

**UNIVERSITY of  
STIRLING**



*Athlete Image Rights and the potential tax  
consequences in the UK and Canada.*

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degree of Doctor of Philosophy of Law.**

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## *Abstract*

The relationship between athletes and HMRC has come to the forefront in the media in recent years. The media has continually reported on athletes alleged tax avoidance in relation to their image rights. This avoidance has led HMRC to launch numerous investigations into the tax affairs of athletes and their advisors, particularly within the footballing world. However, the ability to make these tax savings, both lawfully and unlawfully, has been facilitated by the UK's reluctance to define what constitutes an 'image right' in law; coupled with its readiness to allow athletes to make these savings based upon this non-definitive 'image'.

This research will show that within the UK, the protection of a celebrity's image is reliant upon the traditional intellectual property remedies such as a breach of confidence or passing off action. To date, the courts have interpreted these 'traditional' remedies in such a way that allows for the protection of the celebrity image, without ever defining what constitutes 'image' in the first instance. This research will also show that this reliance on the traditional remedies in the context of the protection of image rights is generally non-problematic as very few of these instances ever reach the courts, and those that do are generally provided with a legal remedy. The issues regarding this reluctance to legally define image however, become prominent when athletes use their image as a means of securing a tax reduction. HMRC allows athletes with the requisite goodwill to receive a portion of their salary as an 'image rights' payment, thus resulting in the athlete paying a lower percentage of tax upon this income. However, with no clear definition of image, the system of taxation in relation to high-earning celebrity athletes has been left open to abuse; the 'why' and the 'how' of which shall be discussed in this thesis.

This thesis will also illustrate that Canada offers an alternative system of image rights and the taxation of high-earning celebrity athletes. The Canadian image rights system operates on both a statutory and common law level, in which the concept of 'image' is defined within both. Within the sporting context, in particular ice hockey, athletes are generally constrained by the provisions of collective bargaining agreements which ultimately limit their ability to receive image rights or endorsement payments as part of their salary from their employer club (although they are permitted to seek separate endorsement opportunities outside of a 'club context'). However, Canadian athletes are not deprived of the ability to make taxation savings; whilst UK athletes are able to make savings based on

their ability to sell their image, Canadian athletes are able to making similar savings due to the tax authorities acknowledgement of the short-spanning nature of their careers - thus providing athletes with various mechanisms to reduce their tax liabilities such as salary deferral arrangements, employee benefit plans, and retirement compensation arrangements. This research will ultimately show that the UK's reluctance to define an image right in one area of law, which can then be exploited in another area, has ultimately led to a convoluted system of taxation open to abuse. In contrast, Canadian approach has developed a system which is clear, transparent and predictable; and one in which athletes, their advisors and employer clubs know their rights and responsibilities.

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## Chapter One: *General Introduction: Athletes, Image and Taxation*

The age of “celebrity” is upon us. The Oxford definition of celebrity refers to “a famous person, especially in entertainment or sport”<sup>1</sup> and one who is in “the state of being well-known.”<sup>2</sup> In the context of this research, the concept of “celebrity” generally refers to well-known, recognisable individuals, particularly athletes, who are able to gain a tax advantage through advertising and selling this recognisable identity. However, this research will also show that the definition of “celebrity” in terms of image rights can sometimes become contentious and present a grey area, by virtue of the fact that some lesser known celebrities have been able to seek a similar tax advantage as a result of the convoluted system of taxation and image rights in the UK, illustrated throughout the thesis, but particularly by Chapter 5. Thus, the definition of celebrity can vary from global celebrity athlete David Beckham to the likes of lesser known Hull City midfielder Jackson Irvine and this thesis will illustrate that this grey area between the two “classes of celebrity” has contributed to the convoluted system of celebrity tax, at least in the UK.

In this age of celebrity, each day seems to bring the promotion of the latest celebrity autobiography, a new reality TV show and the continuous flow of celebrity endorsements of various goods and services, through social media channels such as Instagram and Twitter. These advertisements are a lucrative business and the promotion of the celebrity persona has proven to be financially beneficial to celebrities themselves, brands and advertisers alike. By means of example, in 2015, National Basketball Association (NBA) star LeBron James signed a lifetime deal with Nike, which will pay him over \$1 billion U.S. dollars by the time he is 64<sup>3</sup> – illustrative of how important it is to brands to secure the endorsement services of top athletes, even when their playing careers are a thing of the past. The sports industry, perhaps more than any other aspect of “celebrity”, has become actively involved with the advertising industry, with brand promotion common place amongst successful athletes.<sup>4</sup> This link between celebrity and brand is well established through authorities such as the English cases of *Tolley v Fry*<sup>5</sup> and *Irvine v Talksport*<sup>6</sup> and by the

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<sup>1</sup> Oxford English Dictionary, Lexico, <<https://www.lexico.com/en/definition/celebrity>> accessed 16<sup>th</sup> July 2019

<sup>2</sup> Ibid

<sup>3</sup> Michael Cannivet, Forbes, (2018) “Lebron James’ Mega-Deal Shows Why Globalisation Is Here To Stay”, <<https://www.forbes.com/sites/michaelcannivet/2018/07/07/lebron-james-mega-deal-shows-why-globalization-is-here-to-stay/#14454a465c1e>> accessed 21st October 2018

<sup>4</sup> David Andrews, (2008) Brown Journal of World Affairs, “Nike Nations,” 14(2)

<sup>5</sup> [1931] A.C. 33, [1931] All E.R. 131

<sup>6</sup> [2002] W.L.R. 2355

Canadian authority of *Krouse v Chrysler Canada Ltd*<sup>7</sup> (to be discussed in the forthcoming chapters). Each of the afore-mentioned cases involved the unauthorised exploitation of an athlete's image for commercial reward, however image rights disputes can also occur in cases of contractual obligations (for example, in cases where the athletes' employer club has an agreement with one brand - whilst the player has an endorsement contract with another). In any case, both scenarios are illustrative of brands' desire to exploit the athletic persona in order to increase the commercial attractiveness of their products, and of some athletes' desire to seek redress against what they perceive to be the illegal use of it.

With the passing of time, athletes themselves have realised the potential for commercial earnings, including opportunities which arise outside the scope of their chosen sport by endorsing brands in which they have no evident association. For example, footballer David Beckham endorses Armani fashion products and Pepsi soft drinks, amongst a vast collection of other products. As such, with Beckham earning \$75 million in 2014, despite this being his first full year of retirement from professional football<sup>8</sup> and with tennis star Maria Sharapova accumulating \$23 million in 2015 from endorsement earnings alone<sup>9</sup> – it is easy to comprehend an athlete's desire to promote and protect their image. As a consequence of this fame however, athletes also potentially face unauthorised commercial exploitations of their personality and image, with the most obvious example being the use of an athlete's name, image or likeness in the promotion of goods which they have not authorised nor endorsed.

As intellectual property laws are jurisdiction-specific, meaning that there is no “universal law” applicable, different jurisdictions have utilised different legal mechanisms in order to protect the commodification of celebrity. A commodity generally refers to products which can be bought or sold and are of value, traditionally items such as copper or coffee. However, with this age of celebrity in which we now live in, celebrities themselves, or rather their image, have become commodities which advertisers, brands and sports clubs seek to both buy and sell. This commodification of celebrity can take various forms, including endorsement contracts with brands, appearances at promotional events and

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<sup>7</sup> [1974] 1 O.R. (2d) 225

<sup>8</sup> Kurt Badenhausen, Forbes, “David Beckham Banks his Biggest Ever Year with Earnings of \$75 Million” <<http://www.forbes.com/sites/kurtbadenhausen/2015/03/11/david-beckham-banks-his-bigger-year-ever-with-earnings-of-75-million>> accessed 14th June 2018

<sup>9</sup> Forbes, “The World's Highest Paid Athletes,” <<http://www.forbes.com/profile/maria-sharapova/>> accessed 16th December 2016

magazine deals. However, the development of this commodification, in a UK context, has allowed celebrity athletes to make taxation savings based upon their image.

The diversification of approaches to commodifying image is important in the era of globalisation of sports and celebrities, meaning the level of protection of “celebrity” can potentially vary between jurisdictions. This thesis shall, in part, examine whether in reality this is the case. In the U.S, for example, many states recognise the right of publicity.<sup>10</sup> In California, the U.S celebrity “hotspot” (given its relationship with Hollywood and film), publicity rights are guaranteed under its Civil Code and provides substantial protection. S3344(a) states,

“any person who knowingly uses another’s name, voice, signature, photograph, or likeness, in any manner, or in products, merchandise, goods or services, without such a person’s prior consent, or, in the case of a minor, the prior consent of his parent or legal guardian, shall be liable for any damages sustained by the person or persons injured as a result thereof.”<sup>11</sup>

Contrastingly, in Australia, although no right to personality exists in law, famous athletes and other celebrities can “control the use of their “personality” and image by trademarking their image as well as bringing an action in the tort of passing off.”<sup>12</sup> The Trade Practices Act 1974 (s52 and s53) has also been successful in protecting the celebrity persona, although not initially intended for this purpose.<sup>13</sup> Whereas in the UK, there is no specific law or image right enabling the protection of the celebrity or athletic persona. Rather, celebrities have used the traditional intellectual property remedies such as passing off and breach of confidence – with varying success.

Particularly in the UK, in the context of celebrity athletes, protecting and promoting their image is closely linked to the ability to make tax savings based upon their endorsement earnings. The reluctance of the UK to define ‘image’ in one area yet allow athletes to exploit ‘image’ in another area (taxation of image rights) has led to a convoluted system of taxation, open to abuse. For the purpose of this research a celebrity athlete is an individual who possesses the requisite goodwill in their image or persona to secure tax savings.

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<sup>10</sup> Natalie Grando, (2010), Fordham Intellectual Property, Media & Entertainment Law Journal, “Million dollar baby: celebrity baby pictures and the right of publicity,” 20(2), 613

<sup>11</sup> The Californian Civil Code, 1872, s3344(a)

<sup>12</sup> Jenny Swee Gaik Ne, (2008) Sports Law eJournal, “Protecting a Sports Celebrity’s goodwill in Personality in Australia,” <<https://epublications.bond.edu.au/slej/6/>> accessed 14th June 2018, page 1

<sup>13</sup> Ibid, page 1

Goodwill is the method Her Majesty's Revenue and Customs (hereafter HMRC) use to quantify "celebrity,"<sup>14</sup> which is discussed in Chapter 5.

The relationship between taxation and athlete endorsement earnings is explored in far more detail below; but suffice to say for the moment that just as endorsement earnings can increase the tax bill of the individual athlete and often the individual or company who makes these payments; in the UK, image rights can also be a means of securing, entirely lawfully, a tax deduction, in spite of the absence of an 'image right' in law in the first instance. Sometimes, the means through which the deduction is occurred might not be lawful – which is why, at the time of writing, HMRC are currently investigating 171 professional footballers and 44 league clubs for possible tax evasions and since 2015, the Football Compliance Project has collected an additional £332 million in revenue.<sup>15</sup> The UK handles these issues by using a patchwork of intellectual property protections and HMRC guidance - which has led to the above-mentioned convoluted system of taxation of high earning athletes, in the context of image rights. High profile examples abound. For instance, the failure to successfully prosecute Harry Redknapp for non-payment of tax (which cost HMRC an estimated £5 million)<sup>16</sup> and the recent case against Glasgow Rangers FC in which the Supreme Court<sup>17</sup> ruled against the clubs' non-payment of income tax and national insurance contributions through the use of Employee Benefit Trusts (EBT's) serve as evidence of the complexity. However, this research will show that in other jurisdictions, specifically Canada, taxation laws applying to high-earning athletes are structured with an acknowledgement of the short-spanning nature of athletic careers, allowing athletes to make tax savings in order to provide financial security after their time as a professional is over, in a manner which is clear, transparent and predictable. This research will show that the link between image rights and tax law in the context of athletes is an important one – but in the UK, the applicable rules are unclear, to the potential detriment of both the athlete and their clubs (as in the Rangers case) and to HMRC (as was apparent in the Harry Redknapp prosecution) – primarily due to the reluctance to define image in law.

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<sup>14</sup> HMRC Guidance Notes, (2017, May 26) "Capital Gains Manual", <<https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual>> accessed 24th May 2018

<sup>15</sup> The Telegraph, (23rd October 2018) "HMRC investigating 171 footballers in £332m tax avoidance crackdown", <<https://www.telegraph.co.uk/tax/news/hmrc-investigating-171-footballers-332m-tax-avoidance-crackdown/>> accessed 20th November 2018

<sup>16</sup> BBC News, (8th February 2012) "Harry Redknapp cleared of tax evasion" <<https://www.bbc.co.uk/news/uk-england-16925280>> accessed 20th November 2018

<sup>17</sup> See RFC 2012 Plc (in liquidation) (formerly The Rangers Football Club Plc) (Appellant) v Advocate General for Scotland (Respondent) (Scotland) [2017] UKSC 45

## 1.1.

### *PhD Journey*

The background to this PhD requires a little explanation. Following my undergraduate studies and my initial consideration of doctrinal research, my supervisor suggested I might like to make use of data of an image rights study within the EU28. This was a Commission-funded study but the image rights element was not incorporated into the final report<sup>18</sup> and it has not been reported other than a brief overview in an article my supervisor had written.<sup>19</sup> At the time of the report's publication, the Commission asked that the information would be analysed, critiqued and disseminated at a later date. That process forms the second chapter of this thesis and lays the groundwork for what follows. The image rights study was based on a hypothetical scenario which explored competing contractual obligations in relation to endorsements. The study asked rapporteurs what the courts of their country would decide, what the remedies would be, and which legal mechanisms would be invoked.

In spite of the different mechanisms which were employed across the EU28, the study illustrated that generally, the member states allow celebrities to protect their image rights. As a high-level UK athlete with some knowledge of intellectual property law in the UK, the next step of this thesis was to further examine the relevant domestic laws. The UK rapporteur noted that the UK relies on the traditional intellectual property remedies such as passing off and breach of confidence actions and these mechanisms used were generally able to provide UK celebrities with legal redress in instances of image rights disputes, just as the frameworks in the other member states provided remedies in theirs.

The choice to compare and contrast selected elements of jurisprudence and legislation in the UK and Canada was based primarily on the researchers own prior knowledge and experiences. As an international level athlete, the researcher had some awareness and also a personal interest as to image rights and taxation within the UK and an undergraduate degree in law provided a level of awareness as to the relationship between intellectual property law and sports image rights. The decision to compare the UK with Canada was kindled by

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<sup>18</sup> Bernt Hugenholdz, Ben Van Rompuy, Thomas Margoni, Nico van Eijk, David McArdle, Tilman Becker, Catherine Jasserand-Breeman, Marco van der Haast, (2014) "Study on Sports Organisers' Rights in the European Union Luxembourg": EU Publications Office, available at <[www.ivir.nl/publications/download/1353](http://www.ivir.nl/publications/download/1353)> accessed 21st July 2018

<sup>19</sup> David McArdle, (2016) Legal Studies, "You had me at "no capital gains tax on a disposal": legal and theoretical aspects of standalone image rights."

family links and a little knowledge of Canadian law and its legal system and common law structures meant that carrying out research based upon Canada not be an entirely alien undertaking. John Barnes' book, "Sports and the Law in Canada"<sup>20</sup> also instigated an interest in the sporting landscape of Canada, in particular ice hockey, which exists similarly to the status of football in the UK both socially and culturally and as such, was a basis on which I felt this thesis could develop.

Following my undergraduate studies, I was aware that Canada had an interesting (and possibly unique) take on image rights laws. Initial research indicated that Canada offers both statutory law protections via the Privacy Acts which exist in four provinces (British Columbia, Newfoundland, Saskatchewan and Manitoba) and common law remedies – notably in Ontario. But the relatively few instances in which celebrities have troubled the courts with image rights disputes in the UK and Canada, begged the question of what role existing image rights in these jurisdictions actually play in our 'celebrity age' and whether reform should be considered. Similarly, early research also indicated that Canada has a robust and transparent taxation system in regard to high-earning athletes. Its system exists in contrast to that employed by the UK, employing mechanisms to allow athletes to make taxation savings throughout their careers, based primarily on the acknowledgement of the short nature of athletic careers in the first instance. As such, Canada offers an alternative to the convoluted and often confusing system of image rights and taxation in the context of athletes.

## **1.2. *The Research Aims***

The research aims can be defined as follows:

- (1) To establish the patchwork of image rights protections available in (a) the UK and (b) Canada;
- (2) To establish, in the context of athletes, the taxation regime applicable of high-earning celebrity athletes (a) in the UK and (b) Canada;
- (3) To establish whether reform is required in the UK in relation to the taxation of celebrity athletes and its image right protections;
- (4) To test whether the hypothesis of this thesis is correct in that Canada offers a system of taxation which allows athletes to legitimately reduce their tax bills in a clear,

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<sup>20</sup> John Barnes, (1996) "Sports and the Law in Canada" (Third Edition, Butterworth)

transparent and predictable manner, which the UK could look to as a model for reform.

### 1.3. *Research Methods*

This study engages primarily with doctrinal research.<sup>21</sup> Defining doctrinal legal research has been considered difficult,<sup>22</sup> but it is generally “concerned with the formulation of legal ‘doctrines’ through the analysis of legal rules...deciding on which rules apply in a particular situation is made easier by the existence of legal doctrines.”<sup>23</sup> There are common features of doctrinal research irrespective of the jurisdiction. These common features are as follows:

“(a) arguments are derived from authoritative sources, such as existing rules, principles, precedents, and scholarly publications”, (b) the law somehow represents a system. Through the production of general and defeasible theories, legal doctrine aims to present the law as a coherent net of principles, rules, meta-rules and exceptions, at different levels of abstraction”, and (c) decisions in individual cases are supposed to exceed arbitrariness because they have to (be) fit into the system. Deciding in hard cases implies that the existing rules will be stretched or even replaced but always in such a way that in the end the system is coherent again.”<sup>24</sup>

Thus, doctrinal research is concerned with identifying legal rules such as legislation, precedent or other legal sources with the aim of establishing the way in which the legal system of a particular jurisdiction deals with a particular doctrine of law. This can help inform debates and discussions as to whether reform is required. The decision to employ a doctrinal method was made by virtue of the complicated nature of image rights and taxation laws in the first instance. By employing a system of doctrinal research, the researcher was able to identify the relevant laws, explore how the doctrines of taxation and image rights coincided together in both the UK and Canada and establish whether reform was required. This was vital in answering the research questions which required identification of the image rights protections and taxation laws available in the UK and Canada, to establish

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<sup>21</sup> Although this thesis engages with comparisons between the UK and Canada, it also discusses laws within the EU28 and is not strictly a comparative law study and does not follow a comparative law methodology.

<sup>22</sup> Rob Van Gestel, Hans-Wolfgang Micklitz, (2011), European University Institute Working Papers Law, “Revitalising Doctrinal Legal Research in Europe: What about Methodology?” at page 26

<sup>23</sup> Paul Chynoweth (2008), “Legal Research” in Les Ruddock & Andrew Knight (eds), “Advanced Research Methods in the Built Environment” (Wiley-Blackwell), 29

<sup>24</sup> Rob Van Gestel, Hans-Wolfgang Micklitz, (2011), European University Institute Working Papers Law, “Revitalising Doctrinal Legal Research in Europe: What about Methodology?” at page 26

whether reform was indeed required and whether the Canadian system offered a model for subsequent reform. Thus, the doctrinal method of identifying the legal rules in the context of image rights and taxation and collating and evaluating the relevant case law was considered most useful in answering the research questions. The researcher did initially consider using a method of comparative law, given the analysis of the laws in the UK and Canada. However, this method was rejected firstly, on the basis that the initial chapter concerned the EU28 and not the two afore-mentioned jurisdictions and secondly, by virtue of the fact that the research questions (1) and (2) were primarily aimed at establishing and not comparing the current laws in the first instance, whilst question (3) simply aims to establish whether reform is required in the UK only. Although question (4) asks whether the Canadian system could be used as a model for reform, this is perhaps the only question which would have been suited to the comparative law method as opposed to the doctrinal method which seeks to establish the laws in place and the system which is followed.

This research is concerned with the protection of image rights protection and taxation in both the UK and Canada. Since one aim of this thesis is to establish whether the UK system requires reform, by establishing the way in which each country deals with the same doctrine, the method of doctrinal research will allow this thesis to not only understand the laws of the UK jurisdiction, but also critically analyse whether the Canadian laws can be used to help understand and/or improve the system of law in the UK. In doing so, it will test the hypothesis that the Canadian system operates in a clear, transparent and predictable manner which the UK should seek to replicate. The research method shall derive the legal doctrines of image rights and taxation from legislation and precedent. These will be analysed in order to satisfy the primary objectives of this study. As such, this methodology of doctrinal research helped achieve the aim of suggesting which system of image rights law best provides for a transparent tax regime. Analysing the Canadian image rights law provided insight into a jurisdiction which utilises statutory law and has made a conscious movement away from a reliance on the traditional intellectual property remedies. The subsequent investigation of the UK and Canadian taxation laws helps provide guidance as to how an image rights and tax law can co-exist in a transparent manner. As an aside, it is not beyond the realms of possibility that in the relatively near future, an independent Scotland might also consider moving away from a reliance on the traditional intellectual property remedies while also providing a more transparent system of celebrity taxation. This research could help inform any such developments and offers a unique study on the

relationship between taxation and image rights in the UK and Canada, opening the pathway for discussions and debates as to whether reform is required in the UK and what such reforms could potentially involve.

#### **1.4. *Structure of the Study and Original Contributions***

This thesis will make three original contributions to knowledge:

- (1) That the development of the common law tort of appropriation of personality in Ontario was initially based on a misunderstanding of support in the law in the first instance by the judiciary.
- (2) That the UK fails to define an image right; but allows an image right which does not exist in law to be exploited in the context of the taxation of high-earning athletes.
- (3) That the Canadian system of taxation of high-earning athletes is clear, transparent and predictable and operates in a way which avoids the convoluted manner in which the UK system operates.

The study is presented in seven chapters:

Chapter One offers a general introduction provides an overview of the proposed research, the importance of the study, the research objectives and the methodology employed.

Chapter Two, “Image Rights in the EU28” will offer an original contribution by exploring the results of the image rights study within the EU28. It will examine the rapporteurs’ responses on remedies and forums and the legal mechanisms which they advised would be employed to the hypothetical situation. This includes analysis of employment contracts, specific intellectual property legislation, constitutional provisions, civil codes, sports-specific legislation, collective agreements and standard terms. The primary purpose of this chapter is to operate as a case study to highlight firstly, the issues which can arise when dealing with athletes and endorsements and also to highlight the fact that the member states generally came to the same conclusion despite the differing laws/legal mechanisms employed. This chapter lays the groundwork for the analysis of image rights protections in the UK and Canada and for the testing of the hypothesis that Canada offers a clear and transparent taxation system of high-earning athletes which the UK could look to as a model for reform.

Chapter Three, “Image Rights, Sport and the UK” will explore the domestic remedies utilised in the UK in cases of unauthorised exploitations of the celebrity persona by third parties. In the absence of a free-standing personality right in the UK, this has involved a reliance on the traditional intellectual property laws of breach of confidence, passing off, trademarks, copyright and the civil wrong of defamation. The aim of this chapter is to determine firstly the way in which the UK deals with image rights disputes by determining which domestic remedies are of use/most commonly used, before secondly, establishing whether the absence of specific image rights legislation has consequences for tax purposes.

Chapter Four, “Image Rights in Canada” analyses the Canadian take on image rights law. It examines the statutory regulated provinces of British Columbia, Manitoba, Saskatchewan, and Newfoundland. It also assesses the common law province of Ontario and establishes that it has employed the novel tort of appropriation of personality in the absence of precedent or guidance from the legislators. The primary aim of this chapter is to analyse the laws which are applicable in image rights disputes dependant on provincial areas, highlighting any differences to that of the UK.

Chapter Five “Taxation and Image Rights in the UK” establishes the link between tax law in the UK and the protection of image rights. This chapter has a primary focus on the taxation issues surrounding footballers and their clubs – by virtue of the fact that it is the UK’s biggest sport and many players and clubs are currently being investigated by HMRC regarding their tax affairs. This chapter assesses the taxation laws applicable to footballers in the UK, together with HMRC guidance and case law. The aim of this chapter is to first and foremost highlight that there is a lack of coherence between tax law and image rights in the UK and secondly, to examine the benefits and/or drawbacks of the current system for both players and clubs.

Chapter Six, “Canadian Taxation of Athletes” shall examine relationship between image rights and taxation in Canada. Since hockey in Canada is comparable to football in the UK, the study will focus upon the taxation of hockey stars in the National Hockey League (NHL). This chapter will establish the laws in relation to image rights taxation and well as the systems in place which allow taxation savings for high-earning athletes. It therefore offers natural analogies between the Canadian system and that of the UK. The primary of this chapter is to test the thesis hypothesis that the Canada offers a system of taxation in

relation to high earning athletes which is clear, transparent and predictable and one which the UK could take guidance from.

Chapter Eight “Final Conclusion: The Relationship Between Image Rights and Taxation” is a final conclusion of the overall study. This will summarise the main findings of the thesis, answering the research aims outlined above, as well as indicating possible areas of future research.

This first substantive chapter will show that the potential to have various different remedies and sources of law to address disputes relating to contractual endorsement agreements in the case of image rights has not resulted in varying levels of protection where one state provides remedy and another does not. Contrastingly, the lack of a universal remedy in the case of image rights causes little issue and in fact, the various jurisdictions generally produce the same solution, albeit by making use of different legal mechanisms. The primary purpose of this chapter is to operate as a case study to illustrate that the absence of harmonisation of image rights laws across the EU28 has not caused a crisis of under-protection nor a pressing need for reform and rather, the lack of clarity and guidance concerning image right protections in a UK context, only becomes consequential in relation the taxation of image rights of high earning celebrity athletes.

The initial analysis of image rights across various jurisdictions, in order to adduce an answer to the above question, involved a case study across the EU28 - which formed part of the Report for the European Commission on the rights of sports events organisers across the member states.<sup>25</sup> A case study aims to “explore and investigate contemporary real-life phenomenon through detailed analysis of a limited number of events or conditions, and their relationships.”<sup>26</sup> A case study can range from qualitative information, involve participant observation or investigate a single phenomenon.<sup>27</sup> Pursuant to this definition, the case study of the EU28 is one which adduces qualitative information, addressing the phenomenon of contractual image rights disputes across the member states. The benefits of this particular case study are that it allowed for a large amount of information to be gathered from 28 different jurisdictions, whilst it also allowed the initial researchers to ask the questions to which they felt were most appropriate. These questions, including what mechanisms and remedies would be invoked and what real-life examples of contractual disputes regarding image rights were available within each member state are equally as relevant to this thesis – allowing dissemination of the mechanisms used, identification of

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<sup>25</sup> Bernt Hugenholdz, Ben Van Rompuy, Thomas Margoni, Nico van Eijk, David McArdle, Tilman Becker, Catherine Jasserand-Breeman, Marco van der Hasst, (2014) “Study on Sports Organisers’ Rights in the European Union Luxembourg”: EU Publications Office, available at <[www.ivir.nl/publicaties/download/1353](http://www.ivir.nl/publicaties/download/1353)> accessed 21<sup>st</sup> July 2018. The data considered here was not included in the final report but is discussed and reproduced with the permission of the European Commission.

<sup>26</sup> Zaidah Zainal, (2007) The University of Malaysia, “Case Study as a Research Method”, page 2-3

<sup>27</sup> John Gerring, (2004), The American Political Science Review, Volume 90, No.2, “What is a Case Study and What Is It Good For?” 341, 342

the similarities and differences between the member states remedies and to serve as an illustration that the different mechanisms have generally produced the same result.

Rapporteurs in each of the EU28 were asked to respond to the following scenario:

Football Club A entered into an employment contract (or similar working relationship) with Player B. According to the contract Player B is not entitled, either on his own behalf or with or through any third party, to commercially exploit his/her image in a club context. Some years ago, A entered into an exclusive sponsorship agreement with sportswear company B-DIDAS. When performing their services under the contract with A, all players must wear a kit manufactured by B-DIDAS.

Some time prior to signing with Club A, Player B had entered into a personal sponsorship and endorsement agreement with sportswear company NIEK to exploit B's image in advertisements for NIEK shoes. The agreement foresaw the obligation for B to wear NIEK shoes during football games and in the public eye. This agreement still exists. Club A was aware of the agreement between Player B and NIEK.

Club A and B-DIDAS sue B and NIEK to (i) prevent B from wearing NIEK shoes during football games and in the public eye, and (ii) to prevent NIEK exploiting B's image in any advertisement for NIEK shoes.

What would the national court in your country decide?

## **2.1. *Results – General Outcome***

The nature of the remedies available to resolve a sports image rights dispute in the EU member states, in the context of the example given above, can be summarised as follows:<sup>28</sup>

The general position amongst the member states was that, in the absence of bad faith between the parties, Club A would have remedy against the player in a “club context.” Thus, when the player was playing, training or otherwise acting in a capacity in which he was representing his employer, Club A would be justified in ensuring Player B wore kit provided by B-DIDAS. In instances where Player B was not representing his club/employer, the general consensus among the EU28 was that Club A would have no remedy in seeking to control what he wears or endorses outside the employment context.

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<sup>28</sup> Hard copies of appendix are available on request.

As such, Player B could endorse NIEK so long as his activities were not during what could be regarded as within the “employment context.”

Privity of contract, i.e. the contract between Club A and Player B meaning they were entitled to sue one another but a third party is prevented from doing so, meant that NIEK could not challenge the agreement between the club and the player (that he would wear B-DIDAS) in so far as the “employment context” was concerned. As such, the extent of the player’s obligations to B-DIDAS would largely depend on what was defined as “club context,” “employment context,” or any other relevant phrase used in the employment contract.

This was the case in those states where standard contract terms were the most significant feature, for those with a relevant statutory framework and for those where collective agreements operated. In this as in other contexts, there was no evidence that jurisdictions which relied upon principles of contract construction alone faced greater legal uncertainty or would be likely to resolve the matter differently.

In total, 20 respondents (Austria, Belgium, Cyprus, Estonia, Germany, Greece, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovenia, Spain, Sweden and the UK) were able to say with some degree of certainty that Club A would have the “club context” remedy; in the absence of bad faith.

### **2.1.1. *Employment Contract Terms***

In some member states, specifically Luxembourg, Malta, the Netherlands and the UK – the judicial interpretation of the employment contract terms alone between the parties was identified as offering the solution to the case study.

In Luxembourg, the respondent acknowledged that under general employment law, the employee is in a position of subordination towards his/her employer and the employer “may legally instruct the employee to execute his employment contract according to the employer’s directives.”<sup>29</sup> Although the amount of supervision an employee is under and is reasonable will be decided on a case-by-case basis, it was accepted that an employee can generally be made to wear “work clothes.” However, the rapporteur highlighted that in the context of a football club and the question posed, there was no legislation or case law and

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<sup>29</sup> Appendix 18.

as such, the conflict would be decided upon solely through contract law.<sup>30</sup> Thus, in Luxembourg, Player B would be considered to be in breach of contract by signing two contracts, which are essentially in contradiction to one another; the remedy for Club A and B-DIDAS would lie with Player B.

In Malta, the respondent considered the knowledge of the parties when signing the contracts to be of pivotal importance. As Club A was aware of the contract between Player B and NIEK, Club A should have made provision within the employment contract between itself and Player B, in regard to endorsements and sponsorships within the employment context. If not, and the agreement between Club A and B-DIDAS was entered into after Player B signed with Club A, it was in the interests of the club to clarify this issue with both Player B and B-DIDAS.<sup>31</sup> As such, the national court would consider the timeline of contracts between all parties and determine whether prior knowledge of the agreement between Player B and NIEK would bar Club A from suing both NIEK and Player B.

The Netherlands had no specific law for sponsorship conflicts, however, past precedent (*Notten c.s. v KNVB*<sup>32</sup>, *Ajax & Umbro*<sup>33</sup> v *Borsumij*, *Dunlop v NBB*)<sup>34</sup> indicated that the courts would apply the principle of prior contractual rights – meaning older agreements would take precedence.<sup>35</sup> As such, the claim of football Club A and B-DIDAS would be rejected on the basis that the agreement between Player B and NIEK was formed before both the employment contract and the agreement between B-DIDAS and Club A.

In the UK, by virtue of the fact Club A was aware of the contract between Player B and NIEK, the club had waived the right to any available remedy. B-DIDAS' claim would similarly fail as its rights were derived from its exclusive sponsorship with Club A and as such, B-DIDAS cannot acquire more extensive rights than Club A can grant to it.<sup>36</sup>

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<sup>30</sup> Ibid

<sup>31</sup> Appendix 19.

<sup>32</sup> Utrecht District Court, February 23<sup>rd</sup> 1996

<sup>33</sup> Rb. November 1<sup>st</sup> 1989, KG 1989, LJN: AH2909

<sup>34</sup> Rb. Utrecht 30<sup>th</sup> November 2011, NJF 2012, 33, LJN: BU6292

<sup>35</sup> Appendix 20.

<sup>36</sup> Appendix 28.

### 2.1.2. *Specific Intellectual Property Law Legislation*

National responses from ten member states; Austria, Czech Republic, Estonia, Finland, Germany, Italy, Latvia, Poland, Spain and Sweden, indicated that specific intellectual property legislation would be the relevant source of law in assessing the dispute.

In Austria for example, the Austrian Copyright Act (1965) was used as a means of finding a solution. Article 78 of the Act governs the protection of image rights of individuals. This provision provides that a “person’s image must not be displayed publicly or disseminated by other means which make it available to the public if legitimate interests of the depicted person (or his/her relatives if he/she has died) would be violated.”<sup>37</sup> As such, the use of a person’s image, (in particular that of a top-class, professional sportsman), without consent, had the potential to violate one’s image rights. In Austria, the respondent indicated that consent is a critical consideration. According to the Supreme Court, an individual is entitled to transfer their image for economic (promotional) purposes. Thus, Player B had authorised NIEK to use his image for promotional purposes and as this authorisation was purchased by NIEK, it cannot be withdrawn – meaning NIEK could not be prevented from exploiting Player B’s image nor could Player B be prevented from wearing NIEK shoes (as this would mean breaching the prior sponsorship agreement).<sup>38</sup>

In Italy, the conflict would fall under both Article 10 of its Civil Code (1942) and Article 96 of the Italian Copyright Law (1941). Article 10 establishes the principle that if an image is published or disseminated without permission, the courts can order the abuse to cease, in addition to damages. Article 10 states that a “person’s likeness cannot be displayed, reproduced or sold without the consent of the portrayed person.”<sup>39</sup> In the event of athletes using their own image for commercial purposes in relation to the Club by whom they are employed by, the general rule allows both “collective” (the Club) and individual (through the agreement with NIEK) exploitation, which is based upon the Convention On the Regulation Of Advertising and The Promotional Activities between the Italian Football Players Association. As such, Italy indicated Club A would only have remedy within the “club context.”<sup>40</sup>

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<sup>37</sup> Austrian Copyright Act (1965), Article 78

<sup>38</sup> Appendix 1.

<sup>39</sup> Italian Copyright Act (1941), Article 10

<sup>40</sup> Appendix 15.

Sweden found remedy through the Swedish Act on Names and Images in Advertising (1978). Under section 1, “a tradesman shall not, in the marketing of any goods, service or any commodity, make representation in which another person’s name or image is used without that person’s consent.”<sup>41</sup> As such, Sweden concluded that Club A would have a claim in the employment context, whilst B-DIDAS would have no claim against Player B or NIEK as no agreement existed between the parties,<sup>42</sup> illustrative of the use of specific intellectual property legislation.

### **2.1.3. *Constitutional provisions or wide-ranging civil codes***

Over 20 respondents had constitutional provisions or wide-ranging civil codes which either had to be considered when interpreting those specific acts (in addition to others) or which, in the case of Cyprus, was the sole source of a potential remedy. The exceptions were Austria, Denmark, France, Malta, the Netherlands, Sweden and the UK.

By means of an example, in Estonia, Article 19 of the Constitution (1992) provided a general right to personality which had to be considered when applying other specific acts (Personal Data Protection Act (2007) Law of Obligations Act (2001)), whilst in Portugal, Article 79(1) of the Civil Code also provided a right to personality which had to be considered alongside the Sport Labour Act (1998). In Cyprus, Article 15 of the Constitution which provided individuals with protection of privacy was the single legislative basis for addressing the claims of Club A and B-DIDAS.

### **2.1.4. *Sport-specific Acts***

Seven respondents – France, Greece, Hungary, Portugal, Romania and Spain indicated that there was in existence a “sports law” which could potentially be of relevance and these raised interesting issues of jurisdiction for sports-related disputes.

In Hungary for example, the respondent highlighted that while jurisdiction over an image rights dispute would ordinarily reside with the National Court of First Instance, on this occasion it would lie with the Permanent Court of Arbitration for Sport pursuant to Art 46 of the Hungarian Sports Act (2004). As such, in situations where the Act applies, the jurisdiction of the courts is ousted in favour of an alternative dispute resolution (ADR) mechanism which exists purely in/for sport related contexts. As briefly mentioned above, it

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<sup>41</sup> Swedish Act on Names and Images in Advertising (1978), s1

<sup>42</sup> Appendix 27.

is feasible that image rights and other disputes that might otherwise be resolved through the courts are dealt with away from the public eye through the mandatory recourse to these mechanisms. On the substantive issues the Hungarian Act provides that in sponsorship and merchandising agreements concluded between an employer club and a commercial undertaking, the employer must have obtained the player's prior written consent to him being covered by the agreement between them (through the employment contract for instance). If it has not, the club's commercial contract is invalid insofar as it applies to that player. It will have no remedy if he abides by a personal endorsement deal instead and the Act provides that the player would have an action for violation of his personal rights in accordance with the Hungarian Civil Code should it try to prevent him doing so. The Act further provides that the right to exploit his image in a non-sporting context remains with the player and the national respondent argued that because his commercial advertisements for NIEK do not relate to a "sporting activity" which would ordinarily be vested in the employer club, the player would be at liberty to exploit those rights even if the "sporting context" rights have been validly assigned.<sup>43</sup>

In Spain, Royal Decree 1006/1985 governs image rights exploitation in respect of all professional athletes. It obliges the parties to an employment relationship to reach a collective agreement which is incorporated under the employment contract. However, the right to one's own image is protected under the Spanish Constitution (under Article 18.1) and so Club A cannot compel the player to cease wearing NIEK's apparel in other contexts, regardless of any term to the contrary collective agreement.<sup>44</sup>

In Portugal, the respondent stated that the Sport Labour Act 1998 would operate alongside the Civil Code and again, the combined effect would be that Club A would potentially have a remedy with regard to the "club context" only. However, while the Civil Code Art 79 again provides that personality rights are absolute and cannot be waived, the Sport Labour Act grants the player the right of either personal use or the right to authorise use by another, while collective image rights such as team photographs are a matter for collective negotiation. If the employment contract ostensibly prevents the player from commercially exploiting his image that agreement is valid under both the Civil Code and Sports Labour Act – but again, only insofar as it pertains to the "club context". So, in the context of the case study neither the club nor B-DIDAS could prevent the player from exercising his

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<sup>43</sup> Appendix 13.

<sup>44</sup> Appendix 26.

personal agreement with NIEK regardless of what his employment contract decrees - the limit on the player's freedom to exploit his own image again turns on what is meant by the "club context."

#### **2.1.5. *Collective agreements***

Nine respondents; Belgium, Denmark, France, Germany, Hungary, Italy, Poland, Portugal and Spain, said the answer would lie in the terms of collective agreements negotiated with sports unions, and while most of those nine stressed that they would only be valid if they were consistent with the constitution, sports acts or other legislative sources, the respondent for Denmark identified collective agreements as the sole remedy in that jurisdiction.

For example, in Belgium, the National Collective Agreement relating to the employment conditions for the paid footballer (2009), provides solutions for conflicting sports sponsorships. The agreement is binding on both the employer clubs and the employee. Under Article 31, the image rights of the footballer are said to belong to them unless they specifically assign them away. The player is free to enter into contracts relating to his name and image, whilst they are obligated only to communicate to the club the name of the sponsor. However, the agreement imposes restrictions on the freedom of the players image rights by imposing that the image may not be exercised in a Club context. These restrictions in terms of a club context are: the image right may not be exercised in the colours or equipment of the Club, the player may not sell his image rights to competitors of the sponsors of the club and the player may not sell his image rights to parties who sell or market products that are contrary to the image of sport (tobacco, alcohol). Although NIEK may be regarded as a competitor to B-DIDAS, the Belgian respondent felt the claims of B-DIDAS and Club A would not succeed due to the fact that Club A did not object to any element of Player B's contract with NIEK and therefore could have been regarded as tacitly consenting to the agreement between the parties. As such, Club A would only have remedy within a club context.<sup>45</sup>

In Denmark, all players and clubs are bound to follow the Uniform Players' Contract (2007), which was established as a result of a collective bargaining agreement between the Players' Association and the Danish Football League. Under this agreement, image rights are regulated under section 13A and 13B. Where this agreement applies, the player is

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<sup>45</sup> Appendix 2.

obligated to inform the club about any personal sponsorship agreements before signing his employment contract. As such, the agreement works under the assumption that the Club will have to respect the previous obligations entered into by the player before the signing of the contract. However, notwithstanding these limitations based on the player's prior contracts, the collective agreement is also based on the assumption that the club has the right to dispose of all image rights of the player during the employment contract. The player may still enter into endorsement contracts beforehand, but the club must grant its written consent. That consent must not be unreasonably withheld – only in instances where the player's personal sponsorship agreement conflicts with the main sponsor of the club. Although this could be argued to be the case with B-DIDAS and NIEK, the Danish respondent (similarly to that of the Belgian), felt that as Club A was aware of the agreement between player B and NIEK, Club A nor B-DIDAS would be able to prevent B from wearing NIEK shoes or prevent NIEK exploiting the image of B.<sup>46</sup>

The comparatively recent emergence of collective agreements in sports, and of sports-specific legislation, is a clear example of sport's ability to develop its own legally-enforceable norms, albeit one which requires the wider support of the judicial field, but sports that wish to develop standard contract terms or collective agreements on image rights should make provision for the parties to vary the terms if they wish, ensuring the parties' rights and obligations are clear and be certain that key phrase such as employment context or club context are clearly defined. An example of how not to do it is provided by the Austrian Football Association, which places the benefits of exploitation far too firmly in the hands of the clubs by stating that “no publicity whatsoever which is in conflict with the economic interests of the club is permitted.”<sup>47</sup> While there may be difficulty in reconciling that provision with the terms of the Allgemeine Buergerliche Gesetzbuch (ABGB – Austria's private law code) or the Civil Code should it be challenged, the use of very broad provisions which defy definition should be firmly rejected by the players' representations when collective agreements or mandatory contract terms are renegotiated. They should also be avoided in sports making their first foray into such provisions, given the controversial nature of provisions which gifts Clubs with a monopoly over players' endorsement opportunities.

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<sup>46</sup> Appendix 7.

<sup>47</sup> Appendix 1

### 2.1.6.

### *Standard Contract Terms*

It is apparent that those sports where there is an employment relationship make extensive use of standard terms, such of which fetter the individual players' freedoms to enter into commercial contracts. In individual sports such as tennis and golf, the same ends can be achieved through the contracts to provide services which athletes sign at a specific competition. While it will usually be possible for the contracting parties to depart from the standard terms if they both wish, event organisers and players' representatives should take steps to ensure all such terms make clear provision in respect of image rights and players' freedoms and obligations in respect of them, to provide clarity and avoid potential disputes. Given the globalised nature of elite level sports and of the commercial undertakings who wish to be associated with star players, this is an area where there may be scope for more consistent use of standard contract terms (ideally collectively bargained) within a particular sport rather than within or across specific jurisdictions. To that end, the respondent from Spain argued that, as a minimum, any image right term should stipulate (i.e. this should be the legal framework):

1. "The extent to which the player is obliged to assign his/her rights: what specific rights are assigned and what specific rights are reserved from individual exploitation by the athlete.
2. Where or not this assignment of image rights is exclusive.
3. What remuneration shall be offered to the player in consideration for her/him assigning those rights to the club."<sup>48</sup>

Again, key terms such as "club context" or "tournament context" should be clear and unambiguous.

Based upon that framework, the Spanish respondent concluded in the absence of a contract between B-DIDAS and Player B or between Football Club A and NIEK, neither Club A or B-DIDAS had remedy in law. With regard to Football Club A and Player B, the respondent felt the only possible remedy would again be within a club context, which in itself was questionable as Club A was aware of the agreement between Player B and NIEK at the time the employment contract was signed.

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<sup>48</sup> Appendix 26.

