[HIGH COURT OF AUSTRALIA.]

FEDERAL COMMISSIONER OF TAXATION APPELLANT;

AND

DURO TRAVEL GOODS PROPRIETARY LIMITED . . . . . RESPONDENT.

H. C. OF A. 1953.

SYDNEY, *May*, 20.

MELBOURNE, *June* 8.

Taylor J.

Income Tax (Cth.)—Assessable income—Deduction—Expenditure for purpose of gaining or producing assessable income—Registered trade mark—Word—Use of similar word by trade competitor—Discontinuance of such use—Expenditure incurred by taxpayer—Capital or revenue—Deductibility—Income Tax Assessment Act 1936-1947 (*No.* 27 *of* 1936—*No.* 63 *of* 1947), *s.* 51 (1).

After some correspondence and threats of legal proceedings by the taxpayer, and in consideration of the sum of £150 paid by the taxpayer to a company towards the expenses of that company necessarily involved in changing its name and effecting alterations to equipment and stationery, the company, which carried on a business similar in nature to that carried on by the taxpayer, undertook to, and did, change its name which was similar to the word of which the taxpayer was the registered proprietor under the *Trade Marks Act* 1905-1948.

A suit brought by the taxpayer for an injunction restraining another person from carrying on a similar business under a name closely resembling the word registered by the taxpayer under the *Trade Marks Act* 1905-1936, was, after a defence had been filed by that person, by agreement struck out, that person undertaking to discontinue the use of that word or a similar word. Costs and incidental expenses incurred by the taxpayer in the suit amounted to £433.

Held that in ascertaining the taxpayer's taxable income for the income year each of the said amounts, not being of a capital nature, was properly deductible from its assessable income.

Sun Newspapers Ltd. and Associated Newspapers Ltd. v. *Federal Commissioner of Taxation* (1938) 61 C.L.R. 337, at pp. 359-361, referred to.

APPEAL under *Income Tax Assessment Act.*

The Federal Commissioner of Taxation appealed to the High Court from a decision of the board of review which held that the commissioner had wrongly disallowed a deduction claimed by the taxpayer, Duro Travel Goods Pty. Ltd., in its return of income for the year ended 30th April 1948.

The appeal came on for hearing before *Taylor* J.

Further facts appear in the judgment hereunder.

W. J. V. Windeyer Q.C. and *G. P. Donovan*, for the appellant.

C. A. Cahill, for the respondent.

Cur. adv. vult.

The following written judgment was delivered by :—

TAYLOR J. This is an appeal from a decision of a board of review constituted under the *Income Tax Assessment Act* 1936-1947 upholding the claim of the respondent that the appellant had wrongly disallowed a deduction of £587 claimed in its return of income for the year ended 30th April, 1948. It is not disputed that this sum was expended by the respondent in the course of carrying on its business for the purpose of gaining or producing assessable income but the appellant regarded the expenditure as a disbursement of a capital nature and, therefore, not properly the subject of a deduction in ascertaining the respondent's taxable income for that year.

The respondent is a company incorporated in New South Wales where it manufactures and thereafter sells throughout Australia a variety of so-called travel goods consisting of travelling bags, boxes, trunks and cases of compressed fibre, cane, leather board and other substances. For many years, it carried on its business under its present name and has manufactured and sold its products under the name of " Duro ". It is not disputed that over a long period this name has been well known throughout Australia in association with the respondent's goods or that in December 1944 the respondent, pursuant to the provisions of the *Trade Marks Act* 1905-1936, became the registered proprietor of two trade marks each consisting of the word " Duro " and registered in respect of classes of goods of the nature already briefly described above.

At the end of 1947, however, a company incorporated in the State of Queensland commenced to carry on business under the name of Euro (Aust.) Pty. Ltd. The business of this company was similar in nature to that carried on by the respondent. Objection was taken by the respondent to this company continuing to use the word " Euro " as part of its name or as a trade mark, and after some correspondence and a threat, or threats, of legal proceedings the Queensland company agreed to discontinue the use of this name. No formal agreement was executed but the correspondence between the two companies shows clearly enough the terms agreed upon between them. In consideration of the respondent paying the

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sum of £150 to the Queensland company as a contribution to the expenses which would necessarily be involved in the course of changing its name, including alterations to blocks, dies, labels and other accessories and the replacement of existing stocks of stationery, the latter undertook to change its name and trade mark by 1st July, 1948, and not thereafter to use the name "Euro" as a trade mark or name. In addition to the sum of £150 an incidental expenditure of £4 4s. 0d. was incurred by the respondent in relation to the antecedent negotiations. These two sums form part of the deduction disallowed by the commissioner.

The balance of the sum of £587 represents expenditure incurred in a not dissimilar state of affairs. In Melbourne a person named Sher was found to be carrying on business under the name of "Duracase Travelling Goods Manufacturers". Against him the respondent instituted a suit claiming an injunction restraining him from infringing the respondent's trade marks and from passing off his business as and for the business of the respondent or as a branch or agency thereof and from using the word "Dura" as part of his trade name or upon or in connection with his goods or using any other word so closely resembling the plaintiff's trade name and trade mark as was likely to deceive. A defence was filed by the defendant to this suit but ultimately on 21st April, 1948, the parties agreed that the suit should be struck out, the defendant undertaking that he would not thereafter use any word or name containing the name "Duro" or "Dura" upon or in connection with his goods and that he would, within fourteen days, change the name of his firm to a name which did not include either the word "Duro" or "Dura". In connection with these proceedings the plaintiff incurred costs and incidental expenses which, together with the amounts already referred to, amounted to the sum of £587.

