NO. 742.—HIGH COURT OF JUSTICE (KING'S BENCH DIVISION).—6TH MARCH, 1928.

COURT OF APPEAL.—1ST AND 2ND NOVEMBER, 1928.

HOUSE OF LORDS.—9TH DECEMBER, 1929.

MILLS *v.* JONES (H.M. INSPECTOR OF TAXES).[1]

Income Tax—Payment by Royal Commission on Awards to Inventors for user of patent—Income or capital.

In March, 1921, *an award was made by the Royal Commission on Awards to Inventors in respect of the user, past, present and future, by the British Government (including user by way of selling for use, licensing or otherwise) of the Mills bomb. Over 75 millions of these bombs had been made during the war and large stocks were still in existence. The Appellant, as patentee of certain improvements to this bomb, received sums representing the major part of this award, and was charged to Income Tax thereon. The General Commissioners, on appeal, held that in view of the large stock of bombs still in existence further manufacture during the currency of the Appellant's patents was unlikely, and that the amount of the award attributable to future user was negligible, and they decided that the sums received by the Appellant were annual profits or gains chargeable to Income Tax under Schedule D.*

Held *that the Appellant had been correctly charged to Income Tax.*

Constantinesco *v.* Rex, 11 T.C. 730, *followed.*

CASE

Stated by the Commissioners for the General Purposes of the Income Tax Acts for the Division of Hemlingford in the County of Warwick pursuant to the provisions of Section 149 of the Income Tax Act, 1918, for the opinion of the High Court of Justice.

1. At a meeting of the Commissioners for the General Purposes of the Income Tax Acts for the Division of Hemlingford on the 7th October, 1926, at 159, Great Charles Street, Birmingham, Sir William Mills, Knight, hereinafter called the Appellant, appealed against surcharges made upon him under Section 126 of the Income Tax Act, 1918, in the sum of £24,000 for the year ended 5th April, 1921, and in the sum of £3,750 for the year ended 5th April, 1922.

[1] Reported (K.B.D.) 44 T.L.R. 351, (C.A.) 45 T.L.R. 31 and (H.L.) 46 T.L.R. 118.

2. The sole question at issue in these appeals is whether the Appellant was liable to be charged in respect of the sums of £24,000 received by him on the 30th March, 1921, and £3,750 received by him on the 3rd August, 1921, in the circumstances hereinafter set out.

No question arises as to the validity of the surcharges which it was admitted were correct in form. It was also admitted on behalf of the Crown that no question of any treble rate of tax under Section 137 (6) (*b*) arose as there was reasonable cause of doubt or controversy on the part of the Appellant on the subject matter of the appeal.

3. The appeal arose out of certain payments made by the British Government in respect of a hand grenade known as the Mills Bomb. A bomb or hand grenade known as the Roland Bomb had been invented in Belgium and the Appellant had effected certain improvements upon the Roland Bomb which improvements were the subject matter of certain patents taken out by the Appellant. The Government under the provisions of Section 29 of the Patents Act, 1907, used the said inventions and authorised a large number of manufacturers throughout the United Kingdom to manufacture the said bombs or hand grenades according to the Letters Patent taken out by the Appellant. The total number so made during the War was 75,131,962.

4. A Royal Commission on Awards to Inventors was established by Royal Warrant on the 19th March, 1919, to deal with the question, *inter alia*, of the payments to be made to inventors whose patents were made use of by H.M. Government during the War. A copy of the Royal Warrant establishing such Royal Commission marked "A" is annexed hereto and forms part of this Case. Copies of the Reports of the said Commission dated respectively 14th December, 1920, 14th November, 1922, and 21st October, 1924, are annexed hereto marked " B," " C " and " D "(1) and form part of this Case.

5. In consequence of the fact that the patents taken out by the Appellant were improvements upon the Roland Bomb a number of persons claimed to have a right to a share in any payment made by H.M. Government in respect of the Mills Bomb. In order to avoid confusion before the Royal Commission and a conflict of interests a deed was entered into by which Lt.-Col. William Stephen Tunbridge should make a claim to the Royal Commission on behalf of Leon Roland, Jules de Laminne, the Compagnie Belge des Munitions Militaire Société Anonyme, Albert Dewandre, all resident in Belgium and William Mills, the Appellant. A Copy of this said deed is annexed hereto marked " E "(1) and forms part of this Case.

(1) Not included in the present print.

6. In accordance therewith Lt.-Col. Tunbridge made a claim on the 31st July, 1919, to the Royal Commission asking for royalties in respect of the user by the Crown during the late War of the aforesaid patents. A copy of the particulars of claim is annexed hereto marked " F "(1) and forms part of this Case. In reply to such particulars of claim a counter-statement on behalf of H.M. Government was filed on 10th August, 1920. A copy of this counter-statement is annexed hereto marked " G "(1) and forms part of this Case.