### 2.1.7.

### *Bad Faith Negotiations*

As mentioned, very few member states' courts have dealt with cases specifically concerning athletes' image rights, but many respondents pointed to the wider domestic case law on bad faith in contract negotiations to argue that it would clearly be relevant here.<sup>49</sup> The general view was that if bad faith by the club were established, it would immediately be deprived of a remedy, but the number of respondents who felt the courts would try and interpret the contracts to give Club A the club context remedy even if it knew about the player's contract with NIEK was surprising. Wider significance of bad faith dealing was explored through follow-up questions where respondents were asked to bear in mind the German Civil Code art 242 (1900), definition of bad faith – “a deliberate act which makes impossible the fulfilment of contractual obligations.”<sup>50</sup>

The need for the act to be “deliberate” proved to be a common feature, and across the member states the general position accorded with that outlined by the Latvian respondent: the Constitution, legislation and judicial interpretation all established that contractual rights are to be exercised and duties performed in good faith. If Club A, when signing the employment contract with Player B, was aware of the personal sponsorship and endorsement agreement between he and NIEK, that alone would be enough to establish bad faith on its part. Evidently, the club also knew its own obligations to B-DIDAS, and pursuant to Article 1776 of the Latvian civil law, it could not claim damages from the player as it could have avoided the loss cause by its non-fulfilment of its agreement with that company, either by not signing it at all or – preferably – by entering good faith discussions with both commercial parties and the player prior to confirming his employment.<sup>51</sup> As the respondent for Malta observed, “if it were not for the deception by the club, B-DIDAS would not have entered into that contract with it.”<sup>52</sup>

However, this widely-held general principle does not inevitably mean that in all 28 member states bad faith in contract negotiations will be fatal even if it can be established. The respondents in several other jurisdictions felt it was impossible to give such a definitive response, usually citing the existence either of legislation that applied exclusively to sport or to collective labour agreement that covered the assigning of image rights but which

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<sup>49</sup> This is only relevant to contractual bad faith.

<sup>50</sup> German Civil Code, (1900), Article 242.

<sup>51</sup> Appendix 16.

<sup>52</sup> Appendix 19.

failed to make specific provision for bad faith dealing. Accordingly, this does not mean that bad faith would be irrelevant simply because there is an act or collective agreement which is silent on the matter: some respondents whose jurisdictions fell into one of these categories felt the contract would no longer fall within the scope of the Act or collective agreement, the matter would then be dealt with under the provisions of more general application and under those, the club's bad faith would be fatal; and as mentioned above, some respondents (for example the UK and Belgium) said that even if there were no bad faith, the club's mere knowledge of the player's existing contract would condemn it to defeat. However, in the absence of authority they did not feel able to say this would definitely be the case. That caveat aside, one can say with some certainty that a party which has acted in bad faith, by virtue of the principles of contract law, would face little prospect of success even if the legal instruments which provided the potential remedy were silent on the matter.

## **2.2. Remedies**

Finally, in this section, throughout the 28 member states, respondents identified injunctions and damages as the remedies available to football Club A if it were to succeed on the merits. They were regarded as the most likely remedy in each country, although under Finnish and Swedish law there was the potential for criminal sanctions (in the form of fines) if any of the parties had acted particularly egregiously.<sup>53</sup> The Portuguese respondent pointed out that if Club A was aware of the player's agreement with NIEK but still induced him to agree to those contract terms, NIEK could seek compensation from Club A for inducing the player's breach of contract.<sup>54</sup> No other respondents mentioned the inducement to breach angle, but it had clearly been a significant aspect of the Belgian badminton case mentioned above.<sup>55</sup> Those disputes again reinforce the importance of ensuring commercial and employment contracts clearly stipulate the rights and obligations of the parties. The emphasis should be on sports stakeholders working together to prevent such disputes arising, and there should be a clear focus on avoiding situations where parties (or their agents) can easily act in bad faith or successfully induce others to breach a contract and definition of what is meant by the "club context" or analogous phrases that appear in employment contracts and collective agreements should be clear.

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<sup>53</sup> Appendix 9 and 27.

<sup>54</sup> Appendix 22.

<sup>55</sup> See *Dunlop v NBB Rb*. Utrecht 30<sup>th</sup> November 2011, NJF 2012, 33, LJN: BU6292

Whilst it must be acknowledged that the information above is based on the opinion of 28 respondents and not that of courts within those jurisdictions, it is necessary to also acknowledge that the rapporteurs chosen were considered experts in the field and as such, best placed to answer the question posed. Thus, it is clear that from the above analysis, there are a variety of sources of law and indeed remedies applicable to the dispute at hand. As above, the general consensus between the EU28 in regard to the scenario given was that B-DIDAS would have no claim against Player B or NIEK in preventing B wearing NIEK shoes or preventing NIEK from using B's image in advertisements. This was largely due to privity of contract and the fact that there was no contractual relationship between B-DIDAS and Player B or NIEK. With regard to the claim of Football Club A, the overriding conclusion of the member states was that Club A would only have a remedy in ensuring Football Player A wore B-DIDAS in respect of carrying out his duties in an "employment context." As such, Club A could not control what Player B wears or endorses outside his employment duties. Again, it is imperative to stress that the need for clear guidelines as to what constitutes "employment" or "club" context is set out unambiguously, allowing both parties clarity on their rights and responsibilities. It is notable that some states did not come to this conclusion, for example the respondent in Belgium was reluctant to give an answer with any degree of certainty and indicated that this would be a matter for the courts based on their interpretations of the relevant legislation,<sup>56</sup> the respondent in Croatia felt neither Club A nor B-DIDAS had any claim at all,<sup>57</sup> whilst Cyprus felt unable to give a definitive answer and relied upon UK case law.<sup>58</sup> It is interesting that other than the UK decision in *Irvine* only the respondents from Finland, Spain and the Netherlands were able to discuss "real world" cases which regarded broadly similar facts – indicative that either the issues outlined by the scenario above are rarely an issue or the mechanisms in place across the EU28 are sufficient in providing remedy when these issues do occur. This is in spite of the broad variety of sources of law discussed above; sports acts, intellectual property remedies, contractual terms, civil codes, constitutional provisions, collective agreements – all of which generally provided the same outcome (with limited exception). One aspect of law which was not considered by the case study was the right to privacy, introduced by the European Convention on Human Rights. This right, under Article 8, guarantees an individual respect to their private life. This thesis is not arguing that the right to privacy

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<sup>56</sup> Appendix 2.

<sup>57</sup> Appendix 4

<sup>58</sup> Appendix 5.

would have been of use in the hypothetical scenario above, rather than through privacy, celebrities are able to protect aspects of their life from the press, despite seeking the limelight or endorsement opportunities in the first instance. The link between privacy and the above scenario is that celebrities require the ability to be able to protect their privacy in order to protect the endorsement opportunities provided by NIEK or B-DIDAS above in to prevent them being pictured or reported in a situation which has the potential to affect their ability to secure (and thus their ability to make tax savings based upon their image) and maintain these opportunities to be brand ambassadors. Interestingly, two cases with regard to the “celebrity right to privacy” occur in Germany and illustrate the European Court approach.

### **2.3. *German Personality Rights, Privacy and the ECHR***

It is notable that none of the respondents referred to decisions of the European Court of Human Rights which specifically dealt with image rights disputes (admittedly not in a sporting context), but instead regarding unauthorised exploitations of the celebrity persona. However, a legitimate criticism of the image rights survey is that it did not structure the question in a way which brought the ECHR into focus and was solely concerned with contractual disputes; rather than also including invasions of privacy and unauthorised exploitations of celebrity by a third party. The process followed by the European Court of Human Rights in instances of image rights disputes is a useful in informing the process which should be followed, the mechanisms which would be utilised and the remedies available. Thus, the thesis shall remedy the omission of the process that the European Court would follow and other types of privacy disputes by firstly assessing two judgments, in Germany, which refer to invasions of celebrity privacy and then by specifically analysing image rights in both the UK and Canada, providing a more in depth analysis of the legal mechanisms employed through an in-depth country analysis.

The jurisprudence of the ECtHR in relation to image rights emerged within German case law. These cases largely regard the contrasting rights (in terms of the world of celebrity) of an individual’s right to respect for a private life under Article 8 of the European Convention on Human Rights (ECHR) and the right to freedom of expression (in these cases of the media) under Article 10.

It is important to note from the outset that the German legal system guarantees celebrities a right to their personality under the constitutional right of personality, in addition to the protection of their image under civil law. Despite this guarantee of rights under German law, the European Court of Human Rights has handed down two important rulings involving the invasion of a celebrity's private life in *Von Hannover v Germany*<sup>59</sup> and in *Axel Springer AG v Germany*<sup>60</sup> which provide a useful insight into the way in which the ECtHR will address and decide upon the competing rights of Article 8 and 10, and which help inform the issues under consideration here.

### **2.3.1.                            *The Constitutional Right of Personality***

Before examining the specifics of the above case law, a brief overview of the laws relating to personality rights in Germany is useful. The German legal framework provides citizens with a general right to personality under Article 2(1) and 1(1) of its Basic law (Grundgesetz). The former states, "every person shall have the right to the free development of his personality insofar as he does not violate the rights of others or offender against the constitutional order or the moral law."<sup>61</sup> This right is further strengthened by the guarantee of one's human rights under Art 1(1) which states, "Human dignity shall be inviolable. To protect and respect it shall be the duty of all state authority."<sup>62</sup> Combined, these articles provide celebrities with a constitutional right in their personality which shall protect them in cases where their fundamental rights have been breached. The German constitutional personality right adds significant weight to a celebrity's legal armour providing them with an image right (guaranteed by s823 of the Civil Code), a guarantee of personal honour, the right of informational self-determination and the right to privacy.<sup>63</sup> Art 5(1) however, states "Everyone shall have the right freely to express and disseminate his or her opinions in speech, writing and pictures and freely to obtain information from generally accessible sources. Freedom of the press and freedom of reporting on the radio and in films shall be guaranteed. There shall be no censorship."<sup>64</sup> As a result, conflict typically arises between one's general right of personality and the media's right to free speech, and so the Federal Constitutional Court are required to balance these two competing rights in line with the

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<sup>59</sup> [2004] E.M.L.R. 21, C-(40660/08), C-(60641/08) [2012] E.M.L.R. 16, (8772/10) [2013] ECHR 835

<sup>60</sup> Case C-(39954/08), [2012] E.M.L.R. 15, [2012] 55 E.H.R.R. 6

<sup>61</sup> German Basic Law (Grundgesetz), Art 2(1)

<sup>62</sup> Ibid, Art 1(1)

<sup>63</sup> Judith Janna Marten, Entertainment Law Review, "Caroline-cases" and their legal impact on images rights in German law" (2014) 299,300

<sup>64</sup> German Basic Law (Grundgesetz) Art 5(1)

principles of the constitution – similar to the exercise required by the ECHR in balancing Art 8 and Art 10. In any case, it is clear the German constitutional “right to personality” creates a clear legal framework in cases where an individual’s fundamental rights are breached. It is noteworthy however, that this constitutional right shall not apply in cases of conflict between private persons, in which case, we turn to the civil law.

### **2.3.2. *Image Rights and the Civil Law***

Under Civil law, a celebrity is guaranteed a right only to their image. This right is found within The Copyright (Arts Domain) Act, in which s22(1) states, “images can only be disseminated with the express approval of the person concerned.”<sup>65</sup> It is noteworthy however, that s23(1) provides exceptions to that rule, “particularly where images portray an aspect of contemporary society... on condition that publication does not interfere with a legitimate interest of the person concerned (s23(2)).”<sup>66</sup> This has been extended by the Federal Court to include “figures of contemporary history”<sup>67</sup> – meaning political leaders and members of the monarchy may not be entitled to such protection.

The German legal system clearly provides for both a general right to personality under the constitution and of an image right under civil law – a clear contrast to the UK which has typically relied upon traditional intellectual property remedies such as breach of confidence.<sup>68</sup> However, this right has not prevented cases, similar to those actions brought under the law of confidence, namely those concerning privacy rights of celebrities, being scrutinised by the European Court of Human Rights. *Von Hannover* and *Axel Springer* illustrate the reasoning of the Grand Chamber in cases where a balancing act of Art 8 and Art 10 are concerned – reasoning by which all member states, including the UK, should adhere to.

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<sup>65</sup> Copyright (Arts Domain) Act, s22(1)

<sup>66</sup> Ibid s23(1)+(2)

<sup>67</sup> Judith Janna Marten, Entertainment Law Review, “Caroline-cases” and their legal impact on images rights in German law” (2014) 299,300

<sup>68</sup> For example, see *Irvine v Talksport* [2002] 1 W.L.R. 2355, *Campbell v MGN* [2004] UKHL 22; [2004] 2 A.C. 457.

## 2.4.

### *Von Hannover*

Princess Caroline Von Hannover, for a number of years, faced intense focus and scrutiny by the media upon her private life and that of her family, with magazines “Bunte”, “Freizeit Revue”, “Frau im Spiegel” and “Tage 7” in particular, continually reporting and photographing the Princess and her family.<sup>69</sup> Her first complaint arose in respect of a number of photographs taken and published in the German tabloids, during a family holiday in France.<sup>70</sup> Upon reaching its decision as to whether the publication breached Von Hannover’s general right of personality, the Federal Court held only the photograph which pictured the Princess at the far end of a restaurant could be considered an invasion of privacy, “where it was objectively clear to everyone that they wanted to be alone and where, confident of being away from prying eyes, they behaved in a given situation in a manner in which they would not behave in a public place.”<sup>71</sup> To this end, the court considered celebrities freedom “to decide whether and when pictures of them could be taken does not end when they leave their home” and accepted “there could be secluded areas outside where public figures can also have a legitimate expectation of privacy.”<sup>72</sup> This reasoning is a useful weapon for celebrities who endeavour to seek the limelight to promote their image, yet wish to maintain some degree of private life. This is arguably easier for athletes to achieve in Germany, where a general right of personality is guaranteed, as opposed to under a breach of confidence action in the UK where athletes are forced to attempt to navigate existing law which was not structured with the protection of the celebrity persona in mind (which shall be discussed in the next chapter).

Upon thereafter filing a constitutional complaint, the Federal Constitutional Court ruled the Princess, “as a figure of contemporary society “par excellence,”<sup>73</sup> enjoyed the protection of her private life outside her home – only where she was in a secluded location, outside of the public eye “to which the person concerned retires with the objectively recognisable aim of being alone and where, confident of being alone, behaves in a manner in which he or she would not behave in public.”<sup>74</sup> The court “was extremely hesitant to interfere with the

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<sup>69</sup> Judith Janna Marten, Entertainment Law Review, “Caroline-cases” and their legal impact on images rights in German law” (2014) 299,300

<sup>70</sup> [2004] E.M.L.R. 21

<sup>71</sup> International Review of Intellectual Property and Competition Law, Case Comment, European Union: European Convention on Human Rights, Art 8: German Copyright (Arts Domain) Act, Secs 22,23 – “Caroline von Hannover” (2004) 672, 674

<sup>72</sup> Judith Janna Marten, Entertainment Law Review, “Caroline-cases” and their legal impact on images rights in German law” (2014) 299,300

<sup>73</sup> [2004] E.M.L.R. 21, [54]

<sup>74</sup> Ibid

publication of photographs which featured her, no matter how apparently personal or unguarded their circumstances”<sup>75</sup> and placed significant importance upon the public interest in knowing of the applicant’s behaviour outside her representative functions and of the freedom of the press<sup>76</sup> - a contrasting approach to that of the UK which appears willing to protect a celebrity’s privacy, even in the absence of any such personality right. In the wake of the ruling, Von Hannover submitted an individual application to the European Court of Human Rights and argued that her right to a private life under Article 8 had been violated.

#### **2.4.1. *Von Hannover and the ECtHR***

The European Court ruled in favour of Von Hannover on the basis that the protection of privacy under German law, breached the applicants right to a private life under Article 8 – for a number of reasons.

With regard to the right of the media under Article 10 of the ECHR the court found the domestic courts interpretation of s23 of the Copyright (Arts) Domain Act incorrect, finding issue with “describing a person as such as a figure of contemporary society “par excellence”... since that definition affords the person very limited protection of their private life or the right to control the use of their image.”<sup>77</sup> In reaching this conclusion, the court held that a publication must be “capable of contributing to a debate in a democratic society”<sup>78</sup> and the publication in the present cases “sole purpose was to satisfy the curiosity.”<sup>79</sup> In its assessment of Article 10, the court also placed importance upon the fact that the photographs were taken in secret, without consent, noting, “the harassment endured by many public figures in their daily lives cannot be fully disregarded”<sup>80</sup> - ruling in favour of the applicant’s rights under Article 8.

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<sup>75</sup> M.A. Sanderson, European Human Rights Law Review, “Is Von Hannover v Germany a step backwards for the substantive analysis of speech and privacy interests?” (2004) 631, 633

<sup>76</sup> [2004] E.M.L.R. 21, [54]

<sup>77</sup> Ibid [72]

<sup>78</sup> Ibid [65]

<sup>79</sup> Ibid

<sup>80</sup> Ibid [68]

In respect of Article 8, the court ruled upon a narrow interpretation;

“The court reiterates the fundamental importance of protecting private life from the point of view of the development of every human being’s personality. That protection... extends beyond the private family circle and also includes a social dimension. The court considered that anyone, even if they are known to the general public, must be able to enjoy a “legitimate expectation” of protection and respect for their private life.<sup>81</sup>

In its concluding analysis, the court noted the “deciding factors” in ruling upon Article 8;

“in balancing the protection of private life against freedom of expression should lie in the contribution that the published photos and articles make to a debate of general interest,<sup>82</sup> and that in this case, the decision of the domestic courts were not sufficient to ensure the protection of the applicant’s private life and Von Hannover should have had a “legitimate expectation” of protection of her private life.”<sup>83</sup>

In any case, the German courts did not adequately balance the competing interests of the applicant and the media.

It is noteworthy that following the decision of the European Court, the German courts thereafter developed privacy laws in order to follow the precedent laid down by the Grand Chamber. In further litigation brought by the Princess,<sup>84</sup> regarding a publication detailing her father’s illness, the Federal Court expanded its protection of privacy stating, “an illustrated article may only be justified if the courts acknowledge its “informational value”<sup>85</sup> – similar to the Chambers’ contribution to a debate of general interest requirement. In a third complaint,<sup>86</sup> regarding information about her holiday home, the court noted the protection under Article 22 and 23 (which gives individuals the right not to have their image shown in public unless they are a figure of contemporary society) of the Copyright (Art) Design Act;

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<sup>81</sup> Ibid [69]

<sup>82</sup> Ibid [76]

<sup>83</sup> Ibid [78]

<sup>84</sup> (40660/08) and (60641/08); [2012] E.M.L.R. 16

<sup>85</sup> Judith Janna Marten, Entertainment Law Review, “Caroline-cases” and their legal impact on images rights in German law” (2014) 299,302

<sup>86</sup> (8772/10); [2013] ECHR 835

“as the concept of the contemporary public figure is not prescribed by constitutional law, the national courts are free under constitutional law not to use the term at all in future or to use it only in limited circumstances, and to decide instead by considering each individual case whether the image concerned is part of the sphere of contemporary history,”<sup>87</sup>

illustrating the development of privacy laws in Germany which correspond to the reasoning of the ECtHR and Article 8. Notably, in both of the above cases, the Grand Chamber ruled the German courts had not violated the applicants Article 8 rights and had effectively balanced the competing rights.

The *Von Hannover* litigation, provides academics and practitioners in the UK with a useful insight into the way in which the European Court shall approach such cases. When balancing the competing interests of Article 8 and Article 10, the court shall place importance upon “every human’s right to a private life” and each individual shall be afforded a “legitimate expectation of privacy.” This can be regarded as good news for celebrities, allowing the commercial exploitation of their image yet the retention of aspects of their private life. This approach illustrates a movement towards the protection of privacy rights as opposed to freedom of expression in Europe, whilst the protection of personality is already cemented within German law.

Similarly, the court also deemed publications by the media that compromise an individual’s Article 8 rights must contribute to a debate of general interest and not simply be utilised to satisfy the readers curiosity. This is similarly useful for celebrities in that any information published in regard to them must possess this necessary quality. However, the margin of appreciation afforded to each member state in assessing what does indeed “contribute to a debate of general interest” can be argued to have the effect of either lessening or increasing the celebrity’s protection of their private life depending on the state in which the complaint originates.

In any case, the *Von Hannover* cases illustrate that despite the existence of a personality and image right under domestic law, Germany has still sought the guidance of Europe in balancing the competing rights of the individual and the media. However, the case of Axel

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<sup>87</sup> Gert Bruggemeier, Aurelia Colonbi Ciachii, Patrick O’Callaghan, (2010) *The Common Core of European Private Law*, Cambridge University Press “Personality Rights in European Tort Law” page 31

Springer goes one step further by providing a formula by which courts should follow in assessing whether privacy rights have been invaded.

## 2.5. *Axel Springer*

*Axel Springer* also brought the competing rights of a celebrity's privacy and the media's freedom of expression to the attention of the German and European Courts. In *Axel*, the defendant published two articles, containing photographs, of a German actor (X), who had played the part of a superintendent on a TV series for a number of years. The articles in question published details of X's arrest for possession of cocaine at the Munich Beer Festival and also following his resultant conviction.<sup>88</sup> The applicant argued that his right to privacy had been violated.

The Domestic court ruled that X's personality rights had been violated and granted an injunction prohibiting the republication of the articles and photographs and issued the publisher with a fine.<sup>89</sup> The success or rather the use of the injunction is questionable, given that the information had already been conveyed. However, with regard to X's right to privacy, the court held the article in question and the accompanying photographs had "amounted to a serious interference with his right to the protection of his personality rights."<sup>90</sup> In assessing the right to personality, the court made a number of noteworthy conclusions.

In consideration of the nature of the crime itself, the court paid particular attention to its occurrence within the celebrity sphere – "the type of offence involved was of medium, or even minor, seriousness, was a very common one and there was no particular public interest in knowing about it."<sup>91</sup> Thereafter, the court went on to acknowledge that "drug abuse was more widespread amongst key figures from the arts world and the media than in other circles."<sup>92</sup> This acknowledgement illustrates an acceptance of the "celebrity world" and suggests that involvement in this media driven environment shall not necessarily reduce an individual's right to personality under German law.

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<sup>88</sup> Brid Jordan, Imogen Hurst, Entertainment Law Review, Case Comment, "Privacy and the Princess – a review of the Grand Chamber's decisions in Von Hannover and Axel Springer" (2012) 108, 109

<sup>89</sup> Case C-(39954/08), [18] – [19]

<sup>90</sup> Ibid [19]

<sup>91</sup> Ibid [20]

<sup>92</sup> Ibid

The celebrity status of X was also considered, with the court adopting the opinion that the public were more concerned with the character of the superintendent rather than the actor who played him and that “the interest in X did not...go beyond the interest habitually manifested by the public in leading actors in German TV series”<sup>93</sup> – meaning the public had not developed a “need for regular information.”<sup>94</sup> The actions of X himself in participating in the “world of celebrity” were similarly considered and although X had sought to attract the attention of the public through a number of magazine interviews, the court noted that this, interestingly, did not automatically waive his right to personality<sup>95</sup> – an important weapon in German law for celebrities wishing to exploit their image and simultaneously retain control over what information the public is entitled to receive about them.

In regard to the actions of X, the court placed importance on the fact that X had never sought to portray himself as an “emblem of moral virtue,”<sup>96</sup> neither had he ever taken a particular stance on drug related issues.<sup>97</sup> This reasoning suggests that should a celebrity have a particular opinion which they publicise, yet their actions are to the contrary, this may lessen their protection of privacy under German law.

These celebrity related considerations led to the courts conclusion “that when balancing the competing interests, the decisive criteria were how well-known X was and the seriousness of the offence with which he was charged, the Regional Court found that the case concerned an actor who was not exceptionally well-known and was accused of an offence which, while not insignificant, was not particularly spectacular and could be regarded as fairly common in the entertainment world. The public did not therefore have a great interest in being informed of an event that was actually fairly anodyne, whereas the information published amount to a serious interference with X’s right to the protection of his personality rights”<sup>98</sup> - ruling in favour of the applicant.

The Court of Appeal affirmed this decision, resulting in the injunction being challenged by the defendant publisher in the ECtHR. The publisher did not dispute the injunction in respect of the photographs but rather the content of the articles and the fine – claiming their rights under Article 10 had been breached by the German Domestic Courts.

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<sup>93</sup> Ibid [21]

<sup>94</sup> Ibid

<sup>95</sup> Ibid[21] – [24]

<sup>96</sup> Ibid [25]

<sup>97</sup> Ibid

<sup>98</sup> Ibid [26]

### 2.5.1.

#### *Axel and the ECtHR*

The ECtHR were required to consider whether the German Courts had breached the publisher's right to freedom of expression. Upon its first consideration of Article 10, the court noted that its existence "constitutes one of the essential foundations of a democratic society,"<sup>99</sup> whilst similarly acknowledging the "essential role played by the press in a democratic society."<sup>100</sup>

Article 10(2) contains limits upon the right to freedom of expression, yet the court noted that in order for Article 8 to "come into play", "an attack on a person's reputation must attain a certain level of seriousness and in a manner causing prejudice to personal enjoyment of the right to respect for private life."<sup>101</sup> Also in regard to Article 8, the court considered that it "cannot be relied on in order to complain of a loss of reputation which is the foreseeable consequence of one's own actions such as, for example, the commission of a criminal offence"<sup>102</sup> – relevant to the present case. Having highlighted the importance of both Article 10 and Article 8, the court outlined the process which should be followed when balancing the competing rights, outlining six important factors of consideration.

##### (a) Contribution to a debate of general interest

The court firstly considered whether the information contributed to a debate of general interest. What contributes to a debate of interest is dependent upon the circumstances of the case, although the court did note that "interest" could include political issues, crimes, sporting issues and performing artists.<sup>103</sup> In the present case, the court considered that the articles contained public judicial facts in which the public did have an interest of being informed of.<sup>104</sup>

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<sup>99</sup> Ibid [78]

<sup>100</sup> Ibid

<sup>101</sup> Ibid [83]

<sup>102</sup> Ibid

<sup>103</sup> Ibid [90]

<sup>104</sup> Ibid [96]

(b) How well-known is the person concerned and what is the subject of the report?

With regard to the former, a distinction must be made between individuals acting within the public domain and private individuals. This distinction is important in that private individuals may be able to claim a “particular protection” of their right to a private life, the same not being true in regard to public figures.<sup>105</sup> In the present case, the court concluded that X did qualify as a public figure and so this subsequently reinforced the public’s interest in being informed of his arrest.<sup>106</sup>

In consideration of the subject of the report, the court held that a distinction must also be made between “reporting facts capable of contributing to a debate in a democratic society...and reporting details of the private life of an individual who does not exercise such functions.”<sup>107</sup> The former is afforded a lesser protection than that of the latter. In the case of X, it was accepted that the domestic court’s view that had the offence have been committed by an ordinary individual, there would be no public interest, however, having been arrested in public, “that fact was a matter of important public interest in this case, even if that interest did not extend to the description and characterisation of the offence in question as it had been committed out of public view.”<sup>108</sup>

(c) The prior conduct of the person concerned

When assessing this criterion, the court should consider the conduct of the person prior to the publication and whether the information had already been made available to the public previously.<sup>109</sup> Cooperation with the press shall not serve as a legitimate defence.<sup>110</sup> In the case of X, the ECtHR held that he had previously sought the media limelight to such a degree in that his “legitimate expectation” of privacy was reduced.<sup>111</sup>

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<sup>105</sup> Ibid [91]

<sup>106</sup> Ibid [99]

<sup>107</sup> Ibid [91]

<sup>108</sup> Ibid [100]

<sup>109</sup> Ibid [92]

<sup>110</sup> Ibid

<sup>111</sup> Ibid [101]

(d) The Method of Obtaining the Information and its Veracity

When considering the method of obtaining the information, the court should note Article 10 shall only apply to the media reporting on issues of general interest only in circumstances where they act in good faith and provide “factual, reliable and precise” information.<sup>112</sup> In this respect, the court found no evidence the publisher had “acted in bad faith.”<sup>113</sup>

(e) Content, Form and Consequences of the Impugned Articles

The court should similarly pay attention to the manner in which the report or indeed the photographs have been published, the way in which the person concerned is represented and the extent to which the publication may have been disseminated.<sup>114</sup> In regard to X, the court held “the articles did not...reveal details about X’s private life, but mainly concerned the circumstances and events following his arrest. They contained no disparaging expression of unsubstantiated allegation.”<sup>115</sup> In this respect, they did not breach X’s right to privacy under Article 8.

(f) Severity of the Sanction Imposed

The final criterion the court should consider is the legitimacy of the severity of the sanction imposed when “assessing the proportionality of an interference with the exercise of the freedom of expression.”<sup>116</sup> In this regard the court concluded the sanctions “were not justified in light of the factors set out above.”<sup>117</sup>

Having concluded the sanctions were not justified, the ECtHR found that the German courts had breached the applicant’s rights under Article 10 and in contrast to *Von Hannover*, the media’s right to freedom of expression was held more pressing than that of X’s right to privacy under Article 8.<sup>118</sup>

*Axel* provides an alternative judgment from that of *Von Hannover*, ruling in favour of the media’s rights under Article 10 rather than the celebrity’s right under Article 8. For the purposes of this research, it is the approach taken by the European Court which is of importance. The court provides essential criteria which should be considered when

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<sup>112</sup> Ibid [93]

<sup>113</sup> Ibid [107]

<sup>114</sup> Ibid [94]

<sup>115</sup> Ibid [108]

<sup>116</sup> Ibid [95]

<sup>117</sup> Ibid [106]

<sup>118</sup> Ibid [110]

balancing the competing rights of privacy and expression. The judgement in *Axel* provides member states with a legally structured process which should thereafter be followed in privacy cases. The courts of the member states should consider:

- whether the information contributes to a debate of general interest,
- how well-known the celebrity is,
- the subject of the report,
- the prior conduct of the person concerned,
- the method of obtaining the information and its veracity,
- the content, form and consequence of the publication,
- the severity of the sanction imposed.

These concepts are arguably not novel, but nonetheless provide a step-by-step process which allows courts from differing jurisdictions to effectively balance the competing rights to a sufficient legal standard approved by the ECtHR. This, in turn, is of benefit to celebrities who are provided with a framework by which they can control and exploit invasions of their privacy. In any case, *Axel*, although it does not provide particularly novel or ground-breaking criteria, provides a clear, structured framework by which signatory states, should adhere to when balancing the competing rights of Article 10 and Article 8 of the ECHR. However, as the laws which protect and allow for the exploitation of image rights (rather than privacy rights) are jurisdiction-specific, and there are no similar cases or a step-by-step process from the European Court or its member states on how to protect image rights rather should they be invaded and the courts in the UK have relied on the traditional intellectual property remedies for guidance. The UK's reluctance to define or acknowledge an image right in law has caused particular consequences in relation to the taxation of athletes, discussed in the forthcoming chapters.

## 2.6. *Image Rights in the EU28: Conclusion*

The analysis of the data provided by the EU28 rapporteurs and indeed of the above cases lends to the conclusion that the lack of harmonisation of laws on commercial endorsement contracts, the few ‘real life’ examples presented by the rapporteurs and indeed image rights across the member states has little impact and states are coming to broadly the same conclusions in spite of the various legal mechanisms employed. In the current study, 20 member states provided the same general outcome. This highlights that either these issues are not issues at all or the mechanisms in place currently, despite being wide ranging in nature, are sufficient to deal with the disputes at hand. Given that neither the legislators nor sports bodies are pushing for legislative change, (other than sports organisations introductions of standard contract terms and collective bargaining which are in a relative state of infancy) it seems this may be the case.

This being so, it is imperative to note the high commercial value of sportspersons image rights, and indeed the efforts athletes/celebrities often take to protect them. As such, it is important to acknowledge that the above scenario posed to the EU28 rapporteurs solely concerned conflicting commercial contracts, and often in these cases, the parties are proactive in seeking an agreement, with clubs reluctant to instigate litigation with commercial sponsors or indeed star players. Likewise, sponsors similarly would rather remain on good terms with the club and its employees, and vice versa. Thus, the next logical step is to examine the remedies available to celebrities who have experienced unauthorised exploitations of their personas by a third party, to highlight the patchwork of remedies available, which in turn, results in taxation consequences for athletes and clubs alike.

The next focus of this thesis will therefore be to examine how UK remedies would be relevant to a scenario that goes beyond the case study and does not involve existing contracts. By doing so, it will be possible to establish:

- which remedies are available,
- the frequency at which these sorts of disputes trouble the courts,
- whether the remedies available are sufficient to deal with the issues at hand or whether they highlight a gap in the law
- the consequences of a non-existing image right in relation to tax law and athletes.

As established in chapter one, the existence of celebrity is a common feature within the media focused environment which exists in the UK. These celebrities can have considerable social media followings, fan bases, and engage in a number of lucrative endorsements for the promotion of goods and services. Given the popularity of sport across the UK, in particular that of football, it is not uncommon for these recognisable identities to be athletes. The result of this popularity is that brands and clubs alike seek to secure the image rights of a particular athlete. Whilst in the first instance this appears unproblematic, the reality is that the UK's reluctance to define an image right or legal framework whilst simultaneously allowing athletes to exploit this undefined 'image right' to gain a taxation advantage has ultimately led to a convoluted system of taxation in relation to high earning athletes and this system is consequently open to abuse.

As football is the UK's most popular and lucrative sport is football, played by millions each year,<sup>119</sup> and the sport which has attracted the most media attention in regard to the taxation of athletes' image rights, this thesis shall use football as its predominant example. Even for those who do not physically participate, the opportunity to watch football matches is never far away. English Premier League (EPL) matches regularly attract crowds in excess of 50,000,<sup>120</sup> whilst broadcaster Sky Sports have recently secured the rights for the majority of EPL matches for the next three years – a deal totalling over four billion pounds,<sup>121</sup> and in November 2018, Sky also secured the rights to broadcast all Scottish Premiership matches as of 2020; which is said to be worth £160 million to Scottish Clubs.<sup>122</sup> As such, football is a lucrative, financially beneficial business, evidenced by the range of sponsorship opportunities available to clubs and players alike. For example, Chevrolet are reported to pay £47 million per year to appear on Manchester United's kit, whilst Etihad Airways pay Manchester City some £35 million.<sup>123</sup> Players also reap significant benefit from the

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<sup>119</sup> The FA, (2015) "11 million footballers in England cannot be wrong!"

<<http://www.thefa.com/news/2015/jun/10/11-million-playing-football-in-england>> accessed May 18<sup>th</sup> 2018

<sup>120</sup> World Football, Premier League 2017/2018, Attendance, <<http://www.worldfootball.net/attendance/eng-premier-league-2017-2018/1/>> accessed May 18<sup>th</sup> 2018

<sup>121</sup> The Telegraph, (13<sup>th</sup> February 2018) "Sky Sports secures majority of Premier League TV games in new £4.46 billion deal," <<https://www.telegraph.co.uk/football/2018/02/13/sky-sports-secures-majority-premier-league-tv-games-new-446/>> accessed 5<sup>th</sup> August 2018

<sup>122</sup> BBC News, Chris McLaughlin, (19<sup>th</sup> November 2018) "Scottish Premiership: Matches to be shown live on Sky only as new £160 million TV deal struck" <<https://www.bbc.co.uk/sport/football/46264665>> accessed 26<sup>th</sup> November 2018

<sup>123</sup> Statista, Jersey kit sponsorship in the Barclays Premier League in 2017/18, <<https://www.statista.com/statistics/254513/value-of-jersey-kit-sponsorships-in-the-barclays-premier-league-by-club/>> accessed May 18<sup>th</sup> 2018

popularity of football in the UK, with Manchester United's Paul Pogba earning a reported figure of around £21 million per year and Chelsea's Eden Hazard earning £14 million for just a seasons work.<sup>124</sup>

Outside of the world of football, the UK is similarly home to a host of celebrity athletes, including tennis star Andy Murray, who boasts 3 grand slam titles and an Olympic gold medal,<sup>125</sup> and at the age of just 32, has endorsement earnings of \$14M (U.S. Dollars) which amounts to over £10 million pounds.<sup>126</sup> UK stars have benefited from exposure at home events, with the UK hosting a number of global sports events in recent years. The Olympic Games in London 2012, the Commonwealth Games of 2014 in Glasgow and its annual hosting of the Wimbledon tennis championships, in addition to influencing intellectual property laws, (for example see The London Olympic Games and Paralympic Games Act 2006), have also contributed to the opening of a pathway in which UK athletes have become widely recognised both domestically and globally and as such, can enjoy the benefits of commercial exploitation.

These commercial endorsement opportunities originate from brands' and advertisers' belief that by having a celebrity advertise their products, the product will become more attractive to the consumer.<sup>127</sup> As Phil Knight, CEO of sportswear brand Nike put it, the benefit of using star athletes in their advertising campaigns was that,

“it saves us a lot of time. Sports is at the heart of American culture, so a lot of emotion already exists around it. Emotions are always hard to explain, but there's something inspirational about watching athletes push the limits of performance. You can't explain much in 60 seconds, but when you show Michael Jordan, you don't have to. People already know a lot about him. It's that simple. The trick is to get athletes who can not only win but

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<sup>124</sup> Celebrity Salary, Football Players, <<https://wageindicator.co.uk/main/pay/vip-celebrity-salary/football-players-salary>> accessed May 18<sup>th</sup> 2018

<sup>125</sup> ATP World tour, Stats, <<http://www.atpworldtour.com/en/players/andy-murray/mc10/titles-and-finals>> accessed May 18<sup>th</sup> 2018

<sup>126</sup> Forbes, (6<sup>th</sup> July 2017) “Andy Murray” <<https://www.forbes.com/profile/andy-murray/#390c2bce9e63>> accessed 26<sup>th</sup> November 2018

<sup>127</sup> For the effect of celebrity endorsements on brands (which is outside the scope of this research) see Anita Elberse, Jeroen Verleun, (2012) Journal of Advertising Research, “The Economic Value of Celebrity of Endorsements,” available at [http://www.people.hbs.edu/aelberse/publications/Elberse\\_Verleun\\_2012.pdf](http://www.people.hbs.edu/aelberse/publications/Elberse_Verleun_2012.pdf)

can stir up emotion. We want someone the public is going to love or hate, not just the leading scorer.”<sup>128</sup>

This strategy of employing athletes to promote goods is one which is difficult to comprehend. For example, why would an individual who does not play basketball, or sport at all, purchase a shoe just because Michael Jordan wears it? As Laddie J explained in *Irvine*;

“the reason large sums are paid for endorsement is because, no matter how irrational it may seem to a lawyer, those in business have reason to believe that the lustre of a famous personality, if attached to their goods or services, will enhance the attractiveness of those goods or services to their target market. In this respect, the endorsee is taking the benefit of the attractive force which is the reputation or goodwill of the famous person.”<sup>129</sup>

As a consequence of being a recognisable identity and of these endorsement opportunities which bring celebrities and athletes to the forefront of the public eye, these individuals have the potential to become victims to the kinds of invasions of privacy as discussed in *Axel* and *Von Hannover* in chapter two. Admittedly, these figures have a reduced expectation of privacy, by virtue of precedent including *Campbell v MGN*<sup>130</sup> (to be discussed) and *Spelman v Express Newspapers*.<sup>131</sup> In addition to this reduced expectation of privacy, celebrities, also face the risk of experiencing the unauthorised exploitation of their persona. As no image right currently exists in the UK, celebrities have had to rely on the traditional intellectual property remedies in the hope of seeking legal redress, namely: breach of confidence, passing off, trademark and copyright law, as well as that of the civil law remedy of defamation. Together, these remedies have resulted in varying success but ultimately this thesis will illustrate that true consequence of the refusal to define an image right is the system of taxation of athlete image rights which has developed which has allowed athletes to seek a tax advantage through an image right which does not exist in law. In cases where the claimants have been successful, this has not been due to the development of new law; rather, through the court’s interpretation of the traditional

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<sup>128</sup> Geraldine E. Willigan, (1992) Harvard Business Review, “High-Performance Marketing: An Interview with Nike’s Phil Knight”, page 27-28, <<https://hbr.org/1992/07/high-performance-marketing-an-interview-with-nikes-phil-knight>>, accessed 5<sup>th</sup> August 2018

<sup>129</sup> *Irvine v Talksport* [2002] 1 W.L.R. 2355, [2368]

<sup>130</sup> [2004] A.C. 457, [158] – [159] per Baroness Hale

<sup>131</sup> [2012] EWHC 355 QB, [45] – [52]

remedies, celebrities have been able to seek legal redress for these unauthorised exploitations. These interpretations by the court, have the potential to help celebrities prove that they have an ‘image right’ in the context of taxation, despite the fact that many of the features of the traditional remedies do not coincide with that of protecting or exploiting the celebrity image. Thus, this chapter will look to analyse each remedy and any relevant case law in order to assess whether, similar to the previous chapter regarding the EU28, the current laws are able to provide legal redress in situations where unauthorised uses of the celebrity persona arise or whether a gap in the law exists which requires reform in order to resolve the issues at hand, particularly in the context of taxation.

### 3.1.

#### *The Law of Confidence*

As discussed above, the life of a celebrity in today's media driven, commercialised world is a lucrative commodity in its own right – beneficial to both the highly sought-after individual and also to the undertakings who seek to engage in the promotion of the celebrity's image through advertisement and endorsement opportunities. The development of social media has similarly opened a pathway for celebrity-fan communication in a way like never before – enabling celebrities to offer fans regular insights into their daily lives through the likes of Twitter and Instagram and utilise these platforms to endorse the various goods and services which they promote. Quite simply,

“social media platforms have changed the media landscape forever, as they have altered our perceptions of the limits of communication, and reception of information. It is no longer the case that communication is constrained by boundaries, such as location, time, space or culture.”<sup>132</sup>

However, the protection of this celebrity image exists in a controversial manner when paired with a breach of confidence action. In contrast to the high exposure world of celebrity described above, a breach of confidence action, in the traditional sense, is concerned with protecting private information, whilst the world of celebrity often (but not always) seeks maximum exposure, with athletes such as Beckham or Messi never far from the public eye. In spite of this traditional nature of a breach of confidence action, celebrities have found this remedy as a useful means of protecting their image and controlling the commercial exploitation of their persona in the UK.

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<sup>132</sup> Peter Coe, Entertainment Law Review, “Footballers and social media “faux pas”: the Football Associations “cash cow”? (2015) 75

### 3.1.1. *Breach of Confidence – a Historical Background*

The quest for privacy is neither a novel nor innovative concept developed alongside that of the celebrity media craze in today's world. Rather, the judicial interpretation when applying the law of confidence to situations of image rights disputes has allowed celebrities to not only protect their persona but likewise control and exploit what the media can convey to the public.

The right to privacy was originally conceived as far back as 1849 in *Prince Albert v Strange*<sup>133</sup> which concerned the granting of an injunction to prevent the publication of drawings created for private and domestic purposes.<sup>134</sup> Despite this, the right to privacy thereafter sat in the wilderness for a significant period of time, with *Prince Albert* being “followed by almost a total disappearance of the recognition of the right to privacy,”<sup>135</sup> until *Kaye v Robertson*.<sup>136</sup> Kaye, a well-known actor from the “Allo-Allo” television series, gave an interview whilst barely conscious following an accident and was unable to comprehend what he was doing or communicating, yet could not prevent its publication. Far from recognising it, the right to privacy was expressly rejected by the Court of Appeal. LJ Glidewell stated, and both LJ Legatt and LJ Bingham agreed; “it is well-known that in English law there is no right to privacy, and accordingly there is no right of action for a breach of a person's privacy.”<sup>137</sup>

This previous precedent on the right to privacy can be persuasively argued to have been cast aside, following the introduction of the Human Rights Act (HRA) 1998 – which incorporates the rights guaranteed under the European Convention on Human Rights (ECHR) into UK law. Article 8 of the ECHR guarantees an individual's “respect for his private and family life, his home and his correspondence.”<sup>138</sup> This right to privacy must however, be balanced against Article 10 which provides the right to freedom of expression,<sup>139</sup> namely in the context of this research, to the media.<sup>140</sup>

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<sup>133</sup> [1849] 41 E.R. 1171

<sup>134</sup> Ibid [25]-[26]

<sup>135</sup> James Strachan, Rabinder Singh, *European Human Rights Law Review*, “The Right to Privacy in English Law” (2002) 129, 130

<sup>136</sup> [1991] F.S.R. 62 CA (Civ Div)

<sup>137</sup> Ibid [62] and [66]

<sup>138</sup> The European Convention on Human Rights, (1953), Art. 8

<sup>139</sup> Ibid Art. 10

<sup>140</sup> As explored in the above cases of Axel Springer and Von Hannover above.

Reverting back to the traditional breach of confidence action in the context of UK intellectual property law, celebrities who wish to utilise the law of confidence in the case of an invasion of their privacy or rather an unauthorised exploitation of their persona, are bound by the realms of the remedy itself, namely:

- the information must possess the “necessary quality of confidence,”
- the information must have been communicated in circumstances which imported an obligation of confidence,
- the information must have been used in a way which was not authorised
- the claimant must suffer a detriment as a consequence of the disclosure;

as set out by Megarry J in *Coco v A.N. Clark (Engineers) Ltd.*<sup>141</sup> In light of this definition, it is difficult to comprehend how the above elements can be reconciled with the commodification of celebrity. In most circumstances, celebrities will arguably struggle to claim confidentiality having carefully manipulated and perfected their image to ensure maximum exposure and publicity. Similarly, the idea of suffering a detriment as a result of a publication which increases the profile of a celebrity, is also problematic. In the following cases however, breach of confidence actions have succeeded (albeit claimants are still bound by the traditional elements).

