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Stamp Duty Implications of Taking Security over Intellectual Property

Abstract
Patents, trade marks and other forms of intellectual property may be of considerable value and financiers are often asked to take security over these fights. Whilst it now seems clear that these forms of property are 'property' for the purposes of the various stamp acts' it has been widely assumed that a mortgage or charge over intellectual or industrial property is not liable to mortgage or loan security duty.

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STAMP DUTY IMPLICATIONS OF TAKING SECURITY OVER INTELLECTUAL PROPERTY

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Introduction

Patents, trade marks and other forms of intellectual property may be of considerable value and financiers are often asked to take security over these rights. Whilst it now seems clear that these forms of property are 'property' for the purposes of the various stamp acts[1] it has been widely assumed that a mortgage or charge over intellectual or industrial property is not liable to mortgage or loan security duty. This assumption is founded upon two arguments.

First, there is a constitutional argument based upon section 109 of the Constitution, which effectively provides that to the extent of an inconsistency between a State and a Commonwealth law the State law is inoperative. Inconsistency may arise where the relevant Commonwealth legislature 'covers the field' in respect of a particular topic and the State law impinges upon that topic. The test is commonly described in the terms in which it was formulated by Dixon J in *Ex parte McLean*:[2]

> Inconsistency depends upon the intention of the paramount legislature to express by its enactment, completely, exhaustively or exclusively, what shall be the law governing the particular conduct or matter to which its attention is directed. When a federal law discloses such an intention, it is inconsistent with it for the laws of a State to govern the same conduct or matter.

The argument of course is that in enacting comprehensive legislation dealing with patents, trade marks and the like the Commonwealth intended to 'cover the field' in respect of these forms of intellectual property. Since the legislation does not impose or allow the States to impose duty upon transactions concerning this type of property a State Act purporting to do so is inconsistent with the Commonwealth Act and is pro tanto invalid.

The argument necessarily relies on a finding that the relevant Commonwealth legislation 'covers the field' in respect of these forms of

1 See *JV Crows Nest v Commissioner of Stamp Duties* (NSW) 86 ACT 4740 '*John Valentine case*'.
2 (1930) 43 CLR 472 at 483.

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property. In *O'Sullivan v Noarlunga Meat Ltd (No 1)*[3], it was held that the Commonwealth intended to cover the field since: '. . . the regulations evince an intention to express completely and exhaustively the requirements of the law. . .'[4]. Similarly in *Amalgamated Society of Engineers v Adelaide Steamship Co Ltd*[5] it was observed that the Commonwealth law: '. . . set out elaborately and categorically and with great minuteness a code . . . (in respect of) . . . the whole field'.[6] In *Wenn v Attorney General*[7] it was noted that the Commonwealth Act made '. . . elaborate provisions' and '. . . dealt extensively and in detail' with the subject matter.

Whilst there is some merit in the section 109 argument in the present context, it might be questioned whether, for example, the Commonwealth legislation relating to trade marks evinces the necessary intention to cover the entire field relating to trade marks, particularly in light of the fact the unregistered trade marks exist and are capable of enforcement by a passing off action at common law independently of the legislation. Moreover it might be questioned whether the Commonwealth legislation dealing with patents, designs and the like displays the exacting detail and exhaustive coverage of the topic, demonstrated by the laws considered in the above cases, necessary to conclude that the intention of the Commonwealth legislature was to exclude these forms of property from the purview of the various stamp acts. In any event arguments based upon the provisions of the Federal Constitution are often decided on policy grounds and should be the last resort of the stamp duty practitioner.

The second argument is more compelling and is based upon the obiter dicta of Lusher J at first instance in *Valentine's case*[8] where his Honour noted that[9]:

> . . . industrial property is the subject of Commonwealth legislation and by virtue of that it is exercisable and maintainable throughout the Commonwealth and is thus not within the instant statutory description 'property in New South Wales'. This is to be construed as property solely within New South Wales otherwise the power of the State to levy duty in relation to property which exists throughout the Commonwealth would be raised and no such submission was put forward on this point by the Commissioner. The further aspect is that there is no provision in the legislation for apportionment in relation to conveyances or leases. . . .