7. The Royal Commission heard the claim on the 17th and 24th January, 1920, and an award was made on the 11th March, 1921, of £37,000 in respect of all user past present and future by or for the purposes of H.M. Government (including user by way of selling for use licensing or otherwise dealing therewith) of all hand grenades known as the Mills Bombs (including such of the said grenades as were manufactured in accordance with the said Letters Patent or any of them) the total number of such grenades being 75,131,962. Out of this £37,000 a sum of £5,000 was to be retained by the War Office pending the investigation of a claim made by another party. Copies of the shorthand notes of the proceedings made upon the hearing of the claim marked " H "(1) and of the above-mentioned Award marked " I " are attached hereto and form part of this Case.

8. The division in accordance with the terms of the deed mentioned in paragraph 5 hereof of the amount so awarded between the various parties was as follows: The Appellant received three-quarters (£27,750) and Lt.-Col. Tunbridge on behalf of the applicants resident in Belgium received one-quarter (£9,250). The sum of £24,000 was paid to the Appellant on the 30th March, 1921, and the sum of £3,750 on the 3rd August, 1921. The said sums were paid by H.M. Treasury and no deduction in respect of Income Tax was made upon payment. No assessment or additional assessment was ever made upon the Appellant in respect of the said sums, but on the 13th July, 1926, the Inspector of Taxes made the surcharges referred to in paragraph 1 hereof.

9. With regard to any user of the patents, in respect of which the claim was made, subsequent to the date of the award it was improbable in view of the large stocks of Mills Bombs which were on hand at the time of the Armistice that any further manufacture of bombs in accordance with the patents mentioned above would take place prior to the expiration of the patents taken out by the Appellant. The Commissioners therefore held that the amount of future user included in the said payments was negligible.

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(1) Not included in the present print.

10. It was contended on behalf of the Appellant that the said payments were of a capital nature and that the real nature of the said Award and payment was the acquisition by the Crown of the rights of the Appellant, for a lump sum, and that therefore the Appellant was not chargeable in respect thereof.

11. It was contended on behalf of the Crown, *inter alia*, that :—

(i) The sums received were the total sums paid for the actual user of the patents and were in the circumstances of the present case annual profits or gains chargeable under Schedule D in the hands of the Appellant;

(ii) The reference in the award to future user had no effect to stamp the payments made with the character of capital payments;

(iii) Although the award in its terms referred to future user the possibility of future user was so remote that the whole sum awarded should be taken to have been paid in respect of past user;

(iv) If the Commissioners were of opinion that any part of the payments made was to be regarded as made in respect of future user and that such part was a payment in the nature of a capital payment it was open to them to reduce the amounts of the surcharges respectively;

(v) The surcharges were correct in principle and in amount and should be confirmed.

12. We, the Commissioners, after hearing the facts proved before us and the contentions of the parties held that the said sums awarded were annual profits or gains chargeable to Income Tax under Schedule D and we accordingly confirmed the certificates of surcharge.

13. The Appellant thereupon expressed dissatisfaction with our determination as being erroneous in point of law and duly required us to state a Case for the opinion of the High Court of Justice, which Case we have stated and do sign accordingly.

SYDNEY WALKER,
J. C. VAUDERY,
WILLIAM DARBY,
} Commissioners of Taxes.

Birmingham,
19th October, 1927.

A.

ROYAL WARRANT, DATED 19TH MARCH, 1919.

Whitehall, 19th March, 1919.

The KING has been pleased to issue a Commission under His Majesty's Royal Sign Manual to the following effect :—

GEORGE R.I.

GEORGE THE FIFTH, by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, to

Our Trusty and Well-beloved :—

Sir Charles Henry Sargant, Knight, one of the Judges of Our High Court of Justice (Chancery Division) ;

Robert John Strutt, Esquire, Fellow of the Royal Society (commonly called The Honourable Robert John Strutt) ;

Sir James Johnston Dobbie, Knight, Doctor of Science, Doctor of Laws, Fellow of the Royal Society, Principal of the Government Laboratories ;

George Lewis Barstow, Esquire, Companion of Our Most Honourable Order of the Bath, a Principal Clerk in the Treasury ;

William Temple Franks, Esquire, Companion of Our Most Honourable Order of the Bath, Comptroller-General of Patents, Designs and Trade Marks ;

Alfred Clayton Cole, Esquire ;

Halford John Mackinder, Esquire ; and

Robert Young, Esquire,

Greeting !

Whereas by Section 29 of the Patents and Designs Act, 1907, it is enacted as follows, that is to say :—

" A patent shall have to all intents the like effect as against His Majesty the King as it has against a subject :

Provided that any Government department may, by themselves, their agents, contractors or others, at any time after the application, use the invention for the services of the Crown on such terms as may, either before or after the use thereof, be agreed on, with the approval of the Treasury, between the department and the patentee, or, in default of agreement, as may be settled by the Treasury after hearing all parties interested."

