of carrying on a trade or profession.*"

The emphasis on the concluding words in this passage is mine. The other members of the House took the same view, though Lord Porter and Lord Uthwatt prayed in aid the language of the Copyright Act. I would emphasise again, however, the words of Lord Uthwatt(2):

> "A sale, *not in the way of trade,* of an asset does not attract tax on the consideration. Whatever else comes within the ambit of annual profits or gains, the consideration received by Miss Nethersole does not."

If Miss Nethersole had been carrying on the business or profession of authoress or dramatist very different considerations would have arisen. It would, in my opinion, have been very difficult to reach the conclusion that the sums received by her were not business or trading receipts. A very similar case was that of *Trustees of Earl Haig* v. *Commissioners of Inland Revenue,* 22 T.C. 725. There again it was found that the trustees were not carrying on a trade or adventure, and the Court of Session, sitting as Court of Exchequer, held that sums received by the sale of publication rights in Earl Haig's war diaries were capital receipts, not revenue receipts under Case VI of Schedule D. The Court proceeded largely on the view that the transaction involved the realisation of a considerable part of the value of the diaries, a very material factor in a case under Case VI, but of relatively little importance in a case under Case I or Case II.

(1) 28 T.C., at p. 518. (2) *Ibid.*, at p. 520.

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Lastly, I should mention *Handley Page* v. *Butterworth*, 19 T.C. 328. This again raised no question of trading. The case was concerned with the nature of sums received under awards made by the Royal Commission on Awards to Inventors in respect of the user of aeroplane designs and patents by His Majesty's Government and the United States Government during the 1914–18 war. Mr. Handley Page was at the time of the user the owner of the patents and designs. An assessment to Income Tax was made on him in respect of the awards. The case was thus one of receipts of ownership, not receipts of trading, and would fall under Case III or Case VI. In this House the assessment was discharged on a point that was not considered by the Court of Appeal. The Court of Appeal had discharged the assessment on the ground that the payment was in the nature of a capital payment and not taxable under Schedule D. The ratio of this decision was that Mr. Handley Page had been compelled by the Government to part with the whole of his property, which was mainly in the designs. As Slesser, L.J., put it(1):

> "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."

The case was cited chiefly, however, for a passage in the judgment of Romer, L.J., where, assimilating the knowledge of the owner of a secret process to that of the monopoly of a patentee, he says(2):

> "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 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."

While that case is not, I think, strictly in point where a man is using his secret process for purposes of trade as here, I would place this case if necessary in the second category specified by Romer, L.J., and on that view the sum received would on the learned Lord Justice's analysis be a profit or gain under Schedule D.

Since preparing this opinion I have had the opportunity of reading the speech about to be delivered by my noble and learned friend Lord Denning. The reference by the Commissioners in paragraph 15 (iv) of the Case Stated to a new trade is a puzzling feature of the case. It does not appear in the statement of facts and it is not, I think, a finding in fact. It is at best an inference in law, and I can find nothing in the findings in fact to support it What the Company did was, in my opinion, no more than a legitimate extension of their existing trade.

In this case it is, I consider, impossible to disturb the determination of the Commissioners. I would allow the appeal, dismiss the cross-appeal and answer the question in law in the Case in the affirmative.

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(1) 19 T.C., at p. 359. (2) *Ibid.*, at pp. 359–60.

Lord Denning.—My Lords, the Case stated that the *sole* question was whether " a sum of £100,000 " paid to the Company by the Burmese Government was a receipt of the Company's trade liable to be included in the computation of its profits for the year 1954–55 ; and the Special Commissioners held that it was. The Case treated the £100,000 as being a single undivided amount. Yet the Court of Appeal have remitted the case to the Commissioners with a direction to divide it up. They have directed the Commissioners to ascertain what part, if any, of the £100,000 is a capital receipt and to adjust the assessment accordingly. Both parties now appeal to this House against the Order of the Court of Appeal ; and well they may, seeing that they had throughout fought their battle on the footing that either the whole £100,000 was a taxable receipt or none of it was. It was " all or nothing ". Yet this Order exposes them, not to the one battle they reckoned on, but a long-drawn-out war. The Master of the Rolls, after he made the Order, said(1) :

> " It would not surprise me if it were years before this case was finally decided after going back to the Special Commissioners ".

and Birkett, L.J., said(2) :

> " I can imagine endless controversy."