### **3.2. *Campbell v Mirror Newsgroup Newspapers Ltd: a right to privacy?***

In the UK, two particular cases illustrate the utilisation of a breach of confidence action in protecting the privacy of a celebrity, whilst at the same time, show the “balancing act” required of the courts between Article 8 and Article 10 of the ECHR in reaching their conclusions. *Campbell v MGN Ltd*<sup>142</sup> concerned the complaint of the well-known, high profile supermodel Naomi Campbell, who having voluntarily provided newspapers various information regarding her private life (mainly an assertion that she did not partake in drug use), proceeded to sue the Mirror Newsgroup following their publication of an article in which Campbell was photographed leaving Narcotics Anonymous. The House of Lords had to consider whether the information published was confidential and whether Campbell’s

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<sup>141</sup> [1968] F.S.R. 415, [419]

<sup>142</sup> [2004] UKHL 22; [2004] 2 A.C. 457

right to a private life under Article 8 should override that of the journalistic right to freedom of expression under Article 10.<sup>143</sup>

With regard to the former, the assessment of whether the information published could be considered as confidential information consisted of five elements: “(1) the fact that Miss Campbell was a drug addict; (2) the fact that she was receiving treatment for her addiction; (3) the fact that the treatment which she was receiving was provided by Narcotics Anonymous; (4) details of the treatment—for how long, how frequently and at what times of day she had been receiving it, the nature of it and extent of her commitment to the process; and (5) a visual portrayal by means of photographs of her when she was leaving the place where treatment had been taking place.”<sup>144</sup> The first two elements were considered not to be confidential by virtue of the reasoning that the fact Campbell was an addict was “open to the public in view of her denials,”<sup>145</sup> and the fact that she was receiving treatment “was not in itself intrusive in this context.”<sup>146</sup>

However, the details regarding the celebrity’s treatment, were considered to be confidential information which thereby imported a duty of confidence. This view was taken by Lord Hope in light of the nature/type of treatment Campbell was receiving;

“the private nature of these meetings encourages addicts to attend them in the belief that they can do so anonymously. The assurance of privacy is an essential part of the exercise. The therapy is at risk of being damaged if the duty of confidence which the participants owe to each other is breached by making details of the therapy, such as where, when and how often it is being undertaken, public. I would hold that these details are obviously private.”<sup>147</sup>

Having established the confidential nature of this information, the question as to whether the disclosure of the information is offensive (as established by Gleeson LJ in *Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd*<sup>148</sup> and affirmed by Lord Woolf CJ in *A v B & C*<sup>149</sup> in a UK context) was answered in the affirmative by Lord Hope; “it does not require much imagination to appreciate the sense of unease that disclosure of these

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<sup>143</sup> Ibid [88]–[103]

<sup>144</sup> Ibid [88] per Lord Hope

<sup>145</sup> Ibid

<sup>146</sup> Ibid

<sup>147</sup> Ibid [95] per Lord Hope

<sup>148</sup> [2001] 185 A.L.R. 1

<sup>149</sup> [2002] E.M.L.R. 7; [2003] Q.B. 195, CA.

details would be liable to engender, especially when they were accompanied by a covertly taken photograph.”<sup>150</sup> As such, the House of Lords concluded that the publication by the Mirror Newsgroup contained private information which warranted an obligation of confidence. For the purposes of this research, the fact that the court regards the information as private and importing an obligation of confidence is indicative of the courts intentions to protect celebrity privacy rights, in spite of past behaviours in attracting the attention of the press or even making false statements. As will be demonstrated by the analysis of *Douglas v Hello*,<sup>151</sup> the courts have also shown intent as to the protection of the celebrity image in commercial circumstances. This protection of the celebrity image in the absence of a legal right has caused problems in the defining of an image right for tax purposes, meaning that athletes can seek a tax advantage, paying a lower rate of tax for ‘image rights’ payments, despite this not existing in law. This had led athletes who do not possess the requisite ‘goodwill’ to exploit this lower tax bracket, despite not having an image ‘worth selling,’ as discussed in chapter five.

Having established the confidential nature of the information, the court embarked upon an assessment as to whether Campbell’s right to a private life in such circumstances under Article 8 should be regarded as more important than the newspapers’ right to freedom of expression under Article 10. As a starting point, the court felt it important to emphasise that “both are vitally important rights. Neither has precedence over the other.”<sup>152</sup> With regard to the Article 10 right, the question was whether the restriction of this right was sufficiently important to “justify limiting the fundamental freedom of expression which the press assert on behalf of the public.”<sup>153</sup> By virtue of the fact that Campbell’s treatment had been deemed private information, the question was answered in the affirmative.<sup>154</sup> The court had to question whether the newspapers right to impart information could be deemed more important than the right to privacy and in making this decision, the court held in these particular circumstances – “the right of the public to receive information about the details of her treatment was of a much lower order than the undoubted right to know that she was misleading the public when she said that she did not take drugs.”<sup>155</sup>

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<sup>150</sup> [2004] UKHL 22; [2004] 2 A.C. 457, [98] per Lord Hope

<sup>151</sup> [2005] EWCA Civ 595; [2007] ULHL 21

<sup>152</sup> Ibid [12] per Lord Nicholls

<sup>153</sup> Ibid [115] per Lord Hope

<sup>154</sup> Ibid

<sup>155</sup> Ibid [117] per Lord Hope

In reference to Campbell's rights under Article 8, the court noted that celebrity status meant that details of her private life were indeed newsworthy, and that consideration should be given to this. However, the court went on to establish that,

“it is hard so see that there was any compelling need for the public to know the name of the organisation that she was attending for therapy, or for the other details of it to be set out. The presentation of the article indicates that this was not fully appreciated when the decision was taken to publish these details. The decision to publish the photographs suggests that greater weight was being given to the wish to publish a story that would attract interest rather than to wish to maintain its credibility”.<sup>156</sup>

As such, it was held that having reasonably considered the Mirror's right under Article 10, the publication had indeed breached Campbell's right to a private life and Article 8 should therefore take precedence – Campbell was entitled to an obligation of confidence and her right to a private life, in these circumstances, was of a higher importance than the Mirror's right to freedom of expression.

Having established the judgment of the court, and its reasons for making it, it is necessary to examine the effect (if any), this shall have on celebrities wishing to protect their right to privacy, in spite of their status as a “celebrity” in the first instance. It is arguable that the true importance of this case lies not within the balancing act between Article 8 and Article 10, rather the manner in which the House of Lords dealt with the issue of privacy – as opposed to the traditional confidentiality requirement created by *Coco*.<sup>157</sup> The court regards the details of Campbell's treatment as *private* information – not confidential. This distinction is highlighted by both Lord Birkenhead and Lord Hoffman in their commentary regarding the changing nature of the tort. In the opinion of Lord Birkenhead, “the breach of confidence label harks back to a time when the cause of action was based on improper use of information disclosed by one person to another in confidence.”<sup>158</sup> This is further emphasised by the comments of Lord Hoffman who considered that the new approach to a breach of confidence action,

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<sup>156</sup> Ibid [22] per Lord Hope

<sup>157</sup> Katharina von Bassewitz, International Review of Intellectual Property and Competition Law, “Hard times for paparazzi: two landmark decisions concerning privacy rights stir up the German and English media,” (2004) 642, 651

<sup>158</sup> [2004] UKHL 22; [2004] 2 A.C. 457, [13] per Lord Birkenhead

“takes a different view of the underlying value which the law protects. Instead of the cause of action being based upon the duty of good faith applicable to confidential personal information and trade secrets alike, it focuses on the protection of human autonomy and dignity – the right to control the dissemination of the information about one’s private life and the right to the esteem and respect of other people.”<sup>159</sup>

Thus, it is evident that the court is willing and in fact, acknowledges that a breach of confidence action can be extended to include protection of private information. In light of this, it is important to consider the possible and/or probable effect of this extension upon celebrities who seek the protection of the law of confidence to protect their private information.

It has been argued that this new interpretation of the law has “a far-reaching effect for celebrities<sup>160</sup> and is inevitably a step forward in the movement towards the recognition of personality rights (albeit through the existing remedies and not a statutory framework). This gives celebrities the ability to prevent the unauthorised use of their personal information, so long as it can be regarded as private.<sup>161</sup> This is a positive move for celebrities, allowing them the freedom to control the aspects of their private life which they wish to communicate to the public, whilst also invoking the protection of the law in regard to information which they deem to be private to themselves as an individual and wish to keep out of the public domain, or equally, make public in exchange for commercial reward based upon their own terms. Attention must also be drawn to the fact that the extension of the law to include private information may also have consequences for the media. This extension can potentially be considered dangerous in that it gives “celebrities the right to control the commercial exploitation of their privacy without providing any rational justification, other than to protect a celebrity or its licensee’s financial investment.”<sup>162</sup> This is a viable argument, especially in the case of high-profile athletes in possession of financially lucrative endorsement deals, which in turn, has the potential of affecting athletes ability to make tax savings based on these endorsement deals. For example, in 2011, in the wake of revelations of infidelity, footballer Wayne Rooney lost his endorsement deal with Coca-

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<sup>159</sup> Ibid [51] per Lord Hoffman

<sup>160</sup> Catherine Walsh, *European Intellectual Property Review*, “Are personality rights finally on the UK agenda?” (2013) 253, 257

<sup>161</sup> Ibid

<sup>162</sup> Ibid 258

Cola.<sup>163</sup> It is, at the very least, necessary to consider the possibility that the courts may have found this information to be private and so Rooney may have been able to, using the ruling in *Campbell* as a persuasive authority, prevent its publication – dependent upon whether the court felt this information was/was not in the public interest in the context of Article 10. However, the concerns highlighted regarding the power the *Campbell* ruling gives to celebrities are legitimate and it is important to note that the extension of the law of confidence in this context arguably risks gifting celebrities with the right to control what information they want to communicate to the public, in spite of their desire to actively seek the limelight in the first instance.

To conclude, it is evident the case of *Campbell* plays a significant role in the development of the law of confidence when paired with disputes over the unauthorised exploitation of a celebrity's image. As a point of law, it can be noted that in the UK, the courts are required to balance the rights given Article 8 and Article 10 when these types of disputes arise and that no right automatically takes precedence over the other. It is similarly as important to note that the acknowledgement of the court that the law of confidence is no longer confined to the protection of confidential information and can be extended to include the protection of private information. This can be regarded as a positive step forward in the movement towards the recognition of a personality right within the current UK legal framework, however, the courts should remain cautious of giving celebrities a monopoly over what goes public – especially when using a traditional intellectual property remedy to solve a very 21<sup>st</sup> century problem. This refusal to clearly define an image right in law and reliance upon the traditional remedies, ultimately causes issue in the context of the taxation of high earning celebrity athletes, as will be demonstrated in Chapter 5.

This case regards the privacy rights of celebrities. By virtue of *Campbell*, it is evident that the court is willing to protect a celebrity's privacy where "private" information is concerned. This is not only a positive result for celebrities who seek privacy, but also for athletes who are in possession of endorsement deals. Should these athletes be pictured in an unfavourable manner, perhaps taking drugs, then this reasonable expectation of privacy may allow them to prevent the press reporting upon their behaviour. This, in turn, has the effect of ensuring they maintain their endorsement deals and thus, remaining able to make

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<sup>163</sup> The Guardian, Matt Scott, (6<sup>th</sup> April 2011) "Wayne Rooney's Coke Deal Finally Loses its Fizz" <<https://www.theguardian.com/football/2011/apr/06/wayne-rooney-manchester-united>> accessed 26<sup>th</sup> November 2018

taxation savings based upon these deals. This protection of private information under a breach of confidence action has also been extended to protection of “commercial confidence,” as illustrated below.

### 3.3. *Douglas v Hello: a price for privacy?*

*Douglas v Hello! Ltd*<sup>164</sup> represents the second case involving the celebrity persona and a breach of confidence action within the UK.<sup>165</sup> Actor Michael Douglas and actress Catherine Zeta-Jones, both of whom possess substantial commercial prowess, entered into a contract with popular celebrity gossip magazine OK! for the sale of the exclusive rights to the publication of their wedding photographs, for a £1m price tag. However, prior to their publication, rival magazine Hello! obtained photographs of the wedding surreptitiously and published them – despite the agreement between the Douglases and OK!.<sup>166</sup> The case came before the House of Lords, in which OK! appealed against the decision of the High Court which rejected OK!’s claim for damages from Hello!, (the Douglases also brought proceedings against Hello!, however these are not at issue in the House of Lords appeal nor are they vital for the purposes of this research). In the context of this research, three key issues are raised in relation to the protection of the celebrity athletic image in the UK, namely:

- does the law of confidence regard photographs as private information entitled to its protection?
- the differing opinions of the Court of Appeal and the House of Lords in regard to the scope of the obligation of confidence,
- the judicial recognition of a celebrity’s commercial interest in protecting their private information.

Before addressing these issues, it is important to highlight that the High Court ruled that the *Coco* criteria had been met, affirmed in the House of Lords. The information (photographs) was held to possess the necessary quality of confidence as “none were publicly available.”<sup>167</sup> The second criterion, requiring the information to have been communicated in circumstances which import an obligation of confidence, was held to have been met by

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<sup>164</sup> [2005] EWCA Civ 595; [2007] UKHL 21

<sup>165</sup> The case was held in the House of Lords alongside that of *OBG v Allan* [2005] EWCA Civ 106 and *Mainstream Properties Ltd v Young* [2005] EWCA Civ 861

<sup>166</sup> [2007] UKHL 21, [1]

<sup>167</sup> [2007] UKHL 21, [113]

virtue of the insistence of the couple “that anyone admitted to the wedding was not to make or communicate photographic images.”<sup>168</sup> The detriment requirement was also held to have been met, given the obvious detriment suffered by OK! as a result of Hello!’s publication<sup>169</sup> – an illustration as to the continuing relevance of the *Coco* criteria, although it has notably been expanded as established by the above conclusions in relation to *Campbell*.

Prior to the current litigation, breach of confidence actions involving the celebrity persona had not involved the publication of photographs. In *Campbell*, although featuring a photograph of the plaintiff, the issue in contention was the information contained in the article. The extension of the law of confidence in protecting photographs as private information could be a useful extension to the legal armour of celebrities in protecting their persona; arguably akin to the protection which a stand-alone image right may afford. This issue was addressed in the Court of Appeal by deeming private information as

“information that is personal to the person who possesses it and that he does not intend it shall be imparted to the general public. The nature of the information, or the form in which it is kept, may suffice to make it plain that the information satisfies these criteria.”<sup>170</sup>

In regard to the photographs themselves, the court found no issue in deeming that photographs could constitute private information, entitled to the protection of the law of confidence.<sup>171</sup> This is in spite of one of the key features of a successful confidence action being that the information must possess the “necessary quality of confidence” which is not possible once the information is communicated to the public – a defence which Hello! attempted to utilise.<sup>172</sup> In fact, the court held that photographs merited a further arm of protection,

“...a photograph does more than convey information and intrudes on the privacy by enabling the viewer to focus on intimate personal detail, there will be a fresh invasion of privacy when each additional viewer sees the photograph and even one who has seen a previous publication is confronted by a fresh publication of it.”<sup>173</sup>

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<sup>168</sup> Ibid 113

<sup>169</sup> Ibid 115

<sup>170</sup> [2005] EWCA Civ 595, [83]

<sup>171</sup> [2007] UKHL 21, [119]

<sup>172</sup> John Hull, Sarah Abbott, *European Intellectual Property Law Review*, Case Comment, “Property Rights in secrets – Douglas v Hello! in the Court of Appeal” (2005) 379, 381

<sup>173</sup> [2005] EWCA Civ 595, [105]

As a result of this extension, the Douglases were able to evoke the protection of the law of confidence for their “private photographs,” in spite of their agreement to publicise them with OK!. This reasoning was affirmed in the House of Lords, who found no reason as to why “a particular form of information, namely, photographic images<sup>174</sup> should not be entitled to the protection of the law of confidence. This extension may be particularly useful to athletes, providing protection of images picturing them in a sporting context. However, it is noteworthy that in the case of footballers, if these images are during the fulfilment of their “club duties”, the protection will belong to their employer club, which is nevertheless useful.

### ***3.3.1. The Court of Appeal, The House of Lords and the commodification of celebrity***

The issue which divided the Court of Appeal and the House of Lords was whether OK! could claim a breach of confidence over the photographs published by Hello!. Hello! had published photographs other than the official ones selected by the Douglases, and so argued that Hello! held no obligation of confidence in the unofficial photographs (although it was accepted that the couple had retained a “residual right of privacy, or confidentiality in those details of their wedding which were not portrayed by those official photographs which they released”).<sup>175</sup> Ruling upon these unofficial photographs, the Court of Appeal held it was the Douglases and not OK! who held the right to privacy and so reversed the first instance decision – holding OK! had no right to commercial confidence in the photographs not approved by the couple.<sup>176</sup> However, this decision was overturned and handed down by House of Lords, who as Walsh explains, failed to provide “much reason”<sup>177</sup> for this decision, other than that it made no commercial sense.<sup>178</sup> This gave both the Douglases and OK! a right of confidence in the photographs and illustrates a clear movement by the judiciary towards the protection of the celebrity image. However, despite the differing opinions of the courts, the movement towards the protection of an image right is further emphasised by this confirmation of a celebrity’s commercial interest in their private information.

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<sup>174</sup> [2007] UKHL 21, [119]

<sup>175</sup> [2005] EWCA Civ 595, [136]

<sup>176</sup> Ibid [136] – [137]

<sup>177</sup> Catherine Walsh, *European Intellectual Property Review*, “Are personality rights finally on the UK agenda?” (2013) 253, 258

<sup>178</sup> [2007] UKHL 21, [123]

### 3.3.2. *Protecting privacy for commercial purposes*

It is no secret that celebrities and athletes alike can and often do enter into exclusivity contracts with the media, selling a particular event in their lives, just as the Douglasses did in the current case. However, by virtue of the fact that celebrities fully intend on these events entering the public domain, is it possible for the law of confidence to protect a celebrity's commercial interest in such events?

The judgment of the House of Lords established that it is indeed possible (illustrated throughout both the Court of Appeal judgment and that of the House of Lords) to possess a "commercial interest" in private information. The Court of Appeal recognised a celebrity's "right to make money out of publicising private information about himself, including his photographs on a private occasion."<sup>179</sup> For Walsh, this suggests "where a celebrity profits from a magazine deal in which he gives an exclusive look into his mansion, etc., such private information can be protected through the law of confidence, notwithstanding the commercial interest in this information."<sup>180</sup> This was further emphasised in the House of Lords, who placed importance on the control emphasised by the Douglasses in relation to the exclusivity of their wedding, which in turn is said to give rise to a duty of confidence.<sup>181</sup> This, arguably gives those who purchase exclusive rights from a celebrity, a right to protect rivals from realising spoilers of the exclusive information.<sup>182</sup> In the House of Lords, Lord Hoffman illustrated the acceptance of the commercial business, and a lucrative one at that, which the commodification of celebrity has become –

"the point which one should never lose sight of is that OK! paid £1m for the benefit of the obligation of confidence imposed upon all those present at the wedding in respect of any photographs of the wedding. That was quite clear,"<sup>183</sup> whilst also having directed the courts to keep "one's eye firmly on the money and why it was paid."<sup>184</sup>

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<sup>179</sup> [2005] EWCA Civ 595, [115]

<sup>180</sup> Catherine Walsh, *European Intellectual Property Review*, "Are personality rights finally on the UK agenda?" (2013) 253, 258

<sup>181</sup> [2007] UKHL 21, [113]

<sup>182</sup> Catherine Walsh, *European Intellectual Property Review*, "Are personality rights finally on the UK agenda?" (2013) 253, 259

<sup>183</sup> [2007] UKHL 21, [117]

<sup>184</sup> *Ibid* [117]

However, Lord Hoffman also made it clear that the decision in the House of Lords did not, by any means, create an image right – noting the case simply regarded information capable of being protected “because it was information of commercial value over which the Douglases had sufficient control to enable them to impose an obligation of confidence.”<sup>185</sup>

Despite this insistence that the decision falls short of creating an image right, it is clear that the comments made by both the Court of Appeal and the House of Lords, in regard to protecting the commercial investment of the couple, illustrates at the very least, an acceptance of the financially beneficial business of which celebrity has become. This protection of a ‘commercial confidence’ is similarly beneficial to an athlete who, by having this arm of protection by the courts, is capable of proving to HMRC that they have an image worthy of a tax deduction. However, the question remains as to whether a breach of confidence action is a suitable or rather a legally appropriate avenue for celebrities to protect their commercial interest in their image or persona.

The *Douglas* litigation, illustrates an expansion of the law into the realms of protecting a “breach of commercial confidence.”<sup>186</sup> However, is it legally correct to reconcile a law which was traditionally conceived with the intention of protecting an individual’s private information, with what is now, the sale of aspects of the individual’s private life in exchange for commercial reward? As discussed, each and every individual is entitled to a basic right to privacy under Article 8 of ECHR. However, should this basic right remain when the individual deliberately commercially exploits their privacy? Walsh argues against this, providing the opinion that “where a celebrity puts a price on their private life, privacy should not apply. The real interest underlying that information is economic, not dignitary interests. *Douglas v Hello!* is concerning as it illustrates how the expanded breach of confidence action is not an appropriate forum for protecting the commercial interests in private information. Where a celebrity reveals information for commercial gain, it is contradictory to argue that they should have a “reasonable expectation of privacy”, when they have no intention to keep such information private, as it will be revealed to the public, typically through a magazine “exclusive”. Any short-term intention to keep this information “private” is rooted in preserving its economic value.”<sup>187</sup> In fact, taking this one step further,

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<sup>185</sup> Ibid [124]

<sup>186</sup> Hazel Carty, *Intellectual Property Quarterly*, “An analysis of the modern action for breach of commercial confidence” (2008) 416, 446

<sup>187</sup> Catherine Walsh, *European Intellectual Property Review*, “Are personality rights finally on the UK agenda?” (2013) 253, 259

Gadnet and Brimstead<sup>188</sup> are of the opinion that *Douglas* does not concern privacy at all, and is rather centred around personality rights – which do not exist in a UK context. It is the opinion of this thesis that this case regards the protection of a celebrity’s commercial interest in their image and ultimately allows a celebrity to prove to HMRC that they have an image worthy of protecting, thus allowing a tax deduction. In any case, it is difficult to reconcile a law which aims to protect the private interests of individuals with the commodity that is celebrity – surrounded by involvement with the media and other advertisers, ultimately seeking maximum publicity and exposure of the commercially valuable aspects of their lives. However, it remains important to keep in mind that in light of the decision in the House of Lords, third parties are also entitled to the protection of a breach of confidence action where they have purchased exclusive rights to a celebrity’s privacy through contract<sup>189</sup> – as OK! achieved through their contract with the Douglases, illustrating a further extension of the law. For all intents and purposes, it is arguable that this decision has positive ramifications for athletes and celebrities alike.

As Hull and Abbot note, “the ability of celebrities such as the Douglases to protect commercially-valuable aspects of their private lives by reference to an enhance cause of action for breach of confidence is no doubt good news for those in the public eye.”<sup>190</sup> For athletes in particular; the reality of the *Douglas* judgment is that it allows the sale of exclusive events in their lives (weddings, appearances) or even the sale of any aspect of their private life which has commercial value worth legal protection. In the absence of an image right, this is no doubt a positive movement in the protection of the celebrity image in the UK and is indicative of the courts intentions to protect this image through the existing remedies. Athletes are also safe in the knowledge that should the exclusivity of their private life be unlawfully breached, through no fault of their own, the purchaser of the exclusivity shall also be protected through the above extension of a breach of confidence action. In any case, it is clear the *Douglas* litigation expands the law of confidence into one that extends to the protection of commercial confidence. This expansion is ultimately difficult to reconcile with a law which is primarily concerned with the protection of privacy – not the commercial exploitation of privacy. Nevertheless, it seems the courts are willing to

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<sup>188</sup> Nick Gadnet, Kate Brimstead, *European Intellectual Property Review*, “Confidential information – damages” (2005) 190

<sup>189</sup> Catherine Walsh, *European Intellectual Property Review*, “Are personality rights finally on the UK agenda?” (2013) 253, 259

<sup>190</sup> John Hull, Sarah Abbott, *European Intellectual Property Law Review*, Case Comment, “Property rights in secrets – *Douglas v Hello!* in the Court of Appeal” (2005) 379,384

interpret the traditional intellectual property remedy in a way which can protect the lucrative business which the commodification of celebrity has become. This is a positive movement for celebrities, and despite the courts continued insistence that this decision did not create an image right – it is, at least, an indication that the law will provide legal redress for the unauthorised use of the celebrity persona, which ultimately allows athletes to exploit their image through taxation.

### **3.4. *The Law of Confidence and the Celebrity Persona***

As above, the law of confidence is traditionally concerned with protecting individuals from invasions of privacy. The celebrity persona generally concerns the commercial exploitation of the celebrity image, achieved through seeking media attention and chasing the latest magazine or endorsement deal. As a result, it is ultimately difficult to reconcile a breach of confidence action with the media driven reality of celebrity, especially in a time where social media, in particular, is thriving and celebrities can communicate their daily lives in a few hundred characters at the click of a button.

However, it is also clear that the law of confidence has evolved since the traditional criteria set down in *Coco*, encompassing both the right to privacy under Article 8 and the right to freedom of expression under Article 10 and lending itself to remedy the invasions of privacy faced by celebrities, irrespective of whether they have previously sought the media limelight.

*Campbell* extends the law of confidence to protect the exploitation of confidential information, as well as private. This is a positive movement for celebrities who are given an element of control over what information they freely give to the public and what information they regard as private. In reality; this means the likes of Beckham, Federer and Hamilton can commercially exploit their image and personalities through endorsement deals, interviews, autobiographies and the likes, yet maintain an element of control over aspects of their lives which they consider private. On the other hand, this additional element of control must be approached with caution and can be regarded as a negative in regard to the media, giving celebrities the right to control “what goes private” and increasing the media’s likelihood of breaching a celebrity’s right to privacy and therefore risking a breach of confidence action.

The law of confidence is further extended by the following *Douglas* litigation, which expands the action into protecting both photographs and a “breach of commercial

confidence.” The debate as to whether it is legally appropriate to utilise a remedy primarily concerned with the protection of one’s private life to protect the commercial exploitation of a celebrity’s image shall inevitably continue, however for the moment the precedent set by *Douglas* illustrates that the law of confidence shall include the protection of commercial confidence. This protection however, shall not constitute an image right, emphasised by the Courts in *Fenty and Others v Arcadia Group Brands Ltd (t/a Topshop) and Another*<sup>191</sup> (which shall be discussed below) –

“Whatever may be the position elsewhere in the world, and however much various celebrities may wish there were, there is today in England no such thing as a free standing general right by a famous person (or anyone else) to control the reproduction of their image,”<sup>192</sup>

thus indicating, for the moment at least, the UK shall be bound by traditional intellectual property remedies rather than the creation of a free standing personality right, the consequences of which lies primary within the taxation of high-earning athletes.

At present, UK breach of confidence actions have not been challenged in the ECtHR and so no judgment has been made on the remedies legitimacy in balancing the competing rights of Art 8 and Art 10. However, in light of the German case law discussed in the previous chapter, it is apparent that the ECtHR has shown preference towards protecting an individual’s right to privacy over the media’s right to freedom of expression and this is likely to continue to be so. In any case, it is arguable that breach of confidence has served as an effective remedy for celebrities in the wake of *Campbell* and *Douglas*, yet the courts should remain cautious of the effect of extending a traditional intellectual property remedy to resolve disputes between celebrities and the media, particularly in the context of protection an image right which does not exist in law, opening the door for potential tax consequences. As such, although the law of confidence has proved effective in the cases of *Campbell* and *Douglas*, the *Coco* formula is far removed from the concept of 21<sup>st</sup> century celebrity and its relationship with the media. However, this reluctance to create an image right ultimately has led to consequences in the taxation of image rights of high-profile athletes. Canada on the other hand, has relevant statutory and common law image rights

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<sup>191</sup> [2013] EWHC 2310 (Ch)

<sup>192</sup> *Ibid* [2]

frameworks (to be discussed in the following chapter), as well as a system of taxation which is far removed from the convoluted UK alternative.

### 3.5. *The Law of Passing Off*

The *Campbell* and *Douglas* litigation illustrate the way in which the law of confidence has been interpreted by the courts to provide a remedy in situations where celebrities have experienced the unauthorised use of their persona, whether this be through an invasion of privacy or by a breach of commercial confidence. In addition to a breach of confidence action, the law of passing off has also been interpreted in such a way which has allowed celebrities to seek legal redress for unauthorised exploitations of their persona, thus enhancing an athletes' ability to rely on these traditional remedies to prove the legitimacy of the value of their image when seeking a tax reduction. The law of passing off has provided some of the most high-profile cases involving celebrities and their image; in spite of being constructed without the 21<sup>st</sup> century world of celebrity in mind.

The tort of passing off is traditionally concerned with the prevention of undertakings "passing off" their products or services as that of another. Typical cases involved the imitation of a company's product under a similar name, packaging or even the use of a popular slogan – all of which are calculated to cause confusion in the mind of the consumer purchasing the product.

A traditional passing off action requires three key elements, often referred to as the "classic trinity," namely: the existence of goodwill in the product, service or business, a misrepresentation concerning those goods and that misrepresentation must cause damage to the goodwill of the claimant – as established in *Consorzio del Prosciutto di Parma v Marks and Spencer Plc.*<sup>193</sup> The courts similarly developed what is referred to as a "legal concept" which requires both the claimant and defendant to share a common field of activity – affording no remedy where parties operate within different commercial spheres.<sup>194</sup> This requirement provided no remedy for celebrities where their image had been used, in the absence of consent, due to the lack of similarity in the commercial circles in which they

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<sup>193</sup> [1991] R.P.C. 35, see also *Reckitt and Coleman Products Inc v Borden* [1990] 1 All E.R. 873 and *Erven Warnink B.V. v J Townend and Sons (Hull) Ltd* [1979] 2 All E.R. 927, [1980] R.P.C. 31

<sup>194</sup> Thorsten Lauterbach, British and Irish Legal, Education and Technology Association (BILETA) (2005), "Over-Commoditised; Over-Centralised; Over-Observed: The New Digital Legal World?", "US-style "personality" right in the UK – en route from Strasbourg?", page 6, <<http://www.bileta.ac.uk/content/files/conference%20papers/2005/US-style%20Personality%20Right%20in%20the%20UK%20En%20Route%20From%20Strasbourg.pdf>> accessed 25<sup>th</sup> November 2018

operated. The requirement placed an additional hindrance on athletes, who often (but not always) build up their goodwill in the sport they play and not in the products they endorse – making the fulfilment of the common field of activity requirement more difficult.

### 3.5.1. *The Common Field Restriction*

The common field requirement allowed courts to avoid consideration as to the existence or creation of a personality right within UK law, dating back to 1947 in the *McCulloch v Lewis A May (Uncle Mac)*<sup>195</sup> litigation. The claimant, a children’s broadcaster known as Uncle Mac, initiated proceedings against a cereal manufacturer for the production of a cereal named “Uncle Mac’s Puffed Wheat.”<sup>196</sup> Despite the unauthorised exploitation of Uncle Mac’s name, the court were unable to provide a remedy, due to the absence of a common field of activity,

“upon the postulate that the plaintiff is not engaged in any degree of producing puffed wheat, how can the defendant, in using the fancy name used by the plaintiff, be said to be passing off the goods or the business of the plaintiff? I am utterly unable to see any element of passing off in this case. If I were to accede to the plaintiff’s claim I should as I see it, not merely be extending quite unjustifiably the scope of the action of passing-off, but I should be established an entirely new remedy; and that I am quite unprepared to do.”<sup>197</sup>

This approach was continued in *Tavener Rutledge v Trexapalm (Kojak)*,<sup>198</sup> in which the claimant, who had capitalised upon the famous image of a “lollipop sucking” detective from a TV series by producing “Kojakpops,” sought a remedy for the defendants’ production of “Kojak lollies,” arguing the product amounted to passing off.<sup>199</sup> In line with the precedent set by *Uncle Mac*, it was held there was no common field of activity between the production of lollipops and the production of films, also noting that the court were unlikely to infer a connection between the two.<sup>200</sup> In fact, the court went so far as to say that character merchandising was not a business at all<sup>201</sup> – a statement which in today’s world of celebrity endorsements and advertising seems all the more controversial. This reasoning

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<sup>195</sup> [1947] 2 All E.R. 845 Ch.D

<sup>196</sup> Ibid

<sup>197</sup> Ibid [67] per Wynn-Parry J

<sup>198</sup> [1975] F.S.R. 479 Ch.D

<sup>199</sup> Ibid

<sup>200</sup> Ibid [480]

<sup>201</sup> Catherine Walsh, *European Intellectual Property Law*, “Are personality rights finally on the UK agenda?” (2013) 253, 254

made it extremely difficult for celebrities to seek remedy from the courts, at least through passing off, for unauthorised exploitation of their persona.

### 3.5.2. *A more relaxed approach?*

Despite the reluctance of the court to recognise image rights as a lucrative commercial practice in both *Kojak* and *Uncle Mac*, the *Lyngstad v Anabas Products Ltd*<sup>202</sup> (*Abba*) litigation showed positive signs of the courts becoming more relaxed in respect of the common field requirement. Famous band Abba, sought remedy against the defendant for the sale of goods which bore their name and likeness. In contrast to the previous precedent which required a common field of activity, the claimant was instead required to show a genuine possibility of confusion between their activities as entertainers and the defendant's goods.<sup>203</sup> In reaching this conclusion, Oliver J stated, "the expression "common field of activity" is not, I think, a term of art, but merely a convenient shorthand term for indicating...the need for a real possibility of confusion which is the basis of the action."<sup>204</sup> Although the action failed, this was on the basis that the court was not satisfied there was a real possibility of confusion, which was considered to be the key element in such cases. As such the lack of a common field of activity was not fatal to the judgment.<sup>205</sup>

Similarly, *Mirage Studios v Counter-Feat Clothing Ltd*<sup>206</sup> (*Teenage Ninja Turtles*) evidences another step forward, in the context of recognising merchandising rights. Although the case centred around issues of copyright, it is nevertheless illustrative of the shift in judicial opinion. The court held "deceptiveness as to licensing"<sup>207</sup> was actionable; the first time that wrong doing in respect of the celebrity image was acknowledged.

The above cases illustrated a movement towards to abandonment of the common field of activity requirement set by *Kojak* and *Uncle Mac*. However, the effectiveness of passing off as a remedy in circumstances of unauthorised character merchandising is illustrated in a more substantial context in *Irvine v Talksport*<sup>208</sup> - which marks the extension of the law of passing off.

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<sup>202</sup> [1977] F.S.R. 62 Ch D.

<sup>203</sup> Ibid [67]

<sup>204</sup> Ibid

<sup>205</sup> Ibid [67]-[68]

<sup>206</sup> [1991] F.S.R. 145 Ch D

<sup>207</sup> Ibid [156]

<sup>208</sup> [2002] 1 W.L.R. 2355

### 3.6.

#### *Irvine v Talksport: a change?*

As above, *Irvine* marks a significant extension of the law of passing off in regard to the unauthorised use of the celebrity image and of a movement away from the common field of activity requirement, utilising the flexibility of passing off as a remedy. Irvine competed in Formula One and having finished second in the year of 1999, he was regarded as having considerable endorsement power,<sup>209</sup> emulating the “celebrity athlete.” The dispute arose after radio station Talksport embarked upon a promotional campaign which distributed flyers bearing Irvine’s image, the original photograph having been doctored to show the athlete holding a radio which had been manipulated to read Talksport.<sup>210</sup> The claimant argued the flyer implied he had endorsed the radio station and thus constituted passing off in regard to his image. The action raised various questions of law, namely: did the common law remedy of passing off still require a common field of activity between the business of the claimant and that of the defendant and could the law of passing off apply in cases of false endorsement.

As discussed, the courts had traditionally avoided consideration of a celebrity’s right to protect and also commercially exploit their image (in the absence of trademark violation), through reliance on the common field of activity requirement. However, *Irvine* marks a change in this judicial reasoning.

In his judgment, Laddie J confirms the abandonment of the requirement in stating; “it is not necessary to show that the claimant and the defendant share a common field of activity or that sales of products or services will be diminished either substantially or directly, at least in the short term,”<sup>211</sup> also illustrating the dilution of the damage requirement (to be discussed).

In reaching this conclusion, Laddie J acknowledged the expansion of passing off into the realms of commercialisation and of the lucrative business which celebrity endorsement has become:

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<sup>209</sup> Ibid [2]

<sup>210</sup> Ibid [4] – [8]

<sup>211</sup> Ibid [38]

“Not only has the law of passing off expanded over the years, but the commercial environment in which it operates is in a constant state of flux. Even without the evidence given at the trial in this action, the court can take judicial notice of the fact that it is common for famous people to exploit their names and images by way of endorsement. They do it not only in their own field of expertise but, depending on the extent of their fame or notoriety, wider afield also. It is common knowledge that for many sportsmen, for example, income received from endorsing a variety of products and services represents a very substantial part of their total income. The reason large sums are paid for endorsement is because, no matter how irrational it may seem to a lawyer, those in business have reason to believe that the lustre of a famous personality, if attached to their goods or services, will enhance the attractiveness of those goods or services to their target market. In this respect, the endorsee is taking the benefit of the attractive force which is the reputation or goodwill of the famous person.”<sup>212</sup>

This acknowledgment is clear in marking a change in respect of passing off in that the legal concept of the common field requirement no longer exists.

### **3.6.1. *Passing Off and False Endorsement***

The question as to whether the law of passing off could be extended to encompass situations of false endorsement was considered at length by the court. Early in the judgment, Laddie J endorsed the distinction between false endorsement and false merchandising made by the claimants which stated,

“when someone endorses a product or service he tells the relevant public that he approves of the product or service and is happy to be associated with it. In effect he adds his name as an encouragement to members of the relevant public to buy or use the service or product. Merchandising is rather different. It involves exploiting images, themes or articles which have become famous.”<sup>213</sup>

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<sup>212</sup> Ibid [39]

<sup>213</sup> Ibid [9]

Having made such a distinction, the court held “there is nothing which prevents an action for passing off succeeding in a false endorsement case.”<sup>214</sup> This distinction is important, particularly in the context of this research, in illustrating the level of protection which reliance upon *Irvine* will afford to a celebrity in circumstances in which their image has been exploited without authorisation. However, it is important to bear in mind that the claimant is still bound by the elements of the classic trinity.<sup>215</sup>

Upon addressing the requirements of the trinity, the court held that there could be “little doubt” as to the goodwill of Irvine at the time of case. Having established the popularity of Formula 1 itself, (watched by some 350 million television viewers worldwide), the court also highlighted the success of Irvine himself.<sup>216</sup> Not only had the sportsman continually found himself on the winner’s podium in 1999, he had received an “immense amount of press coverage,” appeared in a number of magazines (both car and non-car related) and endorsed various products including clothing, racing helmets and footwear.<sup>217</sup> Upon consideration of these facts, the court held that Irvine possessed significant goodwill at the time of Talksport’s publication concluding; “Mr Irvine was, in 1999, extremely “hot property” in the field of motor racing and was well known by name and appearance to a significant part of the public in this country.”<sup>218</sup>

With regard to the second requirement, as to whether Talksport’s publication would lead a not insignificant section of the market to believe that Irvine had endorsed the station, the court also ruled in favour of the F1 driver. In reaching this conclusion, the court intimated that the issue to be considered is the effect of the promotion – not the intention with which it was conceived.<sup>219</sup> As such, it was accepted that whilst the radio station had not intended to mislead the audience,

“it is legitimate to conclude that part, at least, of the intention was to convey the message to the audience that Talk Radio was so good that it was endorsed and listened to by Mr Irvine. Mr Irvine’s support of Talk Radio would make it more attractive to potential listeners with the result that more would listen to its

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<sup>214</sup> Ibid [46]

<sup>215</sup> Ibid [46]–[47]

<sup>216</sup> Ibid [47]

<sup>217</sup> Ibid [51]–[52]

<sup>218</sup> Ibid [56]

<sup>219</sup> Ibid [68]

programmes and that would make Talk Radio an attractive medium in which to place advertisements.”<sup>220</sup>

In the context of the “not insignificant” number of recipients likely to infer Irvine had endorsed the station, the court held that a high number of those who received the brochure would assume the claimant had endorsed the station – thus fulfilling the second requirement.<sup>221</sup>

In respect of the requirement of damage, the defendant argued that by virtue of the fact the flyer was only distributed to around 1000 people, the claimant was not able to prove substantial damage.<sup>222</sup> However, the court referred to the *Taittinger SA v Allbev Ltd*<sup>223</sup> judgment in which it was held that although the damage had not had an effect upon the sales of the defendant’s champagne in any significant way, this was not to say that the damage could not become significant or “incalculable” in the future.<sup>224</sup> Applying this rationale in the context of the present case, the court concluded “it is possible that the damage already done to Mr Irvine may be negligible in direct money terms but the potential long-term damage is considerable,”<sup>225</sup> meeting the third and final requirement and thus ruling in favour of Irvine.

The acceptance of passing off as a remedy in false endorsement cases, coupled with the abandonment of the common field requirement marks a significant change. However, the consequences of *Irvine* are arguably to be considered more far reaching in the context of the classic trinity.

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<sup>220</sup> Ibid [72]

<sup>221</sup> Ibid [73]

<sup>222</sup> Ibid [74]

<sup>223</sup> [1993] F.S.R. 641

<sup>224</sup> [2002] 1 W.L.R. 2355, [37]

<sup>225</sup> Ibid [74]

### 3.6.2.

#### *The effect of Irvine upon the classic trinity*

A traditional passing off action requires goodwill in the product or service, a misrepresentation of that product or service and resultant damage or at least likelihood of damage as a consequence of the misrepresentation. In endorsement cases, (by virtue of *Irvine*) a passing off action requires that the claimant have significant goodwill at the time of the act complained of and that the defendant's actions portray a false message to a not insignificant section of the claimant's market, who can be said to believe the goods were endorsed by the claimant. As such, the classic trinity (although refined to protect the modern world of celebrity endorsement) is by no means extinct and celebrities continue to be bound by its elements when utilising passing off as a means of protecting their image. In any case, *Irvine* does not create an image right and a successful action requires the elements set down in *Coco* to be satisfied. As above, this refusal to create an image right has caused confusion in taxing athlete image right as no definition or guidelines exist as to what 'image' constitutes.

Commentators have discussed and deliberated the effects of *Irvine* upon the classic trinity, creating various opinions as to the judgment. Robinson argues "the rigidity with which Laddie J applied the requirements of passing off causes one to question whether the decision really adds that much to the arsenal of the image holder,"<sup>226</sup> whilst also highlighting the various questions which *Irvine* leaves unanswered, namely: whether passing off can be utilised where a celebrity's image has been used yet it is clear they did not endorse the product, whether passing off is available in situations where a lookalike is used or similarly whether celebrities, who do not usually have a reputation of endorsements, can use passing off in absence of proof of trading goodwill?<sup>227</sup> As such, it is arguable that although the extension of passing off in *Irvine* is useful to celebrities who possess significant goodwill and reputation, it does little to further the interests of those who do not, which will become relevant in the forthcoming tax chapters; as tax reductions will only be of benefit to those athletes who possess significant goodwill. For those athletes who do possess the necessary goodwill, the *Irvine* judgment can be seen "as a victory for

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<sup>226</sup> Felicity Robinson, Entertainment Law Review, "How image conscious is English Law?" (2004) 151,153

<sup>227</sup> Ibid

celebrities in their fight to prevent the unauthorised use of their name and image,”<sup>228</sup> and ultimately, a legitimate mechanism by which they can reduce their tax bill.

It is nevertheless important to acknowledge that although *Irvine* extends passing off and signals the judicial acceptance of the commercialisation of celebrity, it does not, by any means, create a novel, free-standing image right and the elements of passing off continue to be relevant. However, it has been argued that “though the classic trinity appears to be applied, there is an extended meaning applied to all three ingredients. The action consequently can be interpreted as protection against misappropriation of fame.”<sup>229</sup> This interpretation, suggests the courts have created a remedy to protect the celebrity image through the traditional passing off action and as such, *Irvine* provides a “proper cause of action that reflects modern marketing practice and makes inventive use of other causes of action less imperative.”<sup>230</sup>

### **3.6.3. *Misrepresentation to misappropriation***

This extended meaning of the ingredients of passing off can be explained through the extension of misrepresentation to include misappropriation and the dilution of damage. With reference to the former, this particular extension of passing off raises concern. Misrepresentation is primarily concerned with a falsification, whereas misappropriation involves a wrongdoing or exploitation, which does not necessarily involve a falsehood. In *Irvine*, the extension of misrepresentation is evident by Laddie J’s referrals to the “misappropriation of the positive connotations of Irvine’s image” – despite ruling that a misrepresentation had occurred.”<sup>231</sup>

The concern against this extension of passing off, for Walsh, is magnified by the case of *Bedford v The Number (UK) Ltd.*<sup>232</sup> Bedford argued that the telephone directory’s advertisement, containing a caricature of him, more commonly known as the “118” advert, constituted an unauthorised use of his persona. Notably, the advertisement did not deceive or confuse the public into believing he had endorsed the advert, indicating that a

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<sup>228</sup> Andrew Terry, Isabel Davies, *European Intellectual Property Review*, “Passing off – celebrity endorsements (Case Comment)” (2002) 134, 135

<sup>229</sup> Hazel Carty, *Intellectual Property Law Quarterly*, “Advertising, publicity rights and English law” (2004) 209, 238-240

<sup>230</sup> Franz Hoffman, *Intellectual Property Law Quarterly*, “The right to publicity in German and English law” (2010) 325, 324

<sup>231</sup> Catherine Walsh, *European Intellectual Property Law*, “Are personality rights finally on the UK agenda?” (2013) 253, 255

<sup>232</sup> [2004] I.S.L.R. SLR18

misrepresentation had not occurred. Similarly, the advert did not cause the claimant any damage to his reputation, and in fact, heightened his diminishing fame.<sup>233</sup> Using the traditional definition of misrepresentation in a passing off action, i.e. that there was a likelihood of confusion and evidence of falsehood - the action would have failed. However, this was not the case. This highlights the inclusion of misappropriation within a passing off action in that Bedford was able to seek legal redress where there had been an exploitation of his image, but this was not a false nor harmful representation. As such, following the ratio in *Bedford*, the law of passing off will include protecting the celebrity persona in situations where there is no confusion nor damage. For Carty, this development goes beyond what should be included in the tort of passing off – “to protect “unfair” exploitation in the absence of misrepresentation or indeed any harm, risks a complete diversion of the tort, because what is being protected as the valuable intangible is not goodwill, but the claimant’s investment, competitive edge or promotional aura.”<sup>234</sup>

In any case, the development of passing off in *Irvine* and the inclusion of misappropriation within the classic trinity risks awarding celebrities with a monopoly over their persona in the absence of a misrepresentation with the end result being that passing off in fact protects investment rather than goodwill. Such developments, were neither envisaged nor encompassed in the creation of the tort of passing off, which was concerned with preventing confusion, and thus, the monopolisation of the celebrity persona without a clear, free-standing image right creates a piecemeal framework for celebrities, the media, the courts and in particular, the tax authorities, yet for the purposes of this research, are developments which shall no doubt be welcomed by athletes with significant commercial endorsement interests.