And whereas recently and particularly in connection with the present War there has been an exceptional user by the Navy, Army, Air Force, Ministry of Munitions and other Government Departments of inventions protected by Letters Patent :

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

And whereas, under the circumstances aforesaid, an unduly heavy burden has been cast upon the Treasury in relation to the settlement of the terms of user of patented inventions under the aforesaid Section 29, and otherwise under that section, and also in relation to fixing any proper remuneration in respect of the other matters hereinafter mentioned :

And whereas We have deemed it expedient in the premises that a Commission should forthwith issue for the purposes and with the powers hereinafter appearing :

Now know ye that We, reposing great trust and confidence in your knowledge and ability, have authorised and appointed, and do by these Presents authorise and appoint you the said Sir Charles Henry Sargant (Chairman); Robert John Strutt, Sir James Johnston Dobbie; George Lewis Barstow; William Temple Franks; Alfred Clayton Cole; Halford John Mackinder and Robert Young to be Our Commissioners for the purposes and with the powers following, that is to say :—

(1) In any case of user or alleged user of any patented invention for the services of the Crown by any Government Department and of default of Agreement as to the terms of user, the Commissioners, upon the application of the patentee and agreement to accept their determination, may proceed to settle and may settle the terms of user in lieu and place of the Treasury : Provided that the Commissioners shall not actually award to the patentee any sum or sums of money whether by way of a gross sum or by way of royalty or otherwise which shall together exceed an aggregate sum of £50,000 beyond and in addition to any allowance the Commissioners may think fit to make for outlay and expenses in connection with the invention; But the Commissioners, if of opinion that the Patentee is fairly entitled to a remuneration exceeding the said aggregate sum of £50,000, may make a recommendation to the Treasury as to any such excess with a statement of their reasons for such recommendation.

(2) In any case where terms of user of any patented invention (including any terms as to selling for use, licensing or otherwise dealing with any article made in accordance therewith, or any terms as to assignment of an invention under Section 30 of the Act) have been agreed or are in course of agreement between the patentee and any Government Department, the Commissioners may on the application of the Treasury make any recommendation as to the giving or withholding by the Treasury of approval of such

agreement or proposed agreement, and may assist in adjusting or determining any term or terms of any proposed agreement as to which the parties may not be fully agreed.

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

And for the better effecting the purposes of this Our Commission, We do by these Presents authorise you to sit in two divisions, each division consisting of such three or more of you as the said Sir Charles Henry Sargant shall determine; and to allocate to the two said divisions such of the matters submitted for your consideration as you may deem expedient.

And We do by these Presents give and grant unto you full power to call before you such persons as you shall judge likely to afford you any information upon the subject of this Our Commission; to call for information in writing; and also to call for, have access to, and examine all such books, documents, registers and records as may afford you the fullest information on the subject, and to inquire of and concerning the premises by all other lawful ways and means whatsoever.

And We do by these Presents authorise and empower you to visit and personally inspect such places as you may deem it expedient so to inspect for the more effectual carrying out of the purposes aforesaid.

And We do by these Presents will and ordain that this Our Commission shall continue in full force and virtue, and that you, Our said Commissioners, may from time to time proceed in the execution thereof, and of every matter and thing therein contained, although the same be not continued from time to time by adjournment.

Provided that, should you deem it expedient, the powers and privileges hereinbefore conferred on you shall belong to, and may be exercised by, any one or more of you.

And We do further ordain that you have liberty to report your proceedings under this Our Commission from time to time, if you shall judge it expedient so to do.

And Our will and pleasure is that you do, from time to time, report to the Lord Commissioners of Our Treasury, under hand and seal, your opinions upon the matters herein submitted for your consideration.

Given at Our Court at Saint James's the nineteenth day of March, one thousand nine hundred and nineteen, in the ninth year of Our Reign.
By His Majesty's Command.

EDWARD SHORTT.

I.

AWARD, DATED 11TH MARCH, 1921.

THE ROYAL COMMISSION ON AWARDS TO INVENTORS.

APPLICATION OF COLONEL W. S. TUNBRIDGE ON BEHALF OF CAPTAIN L. ROLAND, JULES DE LAMINNE, THE COMPAGNIE BELGE DES MUNITIONS MILITAIRES (SOCIETE ANONYME) ALBERT DEWANDRE AND WILLIAM MILLS IN RESPECT OF HAND GRENADES (OR "MILLS" BOMBS).

AWARD.

The Commission have settled the terms of user of this invention as follows, that is to say, the Applicant is to be paid the sum of £37,000 (Thirty seven thousand pounds) in respect of all user, past, present and future, by or for the purposes of His Majesty's Government (including user by way of selling for use, licensing or otherwise dealing therewith) of all Hand Grenades known as Mills Bombs, including such of the said Grenades as were manufactured in accordance with Letters Patent 2111/1915, 2468/1915, 7636/1915, 11223/1915 and 100325/1916, or any of them, the total number of such Grenades being approximately 75,132,000.