I very much doubt whether it was open to the Court of Appeal to remit the case as they did. The only point of law stated for the opinion of the Court is whether " the said sum of £100,000 " was properly included in the profits. It should be noticed that it does not say " or any part thereof ". I realise, of course, that a whole is often taken to include a part without anything being said. But that is not a universal rule. I call to mind covenants against assignment or underletting where it has been held that the whole does not include a part. When this Case is construed in its setting, I think " the said sum of £100,000 " does not include a part of it. The Case refers to the agreement under which the £100,000 was paid. It was paid as an entire sum for a specified consideration. The consideration was the imparting of information and technical data, all of which may be summed up in the new and expressive word " know-how ". The Court of Appeal would seek to divide it into two parts: (1) information about secret processes ; (2) information about other things. The information about secret processes had in the past been kept confidential to Evans Medical and their staff, and was especially valuable on that account. The information about other things was technical knowledge which was not secret but was no doubt valuable in that it could only be obtained from firms who were expert in it. I can see no sensible distinction between money paid for information of secret processes and money paid for the other information. The only difference is that in the one case the money was paid for information which up till then had been *secret,* being obtainable only from the one firm : whereas in the other case it was paid for information which was *scarce,* being obtainable from three or four firms. But the money was paid for the same sort of thing in either case. At any rate, the parties to this agreement did not seek to draw any distinction between the two. £100,000 was paid for the lot. It was a single payment for " know-how ". The Case Stated follows suit. It does not attempt to divide the £100,000 into parts. No evidence was given before the Commissioners about splitting it up. No point was taken on it either before the Commissioners or Upjohn, J. It is a new point which appeared for the first time in the Court of Appeal.

(1) *See* pages 571–2 *ante.* (2) *See* page 568 *ante.*

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Seeing that the Case Stated does not raise this new point about splitting up the £100,000, I do not think it was open to the Court of Appeal to raise it. The Court has, of course, power to remit a case to the Commissioners for further findings when such are necessary to determine the point of law which is raised in the Case. That was done in *Leeming* v. *Jones*(1), [1930] 1 K.B. 279, at page 284. But I do not know of any power to remit it for a finding on a new point which has not been raised before. The general rule of every appellate Court is not to allow a new point to be raised except on a question of law which no evidence could alter: and this applies equally to a Case stated under a Statute worded like Section 64 (6) of the Income Tax Act, 1952: see *Kates* v. *Jeffery*, [1914] 3 K.B. 160; *London County Council* v. *Farren*, [1956] 1 W.L.R. 1297.

I turn, therefore, to consider the entire sum of £100,000. It was payable to Evans Medical on the execution of the agreement of 20th October, 1953, and was no doubt received soon afterwards. The Revenue authorities included it in their assessment upon Evans Medical for the year 1954–55 under Case I of Schedule D. The question is whether it was properly so included. Applying the Statute, this question can be divided into two parts: (1) Was the £100,000 to be included in the "annual profits or gains"? (2) Did it arise or accrue to Evans Medical "from any trade" carried on by it? The first of these, for all practical purposes, can be turned into the question, Was it capital or income? and the second into the question, Was it received in the course of the Company's trade?

So far as the first question is concerned, the Special Commissioners made findings which show that in their view the £100,000 was in the nature of income and not capital—see findings (i), (ii) and (iii); and Lord Evershed, M.R., made it clear that, if he had to treat it as one entire sum, he, too, would say it was income and not capital. I find his reasoning on this part of the case very convincing, and it is forced home by the speech of my noble and learned friend Lord Keith of Avonholm to which we have just listened. I would just mention, if I may, that Romer, L.J., made what looks to me like a slip at a critical point of his reasoning. He assumed that the £100,000 was only payable after the consideration for it was fully performed. It was in truth payable in advance, and indeed so paid, for information to be given over an indefinite period in the future. This period might run into years and in fact has done so, for the factory was not even built three years later when the case reached the Court of Appeal.

The way I look at it is this. Evans Medical were faced with a difficult problem. The Burmese Government were determined to make these products themselves. This would mean that Evans Medical would be forced out of the Burma market or at any rate would lose a good deal of business there. Their goodwill in that country would be diminished in value. But that would not be due to any sale by them of a capital asset. It would take place no matter which of the competing firms obtained the contract. To make up for this coming loss of market, Evans Medical did a sensible thing. They secured the contract to supply the "know-how" to the Burmese Government. This did not purport to be—and was not in fact—a *sale* of secret processes. All that Evans Medical did was to tell the Burmese Government about those processes so that they could use them too. Evans Medical still retained the right to use the processes themselves and stipulated

(1) 15 T.C. 333, at p. 340.

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that the Burmese Government should not divulge the information without their consent. So regarded, the supply of information about the secret processes was nothing more nor less than the supply of "know-how"—a particularly valuable part of it, no doubt—but still the supply of "know-how". And that is how the parties to this agreement treated it. They drew no distinction between it and the other kinds of "know-how" to be supplied in return for the £100,000.

What, then, is the position of "know-how" for tax purposes? It is undoubtedly a revenue-producing asset. The possessor can use it to make things for sale, or he can teach it to others for reward. But he cannot sell it outright. It is rather like the "know-how" of a professional man. He can use it to earn fees from his clients, or he can teach it to pupils for reward, and so produce revenue. But he cannot sell it as a capital asset for a capital sum. He cannot sell his brains. So with a company which has special manufacturing skill and experience but has no secret processes. Its "know-how" is inseparable from the "know-how" of its staff and servants. It cannot prevent them using it any more than it can prevent them using their own brains: see *Herbert Morris, Ltd.* v. *Saxelby,* [1916] 1 A.C. 688, at page 704. It cannot sell it as a capital asset. It can only use it or teach it. Even with a company which owns secret processes, the supply of "know-how" is not like the sale of goodwill or a secret process, for such a sale imports that the seller cannot thereafter avail himself of the special knowledge with which he has parted: see *Trego* v. *Hunt,* [1896] A.C. 7, at pages 24–5; and it may then rightly be regarded as the sale of a capital asset: see *Handley Page* v. *Butterworth,* 19 T.C. 328. But the supplier of "know-how" always remains entitled to use it himself, as was the case here.