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<sup>233</sup> Catherine Walsh, *European Intellectual Property Law*, “Are personality rights finally on the UK agenda?” (2013) 253, 255

<sup>234</sup> Hazel Carty, *Intellectual Property Quarterly*, “Passing off”, (2012) 106, 113

#### 3.6.4.

#### *Damage or Dilution?*

*Irvine* also highlights the expansion of the third element of the classic trinity, the requirement that the claimant must suffer or be likely to suffer damage as a result of the defendant's misrepresentation. This requirement has been expanded to include dilution.<sup>235</sup> Dilution was first conceived by American scholar Schechter in 1927.<sup>236</sup> Schechter believed that the true value of a trademark lay in its advertising power and the law should be primarily concerned with protecting trademarks from the "blurring of product identification" and the "erosion of the mark."<sup>237</sup> Dilution is defined as protecting "exclusivity,"<sup>238</sup> and is explained by Brown as,

"based on the fact that the more widely a symbol is used, the less effective it will be for any one user. The color red, for example, may be more striking on a package than other colors, but if half the boxes on the super-market shelf are red, its power is thereby dissipated. The words "Gold Medal" may once have had considerable power, but each time a new commodity comes along and christens itself Gold Medal, all the other Gold Medals lose part of their magic. Thus, the profit potential of a symbol may be diluted by several types of conduct...If an advertiser has a persuasive symbol, he has stored up in a number of persons' brain cells some degree of desire to buy goods bearing the symbol. No galvanometer has been devised to measure that potential, or the extent of its dissipation by the use of the symbol on another's goods, but if the different uses impinge on the same buyers, the effect is much feared."<sup>239</sup>

As such, dilution can occur without the presence of confusion in the mind of the consumer (it is simply protecting the uniqueness of the product), which is in contrast to a passing off action where a misrepresentation is required.<sup>240</sup> The concept of dilution has become a feature of passing off cases in the UK in recent years, with the most well-known attempt to protect exclusivity seen in *Tattinger SA v Allbev Ltd*,<sup>241</sup> which are more commonly referred to as the "champagne cases." In *Tattinger*, the claimant sought to prevent the use of the

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<sup>235</sup> This is not trademark dilution.

<sup>236</sup> Frank Schechter, Harvard Law Review, "The Rational Basis of Trademark Protection" (1927) 813

<sup>237</sup> Hazel Carty, Law Quarterly Review, "Dilution and passing off: cause for concern" (1996) 632, 639

<sup>238</sup> Ibid 644

<sup>239</sup> Ralph, S. Brown Jr, Yale Law School, Yale Law Journal, Volume 57 "Advertising and the Public Interest" (1948) 1165, 1191-1192

<sup>240</sup> Catherine Walsh, European Intellectual Property Law, "Are personality rights finally on the UK agenda?" (2013) 253, 255

<sup>241</sup> [1993] F.S.R. 641

word “champagne” in the labelling of a non-alcoholic beverage. The claimants sought an injunction, which was rejected by the Court of First Instance on the basis that they had not “established any real likelihood of serious damage.”<sup>242</sup> However, in the Court of Appeal, the court agreed with the claimant in that the small number of the public that may be deceived into thinking the defendants “champagne” was indeed real champagne need not matter, and as such, the court found that “the question is whether the relevant activities of the defendants are on such a small scale leading to such a small injury that it can be ignored. On the evidence of the defendants' sales, I find it impossible to say that that is the case here.”<sup>243</sup>

The court made direct reference to the term dilution when assessing the damage to the claimant. LJ Gibson stated, “I have no doubt that erosion of the distinctiveness of a name or mark is a form of damage to the goodwill of the business with which the name is connected,”<sup>244</sup> whilst LJ Mann felt the word ““Champagne” has an exclusiveness which is impaired if it is used in relation to a product (particularly a potable product) which is neither Champagne nor associated or connected with the businesses which produce Champagne. The impairment is a gradual debasement, dilution or erosion of what is distinctive.”<sup>245</sup>

Following *Taittinger*, the court gave a conflicting opinion in *Harrods Ltd v Harrodian School*,<sup>246</sup> where the complaint (Harrod’s department store) sought action against a private school. LJ Millet stated:

“Erosion of the distinctiveness of a brand name has been recognised as a form of damage to the goodwill of the business with which the name is connected in a number of cases, particularly in Australia and New Zealand; but unless care is taken this could mark an unacceptable extension to the tort of passing off. To date the law has not sought to protect the value of the brand name as such, but the value of the goodwill which it generates; and it insists on proof of confusion to justify its intervention. But the erosion of the distinctiveness of a brand name which occurs by reason of its degeneration into common use as a generic term is not necessarily dependent on confusion at all. The danger that if the defendant's product was called

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<sup>242</sup> Ibid

<sup>243</sup> Ibid [669]

<sup>244</sup> Ibid

<sup>245</sup> Ibid 674

<sup>246</sup> [1996] R.P.C. 697

champagne then all sparkling wines would eventually come to be called champagne would still exist even if no one was deceived into thinking that such wine really was champagne. I have an intellectual difficulty in accepting the concept that the law insists upon the presence of both confusion and damage and yet recognises as sufficient a head of damage which does not depend on confusion.”<sup>247</sup>

As such, the courts in the above cases give conflicting opinions as to the status of dilution in passing off actions. In the present case of *Irvine*, the inclusion of dilution is evidenced through Laddie J’s acceptance that in the absence of damage in the direct sense, “the law will vindicate the claimant’s exclusive right to the reputation or goodwill.”<sup>248</sup> The issue with extending passing off to include dilution is the absence of confusion; which is a key element of the classic trinity. In fact, “what is being protected is the mark’s effectiveness as an advertising tool in itself. Ultimately, this renders misrepresentation otiose and abandons any attempts to balance the public interest against the traders’ interest.”<sup>249</sup> In reality, the inclusion of dilution into a passing off action risks giving celebrities an over-protection of their persona, where no confusion has occurred to the public that they have endorsed the product, nor have they suffered any resultant damage. What is most concerning about the inclusion of dilution within passing off is the absence of clear judicial acknowledgement that passing off has evolved as well as the lack of guidance as to what is defined by dilution in a UK context. There may well be various arguments for dilution, yet in the context of protecting the celebrity persona, inclusion risks giving celebrities remedy where there has been no misrepresentation/confusion in contrast to the criteria set down by *Coco*, which as yet has not been overruled. This inclusion of dilution within the classic trinity, as well as that of misappropriation, is indicative of the courts willingness to provide legal redress in cases where celebrities argue that their “image” has been misused. Applying the classic trinity using a narrow interpretation of passing off would fail to provide this redress, illustrative of the courts’ acceptance of the importance to protect the celebrity image; in the absence of the creation of a free-standing image right.

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<sup>247</sup> Ibid [715]-[716]

<sup>248</sup> [2002] 2 All E.R. 414, [34]

<sup>249</sup> Hazel Carty, Law Quarterly Review, “Dilution and passing off: cause for concern” (1996) 632, 648

### 3.6.5.

#### *Irvine; concluding remarks*

*Irvine* marks the extension of passing off in two ways, namely: the abandonment of the common field of activity requirement and the inclusion of passing off as a remedy in false endorsement cases. This extension is portrayed as a victory for celebrities in preventing the unauthorised use of their image or persona, given the potential value of commercial endorsements. However, it is important to approach these extensions with an element of caution; the *Irvine* litigation does not conceive an image right and celebrities remain bound by the requirements of the classic trinity, although it is notable that as a result of the apparent acceptance of misappropriation and dilution within the trinity, a passing off claim may be easier to prove than it may have been pre-*Irvine*. In any case, the need to prove the existence of goodwill, a misrepresentation and the likelihood of damage indicates the use of passing-off provides only a partial solution to the unauthorised use of the celebrity image/persona, whilst continuing to cause confusion as to what constitutes ‘image’ in the context of taxing athletes’ image rights. In fact, although *Irvine* has often been referred to as the biggest step forward in the formation of a personality right,<sup>250</sup> it is arguably not as ground-breaking as it first appears and may only be promising to this end. The re-shaping of passing off may allow celebrities to envisage the concept of an image right but does little beyond this. As such, *Irvine* is a judicial acknowledgement of the importance and lucrative nature of the celebrity image in allowing them to protect this image using traditional intellectual property law remedies yet ultimately, “offers but a partial solution to the problem of misappropriation of personality – a somewhat makeshift solution, falling short of any substantial personality right.”<sup>251</sup>

What is important in the context of *Irvine* however, for the purposes of this research, is the courts acknowledgement of the fact that celebrities can possess significant goodwill. As mentioned, goodwill is the mechanism used by HMRC to quantify “celebrity” and acceptance of this goodwill can lead to athletes being able to seek a tax reduction. The fact that the court accepts *Irvine* possesses goodwill by virtue of his success as an athlete at a particular time, is useful for athletes who are also “hot property” in their sport, ultimately allowing them to prove to HMRC that they have goodwill worth protecting for the purposes of tax law; all of which shall be discussed in greater detail in chapter 5 and 6.

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<sup>250</sup> Aldo De Landa Barajas, Entertainment Law Review, “Personality Rights in the United States and the United Kingdom – is Vanna too much? Is Irvine not enough?” (2009) 253, 258

<sup>251</sup> Ibid

### 3.7.

#### *Rhianna and false merchandising*

In *Fenty v Arcadia Group Brands Ltd (t/a Topshop)*,<sup>252</sup> singer Rhianna raised a passing off action against clothing brand Topshop for the unauthorised commercial exploitation of her image in 2012. Topshop began selling a t-shirt featuring the image of Rhianna, which bore striking similarities to her official album cover, namely, that she was wearing the same headscarf and sporting the same hairstyle. The photograph was taken by an independent photographer during her “We Found Love” video shoot and although no copyright issue was raised, Rhianna argued the similarity between her album cover and the image on the t-shirt Topshop was selling, would lead consumers to believe the item had been officially endorsed, subsequently amounting to passing off.<sup>253</sup>

It is important to note, particularly in the context of this research, very early on within the judgment, Birss J explicitly states that the case concerns passing off and that no image right exists within the English legal framework;

“it is important to state at the outset that this case is not concerned with so called ‘image rights’. Whatever may be the position elsewhere in the world, and however much various celebrities may wish there were, there is today in England no such thing as a free standing general right by a famous person (or anyone else) to control the reproduction of their image.”<sup>254</sup>

As such, the case (at least in the eyes of the court) regards passing off and thus, the three elements of the classic trinity must continue to be established – an early indication of the courts’ intentions with regard to the creation of an image right.

Similarly, it is also worth emphasising that before ruling upon whether the traditional elements of passing off had been satisfied, the court first considered whether the law of passing off could apply in cases of false merchandising. Previous to *Rihanna*, *Irvine* had only extended the law to include cases of false endorsement. As noted above, endorsement occurs when someone is happy to be associated or promote a product or service, whilst merchandising occurs in circumstances where a number of different products can be exploited by using a certain image. In spite of these differences, LJ Kitchen stated,

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<sup>252</sup> [2013] EWHC 2310 (Ch); [2014] E.C.D.R. 3; [2015] 1 W.L.R. 3291

<sup>253</sup> [2015] 1 W.L.R. 3291, [3293]–[3295]

<sup>254</sup> [2013] EWHC 2310 (Ch); [2014] E.C.D.R. 3, [2]

“there is no difference between an endorsement case... The legal principles are the same in both. The claimant must have a goodwill to protect. If the goods are then sold in circumstances in which the purchasers understand there is to be a representation that the goods are authorised by the claimant or are in that sense “official” merchandise, but in fact that representation is a false one, then as long as the false representation is operative, the second element of passing off will be satisfied. To complete the tort the activity has to be damaging, but in a case like this, if the first two are proved, it most likely will be.”<sup>255</sup>

As such, it follows that passing off can apply in false endorsement cases, thus extending the law of passing off – provided the three elements of the classic trinity are satisfied.

### **3.7.1. *The classic trinity***

On addressing whether Rihanna possessed the necessary goodwill, the court referred to the popstar as “world-famous” and in possession of a “cool, edgy image.”<sup>256</sup> The court also highlighted a number of promotional deals which Rihanna had become party to, including “big brand” names such as Gucci, H&M, River Island, Armani and Topshop’s brother store Topman, all indicative that “Rihanna has made the effort to promote a specific association in the public mind between herself and the world of fashion.”<sup>257</sup> As such, Rihanna was regarded as a “style icon” and this had given her “ample goodwill to succeed in a passing off action of this kind... The scope of her goodwill was not only as a music artist but also in the world of fashion as a style leader,”<sup>258</sup> thus satisfying the first element of the classic trinity.

The second element of misrepresentation was similarly held to be satisfied. Although Topshop argued that the t-shirt did not suggest it was official Rihanna merchandise,<sup>259</sup> the court considered that both Topshop’s previous connection with Rihanna and the image itself constituted a misrepresentation. With regard to the former, the court concluded that “Topshop makes a considerable effort to emphasise connections in the public mind between the store and famous stylish people. It has done so in the case of Rihanna, placing emphasis on her public persona as a style leader,”<sup>260</sup> increasing the likelihood that the public would

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<sup>255</sup> Ibid [65]

<sup>256</sup> Ibid [38]

<sup>257</sup> Ibid [41]

<sup>258</sup> Ibid [45]–[46]

<sup>259</sup> Ibid [47]

<sup>260</sup> Ibid [56]

infer Rihanna had endorsed the product. In the context of the t-shirt itself, the court held that the similarity between it and the album cover was sufficient to constitute a misrepresentation, noting:

“this image is not just recognisably Rihanna, it looks like a publicity shot for what was then a recent musical release. To someone who knew Rihanna but did not know her current work, the image is simply one of the person concerned. However, to her fans who knew her work, I think this particular image might well be thought to be part of the marketing campaign for that project.”<sup>261</sup>

As such, the court held the public would be likely to infer the t-shirt was official merchandise endorsed by the popstar and so the second element was satisfied.

In regard to the final element, the court found no issue in ruling that the sale of the t-shirt had caused damage to the goodwill of Rihanna. Having found that a substantial number of customers would believe that the t-shirt had been officially endorsed, and as such, resulted in “sales lost to her merchandising business,”<sup>262</sup> which caused “a loss of control over her reputation in the fashion sphere.”<sup>263</sup> As a result, Rihanna succeeded in her claim against the high street chain, having satisfied the elements of the classic trinity, which is important for the purposes of this research; illustrating the continued relevance of the traditional elements of passing off in spite of the protection of the celebrity image.

### **3.7.2. *The Court of Appeal***

Topshop appealed on four grounds, namely: the judge had erred in ruling there was no difference between false endorsement and false merchandising within the law of passing off,<sup>264</sup> that although the court had correctly ruled there is no image right within English law, it then should have proceeded on the basis that the law of passing off treated the images on such garments as origin neutral (this was on the perception that the passing off claim should have been assessed on the presumption that the market of garments containing images of Rihanna was a market which others were lawfully allowed to enter – in other words, Rihanna did not monopolise the market of her own image.<sup>265</sup> The third objection put forward by Topshop was that the claim should have been decided in the view of those

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<sup>261</sup> Ibid [69]

<sup>262</sup> Ibid [74]

<sup>263</sup> Ibid

<sup>264</sup> Ibid [25]

<sup>265</sup> Ibid [26]

consumers who regarded the image as origin neutral and not those who regarded it as having been authorised by Rihanna,<sup>266</sup> whilst the final ground was that Rihanna's case had not been properly alleged and there was no evidence of probative value put forward.<sup>267</sup>

On analysis on Topshop's first ground, the Court of Appeal were satisfied that the law of passing off could apply in situations of false merchandising and Birss J had given proper consideration to the relevant elements of passing off; namely the existence of a goodwill, misrepresentation and damage,<sup>268</sup> such requirements equally as relevant in a merchandising case. Upon application of these elements to the present case, "the use of the image would, in all the circumstances of the case, indicate that the t-shirt had been authorised and approved by Rihanna."<sup>269</sup> As such, the Judge found the sale of the t-shirt bearing this image amounted to a representation that Rihanna had endorsed it.<sup>270</sup>

In addressing the issue of origin neutrality, Kitchin LJ confirmed that the use of a recognisable image does not, in itself, amount to passing off. However, the use of a particular image in the particular circumstances of the present case, constituted a misrepresentation and the court was correct to rule that passing off had occurred.<sup>271</sup> Kitchin LJ said that by Topshop's "origin neutral" reasoning, it was

"in effect contending not for the absence of an image right, but rather for a positive right to market goods bearing an image even if the use of that image in particular circumstances to particular customers gives rise to a misrepresentation,"<sup>272</sup>

and to "accede that submission would be to sanction a trade which results in the deception of the public."<sup>273</sup> The Court of Appeal thus indicated that although no image right exists within the UK and the use of a celebrity's image does not in itself amount to passing off, if in the particular circumstances, the relevant elements of passing off have been satisfied and the consumer is deceived into believing the product has been endorsed, the claimant shall find remedy, further indicating the courts acceptance of false endorsement within the law of passing off.

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<sup>266</sup> Ibid [27]

<sup>267</sup> Ibid [28]

<sup>268</sup> Ibid [46]

<sup>269</sup> Ibid [47]

<sup>270</sup> Ibid

<sup>271</sup> Ibid [48]

<sup>272</sup> Ibid

<sup>273</sup> Ibid

Upon dismissing the third ground, with regards to consumer perception, Kitchin LJ ruled acceptance of this argument would “require this court to shut its eyes to [the] reality”<sup>274</sup> of the goodwill of Rihanna, the misrepresentation and significantly, the previous associations between Topshop and the star which resulted in substantial publicity.<sup>275</sup> In dismissing Topshop’s claim, the court gives weight to the commercial reality of the goodwill which Rihanna possesses and implicitly acknowledges the global market which celebrity has become.

On establishing whether the case had been properly alleged, and the weight of the evidence presented, the Court of Appeal immediately dismissed the first point. Kitchen LJ regarded the second point, as possessing more “substance.”<sup>276</sup> However, the court ruled that Birss J was nevertheless entitled to find upon evidence,

“that the image itself is striking because it is oversized and shows Rihanna’s face and shoulders; that Rihanna is looking straight at the camera with her hair tied above her head in a head scarf, in other words that she is in a pose; and that similar images had been used for the recent Talk That Talk album and associated video...the Judge was also entitled to go on and make the finding...that the relationship between this image and the images for the album and video would be noticed by her fans. Indeed the nature of the image may be thought to have made it very likely indeed that it would be taken to be an authorised publicity shot.”<sup>277</sup>

The Court of Appeal therefore dismissed the final ground; however it is important to note that Lord Justice Underhill considered this case as,

“close to the borderline,” and the stated that the “judge’s conclusion that some members of the relevant public would think that the t-shirt was endorsed by Rihanna is essentially based on two things – her past public association with Topshop and the particular features of the image itself, which is apparently posed and shows her with the very distinctive hairstyle adopted in the publicity” and “that neither itself would suffice,”<sup>278</sup>

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<sup>274</sup> Ibid [50]

<sup>275</sup> Ibid

<sup>276</sup> Ibid [54]

<sup>277</sup> Ibid [61]

<sup>278</sup> Ibid [63]

an indication of the relative uncertainty of passing off as a remedy in case of the unauthorised use of the celebrity persona.

### 3.7.3. *The Effect of the Dispute*

The courts' acceptance of the extension of the goodwill of Rihanna beyond the music sphere is an important one, similarly to Laddie J in *Irvine*, an acknowledgement that the goodwill of a celebrity often extends far beyond their primary commercial scope, which ultimately protects the image of Rihanna (in spite of the court's continued denial of the creation of an image right). In any case, Rihanna "was representative of a newer generation of celebrity with a diverse range of business interests, extending some way beyond the music profession which the court acknowledged as such."<sup>279</sup> For athletes in particular, this is an important extension. Athletes often find themselves endorsing products which bear little relevance to the sport they play (David Beckham and Armani underwear) and the courts acknowledgement of an athletes' extensive goodwill in spheres other than the sporting field is a useful addition to the legal armour of sporting superstars.

The inclusion of false endorsement is likewise a useful addition. Admittedly, the court states that this by no means constitutes an image right within the UK legal framework, however what the court ultimately does is protect the image of a celebrity. This is a useful weapon for athletes not only in the fight against the unauthorised exploitation of their image, but also aids in providing evidence to HMRC that they have an image worthy of a tax reduction. Celebrities are now able to invoke the protection of the law, (dependant on the particular circumstances of the case) from the use of their image in cases of both false endorsement and merchandising. Complaints nevertheless continue to be bound by the three elements of the classic trinity, however, should these elements be satisfied, celebrities can find remedy in law.

In any event, the previous associations between claimant and defendant have been regarded as important by the court and moving forward, "where there are previous tie-ups with celebrity, traders will have to be extra careful."<sup>280</sup> This has the potential to bear importance to celebrities and retailers alike who have previously entered into endorsement deals and as

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<sup>279</sup> Huw Beverley Smith, Liddy Barrow, *European Intellectual Property Law Review*, Case Comment, "Talk that tort...of passing off: Rihanna, and the scope of actionable misrepresentation: *Fenty v Arcadia Group Brands Ltd (t/a Topshop)* (2014) 57, 58

<sup>280</sup> Susan Fletcher, Justine Mitchell, *European Intellectual Property Law Review*, Case Comment, "Court of Appeal found no love for Topshop tank: the image right that dare not speak its name" (2015) 394, 401

such, one endorsement deal shall not give retailers or brands a monopoly over that image, yet shall bear weight in situations where the celebrity image is used by a brand with whom they have previously had associations with – to the detriment of the brand. “Wise retailers will use indelible disclaimers to make it clear, where relevant, that their wares are not official or produced in collaboration with the artist,”<sup>281</sup> thus minimising the risk of a potential passing off action. In any case, in light of *Rihanna*, retailers should be extra cautious when utilising the image of celebrities in possession of adequate goodwill. In the absence of a free-standing image right, it appears celebrities will be able to seek legal redress should the classic trinity be satisfied.

The fact that Rihanna found remedy through passing off, should not in itself, lead to the conclusion that the remedy exists without limitation in relation to the protection of the celebrity image. Ultimately, celebrities remain bound by the three elements of the classic trinity, each of which has the potential to provide issue when applying them to the image/persona of a celebrity. In the first instance, the difficulty for some athletes in proving goodwill must be acknowledged. For athletes who do not possess the requisite goodwill (for whatever reason), the remedy of passing off shall not be available to them. For example, a female athlete or otherwise, a lower league footballer may find their image used without authorisation by a local newspaper, yet without the pre-requisite ‘ample goodwill’ spoken of in *Rihanna*, these lesser known athletes have no remedy through passing off, which also has taxation consequences, meaning that they cannot seek the tax reduction available to those athletes with substantial ‘celebrity’ status. Similarly, celebrities should air on the side of caution when proving the existence of a misrepresentation. Although *Irvine* provided a wide interpretation which extended to a ‘misappropriation’, Rihanna was only able to seek remedy by virtue of the fact Topshop’s t-shirt implied that she had endorsed it (for the reasons discussed above). As such, athletes will be required to show their image has been used in such a way which constitutes a misrepresentation, and in cases where their image has been used yet no falsehood is evident, the existence of a misrepresentation will depend on whether the court uses the wide interpretation advocated for in *Irvine*, or conversely, relies on the narrow interpretation (requiring falsehood) pre-*Irvine*. Finally, it should likewise be acknowledged that in proving the element of damage, this may not always be straight forward. Rihanna was able to prove damage by virtue of the loss of control over the fashion sphere. However, it is not inconceivable that these types of

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<sup>281</sup> Ibid 405

unauthorised uses of the celebrity persona may have the result of heightening the fame of the athlete, nullifying the existence of damage. In any case, the fact that Rihanna was successful in her claim against Topshop, should not result in the omission of the acknowledgement of the limits of passing off in relation to the protection of the celebrity persona.

#### **3.7.4. *Moving forward in the fight for the celebrity persona***

Birss J stated in no uncertain circumstances that no image right exists within the UK legal framework. However, as above, the court ultimately protects the image of Rihanna. For athletes and celebrities wishing to protect their image in cases of unauthorised exploitation, *Rihanna* provides authority that a remedy in law will be available, albeit through the traditional intellectual property remedies and the courts' interpretation of these, which in this case, has been applied to protect a particular image of a celebrity.

As a result of *Rihanna*, passing off has been extended to include false merchandising – providing remedy in cases where the celebrity image is used in products which infers a connection or authorisation with the celebrity. However, the classic trinity remains ever relevant, a clear limitation which falls short of the free-standing personality right which celebrities desire. However, the opinion of the High Court in relation to the goodwill of Rihanna extending far beyond the music sphere is a positive one and illustrates the courts' acceptance of the commercial reality which the world of celebrity has become, yet it remains important to be aware of the opinion of Underhill LJ that the case was “close to the borderline” when analysing the effect of the judgment.

*Rihanna* may illustrate the courts' willingness to acknowledge and protect the commercial value of the celebrity persona, however it remains wise to be cautious that

“the consequence of lawyers having to resort to causes of action not designed with image rights protection in mind results in the attempted “shoehorning” of image-related claims into ill-fitting shoes, yielding unpredictable results.”<sup>282</sup>

In any case, *Rihanna*, although failing to provide celebrities with the long-awaited image right which they desire, is nevertheless a positive movement forward in the recognition of the legitimacy of their claim. Celebrities are now protected in cases of false merchandising and the recognition of their goodwill beyond their primary commercial sphere is similarly

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<sup>282</sup> Ibid 403

recognised by the courts. Passing off in this circumstance, ultimately protected the image of a celebrity, in the absence and judicial denial of an image right - illustrative of the courts willingness to protect a celebrity's goodwill, by means of judicial interpretation of the common law.

### **3.8. *Passing off: conclusion***

The classic trinity of goodwill, misrepresentation and damage remains ever relevant despite the courts' acceptance of the commercial value of the world of celebrity. Gone however, are the days where legal redress could not be obtained where the claimant and defendant did not share a common field of activity. The precedent set down in *Kojak* and *Uncle Mac* was replaced by the acknowledgement of Laddie J in *Irvine* that a celebrity's goodwill can extend far beyond their own expertise. This is a useful acknowledgement for athletes who endorse products far beyond the scope of their chosen sport. *Irvine* provides that passing off shall protect celebrities in cases of false endorsement, providing celebrities with a remedy should their image be exploited without authorisation in such circumstances. Despite the concerns discussed regarding misappropriation and dilution, the judgment set down by Laddie J can be regarded as positive for celebrities and athletes, at least for now in the continued absence of a free-standing personality right. *Rihanna* similarly extends the law of passing off, in this case to include false merchandising, whilst also illustrating the acceptance of the far-reaching reality of a celebrity's goodwill. Concerns regarding the consequences for retailers and the use of a traditional intellectual property law remedy are justified, yet for the time being at least, passing off provides celebrities with a remedy for the unauthorised use of their persona. This remedy is not without limitations, with the satisfaction of elements of the classic trinity able to cause issue for celebrities wishing to protect their image. For now, whilst the courts emphasise their continued reluctance to create an image right for celebrities, passing off provides some degree of legal protection against the unauthorised use of the celebrity persona – so long as the elements of the classic trinity are satisfied.

For tax purposes, what is important in the context of passing off is the judicial acknowledgement of celebrity goodwill. The significance of this will be discussed in the forthcoming chapters, but is important to highlight early on in this thesis that the protection of the celebrity image through the traditional intellectual property remedies is significant for the purposes of taxation and the acceptance by the courts that celebrities can possess

significant goodwill will help satisfy HMRC that celebrities can possess goodwill capable of earning a taxation reduction.

### 3.9. *Trademarks*

Trademarks are a prominent feature of the commercial world and can be a useful weapon for athletes who have to prove to HMRC that they have an image worthy of protection. From worldwide sporting events to an everyday visit to the supermarket, trademarks are present at every turn. They are included on anything from athletic products to cereal boxes and foodstuffs. The existence and registration of a trademark provides its owner with the exclusive right to its use, preventing unauthorised use by a third party.<sup>283</sup> The World Intellectual Organisation (WIPO) states that a trademark can be “a word or combination of words, letters and numerals” or consisting of “symbols, three-dimensional features such as the shape and packaging of goods, non-visible signs such as sounds or fragrances, or colour shades used as distinguishing features.”<sup>284</sup>

In the UK, trademark law has recently changed. The previous law was contained in the Trademark Act 1994. Under s1 of that Act, a trademark was described as “any sign capable of being represented graphically, which is capable of distinguishing goods or services of one undertaking from those of another,”<sup>285</sup> illustrative of a particularly wide scope. However, on implementing the EU Trademarks Directive 2015/2436, The Trademarks Regulations 2018 (SI 2018/825) now defines a trademark as any sign

“which is capable of (a) being represented in the register in a manner which enables the registrar and other competent authorities and the public to determine the clear and precise subject matter of the protection afforded to the proprietor, and (b) of distinguishing goods or services of one undertaking from those of other undertakings.”

This change, in the context of this research, has no significant impact, with the only change being the abandonment of the “graphic representation” requirement, however it is important to be aware of the most recent law.

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<sup>283</sup> World Intellectual Property Organisation (WIPO), Trademarks, available at <<http://www.wipo.int/trademarks/en/>> accessed 7<sup>th</sup> May 2018

<sup>284</sup> Ibid

<sup>285</sup> Trademark Act 1994, s1

The use of trademarks can vary from small businesses to multimillion pound companies and so its effectiveness is likewise variable dependent upon the scale of the product or service which it is seeking to protect. The more valuable the sign or brand which the trademark is protecting, the more useful or important it will be considered.

As a starting point, commentators have generally advised against the use of trademark law to protect the celebrity persona/image, primarily as a consequence of their contrasting functions.<sup>286</sup>

### **3.9.1. *Functions of Trademarks***

The purpose of a trademark is to protect goods or services and to serve as an indication of origin or source. As such, trademark registration has benefits for both the consumer and the trademark owner.

In the context of the consumer, “a trademark...should offer precise information that is easily assimilated about the origin, content and quality of the good.”<sup>287</sup> This then allows the consumer to

“make more efficient choices as the information contained in the trademark reduced their search and transaction costs...they do not waste time looking for alternatives or suffer a loss of satisfaction that could occur if they were to buy an inferior good or service from another producer.”<sup>288</sup>

For example, if a customer was to purchase a Nike sports shoe, the assumption would be that they are authentic and meet the expected standard of such goods as established by its reputation. Thus, it can be inferred that the consumer purchased the goods on the basis of their origin.

In respect of the seller, trademark registration and the resultant customer recognition of the trademark by the public “reduces consumer confusion over both the source (like a hallmark) and the characteristics of the product.”<sup>289</sup> As such, this ensures customer retention. However, the function of protecting the celebrity persona is not concerned with a guarantee or origin any more than it is concerned with consumer retention. The purpose of

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<sup>286</sup> For example, see Savan Bains, Entertainment Law Review, “Personality Rights: should the UK grant celebrities a proprietary right in their personality? Part 1” (2007) 165

<sup>287</sup> Christine Greenhalgh, Elizabeth Webster, the WIPO Journal, “Have trademarks become deceptive?” (2015) 109

<sup>288</sup> Ibid 110

<sup>289</sup> Ibid

protecting the persona or image of a celebrity athlete is to protect its commercial worth from unauthorised exploitations. This protection not only ensures the athletes themselves are able to enjoy the benefits of commercial exploitation of their image, but also allows them to prove to HMRC that payments in respect of the use of their image are legitimate.

### **3.9.2. *Contrasting Functions: trademarks v the celebrity persona***

The primary and arguably most convincing objection against the use of trademark law in the protection of the celebrity persona is that their functions are incompatible. As established above,

“trademark laws primarily protect goods or services and service to indicate their origin or source; however in cases where goods are connected to a famous image, the personality of the celebrity is considered more important than the indication of origin, thus rendering trademark law inapplicable.”<sup>290</sup>

In any case, “famous personality features...indicate famous personas rather than product sources.”<sup>291</sup> For example, a consumer who purchases a Cristiano Ronaldo poster does so on the basis of Ronaldo himself; it is his image as a famous footballer which the consumer is concerned with, not the source of the product. The consumer is, in general, not overly “hung up” on whether the poster originated from an official Juventus FC store. This difference is what renders trademark law inapplicable in relation to the protection of the celebrity persona.

The *Elvis Presley*<sup>292</sup> case is useful in highlighting the above difference. A dispute had arisen as to whether the relatives of the late singer had the right to continue merchandising activities in his name. In assessing this, the court concluded “members of the public purchase Elvis Presley merchandise not because it comes from a particular source, but because it carries the name or image of Elvis Presley.”<sup>293</sup> As such, this conflict of functions renders trademark law unsuitable and in any cases,

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<sup>290</sup> Savan Bains, Entertainment Law Review, “Personality Rights: should the UK grant celebrities a proprietary right in their personality? Part 1” (2007) 165

<sup>291</sup> Jan Klink, Intellectual Property Quarterly, “50 years of publicity rights in the United States and the never ending hassle with intellectual property and personality rights in Europe” (2003) 363, 367

<sup>292</sup> *Elvis Presley Trade Marks* [1999] R.P.C. 567

<sup>293</sup> *Ibid* 585

“an inappropriate basis for protecting personality rights because the interests underlying personality rights, namely control over the use of aspects of personality, conflict with those of trademark law in preventing customer confusion and deception as to trade origin. Trade origin is not a celebrity’s concern; a personality mark is about the glitter and glamour that the association with a celebrity confers on the goods on which it is used.”<sup>294</sup>

This conflict can, in theory, prevent the registration of the celebrity persona under trademark law and the opinion that “trademarks are there to prevent consumer confusion in the marketplace, not to dissuade or punish unfair commercial practices”<sup>295</sup> has prevailed.

### **3.9.3. *Subsidiary Issues***

Contrasting functions combines with a number of subsidiary issues which cause concern when using trademark law to protect personality/image rights.

On a practical level, trademarks are issued on a first come, first served basis – serving little benefit to celebrities who share identical names.<sup>296</sup> For example, Winston Churchill the American novelist vs Winston Churchill the former British Prime minister.

Similarly, celebrities themselves may be reluctant to attempt to utilise trademark law, given the structure of s11(2)(b) which states the use of a mark as an “indication concerning...characteristics of the goods or services”<sup>297</sup> shall not constitute an infringement. This, in practice, could result in celebrities not being able to invoke the protection of trademark law in the first place, should their trademark be used in such a way which describes or informs the consumer of information about them – as seen in *Bravado Merchandising Services Ltd v Mainstream Publishing (Edinburgh) Ltd*;<sup>298</sup> in which pop band Wet Wet Wet had a trademark in their name in the use of printed matter, namely books and covers. The defendant’s intention was to publish a book about the group, named “A Sweet Little Mystery – Wet Wet Wet – The Inside Story.”<sup>299</sup> The court held,

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<sup>294</sup> Catherine Walsh, European Intellectual Property Law Review, “Are Personality Rights Finally on the UK Agenda?” (2013) 253, 256

<sup>295</sup> Aldo De Landa Barajas, Entertainment Law Review, “Personality Rights in the United States and the United Kingdom – is Vanna too much? Is Irvine not enough?” (2009) 253, 256

<sup>296</sup> Savan Bains, Entertainment Law Review, “Personality Rights: should the UK grant celebrities a proprietary right in their personality? Part 1” (2007) 165

<sup>297</sup> Trademark Act 1994, s11(2)(b)

<sup>298</sup> [1996] F.S.R. 205

<sup>299</sup> Ibid

“the name being used in the title is to indicate the subject matter of the book. It is not being used to indicate the origin of the book. It does not create the impression that the book is being published by either the petitioner or the group,”<sup>300</sup>

finding in favour of the defendant and thus illustrating the difficulties in utilising trademark law to protect a celebrity image.

In any case, it is impossible to escape the reality that trademark law was not structured for the world of 21<sup>st</sup> century celebrity in mind and fails to provide a sufficient legal framework which legislates for personality rights and risks offering celebrities a lesser protection than what is necessary. However, as above, the possession of a trademark can be useful to an athlete in proving to HMRC that their image is worthy of a tax deduction. Thus, in the absence of a free-standing personality right at present, and in spite of the conflicting functions of trademarks and the celebrity persona, coupled with the various subsidiary issues, celebrities have found success through trademark law, in some, albeit limited, circumstances.

### **3.10. *Arsenal v Reed***

*Arsenal FC v Reed*<sup>301</sup> concerned the complaint of English football club Arsenal, on the basis that their registered trademark had been unlawfully infringed by Mr Reed. Reed had sold football souvenirs such as hats and jerseys at Arsenal matches for around 30 years. The majority of the goods sold by the defendant were unofficial, whilst he also displayed a sign which noted only goods with official Arsenal merchandise tags could be regarded as authentic.<sup>302</sup>

Reed made no objection to the fact that the designs used on his goods (namely the AFC crest and cannon) were identical or at least sufficiently similar to Arsenal’s registered trademark.<sup>303</sup> His claim was that no trademark infringement had occurred because upon a “proper construction” of s10 of the Trademarks Act 1994, the signs used by the defendant on his goods must be used as a trademark (indicative of trade origin). S10(1) states “a person infringes a registered trade mark if he uses in the course of trade a sign which is identical with the trade mark in relation to goods or services which are identical with those

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<sup>300</sup> Ibid [207]

<sup>301</sup> [2001] R.P.C. 45

<sup>302</sup> Ibid [1]-[5]

<sup>303</sup> Ibid [51]

for which it is registered,”<sup>304</sup> and it was upon this basis which Reed built his defence. Reed contended that in his case, the designs were not used as trademarks, rather they were badges of allegiance and did not indicate a connection in the course of trade, between the goods and the club.<sup>305</sup>

In the opinion of the High Court, the signs used on Reed’s goods would indeed be perceived by the consumer as a “badge of support, loyalty or affiliation” and not as indicative of trade origin.<sup>306</sup> However, Arsenal argued that non-trademark use can nevertheless infringe the rights acquired by trademark registration. Upon this issue, the High Court referred the following questions to the European Court of Justice:

“if a third party uses in the course of trade a sign identical with that trade mark in relation to goods which are identical with those for whom the trade mark is registered and the third party has no defence to infringement by virtue of Article 6(1) of [Directive 89/104/EEC]<sup>307</sup>... does the third party have a defence to infringement on the ground that the use complained of does not indicate trade origin (*i.e.* a connection in the course of trade between the goods and the trade mark proprietor?)... If so, is the fact that the use in question would be perceived as a badge of support, loyalty or affiliation to the trade mark proprietor a sufficient connection?”<sup>308</sup>

In response, the ECJ stated that the use of a trademark which is likely to affect the guarantee of origin which is an essential function of the mark, is a use prohibited by the Directive. Once it is established that the use in question is likely to affect said guarantee, it is immaterial that the use of the sign is perceived as a badge of support or affiliation.<sup>309</sup>

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<sup>304</sup> Trademark Act, 1994, s10(1)

<sup>305</sup> [2003] EWCA Civ 96; [2003] 2 C.M.L.R. 25, [17]

<sup>306</sup> [2001] R.P.C. 46, [58]

<sup>307</sup> Article 6(1) provides: “The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade, (a) his own name or address; (b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services; (c) the trade mark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts; provided he uses them in accordance with honest practices in industrial or commercial matters”.

<sup>308</sup> [2001] R.P.C. 46, [70]

<sup>309</sup> Case C-206/01, [60] – [61]

Following the judgment, the High Court found that Reed had not infringed Arsenal's trademark. On Appeal, the court reversed this decision, holding that trademark infringement had occurred. Aldous LJ outlined various concerns in regard to the judgment of the ECJ.<sup>310</sup> However, for the purposes of this research, it is the conclusions reached by the court which are of importance. Finding in favour of Arsenal, it was held

“the trade marks, when applied to the goods, were purchased and worn as badges of support, loyalty and affiliation to Arsenal, but that did not mean that they use by a third part would not be able to jeopardise the functions of the trade marks, namely the ability to guarantee origin. To the contrary, the wider and more extensive the use, the less likely the trademarks would be able to perform their function.”<sup>311</sup>

The above litigation will no doubt leave sellers of unofficial merchandise at football matches with concerns, however, *Arsenal* is useful in highlighting the reality of the contrasting functions between trademark law and the celebrity persona. As emphasised by the court, it is imperative to consider whether the use complained of is likely to effect trademarks guarantee of origin – which is considered an essential function in both the ECJ, as was the Court of Appeal. However, as above, the primary function in regard to the commercialisation of a celebrity's image is not to guarantee authenticity but to sell the glamour of the celebrity themselves. Thus, *Arsenal* evidences the inapplicability of trademark law in protecting celebrity personality rights in practice. However, a possible red herring here may be that celebrities who have their own brand, such as Cristiano Ronaldo's “CR7” brand, should be able to protect their products through trademark law, should that brand have a registered trademark. Put simply, UK trademark law should not, in theory, protect any generic image of a celebrity due to the contrasting functions discussed above but celebrities in possession of a brand or business should nonetheless be able to invoke its protection, which is particularly useful within a taxation context in the UK.

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<sup>310</sup> Ibid [31]-[48]

<sup>311</sup> [2003] EWCA Civ 96; [2003] 2 C.M.L.R. 25, [48]

### 3.11.

### *L'Oreal v Bellure*

*L'Oreal SA and others v Bellure NV and others*<sup>312</sup> concerned cosmetic company L'Oreal's complaint as to trademark infringement. L'Oreal sold a number of luxury perfumes under their registered trademark, whilst the defendant company sold imitations. Similar to *Reed's* disclaimer sign, the defendants used comparison lists matching their products to L'Oreal's and it was clear the public were not confused as to the false nature of their products.<sup>313</sup>

L'Oreal's complaint was that their right under article 5(1)(a) of Directive 89/104/EEC on the laws relating to trademarks had been infringed. Article 5(1)(a) states:

“the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade: any sign which is identical with the trademark in relation to goods or services which are identical with those for which the trademark is registered.”<sup>314</sup>

In reference to the ECJ, the High Court asked for guidance upon whether the defendants use had contravened the rights under Article 5. In its response, the ECJ advised the use of trademarks in referring to the claimant's products did not constitute infringement, given that

“certain uses purely for descriptive purposes are excluded from the scope of Article 5(1) of Directive 89/104, because they do not affect any of the interests which that provision is intended to protect and accordingly do not constitute “use” within the meaning of that provision.”<sup>315</sup>

However, the use of the trademark in the comparison lists which also gave reference to the imitation perfumes in advertising, did amount to an infringement.<sup>316</sup> In reaching its conclusion, the ECJ listed the extensive functions of trademarks,

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<sup>312</sup> [2009] E.M.T.R. 55; [2010] EWCA Civ 535; [2010] Bus L.R. 1579

<sup>313</sup> Ibid

<sup>314</sup> First Council Directive, 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, Article 5(1)(a)

<sup>315</sup> [2010] EWCA Civ 535; [2010] Bus L.R. 1579, [61]

<sup>316</sup> Ibid [63]-[65]

“these functions include not only the essential function of the trade mark, which is to guarantee to consumers the origin of the goods or services, but also its other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment or advertising.”<sup>317</sup>

Thus, illustrating a broad scope in relation to the protection of trademarks under European law, the Court of Appeal followed the approach set down by the ECJ and found in favour of L’Oréal.

In the context of this research, the ECJ statement in regard to the broad functions of trademarks is particularly relevant. As highlighted, the overriding issue when using trademark law to protect the celebrity persona is their contrasting functions. The ECJ statement, in highlighting the various functions of trademarks, does not further the possibility of protecting the celebrity persona. The court refers again to the guarantee of origin and quality – neither of which coincide with the promotion of the celebrity persona. For the ECJ, the functions of a trademark are primarily concerned with the product itself, not in the promotion of the glitz and glamour of celebrity. Thus, *L’Oreal* further emphasises the inapplicability of trademark law in relation to the protection and/or promotion of the celebrity persona, yet remains useful in a taxation context.