This Award is made on the basis of an admission by the Applicants in the course of the case that Letters Patent 18766/1913 have not been infringed in the manufacture of any of the said Hand Grenades.

This Award is also made on the terms that the sum of £5,000 (Five thousand pounds) part of the above-mentioned sum of £37,000 (Thirty seven thousand pounds) is not to be paid to the Applicant forthwith but is to be retained by the War Office against any sum by which the Commission, after investigation of the claim made by Mr. Wilfrid L. Bullows, may decide that the said sum of £37,000 ought to be reduced.

(*Signed*) CHARLES H. SARGANT, *Chairman.*

Date 11th March, 1921.

P. ZIDAL R. MARTIN,
Secretary.

The case came before Rowlatt, *J.*, in the King's Bench Division on the 6th March, 1928, when judgment was given in favour of the Crown, with costs.

Mr. W. A. Jowitt, K.C., and Mr. J. F. Eales appeared as Counsel for the Appellant, and the Attorney-General (Sir D. Hogg, K.C.) and Mr. R. P. Hills for the Crown.

JUDGMENT.

Rowlatt, J.—In this case the award was for the sum of £37,000 in respect of all user past present and future, by or for the purposes of H.M. Government (including user by way of selling for use licensing or otherwise dealing therewith) of all hand grenades known as Mills Bombs, including such of the grenades as were manufactured in accordance with certain patents. Those patents do not include Roland's patent ?

Mr. Eales.—No, my Lord.

Rowlatt, J.—That was the award, and the question is whether that £37,000 was income or capital. We have had the *Constantinesco* case (1) referred to, and in the *Constantinesco* case there was certainly no statement in respect of all user past present and future or including user for selling or anything of that kind in the award. Otherwise, it seems to me that the *Constantinesco* case is really the same as this. It is clearer perhaps, but I think in substance it is the same. There the claim was made on a strict royalty basis, as for a valid patent. Here the patent was only admitted in the form of qualifications, which I need not read out, but in substance the thing went through on the footing of its being a valid patent, and therefore the patent of a man who was entitled to a royalty, or something equivalent to a royalty.

Now in this case the claim was put forward on a royalty basis. There was some admission with a qualification, but it was contended for all through by the Applicant, right up to the last words of his Counsel, that he ought to have a sum calculated at so much per bomb, which is a royalty ; that is how it was put. Now on the other side it was suggested that there was not so very much novelty about it, although it was good enough to create a user of 75,000,000 bombs, and in respect of one of the patents claimed, it turned out that it had not been infringed. Well, but what does it all come to in the end ? Was this sum given in respect of user of something which, without any admission, going the full length, was worthy to be treated on this occasion as compensatable, as if it were a patent ? That is what it comes to, and it seems to me that it may very well be in these cases, on this illogical ground, as Mr. Jowitt perhaps justifiably called it, you assess the award to the patentee upon the footing of a royalty, but making an allowance

(1) 11 T.C. 730.

(Rowlatt, J.)

in the amount for the fact that it is just possible that the patent might have been attacked if that course had not been taken. That is how it strikes me. About this particular clause in the award the question is whether that makes any difference, and I have come to the conclusion that it does not. I do not think it is substantial enough. I am bound to say it is formidable, because reading the award, it does rather look as if you could not say this was an award merely in respect of user; but was the buying out and out of this patent for the future too, for an indistinguishable sum. But I think that is too meticulous a way of looking at it when one sees the genesis of the thing. This Commission, as I understand it, had not any power for assessing the Government to pay compensation for future use "for selling, licensing, or otherwise dealing "with" the patent. They had no power of that sort at all. When you turn to the argument and see how it all arose, and what introduced these formidable words, it simply came to this, that you are dealing with a bomb of which a great many have been made and a certain number are in stock, and it was alleged they are all patented. Now the war is over. The Chairman says: It does not look as if we shall have any further use to add to the enormous figures we have got before us already. Do the parties consent that we shall make an end of it once and for all? Finally the parties did consent. Counsel for the Crown got instructions about this trivial matter and obviously nobody was ever thinking much of it. I think that this is simply just put in to make it quite clear that, among other things taken into consideration in this case, is the circumstance that it is not anticipated that there is going to be any more use of these bombs to speak of, and there will be no more further claim. That is one of the circumstances which is looked at broadly, but it looms so large in the award as to form a basis of an argument that the whole case ought to be looked at as on a different basis altogether. I am unable to do so. I think this is clearly governed by the *Constantinesco* case, though it is not quite so simple a case, and therefore I must give judgment for the Crown on this argument, with costs.

An appeal having been entered against this decision, the case came before the Court of Appeal (Lord Hanworth, *M.R.*, and Greer and Russell, *L.JJ.*) on the 1st and 2nd November, 1928, and on the latter date judgment was given unanimously in favour of the Crown, with costs, confirming the decision of the Court below.

