

**Legal Issues
In
*IP Taxation, Parody, Trade Secrets and Confidential Information***

Legal Issue - I

Whether payments made for licensing of IP rights are to be treated as capital expenditure or revenue expenditure?

Relevant Provisions and Definitions

❖ Capital Expenditure:

Capital Expenditure is the money spent on the purchase of permanent or fixed assets for use in business for long period of time and not for immediate resale, or on the permanent improvement of or addition to or extension of an existing asset with a view to increase the earning capacity of the enterprise.

❖ Revenue Expenditures:

Revenue expenditures are incurred in the day-to-day conduct and administration of a business the effect of which is completely exhausted within the current accounting year.

3

❖ Section 37(1), Income Tax Act, 1961:

“Any expenditure (not being expenditure of the nature described in sections 30 to 36 and not being in the nature of capital expenditure or personal expenses of the assessee, laid out or expended wholly and exclusively for the purposes of the business or profession shall be allowed in computing the income chargeable under the head “Profits and gains of business or profession.”

Relevant Case Laws

❖ **CIT v. J.K. Synthetics Ltd. [(2009) 309 ITR 371 (Del)]**

“...the expenditure incurred towards the initial outlay of business would be in the nature of capital expenditure, however, if the expenditure is incurred while the business is on going, it would have to be ascertained if the expenditure is made for acquiring or bringing into existence an asset or advantage of an enduring benefit for the business, if that be so, it will be in the nature of capital expenditure. If the expenditure, on the other hand, is for running the business or working it with a view to produce profits it would be in the nature of the revenue expenditure;”

❖ **M/s ILink Multi tech Solutions Pvt. Ltd. v. DCIT [ITA Nos.1544, 1545 & 1546/Mds/2017]**

4 *“...Merely because the assessee is using MS Office software as operating software in its system, it does not mean that MS Office software is the capital asset in the hands of the assessee-company. All assets / licence for use of software cannot be construed as capital asset merely because it gives an enduring benefit. By using MS Office software in the business of the assessee, the assessee gets enduring benefit in the course of earning of profit. So long as the assessee is a licensee, the ownership of MS Office software remains with Microsoft company. This Tribunal is of the considered opinion that the expenditure cannot be construed to be capital expenditure.”*

Relevant Case Laws (Contd.)

❖ **M/S Hilton Roulunds Ltd. v. Commissioner Of Income Tax [ITA 325/2005]**

“When the benefit of the use of the mark has inured to the licensor i.e. HRL, the amount, that has been paid to HRL was a consideration for permission to use the mark, and not for acquiring ownership rights in the mark. The mark “HILTON” did not belong to the appellant. It also did not belong to either of its current promoters i.e. RF or IFU. It belonged to HRL which was one of the joint venture partners when the appellant was initially formed. The use of the mark “HILTON” thus, merely facilitated the appellant’s business in India. The question of law is answered in the negative, in favour of the Assessee and against the Revenue. It is directed that the payment of Rs. 1 crore be treated as revenue expenditure.”

Legal Issue - II

Should satire be evaluated at the same parameter as parody as a defence against copyright infringement?

Relevant Provisions and Definitions

❖ Section 52 (a) (ii), The Copyright Act, 1957:

“...a fair dealing with any work, not being a computer programme, for the purposes of-...(ii) criticism or review, whether of that work or of any other work;”

❖ Satire:

“Satire is a literary genre where "topical issues" are "held up to scorn by means of ridicule or irony. It is one of the most effective art forms revealing the absurdities, hypocrisies and contradictions in so much of life. It has the unique ability to quickly and clearly make a point and facilitate understanding in ways that other forms of communication and expression often do not.” [Indibly Creative Pvt. Ltd. vs Govt. Of West Bengal, AIR 2019 SC 1918]

❖ Parody:

A piece of writing, music, acting, etc. that deliberately copies the style of somebody/something in order to be humorous.

Relevant Case Laws

❖ **Tata Sons Ltd. v Greenpeace International [2011(45)PTC275(Del)]**

“While a parody intentionally creates an association with the famous mark in order to be a parody, it also intentionally communicates, if it is successful, that it is not the famous mark, but rather a satire of the famous mark... The relationship between the trademark and the parody is that if the parody does not take enough from the original trademark, the audience will not be able to recognize the trademark and therefore not be able to understand the humour. Conversely, if the parody takes too much it could be considered infringing, based upon the fact that there is too much theft and too little originality, regardless of how funny the parody is.”

❖ **R.G. Anand v. M/s Delux Films and Ors. [A.I.R. 1978 S.C. 1613]**

8

“One of the surest and the safest test to determine whether or not there has been violation of copyright is to see if the reader, spectator or the viewer after having read or seen both the work is clearly of the opinion and gets an unmistakable impression that the subsequent work appears to be a copy of the original.”

Relevant Case Laws (Contd.)

❖ **Campbell v. Acuff-Rose Music, Inc., [510 U.S. 569 (1994)]**

“Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim’s (or collective victims’) imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing.”

Legal Issue - III

How to protect confidential information/trade secrets in the absence of any agreements?

Relevant Provisions and Definitions

❖ Trade Secret:

“Trade secret means information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from no being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” [**§1(4), Uniform Trade Secrets Act**]

❖ Confidential Information:

“Any information including a formula, pattern, compilation, program device, method, technique or process, that:

- a. Is secret, in that it is not, a body or a precise configuration and assembly of its components generally known among or readily accessible to persons who normally deal with this kind of information in question.*
- b. Has commercial value because it is secret.*
- c. Has been subject to responsible steps under the circumstances by the person lawfully in control of the information to be kept secret.”* [**Section 2(3), Draft National Innovation Act, 2008**]

Relevant Case Laws

❖ **Bombay Dyeing and Manufacturing Co. Ltd. v. Mehar Karan Singh [2010 (112) Bom LR 375]**

The High Court of Bombay laid down the following factors to determine if an information will qualify as a trade secret:

- i. *“The extent to which the information is known outside the business*
- ii. *The extent to which it is known to those inside the business, i.e., by employees;*
- iii. *The precautions taken by the holder of the trade secret to guard the secrecy;*
- iv. *The savings affected and the value to the holder in having the information as against competitors;*
- v. *The amount of effort or money expended in obtaining and developing the information; and*
- vi. *The amount of time and expense it would take others to acquire and duplicate the information.”*

Relevant Case Laws (Contd.)

❖ **Zee Telefilms Ltd v Sundial Communications Pvt Ltd., [2003 (5) BomCR 404]**

The Bombay High Court laid down a three-part test that a plaintiff must satisfy when alleging unauthorised or illegal use of confidential information:

- i) The information was of a confidential nature;
- ii) The information was communicated in circumstances importing an obligation of confidence; and
- iii) There has been unauthorised use of the information to the detriment of the person who communicated it.

13

❖ **John Richard Brady v. Chemical Process Equipments Private Limited [AIR 1987 Delhi 372]**

“...the law on this subject does not depend on any implied contract. It depends on the broad principles of equity that who has received information in confidence shall not take unfair advantage of it...which was entrusted to them under express condition of strict confidentiality, which they have apparently used as a 'spring-board' to jump into the business field to the detriment of the plaintiffs.”

THANK YOU!

Questions?

Shreya Das, Associate

14

© ALG India Law Offices LLP, 2021.

Disclaimer: Views, opinions, and interpretations are solely those of the presenters, not of the firm (ALG India Law Offices LLP) nor reflective thereof.

This presentation hosted at: https://www.algindia.com/wp-content/uploads/2021/04/LISS_Shreya_Legal-Issues-in-my-AOI.pdf