### **3.12. Trademarks and celebrities**

Having established the contrasting functions and incompatibility of trademark law and personality rights, as well as the relevant case law, it is necessary to note the few attempts made by celebrities to utilise trademark law to protect their persona. However, it is challenging to find literature or further case law which represents the successful use of trademark law in such circumstances. The few examples which do exist provide little guidance as to the future use of trademark law in such circumstances.

In 1997, the Memorial Fund attempted to trademark 52 different pictures of the late Princess Diana, all of which were rejected on the basis that her face was too well-known to be limited as the badge of one individual supplier.<sup>318</sup> This highlights a potential issue for celebrities who wish to trademark their image, in that they may lose distinctiveness in

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<sup>317</sup> Case C-497/07, [58]

<sup>318</sup> BBC News, (1999) “UK Diana fund loses trademark battle” <<http://news.bbc.co.uk/1/hi/uk/272380.stm>> accessed 25<sup>th</sup> July 2016

their image through continued use, therefore no longer warranting the protection of trademark law. In any case, it is questionable as to whether a number of pictures of a celebrity's face can be regarded as protecting the celebrity persona. In reality, this fails to protect other aspects of the celebrity, such as different images or aspects of personality. In fact, it is necessary to consider that even in the event of trademark law being successful in protecting the celebrity image, it is likely only to be useful in protecting one particular aspect/picture of the celebrity, rather than the overall persona.

In a more recent context, football manager Jose Mourinho, famously hailed as the “special one,” created issues for his new club Manchester United after leaving Chelsea. Mourinho's name was trademarked and belonged to his former employer, which included his name on a number of products such as aftershave and calculators.<sup>319</sup> Although, the ownership or rather his non-ownership of the trademark did not impact upon his ability to take up the managerial position and this was perhaps more of an issue for contract law, it is useful in highlighting that the value of an individual's image rights should not be underestimated. In fact, in this case, the existence of a trademark in a celebrity's name arguably served as a hindrance rather than a benefit.

In spite of the issues outlined above, it is noteworthy that Formula One driver Damon Hill<sup>320</sup> successfully trademarked the image of his eyes through his visor on his racing helmet.<sup>321</sup> More recently, England and Manchester United footballer Jesse Lingard<sup>322</sup> also applied successfully for four trademarks before appearing in the 2018 World Cup; three featuring his nickname “JLingz” and another image of his goal celebration.<sup>323</sup> This may make sense to the footballer who will no doubt have used the World Cup as a platform to promote his brand “JLingz Ltd,” however, both Hill and Lingard's successful trademarks (with the approval of the IPO) do little to resolve the overriding concerns that the courts

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<sup>319</sup> The Independent, (2016) Jose Mourinho's name is still owned by Chelsea to complicate move to Manchester United” <<https://www.independent.co.uk/sport/football/premier-league/jose-mourinho-to-manchester-united-managers-name-still-owned-by-former-club-chelsea-a7047866.html>> accessed 9<sup>th</sup> May 2018

<sup>320</sup> See Intellectual Property Office, Damon Hill Trademark, <<https://trademarks.ipso.gov.uk/ipso-tmtext/page/Results>> accessed 12<sup>th</sup> March 2019

<sup>321</sup> The Independent, (1997) “Lumley finds bus ad absolutely outrageous” <<https://www.independent.co.uk/news/lumley-finds-bus-ad-absolutely-outrageous-1291645.html>> accessed 9<sup>th</sup> May 2018

<sup>322</sup> See Intellectual Property Office, Jesse Lingard Trademark, <<https://trademarks.ipso.gov.uk/ipso-tmtext/page/Results>> accessed 12<sup>th</sup> March 2019

<sup>323</sup> Joe Hall, City A.M., (17<sup>th</sup> June 2018), “World Cup 2018: England's Jesse Lingard has trademarked his JLingz celebration — and he's done so at the perfect time” <<http://www.cityam.com/287665/world-cup-2018-englands-jesse-lingard-has-trademarked-his>> accessed 26<sup>th</sup> July 2018

and academics will have regarding the contrasting functions and subsidiary issues of trademarks and the celebrity persona. However, it must be acknowledged that this may only be of concern to the courts or academics who are posed with these issues. As far as celebrities are concerned, if through the Intellectual Property Office, they are able to trademark their image under s1, the legal issues surrounding this are not of relevance to them. The ability to register a trademark will be shown to be a useful weapon in proving to HMRC that they have an image worth protecting. Thus, until a celebrity trademark has been infringed, the question remains as to how the courts or the legislature will deal with the issues above. It is necessary to envisage the possibility that the courts may interpret trademark law in a similar manner to the law of confidence and passing off to allow celebrity's legal redress in cases of unauthorised exploitations of their persona.

### **3.13. *Trademarks: Conclusions***

Trademarks play a significant role in today's consumer driven world. However, where personality rights or rather the protection of the celebrity persona is concerned, not even a wide construction of s1 is capable of reconciling the contrasting functions of trademark protecting and the commercialisation of the celebrity image. Trademarks are concerned with protecting goods and services and providing a guarantee of origin – an assurance to the consumer that the goods they purchase are authentic and come from a specific source. Personality rights are primarily focused around selling certain aspects of a celebrity's personality or physicality, and consumers are driven by these rather than where the product originated from. This, coupled with the subsidiary issues discussed above, affirm the inapplicability of trademark law as serving as adequate protection of the celebrity persona.

Case law such as *Arsenal* and *L'Oreal* serve as further confirmation of the purpose of trademark registration – to guarantee origin. However, it must be acknowledged that the successful trademarks of Damon Hill and Jesse Lingard, in spite of the concerns outlined above, may serve as a deterrent to those who may look to exploit their image. These successful trademarks have the potential to be of use to athletes in securing tax deductions on the basis of their image. Proving to HMRC that they have “goodwill” in their image is made significantly easier when in possession of a legally recognised right. It is notable that until a case of infringement concerning those kinds of trademarks come before the courts, it is unknown as to whether the concerns regarding trademark use and the celebrity persona will cause celebrities problems or whether, conversely, as discussed above, the courts will

apply an interpretation of trademark law which allows celebrities to protect their persona in spite of the contrasting functions and subsidiary issues. In any case, if the continued absence of a image right within UK law means that celebrities will have to rely on the court's interpretation of the traditional intellectual property law remedies to provide legal redress, then it is not outside the realms of possibility that trademark law may be interpreted in such a way to allow this to be so – particularly with the way in which they have addressed these issues in cases of the law of confidence and passing off.

### **3.14. *The Law of Copyright***

Some protection of the celebrity persona can, at least in theory, be achieved through the Copyright, Designs and Patents Act 1988 (CDPA). Owning copyright in a piece of work entitles the owner to control the way in which the work is used or exploited and grants the holder exclusivity, ensuring the work cannot be used without prior authorisation.<sup>324</sup> Under the CDPA, s1 states that the work must be an “original literary, dramatic, musical, or artistic works”<sup>325</sup>. As such, it has been argued that s1 provides a basis for protection of a celebrity's image in the absence of a statutory image right.<sup>326</sup> For celebrities and athletes alike, the ability to copyright their image would arguably deter advertisers or brands exploiting the image in the first instance, provide evidence to HMRC that they possess the requisite goodwill in their image to warrant protection, whilst also provide legal redress should the image be used in the absence of authorisation. However, although in theory, protection of the celebrity persona can be achieved by virtue of s1, the absence of recent case law and the opinion of the Whitford Committee in 1977, has created ambiguity as to its applicability.

The protection of the celebrity persona through copyright law was first rejected by the Whitford Committee, who explicitly dismissed efforts to establish a “character right in fictitious figures.”<sup>327</sup> It is worth noting that this is potentially to the detriment of athletes, who potentially may want to create copyright in the “fictitious figure” whom they are on the field of play. For example, an athlete may act in a certain way whilst participating in

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<sup>324</sup> S16(1) provides the rights of the copyright owner.

<sup>325</sup> Copyright, Designs and Patents Act, 1998, s1

<sup>326</sup> For example, see Savan Bains, *Entertainment Law Review*, “Personality Rights: should the UK grant celebrities a proprietary right in their personality? Part 1” (2007) 164, 166

<sup>327</sup> Jan Klink, *Intellectual Property Quarterly*, “50 years of publicity rights in the United States and the never ending hassle with intellectual property and personality rights in Europe,” (2003) 363, 370

their sport, portraying certain characteristics such as bravery or strength and want to protect copyright in that image, rather than copyrighting the “figure” they are in everyday life.

Generally, the limited and dated case law rejects the use of copyright in the protection of the celebrity image. In *Merchandising Corporation of America Inc. and Others v Harpbond Ltd and Others*,<sup>328</sup> the plaintiff argued for the existence of copyright in his “new look” which consisted of an extravagant hairstyle and matching make-up. The court held no copyright could exist in distinctive hair or make up nor could it exist in an individual’s “new image,” by virtue of the fact that the image could not be “fixed” to anything. In fact, the court went so far as to say “a painting must be on a surface. If there were a painting in this case it must be the make-up marks plus the second plaintiff’s face. If the marks were taken off the face, there could not be a painting”<sup>329</sup> – thus explicitly rejecting it on the basis of the element of fixation.<sup>330</sup>

This limited existing precedent suggests copyright provides an insufficient basis for the protection of personality rights, or at the very least, is indicative of the courts’ unwillingness to extend the law of copyright beyond the scope of which it was conceived. However it is important to note that the case law is dated, and the way the courts have applied the remedies of passing off and breach of confidence and the IPO’s granting of trademarks, is indicative that the courts will interpret the existing laws in such a way so as to provide protection to the celebrity image so it is valid not to rule out copyright as a potential remedy on this basis, which will in turn aid celebrities in a taxation context.

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<sup>328</sup> [1983] F.S.R. 32

<sup>329</sup> [1983] F.S.R. 32, [46]

<sup>330</sup> See also *Exxon Corp v Exxon Insurance Consultants International Ltd* [1981] 1 W.L.R. 624, [1981] F.S.R. 238

### 3.14.1. *S85 – a glimmer of hope for celebrities?*

S85 may provide celebrities with the ability to protect their image through copyright law. S9(1) states “the author of the work is the person who creates it.”<sup>331</sup> Similarly, s11(1) provides “the author of the work is the first owner of any copyright in it.”<sup>332</sup> In reality, this means resulting copyright in any photographs, drawings or films of celebrities does not belong to the celebrity themselves (subject to any agreement to the contrary). This was seen in the *Rihanna* dispute, which involved a passing off action rather than one which concerned copyright as no copyright issue existed – given that the owner of the copyright was the photographer and not Rihanna herself nor Topshop.<sup>333</sup> However, s85 legislates for circumstances in which celebrities’ commission their own works in private, awarding additional rights to the celebrity themselves. S85 states,

“a person who for private and domestic purposes commissions the taking of a photograph or the making of a film has, where copyright subsists in the resulting work, the right not to have, “(a) copies of the work issued to the public, (b) the work exhibited or shown in public or (c) the work.”<sup>334</sup>

By virtue of s85, celebrities are thus provided with protection, albeit limited, for works they commission in private (family photographs).

### 3.14.2. *The Celebrity Autograph*

Celebrities often sign autographs for eager fans, whether it be artists after a concert or footballers after a match. Autographed memorabilia is a lucrative business, with genuine articles attracting considerable sums. As such, it is arguable that such autographs are capable of meeting the requirements of s1. As the author of the work, the celebrity can arguably prevent the reproduction or selling of the article and can similarly aid in preventing the sale of counterfeit memorabilia. Such a case arose where former Spice Girl, Victoria Beckham, claimed a shop was selling merchandise not genuine of her husband David’s signature, however was later forced to pay damages after the authenticity was

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<sup>331</sup> Copyright, Designs and Patents Act, 1988, s9(1)

<sup>332</sup> Ibid s11(1)

<sup>333</sup> [2015] 1 W.L.R. 3291

<sup>334</sup> Copyright, Designs and Patents Act, 1988, s85

proved.<sup>335</sup> Although in this instance, the article was genuine, it is important to acknowledge the possible use of copyright law in such circumstances.

### 3.14.3. *The Celebrity “Selfie”*

Finding someone oblivious to what a “selfie” is, is a momentous task in 2018. As the Oxford dictionary’s word of the year in 2013,<sup>336</sup> and with popular figures including the Pope, indulging in the taking of a selfie, it is clear the act of taking a picture of yourself (or with friends) with an outstretched arm of selfie stick is here to stay. However, who (if anyone) owns the copyright in these infamous selfies? This argument was brought to the forefront of the celebrity world after Ellen DeGeneres posted selfie on Twitter of her and a number of other A-listers at the Academy Awards, which was subsequently retweeted some three million times, with the Academy Press seeking permission to license the photo.<sup>337</sup>

Under the requirements of s1, it is arguable a selfie would meet the criteria. Conflict however, arises in who is regarded as the owner of the copyright. In the situation of DeGeneres, although the Talk show host posted the picture, it was actor Bradley Cooper who snapped the photograph. As such, under UK law, the copyright belongs to Cooper. The ownership of Cooper however, did not prevent some three million retweets – users did not ask his permission (although the Academy Press asked DeGeneres). As such, should selfies become the subject of scrutiny under copyright law, it is important to consider retweets and would, in theory, require the permission of the owner (although it is unlikely that in today’s social media frenzy this would never be the case).

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<sup>335</sup> The Independent, (2003) “Posh Spice pays £150,000 to settle autograph dispute” <<https://www.independent.co.uk/news/uk/crime/posh-spice-pays-155000-to-settle-autograph-dispute-122368.html>> accessed 11<sup>th</sup> July 2016

<sup>336</sup> Oxford Dictionary, “Word of the year 2013”, <<https://en.oxforddictionaries.com/word-of-the-year/word-of-the-year-2013>> accessed 11<sup>th</sup> July 2016

<sup>337</sup> The Guardian, (2014) “Ellen DeGeneres' Oscars selfie beats Obama retweet record on Twitter” <<https://www.theguardian.com/film/2014/mar/03/ellen-degeneres-selfie-retweet-obama>> accessed 11<sup>th</sup> July 2016

### 3.15.

#### *Copyright: Conclusion*

Copyright law, in theory, could provide protection of the athletic image. However, the courts have rejected its use in the few cases which have occurred. It is noteworthy however, that *Merchandising Corp* and *Exxon* are cases which took place some thirty years ago and so in light of the development of the commercial world and the lucrative commodity which celebrity has become, the process of the courts in the context of breach of confidence and passing of, it is not outside the realms of possibility that the courts may look more favourably upon the use of copyright law, in the absence of any free-standing image right under UK law.

With regard to s85, although the author of photographs and other works is granted the rights which copyright law provides, celebrities are afforded this protection in works which they themselves commission. This is arguably a useful tool, especially in today's world of modern technology where a photograph can be snapped at any given time or virtually any device and so should a celebrity take a photo for private purposes, they shall be protected by law.

In any case, although copyright law has the potential to provide a basis for protection, for the moment, the courts have deemed it unsuitable and celebrities are restricted by the fact the copyright in their image often belongs to a photographer or another party.<sup>338</sup> However, s85, as above, provides a degree of protection. Celebrity autographs and selfies provide an interesting question for the courts should such cases ever appear – with such articles theoretically capable of evoking protection. Similar to trademark law, until an instance comes before the courts, it is unclear as to whether they will follow the previous dated precedent or continue with their interpretations of existing remedies which have provided protection of the celebrity image. However, if a celebrity is able to successfully obtain copyright in their image, this would be useful in satisfying HMRC of the legitimacy of their image in the first instance.

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<sup>338</sup> This may be different in terms of the existence of an employment relationship and there is a contract to say that the copyright in the photographs belong to the celebrity, however this is beyond the scope of this research.

### 3.16.

### *Defamation*

In the context of this research, the law of defamation provides little assistance in providing protection to celebrities wishing to protect their image. Defamation is regulated by the Defamation Act 1996 and also by the extensions made in the 2013 Defamation Act, applicable in England and Wales only. Generally, a defamation occurs where a false statement is made about another, causing damage to their reputation. For a claim to succeed, it is imperative that the defendant prove the alleged defamation was indeed true, whilst the claimant must prove damage to his reputation.

With regard to the protection of the celebrity persona through a defamation claim, the case of *Tolley v Fry*<sup>339</sup> presents the most relevant example of an athlete's success in this area of law. Chocolate manufacturer Fry's, created an advertisement which contained a caricature of the plaintiff, an amateur golfer. The advertisement depicted the golfer with a packet of Fry's whilst playing golf.<sup>340</sup> The plaintiff was neither aware nor did he consent to the advertisement and so claimed damages – on the basis that the unauthorised advertisement would infer he had received payment, thus causing considerable damage to his reputation as an amateur golfer<sup>341</sup> (who do not receive remuneration.) Ruling in favour of the sportsman, the court held;

“it is held out as an advertisement, so that its presence there gives rise to speculation as to how it got there or in other words provokes in the mind of the public an inference as to how and why the plaintiff's picture caricatured as it was, became associated with a commercial advertisement. The inference that it suggests his consent was given either gratuitously or for a consideration to its appearance.”<sup>342</sup>

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<sup>339</sup> [1931] A.C. 333

<sup>340</sup> Ibid

<sup>341</sup> Ibid

<sup>342</sup> Ibid [342]

In more recent times, celebrity hypnotist Paul McKenna successfully sued the Daily Mirror for defamation after it made claims that his PhD was “bogus”.<sup>343</sup> However, in spite of the success of *Tolley* and *McKenna*, the use of defamation as a means of protecting the celebrity image from unauthorised exploitation remains limited.

In the first instance, the limited number of cases can be explained by the requirement that the claimant must prove damage to his reputation. In the majority of cases, unauthorised exploitations often have the effect of heightening the fame of the celebrity, as illustrated in *Irvine* and as such, this requirement is often difficult to satisfy.<sup>344</sup> Defamation also provides an unsuitable basis in that “it does not protect against the appropriation and exploitation of one’s personality but only against criticism and ridicule of their personality”<sup>345</sup> and for the most part, “in the majority of cases, third parties try to use celebrity personalities in their best possible light to attract high profits.”<sup>346</sup> In essence, “no free rider wants to hijack popular personality features in order to diminish or criticise. By contrast, he will use the most excellent reputation he can get for his marketing.”<sup>347</sup>

In any case, the success of *Tolley* and *McKenna* should be regarded as limited in this instance. Athletes and celebrities shall find little comfort in a defamation claim to protect them from the unauthorised exploitation of their image, given that they must prove damage to their reputation in a circumstance which usually preys on the most attractive features of their personality and exemplifies their image and reputation. Thus, defamation provides a wholly unsuitable basis for the protection of the celebrity persona and its use is limited to situations where a celebrity’s reputation is subject to damage.

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<sup>343</sup> *McKenna v MGN Ltd* [2006] E.W.H.C; [1996] Q.B.

<sup>344</sup> Hamish Porter, *Entertainment Law Review*, “Character Merchandising: Does English Law recognise a personality right in name and likeness?” (1999) 180, 183

<sup>345</sup> Savan Bains, *Entertainment Law Review*, “Personality Rights: should the UK grant celebrities a proprietary right in their personality? Part 1” (2007) 164, 167

<sup>346</sup> *Ibid*

<sup>347</sup> Jan Klink, *Intellectual Property Quarterly*, “50 years of publicity rights in the United States and the never ending hassle with intellectual property and personality rights in Europe” (2003) 363, 375

### **3.17. UK intellectual property law and the protection of image rights: Conclusion**

In the absence of a free-standing image or personality right under UK law, celebrities have been forced to rely on the circumvention of traditional intellectual property remedies to protect and/or exploit their image. It is clear from the above discussion that some remedies have provided more success than others, yet ultimately celebrity's hopes of legal remedy in cases of unauthorised exploitations of their image or invasions of their privacy have been and continue to be dependent upon the judiciary's wide interpretation of remedies which were not conceived with the intent of protecting the celebrity image. This reluctance to define an image right, has ultimately led to the convoluted system of taxation of athlete's image rights discussed in chapter five, in which no party is particularly certain as to what constitutes an 'image' worthy of a tax deduction.

The law of confidence is primarily concerned with protecting private information, whilst the promotion of the celebrity persona is driven by maximum exposure and public interest. However, this has not prevented the use of breach of confidence actions and it is evident that the criteria set down in *Coco*, although still relevant, have been extended; whilst the introduction of the ECHR has provided courts with the task of balancing the competing rights under Article 8 and Article 10. *Campbell* extended the law of confidence to include protection of confidential as well as private information, whilst *Douglas* is indicative of the courts' willingness to extend the law to provide redress in situations where a breach of commercial confidence has occurred.

The law of passing off has similarly provided remedy for athletes and celebrities who have had their image exploited without authorisation. Notably, although the courts have shown a willingness to protect the celebrity persona through passing off, the classic trinity remains ever relevant and each element must be satisfied for a successful claim - which will not always be easily achieved by celebrities and is dependent on the circumstances of the individual case. The requirement of the common field of activity was cast aside by virtue of *Irvine*, which in spite of commentators concerns as to the inclusion of misappropriation and dilution, allowed the law of passing off to include situations of false endorsement. Similarly, *Rihanna*, in spite of the courts instance that no image right exists under UK law, provided remedy through passing off – acknowledging the scope of a celebrity goodwill and interpretation the law in such a way as to include false merchandising.

With regard to trademarks, the incompatibility of their functions potentially renders trademark law inapplicable in regard to protecting a celebrity's image. A trademark's primary concern is the guarantee of origin, whilst the protection of the celebrity persona is concerned, in the first instance, with selling the glitz and glamour of celebrity. This, coupled with the subsidiary issues, should mean celebrities are unable to use trademark law as a means of protecting their image. However, with Damon Hill and more recently Jesse Lingard successfully obtaining trademarks in their image, it seems the IPO are satisfied that athletes' trademark applications meet the requirements of the TMA 1994. For the moment, until a case of infringement of an athletes' trademark such as Lingard's comes before the court, there is no way of predicting what the outcome will be. The courts may decide that the elements of s1 are met and deem the contrasting functions irrelevant or conversely deem that trademark law and the celebrity persona cannot be reconciled. In any case, this is certainly an area of law which, in the absence of a free-standing personality right, has provided celebrities with a way of having a degree of control over their image (at least until an infringement occurs.)

Copyright law theoretically provides a basis for protection of the celebrity image as a result of the s1 definition. However, the opinion of the 1977 Whitford Committee and the limited case law in *Merchandising Corp* and *Exxon*, is indicative of the courts' past unwillingness, in the context of copyright law, to provide legal redress in such instances. S85 may provide some, albeit limited, protection in circumstances where celebrities commission their own work. Notably, the case law is not recent and with the development of the celebrity world, this may be an area of law which celebrities may attempt to utilise in the future.

In the case of defamation, in spite of the success of *Tolley* and *McKenna*, the use of this remedy is limited to this end. A defamation claim requires damage to reputation and the exploitation of the celebrity persona generally focuses on the most attractive features of the celebrity and often heightens the celebrity's fame. As such, defamation is generally unsuitable to in the protection or exploitation of the celebrity persona – unless their reputation has been damaged.

The above remedies (with the exception of defamation which is a civil law remedy) are regarded as traditional intellectual property law remedies. As such, they were not legislated for with the protection nor exploitation of the celebrity persona in mind. The development of the celebrity world in recent times has allowed for celebrities to reach and communicate

with the public at the touch of a button – through a tweet, Instagram post, or Snapchat story. However, this development has similarly left celebrities open to unauthorised exploitations of their image, in a jurisdiction where no free-standing image right exists. Subsequently, in circumstances where celebrities have been comforted with their image being exploited without authorisation, they have been forced to hope for a wide interpretation by the judiciary of the traditional remedies in search of a solution. However, it is ultimately the proposal of this thesis that the protection of image rights, in the context of athletes, is not about protecting their image from unauthorised exploitations of their persona, but rather, the fact that these cases generally ultimately protect the ‘image right’ of the celebrity, allows these individuals to ensure that they have the ability to make tax savings by virtue of image rights exploitation.

The previous chapter discussed an image right dispute in the case of contractual obligations and the remedies available across the EU28. In spite of the lack of harmonisation of laws across Europe, the majority of countries reach the same outcome. Although the current chapter discusses cases which have occurred as a result of an unauthorised exploitation of a celebrity’s persona by a third party rather than a dispute between contracting parties, similar conclusions can be made. At the very least, it is legitimate to argue that the current intellectual property remedies in relation to unauthorised exploitations have not, as yet, been shown to be insufficient and the breach of contract issue which the study focused on was a non-issue, given it was a hypothetical situation. In the majority of cases that have appeared before the courts, celebrities have ultimately been successful in seeking remedy through the judiciary. Thus, in the continued absence of a free-standing image right, it is likely that this will continue to be so and similarly other remedies such as trademark law or copyright law which have not been overly successful thus far, may become useful, particularly in satisfying HMRC that they have an image worthy of protection, as discussed in Chapter 5. It is also necessary to acknowledge that only a limited number of cases regarding the unauthorised use of the celebrity persona have troubled the courts, indicative that either the issue is not prominent in nature or that parties are reaching agreements between themselves out of court. Thus, for the time being, in spite of the various limitations, the use of traditional intellectual property remedies shall continue to be the primary avenue for celebrities who seek legal redress for the unauthorised use of their persona.

Thus far, the research carried out between the EU28 and the in-depth study of the UK illustrates that the various legal mechanisms in place have been capable of being utilised in cases of either contractual disputes in endorsement situations or where a celebrity's image has been commercially exploited without permission by a third party. The benefit of this use of the common law remedies in the UK is the flexibility to which they can be applied, highlighted by the above cases, thus providing the ability to provide redress in novel situations. However, said cases above, although providing redress, also highlight the difficulty in navigating the current remedies in the absence of a statutory right. As Black explains,

“where individuals choose to litigate based on the nearest available doctrine – such as passing off or privacy – they are deprived of a right which meets their needs, while the defendant is of course deprived of defences which may well be relevant in a publicity situation. Whether one agrees with the practice of publicity exploitation or not, it is surely the case that a legal right which is framed to limit the scope of control and provide for allowed used of image and identity is to be preferred to the unregulated status quo.”<sup>348</sup>

This absence of an image right has caused particular problems in relation to the taxation of athletes, where an image right is being protected which ultimately does not exist in law. A statutory scheme, such as the one employed by The Guernsey Image Rights Register (to be discussed in further detail in chapter five), provides celebrities with a substantiated legal framework, by which they are aware of their rights, and those who seek to exploit the personality of the recognisable identity are also aware of the image rights which the celebrity possesses, which also proving to HMRC that they have a right worth exploiting. As such, the next chapter of this research will focus on Canada – a jurisdiction which not only possesses statutory law but also a provincial area in Ontario where the courts have opted to develop the common law (which is established by this thesis is based on a misunderstanding of support in the law in the first instance) to provide remedy for these unauthorised exploitations, in the absence of legislation.

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<sup>348</sup> Gillian Black, (2011) “Exploiting Image: Making a Case for the Legal Regulation of Publicity Rights in the United Kingdom” *European Intellectual Property Review*, 413, 418

Having assessed the way in which the UK courts have dealt with image rights disputes and having concluded that this involves using the traditional intellectual property remedies, the next focus of this thesis will be to assess the way in which another country deals with similar issues. As outlined above, the focus of this chapter will be upon Canada. Having assessed contractual obligations in relation to image rights across the EU in chapter one and concluding that the various member states generally come to the same conclusions, Canada offers a different legal landscape in terms of federal and provincial laws, as well as providing example of both statutory and common law in relation to image rights. As such, Canada offers a legitimate comparison with the UK on the issue of image rights disputes. By assessing both the statutory and common law in Canada, this thesis will be able to consider whether its statutory frameworks contain elements which the UK might wish to replicate in any future, free-standing image right; in order to nullify the issues caused by the absence of a legal definition of image in the taxation of high-earning athletes.

#### **4.1. *The Canadian Legal System***

Before addressing the particular laws, a general overview of the Canadian system of law is useful. The legal system of Canada was developed by English and French law. Canada operates in contrast to the UK in terms of the way in which its legal system deals with the image rights of celebrities and athletes.<sup>349</sup> The Constitution of Canada defines the levels and powers given to the courts and the Government. Within this system is the Federal Government, followed by the provinces and territories of Canada. The former predominantly deals with issues which affect Canada as a whole, including national defence, the criminal law and immigration. The latter only has the power to legislate on provincial issues, such as the private rights of persons, education and property.<sup>350</sup> Generally, intellectual property law is governed by the federal law, patents, trademarks, moral rights, copyright, industrial designs and topography rights all fall within federal statutes.<sup>351</sup> The common law remedies of passing off, appropriation of personality and the

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<sup>349</sup> For the purposes of this research, the province of Quebec will not be included.

<sup>350</sup> Government of Canada, The constitutional distribution of legislative powers, <<https://www.canada.ca/en/intergovernmental-affairs/services/federation/distribution-legislative-powers.html>> accessed 14<sup>th</sup> May 2018

<sup>351</sup> For example, see The Copyright Act (1985) or the Olympic and Paralympic Marks Act (2007).

statutory privacy acts of certain provinces are the only aspects of intellectual property law regulated on a provincial basis.<sup>352</sup>

#### 4.2. *Sport in Canada*

The world of sporting mania also resonates throughout Canada as it does in the UK; meaning successful or rather, commercially attractive athletes are able to attract substantial endorsement deals. This, in turn, opens these athletes to the possibility that their image may be exploited without authorisation. Ice hockey is Canada's "national identity" sport. As Gruneau and Whitson explain it, "ice hockey is something "we" invented; it is our game." Hockey has been described as "the Canadian specific," a "common passion" between Canadians, and the "language that pervades Canada."<sup>353</sup> NHL matches (Canada's major hockey league) regularly attract crowds of around 20,000,<sup>354</sup> whilst the Stanley Cup attracted an average TV viewing rate of 4.8 million in 2018.<sup>355</sup> In the 2017/2018 season, there were over 600,000 registered hockey players according to the International Ice Hockey Federation<sup>356</sup> and the national team have won more Olympic Gold hockey medals than any other country.<sup>357</sup> Sidney Crosby, who plays for the Pittsburgh Penguins, is Canada's top earning NHL athlete, cashing in on a U.S. \$12 million yearly salary and an income of \$4.5 million in endorsement earnings,<sup>358</sup> (which translates to around £9,200,000 and just under £3,500,000 respectively). Meanwhile, economic activity surrounding hockey in Canada is said to be worth over \$11 billion Canadian dollars annually, coming from sources such as tourism, major NHL events and corporate sponsorships.<sup>359</sup> Whichever way you measure it, hockey is Canada's biggest sport (just as football is in the UK) and the commercially driven sphere in which hockey exists means top athletes are often at the

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<sup>352</sup> Conrad Nest, Appeal Review of Current law and Reform, Volume 5, "From Abba to Gould: A closer look at the development of personality rights in Canada" (1999), page 12

<sup>353</sup> Richard Gruneau, David Whitson, (1994) University of Toronto Press, Second Edition, Sports, Identities, and Cultural Politics (Culture and Communication in Canada) "Hockey Night in Canada," page 3

<sup>354</sup> Vancouver Canucks yearly attendance graph, <[http://www.hockeydb.com/nhl-attendance/att\\_graph.php?tmi=8756](http://www.hockeydb.com/nhl-attendance/att_graph.php?tmi=8756)> accessed December 15<sup>th</sup> 2016

<sup>355</sup> Statista, "Average TV viewership NHL Stanley Cup Games 2008-2018", <<https://www.statista.com/statistics/305801/average-tv-viewership-nhl-stanley-cup-games/>> accessed 28<sup>th</sup> November 2018

<sup>356</sup> Statista, "Ice Hockey players in Canada 2010-2018", <<https://www.statista.com/statistics/282125/number-of-registered-ice-hockey-players-in-canada/>> accessed 28<sup>th</sup> November 2018

<sup>357</sup> "Canadian Olympic medal count" <<http://olympic.ca/sports/athletics/>> accessed December 15<sup>th</sup> 2016

<sup>358</sup> Kurt Badenhausen, Forbes, "The NHL's highest-paid players 2015-16" <<http://www.forbes.com/sites/kurtbadenhausen/2015/11/24/the-nhls-highest-paid-players-2015-16/#418dbfc51723>> accessed December 15<sup>th</sup> 2016

<sup>359</sup> "Study: Canadian hockey worth \$11B annually" <<http://www.sportsnet.ca/hockey/nhl/study-canadian-hockey-worth-11b-annually>> accessed December 15<sup>th</sup> 2016

forefront of the public eye and the media and thus, commercial endorsement opportunities are available to them.

Canada's recent hosting of major sporting events has also served to enhance international awareness of Canada's sporting landscape and the role of new technologies. The 2010 Winter Olympic Games, held in British Columbia, "will be remembered as a landmark event in the emergence of mobile phones as a multi-media platform," – where "a record potential audience of 3.8 billion people worldwide and approximately 1.8 billion viewers",<sup>360</sup> reinforces the mass commercial potential for "sought after" athletes in today's media driven world. Similarly, in 2015, Canada hosted the Women's Soccer World Cup, in which a record-breaking 750 million viewers watched the action.<sup>361</sup> These events, have also raised a number of legal issues, including *Sagen v VANOC*<sup>362</sup> which concerned the 2010 Olympic Committee's failure to include a female ski jumping event, in spite of its existence for male athletes<sup>363</sup> while the use of artificial pitches for the World Cup resulted in legal action against FIFA on the basis of sex discrimination (the Men's World Cup is played on grass) and the perceived increased risk of injury in the Canadian Court of Human Rights. The case was eventually dropped, yet the use of artificial pitches marred this high-profile event before a ball had been kicked.<sup>364</sup> Such legal issues, coupled with the occurrence of such high-profile events can potentially lead to a change in intellectual property laws. For example, Canada introduced anti-ambush marketing legislation prior to the Winter Olympics. Ambush marketing "can be defined as the practice whereby a company, often a competitor of an event's sponsor, intrudes upon public attention surrounding the event, thereby drawing attention to itself and away from the sponsor."<sup>365</sup> Canada introduced the

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<sup>360</sup> "Vancouver facts and figures"

<<https://stillmed.olympic.org/media/Document%20Library/OlympicOrg/Games/Winter-Games/Games-Vancouver-2010-Winter-Olympic-Games/Facts-and-Figures/Facts-and-Figures-Vancouver-2010.pdf>> accessed December 15<sup>th</sup> 2016

<sup>361</sup> "Record-breaking FIFA Women's World Cup tops 750 million TV viewers"

<<http://www.fifa.com/womensworldcup/news/y=2015/m=12/news=record-breaking-fifa-women-s-world-cup-tops-750-million-tv-viewers-2745963.html>> accessed December 15<sup>th</sup> 2016

<sup>362</sup> (2009) B.C.C.A. 522

<sup>363</sup> For the Appeal Court reasoning see,

<[http://www.playthegame.org/uploads/media/Written\\_reasons\\_of\\_the\\_Appeal\\_Court.PDF](http://www.playthegame.org/uploads/media/Written_reasons_of_the_Appeal_Court.PDF)> accessed December 6<sup>th</sup> 2016

<sup>364</sup> Anna Kessel, (2015, May 30), "Biggest Women's World Cup to kick off in Canada amid surface tension" <<https://www.theguardian.com/football/2015/may/30/womens-world-cup-canada-artificial-pitches>> accessed December 15<sup>th</sup> 2016

<sup>365</sup> Beniot Seguin, Teresa Scassa, "Ambush Marketing Legislation to Protect Olympic Sponsors: A Step Too Far in the Name of Brand Protection?" page 502,

<[https://www.irwinlaw.com/sites/default/files/attached/IP\\_21st\\_Century\\_24\\_seguin\\_and\\_scassa.pdf](https://www.irwinlaw.com/sites/default/files/attached/IP_21st_Century_24_seguin_and_scassa.pdf)> accessed 14<sup>th</sup> September 2018

Olympics and Paralympics Marks Act (2007), in which s4(1) states that during the prescribed period, brands may not “in association with a trade-mark or other mark, promote or otherwise direct public attention to their business, goods or services in a manner that misleads or is likely to mislead the public” into believing that the person’s business is approved nor associated with the Olympic committee.<sup>366</sup> However, the creation of image rights legislation and the development of the tort of appropriation of personality in Canada have not occurred as a result of these globalised events. Rather, the creation of such laws has developed as a result of the perceived unsuitability of remedies used within the commonwealth and of a misunderstanding of commonwealth and U.S. authorities (to be discussed).

As a consequence of the globalised nature of sport, in particular hockey, Canadian athletes also have the potential to experience an unauthorised exploitation of their personality or image, in the same way as athletes in other jurisdictions. However, it is axiomatic that intellectual property laws are jurisdiction-specific, and so in an era of athlete globalisation and hyper-mobility, the level of protection varies between jurisdictions. In Canada, this is evident in the various levels of protection between provinces. British Columbia, Manitoba, Newfoundland and Saskatchewan have enacted privacy legislation, more commonly known as the Privacy Acts, which set them aside from other provinces and from the UK by having introduced legislation for the protection of an individual’s personality/image and against their unauthorised use of the celebrity persona. Quebec provides protection for unauthorised invasions of privacy under its Charter of Human Rights and Freedoms and its Civil Code. The provinces of Alberta, New Brunswick, Nova Scotia, Nunavut, Prince Edward Island and Yukon have not enacted legislation and therefore rely on the common law. In the absence of authority, it is unknown as to what the courts of these provinces shall decide when faced with an unauthorised invasion of privacy. The remaining province of Ontario however, provides an example of judicial creativity which can be argued to have stretched the functions of the legitimate judicial interpretation and extension of the law to its limits, in contrast to the UK where the development of the common law has been appropriately incremental as per *Irvine*.<sup>367</sup> Ontario has developed the novel tort of

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<sup>366</sup> Olympic and Paralympics Marks Act (Canada), 2007, s4(1)(a) and (b)

<sup>367</sup> This section of the research, on the common law of Ontario’s approach to unauthorised appropriations of a celebrity’s image won the 2017 Sports Law and Recreation Association (SRLA) award for Best Graduate Paper. The award was followed by a presentation at the 2017 Annual Conference. The paper will be published in the Journal of Legal Aspects of Sport. With thanks to SRLA and the conference organisers.

“appropriation of personality” and sets itself aside by providing a common law tort which protects celebrities from the unauthorised use of their persona, allowing the individual celebrity to take commercial advantage of their sought-after image. The tort itself is subject to various qualifications and has been developed by a very small number of cases, consequently providing minimal instruction on its scope and limitations, the implications of which (to the best of the researcher’s knowledge) have not been explored in the literature until now. This very limited legal history, namely the cases discussed below and the fleeting references to the common law remedy of passing off within them, should not disguise the potential scope of the remedy or the unique degree of judicial creativity which gave rise to it. As such, the existence of statutory and common law makes Canada a valid comparator. The Canadian courts may have dealt with the issue of personality rights in a more direct manner than the UK, yet the law on this matter remains in a state of infancy. The purpose of this chapter is to discuss both the statutory regulated provinces, Quebec, and the common law tort in Ontario – with the remaining provinces not yet been troubled with the legal issues surrounding unauthorised uses of the celebrity persona/image.

#### **4.3. *The Development of Privacy Legislation in Canada – a historical overview***

The provinces of British Columbia, Manitoba, Newfoundland and Saskatchewan have all introduced legislation, known as the Privacy Acts, which protect individuals against the unauthorised use of their persona.<sup>368</sup> These acts were introduced at a time where there was public concern about forms of electronic eavesdropping, for example wiretapping.<sup>369</sup> This fear had manifested as a result of eavesdropping during a trade union convention.<sup>370</sup> However, in relation to unauthorised invasions of privacy, at the time of the introduction of the Acts, British Columbia in 1968, Saskatchewan in 1979, Newfoundland in 1981, and Manitoba in 1988, “it was generally thought that Anglo-Canadian law offered at best incomplete protection to persons whose personality might be appropriated by another for commercial purposes.”<sup>371</sup> Thus, legislative change and the use of the common law (which will be discussed), developed on the basis of the issues, based primarily on case law from

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<sup>368</sup> See, British Columbia Privacy Act 1968, Manitoba Privacy Act 1988, Newfoundland Privacy Act 1981, Saskatchewan Privacy Act 1979

<sup>369</sup> Law Reform Commission of Saskatchewan, (March 2012), “Reviewing the Privacy Act”, page 2, <[https://lawreformcommission.sk.ca/Renewing\\_the\\_Privacy\\_Act\\_Final\\_Report.pdf](https://lawreformcommission.sk.ca/Renewing_the_Privacy_Act_Final_Report.pdf)> accessed 15<sup>th</sup> May 2018

<sup>370</sup> British Columbia Law Institute, (2008) “Report on the Privacy Act of British Columbia,” page 2

<sup>371</sup> David Vaver, (1981), British Columbia Law Review, “What’s mine is Not Yours: Commercial Appropriation of Personality under the Privacy Acts of British Columbia, Manitoba and Saskatchewan” 241, 242

the British Commonwealth, in applying the common law remedies of passing off and defamation in the context of unauthorised uses of an individual's persona.<sup>372</sup>

#### 4.4. *Passing Off*

To recap, in the context of passing off prior to the 1980's, the courts did not acknowledge that character merchandising was a business at all – as illustrated in the UK case of *Kojak*. Secondly, the restrictive nature of the common field of activity requirement illustrated by both *Kojak* and *Uncle Mac* created a “factual difficulty presented by the requirement of showing a misrepresentation that causes public deception or confusion of some association between the parties...that has hindered the use of passing off.”<sup>373</sup> The Canadian authority for this proposition can be found in *Krouse v Chrysler Ltd*<sup>374</sup> where it was stated that a passing off action failed because “the player and the manufacturer were not in a common field of endeavour”<sup>375</sup> and also in *Athans v Canadian Adventure Camps*<sup>376</sup> where the court highlighted although the case for passing off failed, the common field requirement had nevertheless been met.<sup>377</sup> Notably, Vaver refers to the more relaxed approach used in *Abba* and *Teenage Ninja Turtles*,<sup>378</sup> discussed in the previous chapter which held respectively, that the lack of a common field of activity was not fatal to the judgment<sup>379</sup> and that “deceptiveness as to licensing”<sup>380</sup> was actionable.<sup>381</sup> This more relaxed approach was evident in Canada in *National Hockey League v Pepsi Cola Canada*<sup>382</sup> where it was acknowledged that “the second and, nowadays perhaps more common type of passing off, is where it is alleged that a defendant has promoted his product or business in such a way as to

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<sup>372</sup> Robert G. Howell, (1998) *Loyola of Los Angeles Entertainment Law Journal*, Volume 18 “Publicity Rights in the Common Law Provinces of Canada,” 487, 490

<sup>373</sup> Robert G. Howell, (1986), *Intellectual Property Journal Canada*, “The Common Law appropriation of personality tort,” 149, 154

<sup>374</sup> [1974] 1 O.R. (2d) 225, available at

<<https://www.canlii.org/en/on/onca/doc/1973/1973canlii574/1973canlii574.html?searchUrlHash=AAAAAQAHa3JvdXNlIAAAAAAB&resultIndex=1>> accessed 28<sup>th</sup> November 2018

<sup>375</sup> *Ibid*

<sup>376</sup> [1977] 17 O.R. (2d) 225, available at

<<https://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=1>> accessed 28<sup>th</sup> November 2018

<sup>377</sup> *Ibid*

<sup>378</sup> David Vaver, (1981), *British Columbia Law Review*, “What's mine is Not Yours: Commercial Appropriation of Personality under the Privacy Acts of British Columbia, Manitoba and Saskatchewan” 241, 247

<sup>379</sup> [1977] F.S.R. 62, Ch D. [67]-[68]

<sup>380</sup> [1991] F.S.R. 145 Ch. D. [156]

<sup>381</sup> David Vaver, (1981), *British Columbia Law Review*, “What's mine is Not Yours: Commercial Appropriation of Personality under the Privacy Acts of British Columbia, Manitoba and Saskatchewan” 241, 247

<sup>382</sup> [1992] 42 C.P.R. (3d) 390

create the false impression that his product or business is in some way approved, authorised or endorsed by the plaintiff or that there is some business connection between the defendant and the plaintiff. By these means a defendant may hope to "cash in" on the good will of the plaintiff."<sup>383</sup> However, it is worth highlighting that the Privacy Acts were introduced pre-*Irvine* where the common field requirement was removed completely and passing off was interpreted by the UK courts in a way which provided remedy in a case regarding the unauthorised exploitation of the celebrity persona. At the time of their introduction, the literature suggests the Canadian legislature was not convinced passing off was a suitable remedy in instances of unauthorised uses of the celebrity persona.

#### 4.5. *Defamation*

With regard to the limited use of defamation in such instances the literature highlights the requirement that the complained advertisement be offensive, or false. The use of defamation in cases regarding the celebrity is summed up by Vaver,

“if an advertisement did not transcend the bounds of good taste because the plaintiff endorsed a particular brand...why should anyone have thought any less of the plaintiff? If the advertisement was offensive, why should people who knew the plaintiff to be an upstanding fellow believe that he had really lent his name for money to such an undertaking? And if, the plaintiff was a celebrity who had already sold his name for money, his reputation would not suffer from his personality being used in another, albeit, unauthorised, advertisement.”<sup>384</sup>

The difficulties discussed here in proving damage to one's reputation are the same as the UK. These unauthorised uses in claims of defamation, often do not contain a falsehood nor damage the reputation of the claimant; in fact, their reputation has the potential to be heightened by the publicity.