Mr. S. J. Bevan, K.C., and Mr. J. F. Eales appeared as Counsel for the Appellant, and the Attorney-General (Sir T. Inskip, K.C.) and Mr. R. P. Hills for the Crown.

JUDGMENT.

Lord Hanworth, M.R.—This is an appeal from a decision of Mr. Justice Rowlatt, who confirmed the decision of the Commissioners, which was as follows: ". . . after hearing the facts " proved before us and the contentions of the parties " we ". . . " held that the said sums awarded were annual profits or gains " chargeable to Income Tax under Schedule D and we accordingly " confirmed the certificates of surcharge."

The question that is the subject of the surcharge is a sum paid to Sir William Mills under an award made by the Commission which was appointed for making awards to inventors in respect of the inventions and patents which had been provided by them during the course of the War. A considerable sum was paid to Sir William Mills, a sum in which he was not interested alone, but in company with others. The sum is a considerable sum; it was, as a matter of fact, £37,000; but it is right to state that, upon the facts which appear, the sum was not due exclusively to Sir William Mills.

The point that is now raised is this: That sum was paid over in consequence of an award which is dated the 11th of March, 1921, and at the time when the payment was made no deduction was made in respect of Income Tax. By Section 29 of the Finance Act of 1923, the time in which assessments may be amended and additional assessments and surcharges made was much increased. The terms of the Section are these: " Subject to the provisions of " this section, an assessment, an additional first assessment or " a surcharge in respect of income tax chargeable for the year " 1920–21 or any subsequent year of assessment may be amended " or made, as the case may be, under section one hundred and " twenty-five of the Income Tax Act, 1918, or section one hundred " and twenty-six of that Act, at any time not later than six years " after the end of the year to which the assessment relates or " the year for which the person liable to income tax ought to have " been charged." Under the powers of that Section a surcharge was made upon Sir William Mills in respect of the receipt in 1921 of this sum of £37,000 in consequence of the award made on that date. I confess that some human sympathy is engaged on behalf of the Appellant, for the powers of that Section 29, which I have read, enable a matter to be re-opened after a long interval of time. Sir William Mills had been in possession of the sum paid to him without deduction of Income Tax, as it could have been deducted, under Rule 21; and it was not until, I think I am right in saying, five years later that this surcharge is made upon him, at a time when he may have made definite and, perhaps, unrecallable dispositions of the sum which had reached him five years ago. The inconvenience of the practice of such a surcharge is plain. However, one must be careful that a general sympathy does not misguide one on a point of law, and the question we have to

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determine is whether or not the Commissioners were right in their decision and whether Mr. Justice Rowlatt was right in the judgment which he gave, supporting the Commissioners.

Now, agreeing that the powers of the Commissioners were to make the surcharge, the point that is taken on behalf of the Appellant is this: It is true that there was an award, and it is true that it was an award for the user of the hand grenades known as " Mills bombs " which, it is common knowledge, were widely used in the various theatres of war; but it is not merely for the user, so it is claimed, that this award was made; it is for something more.

The terms of the award are as follows: " The Commission have " settled the terms of user of this invention as follows, that is " to say, the Applicant is to be paid the sum of £37,000 (Thirty- " seven thousand pounds) in respect of all user, past, present and " future, by or for the purposes of His Majesty's Government " (including user by way of selling for use, licensing or otherwise " dealing therewith) of all Hand Grenades known as Mills Bombs, " including such of the said Grenades as were manufactured in " accordance with " certain Letters Patent which are numbered and stated " or any of them, the total number of such Grenades " being approximately 75,132,000."

Now, it is claimed that inasmuch as the sum paid represents a user in the future, the possibility of " licensing or otherwise " dealing therewith ", what has been handed over to the Government is a slice of the capital possessions belonging to Sir William Mills under his patents; in other words, that the Government have become the holder and owner of an aliquot portion of the patent rights, and thus that Sir William Mills is being paid not merely for something which is in the nature of annual profits and gains or income, but something which represents a capital sum.

The history of such a payment is this: By Section 29 of the Patents Act of 1907 a new provision was made whereby a patent was declared to have, to all intents, the like effect as against His Majesty the King as it has against the subject; but there was a proviso that " any Government department may, by themselves, " their agents, contractors, or others, at any time after the appli- " cation, use the invention for the services of the Crown on such " terms as may, either before or after the use thereof, be agreed on, " with the approval of the Treasury, . . . or, in default of agree- " ment, as may be settled by the Treasury ". Thus, rights were given as against the Crown to patentees. That power, so given in the proviso, to Government Departments was, of course, exercised during the Great War and, in consequence, after the War was over, there was a Commission set up, which was known as the Royal Commission on Awards to Inventors, and they were empowered. . . .