This argument is essentially one relating to situs, the contention being that whilst such property has its situs throughout the Commonwealth, it does not have its situs in any particular State of Territory of the Commonwealth.

Whilst the *John Valentine case* was concerned with conveyance and lease duty sought to be levied upon certain trade marks, service marks and logos alleged to be 'property in New South Wales', the rationale of

3 (1954) 92 CLR 565.
4 Ibid at p 592.
5 (1920) 28 CLR 129.
6 Ibid at p 157.
7 (1948) 77 CLR 84.
8 85 ACT 4198.
9 Ibid at p 4204.

the decision has widely been considered to be applicable in respect of loan security or mortgage duty in each State and Territory.

However, the recent judgment of Sully J in *2D FM Australia Pty Limited v Commissioner of Stamp Duties* (NSW)[10] has rejected the rationale of the dicta in the *John Valentine case.* This case related to the sale of a radio bradcasting station. One of the items of property described in the business sale agreement was the 'licence issued under the *Broadcasting and Television Act* (C'th) 1942. . . for the commercial broadcasting station to be known by the sign 2Day FM'. The Commissioner sought to levy conveyance duty in respect of the sale of this licence.

Sully J held that the licence was 'property' for the purposes of the *Stamp Duties Act 1920* (NSW) ('Act') on the basis that the right to transmit conferred by the licence was a proprietary right or interest as opposed to a merely personal right or interest,[11] notwithstanding that the licence itself could only be transferred with the consent of the Australian Broadcasting Tribunal. His Honour then went on to hold that the licence was 'property in New South Wales'.

The licence conferred an exclusive right to transmit commercial radio broadcasts within a specifically designated area contained wholly within New South Wales. This geographical limitation might have presented itself to Sully J as a distinguishing factor between the facts of the case and the situation of property 'maintained throughout the Commonwealth' considered by Lusher J in the *John Valentine case.* Indeed the New South Wales Chief Commissioner accepts that the *2Day FM* decision does not operate to impose duty upon forms of intellectual or industrial property such as registered patents or trade marks which by the terms of the legislation establishing them extend throughout the entire Commonwealth.

Notwithstanding the New South Wales Commissioner's interpretation of the case however it is clear that Sully J did not base his decision on any distinction between licences to broadcast within a limited area and forms of intellectual property extending throughout the entire Commonwealth. At page 13 of the judgment, His Honour stated:

> It was argued, put simply, that the source of any 'rights' arising under a broadcasting licence is Commonwealth legislation which apportions a Commonwealth-wide resource, and that those considerations indicate that a commercial broadcasting licence, if it is 'property' . . . is 'property' situated in the Commonwealth rather than in New South Wales. Authority apart I would not accept such a submission.

His Honour then cited the judgment of Jordan CJ in *McCaughey v Commissioner of Stamp Duties*[12] where the Chief Justice spoke of the problem of the location of:

> . . . proprietary rights. . . (which). . . are not associated with a tangible object, for example, debts, patent rights, or copyright . . . For this class of property,

10 Unreported—Monday 28 August 1989.

11 See *Commissioner of Stamp Duties v Yeend* (1929) 43 CLR 235.

12 (1945) 46 SRNSW 192.

conventional rules have been adopted by which it is regarded as situated in the place with which it is most definitely associated.

Sully J considered that the decision of Lusher J in the *John Valentine case* established a test for the situs of intellectual or industrial property rights, which was not 'reconcilable as a concept . . . with the principles established by Jordan CJ in . . . *McCaughey's case*'.

Adopting the *McCaughey* approach it was held that the licence in question was 'most definitely associated with New South Wales', was located in New South Wales and was liable to conveyance duty pursuant to the Act.