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<sup>383</sup> Ibid

<sup>384</sup> David Vaver, (1981), *British Columbia Law Review*, “What's mine is Not Yours: Commercial Appropriation of Personality under the Privacy Acts of British Columbia, Manitoba and Saskatchewan” 241, 244

As such, given the unhelpful nature of the remedies, their restrictions and the perceived unlikelihood of the common law recognising a right to privacy at this time,<sup>385</sup> British Columbia, Manitoba, Saskatchewan and Newfoundland all introduced Privacy Acts.

#### 4.6. *The Privacy Acts*

The provisions of each Act coincide with that of the other provinces, with some exceptions (which shall be highlighted throughout). The clearest exception, given that it dictates the way in which an appropriation of personality is classified, exists between British Columbia and the remaining provinces. The Acts of Manitoba, Newfoundland and Saskatchewan statutorily provide for the general tort of invasion of privacy, with the appropriation of an individual's personality a specific example of this tort. For example, the Manitoba Act lists one example of an invasion of privacy as "the unauthorised use of the name likeness and voice" of another.<sup>386</sup> In British Columbia however, the law provides for the protection against an invasion of privacy generally, whilst also providing protection for the specific tort of an appropriation of personality. In defining this tort, the Act states,

"it is a tort, actionable without proof or damage, for a person to use the name or portrait of another for the purpose of advertising or promoting the sale of, or other trading in, property or services, unless that other, or a person entitled to consent on his behalf, consents to the use for that purpose."<sup>387</sup>

Within their specific torts, each Act contains various key elements which can be extracted in order to establish fully, the scope of the tort and the requirements in law.

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<sup>385</sup> Ibid 247

<sup>386</sup> Manitoba Privacy Act, 1988, s3(c). The remaining relevant provisions can be found in Newfoundland Privacy Act, 1981, s4(c) and Saskatchewan Privacy Act, 1979, s3(c)

<sup>387</sup> British Columbia Privacy Act, 1868, s3

#### 4.6.1. *The protected aspects of a celebrity's personality*

Personality can be understood to include a wide range of aspects of an individual's persona. Each Privacy Act reflects this broad definition of personality in its protection from unauthorised appropriations; although it is notable that Manitoba, Newfoundland and Saskatchewan offer a marginally wider protection than that of British Columbia. The former protects against the unauthorised use of "one's name, likeness or voice",<sup>388</sup> whilst the latter protects an individual from the unauthorised use of their name or portrait. A portrait is defined as "a likeness still or moving and includes (a) a likeness of another deliberately disguised to resemble the plaintiff or (b) a caricature."<sup>389</sup> As such, this lesser protection in British Columbia shall only be to the detriment of a celebrity whose voice is used without authorisation.

#### 4.6.2. *Identification*

The question as to whether the plaintiff must be identifiable is answered cohesively throughout the statutory protected provinces. For example, the British Columbia Act states, "a person is not liable for use...unless the plaintiff is (a) identified in name or description, or his or her presence is emphasised, whether by the composition of the picture or otherwise (b) recognisable"<sup>390</sup> – a provision which is replicated in the remaining provincial Acts.

The requirement that the plaintiff must be identifiable was further clarified in the case of *Joseph v Daniels*,<sup>391</sup> in the courts of British Columbia. Joseph was an amateur bodybuilder, who in exchange for payment, posed for a photograph in which only his torso was visible for the Vancouver Magazine. By virtue of the success of the photograph, the defendant went on to market the image commercially. Joseph sued unsuccessfully, for appropriation of personality.<sup>392</sup> The court dismissed Joseph's claim on the basis that he was not identifiable and so no appropriation had occurred - "by using the models torso only, the defendant photographer deliberately designed the composition to avoid any reference to the

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<sup>388</sup> Manitoba Privacy Act, 1988, s3(c), Newfoundland Privacy Act, 1981, s4(c), Saskatchewan Privacy Act, 1979, s3(c)

<sup>389</sup> British Columbia Privacy Act, 1968, s3(1)

<sup>390</sup> British Columbia Privacy Act, 1968, s3(4)

<sup>391</sup> [1986], 11 C.P.R. (3d) 544, 4 B.C.L.R. (2d) 239 (S.C.) available at

<<http://www.canlii.org/en/bc/bcsc/doc/1986/1986canlii1106/1986canlii1106.html?resultIndex=1>> accessed 14<sup>th</sup> September 2016

<sup>392</sup> Ibid

identity of the person.”<sup>393</sup> Under the tort of appropriation of personality, the Judge concluded, “for the defendant to be found liable he must be taking advantage of the name, reputation, likeness, or some other components of the plaintiff’s individuality or personality which the viewer associates or identifies with the plaintiff,”<sup>394</sup> thus clarifying the identification requirement.

#### **4.6.3. Intent**

With the exception of British Columbia, the remaining Privacy Acts all address the issue of intent. It is likely that most (but not all) cases of appropriation of personality arise in situations where large brands or advertisers use the image of a recognisable celebrity without permission, or in a way in which the celebrity has not authorised. These brands do so in order to seek the benefits of having a recognisable celebrity endorse their product; primarily that consumers will be more likely to buy the product if someone they admire/follow has endorsed it. However, it is not inconceivable that instances may arise in which the defendant did not intend to appropriate the celebrity’s personality, perhaps in the case of a fan taking a photograph of a celebrity and thereafter posting it on social media; unaware that this has the ability to breach the celebrity’s personality rights. In such instances, including the hypothetical situation discussed above, the Acts (except British Columbia) require intent to be a present factor.<sup>395</sup> For example, the Newfoundland Act states an action shall only succeed in instances where “the user intended to exploit the name or likeness or voice of that individual.”<sup>396</sup>

As noted, no mirroring provision exists within British Columbia, however, the issue of intent was addressed by the courts within the province in *Hollinsworth v BCTV*.<sup>397</sup> Hollinsworth, the plaintiff, who was bald, entered into a contractual relationship with Look International Enterprises Incorporated and had surgery to have a hairpiece attached to his head. The contract stated that Mr Hollinsworth consented to the use of a video of the operation by Dr Williams (the surgeon) and Look International for educational purposes only. However, in 1993, seven years on from the operation, BCTV decided to do a five minute feature on baldness one evening.<sup>398</sup> As such, the cameraman (who had recorded the

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<sup>393</sup> Ibid

<sup>394</sup> Ibid

<sup>395</sup> Manitoba Privacy Act, 1988, s3(c), Newfoundland Privacy Act, 1981, s4(c), Saskatchewan Privacy Act, 1979, s3(c)

<sup>396</sup> Newfoundland Privacy Act, 1981, s4(c)

<sup>397</sup> [1998] 59 BCLR (3d) 121, <<http://canlii.ca/t/1dxmx>> accessed 22<sup>nd</sup> August 2018

<sup>398</sup> Ibid [2]-[3]

operation and also worked for BCTV) and the reporter assigned to the task, visited the office of Dr Williams who gave an interview and directed them to Look International to collect the video. Dr Williams made no mention of the confidentiality agreement. Although concerned about the confidential nature of the tape, Look International assured the reporter it could be used and that the patient had consented. Hollinsworth was easily identifiable in the video, with his full face being visible for around 3 seconds.<sup>399</sup> On assessing the issue of intent in relation to the Privacy Act, the court held that “the word “wilfully” does not apply broadly to any intentional act that has the effect of violating privacy but more narrowly to an intention to do an at which the persona doing the act knew or should have known would violate the privacy of another.”<sup>400</sup> Whilst this narrow interpretation was not established by the specific facts of this case, it is clear that under the Privacy Act of British Columbia, intention is a relevant factor in assessing whether one’s privacy has been violated; albeit *Hollinsworth* indicates that this will not apply broadly to all situations, rather only those in which it is clear the act would violate another’s right to privacy.

This interpretation was similarly adopted in *Peters-Brown v Regina District Health Board*<sup>401</sup> in Saskatchewan, where the plaintiff claimed that the distribution of a list of individuals from whom bodily fluid precautions should be taken had made its way from the hospital to the Regina Correctional Centre where she worked and was under discussion in the staffroom. The plaintiff had previously been treated for hepatitis B. However it was not clear how this private list appeared in the centre, “due largely to stonewalling by certain jail personnel.”<sup>402</sup> In assessing whether this was an intentional act, actionable under the Privacy Act, the court emphasised that the word wilfully, “often denotes an act which is intentional, or knowing, or voluntary, as distinguished from accidental.”<sup>403</sup> As such, in this case, it could not be said the hospital “willingly” violated the privacy of the plaintiff; “there was no participation by the hospital in the circulation of the list.”<sup>404</sup> Thus, it can be concluded based on the above case law and the Privacy Acts that in order to make a successful claim, the defendant must have intended to appropriate the personality of the plaintiff.

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<sup>399</sup> Ibid [3]–[10]

<sup>400</sup> Ibid [29]

<sup>401</sup> [1996] 1 WWR 337; [1997] 1 WWR 638, <<http://canlii.ca/t/1nrrp>> accessed 22<sup>nd</sup> August 2018,

<sup>402</sup> Ibid page 1

<sup>403</sup> Ibid page 7

<sup>404</sup> Ibid

#### 4.6.4.

#### *The element of gain*

Generally, complaints of appropriation occur in instances where the celebrity feels the defendant has benefited from some sort of gain (usually of monetary value), which should have belonged to them. Manitoba and Saskatchewan both require that the appropriation complained of must have resulted in the defendant's "gain,"<sup>405</sup> whilst the Newfoundland Act requires an "advantage."<sup>406</sup> Notably, this protects individuals who use aspects of a celebrity's persona, in the absence of an intention to make profit (namely the general public as opposed to advertisers or newspapers), although it is important to consider that "gain" may be open to a broad interpretation by the courts and with no reference to financial gain, monetary value may not be classed as the only form of advantage (publicity, exposure).

In British Columbia, the law is more restrictive. The Act requires that the appropriation complained of must have been "for the purposes of advertising or the sale of, or other trading in, property or services",<sup>407</sup> thus limiting the scope to motivated by commercial purposes. As such, this means if an unauthorised appropriation occurs in British Columbia, celebrities are left with a more limited remedy in situations of invasions of privacy which do not result in commercial gain – although it notable that this is generally not the case. Interestingly, in all four provinces, (and in contrast to UK's approach to passing off), the element of damage is not essential for a successful claim, thus widening the scope of the tort.<sup>408</sup>

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<sup>405</sup> Manitoba Privacy Act, 1988, s3(c), Saskatchewan Privacy Act, 1979, s3(c)

<sup>406</sup> Newfoundland Privacy Act, 1981, s4(c)

<sup>407</sup> British Columbia Privacy Act, 1968, s3(2)

<sup>408</sup> British Columbia Privacy Act, 1968, s3(2), Manitoba Privacy Act, 1988, s2(2), Newfoundland Privacy Act, 1981, s3(1), Saskatchewan Privacy Act, 1979, s2

#### 4.6.5. *Existence beyond death*

The British Columbia, Manitoba and Newfoundland Acts all expressly state that the existing rights of personality cease to exist beyond death.<sup>409</sup> As such, this nullifies the possibility of relatives of the celebrity carrying on a continuing business of merchandising, as discussed in the UK case of *Elvis Presley*.<sup>410</sup> In Manitoba no such provision exists.

#### 4.6.6. *Statutory Defences*

All provincial Acts provide for the following statutory defences:

- (a) An action shall not succeed if the plaintiff consented to use of their persona.<sup>411</sup>
- (b) If the use of the persona was incidental to the exercise of a lawful right of defence of a person/property.<sup>412</sup>
- (c) If the use was authorised/required under Provincial laws or Courts.<sup>413</sup>
- (d) If the act was that of a peace officer acting in the course of duty.<sup>414</sup>

In addition, Manitoba provides a further arm of defence, in that where the following factors apply, no violation shall exist in the first instance:

- (a) The defendant, acting reasonably, did not know, nor should reasonably have known that the act/conduct/publication was a violation.<sup>415</sup>
- (b) There were reasonable grounds for the belief that it was in the public interest.<sup>416</sup>
- (c) The publication was privileged in the rules of the law of defamation.<sup>417</sup>
- (d) The matter was a fair comment on a public interest matter.<sup>418</sup>

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<sup>409</sup> British Columbia Privacy Act, 1968, s5, Newfoundland Privacy Act, 1988, s11, Saskatchewan Privacy Act, 1979, s10

<sup>410</sup> In the UK, only trademarks and copyright exist beyond death. Trademarks exist for a period of 10 years as long as they are used under the Trademark Act 1994 s42(1) and copyrights last for a period of 70 years from the death of the author under s12(1) and (2) of the Copyright, Designs and Patents Act 1988.

<sup>411</sup> British Columbia Privacy Act, 1968, s5, Newfoundland Privacy Act, 1981, s11, Saskatchewan Privacy Act, 1979, s4(1)(a), Manitoba Privacy Act, 1988, s5(a)

<sup>412</sup> British Columbia Privacy Act, 1968, s2(b), Newfoundland Privacy Act, 1981, s5(1)(b), Saskatchewan Privacy Act, 1979, s4(1)(b), Manitoba Privacy Act s5(c), 1988

<sup>413</sup> British Columbia Privacy Act, 1969, s2(c), Newfoundland Privacy Act, 1981, s5(1)(c), Saskatchewan Privacy Act, 1979, s4(1)(c), Manitoba Privacy Act, 1988, s5(d)

<sup>414</sup> British Columbia Privacy Act, 1968, s2(d)(i), Newfoundland Privacy Act, 1981, s5(1)(d)(i), Saskatchewan Privacy Act, 1979, s4(1)(d)(i), Manitoba Privacy Act, 1988, s5(c)

<sup>415</sup> Manitoba Privacy Act, 1988, s5(b)

<sup>416</sup> Manitoba Privacy Act, 1988, s5(f)(i)

<sup>417</sup> Manitoba Privacy Act, 1988, s5(f)(ii)

<sup>418</sup> Manitoba Privacy Act, 1988, s5(f)(iii)

#### 4.6.7.

#### *A Necessary Change?*

The above breakdown of the Privacy Acts illustrates a legal framework, designed specifically to protect individuals from unauthorised appropriations of their personality. However, it is necessary to acknowledge that the Privacy Acts have not been regarded as quite as ground breaking as they may appear, opening the legislation up to various criticisms. In 2009, the Law Reform Commission of Saskatchewan produced a review of the Act, highlighting these various criticisms. The first criticism is concerned with the fact that the Acts have not developed in the way which the legislators would have hoped – that the legislation would set out the general principles and these would be developed further by the courts, similar to the experience in the United States - where the “tort of invasion of privacy was extracted from the Bill of Rights and elaborated by the courts.”<sup>419</sup> However, this was not the case, with very few invasions of privacy coming before the courts, commentators have regarded the Acts as “dead letters”<sup>420</sup> as a result of their infrequent use. In the instances where these types of cases have appeared before the courts, this has occurred within the British Columbia jurisdiction.

The first case brought before the courts was the above discussed case of *Joseph v Daniels*. Following this, *Dubrulle v Dubrulle French Culinary School Ltd*<sup>421</sup> regarded the claim of a French chef who had previously consented to the use of his name in the running of a culinary school. Once the plaintiff had ceased to hold an interest in the business (having sold his shares), Dubrulle sought to terminate his consent to the use of his name and sued the school under s3 of the Privacy Act for the unauthorised use of his name.<sup>422</sup> Dismissing the claim, the court held that given the chef had already consented to the use of his name, he could not unilaterally withdraw this consent some 16 years later.<sup>423</sup> Thus, it is reasonable to conclude that under the Privacy Act, once an individual consents to the appropriation of their personality, this consent cannot be withdrawn once business interests in the appropriation cease. In the final case brought before the courts in British Columbia is *Poirier v Walmart Canada Corp*<sup>424</sup> which provides example of a case in which an action

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<sup>419</sup> Law Reform Commission of Saskatchewan, (2012), “Reviewing the Privacy Act”, <[https://lawreformcommission.sk.ca/Renewing\\_the\\_Privacy\\_Act\\_Final\\_Report.pdf](https://lawreformcommission.sk.ca/Renewing_the_Privacy_Act_Final_Report.pdf)> accessed 15<sup>th</sup> May 2018, page 3

<sup>420</sup> David H. Flaherty (1998-99) “Some reflections on privacy in technology”, 26 Man LJ 219

<sup>421</sup> [2000] 8 C.P.R. (4<sup>th</sup>) 180 (B.C.S.C)

<sup>422</sup> Ibid [1]-[8]

<sup>423</sup> Ibid [14]

<sup>424</sup> [2006] B.C.S.C. 1138

under section 3 succeeded. The plaintiff was dismissed by the defendant from a managerial position. In spite of this, the employer company continued to use the plaintiff's image in an advertisement for a new store.<sup>425</sup> Although the court found "just cause"<sup>426</sup> in the decision to terminate the plaintiff's employment, the court also found that the defendant had violated Poirier's privacy;

"Poirier did not consent to this use of his photograph and the words attributed to him once his employment with the defendant had terminated. It was unreasonable for the defendant to assume that the consent to portray Poirier's identity and image in the advertisement continued after his termination, in the absence of an express confirmation to that effect, which in any event was not sought by Wal-Mart."<sup>427</sup>

As such, the plaintiff succeeded in his claim against his former employer for the unauthorised appropriation of his image. In spite of the above cases, it is clear that few instances of appropriation of personality have troubled the courts since their introduction. This may be for a number of reasons; parties may have come to an agreement before requiring the use of the courts to solve the dispute, the existence of the Acts alone may have served as a deterrent for making unauthorised exploitations or the reality may be that the appropriations of personality are rare. In any case however, the amount of cases coming before the courts is not dissimilar to that of the UK – indicating that the extent of the problem is similar within both countries.<sup>428</sup>

Another criticism proposed by the review focuses upon the broad nature of the legislation, highlighting the lack of "specificity and certainty."<sup>429</sup> The Saskatchewan Act has been referred to as "general and vague,"<sup>430</sup> failing to provide claimants with a clear guide as to what their rights are under the Act. As such, the Saskatchewan Commission believes this explains why the Acts have been used rarely, proposing that the legislators could better define the "scope of the tort to make it a more attractive remedy for invasion of privacy,"<sup>431</sup>

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<sup>425</sup> Ibid [1]-[2]

<sup>426</sup> Ibid [7]

<sup>427</sup> Ibid [9]

<sup>428</sup> This thesis provides an exhaustive overview of all literature available in relation to the Privacy Acts and all cases which have followed.

<sup>429</sup> Law Reform Commission of Saskatchewan, (2012), "Reviewing the Privacy Act", <[https://lawreformcommission.sk.ca/Renewing\\_the\\_Privacy\\_Act\\_Final\\_Report.pdf](https://lawreformcommission.sk.ca/Renewing_the_Privacy_Act_Final_Report.pdf)> accessed 15<sup>th</sup> May 2018, page 3

<sup>430</sup> Ian J Turnbull, (2004), "Privacy in the Workplace: The Employment Perspective", page 106

<sup>431</sup> Law Reform Commission of Saskatchewan, (2012), "Reviewing the Privacy Act", <[https://lawreformcommission.sk.ca/Renewing\\_the\\_Privacy\\_Act\\_Final\\_Report.pdf](https://lawreformcommission.sk.ca/Renewing_the_Privacy_Act_Final_Report.pdf)> accessed 15<sup>th</sup> May 2018, page 4

whilst the review of the British Columbia Privacy Act has called for s3 to be repealed as a specific tort and included as a general invasion of privacy, mirroring the approach followed in Newfoundland, Manitoba and Saskatchewan.<sup>432</sup>

As justifiable as these criticisms may be, for the purposes of this research, it is important not to lose sight of the positive nature of the existence of the Acts in the first instance. The courts in the UK may have acknowledged the lucrative nature of character merchandising in the case of celebrities and athletes, providing redress through the traditional remedies. However, as established in the previous chapter, the law is ultimately unclear and the rights of celebrities in relation to their image are uncertain and a statutory framework would help remedy this - particularly in the context of taxation and image rights where the reluctance to define image rights has caused a convoluted system by which athletes are able to gain a tax advantage, which is not always legitimate. Meanwhile, the Privacy Acts protect a celebrity from unauthorised exploitations of their image, name, likeness and voice (as long as they are identifiable in the appropriation) and celebrities are aware of their rights. The Acts may not have developed in the way in which the legislators and commentators anticipated, yet their existence alone allows celebrities to protect and promote their image. Thus, the Acts are a positive step forward in protecting celebrity image rights and an acknowledgement of the legitimacy of celebrity's quest for protection of their persona however, the real benefit of the UK adopting a similar system would be that by clearly defining an image right, the confusion as to what constitutes "image" for the purposes of tax deductions would therefore be eradicated.

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<sup>432</sup> British Columbia Law Institute, (2008), "Report on the Privacy Act of British Columbia", page 60

#### 4.7.

#### *Quebec*

The Quebec position on appropriation of personality is represented by the case of *Aubry v Editions Vice Versa*.<sup>433</sup> Protection of personality is provided by the Charter of Human Rights and Freedoms under s4 and s5 which provide individuals with a right to the safeguard of their dignity, honour and reputation, and respect to their private life.<sup>434</sup> This protection is further enhanced by the Quebec Civil Code s36(5) which considers using the “name, likeness or voice” of another for “purposes other than the legitimate information of the public” as an unauthorised invasion of privacy.<sup>435</sup>

*Aubry* involved the case of a women who brought an action of civil liability against both the photographer and publisher of a magazine who had used a picture of her sitting on steps in a public place without her consent.<sup>436</sup> *Aubry* invoked the provisions of the Charter and Civil Code discussed above. The trial judge held that the publication constituted a fault and this was affirmed in the Court of Appeal.<sup>437</sup> Upon appeal to the Supreme Court of Canada, the decision was upheld by a majority. The court held, “the artistic expression of the photograph cannot justify the infringement of the right to privacy it entails. An artist’s right to publish his or her work is not absolute and cannot include the right to infringe, without any justification, a fundamental right of the subject whose image appears in the work. It has not been shown that the public’s interest in seeing this photograph is predominant. In these circumstances, the respondent’s right to protection of her image is more important than the appellants’ right to publish the photograph of the respondent without first obtaining her permission.”<sup>438</sup> As such, the appeal was dismissed, and the claimant was awarded \$2000 Canadian dollars in damages.<sup>439</sup> This reasoning is similar to the balancing act followed by the UK courts in *Campbell*, in which the courts had to balance the competing rights of Art 10 and Art 8 of the ECHR, and similar to this instance, ruled in favour of the plaintiff’s right to a private life. By virtue of *Aubry*, it can be concluded that the provisions shall protect against the appropriation of an individual’s name, likeness of voice (as established

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<sup>433</sup> [1998] 1 S.C.R. 591

<sup>434</sup> Quebec Charter of Human Rights and Freedoms (1982), s4&5

<sup>435</sup> Quebec Civil Code (1992), s35(5)

<sup>436</sup> [1998] 1 S.C.R. 591,

<<https://www.canlii.org/en/ca/scc/doc/1998/1998canlii817/1998canlii817.html?resultIndex=1>> accessed 17<sup>th</sup> January 2017

<sup>437</sup> Ibid

<sup>438</sup> Ibid

<sup>439</sup> Ibid

in the Quebec Civil Code s36) the plaintiff must be identifiable,<sup>440</sup> and that the plaintiff must have suffered damage. In this case, although the minority held that there was insufficient evidence, the damage suffered by the plaintiff was that she had been mocked and lost her anonymity by virtue of the publication.<sup>441</sup> There was no consideration by the court of the issues of intent, the element of gain or the inheritability of personality rights which are dealt with in the Privacy Acts.

By virtue of the fact that this was a seminal case in Quebec and ultimately decided by the Supreme Court in Canada, the above case is representative of the law relating to appropriation of personality in Quebec. For the purposes of this research, it is noteworthy that the protection against appropriation of personality was guaranteed in *Aubry* without the presence of celebrity. As such, it is plausible to argue that the Charter and Civil Code will be of use in cases where celebrities are involved and the stakes are higher in relation to the possible damages caused by an unauthorised appropriation. The use of these particular legal instruments is illustrative of a possible avenue which claimants in the UK could utilise in the absence of specific legislation, rather relying on the ECHR and Art 8. In any case, *Aubry* illustrates the current law in Quebec and should future instances of unauthorised appropriations arise of an individual's name likeness or voice, claimants should look for remedy under the Charter and Civil Code, provided they are identifiable in the appropriation and have suffered damage.

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<sup>440</sup> Ibid, [53]

<sup>441</sup> Ibid, [30] – [36]

#### 4.8.

#### *Trademark Law*

As in the UK, athletes wishing to protect their persona may invoke the use of trademark law. Unlike the wide definition of a trademark in the UK, which can be any sign, capable of being represented graphically, so long as it was able to distinguish goods or services from one undertaking to another;<sup>442</sup> the Canadian legislation provides more specific protections, particularly with regard to that of the celebrity persona. The Trademark Act 1985, s12(1) prohibits the registration of a trademark which consists of a “word that is primarily merely the name surname of an individual who is living or has died within the preceding thirty years.”<sup>443</sup> Objections to the registration of a name are generally raised if there are at minimum, 25 entries of the name in the Canadian telephone directories or, in the case of a famous person, an objection may also be raised if there are fewer than 25 entries.<sup>444</sup> However, objections can be overcome by virtue of s12(2) and s14. The former states that if, at time of filing an application, the trademark (i.e. the name) has become distinctive of the applicant through use within Canada, it will be capable of being registered. The latter provides that if the applicant has a trademark registered in its country of origin, the mark is therefore “not without distinctive character” in Canada. It is noteworthy that amendments to the Act likely to come in in 2018 or early 2019 are expected to repeal section 14,<sup>445</sup> meaning foreign applicants will have to prove their mark has become distinctive in Canada, whilst the distinctive nature of the mark in another jurisdiction will no longer be relevant.<sup>446</sup> This change will arguably make it more difficult to register foreign trademarks in Canada. However, for the time being at least, should an individual celebrity’s name become distinctive – it can be registered as a trademark in Canada.

However, the ability to overcome objections does not mean registering a celebrity’s name should not be regarded as an easy process. In order to succeed under s12 or s14, applicants must submit evidence of distinctiveness. This can typically include evidence of:

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<sup>442</sup> Trademark Act, 1994, s1

<sup>443</sup> Trademark Act (Canada), 1985, s12(1)

<sup>444</sup> Bereskin and Parr LLP, Jennifer McKenzie, Jill Jarvis-Tonus, (2017) “Canada: The cult of personality (rights)”, <<https://www.lexology.com/library/detail.aspx?g=cf1699bb-bb99-4264-bcb0-27df2e5f9060>> accessed 10<sup>th</sup> September 2018

<sup>445</sup> Ibid

<sup>446</sup> At the time of writing, s14 remains within the Trademark Act (Canada) 1985.

“the goods and services with which the trademark is used, the length of time the trademark has been in use, the countries in which the trademark has been used, the countries in which the trademark has been registered, the approximate quantity and value of sales of products and services in association with the trademark for a reasonable period of time, the channels through which the products or services are distributed in Canada, particularly if the product is sold by major retailers and details of the extent and value of advertising under the trademark, both in Canada and abroad, including representative examples.”<sup>447</sup>

The provisions under the Trademark Act in Canada, although prohibiting registration of a name or surname, will allow such registration should the name have become distinctive through use (unlike the UK as seen in the Princess Diana application), which often the celebrity name has achieved. Registration provides perpetual protection, so long as the mark is used and renewed every 15 years. Registration also provides the owner with the exclusive right to the trademark and the right to sue should the mark be infringed without authorisation.<sup>448</sup> Given this requirement to adduce substantial evidence, “there is generally a certain level of resistance from applicants.”<sup>449</sup> This coupled with cost, has meant occasions in which s12 and s14 are relied upon are rare. One particular success story however, is that of Robert Downey Jr (Iron Man) who made a successful claim under s14 covering motion picture films and entertainment services.<sup>450</sup> Nevertheless, it is important to acknowledge this is the exception and claims under these provisions rarely come to fruition.

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<sup>447</sup> Oyen Wiggs, Christina Kwok, (2018) “How to register a famous name as a trademark in Canada,” <<https://patentable.com/how-to-register-a-famous-name-as-a-trademark-in-canada/>> accessed 10<sup>th</sup> September 2018

<sup>448</sup> Trademark Act (Canada), 1985, s19-20

<sup>449</sup> Bereskin and Parr LLP, Jennifer McKenzie, Jill Jarvis-Tonus, (2017) “Canada: The cult of personality (rights)”, <<https://www.lexology.com/library/detail.aspx?g=cf1699bb-bb99-4264-bcb0-27df2e5f9060>> accessed 10<sup>th</sup> September 2018

<sup>450</sup> Ibid

The Act further provides, under s9, that no person “shall adopt in connection with a business, as a trademark or otherwise, any mark consisting of, or so nearly resembling as likely to be mistaken for, the portrait or signature of any individual who is living or has died within the preceding thirty years.”<sup>451</sup> Thus, where an individual’s portrait or signature is adopted as a trademark, an infringement occurs. This is a prima facie infringement, where no proof of an unauthorised endorsement is required.<sup>452</sup> This issue appeared before the courts in *Carson v Reynolds*<sup>453</sup> in which Johnny Carson appealed against a decision which allowed the defendant to use the phrase “Here’s Johnny” (a phrase which the plaintiff had become famous for) as a trademark in connection with his portable toilet business. Although the defendant claimed the phrase was “merely to provide a catchy mark which suggests association with a John which in one sense means toilet,”<sup>454</sup> the court ruled that the phrase would portray to a significant number of people in Canada, a connection with the appellant. Since there is no connection between the respondent and appellant, the appellant being a living individual<sup>455</sup> and as such, allowed the appeal, refusing the registration of the trademark.

In *Baron Phillippe de Rothschild, S.A. v La Case de Habana Inc*,<sup>456</sup> the Rothschild family, famous for banking services and fine wine, sought redress under s9 against the defendant who was a cigar merchant, for using the phrase “Rothschild at Yorkville” as a trademark for its store which specialised in tobacco products.<sup>457</sup> The court held in favour of the plaintiff, stating that “the name falsely suggested a connection with a group of living individuals,”<sup>458</sup> whilst also holding that no proof of damage is required – “which makes it substantially easier for a plaintiff to obtain injunctive relief.”<sup>459</sup>

The above cases and overview of the relevant sections of the Trademark Act, indicate that the use of trademark legislation is one avenue in which celebrities can pursue, in addition to that of the privacy acts, in order to protect their persona from unauthorised exploitations in Canada. Ultimately, the concerns regarding the contrasting functions outlined in the

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<sup>451</sup> Trademark Act (Canada), 1985, s9(1)(l)

<sup>452</sup> Anna Loparco, Regan E. Dahl, (2016) “Protecting Professional Athletes’ Personality Rights in Canada”, page 4 available via americanbar.org

<sup>453</sup> [1980] 115 D.L.R. (3d) 139

<sup>454</sup> Ibid [2]

<sup>455</sup> Ibid [9]

<sup>456</sup> [1987] 19 C.P.R. 3d 114

<sup>457</sup> Anna Loparco, Regan E. Dahl, (2016) “Protecting Professional Athletes’ Personality Rights in Canada”, page 4 available via americanbar.org

<sup>458</sup> Ibid

<sup>459</sup> Ibid

previous chapter remain relevant. It is also noteworthy that the ability to register names under s12 and s14 is not an easy nor straight forward process; requiring substantial evidence and cost, whilst the existence of s14 (for foreign applicants) is likely to cease in the near future. S9 may provide some relief in instances where an individual's signature or portrait has been used, however the above discussed cases were brought before the courts some thirty years ago and are small in number. This suggests that the use of trademark law for the purpose of protection the celebrity persona, although possible, is not a frequent nor uncomplicated avenue and celebrities are likely to look elsewhere in their quest for protection, particularly after s14 is repealed.

#### 4.9. *Copyright Law*

At present, there is little literature on the use of copyright law in the protection of the celebrity persona, whilst the case law which does exist is in relation to the copyright ownership of a particular image, rather than the overall persona of the individual, which celebrities wish to protect. The starting point is the definition of works in which copyright may exist under the Copyright Act 1985, s5(1) which states copyright shall subsist in "every original literary, dramatic, musical and artistic work."<sup>460</sup> This, similar to the s1 definition in the CDPA, also providing a wide definition. As such, in theory, it could be possible to obtain copyright in the image of a celebrity. However, in the absence of literature or decisions of the court, it is difficult to discern whether this definition would be permitted to cover every image of a particular celebrity, or rather one image which they wish to protect.

In respect of a particular image of a celebrity, it is important to note that s13(1) states that the "author of the work shall be the first owner of the copyright therein."<sup>461</sup> As such, should a photographer take a picture of a celebrity, they shall own the copyright in the photograph. However, s13(3) states that should the person taking the photograph have done so in the course of their employment, then the employer will be the owner of the photograph.<sup>462</sup> In terms of the celebrity persona, this will allow celebrities copyright ownership in any photographs they have commissioned their employees to take. However, it is important to note that where the individual is regarded as a worker and not an employee, the celebrity will not be able to obtain ownership in the photograph. In the event that the person taking

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<sup>460</sup> Copyright Act (Canada), 1985, s5(1)

<sup>461</sup> Ibid s13(1)

<sup>462</sup> Ibid s13(3)

the photograph of the celebrity is not an employee, this does not give the individual the right to commercially exploit this image; under the common law of Canada (which shall be discussed), a celebrity has “a proprietary right in the exclusive marketing for gain of his personality, image and name, and that the law entitled him to protect that right if it is invaded.”<sup>463</sup>

As such, it is evident that the use of copyright law in the protection of the celebrity persona is not a common occurrence in Canada. In theory, s5 allows the registration of the celebrity image for copyright protection given its wide definition, however for the time being, this has yet to be tested in the courts.

#### **4.10. The Common Law**

In contrast to the United States, where privacy law developed from both statutory and common law based upon protecting individual privacy,<sup>464</sup> and in the UK given its origins in *Prince Albert v Strange*, and more recently with the impact of the ECHR, the Canadian legal system does not include “no similar foundation in privacy.”<sup>465</sup> The development of the common law in Ontario has evolved not from reliance upon the traditional intellectual property remedies as in the UK, but from the creation of a new tort, established by a small number of cases. Before the introduction of this tort, claimants generally relied upon the court’s interpretation of the traditional intellectual property laws such as defamation or passing off, often by virtue of a reliance upon decisions in the courts of the Commonwealth (as discussed above.)

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<sup>463</sup> Athans v Canadian Adventure Camps [1977] 17 O.R. (2d) 425, <<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

<sup>464</sup> Robert G. Howell, Loyala of Los Angeles Entertainment Law Journal, Volume 18, Issue 3, “Publicity rights in the common law provinces of Canada” (1998) 487, 490

<sup>465</sup> Robert G. Howell, Loyala of Los Angeles Entertainment Law Journal, Volume 18, Issue 3, “Publicity rights in the common law provinces of Canada” (1998) 487, 490

#### 4.10.1.

#### *Krouse v Chrysler Canada Ltd*

The High Court of Ontario's first foray into a common law protection of the celebrity persona came in *Krouse v Canada Ltd*,<sup>466</sup> a case in which the facts are similar to that of *Irvine* in the UK. The dispute arose between professional football player Bob Krouse, and car manufacturer Chrysler. Chrysler embarked upon an advertising campaign which not only promoted their cars, but the device in question bore the names and numbers of professional football players. One photograph featured Krouse in a "defensive football scene" in which only he was identifiable, albeit from behind, by his number 14 jersey.<sup>467</sup> Notably, no consent or copyright issue existed; Chrysler had obtained the right to use the photograph from the original photographer, who likewise had permission from Krouse's club.

Krouse complained the photograph constituted an unauthorised commercial exploitation of his personality. Krouse, similar to the acknowledgement of Laddie J in *Irvine* that celebrities' have the ability to earn substantial amounts of money from promoting their image,<sup>468</sup> argued the use of his image was a "trespass" against his right to "realise, if he can, a commercial advantage from the notoriety which professional athletes in our community and in these times possess."<sup>469</sup> Dismissing the use of trespass, the court held it would not be "the appropriate basis for any such alleged wrongful appropriation since such a wrong would fall within the classification of an action on the case,"<sup>470</sup> by virtue of the fact "the plaintiff must prove both injury and damages if he is to succeed in the action...the evidence indicates... the respondent Krouse was able to realise some slight tangible benefit from the commercial community by licensing the use of his image or personality."<sup>471</sup>

However, despite its dismissal of trespass as an appropriate remedy, the court accepted the existence of a tort of appropriation of personality within the common law. It stated that, "there is indeed some support in our law for the exploitation of a remedy for the appropriation for the commercial purposes of another's likeness, voice or personality," before ruling, "the common law does contemplate a concept in the law of torts which may

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<sup>466</sup> [1974] 1 O.R. (2d) 225

<sup>467</sup> Ibid

<sup>468</sup> [2002] 1 W.L.R. 2355, [39]

<sup>469</sup> *Krouse v Chrysler Canada Ltd* [1974] 1 O.R. (2d) 225

<<http://www.canlii.org/en/on/onca/doc/1973/1973canlii574/1973canlii574.html?searchUrlHash=AAAAQA Ra3JvdXNlIHVgY2hveXNsZXIAAAAAAQ&resultIndex=2>> accessed December 7<sup>th</sup> 2016

<sup>470</sup> Ibid

<sup>471</sup> Ibid

be broadly classified as the appropriation of one's personality."<sup>472</sup> The entirety of the "support" in the law referred to is discussed by the court as follows (it is important to highlight that this is the only support by which the court created the tort of appropriation of personality).

"*Tolley v. J.S. Fry and Sons Limited*, supra, although based in the law of libel does in the end protect a public athletic figure from invasion of or aggression against his status as an athlete by commercial interests for their gain. Thus far the courts in this country and the United Kingdom have declined to found an award on any broad basis such as appropriation of personality or even an injury to the latent power of endorsement. Even in the United States such judgments, as have been granted, are largely based on statute. Indeed, the right first recognized in this general area of law, the right to privacy, has been held by the Court of Appeals of the State of New York not to apply to the incidental telecasting without authorization of a professional entertainer on a commercial television programme: *Gautier v. Pro-Football, Inc.* (1952), 304 N.Y. 354. There is, of course, no privacy legislation in Ontario."<sup>473</sup>

On analysis, the reasoning of the court is problematic due to the fact the support to which the court refers to does not indicate the existence of an appropriation of personality tort. In *Tolley*, the claim of the appellant was based upon the law of defamation (which has been highlighted above as wholly unsuitable for the purposes of protecting the celebrity persona from authorised exploitations) and takes place within the UK. As the court acknowledges, the UK has no legislation which protects a celebrity from an appropriation of personality and is based upon traditional intellectual property remedies. U.S. authority is based predominately on statute and not the common law, yet the court deems these jurisdictions as "support" of the existence of the appropriation of personality tort at common law. Thus, the courts in *Krouse* confirmed the existence of a tort based on a misunderstanding of support in the law from other jurisdictions – an original contribution of this thesis.

Despite confirming the existence of the tort, the Court of Appeal held that this right to realise one's commercial endorsements did not apply in *Krouse's* circumstances - conversely to the opinion of the High Court who ruled in favour of the plaintiff holding that there had been an unauthorised exploitation of his personality. The Court of Appeal

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<sup>472</sup> Ibid

<sup>473</sup> Ibid

acknowledged the reality of celebrity life, and rejected Krouse's claim that his image had been subject to exploitation on the basis of his occupation as a professional footballer and so Krouse, inevitably, should expect "some minor loss of privacy and even some loss of potential for commercial exploitation,"<sup>474</sup> as athletes "by the clearest implication, authorise and invite the communications media to photograph and write about their exploits."<sup>475</sup> For the court, "exposure would appear to be the life-blood of pro-sport."<sup>476</sup> This reasoning however, has the potential to cause controversy, on the basis of two main shortcomings. Firstly, the court fails to quantify how much "some" loss of privacy and exploitation amounts to; leaving this open to interpretation and providing minimal guidance. Similarly, the court held that athletes surrender their privacy and potential commercial earnings by virtue of their career choice (and would likely not apply in the circumstance of any other employment relationship). This decision was not based upon referral to any authority or legal principle, founded only upon a description of the relationship between sport and the media:

"Newspapers, magazines and television regularly produce articles, features and discussions about the game of football, past and present, and an almost endless flow of facts and speculations concerning individual games and participating players. In these general commentaries the reader or the viewer is also exposed to events occurring in games and in or about the lives of the participating professional athletes, all with at least the tacit approval of those who apparently benefit from such publicity, namely, the owners of the teams, and the individual players."<sup>477</sup>

Despite finding against the plaintiff *Krouse* is authority for the proposition (founded on the dubious interpretation of very limited case law outside of Canada) that the tort of appropriation of personality exists at common law. The tort has the potential to protect celebrities against unauthorised use, for commercial purposes, of their likeness, voice or personality. However, as Flagg argues the creation of this tort comes "like a bolt of lightning,"<sup>478</sup> leaving a number of unanswered questions for both celebrities and the courts themselves. The creation of the tort comes from the court's understanding of a "support"

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<sup>474</sup> Ibid

<sup>475</sup> Ibid

<sup>476</sup> Ibid

<sup>477</sup> Ibid

<sup>478</sup> Flagg, M. A. (1999), "Star Crazy: Keeping the Right of Publicity out of Canadian Law" <[http://adidem.org/Star Crazy: Keeping the Right of Publicity out of Canadian Law](http://adidem.org/Star_Crazy:_Keeping_the_Right_of_Publicity_out_of_Canadian_Law)> accessed December 7<sup>th</sup> 2016

within the law, yet upon reading such support, it appears problematic and it is questionable as to whether such support exists in the first instance. The court's assumption that athletes' surrender privacy and potential commercial earnings as a consequence of professional sport or its failure to indicate how much privacy or potential earnings athlete should expect to lose, is also controversial and has the potential to cause issues for athletes in their pursuit to exploit and benefit commercially from their persona.

In any case, the creation of the tort of appropriation of personality in *Krouse* provided minimal guidance on its limits and protections and was based on a misunderstanding of the law in the first instance.

#### **4.10.2. *Athans v Canadian Adventure Camps***

*Athans v Canadian Adventure Camps*<sup>479</sup> affirms the existence of the tort within Ontario, whilst also clarifying the scope of the protection which an unlawful appropriation of personality provides. Athans, a famous water skier, purchased a photograph of himself in action, which having been utilised so often for commercial purposes, had become akin to his trademark.<sup>480</sup> The defendants, Canadian Adventure Camps (CAC), ran children's summer camps. In both their brochure and in an advertisement in a water skiing magazine, CAC printed the photograph of Athans, in the form of a drawing. Athans was recognisable in the drawing, although it is noteworthy that his physical characteristics could not be explicitly made out. Athans raised an action against CAC on the basis of both passing off and appropriation of personality.<sup>481</sup>

Athans' claim of passing off failed on the basis that there was no likelihood of confusion – the public would not be deceived into thinking that the athlete had endorsed the summer camps. Referring to the UK judgment in *McCulloch v. Lewis A. May (Produce Distributors) Ltd*,<sup>482</sup> as authority to highlight the main requirements of a passing off action, the court stated an action would require: existing goodwill, a misrepresentation, the likelihood of damage and a common field of activity.<sup>483</sup> This is useful to serve as evidence

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<sup>479</sup> [1977] 17 O.R. (2d) 425

<<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

<sup>480</sup> Ibid

<sup>481</sup> Ibid

<sup>482</sup> [1947] 2 All E.R. 845

<sup>483</sup> [1947] 2 All E.R. 845, [849]

that the courts considered commonwealth authorities and traditional remedies in circumstances of unauthorised exploitations of the celebrity persona. The court concluded,

“the problem for the plaintiff lies not with the "common field" element because the plaintiff and the defendant are both to greater or lesser degree engaged in the business of exploiting the sport of water-skiing commercially. The decisive point, however, is that, as I hold, it is improbable that the relevant segments of the public who would read the advertisement and the brochure would associate the business of C.A.C. with the athlete, George Athans. As I have said, there is no evidence that any but the most knowledgeable persons concerned in the sport of water-skiing would identify the drawings with Mr. Athans.”<sup>484</sup>

As such, it can be concluded that the outcome of the case would not have changed post-*Irvine* and the abandonment of the common field requirement, given that this was not fatal to the judgment.

The tort of appropriation of personality however, provided Athans with a positive outcome. Affirming *Krouse*, whilst also clarifying “the nature of this tort by infusing the right appropriated with characteristics of property rights,”<sup>485</sup> the court stated, “it is clear that Mr Athans has a proprietary right in the exclusive marketing for gain of his personality, image and name, and that the law entitles him of protect that right, if it is invaded.”<sup>486</sup> Notably, the term “proprietary right” is indicative of a substantial form on protection. On analysis of whether a wrongful appropriation of personality had occurred, the court adopted two differing approaches.