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" In any case of user or alleged user of any patented invention for " the services of the Crown by any Government Department and in " default of Agreement as to the terms of user, the Commissioners, " upon the application of the patentee and agreement to accept " their determination, may proceed to settle and may settle the " terms of user in lieu and place of the Treasury." There was another clause which also may be referred to as germane to the subject. The Commission therefore sat under that power, and they had to determine the user. Now, at the time when the Commission sat, it was stated that the number of hand grenades that had been either used or were still in stock totalled 75,132,000; and the question arose as to whether the Commission should deal only with the user up to date or with the possible user in the future. It was said that there might be a certain user for practice purposes, but it was contemplated, in words which were used before the Commission, the shorthand note of which is attached to the Case, that the probability of any large user was remote. Further, according to the statement made to the Commission, there was an agreement or arrangement made whereby the Commission were to deal with what is called the whole matter once for all. The Chairman asked Mr. Hunter Gray: " But can we take it as covering " future user as well as the past? " Mr. Hunter Gray: " Yes ". The representative of the Attorney-General was not able at the moment to give his adhesion to that course, but later on he said: " We prefer that it should be wholly disposed of." He also said: " But it has to be remembered that we have in store many more " grenades than we are likely to use in years of practice " . . . and so on. But it appears clear that what was considered there was that it was covering future user as well as the past. That evidence is attached to the Case. The practice is not a convenient one, because, of course, it is for the Commissioners to find the facts, and I am inclined to agree with an observation that was made by Lord Justice Greer in the course of the argument, that we have got to look at the award which was reached upon that evidence rather than to the observations that were made before the award was reached, because it would appear that what is included in the award in its terms covers future use. If and in so far as it is a question as to what the award includes, it is important to observe that in paragraph 9 of the Case the Commissioners say this: " With " regard to any user of the patents, in respect of which the claim " was made, subsequent to the date of the award it was improbable " in view of the large stock of Mills Bombs which were on hand " at the time of the Armistice that any further manufacture of " bombs in accordance with the patents mentioned above would take " place prior to the expiration of the patents taken out by the " Appellant. The Commissioners therefore held that the amount " of future user included in the said payments was negligible."

(Lord Hanworth, M.R.)

Now, we turn back, upon those facts, to consider what does this award cover? Does it cover the transfer of capital rights, or does it deal with matters of gains and profits in respect of the business of the making and the selling of these hand grenades? Looking carefully at the words, it appears to me that the Commission have settled the terms of user of this invention, and they award a sum to be paid in respect of all user, past, present and future, of Sir William Mills Hand Grenades, including user by way of selling, which means that His Majesty's Government could dispose of some of their stock—" . . . of selling for use, licensing " or otherwise dealing therewith ". That appears to me to refer to the bombs which are totalled to 75,132,000; and, although the word " licensing " is used, it seems to me that that word is brought forward from the passage which has already been read in argument, and is not to be deemed to be a substantive portion or a new portion of the award so as to justify a claim that in this award there were capital rights transferred to the Government. From the terms of the Warrant, the Commission had no power to deal with capital rights. The award does not set out any agreement showing that, by agreement, some further power has been given to them. The award purports to settle the terms of the user of this invention, past, present and future.

In my judgment, I think that the Commissioners were right in holding that what was dealt with by the award was this right of user, not only as to the past, but in respect of the whole of the bombs which might be, after the date of the award, manufactured and made use of by the Government; but the closer contemplation of the parties was in respect of the stock which they had before them. The Commissioners hold that the said sums awarded were annual profits or gains chargeable to Income Tax under Schedule D, as they would be within Rule 21. I find it impossible, in the terms of this award, to find a payment in respect of a capital sum, and it appears to me that the award is made in respect of matters which were profits and gains and ought to be included in the income of the Appellant for the year 1921.

Under these circumstances, I think the case falls exactly within the decision of the *Constantinesco* case(1). That decision is, of course, binding upon us; but, more than that, it was upheld in the House of Lords. Therefore, we must follow it. In my view, this case cannot be distinguished from the *Constantinesco* case, and therefore the appeal fails, Mr. Justice Rowlatt's judgment was right, and the appeal must be dismissed with costs.

Greer, L.J.—I have come to the same conclusion, after some hesitation and doubt in the course of the argument. The question to be determined is whether Sir William Mills' share of the sum

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

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of £37,000, awarded to Colonel Tunbridge on behalf of Sir William Mills and others by the decision of the 11th March, 1921, is to be treated as a payment in respect of royalties, and therefore liable to be treated, as royalties always are, as part of the annual gains of the patentee, or whether it is to be treated as the price of Sir William Mills' interest in the patents.