The Correctness of the 2Day FM Decision

Whilst it is not difficult to sympathise with the result, the correctness of the reasoning in *2Day FM*, especially as regards registered patents, trade marks, designs and the like, is open to criticism on the following grounds:

1. According to Jordan CJ in *McCaughey's case*[13] the application of the 'most definite association test' means that '. . . in law a patent is locally situated in the area in which the monopoly exits'[14]. In any event the application of either of the 'monopoly' or 'transfer' tests to registered patents, trademarks or designs in Australia leads to the conclusion that such forms of intellectual property are sited in the Commonwealth as opposed to any particular State or Territory of the Commonwealth. This follows from the provisions of the legislation pursuant to which these forms of property are established. For example section 70 of the *Patents Act 1952* (C'th) provides that 'a patent has effect throughout Australia'.
2. In any event the 'definite association' test proposed in *McCaugheys* case was dicta as regards its application to debts, patent rights and copyright the case actually deciding that a residuary legatee of unadministered estate had nothing but a chose in action in the nature of a right in personam against the personal representative.
3. The adoption of the 'definite association' test in relation to intellectual property rights which extend beyond one jurisdiction bristles with difficulties.

   Suppose for example that one single radio broadcasting licence confers rights to transmit in two areas located within two different jurisdictions. Individual transmission stations are located in each area, each station being independent of the other. In which jurisdiction is the licence located? The selection

13 Ibid at p 201.

14 The authority cited for this proposition is the obiter dictum of Lord Warrington in *English, Scottish and Australian Bank Limited v Inland Revenue Commissioners* [1932] AC 238. The weight of authority however tends in favour of the view that patents and trademarks are situate in the place where they can be effectively transferred under the law governing their creation: see Rule 115(12) Volume 2 Dicey & Morris *The Conflict of Laws* 11th Edition and the cases cited therein.

of one jurisdiction over the other will involve subtle questions of fact and degree and may not be capable of simple resolution.

Alternatively it might be said that the licence is located in both jurisdictions. However, as Lusher J noted in the *John Valentine* case there are no provisions in the various stamp acts which pro rata conveyance or lease duty. Does it follow that full ad valorem duty would be payable in respect of the sale of the licence in both jurisdictions? If so then duty is being levied upon an item of property metaphysically located, in part, outside the jurisdiction. To that extent there must be an argument that the operation of the taxing jurisdiction's stamp legislation is pro tanto ultra vires and unconstitutional[15].

It is not difficult to appreciate that the same issues apply a fortiori where the property in question extends to or is maintained throughout the entire Commonwealth.

The Consequences of the 2Day FM Decision

In order to avoid the issues of constitutionality discussed above and by its very terms the 'definite association' principle seems to require that only one State or Territory may be selected as the situs. As has been seen this may involve an attempt to evaluate competing factors where the nature of the intellectual property right is such that the right extends beyond the boundaries of one jurisdiction. Furthermore to ascribe a particular jurisdiction to such a right is to ignore the pervasive nature of the right. Can it really be said that a patent extends throughout Australia but is located within, say, New South Wales?

However, assuming that a right can be sited in one place and can 'extend' to another, then an interesting issue arises in respect of the situs of patents, trade marks and designs which have been registered pursuant to the appropriate Commonwealth legislation. It must be remembered that the issue is as to the proper situs of the property, the property here being the registered patent, trade mark or design.

For example the grant of letters patent confers on the registered proprietor a monopoly in respect of that invention throughout Australia. It may be that the registered proprietor elects to manufacture the invention exclusively within New South Wales. It does not follow that the patent itself is necessarily located in New South Wales. New South Wales is merely the place where the registered proprietor has elected to utilise the patent through the process of manufacture. The rights of exploitation continue to extend beyond the boundaries of New South Wales. If a valid distinction can be drawn between the situs of the property right and the situs of the place where the property right is enjoyed then it is arguable that the issue cannot be resolved simply by looking at, for example, the place where the process of manufacture occurs. A patent

15 Whilst each State and Territory has, by virtue of legislation or administrative practice, a pro rating, credit or hybrid provision in respect of mortgage or loan security duty the point remains that in constitutional terms the 'definite association' test, if interpreted in this manner, sits uncomfortably with the legislative framework of the various Acts.

in respect of an invention which has not been manufactured or otherwise exploited must still have a situs. On this rationale there must be some intrinsic attribute of the registered patent, trade mark or design which will determine its situs.