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<sup>484</sup> Athans v Canadian Adventure Camps [1977] 17 O.R. (2d) 425, <<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

<sup>485</sup> Susan H. Abramovitch, (2000), Canadian Business Law Journal “Misappropriation of personality” Canadian 230, 233

<sup>486</sup> Athans v Canadian Adventure Camps [1977] 17 O.R. (2d) 425, <<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

The first basis concerned “the classic elements of tort: wrongful action, damages and causation.”<sup>487</sup> On this approach, the Judge found that CAC had not infringed the athletes’ personality: the public would not infer that Athans had endorsed the camps,<sup>488</sup> and even if that inference could be drawn, Athans suffered no loss or damage,<sup>489</sup> by virtue of the fact his image/reputation was not damaged nor diminished by the advertisements.<sup>490</sup>

The court’s second approach however, provides further clarification of the tort. The court noted that rejection of the first aspect of his claim,

“does not dispose of the matter. The defendants have used the image of George Athans for their commercial advantage... Although Mr. Steventon, the artist who created the drawings complained of, clearly stated that he created them from the original photograph... and did not make a copy of anything, the drawings bear such a striking resemblance to Mr. Athans' promotional material in the form of the photograph and its various derivatives that I have described, as to lead to the inescapable inference that the defendant's drawings were merely a further representation of Mr. Athans' "trademark" pose”<sup>491</sup> – concluding that Athans was indeed identifiable in the advert. The Court continued, “Mr. Athans had, as I find, adopted the photograph...and the various representations of it, as his distinctive indicia. He used them as an essential component in the marketing of his personality, which he had an exclusive right to do. The commercial use of his representational image by the defendants without his consent constituted an invasion...of his

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<sup>487</sup> Susan H. Abramovitch, (2000), Canadian Business Law Journal “Misappropriation of personality” Canadian 230, 234

<sup>488</sup> “On a careful reading of the advertisement and brochure as a whole, I cannot detect that there is any possible suggestion, apart from the drawings themselves, that Mr. Athans is in any way associated with the camp. On the basis of the drawings alone, it is not only improbable, but is highly unlikely that potential customers of the camp would consider that George Athans.” Athans v Canadian Adventure Camps (1977) 17 O.R. (2d) 425,

<<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

<sup>489</sup> “Mr. Athans has suffered no injury or damage (apart from what I shall say later) by the action of the defendants.” Athans v Canadian Adventure Camps [1977] 17 O.R. (2d) 425,

<<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

<sup>490</sup> “the plaintiff has not satisfied me that he has suffered any injury or damage even assuming that some vague connection could be made by members of the public between his personality and the defendant's camp.” Athans v Canadian Adventure Camps [1977] 17 O.R. (2d) 425,

<<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

<sup>491</sup> Athans v Canadian Adventure Camps [1977] 17 O.R. (2d) 425,

<<http://www.canlii.org/en/on/onsc/doc/1977/1977canlii1255/1977canlii1255.html?resultIndex=2>> accessed September 6<sup>th</sup> 2016

exclusive right to market his personality and this, in my opinion, constitutes an aspect of the tort of appropriation of personality. This conduct gives rise to an action sounding in tort that is separate and distinct from any action based on infringement of trademark or copyright, should that exist.”<sup>492</sup>

As such, the court found in favour of Athans on the basis that the tort of appropriation provides an athlete/celebrity with the exclusive right to market their personality and any unauthorised exploitation of such, where they are identifiable, whether damaging or not (in contrast to the requirements of passing off) constitutes and infringement of this right.

*Athans* serves as confirmation of the existence of the tort of appropriation of personality at common law – the process followed by the court being indicative of a free-standing tort which protects and allows for the promotion of the celebrity persona. *Krouse* warranted protection for the unauthorised use of one’s likeness, voice and personality, whilst *Athans* extends this into the protection of one’s image through portraits and caricatures,<sup>493</sup> under the condition that the plaintiff is identifiable in the appropriation. However, the questions left unanswered by *Krouse* remain; the tort of appropriation of personality exists in spite of no legal history and *Athans* simply extends a tort in which no legal structure, limit or scope is clearly defined.

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<sup>492</sup> Ibid

<sup>493</sup> Amy M. Conroy, (2012) University of Ottawa Faculty of Law, *Western Journal of Legal Studies*, “Protecting your personality rights in Canada: A matter of property or privacy”, page 12

#### 4.10.3. *Gould Estate v Stoddart Publishing Co*

*Gould Estate v Stoddart Publishing Co*<sup>494</sup> gives some further, albeit unclear, indication of what would be required for a successful appropriation of personality claim, although it is noteworthy that the case did not turn on the tort itself. Glenn Gould, the famous concert pianist, was interviewed for the Weekend Magazine by journalist Jock Carroll. Carroll took numerous photographs of the musician, as well as a recording of the interview itself.<sup>495</sup> Some forty years later, fourteen years after the passing of Gould, Carroll published “Glenn Gould: Some portraits of the artist as a young man”<sup>496</sup> – a book based on his previous interview. The Gould Estate sought redress on the basis of breach of contract, breach of copyright and upon the tort of appropriation of personality.<sup>497</sup>

The High Court rejected both the breach of contract and breach of copyright claim, the former on the basis “there was no contract between them, and on the record there was no evidence that Gould or his agent imposed any limitation on the consent”<sup>498</sup> and the latter on the basis that no breach had occurred by virtue of the fact Carroll was the

“owner of the copyright, and he was the owner of the copyright in the captions and narrative by virtue of being the author. It was evident that Gould did not have a copyright with respect to his oral utterances or in the written material derived from them.”<sup>499</sup>

Having rejected both initial claims, the High Court thereafter dismissed appropriation of personality briefly. In its opinion,

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<sup>494</sup> [1996] 30 O.R. (3d) 520, [1998] OR (3d) 545  
<[www.canlii.org/en/on/onsc/doc/1996/1996canlii8209/1996canlii8209.html?resultIndex=1](http://www.canlii.org/en/on/onsc/doc/1996/1996canlii8209/1996canlii8209.html?resultIndex=1)> accessed September 14<sup>th</sup> 2016> accessed 2th October 2018

<sup>495</sup> Ibid

<sup>496</sup> Jock Carroll, (1995). “Glenn Gould: Some portraits of the artist as a young man”

<sup>497</sup> *Gould Estate v Stoddart Publishing Co* [1996] 30 O.R. (3d) 520  
<[www.canlii.org/en/on/onsc/doc/1996/1996canlii8209/1996canlii8209.html?resultIndex=1](http://www.canlii.org/en/on/onsc/doc/1996/1996canlii8209/1996canlii8209.html?resultIndex=1)> accessed September 14<sup>th</sup> 2016

<sup>498</sup> Ibid

<sup>499</sup> Ibid

“the concept of appropriation of personality has no application. Once Gould consented, without restriction, to be the subject-matter of a journalistic piece, he cannot assert any proprietary interest in the final product nor can he complain about any further reproduction of the photographs nor limit the author of the journalistic piece from writing further about him.”<sup>500</sup>

Referring to the decision of the Superior Court of Justice, the Court of Appeal noted;

“the motions judge approached the case as an issue of misappropriation of personality, but the case could be decided on the basis of conventional principles related to copyright, and in accordance with those principles, the disposition of the motions and the dismissal of the actions was correct and the appeals should be dismissed,”<sup>501</sup>

essentially stating that as the case could have been decided on the basis of copyright alone (i.e. Gould had no copyright ownership as he had consented to the interview and was not the owner of the work), there was no need to assess the claim of appropriation of personality. This suggests that should a celebrity consent to a piece of work about them (an article or photograph), they cannot claim at a later date that their personality was appropriated through the use of the work, due to not being the owner of the copyright.

This approach appears to contradict the ratio of *Athans*, where no dispute arose as to the copyright ownership of the CAC’s advertisement materials - yet the claim as to appropriation of personality succeeded. As Abramovitch explains,

“In *Gould*, Finlayson J.A. held that ownership of a work disposed of the matter without considering the limitations of ownership rights. It is trite law that ownership rights cannot be exercised where they cause harm to another, and the courts have, since *Krouse*, accepted that misappropriation of personality is one such restricted harm.”<sup>502</sup>

In any case, clarification upon this issue by the courts is desirable.

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<sup>500</sup> Ibid

<sup>501</sup> Ibid

<sup>502</sup> Susan H. Abramovitch, (2000), Canadian Business Law Journal “Misappropriation of personality”, 230, 237

The decision of the lower court is useful, however, in addressing the issue of appropriation of personality and of the limitations of the tort itself, namely: the types of commercial gain required for a successful claim and the duration of the right of personality. *Krouse*, remains the only judgment of the appellate courts and any consideration as to the tort's scope is necessarily rather speculative given this very limited case history. The tort of appropriation of personality should be balanced, on the basis of public policy, against freedom of expression (in line with the approach set down by the ECHR), however, for Lederman J, remedy for the tort should not encompass unrestricted commercial exploitation. Unlike *Krouse* and *Athans*, the book on Gould could not be regarded as being for solely commercial purposes, rather, it sought to give an insight into the life of one of Canada's highest regarded musicians.

Therefore, the lower court distinguished between the types of commercial advantage applicable in appropriation of personality cases, by means of the "sales v subject" distinction. The former will evoke the protection of the tort, whilst the latter provides no remedy. Sales exploitation shall occur where "the identity of the celebrity is merely being used in some fashion. The activity cannot be said to be about the celebrity."<sup>503</sup> For example, sales exploitation covers instances in which the celebrity's image has been used without authorisation, namely in false endorsement cases. Conversely, subject exploitation, occurs "where the celebrity is the actual subject of the work or enterprise, with biographies perhaps being the clearest example....the subject of the activity if the celebrity and the work is an attempt to provide some insights about that celebrity."<sup>504</sup> By the reasoning of Lederman J, under the common law tort of appropriation of personality in Ontario, a successful claim requires not only commercial benefit for the defendant, but said benefit must occur from endorsement or similar circumstances and shall reject instances in which information about a celebrity is simply conveyed to the public.

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<sup>503</sup> *Gould Estate v Stoddart Publishing Co* [1996] 30 O.R. (3d) 520  
<[www.canlii.org/en/on/onsc/doc/1996/1996canlii8209/1996canlii8209.html?resultIndex=1](http://www.canlii.org/en/on/onsc/doc/1996/1996canlii8209/1996canlii8209.html?resultIndex=1)> accessed  
September 14<sup>th</sup> 2016

<sup>504</sup> *Ibid*

With regard to the duration of the tort, the court established that an individual's right to their personality, or rather their descendants' right, shall exist beyond death. Following discussion of the statutory frameworks within Canada and with references to a number of U.S. examples, the court held,

“the right of publicity, being a form of intangible property under Ontario law akin to copyright, should descend to the celebrity's heirs. Reputation and fame can be a capital asset that one nurtures and may choose to exploit and it may have a value much greater than any intangible property. There is no reason why such an asset should not be devisable to heirs.”<sup>505</sup>

The significance of this is that it confirms the tort of appropriation of personality is transferable upon the celebrity's decease. In contemplation of the duration of this right, the court stated,

“for present purposes though, suffice it to say that Gould passed away in 1982, and it seems reasonable to conclude that whatever the durational limit, if any, it is unlikely to be less than fourteen years. The protection granted by other intangible property rights such as patents and copyrights is longer. So, too, any durational limit on Gould's right of publicity would not yet have expired.”<sup>506</sup>

In any case, it is legitimate to assume under common law, the duration of the tort of appropriation of personality exists beyond death by a period of not less than at least 14 years.

*Gould* did not turn upon appropriation of personality, however, the ruling of the lower court (Ontario Court, General Division) provides a little more illustration as to its scope by emphasising that the defendant must benefit from commercial gain. This gain however, cannot be realised from simply conveying information about a celebrity, in the subject context, but must have been founded upon an instance in which a celebrity's personality is used for a particular purpose, mainly in endorsement situations. This distinction; allows for freedom of expression whilst also preventing a monopolisation by celebrities over “what goes public” and in light of *Gould*, it is clear that the tort of appropriation of personality shall exist for a period of no less than 14 years after death.

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<sup>505</sup> Ibid

<sup>506</sup> Ibid

#### 4.10.4.

#### *Horton v Tim Donut Ltd*

The scope of the common law tort is defined further in *Horton and Tim Donut Ltd* (TDL).<sup>507</sup> Tim Horton, a professional hockey player and well-known Canadian celebrity, opened a number of donut stores with his partner Ronald Joyce. Following his passing in 1974, Horton's widow sold her share of the restaurants to Joyce. Joyce opened the "Tim Horton Charitable Foundation" – a charity created to aid disadvantaged children. In order to raise money for the charity, Joyce hung and sold a number of photographs of Horton in various stores. Mrs Horton began proceedings against both Joyce and Tim Donuts for the appropriation of her late husband's personality for commercial gain.<sup>508</sup>

TDL requested dismissal of the action, to which the court agreed with the defendant that there was no evidence for a trial based upon the appropriation of Horton's personality. In the initial establishment of the businesses, Horton's personality, with his consent, had been licensed to both Joyce and Tim Donuts. Drawing a distinction between the present litigation and previous case law, the court noted,

"Unlike the facts in *Krouse, Athans* and *Gould*, the concept of TDL was developed by Tim Horton and Ronald Joyce with a view to exploiting the commercial personality of Tim Horton in the restaurants which bear his name and image. Representations of Tim Horton, including his name, signature and photographic likeness in hockey uniform, were part of early marketing initiatives of the company."<sup>509</sup>

By virtue of these facts, the court held,

"TDL acquired the personality rights of Tim Horton...if I apply the reasoning in *Krouse* and *Athans* to these facts, I do not see how the hanging of the portrait in stores which already represent the commercial personality of Tim Horton, raises a triable issue that amounts to a lost marketing opportunity for the state."<sup>510</sup>

As such, it can be concluded that the tort shall only be applicable in so far as the celebrity personality has not previously been licensed with authorisation.

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<sup>507</sup> [1997] CPR (3d) 451

<sup>508</sup> *Horton v Tim Donut* [1997] CPR (3d) 451,

<<http://www.canlii.org/en/on/onsc/doc/1997/1997canlii12372/1997canlii12372.html?resultIndex=1>> accessed September 15<sup>th</sup> 2016

<sup>509</sup> *Ibid*

<sup>510</sup> *Ibid*

By virtue of *Horton*, one can tentatively argue that appropriation of personality shall not be available in circumstances where the celebrity's personality is used for charitable reasons, as opposed to overtly commercial ones. The court stated,

“the portrait in question had as its purposes a charitable object. The proceeds from the limited edition prints were directed to this end<sup>511</sup>...It is inescapable and uncontradicted that the predominant purpose of the portrait is charitable and commemorative. It is neither exploitive, nor commercial.”<sup>512</sup>

For the court, the portrait fell into the “subject” category as distinguished by *Gould*;

“just as the author in *Gould*, added his own creativity to the book on *Gould*'s life, so here, has Mr Danby sought to express through his artistic talent, a portrayal of a great Canadian sports figure. In my view, this is of as much public interest to the sports world as a book on Mr *Gould*'s life is to the music world. Any commercial purpose is incidental at best. Accordingly, the portrait falls into the protected category and there is no right of personality in *Tim Horton* which has been unlawfully appropriated.”<sup>513</sup>

*Horton* provides that any appropriation of one's personality, which has previously been licensed to the defendant by the celebrity in question, is not an unlawful appropriation. In reality, should celebrities license aspects of their personality, for example a particular image to a particular business, they cannot thereafter claim control or rather a right to control its usage. Within the tort, appropriations for charitable purposes, shall not be covered. By virtue of *Horton*, it is legitimate to conclude that unless the appropriation is for commercial gain, it shall not be covered by the common law.

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<sup>511</sup> Ibid

<sup>512</sup> Ibid

<sup>513</sup> Ibid

#### 4.11. *The Protection of Image Rights in Canada: Conclusion*

The protection of image rights in Canada is comprised of various rights. Instead of a reliance on the traditional intellectual property remedies, as is the approach favoured by the UK, Canadian law relies on a combination of common and statutory law. These laws, regardless of their differences, clearly define what an individual's 'image rights' consist of. Such an approach in the UK would ultimately allow HMRC to determine what constitutes an image worthy of a tax reduction. The nature of sports in Canada, in particular hockey, has created a culture in which sport is engrained within society, with considerable fan bases, player salaries and endorsement opportunities. Canada's hosting of mega events has similar increased potential endorsement opportunities as well as earning Canada a place within the global sports market. These endorsement opportunities, globalised events, nor a crisis of under-protection however, were the reason for the introduction of the statutory or common law. The former was introduced on a reluctance to rely on the commonwealth precedent in relation to the traditional intellectual property remedies, whilst the latter was based on a misunderstanding of support in the law, based upon British and U.S. law.

The privacy acts provide a statutory basis by which an individual's image or persona can be protected from unauthorised exploitations. In spite of the criticisms regarding their infrequent use and lack of specificity, the positive nature of existing legislation in the first place should be acknowledged. The acts provide a statutory basis by which athletes are aware of their rights and have the ability to seek legal redress should they desire to do so. Similarly, the use of trademark law and copyright law provide another avenue by which celebrities may protect their persona, although it is noteworthy that these avenues (particularly copyright) have been rarely used in terms of the protection of image rights.

The tort of appropriation of personality exists solely within the common law of Ontario. Its scope and limitations have been developed in a small number of cases, and its emergence can be regarded as testing the boundaries of the common law. From the above-mentioned authorities, the following conclusions regarding its scope and limitations can be drawn. Its existence is confirmed by *Krouse* and *Athans*, and it can be said to cover the exploitation, for commercial purposes, of one's likeness, voice, personality and even portrait or caricature – illustrative of a wide scope. However, as established in *Krouse*, celebrities and athletes alike are expected to suffer some loss of privacy as a result of their status and the common law will allow for this – denying a complete monopoly over one's personality.

For a successful claim, the plaintiff must be identifiable in the complained appropriation. By virtue of *Athans*, appropriations where the plaintiff cannot be identified shall not be covered by the tort. Similarly, for a claim to be successful, the defendant must enjoy commercial gain, determined by the sales v subject distinction. Appropriations which simply give information about a celebrity, for example a biography, shall not be covered by the tort. Successful appropriations must be endorsement type situations, where the celebrity's personality has been used for commercial advantage – as established in *Gould*. *Gould* further clarifies the tort in that rights to one's personality shall extend beyond death and last for a period of at least, 14 years.

The tort of appropriation shall not cover instances in which one's personality has already previously been licensed to the defendant or whereby the celebrity's personality has been used for charitable purposes, as seen in *Horton*, and so celebrities cannot complain of how their personality is exploited should they have previously given rights to the exploitation their persona.

These conclusions about the scope of the common law, in some instances, differ from the protections provided under the Privacy Acts. For example, the requirement that appropriations must not be for charitable purposes (*Horton*), is not mirrored within any of the provincial Acts. Similarly, *Gould's* precedent that the appropriation must be for endorsement/commercial purposes and not the simple conveyance of information to the public, is only present within the Act of British Columbia; whilst none of the above authorities require intent on the part of the defendant, all Acts (with the exception of British Columbia) do. Also, in contrast to the common law, is the fact that the legislation of Newfoundland, British Columbia and Saskatchewan all provide that personality rights are extinct upon death, whilst *Gould* is illustrative that under the common law of Ontario, the right to personality shall continue for a period of at least 14 years beyond death. Notably, in Manitoba, Saskatchewan and Newfoundland, the Acts state that the statutory rights provided for shall exist in addition to any other right of action.<sup>514</sup> Although the Act of British Columbia is silent on this matter, in *Joseph*, the Court “took the view that the statutory right of action shall exist in addition to the common law right of action.”<sup>515</sup> Should the legislators in Ontario decided to create legislation mirroring the current Privacy

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<sup>514</sup> Manitoba Privacy Act, 1988, s6, supra note 10, Newfoundland Privacy Act, 1981, s7(1) supra note 10, Saskatchewan Privacy Act, 1979, s8(1), supra note 10

<sup>515</sup> Amy M. Conroy, (2012) University of Ottawa Faculty of Law, Western Journal of Legal Studies, “Protecting Your Personality Rights in Canada: A Matter of Property or Privacy?” page 7

Acts, it shall be interesting to see how they reconcile the differences in the protections given between the common and statutory law.

#### **4.12. *Image Rights or Taxation Benefits?***

The aforementioned conclusions, however, do not provide a satisfactory legal framework which outlines the scope and limitations of the tort. Rather, the ruling in *Krouse* left many unanswered questions for the courts in subsequent cases. From the celebrity's perspective, the development of the tort is doubtless a positive development – a judicial recognition of the legitimacy of their desire to promote and protect their persona in a jurisdiction where the legislator had failed to do so. The creation of the tort also highlights the unsuitability of traditional intellectual property remedies in providing remedy in cases of unauthorised character merchandising. Ultimately however, it is important to acknowledge the way in which the tort has developed; in absence of any legal authority and guidance from the legislators. Generally, the common law should only intervene in matters of pressing public interest, to promote a response from Parliament. It is unlikely that athletes merchandising rights fall within this category. The common law should develop in accordance with the precedent set down by previous decisions and it is questionable as to whether the support in law which is referred to in *Krouse* is support at all - leading to the conclusion that the development of the tort of appropriation of personality goes beyond what may be considered a legitimate example of common law interpretation and incremental extension. In any case, in the context of athletes and character merchandising, Ontario is an example of judicial activism that goes beyond the bounds of incremental development of the common law.

In terms of the protection of image rights in the UK and Canada, it is clear both jurisdictions provide different means of protection. Although the existence of legislation and/or the common law instead of a reliance on remedies which were not designed to deal with the issues which image rights disputes present is preferable, this is not to say that the UK approach fails to deal with the issues at hand or provide remedy. Generally, the reliance on intellectual property laws has protected individuals such as Naomi Campbell, Michael Douglas and Catherine Zeta-Jones, Eddie Irvine, Rihanna and Damon Hill from unauthorised commercial exploitations of their privacy. These protections were sought from a variety of remedies including passing off, breach of confidence and trademark law. Although the remedies sought by the claimant in *Joseph v Daniels* or by Bob Krouse were

sought by different legal means, the remedies generally provided individuals with protection against the unauthorised use of their personae. This presents a similar situation to that of the image rights survey in chapter one whereby different legal mechanisms were employed to address the contractual dispute, yet the remedies provided largely the same solution. This, coupled with the relatively small amount of cases which have troubled the courts suggests that the protection of image right is not an area of law which is experiencing a crisis of under-protection.

Rather, it is the proposal of this thesis that the protection of image rights is a piece of a bigger puzzle. The above research upon image rights in the EU28 and the specific legal mechanisms utilised in the UK and Canada in cases of unauthorised image rights exploitation indicate that the issue is not an overwhelming problem within the jurisdictions, justified by the small number of cases and the fact that states are generally able to provide legal redress in the absence of specific legislation. As such, this thesis proposes that specifically in the UK, the importance of image rights exploitation is closely linked to the ability to make tax savings when in possession of a valuable 'image right'. The UK courts' and legislator's reluctance to define an image right has ultimately allowed athletes who do not necessarily have the requisite 'goodwill' (as defined by HMRC to quantify image) to make taxation savings based upon an image which is, in some cases, not valuable. Additionally, it has caused a system which is unpredictable and unclear; for HMRC themselves, athletes and their advisors. As such, the forthcoming chapter will examine the relationship between athlete endorsement earnings in the UK and the taxation benefits/liabilities which follow in order to assess whether image rights law (or lack of) goes hand in hand with tax law in terms of providing commercially attractive athletes with the ability to make tax saving based on their endorsement earnings.

**5.1. *A Brief History of Taxation***

Benjamin Franklin once said, “in this world, nothing is certain except death and taxes;”<sup>516</sup> a quote which remains as true today as it was back in 1989. The existence of tax can be traced as far back to ancient Egypt, where Pharaoh’s used tax collectors known as scribes. This was not a monetary system but rather one where taxes were placed upon property, manual labour and harvest and where the Pharaoh’s relied upon a surplus of the goods received as taxes during times of drought, famine and in war.<sup>517</sup> Ancient Greece was made up of various “city-states” (essentially an independent state city and its surrounding territories). These individual states grew out of kinship groups – “collections of tribes, clans and families descended from the same ancestor.”<sup>518</sup> In the earliest system of Greek taxation, members of the kinship group would contribute food and other materials. With the introduction of Greek coinage in 500 B.C., these states became political powers who required revenue for public services such as the police and temple building. This revenue was raised from taxes, which were paid in the form of custom duties for carrying goods in and out of the state and excise duties, similar to the common day V.A.T. levied upon certain goods.<sup>519</sup>

In the U.K., the earliest tax was excise duties on the export of wool (1203) and wines (1275), whilst the Poor Law Tax in 1692 provided a means for parish-based aid for the destitute. Other early taxes include the Land Tax in 1692, the Coal Tax between 1667 until 1770 and the Window Tax of 1696.<sup>520</sup> In 1799, the first, albeit temporary, income tax was introduced by Prime Minister William Pitt the Younger, who was influenced by the

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<sup>516</sup> National Constitution Centre, “Benjamin Franklin’s Last Great Quote and the Constitution,” (2018) <<https://constitutioncenter.org/blog/benjamin-franklins-last-great-quote-and-the-constitution>> accessed 17th June 2019

<sup>517</sup> Tax Fitness, “The First Income Tax - Egyptian Pharaohs Tax (3000 BC)” (2017) <<https://taxfitness.com.au/Blog/the-first-income-tax-egyptian-pharaohs-tax-3000-bc>> accessed 17th June 2019. See also Ancient History Encyclopaedia, Mark, J, “Ancient Egyptian Taxes and the Cattle Count,” (2017) <<https://www.ancient.eu/article/1012/ancient-egyptian-taxes--the-cattle-count/>> accessed 17th June 2019.

<sup>518</sup> Ancient History and Civilisation, “Taxation”, <<https://erenow.net/ancient/ancient-greece-and-rome-an-encyclopedia-for-students-4-volume-set/437.php>> accessed 17th June 2019.

<sup>519</sup> Ancient History and Civilisation, “Taxation”, <<https://erenow.net/ancient/ancient-greece-and-rome-an-encyclopedia-for-students-4-volume-set/437.php>> accessed 17th June 2019. See also Frisby, D, “Voluntary Taxation: a lesson from the Ancient Greeks,” <<https://aeon.co/ideas/voluntary-taxation-a-lesson-from-the-ancient-greeks>> accessed 17th June 2019.

<sup>520</sup> UK Tax Essentials, “History of Taxation in the United Kingdom,” (2017) <<https://www.familymoney.co.uk/uk-tax/uk-tax-essentials/history-taxation-united-kingdom/>> accessed 17th June 2019

economist Adam Smith who had created the four principles of taxation, namely: proportionality, certainty, convivence and efficiency (to be discussed).<sup>521</sup> However, in the late 1700, Pitt also required funds for the war against revolutionary France. Following the abolishment of the tax in 1816, it was reintroduced in 1842 to pay for the Crimean War.<sup>522</sup> The welfare state as we know it today, was first introduced by Lloyd George in the Peoples Budget in 1909. George introduced a surtax for those who earned over £5000 in order to provide pensions and aid the redistribution of wealth; a distinct difference from the previous taxes which were viewed primarily as a revenue source. During the First World War, income tax was raised to 30% and increased again to 41% during World War Two, which also saw the introduction of a “purchase tax,” levied at different rates on different goods, replaced by V.A.T. in 1973. In post-war Britain, tax reached its highest rate of 90%.<sup>523</sup> Modern day well known taxes were gradually introduced, with Corporation Tax and Capital Gains Tax in 1965, Inheritance Tax in 1894 and National Insurance in 1948.

In Canada, the first recorded tax dates back to 1650, which placed an export tax on beaver pelts and moose hides to residents of New France.<sup>524</sup> The 1867 Constitution Act gave Parliament unlimited taxing powers. Parliament gave provinces the right to direct taxation (income and property). Until the period before the First World War, customs and excise taxes provided the majority of revenue, however, to help finance the war, the government introduced income, corporation and sales taxes.<sup>525</sup> During the Second World War, the Canadian system of taxation changed dramatically, in order to deal with the financial burden of the war itself. Instead of provincial tax, all the major tax sources including income tax and corporation tax were gathered federally for the duration of the war and one year post-war. By 1946, these direct taxes made up more than 50% of federal income.<sup>526</sup> Thus, taxes become a permeant feature federally, with income going back into provincial programmes such as health and education. Today, with the exception of Quebec, residents

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<sup>521</sup> Adam Smith, Edited By Edwin Cannan, “The Wealth of Nations” Volume 2 (Methuen)

<sup>522</sup> UK Tax Essentials, “History of Taxation in the United Kingdom,” (2017)  
 <<https://www.familymoney.co.uk/uk-tax/uk-tax-essentials/history-taxation-united-kingdom/>> accessed 17th June 2019

<sup>523</sup> Ibid

<sup>524</sup> The Canadian Encyclopaedia, Carter, G, “Taxation in Canada,” (2007)

<<https://www.thecanadianencyclopedia.ca/en/article/taxation>> accessed 17th June 2019

<sup>525</sup> Ibid

<sup>526</sup> Ibid

pay income tax both federally and provincially, with the federal government collecting both and then redistributing the funds through these programmes.<sup>527</sup>

The above provides a brief overview of the history of taxation and its development from Ancient Greece and Egypt to the U.K. and Canada. However, since one aim of this thesis is to establish whether reform is required in the UK in relation to the taxation of celebrity athletes and its image rights protections and another is to test the hypothesis that Canada offers a system of taxation which allows athletes to legitimately reduce their tax bills in a clear transparent and predictable manner, which the UK could look to as a model for reform, it is necessary to outline and explain the principles of a fair tax system and also to examine the theories of compliance to establish the ethics of taxation in relation to compliance or rather, at least in the UK, non-compliance of tax in relation to athlete image rights.

## **5.2. *The Principles of Taxation***

In a world where many governments have to finance public goods and services such as healthcare, education, policing and transport, raising revenue for said services is the primary purpose of taxation. As Alm and Torgler state, “individuals do not like paying taxes”<sup>528</sup> and as this research will show, in the context of the image rights of celebrity athletes in the U.K., individuals and their advisors will often find ways to reduce their tax bill, sometimes legally and sometimes not. When legislating for taxation laws, there are various principles which many writers and commentators have argued should be followed, the first of which were conceived by economist Adam Smith in his book “The Wealth of Nations.”<sup>529</sup> Before examining the specifics of image rights laws and taxation in the UK and Canada, it is beneficial to first comprehend the principles of a good taxation system which will in turn, contribute to the achievement of the research aims of this thesis. The thesis will primarily look at the original aims proposed by Smith.<sup>530</sup>

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<sup>527</sup> Turbotax, (26th January 2018) “Canada 2017: Provincial tax brackets and due dates”  
<<https://turbotax.intuit.ca/tips/canada-tax-federal-and-provincial-tax-tax-brackets-and-due-dates-141>>  
accessed 17th June 2019

<sup>528</sup> Alm, J, Torgler, B, Journal of Business Ethics, “Do Ethics Matter? Tax Compliance and Morality” (2011) page 2

<sup>529</sup> Adam Smith, Edited By Edwin Cannan, “The Wealth of Nations” Volume 2 (Methuen)

<sup>530</sup> For further theories of tax compliance, see Robert Jones, “The Nature and First Principle of Taxation,” 1914, (P.S. King and Son, Orchard House, Westminster). In particular, chapter 2.

Equality: Smith's first principle is that tax laws should demonstrate equality. He states,

“the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of the government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests of the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.”<sup>531</sup>

Under this maxim, Smith proposes that the wealthy will pay more tax than the poor. Smith argued that tax should be proportional to income of an individual and thus, everyone should pay the same percentage of their income as tax. However, modern economists and indeed governments have interpreted equality slightly differently from Smith. As such, in the UK and many other countries, a system of progressive income tax (and other types of tax) has been adopted to ensure the principle of equality, that is, as one's income rises, as does the rate of tax.<sup>532</sup> This is referred to as horizontal and vertical equity. Horizontal equity requires that tax payers in similar circumstances should pay a similar rate of tax whilst vertical equity suggests that taxpayers in better financial circumstances should bear the larger part of the tax burden. A good system of tax will ensure the maintenance of both horizontal and vertical equity.<sup>533</sup> In the context of this research, this thesis proposes that the system of taxation and image rights in the UK is not equitable, in that already high-earning athletes are allowed to make a taxation saving based upon their already valuable image. In Canada, a system where athletes are not able to make tax savings based on their image but rather on the basis of the short-nature of their career is equitable in the sense that they do indeed pay tax (albeit at a later date when their gross income is lower) but fails to meet the equitable principle in that ultimately, these athletes are earning substantially more than the everyday worker and allowing a reduction in tax is ultimately inequitable.

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<sup>531</sup> Adam Smith, Edited By Edwin Cannan, “The Wealth of Nations” Volume 2 (Methuen), page 350

<sup>532</sup> “Top Four Principles or Canons of a good tax system,”

<<http://www.yourarticlelibrary.com/economics/taxation/top-4-principles-or-canons-of-a-good-tax-system/38120>> accessed 18th June 2019

<sup>533</sup> OECD Library, “Addressing the Tax Challenge’s of the Digital Economy” Chapter 2, “Fundamental Principles of Taxation,” page 31 <<http://www.yourarticlelibrary.com/economics/taxation/top-4-principles-or-canons-of-a-good-tax-system/38120>> accessed 18th June 2019

Certainty: Smith's second maxim states taxation should be certain, that the presence of uncertainty ultimately encourages tax evasion, and a small degree of uncertainty is more consequential than a large degree of inequality. He explains;

“The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages insolence and favours the corruption of an order of men who are naturally unpopular, even where they are neither insolent or corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty.”<sup>534</sup>

Smith argues that tax rules should essentially be clear, transparent and predictable. As the Organisation for Economic Cooperation and Development (OECD) explains,

“a simple tax system makes it easier for individuals and businesses to understand their obligations and entitlements. As a result, businesses are more likely to make optimal decisions and respond to intended policy choices. Complexity also favours aggressive tax planning, which may trigger deadweight losses for the economy.”<sup>535</sup>

In the context of this research, the following chapters will illustrate that the tax laws relating to image rights and athletes in the UK fail to demonstrate the principle of certainty, primarily by virtue of the fact that an image right is protected in tax law which does not exist in law and through the failure of the tax authorities and legislature to define an image right for the purposes of taxation. Chapter Six, “Tax Law in Canada,” will illustrate that although there may be arguments for the equality of tax savings for already high-earning employees, the legislator and the Canadian Revenue Agency have succeeded where the

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<sup>534</sup> Adam Smith, Edited By Edwin Cannan, “The Wealth of Nations” Volume 2 (Methuen), page 350 - 351

<sup>535</sup> OECD Library, “Addressing the Tax Challenge’s of the Digital Economy” Chapter 2, “Fundamental Principles of Taxation,” page 31 <<http://www.yourarticlelibrary.com/economics/taxation/top-4-principles-or-canons-of-a-good-tax-system/38120>> accessed 18th June 2019

UK have failed in terms of certainty, by providing a system which is clear, transparent and predictable.

Convenience of Payment: This is the third maxim. Smith states that “every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.”<sup>536</sup> The administration of tax returns and their process is outside the scope of this thesis. However, briefly, given that corporation tax payments (which are chargeable to the image right payment instead of income tax under the PAYE system to be discussed in the forthcoming chapter) are due at the end of the tax year (April each year) it can be said that the UK generally meets the maxim of convenience of payment in terms of image rights whilst in Canada, the systems put in place to allow payment at a later date which is more convenient (albeit financially) to the athlete can also be said to achieve the third principle of taxation.

Economy in collection: the final maxim states that cost of obtaining taxes should be minimal. Smith states;

“Every tax ought to be so contrive as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings to the public treasury in the following four ways. First, levying of it may require a great number of officers, whose salaries may eat upon the greater part of produce of the tax, and whose perquisites may impose another additional tax on the people. Secondly, it may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy, some of the funds which might enable them to more easily do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. But the penalties of smuggling must rise in proportion to the temptation. The law, contrary to all the ordinary principles of justice, first creates the temptation and then punishes those who yield to it; and it

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<sup>536</sup> Adam Smith, Edited By Edwin Cannan, “The Wealth of Nations” Volume 2 (Methuen), page 351

commonly enhances the punishment too in proportion to the very circumstance which ought certainly to alleviate it, the temptation to commit the crime. Fourthly, by subjecting the people to frequent visits and the odious examination of the tax gatherers, it may expose them to much unnecessary trouble, vexation and oppression; and through vexation is not, strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it.”<sup>537</sup>

In the context of image rights and tax in the UK, this research will illustrate that the lack of certainty in the law has resulted in the requirement for dedicated teams (such as the Football Compliance Project) to investigate various clubs and players in order to attempt to reduce tax evasion. This has the potential to compromise the principle of economy in collection, whilst as will be shown, in Canada, the clear guidance regarding the mechanisms by which athletes can legally avoid tax, makes collection an easier and more transparent process.

Having established the principles of taxation and highlighted how the image right taxation systems in the UK may or may not meet these maxims, this next section will discuss theories of tax compliance. The purpose of this section is not to evaluate or make judgment upon the various theories, but rather to give an overview as to why individuals pay tax in the first instance in order to present a fuller picture of tax compliance or rather, non-compliance in the context of image rights.

### **5.3. *Theories of Tax Compliance***

This section will give an overview of what the researcher believes are the three main theories of tax compliance. These are as follows:

- The deterrence theory; which purports that the threat of detection and punishment for tax evasion is perceived too great a risk to taxpayers who subsequently comply with taxation laws.
- The theory of tax morale; which argues that individuals have an intrinsic motivation to pay taxes as a result of a psychological contractual relationship between the citizen and the state.
- The “common good” theory; that individuals pay taxes not due to fear of detection or because of a contractual relationship with the state, but because paying taxes

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<sup>537</sup> Adam Smith, Edited By Edwin Cannan, “The Wealth of Nations” Volume 2 (Methuen), page 351-352

allows the creation and maintenance of public services such as health and education, and is ultimately for the “common good.”

### 5.3.1. *The Deterrence Theory*

The deterrence theory was first put forward by Allingham and Sandmo in 1972 and based on Becker’s economic theory of crime in 1968. To summarise, the theory states that “a rational individual is viewed as weighing the expected utility of the benefits from a successful tax evasion with the uncertain prospect of detection and punishment, and an individual pays taxes because he or she is afraid of getting caught.”<sup>538</sup> However, the prominent issue regarding this theory is that “in view of the low deterrence applied in most countries, either because of a low intensity of control or small penalties, taxpayers should evade more than they actually do, that is, compliance is too high.”<sup>539</sup> As such, the deterrence theory does not fully explain why individuals comply with taxation obligations. The high level of compliance in various countries and the small level of punishment (for example, in the U.S. the penalty for tax evasion is only 75% of the unpaid taxes)<sup>540</sup> means that if the deterrence theory was absolute, more people would evade tax in the first instance. In the context of this research, the deterrence theory is perhaps more relevant in previous years where HMRC allowed a system whereby athletes could assign a portion of their salary to image rights and thereby reduce their tax liabilities, even in cases where an individual’s image was not actually an asset. However, the recent reporting in the media of potential tax evasion by athletes and HMRC’s now frequent investigation into these high-profile players and clubs subsequently means that the deterrence theory partially explains why in the past, players were happy to evade tax – given that they were rarely caught and HMRC actively allowed assignment of image rights without many questions being asked. However, with the introduction of the Football Compliance project, the deterrence theory does not fully explain why so many athletes are continuing to attempt to circumvent the law in order to gain a tax advantage.

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<sup>538</sup> Alm J, McClelland, G.H, Schulze, W.D., Journal of Public Economics, “Why do people pay taxes?” (1990) page 1

<sup>539</sup> Feld, L.P., Frey, B.S., Law and Policy, Volume 29, No.1., “Tax Compliance as the Result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation,” (2007) page 1

<sup>540</sup> Alm J, McClelland, G.H, Schulze, W.D., Journal of Public Economics, “Why do people pay taxes?” (1990) page 2

### 5.3.2.

#### *The theory of tax morale*

The theory of tax morale is based upon the argument that tax compliance “is driven by a physiological contract between citizens and tax authorities. For that contract to be upheld, incentives such as rewards or punishment need to be provided, but loyalties and emotional ties that go well beyond transactional exchanges must be considered as well. These bonds between the taxpayers and the state represent the core of individual tax morale, and thus positively affect tax compliance...the psychological tax contract is influenced by government policy, tax authorities’ behaviour and state institutions, all of which influence tax morale.”<sup>541</sup> Thus, the theory of tax morale purports that individuals pay tax on the basis that they have a contractual relationship with the tax authorities, and by complying with taxation laws, they will receive rewards (such as public services) or punishment for non-compliance. An individual’s opinion of tax morale can be influenced by the behaviour of the tax authority (for example they may avoid tax if they feel the standard of public services is insufficient) and due to emotional ties and loyalties to fulfil their obligation to pay tax. The theory of tax morale explains why some high-earning sports stars may pay tax, for example they feel a loyalty to do so, but also fails short in fully explaining compliance in that in the context of being rewarded with public services, in reality many sports stars pay for private education and health care and thus do not reap the benefits of these rewards. As such, it is necessary to also consider the theory of paying tax for the common good.

### 5.3.3.

#### *The common good theory*

The common good theory explains tax compliance through the argument that people pay tax because it is for the “common good.” This theory states that an individual will comply with tax obligations because in doing so, others benefit in the form of public services including healthcare and education. Without tax compliance, the government would not be able to fund and provide adequate public services of upon which many rely. As Bosco and Mittone explain, “taxpayers are not only interested in their own welfare but are also concerned about the general welfare, so that their decision to evade is constrained by the knowledge that their evasion will reduce the amount of resources available for social welfare.”<sup>542</sup> As such, individuals comply because they feel it is fair and legitimate to do so.

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<sup>541</sup> Feld, L.P., Frey, B.S., Law and Policy, Volume 29, No.1., “Tax Compliance as the Result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation,” (2007) page 2

<sup>542</sup> Alm, J, Torgler, B, Journal of Business Ethics, “Do Ethics Matter? Tax Compliance and Morality,” (2011), page 9-10

This theory, is arguably the most adequate in explaining why the majority of individuals comply with taxation, especially in the UK where the taxpayer funds vital services such as the NHS. However, in the context of athletes avoiding tax through their image rights, this thesis proposes that although athletes who do so are not concerned with the common good, their ability to do so has been strengthened by the failure to clearly define what constitutes an image right and the ambiguity and complicated nature of HMRC guidance.

#### **5.4. *Tax Principles, Compliance, Avoidance and athletes***

The above information seeks to provide an overview of the history of taxation and the principles upon which tax laws should be based, whilst also providing an outline of the various theories of tax compliance. It is the opinion of this thesis that there is no “complete” theory of tax compliance. In the end, individuals comply or don’t comply with tax law based on their own individual decisions and opinions and as such, the deterrence, tax morale and common good theory only partially explain why people pay tax. Thus, “a fundamental result of tax evasion literature is that is still not fully resolved why people actually pay taxes.” What this thesis intends to resolve however, is the reason why, in the UK, athletes and clubs alike are successfully (and often legally) avoiding tax through image rights payments. As above, this avoidance has not been due to overly clever measures created by athletes and their advisors but has been facilitated by the legislator’s failure to create and clearly define what constitutes an image right, worthy of a substantial tax reduction and by the convoluted guidance provided by HMRC. This thesis does not seek to argue whether it is right or wrong to give already high-earning athletes the ability to make tax savings, but rather in that providing a clear and transparent system of taxation as is done in Canada, tax compliance, in the context of these high-earning athletes with the ability to make considerable sums of money based on their image, will increase and the issues caused by the failure to constitute and image right and the convoluted system of taxation in the UK will be minimised.

## 5.5.

### *Taxation and Image Rights in the UK*

Thus far, the research into image rights law in both the UK and Canada has shown that in most cases of unauthorised commercial exploitations, the laws currently place; whether these are traditional intellectual property remedies, the privacy acts or the tort of appropriation of personality, have been able to provide redress. However, as the above research shows, the number of cases which have appeared before the courts in both jurisdictions are minimal. This, as discussed, highlights that there is no crisis of “under-protection”, nor is this an area of law which requires drastic change. As such, this thesis will not examine the question of whether the protection of image rights, in the case of athletes, is not about protecting their image from unauthorised exploitations so much as ensuring they have the ability to make tax savings by virtue of image rights exploitation.

The value of star athletes’ image is irrefutable, with commercial sponsors and brands willing to pay considerable sums of money across a number of globalised sports in order to secure the promotional services of these worldwide superstars. Given this sizable commercial value of players’ image rights; both clubs and stars alike can benefit from image rights deals. For players, the primary benefit of an image rights deal is clear – additional (and potentially substantial) remuneration on top of their salary or alternatively, re-categorisation of a portion of their salary to reduce the tax burden. For clubs, having exploitation rights in their star players’ image is imperative in attracting and maintaining lucrative commercial sponsors who will naturally want to exploit the image of these top or rather, commercially attractive athletes. However, in the English Premier League (EPL) for example, and indeed amongst other sports, the standard employment contract usually states that “the Clubs’ use of the player’s image must not be greater than the average for all first team players”<sup>543</sup> – thus limiting the clubs’ ability (and that of their commercial partners) to exploit the personalities of their most sought-after individuals. In reality, this means that clubs can only use their star players’ image in promotional activities within a limited capacity. The result of this limited capacity is that if a club wants to use the image of their star players, (which is a natural process for clubs looking to maximise profits by utilising the image of its commercially attractive athletes, rather than those who possess less commercial appeal) it becomes imperative for clubs to seek separate image rights deals

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<sup>543</sup> Daniel Geey, (October 26<sup>th</sup> 2016) “Five Top Tips to Understand Football Image Rights Deals,” <http://www.danielgeey.com/five-top-tips-to-understand-football-image-rights-deals/> accessed 24<sup>th</sup> May 2018

with these star players.<sup>544</sup> For example, Manchester City would certainly seek to secure the image rights of star players Sergio Augero and Raheem Sterling over lesser known first team players.<sup>545</sup> When assessing the taxation of athletes, it is beneficial to be aware of existing collective bargaining or employment agreements which may be in place. For example, the English Premier League standard contract discussed above makes explicit provisions for image rights under clause 4, which contains detailed provisions on image rights control. The fact that these provisions exist illustrate the importance of image rights in a sporting context, despite the fact that they are not enshrined explicitly in UK law. Clause 4 states that the contracting club, its commercial sponsors and the Premier League the right to have players participate in promotional and community events and as such, players will wear club clothing and not wear anything otherwise without explicit consent.<sup>546</sup> Clause 4 also states however, that a player has the right to enter into agreements with third parties to exploit his/her image so long as they do not interfere with their obligations under their employment contract and that the club is given reasonable notice.<sup>547</sup> This exploitation should not be done in a club context, defined as,

“any representation of the Player and/or the Player’s Image a representation in connection or combination with the name colours Strip trademarks logos or other identifying characteristics of the Club (including trademarks and logos relating to the Club and its activities which trademarks and logos are registered in the name of and/or exploited by any Associated Company) or in any manner referring to or taking advantage of any of the same.”<sup>548</sup>

As such, the current standard contract in the EPL allows players to seek separate image rights deals so long they do so outside the above context.