It was not suggested by either party on this appeal that there was any distinction in character between any of the items of expenditure to which I have referred and it was common ground that the whole of this sum was either, properly the subject of a deduction, or that none of it was.

Counsel for the appellant contended that the members of the Board of Review were in error in holding that the respondent did not obtain any new asset or an increase in the value of any existing asset by the expenditure of these sums. The respondent, he claimed, either obtained a new asset in the form of undertakings from its competitors, or an increase in the value of its existing trade marks or goodwill by excluding trade rivals from the use of trade names or marks resembling "Duro". In either case, it was said, the expenditure was a capital outlay for the character of the expen-

diture was determined by the nature of the asset or benefit which the respondent gained. This argument, it seems to me, is based broadly upon the notable observation of Viscount *Cave* L.C. in *British Insulated and Helsby Cables Ltd.* v. *Atherton* (1), where his Lordship said: "But when an expenditure is made, not only once and for all, but with a view to bringing into existence an asset or an advantage for the enduring benefit of a trade, I think that there is very good reason (in the absence of special circumstances leading to an opposite conclusion) for treating such an expenditure as properly attributable not to revenue but to capital" (2).

But the test propounded by the appellant's argument is, I think, more widely stated than this observation permits. In some cases expenditure which is incurred for the purpose of effecting an increase in the value of an existing asset may just as much be expenditure on capital account as expenditure incurred in creating or procuring a new asset. The same conclusion may be reached where the purpose of the expenditure is neither to bring a new asset into existence nor to increase the value of an existing asset but solely to protect an existing asset. The general proposition advanced by the appellant, especially in its relation to expenditure affecting goodwill, is at the least, misleading, for frequently expenditure, which is essentially upon revenue account, must, in some measure, affect the value of the goodwill of a trading company.

It may be conceded that the expenditure under consideration in this case may have operated to increase the value of the respondent's goodwill, but this circumstance does not, in my opinion, fix the expenditure in question with the character of capital expenditure. Nor, in my view, does the fact that the respondent obtained personal undertakings from its two competitors, for the undertakings, in the circumstances in which they were obtained, added nothing to, nor did they render more secure the capital structure of the respondent. The undertakings did not secure for the respondent freedom from trade competition, nor were the negotiations and proceedings as a result of which they were obtained, undertaken to protect the respondent against any attack on its right to use its trade name or trade marks.

The problem in this case is, I think, best understood and most easily solved by a consideration of the observations of *Dixon* C.J. in *Sun Newspapers Ltd. and Associated Newspapers Ltd.* v. *Federal Commissioner of Taxation* (3), which I need not, here, repeat. Once a clear distinction is recognized between the "profit-yielding subject" and the "process of operating it", the character of

(1) (1926) A.C. 205.
(2) (1926) A.C., at pp. 213, 214.
(3) (1938) 61 C.L.R. 337, at pp. 359-361.

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expenditure may, in many cases, readily be determined. But as *Dixon* C.J. points out difficulties will always arise in relation to some forms of expenditure. As he says the basal difficulty in applying general notions based on such a distinction "lies in the fact that the extent, condition and efficiency of the profit-yielding subject is often as much the product of the course of operations as it is of a clear and definable outlay of work or money by way of establishment, replacement or enlargement. In the case of machinery, plant and other material objects, this is illustrated by the commonplace difficulty of saying what is maintenance and what are renewals to be referred to capital. But for the same or a like reason it is even harder to maintain the distinction in relation to the intangible elements forming so important a part of many profit-yielding subjects". In the present case, however, there is, in my opinion, no real difficulty. The expenditure was not incurred for the purpose of creating a new asset or advantage or for the purpose of increasing the value of any existing part of the "profit-yielding subject". Nor, as I have said, was it undertaken to preserve the "profit-yielding subject" or any part of it for no attack was made upon the validity of the respondent's existing rights and those rights remained, notwithstanding the expenditure, precisely as they were before. The expenditure was, it seems to me, incurred in the course of and for the purpose of exploiting those rights to the fullest extent in the course of the respondent's business. The limits to the exclusive right to the use of a trade name or a trade mark are not capable, at any particular time, of precise and exhaustive definition and it is apparent that in the course of trading activities questions must frequently arise whether the proprietor's rights have been infringed. In this respect such rights are quite unlike many other forms of property and the precise benefits and advantages which they confer are capable of ascertainment only by a more or less gradual process. Expenditure incurred in this process is, at least in the circumstances of this case, incurred in operating the "profit-yielding subject" and is not an expenditure or outlay upon establishing, replacing or enlarging it. In the circumstances I am of opinion that the deduction was wrongly disallowed by the appellant and that this appeal should be dismissed.

Appeal dismissed.

Solicitor for the appellant, *D. D. Bell*, Crown Solicitor for the Commonwealth.

Solicitors for the respondent, *G. W. L. Charker & Co.*

J. B.