Now, if one looks at Section 29 of the Patents and Designs Act of 1907, one sees that the Government is empowered " by themselves, their agents, contractors or others, at any time after the " application," to use or exercise " the invention for the services " of the Crown on such terms as may, either before or after the use " thereof, be agreed on, with the approval of the Treasury, between " the department and the patentee, or, in default of agreement, as " may be settled by the Treasury after hearing all parties interested." Now, I cannot avoid the conclusion that it would be open to the Crown and the patentee, under the terms of Section 29, or to the authority which, in the absence of agreement, is to determine the question, to say that the patent shall be used on a payment of royalties consisting of a lump sum, say, divided into two or more parts, payable at the end of the third year, at the end of the sixth year, at the end of the ninth year, at the end of the fourteenth year of the patent, or payable in advance in respect of any period of the patent. If that agreement were made in clear terms so that it was determined that the payments were in respect of royalties, even though the agreement covered the whole fourteen years, or, it may be, the sixteen years, of the patent, the payments would be none the less payments in respect of royalties, and therefore liable to be charged with Income Tax.

What has happened here is this: that for a number of years, down to 1921, or down at any rate to the end of the War, the Government had been using the patents which belonged to Sir William Mills and his fellow patentees without any arrangement having been made under the provisions of Section 29, and under those circumstances the patentees were entitled to go to the Royal Commission appointed by Warrant, and, under Section 1, ask them to fix the terms of user of the patents in question. It seems to me that they were in the same position as the authority provided for by Section 29, and they might fix the terms of user, not only so far as regards the past, but they might fix the terms of user so far as regards the future. Having heard what both sides had to say to them, the Commission made the award, and now that the matter has been argued I have come to the conclusion that the award is no more than this: The fixing of a sum which is to cover royalties which were due in respect of the user in the past and anything that might become due, though possibly very small in amount, in respect of royalties for user in the future. I think it is quite clear that, whatever may have been the effect in practice of the award, it does

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not, by its terms, deprive the patentees of any of their rights in the patents, but only gives the right of use, including the right of user by way of selling the use, the right to license for use, and the right of otherwise dealing in any way with the patents, but not the exclusive licence, excluding the patentee. The patentee, I think, was perfectly right in his assumption that if he could, under the Customs Act, have got a licence to export, he could have made Mills Bombs and could have exported them to Greece for use by the Greek Army. But, of course, his trouble arises from the fact that there is such a provision as that which is in the Customs Act, and it does not arise from the fact that he has parted with his whole interest in the Mills Bombs.

I think, under these circumstances, it is impossible to say that the award was an award in respect of the capital value of Sir William Mills' interest in the patents. It was, on the other hand, in my judgment an award in respect of royalties payable in the past, with a sum sufficient to cover any royalties which might be incurred in the future, as well as those which were due in respect of past user.

For these reasons, I think the judgment below was right and should be confirmed.

Russell, L.J.—I am of the same opinion. I feel myself quite unable to read this award as a document assessing the sum to be paid as the purchase price of the patentee's interests in the patents as from the date of the initial user of them by the Crown. I feel quite unable to do so for various reasons. One is that the Commission had, under their Warrant, no power to make any such order or award. Secondly, the document itself, throughout its length, calls itself over and over again an " award "; and, thirdly, if the suggestion was accurate that the parties had agreed to confer upon the Commission this jurisdiction, and the Commission was purporting to exercise a jurisdiction which they could only exercise by virtue of the parties' agreement, one would have expected to find upon the face of the document a clear statement of that consent, and such a statement is conspicuous by its absence. In my opinion, the award—and I agree that we ought to construe the document apart from any reference to the shorthand notes of what passed before the Commission—is one which awards a sum by way of remuneration in respect of the user of the invention, partly and mainly in respect of past user, but partly, and to a small extent, in respect of future possible user during the continuance of the patents. But the whole payment is a payment, whether for past or future user, of royalties, or moneys in the nature of royalties, and, as such, is properly assessable as profits and gains.

Lord Hanworth, M.R.—The appeal is dismissed with costs.

The Attorney-General.—If your Lordship pleases.

An appeal having been entered against this decision, the case came before the House of Lords (Lord Buckmaster, Viscounts Dunedin and Sumner and Lords Blanesburgh and Atkin) on the 9th December, 1929, when judgment was given unanimously in favour of the Crown, with costs, confirming the decision of the Court below.

Mr. S. J. Bevan, K.C., and Mr. J. F. Eales appeared as Counsel for the Appellant, and the Solicitor-General (Sir J. B. Melville, K.C.) and Mr. R. P. Hills for the Crown.

JUDGMENT.

