

SUPREME COURT OF INDIA

Commissioner of Income-Tax Bombay

Vs.

Finlay Mills Limited.

C.A.No.103 of 1950

(H.J.Kania,CJI., M.C.Mahajan and N.Chandrashekar Aiyar,JJ.,)

01.10.1951

JUDGMENT

H.J.Kania,C.J.,

1. This is an appeal from a judgment of the High Court at Bombay and it arises out of the opinion expressed by the High Court in respect of a question submitted to it by the Income-tax Tribunal. The material facts are these. The respondent is a textile mills company carrying on business of manufacturing and selling textile goods. For the assessment year 1943-44 and 1944-45, covering the accounting periods ending with the calendar years 1941 1942 and 1943, the respondent claimed the expenditure incurred by it in registering for the first time its trade marks which were not in use prior to the 25th February, 1937, as revenue expenditure and an allowable deduction out of its income for the said periods, under Section 10(2)(xv) of the Indian Income-tax Act. Following the decision of the Bombay High Court in commissioner of Income-tax Bombay v. The Century, Spinning, Weaving and Manufacturing Co. Ltd., the Tribunal allowed the claim of the assessee. At the desire of the appellant, the Tribunal submitted the following question for the opinion of the High Court :-

"Whether, on the facts of the case, the expenditure incurred by the assessee company in registering for the first time its trade marks which were not in use prior to the 25th February, 1937, is revenue expenditure and an allowable deduction under Section 10 (2) (xv) of the Indian Income-tax Act ?"

2. The High Court following its previous decision and finding that the fact of the trade marks having come into use after the 25th of February, 1937, made no difference in the result, answered the question in the affirmative. The Commissioner of Income-tax, Bombay, has come on appeal to us.

3. It was argued on behalf of the appellant that the question whether a certain disbursement was of a capital or revenue nature has to be decided according to the principle laid down in British Industrial and Helsby Cables Ltd. v. Atherton. In that case the company which carried on the business of manufactures of insulated cables established a pension fund for its clerical

and technical salaried staff. The fund was constituted a percentage of their salaries to the fund and that the company should contribute an amount equal to half the contributions of the members; and further that the company should contribute a sum of pounds 31,748 to form the nucleus of the fund and to provide the amount necessary in order that past years of service of the then existing staff should rank for pension. That sum was arrived at by an actuarial calculation on the basis that the sum would ultimately be exhausted when the object for which it was paid was attained. The House of Lords Cave in his speech has been accepted as a safe test to distinguish capital expenditure from revenue expenditure. It was recognised that a sum of money expended, not of necessity and with view to a direct and immediate benefit to the trade, but voluntarily and on the grounds of commercial expediency, and in order indirectly to facilitate the carrying on of business, may yet be expended wholly and exclusively for the purposes of the trade. The Lord Chancellor observed that the question appeared to be a question of fact which was proper to be decided by the Commissioner upon the evidence brought before them in each case. The test that capital expenditure is a thing that is going to be spent once and for all and income expenditure is a thing that is going to recur every year was considered an useful element in arriving at the decision but was not certainly the decisive fact. The Lord Chancellor observed as follows :- "But when an expenditure is made, not only one and for all, but with a view to bringing into existence an asset or an advantage for the ending benefit of a trade, I think that there is very good reason for treating such an expenditure as properly attributable not to revenue but to capital."

4. In order to appreciate the true position correctly it is next necessary to notice the relevant provisions of the Indian Trade Marks Act, 1940. It may be noted that before this Act there was no Trade Marks Act in India but it was recognised that an action lay for infringement of a trade mark independently of an action for passing off goods. The Act opens with the preamble "whereas it is expedient to provide for the registration and more effective protection of trade....." Section 2(1) of the Act defines a trade mark as "meaning a mark used or proposed to be used in relation to goods for the purpose of indicating or so as to indicate a connection in the course of trade between the goods and some person having the right to use the mar, whether with or without any indication of the identity of that person." Section 14 permits the proprietor of a trade mark to have the trade mark registered. The Attorney-General, on behalf of the appellant, relied on Sections 20, 21, 28 and 29 in support of his contention. He argued that before the Trade Marks Act, Although the proprietor of a trade mark could maintain an action for infringement of his trade mark and the cause of action in such a case was quite different from the cause of action in action for goods, by the Trade Marks Act the right of the owner of the trade mark is increased by Section 21, and it is made assignable independently of the goodwill under Section 28 and 29 of the Trade Marks Act. The question thus resolves itself into whether by reason of these two incidents the case falls within the principle laid down by Lord Chancellor Cave, as mentioned above.