Applications for the issue of letters patent and for the registration of trade marks or designs must be made at the Patent Office in the Australian Capital Territory or at the various State 'sub-offices'. Registration at the Patent Office or at a sub-office is recorded on the national register maintained in the Australian Capital Territory. It is this register which is established pursuant to section 20 of the *Patents Act 1952* (C'th) and its counterparts in the *Trade Marks Act 1955* (C'th) and the *Designs Act 1906* (C'th). It is this register pursuant to which the title of the registered proprietor or the interest of a mortgagee, registered user or licensee is established in respect of the patent, trade mark or design. An assignee of a registered patent, trade mark or design must apply for the registration of his title to the same to be recorded on this national register. Subject, in the case of trade marks, to the rights of a registered user only that a person recorded on the national register as the registered proprietor is entitled to the monopoly rights conferred by the legislation in respect of that patent, trade mark or design. All of this is to say that the national register is a register of title.

It is possible then to draw an analogy between these forms of intellectual property and shares in a company.

The situs of a share in a company is considered to be that place at which the share can be effectively dealt with, that generally being the place at which the share is registered[16]. By analogy then it may be said, assuming that the *2Day FM* decision requires one to select one single State or Territory as the situs for stamp duty purposes, that the place with which these particular forms of intellectual property have their most 'definite association' is the Australian Capital Territory, that being the place at which the national register is maintained. It should not matter that registration has been effected through a State sub-office. The sub-offices exist solely for administrative convenience. They are merely agencies of the Patent Office itself. In this respect registration through a sub-office differs from the registration of company shares on a branch register. There is no equivalent to section 178(3) of the *Companies Act* (which deems a share registered on a branch register to be situate in the place where that register is kept) in the legislation creating these intellectual property rights.

At present the Australian Capital Territory does not levy duty on mortgages and hence, arguably, a mortgage over a registered patent, trade mark or design (if executed in the Australian Capital Territory) will not be liable to duty on either the *John Valentine* approach (on the basis that it is not property sited in any particular State or Territory) or the *2Day FM* approach (on the basis that it is property sited within the Australian Capital Territory).

16 See *Brassard v Smith* [1952] AC 371; *R v Williams* [1942] AC 541.

Conclusion

It is suggested that the decision in *2Day FM* is correct in the result. It seems difficult to deny that the sale of a licence to broadcase radio transmissions in an area exclusively within New South Wales should be liable to conveyance duty in New South Wales. The process of reasoning by which this result was achieved, whilst adequate to the case at hand, falters when one attempts to apply it to forms of intellectual property which genuinely extend beyond more than one jurisdiction. It is suggested that the reasoning of Lusher J in the *John Valentine* case is appropriate to these forms of intellectual property. It does not follow that a mortgage or conveyance of an intellectual property right established pursuant to Commonwealth legislation will in all instances be exempt from duty. It has generally been conceded by stamp duty practitioners (even after the *John Valentine* case) that '... if the instrument were limited to an industrial property right in the State, duty would probably be payable'[17]. Accordingly, it would follow that a limited assignment of, for example, a patent in respect of a particular State or Territory in accordance with section 152(3) of the *Patents Act* would, subject to the argument based upon section 109 of the Constitution, be liable to duty in that State or Territory. The decision in *2Day FM* might then be explained away on this basis.

17 See Tolhurst, Wallace & Zipfinger *Australian Revenue Duties* at [2.51].