Lord Buckmaster.—My Lords, in this appeal the Appellant has been surcharged with Income Tax for the sum of £24,000 received by him on the 30th March, 1921, and for £3,750 received on the 3rd August, 1921. He alleges that he was not liable in respect of either of those sums. The monies were paid to him in the following circumstances: In the years 1915 and 1916 the Appellant had effected certain improvements in a bomb known as the Roland Bomb, and had taken out patents for the protection of those improvements. At that time the Government enjoyed, by virtue of Section 29 of the Patents Act of 1907, the right to acquire and use patents on terms that are there provided. That section of the Statute is in these terms: "A patent shall have to all intents "the like effect as against His Majesty the King as it has against "a subject: Provided that any Government department may, by "themselves, their agents, contractors, or others, at any time after "the application, use the invention for the services of the Crown "on such terms as may, either before or after the use thereof, be "agreed on, with the approval of the Treasury, between the "department and the patentee, . . ." In order to ascertain the payments that ought to be made by the Government in respect of the user of such patents during the War, a Commission was set up on the 19th March, 1919, under a warrant which empowered the Commissioners in case of user or alleged user of any patented invention for the services of the Crown and in default of agreement as to terms to settle what the amount might be for the user in lieu and in place of the Treasury, subject to certain provisions and exceptions, which are not material. This particular question was then placed before the Commission and they accordingly made an award in the following terms: "The Commission have settled the "terms of user of this invention as follows, that is to say, the "Applicant is to be paid the sum of £37,000 (Thirty-seven "thousand pounds) in respect of all user, past, present and future, "by or for the purpose of His Majesty's Government (including "user by way of selling for use, licensing or otherwise dealing "therewith)."

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Now it appears that some 75,139,962 bombs had been made under these patents, and it also appears that the Commission, whether by virtue of a power inherent in their original warrant or by agreement of the parties—a matter upon which it is unnecessary to express an opinion—did in fact consider, in forming their award, the sum which should be paid, not only in respect of the use of the invention that had already taken place, but such user, if any, as might be anticipated in the future, and the £37,000 covered both. This £37,000 was apportioned into two sums—£27,750 belonged to the Appellant, and £9,250 belonged to others; the £27,750 is represented by the two sums of £24,000 and £3,750 that were paid to the Appellant respectively in March and August, 1921. Income Tax was not deducted when the monies were paid, and subsequently surcharges were made in respect of such tax. The Appellant appealed to the Commissioners of Income Tax against such surcharge, and the Commissioners found that the surcharge was justified and dismissed his application. Mr. Justice Rowlatt and the Court of Appeal have affirmed the finding of the Income Tax Commissioners. The real ground upon which the Appellant complains of those judgments is this: He says that the award itself shows that part of the sum was in effect payment for the right to use the invention for the future, which means that there were capital monies involved in the £37,000 which are in no way distinguished from the income, and that, as they have not been distinguished and cannot at present be distinguished, a surcharge cannot properly be made for the total sum and, consequently, the surcharge was wrong and ought to be discharged.

My Lords, I am greatly impressed by the fact that the Commissioners for Income Tax have made a definite finding of fact which, unless there is some special reason to the contrary, is binding upon us. The statement that they make is this: "With "regard to any user of the patents, in respect of which the claim "was made, subsequent to the date of the award it was improbable "in view of the large stocks of Mills Bombs which were on hand "at the time of the Armistice that any further manufacture of "bombs in accordance with the patents mentioned above would "take place prior to the expiration of the patents taken out by "the Appellant. The Commissioners therefore held that the "amount of future user included in the said payments was "negligible." It appears to me that there was sufficient information before the Commissioners to reach that conclusion. The shorthand notes of what took place before the Commission on Awards to Inventors appear to have been before them, and I can find nothing in the Special Case to show that objection was taken to their being considered; indeed, had objection been taken to their consideration it must have had a limited application, for it is clear that, in order to understand what had taken place before the award

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was given, certain proceedings must have been looked at, for instance, the Claim must have been considered, and the Answer, and, in case of ambiguity as to the meaning of the judgments, the conversations that had taken place between Bench and Counsel could also, in my opinion, be properly regarded. I can see no reason why these matters should have been excluded from the Commissioners of Income Tax; but, even if they were, it still appears to me that it was the duty of the Commissioners, with the best material they had at their hands and forming the best judgment that was in their power, to determine whether or not these sums did include a sum for future user and, if so, what that sum ought to be. They have found that it was negligible and that conclusion appears to me, not only to be justified after considering what took place when the award was made, but also appears to me to be in accordance with the reasonable probabilities of the case. If once that be accepted, then Counsel for the Appellant find themselves unable to escape from the case of *Constantinesco*, 43 T.L.R. 727, 11 T.C. 730; indeed, upon the hypothesis that I have made, distinction between this case and that is quite impossible. I therefore move your Lordships that the appeal be dismissed with costs.

Viscount Dunedin.—My Lords, I agree. I think the finding of fact is conclusive.

Viscount Sumner.—My Lords, I agree.

Lord Blanesburgh.—My Lords, I agree.

Lord Atkin.—My Lords, I agree.

Questions put:

That the judgment appealed from be reversed

The Not Contents have it.

That this appeal be dismissed with costs

The Contents have it.

[Solicitors :—Messrs. Nash, Field & Co. for Messrs. Docker Hosgood & Co., Birmingham; the Solicitor of Inland Revenue.]