5. In our opinion, the contention urged on behalf of the appellant must fail. It is not contended that by the Trade Marks Act a new asset has come into existence. It was contended that an advantage of an enduring nature had come into existence. It was argued that just as machinery may attain a higher value by an implementation causing greater productive capacity, in the present case the trade mark which existed before the Trade Marks

Act acquired an advantage of an enduring nature by reason of the Trade Marks Act and the fees paid for registration thereunder were in the nature of capital expenditure. In our opinion, this analogy is fallacious. The machinery which acquires a greater productive capacity by reason of its improvement by the inclusion of some new invention naturally becomes a new and altered asset by that process. So long as the machinery lasts, the improvement continues to the advantage of the owner of the machinery. The replacement of a dilapidated roof by a more substantial roof stands on the same footing. The result however of the Trade Marks Act is only two fold. By registration, the owner is absolved from the obligation to provide his ownership of the trade marks. It is treated as prima facie proved on production of the registration certificate. It thus merely saves him the trouble of leading evidence, in the even of a suit, in a court of law, to prove his title to the trade mark. It has been said that registration is in the nature of collateral security furnishing the trader with a cheaper and more direct remedy against infringers. Cancel the registration and he has still right enforceable at common law to restrain the piracy of his trade mark. In our opinion, this is neither such an asset nor an asset not advantage so as to make payment for its registration a capital expenditure. In this connection it may be useful to notice that expenditure incurred by a company in defending titled to property is not considered expenses of a capital nature. In *Southern. (H. M. Inspector of Taxes) v. Borax Consolidated Limited* it is stated that to where a sum of money is laid out for the acquisition or the improvement of a fixed capital asset it is attributable to capital, but if no alteration is made in the fixed capital asset by the payment, then it is properly attributable to revenue, being in substance a matter of maintenance, the maintenance of the capital structure or the capital asset of the company. In our opinion, the advantage derived by the owner of the trade mark by after registration could be separately assigned, and not as a part of the goodwill of the business only, does not also make the expenditure and incidental facility given to the owner of the trade mark. It adds nothing to the trade mark itself.

6. In the judgment of the High Court some emphasis is laid on the fact that by reason of registration the duration of the trade mark is only for the seven years, and it does not thus possess that permanency which is ordinarily required of an expenditure to make it a capital expenditure and in order to prove the existence of a benefit of an enduring character. The learned Attorney-General contended that the view that the benefit of registration lasted for seven years, i.e., for a limited period, prevented the expenses of registration being treated as capital expenditure is unsound and for that contention he relied on *Henriksen (Inspector of Taxes) v. Grafton Hotel Ltd.* In that case, tenants of licensing premises by agreement with the landlord paid by instalments the monopoly value fixed by the licensing justices when granting but were disallowed by the Court. Lord Greene M. R. first considered that the payment of a premium on the grant of lease or the expenditure on improvement to the property which justices may require to be made as a condition of granting a licence. Having reached that conclusion he rejected the argument that the payment not being made in one lump sum but by instalments made a difference in the character of the payment. He observed as follows : "Whenever a licence is granted for a term, the payment is made a on a purchase of a monopoly for that a term, when a licence is granted for a subsequent term, the monopoly value must be paid in respect of that term, and so on. The payments are recurrent if the licence is renewed; they are not periodical, so as to give them the quality of payments which

ought to be debited to revenue account. The thing that is paid for is of a permanent quality, although its permanence, being conditioned by the length of the term is short-lived. A payment of this character appears to me to fall into the same class as the payment of premium on the grant of a lease, which is admittedly not deductible." The Attorney- General relied on these observations to point out that the permanence of the advantage was thus not dependent on the number of years of which it was to ensure for the benefit of the proprietor of the trade mark. In our opinion these observations have to be read in the context in which they have been made. The learned Master of the Rolls was discussing only the question of payment being made by instalments as not making any difference in the nature of the expenditure. It was first held by him that the payment in question was of a capital nature and of the same character of a premium paid on the grant of a lease and was therefore necessarily of a capital nature. Having come to that conclusion he only rejected the contention that because the premium, was paid in more instalments than one it lost its character of capital expenditure. In our opinion, this is an entirely different thing from the stating that the fact of the advantage being for a limited time altered the character of the payment in any way. As observed by Viscount Cave, L. C., the question is always one of fact depending on the circumstances of each case individually.

7. In our opinion, the decision of the High Court reported in *Commissioner of Income-tax Bombay, v. The Century Spinning, Weaving and Manufacturing, Co. Ltd.* is correct and in the present case also the contention of the appellant must fail. The appeal therefore fails and is dismissed with costs.

8. Appeal dismissed.