For my own part, therefore, I see nothing wrong in the findings (i), (ii) and (iii) of the Commissioners, and am prepared to accept the view that the £100,000 was received for the supply of "know-how"—call it services if you like—over the ensuing years. But I feel difficulty in saying that it was received "in the course of the Company's trade" as wholesale druggists and so forth. It may be said to be an activity of a different kind altogether. The Crown appear to have felt the same difficulty, but thought it did not matter so long as the £100,000 was received in the course of some trade or other They took the view that it did not matter whether it arose from *the existing trade* which Evans Medical had theretofore carried on or from *a new trade* which it commenced on 20th October, 1953. Being in this state of mind, they formulated their contention on this point in the alternative. They contended that the £100,000

> "arose to the Company either from the trade it had previously carried on or from a new trade which it had commenced to carry on on 20th October, 1953".

Even if the Crown did not formulate the contention themselves, the Commissioners so understood it and inserted it in the Case. It was no doubt submitted to the Crown and approved by them, so they cannot now disavow it. The Commissioners accepted the contention in the very formula which the Crown had adopted:

> "We therefore held",

they said,

> "that the said sum of £100,000 arose to the Company either in the course of the trade which it had hitherto carried on or in the course of a new trade which it commenced to carry on on 20th October, 1953".

(Lord Denning.)

It is very unfortunate for the Crown that they formulated their contention in that alternative form or approved it as they did, for it has since become quite apparent that it does matter very much whether the £100,000 was received in the course of the existing trade or at the beginning of a new trade. If it was received in the course of a new trade, it could not be brought into the assessment of the Company's existing trade for 1954–55, which was the only assessment here in question, but would have to come into a new assessment for the new trade calculated in the special way that profits are calculated at the commencement of a new trade. When Upjohn, J., pointed out this difficulty to Sir Frank Soskice, he abandoned any reliance upon a new trade. But this abandonment does not get the Crown out of the difficulty. Sir Frank Soskice, for all his wit, cannot cancel half a line of the finding nor can his tears wash out a word of it. The finding by the Commissioners still remains an alternative finding. The Crown have no right to take the first alternative, which suits them, and reject the second alternative, which does not. For aught we know, the Commissioners, if asked to decide between the two alternatives, might have come down in favour of the second.

Sir Frank Soskice found himself, therefore, forced to say that the only proper inference from the primary facts was that the £100,000 was received in the course of the *existing* trade. He relied on the fact found by the Commissioners that

> "In entering into the agreement, the Company chose the method of developing its business which seemed to its directors to be the best available in the circumstances."

But this fact is neutral. "Its business" may mean either its existing business or its new business. When read with the alternative finding, it is clear that the Commissioners did not intend by that sentence to decide whether the Company was developing its existing business or starting a new one. The Case Stated, read as a whole, seems to me quite consistent with the view —which Upjohn, J., thought was the only reasonable view(1)—that

> "the Company was not 'exploiting' its business in the only sense in which that word is relevant, that is, of carrying on its trade of wholesale druggists in Burma, but in and by the agreement it entered into the entirely new activity of acting as adviser of the Burmese Government by assisting to set up a completely new industry there".

Such new activity might have been taxable as being an adventure in the nature of trade but it cannot be brought into the assessment of the Company's existing trade for 1954–55.

The upshot of it all is that, although the Crown have a finding in their favour that the £100,000 was income and not capital, nevertheless they have no finding that it was received in the course of the existing trade which is being taxed. It may equally well have been received in the course of a new activity which is not being taxed. That is not good enough to enable the Crown to succeed in this Case Stated. The law never gives judgment in favour of a plaintiff when the only finding is equally consistent with liability or non-liability. The Crown have themselves to thank for this result because of the way they formulated their contentions. They are hoist with their own petard. They can go away and ponder again the words of Lord Cairns(2): "If the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free".

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(1) *See* page 549 *ante*.
(2) Partington *v.* Attorney-General, L.R. 4 H.L. 100, at p. 122.

(Lord Denning.)

I would therefore dismiss the appeal and allow the cross-appeal.

Questions put :

That the Order appealed from be reversed so far as complained of in the cross-appeal, and that the Order of Upjohn, J., be restored.

The Contents have it.

That the original appeal be dismissed.

The Contents have it.

That Louis Moriarty (Inspector of Taxes) do pay Evans Medical Supplies Limited their costs of the original and cross-appeals here, and also their costs in the Court of Appeal.

The Contents have it.

[Solicitors : —Whitfield, Byrne & Dean, for Whitley & Co., Liverpool ; Solicitor of Inland Revenue.]

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