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<sup>544</sup> Daniel Geey, (26<sup>th</sup> October 2016) “Five Top Tips to Understand Football Image Rights Deals,” <<http://www.danielgeey.com/five-top-tips-to-understand-football-image-rights-deals/>> accessed 24<sup>th</sup> May 2018

<sup>545</sup> For example, see Robbie Cop, (12<sup>th</sup> December 2016) “Portrait Rights in the Premier League” <<http://www.agroup-mc.com/portrait-rights-in-the-premier-league/>> accessed 24<sup>th</sup> May 2018

<sup>546</sup> Premier League Contract, Clause 4.1, 4.2.1, 4.2.2, <<https://static1.squarespace.com/static/579f1eef2e69cf81541f5565/t/57bc6605e58c62993057c155/1471964677468/standard+pl+contract.pdf>> accessed 4<sup>th</sup> December 2018

<sup>547</sup> Premier League Contract, Clause 4.5, 4.5.1, 4.5.2, <<https://static1.squarespace.com/static/579f1eef2e69cf81541f5565/t/57bc6605e58c62993057c155/1471964677468/standard+pl+contract.pdf>> accessed 4<sup>th</sup> December 2018

<sup>548</sup> Premier League Contract, Clause 1.1, <<https://static1.squarespace.com/static/579f1eef2e69cf81541f5565/t/57bc6605e58c62993057c155/1471964677468/standard+pl+contract.pdf>> accessed 4<sup>th</sup> December 2018

As above, the additional benefit for both clubs and players of securing these image rights agreements is the ability to reduce their overall tax liability. It is reported that 98% of high earning individuals pay professional advisors to tackle their tax affairs<sup>549</sup> - ensuring the issue of athletes and tax avoidance is a continual prominent feature in today's media. Before embarking upon an investigation as to the relationship between professional athletes, their clubs and tax, it is first necessary to establish the differing legal liabilities between tax avoidance and evasion. The former, whilst legal, "involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce this advantage. It involves operating within the letter, but not the spirit, of the law."<sup>550</sup> The latter however, is the deliberate deception of HMRC, principally committed to evading income tax, VAT, cheating the public revenue, providing false information/documents to HMRC and evading excise duty on imported goods or smuggling goods.<sup>551</sup> These deceptions are generally covered by statute<sup>552</sup> (with the exception of cheating the public revenue which is a common law offence) and can result in criminal liability.

The legality of the mechanisms employed by athletes (and their agents) are unclear and they may ultimately be declared unlawful. In 2016/2017 alone, the UK Public Accounts Committee reports that 12 clubs, 43 players and 8 agents were the subjects of image rights tax enquiries.<sup>553</sup> Similarly, both Manchester United manager Jose Mourinho and Real Madrid striker Cristiano Ronaldo are under scrutiny from both the Spanish and British tax authorities in relation to their alleged tax avoidance schemes.<sup>554</sup> The Harry Redknapp case

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<sup>549</sup> House of Commons Committee of Public Accounts (36<sup>th</sup> Report of Session 2016-2017) "Collecting tax from high net worth individuals), <<https://publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/774/77407.htm>> accessed 24<sup>th</sup> May 2018, page 11

<sup>550</sup> HMRC Guidance Notes, (6<sup>th</sup> September 2016) "Tax Avoidance, an introduction" <<http://www.gov.uk/guidance/tax-avoidance-an-introduction>> accessed 24<sup>th</sup> May 2018

<sup>551</sup> Tax Evasion offences overview, <<https://www.lexisnexis.com/uk/lexispsl/corporatecrime/document/391421/55KB-9471-F188-N1BB-00000-00/Tax%20evasion%20offences%E2%80%9494overview>> accessed 24<sup>th</sup> May 2018

<sup>552</sup> For example, see Taxes Management Act, 1970, Value Added Tax Act, 1994, Customs and Excise Management Act, 1979.

<sup>553</sup> House of Commons Committee of Public Accounts (36<sup>th</sup> Report of Session 2016-2017) "Collecting tax from high net worth individuals), <<https://publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/774/77407.htm>> accessed 24<sup>th</sup> May 2018, page 12

<sup>554</sup> The Independent online news, (3<sup>rd</sup> December 2016) "Cristiano Ronaldo and Jose Mourinho deny tax avoidance allegations," <<http://www.independent.co.uk/sport/football/news-and-comment/cristiano-ronaldo-jose-mourinho-tax-avoidance-allegations-legal-action-a7453621.html>> accessed 24<sup>th</sup> May 2018

raised questions over the actions of HMRC<sup>555</sup> and the recent high-profile Glasgow Rangers FC case<sup>556</sup> highlights the intrinsic complexities of these types of cases. In any case however, in instances where lawful mechanisms are utilised, these mechanisms can successfully aid in reducing tax and national insurance liabilities for clubs and players alike and have the potential to accumulate considerable commercial savings for both parties – provided the agreements are well-structured and legitimate.

#### **5.6. *What are the taxation issues/benefits?***

Historically, image rights in the UK were not as high profile or common as they were with professional sports stars in the U.S. for example, where National Basketball League (NBA) star LeBron James signed a \$90 million endorsement deal with Nike before having ever played a professional game.<sup>557</sup> The introduction of the English Premier League has been argued to be a catalyst for the exploitation of image rights and the acceptance that players had the necessary goodwill to generate off-field commercial endorsements.<sup>558</sup> Golfer Tiger Woods, who turned 40 in December 2015 and has played in only 18 events since 2014 (until his recent open win in September 2018) accumulated \$45 million in endorsement deals in 2016<sup>559</sup> – illustrative of the lasting commercial prowess athletes can sustain despite no longer participating at the top of their game.

The benefit of image rights payments is universal for both clubs and players. In practice, whether UK or foreign domiciled, players with significant commercial marketability will assign their image to an image rights company (often owned by themselves) and their clubs will enter into agreements with this company which will allow them to exploit the celebrity's image in exchange for a fee. There are various tax benefits in doing so. For clubs, making an image rights payment means they do not have to pay national insurance payments at a rate of 13.8% which they would be liable for if the image right payment was

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<sup>555</sup> Jane Croft J, Rojer Blitz R, (2012) Financial Times, “Redknapp acquittal raises queries over HMRC,” <<https://www.ft.com/content/b2cc6d5e-527f-11e1-ae2c-00144feabdc0>> accessed 24<sup>th</sup> May 2018

<sup>556</sup> The Guardian (2017) “Rangers tax case: supreme court rules in favour of HMRC,” <<https://www.theguardian.com/politics/2017/jul/05/hmrc-wins-case-against-rangers-fc-entity-in-tax-avoidance-crackdown>> accessed 24<sup>th</sup> May 2018

<sup>557</sup> Kurt Badenhausen (2014) “How LeBron James has earned \$450M During his NBA Career.” <<http://www.forbes.com/sites/kurtbadenhausen/2014/07/09/how-lebron-james-earned-450-million-during-his-nba-career/>> accessed 24<sup>th</sup> May 2018

<sup>558</sup> Freddie Huxtable, European Professional Football Leagues Newsletter (#5), “Image rights in the UK” <<https://epfl-europeanleagues.com/wp-content/uploads/Article-5-Image-rights-UK-2-2.pdf>> accessed 24<sup>th</sup> May 2018

<sup>559</sup> Forbes, “Tiger Woods,” <<http://www.forbes.com/profile/tiger-woods/>> accessed 31<sup>st</sup> January 2017

classed as remuneration.<sup>560</sup> This deduction in tax across a number of marketable first team players has the potential to amount to a significant commercial saving. For players, any image rights remuneration paid to their company will not be subject to the 45% income tax charge<sup>561</sup> nor 2% national insurance contributions.<sup>562</sup> Instead, the image right company shall be subject to 19% corporation tax (to drop to 18% by 2020).<sup>563</sup> However, players are liable for capital gains tax on disposal of their asset (their image) to the image rights company.<sup>564</sup> These taxation benefits raise a number of issues in respect of image rights payments, namely: non-existence of an image right in the UK, the disposal of goodwill for capital gains purposes and the situation of foreign domiciled/internationally mobile athletes. Before assessment of these issues for tax purposes, in order to assess how tax is a relevant consideration in image rights law, an overview of UK tax law generally is useful.

### **5.7. Tax Law in the UK**

The UK tax system is dictated firstly by the principle of residence. In order to be liable for UK tax, an individual (or company) must first be deemed as UK resident. Prior to 2013, this was determined by the common law and HMRC guidance. In the absence of legislation, the system was at best, unclear and, at worst, open to abuse. Arguably the most well-known case, and best example of the need for caution when interpreting HMRC guidance and thus illustrative of the need for clear statutory guidance upon residency, is the joint case of *R (Davies & Anor) v HMRC; R (Gaines-Cooper) v HMRC*,<sup>565</sup> which reached the Supreme Court.

The first appellants, Davies and James, were property developers who had worked and resided in Wales until 2001. Thereafter, in March of 2001, they extended their business to Belgium, incorporating new company Beaufort - owning one third of the shared capital each.<sup>566</sup> Both appellants leased and resided in apartments in Belgium and entered into

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<sup>560</sup> HMRC Guidance Notes, "National Insurance Rates and Categories," <<https://www.gov.uk/national-insurance-rates-letters>> accessed 24<sup>th</sup> May 2018

<sup>561</sup> HMRC Guidance Notes, "Income Tax Rates and Personal Allowances" <<https://www.gov.uk/income-tax-rates>> accessed 24<sup>th</sup> May 2018

<sup>562</sup> HMRC Guidance Notes, (1<sup>st</sup> April 2017) Rates and Allowances: National Insurance Contributions, <<https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions/rates-and-allowances-national-insurance-contributions>> accessed 24<sup>th</sup> May 2018

<sup>563</sup> HMRC Guidance Notes, (1<sup>st</sup> April 2017) "Rates and Allowances: Corporation Tax," <<https://www.gov.uk/government/publications/rates-and-allowances-corporation-tax/rates-and-allowances-corporation-tax>> accessed 24<sup>th</sup> May 2018

<sup>564</sup> HMRC Guidance Notes, (26<sup>th</sup> May 2017) "Capital Gains Manual" <<https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual>> accessed 24<sup>th</sup> May 2018

<sup>565</sup> [2010] EWCA Civ 83, [2011] UKSC 47

<sup>566</sup> [2011] UKSC 46, [9] per Lord Wilson

employment contracts, for a period of three years, on April 1<sup>st</sup>, 2001 – although they did not commence work until after 5<sup>th</sup> April 2001.<sup>567</sup> Notably, both appellants continued to maintain ties with the UK – their spouses and the daughters of Davies continued to live in Swansea and both men visited frequently to look after business interests and to maintain their relationship with Swansea Rugby Club.<sup>568</sup>

The second appellant, Gaines-Cooper, was a British citizen and international businessman who worked in the UK until 1975. In this year, he purchased a home in Seychelles where he would spend several weeks of the year.<sup>569</sup> Between 1976-2004, Gaines-Cooper spent various amounts of time in different countries establishing and maintaining business connections. In 1993, the appellant married a Seychellois citizen (who notably, had lived in the UK since 1977) with whom he had a son.<sup>570</sup> Both his wife and son resided in the UK. Throughout this period, Gaines-Cooper would spend around three months of the year in the UK, retained ownership of domestic and business property, would attend social events and had a will prepared by English solicitors.<sup>571</sup>

The revenue (as HMRC were formerly known) claimed that Davies and James were UK resident for tax purposes in the year 01/02 and likewise, Gaines-Cooper was resident from the tax years 93/94 until 03/04. The relevant Revenue guidance at the time was IR20 – “Residents and non-residents – liability to tax in the UK,” published by the Revenue in 1999 and operative until 2009.<sup>572</sup> Both appellants were deemed resident by the Special Commissioners, whilst the Court of Appeal held that due to the appellants continuing social and family ties with the UK, this was not “consistent with a distinct break, sufficient to cut pre-existing ties.”<sup>573</sup> The case was appealed to the Supreme Court.

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<sup>567</sup> UK Supreme Court Blog, (30<sup>th</sup> October 2011) Case Comment: R (Davies & Anor) v HMRC; R (Gaines-Cooper) v HMRC [2011] UKSC 47, <<http://uksblog.com/r-on-the-application-of-davies-and-anotherappellants-v-the-commissioners-for-her-majestys-revenue-customs-respondents-and-r-on-the-application-of-gaines-cooper-appellant-v-the-com/>> accessed 18<sup>th</sup> June 2018, page 2

<sup>568</sup> [2011] UKSC 47, [9], per Lord Wilson

<sup>569</sup> UK Supreme Court Blog, (30<sup>th</sup> October 2011) Case Comment: R (Davies & Anor) v HMRC; R (Gaines-Cooper) v HMRC [2011] UKSC 47, <<http://uksblog.com/r-on-the-application-of-davies-and-anotherappellants-v-the-commissioners-for-her-majestys-revenue-customs-respondents-and-r-on-the-application-of-gaines-cooper-appellant-v-the-com/>> accessed 18<sup>th</sup> June 2018, page 2

<sup>570</sup> Ibid

<sup>571</sup> 81 T.C. 61, [93] – [95]

<sup>572</sup> UK Supreme Court Blog, (30<sup>th</sup> October 2011) Case Comment: R (Davies & Anor) v HMRC; R (Gaines-Cooper) v HMRC [2011] UKSC 47, <<http://uksblog.com/r-on-the-application-of-davies-and-anotherappellants-v-the-commissioners-for-her-majestys-revenue-customs-respondents-and-r-on-the-application-of-gaines-cooper-appellant-v-the-com/>> accessed 18<sup>th</sup> June 2018, page 2

<sup>573</sup> [2010] EWCA Civ 83, [50]

In the Supreme Court, the first appellants argued that an individual can be regarded as non-resident in the following circumstances under IR20: (a) departure to take up full time employment (2.2) (b) absence for at least three years (2.8) or (c) to have gone abroad for a settled purpose for at least one whole tax year (2.9) - so long as in each case, they met the day count proviso.<sup>574</sup> The appellants accepted that they must take a distinct break from their life in the UK, and (a), (b) and (c) above, “the Revenue reflected in a simplified form the requirement of a distinct break.”<sup>575</sup> Having fallen under section 2.9, the appellants primary contention was that the Revenue was “bound to acknowledge” them as non-resident, in spite of the fact that, should their cases be investigated on a wider basis, the conclusion may have been that they had not taken a break from their life in the UK.<sup>576</sup> On the contrary, Gaines-Cooper argued that IR20, under section 2.8, provided assurance that an individual living abroad for a period of at least 3 years and who satisfied the day count proviso would be considered non-resident. The appellant argued that subsequently, there was no requirement or entitlement to consider whether an individual had taken a break from his life in the UK.<sup>577</sup>

The court held the three sections must be viewed in their entirety, in addition to that of IR20 as a whole.<sup>578</sup> In doing so, the guidance informed the “ordinary sophisticated taxpayer” that,

“(a) he was required to “leave” the UK in a more profound sense than that of travel, namely permanently or indefinitely or for fulltime employment; (b) he was required to do more than to take up residence abroad; (c) he was required to relinquish his “usual residence” in the UK; (d) any subsequent returns on his part to the UK were required to be no more than “visits”; and (e) any “property” retained by him in the UK for his use was required to be used for the purpose only of visits rather than as a place of residence”.<sup>579</sup>

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<sup>574</sup> [2011] UKSC 47, [30]

<sup>575</sup> Ibid

<sup>576</sup> Ibid

<sup>577</sup> Ibid [31]

<sup>578</sup> Ibid [42]

<sup>579</sup> Ibid [45]

On analysis of these general requirements, the court held the taxpayer should have concluded that IR20 required a “multifactorial evaluation” of all circumstances and a “distinct” break from life in the UK<sup>580</sup> and thus dismissed both appeals.

The judgment set down the precedent that in order to be considered non-resident, an individual must show they have taken a distinct break from their social and family ties in the UK. The difficulties and arguments presented by both the appellants and the courts however, illustrated the need for caution when interpreting Revenue guidance, and the Supreme Court judgment added little clarity to the quest in understanding the notion of residence within UK tax law. The controversy surrounding the interpretation of IR20 illustrated the requirement for a statutory framework in order to determine residence. This framework was introduced in 2013 by means of the Statutory Residency Test.

#### **5.7.1. *The Statutory Residence Test***

The statutory residence test has been applicable since the 2013/2014 tax year and has removed the uncertainties regarding residency highlighted by the *Gaines-Cooper* litigation. Under the test, an individual is now considered UK resident or non-resident automatically, should they meet certain criteria and thus can be liable for income, capital gains, inheritance and corporation tax. The rules which determine residence are located in the Finance Act 2013, under Schedule 45 and comprise of the automatic UK residence test, the automatic overseas test and the sufficient ties test.

An individual can be considered automatically UK resident in four circumstances under the “Automatic Residence Test.” The first automatic UK test will be met if an individual spends 183 days (or more) in the UK within the tax year.<sup>581</sup> The second test will determine whether the individual owns a home in the UK and the extent of its use. Under this test, HMRC will assess how much time the individual spends in their UK and if applicable, their overseas home. Should the individual meet the relevant thresholds, namely that they spend a sufficient amount of time in their UK home, this will deem the individual UK resident.<sup>582</sup> Under the third test, consideration is given to whether the individual works full-time in the UK. The individual must work for a period of 365 days in the UK without any significant

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<sup>580</sup> Ibid

<sup>581</sup> The Finance Act 2013, Schedule 45, para 7

<sup>582</sup> Ibid para 8

breaks in employment.<sup>583</sup> The fourth automatic residency test is applicable only in the case of the individual's death.<sup>584</sup>

Under the first "Automatic Overseas Test" an individual will be considered non-resident should they spend less than 16 days in the UK in the tax year and have been resident in one of the previous three tax years.<sup>585</sup> The second test will deem an individual non-resident if they spend less than 46 days in the UK in any tax year and were not considered UK resident in any of the previous three tax years.<sup>586</sup> Full time work is considered in the third test. An individual will be deemed automatically non-resident if they work full time overseas. However, a significant break in this work (30 days), the undertaking of more than 30 days' work in the UK or spending more than 90 days in the UK in the tax year will be sufficient to fail this test.<sup>587</sup> The fourth and fifth parts of the test, similarly to the automatic UK residency tests, are only applicable in the event of the individual's death.<sup>588</sup>

In the instance that neither of these tests are applicable to an individual, the "Sufficient Ties" test shall apply. Under this test, there are two scales to be followed: one for individuals who have been resident for one or more of the previous three tax years and one for those who have not been UK resident in the previous 3 tax years.<sup>589</sup> Under the former, the sufficient ties which will be considered are the family tie, accommodation tie, the work tie, the 90 day rule and the country tie.<sup>590</sup> The Finance Act provides a scale as to how many ties an individual needs dependent upon how many days they have spent in the UK. For example, if an individual has spent between 16-45 days in the UK, they will only be considered resident if they have at least 4 ties. However, if over 120 days have been spent in the UK, then one tie will be sufficient to deem an individual UK resident.<sup>591</sup> Under the latter scale, the country tie is not applicable. Similarly, the Act provides the requirement of how many times are needed to deem an individual UK resident dependant on the number of

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<sup>583</sup> Ibid para 9

<sup>584</sup> Ibid para 10

<sup>585</sup> Ibid para 12

<sup>586</sup> Ibid para 13

<sup>587</sup> Ibid para 14

<sup>588</sup> Ibid para 15-16

<sup>589</sup> HMRC Guidance Notes (2016) "Statutory Residence Test", <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/547118/160803\\_RDR3\\_August2016\\_v2\\_0final\\_078500.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547118/160803_RDR3_August2016_v2_0final_078500.pdf)> accessed 24<sup>th</sup> May 2018, page 29

<sup>590</sup> The Finance Act 2013, Schedule 45, para 31

<sup>591</sup> HMRC Guidance Notes (2016) "Statutory Residence Test", <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/547118/160803\\_RDR3\\_August2016\\_v2\\_0final\\_078500.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547118/160803_RDR3_August2016_v2_0final_078500.pdf)> accessed 24<sup>th</sup> May 2018, page 29

days spent in the UK in any one tax year.<sup>592</sup> It is notable that the Act also provides for Split Year Treatment under schedule 45, part 3 in which an individual can be deemed resident for only part of the year.

### 5.8. *Athletes and Talent Migration*

The standard residency test has been a catalyst in removing the doubts surrounding residency highlighted by *Gaines-Cooper*. However, the residency status of athletes has the potential to cause confusion and controversy by virtue of the consistent migration of talent in the sports field.

Historically, athletes did not enjoy the freedom which they do now in order to move to the UK to pursue and further their career in professional sport. This can be attributed in part to the decisions of the European Court in *Walrave & Koch v Union Cycliste Internationale*<sup>593</sup> and *Dona v Mantero*.<sup>594</sup> Both cases concerned restrictions upon the freedom of movement of athletes within the EU. The court ruled that sport is subject to community law so long as it constitutes economic activity under the Article 2 definition of the Treaty of Rome. In both *Walrave* and *Dona* however, the court held that the rules which discriminated against athletes on the basis of nationality were not illegal because community law does not affect the composition of sports teams (in particular national teams) as such rules were not economic but a matter of purely sporting interest.<sup>595</sup>

The precedent set in *Walrave* and *Dona* was set to change in light of *Union Royale Belge des Societes de Football Association ASBL v Bosman*.<sup>596</sup> *Bosman* has been extensively discussed and researched and there is little merit in doing so again here, however for tax purposes, the eventual ratio of *Bosman* is important as to the changes it facilitated for the freedom of movement for sports persons within the EU. Previous to *Bosman*, most football league transfer systems operated on the basis of requiring a transfer fee when a player wanted to change clubs – even if the player’s contract had expired whilst also imposing rules (quotas) on the maximum number of foreign players that could play in a match at any one time.<sup>597</sup> *Bosman*, who wanted to move from Belgian Club Liege to French club

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<sup>592</sup> Ibid

<sup>593</sup> Case 36/74 [1974] ECR 1405

<sup>594</sup> Case 13/76 [1976] ECR 1333

<sup>595</sup> Ibid [9] – [10]

<sup>596</sup> Case C-413/93 [1995] ECR I-4821

<sup>597</sup> Robert Simmons, (1997) *Economic Affairs*, 17, “Implications of the Bosman ruling for football transfer markets” 13, 18

Dunkerque, successfully challenged the legality of the requirement of the transfer fee from Dunkerque as his contract had expired. This was deemed to be incompatible with Article 48 of The Treaty of Rome which guaranteed the freedom of movement for workers within the EU.<sup>598</sup> *Bosman* also successfully challenged the legality of quotas, which were deemed also incompatible with Article 48 by virtue of the fact that they discriminated against athletes from other EU member states. These changes guaranteed athletes the same rights to freedom of movement as “electricians and bank clerks,”<sup>599</sup> and opened the doors for sportspersons to move freely within the EU in order to pursue their careers in professional sport without restriction. Athlete migration was further enhanced in *Deutscher Handballbund eV v Maros Kolpak*<sup>600</sup> in 2000 - ruling that citizens of countries with association agreements with the EU, are also entitled to be free from discrimination from nationality in the labour market in the same way which EU citizens enjoy,<sup>601</sup> a decision which, for example, African cricket players particularly benefited from, many of whom moved to England to participate.<sup>602</sup>

As noted above, these cases have been discussed at length in the sports law field. However, for the purposes of this research, the judgments set down in *Bosman* and *Kolpak* have allowed athletes to move freely within the EU in order to take up employment opportunities in places other than that of their country of origin. As a consequence of this free movement of talent migration, athletes have the potential to fall into various different categories of residency for tax purposes in the UK which has allowed athletes to make significant tax savings based upon their endorsement earnings.

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<sup>598</sup> Bernd Frick, (2009) *Journal of Sports Economics*, Volume 10, Number 1, “Globalisation and Factor Mobility: The Impact of the “Bosman-Ruling” on Player Migration in Professional Soccer” 88, 89

<sup>599</sup> Joseph Maguire, David Stead, (1998) *International Review for the Sociology of Sport*, “Border Crossings, Soccer Labour Migration and the European Union” 59, 60

<sup>600</sup> Case C-438/00 [2003] I-04135

<sup>601</sup> *Ibid* [56] – [59]

<sup>602</sup> Steve Greenfield, Guy Osborn, J.P. Rossouw, (2016) *The International Journal of History and Sport*, “Beyond *Kolpak*: European Union Laws Unforeseen Contribution to the Movement of African Cricketers;” 1748, 1758

### 5.9. *Which category do athletes fall into?*

Generally, the days of free movement restrictions within sports are a thing of the past, and therefore, it is purely a matter of a state's domestic laws as to whether an athlete has the right to work and exploit their image – and the extent of their liability to pay tax.

In the UK, the first possible category athletes have the potential to fall into is that of a UK resident for tax purposes. Athletes in this category are liable for income tax, capital gains tax, corporation tax and inheritance tax where applicable. Given the considerable salary these athletes have, income tax would be deducted at a rate of 45% on income over £150,000 per annum.<sup>603</sup> As these athletes are UK citizens playing here, there is no difficulty concerned with their tax liabilities. As noted above, athletes are often paid an image right payment to an image rights company on top of their salary which is currently charged at the corporation tax rate 19% (considerably less than that of 45%). Although athletes will be liable for capital gains tax on disposal of their image (asset) to the company at first instance, the possible tax savings by assigning their image to a company is mutually beneficial to both the athlete and their employer – who can avoid national insurance payments on any image right contribution made to the athlete.

The second category athletes could fall into are “foreign domiciled” individuals. A non-domiciled individual is one whose parents' heritage is outside of the UK.<sup>604</sup> Should a non-domiciled individual (such as a footballer) move to the UK, they can keep their status as long as they have no permanent intention to live in the UK – regardless of how much time they spend here.<sup>605</sup> UEFA states that the EPL has the highest percentage of foreign players at 69.2% (Cyprus were second with 57.1)<sup>606</sup> – illustrative of the vast number of footballers who will be regarded as non-domiciled athletes for UK tax purposes. Non-domiciled residents will be subject to UK income tax on UK earnings, whilst any foreign income will

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<sup>603</sup> HMRC Guidance Notes, “Income Tax Rates and Personal Allowances” <<https://www.gov.uk/income-tax-rates>> accessed 24<sup>th</sup> May 2018

<sup>604</sup> HMRC Guidance Notes, “Tax on Foreign Income” <<https://www.gov.uk/tax-foreign-income/non-domiciled-residents>> accessed 24<sup>th</sup> May 2018

<sup>605</sup> Jon Elphick, Law in Sport, (12<sup>th</sup> July 2016) “Playing the game: The UK's approach to taxing sports starts,” <[https://www.lawinsport.com/sports/winter-sports/item/playing-the-game-the-uk-s-approach-to-taxing-sports-stars?category\\_id=181](https://www.lawinsport.com/sports/winter-sports/item/playing-the-game-the-uk-s-approach-to-taxing-sports-stars?category_id=181)> accessed 25<sup>th</sup> May 2018, page 3

<sup>606</sup> Sky Sports News, (12<sup>th</sup> January 2017) “Premier League has highest percentage of foreign players – UEFA Report,” <<http://www.skysports.com/football/news/11661/10725849/premier-league-has-highest-percentage-of-foreign-players-8211-uefa-report>> accessed 24<sup>th</sup> May 2018

escape liability, including that of endorsement earnings, provided it is not brought into the UK.

The third category athletes have the potential to fall into is that of internationally mobile athletes. These athletes are those who do not spent a sufficient amount of time in the UK to be considered UK resident (less than 46 days) but travel to the UK for sporting events such as the Olympic Games, Wimbledon, Commonwealth Games or athletics championships. Despite not being UK resident, these athletes potentially may be liable for UK tax on the “source” basis of UK tax law – meaning athletes not based in the UK can be charged UK income tax on earnings which relates to a relevant activity carried out within the UK.<sup>607</sup>

Having established the possible categories of residence athletes may fall into, there are various tax benefits/liabilities which flow from this. The starting point for this is the legality of image rights payments in the first instance.

#### **5.10. *Sports Club***

The *Sports Club plc and others v Inspector of Taxes*<sup>608</sup> litigation dates backs to 2000, yet remains the only case in which HMRC have challenged the legality of image rights payments in the first place, and where clubs were essentially given the “green light” in making such payments.<sup>609</sup> HMRC launched a complaint against Arsenal football club in respect of their image rights payments to two of their players – David Platt and Dennis Bergkamp. Both players had offshore image rights companies with whom Arsenal had entered into agreements with to allow them to exploit the image of both players in return for a fee. HMRC argued this fee was salaried remuneration and therefore subject to tax.<sup>610</sup>

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<sup>607</sup> Jon Elphick, (12<sup>th</sup> July 2018) Law in Sport, “Playing the Game: The UK’s approach to taxing Sports Stars,” <[https://www.lawinsport.com/topics/sports/winter-sports/item/playing-the-game-the-uk-s-approach-to-taxing-sports-stars?category\\_id=181](https://www.lawinsport.com/topics/sports/winter-sports/item/playing-the-game-the-uk-s-approach-to-taxing-sports-stars?category_id=181)> accessed 24<sup>th</sup> May 2018, page 3

<sup>608</sup> (2000) S.T.C. (S.C.D) 443

<sup>609</sup> Freddie Huxtable, European Professional Football Leagues Newsletter (#5), “Image rights in the UK,” <<https://epfl-europeanleagues.com/wp-content/uploads/Article-5-Image-rights-UK-2-2.pdf>> accessed 25<sup>th</sup> May 2018

<sup>610</sup> Corinna Coors, International Sports Law Journal, “Are sports image rights assets? A legal, economic and tax perspective,” page 5

Both players appealed against the decision of the court who held that the payments were salary payments. On Appeal, the main contention was regarding the application of s19 of the Income and Corporation Taxes Act 1988. The relevant part of section 19(1) states that tax shall be charged in respect of any employment or emoluments therefrom – indicating that any payments stemming from employment are liable to income tax.<sup>611</sup>

The main issues were as follows: did the promotional and consultancy agreements have independent values? Were the payments for the promotional agreements simply a smokescreen in order to pay additional remuneration and were the payments under the agreements with the footballers’ emoluments from the employment?<sup>612</sup>

Accepting the players’ argument that image rights can be defined as ‘the ability to exploit their image in a commercial context in exchange for a fee’, the court held the agreements were “genuine commercial agreements which the parties could seek to enforce.”<sup>613</sup> In assessing whether these agreements had independent value, in light of the evidence that commercial organisations had been willing to pay substantial sums of money in order to secure the promotional services of these players, the agreements did indeed have independent value of their own.<sup>614</sup>

With regard to the argument that these payments were a smokescreen for additional remuneration, the court answered this question in the negative. The court considered that given the process followed by the parties to adequately value the image rights and the substantial value of the players’ image rights before joining Arsenal, the payments could not be considered a smokescreen for additional remuneration.<sup>615</sup>

In reference to the final question as to whether the payments were emoluments from the employment contract the court held:

“The promotional agreements and the consultancy agreement were contracts for full consideration and so would be excluded from tax under s19 for that reason alone.

Also, we find the payments under those agreements were made in return for promotional rights and consultancy services respectively and were not made “in reference to” the playing of games which was the service rendered by each player by

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<sup>611</sup> (2000) S.T.C. (S.C.D) 443, [2]

<sup>612</sup> Ibid [74]

<sup>613</sup> Ibid [79]

<sup>614</sup> Ibid [80]

<sup>615</sup> Ibid [90] – [95]

virtue of his player's agreements with Sports. Neither were the payments under the promotional and consultancy agreements a reward paid by Sports for the services of the players; they were paid by Sports for the promotional rights and the consultancy services respectively."<sup>616</sup>

By virtue of the ruling of *Sports Club*, clubs have been able to use of image rights contracts legally in order to secure the promotional services of their star players, whilst utilising the tax benefits for clubs and players alike. These structures can be considered beneficial, however there has been controversy in recent years as to whether many agreements can be considered genuine. During the 2000's many clubs entered into image rights contracts with players who lacked the commercial prowess to attract the kind of sums they were being paid,<sup>617</sup> alerting the revenue to the possible disguised remuneration. In 2006, HMRC launched an a review of image rights payments in rugby union where a "cap of 15% of remuneration payable for image rights exploitation was agreed in Rugby Union,"<sup>618</sup> whilst in 2009, a number of Premier League Clubs were informed it would be examining image rights agreements between 2005-2008.<sup>619</sup> Since 2012, HMRC has issued 850 penalties to high net worth individuals, accumulating to a tax total of £9 million.<sup>620</sup> It has been reported that HMRC has entered into an agreement with Rugby Union that a cap of 15% of clubs' payments is a legitimate total for image rights. Similarly, HMRC has offered Premier League Clubs a "two cap" solution. The Club cap "states that clubs can make maximum total image rights payments to all image rights companies of 15% of commercial income,"<sup>621</sup> whilst the player cap sits at 20% of the total of salary payments made to any one player in the tax year.<sup>622</sup> In spite of these agreements however, HMRC announced it has initiated a specific football compliance project and technical experts will investigate all

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<sup>616</sup> Ibid [100]

<sup>617</sup> Daniel Geey, (26<sup>th</sup> October 2016) "Five Top Tips to Understand Football Image Rights Deals," <<http://www.danielgeey.com/five-top-tips-to-understand-football-image-rights-deals/>> accessed 24<sup>th</sup> May 2018

<sup>618</sup> Corinna Coors, International Sports Law Journal, "Are sports image rights assets? A legal, economic and tax perspective," page 5

<sup>619</sup> Ibid

<sup>620</sup> HMRC Guidance Notes, "Tax on Foreign Income," <<https://www.gov.uk/tax-foreign-income/non-domiciled-residents>> accessed 24<sup>th</sup> May 2018

<sup>621</sup> Daniel Geey, (26<sup>th</sup> October 2016) "Five Top Tips to Understand Football Image Rights Deals," <<http://www.danielgeey.com/five-top-tips-to-understand-football-image-rights-deals/>> accessed 24<sup>th</sup> May 2018

<sup>622</sup> Ibid

Premier League, Championship and Scottish Premier League Clubs over a three year period<sup>623</sup> – indicative of continuing issues of non-compliance.

*Sports Club* and the agreements between HMRC and sports authorities may have legalised the payment in respect of image rights, yet various issues remain as to the application of these agreements dependent upon an athletes' category of residence.

#### **5.11. *Category 1 Athletes – UK Domiciled***

As noted above, UK resident athletes shall be liable for income, capital gains, corporation and inheritance tax where applicable. It is possible for these athletes to reduce the amount of tax they are liable for through the use of a Personal Service Company – often referred to as an image rights company. Such companies can be used in cases where the athlete, works for a company (club) and the work is carried out through the image rights company. This is governed by the Income Tax (Earnings and Pensions) Act 2003 and the Social Security Contributions (Intermediaries) Regulations 2000 also known as IR35.<sup>624</sup> Where the company is owned/controlled not by the athlete but by a third party, then the Social Security Contributions (Managed Service Company) Regulations 2008 shall apply.<sup>625</sup>

In cases where an Image Rights Company is used, the athlete shall provide promotional services (personal appearances, book signings, photoshoots) through the company – not their club. These services are not regarded as employment remuneration and are not taxed as such, allowing athletes and the employer club to reduce the tax liability.<sup>626</sup> As discussed above, the employer can pay the agreed fee to the image rights company and escape national insurance payments. The athlete can similarly avoid paying income tax and national insurance on any payment for use of their image.

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<sup>623</sup> Pat Sweet, Accountancy Daily, (7<sup>th</sup> September 2017) “HMRC’s footballers’ image rights inquiry score increases,” <<https://www.accountancydaily.co/hmrcs-footballers-image-rights-inquiry-score-increases>> accessed 24<sup>th</sup> May 2018

<sup>624</sup> See HMRC Guidance Notes, (5<sup>th</sup> June 2014) “Off-payroll working through an intermediary (IR35)”, <<https://www.gov.uk/guidance/ir35-find-out-if-it-applies>> accessed 24<sup>th</sup> May 2018

<sup>625</sup> A Managed Service Provider is defined by HMRC as “a person must be carrying on a business of promoting or facilitating the use of companies to provide the services of individuals.” HMRC Guidance Notes, (7<sup>th</sup> March 2016) “Employment Status Manual, ESM3515” <<https://www.gov.uk/hmrc-internal-manuals/employment-status-manual/esm3515>> accessed 24<sup>th</sup> May 2018

<sup>626</sup> Ceri Vokes, Phineas Hirsch, (2015) Tax Law Commission, “Income Tax for professional athletes and artists – a cross border story”, <<http://london.aija.org/wp-content/uploads/2015/07/National-report-UK.pdf>> accessed 24<sup>th</sup> May 2018, page 3

The payments for use of an athlete's image right can also be paid in dividends (if the athlete owns the company.) This allows the athlete to pay a dividend rate of between 32.5% - 38.1%<sup>627</sup> (dependant on amount of dividend) - again less than the 45% income tax they would otherwise be liable for. The athlete however, will be subject to capital gains tax on disposal of their image to the image rights company. However, this has the potential to cause difficulties. As previously established in this research, no image right currently exists under UK law, and so the question arises to what asset is actually being transferred to the image rights company?

HMRC accepts that no image right exists in law and acknowledges that the concept of an image right (to the extent to which it can be protected under UK law) is “dependant on a bundle of different intellectual property rights. These may include, for example, contractual rights, registered trademarks, passing-off of goodwill and copyright.”<sup>628</sup> In *Proactive Sports Management Limited v Rooney*,<sup>629</sup> Lady-Justice Arden summarised image rights as a term often used “to describe rights that individuals have in their personality, which enables them to control the exploitation of their name or picture.”<sup>630</sup> This may be so, yet without a statutory enforced image right, celebrities are similarly forced to circumvent traditional intellectual property remedies in regard to the taxation of image rights payments.

The HMRC capital gains tax manual states that the only “pure” avenue for the protection of an image right under UK law is through passing off, but the difficulties in establishing passing off have been outlined in previous chapters and it has also been shown that the number of celebrities who need to resort to this remedy and thus establish their image right by going down this avenue is vanishingly small. The manual discusses the classic trinity as established by *Lord Diplock in Warnink v Townend*<sup>631</sup> and of the success of *Irvine and others v Talksport*.<sup>632</sup> However, when players assign their “image” to an image rights company, the asset they are assigning (in the absence of a free-standing image right) is the goodwill in their name, likeness and image – goodwill which must be proven. This raises

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<sup>627</sup> HMRC Guidance Notes, “Tax On Dividends”, <<https://www.gov.uk/tax-on-dividends>> accessed 24<sup>th</sup> May 2018

<sup>628</sup> HMRC Guidance Notes, (2017, May 26) “Capital Gains Manual”, <<https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual>> accessed 24<sup>th</sup> May 2018

<sup>629</sup> [2001] E.W.H.C. Civ Div 1444

<sup>630</sup> *Ibid* [1]

<sup>631</sup> [1979] 2 All E.R. 927

<sup>632</sup> HMRC Guidance Notes, (26<sup>th</sup> May 2016) “Capital Gains Manual” <<https://www.gov.uk/hmrc-internal-manuals/capital-gains-manual>> accessed 24<sup>th</sup> May 2016

the question as to whether image rights, or more specifically, goodwill, is capable of assignment for capital gains tax purposes.

The starting point is that if goodwill is being transferred, an underlying business activity must exist – otherwise it shall be regarded as personal goodwill and thus incapable of assignment. As HMRC explains,

“Goodwill is a personal property and its ownership can be transferred by assignment, but it cannot be assigned “in gross” – separate from the business which it relates to. An assignment in gross is invalid and the assignee acquires no rights from such a purported assignment. It may be that an assignment of “image rights” in the context is an assignment in gross of goodwill, if the goodwill is the sportsman’s identity indicia and the business becomes separated from the goodwill. If the business is the sportsman himself and this transaction purports to separate the goodwill in the sportsman and pass it to a company, this is an assignment in gross. On the other hand, if a celebrity has prior to the assignment developed a business based on organised and planned exploitation of their image, for example by endorsements, personal appearances and maybe through contracts for sponsorship, copyright and so on, it is possible that such a business could have established goodwill of some value. If the existing business is transferred with its goodwill as a going concern to the IRC, there is no assignment in gross.”<sup>633</sup>

Aside from a record of endorsement deals and sponsorship, the existence of copyright and/or a trademark is also useful. In spite of the conclusions drawn regarding the use of copyright and the possible issues with the contrasting functions trademarks and image rights; in the context of protecting celebrities from unauthorised exploitation of their image, in this instance, the existence of a trademark or copyright alone has the potential to be significant in allowing athletes to prove their goodwill is in fact part of a business designed to exploit their image and the flexible definitions under the CPDA (1988) s1 and the Trademark Regulations (2018) make this possible.

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<sup>633</sup> Ibid

### 5.11.1.

### *Guernsey*

Similarly, registering a players' right to their image under something akin to the Guernsey Image Rights register would offer potential success in ensuring there is no assignment in gross. The Guernsey Image Rights Register is the first of its kind and in spite of the small number of applications and relatively unknown status of the Register registration may be a useful addition to the weaponry of celebrities in satisfying HMRC that they have an image worth protecting and substantiating that image rights payments are not in fact part of a tax avoidance scheme.

The Guernsey Image Rights Ordinance came into force in 2012 and introduced a free-standing image right protected by legislation. This Register was not a reaction to an overwhelming issue of a violation of image rights but was rather an attempt to update intellectual property laws which at that time, had a copyright law drafted in 1911 and a patents, registered designs and trademark law from 1922.<sup>634</sup> The Bailiwick sought the opportunity to “create new IP rights which meet the needs of the commercial IP marketplace”<sup>635</sup> which had the potential to “bring in a new range of business and diversify the economy.”<sup>636</sup> Regardless of being primarily driven by the potential economic benefits of introduction, the Ordinance offers high profile celebrities the opportunity to provide the taxman with evidence that their image is a marketable commodity, worthy of protection and indeed tax relief.

Under the Image Rights Ordinance 2012, individuals can register their personalities for legal protection. Personality is defined as:

“a natural person”, a “legal person”, “two or more natural persons or legal persons who are or who are publicly perceived to be intrinsically linked and who together have a joint personality (joint personality),” two or more natural persons or legal persons who are or who are publicly perceived to be linked in a common purpose and who together form a collective group or team (group)” or even a “fictional character of a human or non-human”<sup>637</sup>

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<sup>634</sup> Managing Intellectual Property (1<sup>st</sup> July 2006) “Guernsey’s IP Revolution,” <http://www.managingip.com/Article/1254345/Guernseys-IP-revolution.html> accessed 26<sup>th</sup> May 2018

<sup>635</sup> Ibid

<sup>636</sup> Elaine Gray (20<sup>th</sup> May 2013) “Guernsey: Innovation and Investment: Image rights,” <http://www.mondaq.com/x/239784/Trademark/Innovation+In+Investment+Image+Rights> accessed 24<sup>th</sup> May 2018

<sup>637</sup> The Image Rights (Bailiwick of Guernsey) Regulations 2012, s1(1)

providing a wide scope as to what can be registered by definition of personality in order to gain protection.

Under s3, image is similarly defined broadly:

“the name of a *personnage* or any other name by which a *personnage* is known, the voice, signature, likeness, appearance, silhouette, feature, face, expressions (verbal or facial), gestures, mannerisms, and any other distinctive characteristic or personal attribute of a *personnage*, or any photograph, illustration, image, picture, moving image or electronic or other representation ("picture") of a *personage* and of no other person, except to the extent that the other person is not identified or singled out in or in connection with the use of the picture”.<sup>638</sup>

The application can be made online, however is required to be submitted by a registered image rights agent. Image rights agents must have a business address in Guernsey,<sup>639</sup> have a legal qualification,<sup>640</sup> have attended an image rights training course<sup>641</sup> and paid the annual fee amounting to a maximum £5000 payment.<sup>642</sup> Registration can cost the individual between £1000-2000 for an image right<sup>643</sup> which is contained to the jurisdiction of Guernsey. As McArdle explains,

“against this background, the advantages of paying considerable sums to an agent or legal advisor other than one’s own are rather difficult to discern, especially for those who are not Guernsey residents...the miniscule number of people who have registered suggests that either the scheme is virtually unknown among performers and their representatives, and/or the perceived risks of infringement within the Bailiwick are outweighed by the costs of instructing a Guernsey agent to carry out what seems to be an unnecessarily expensive process.”<sup>644</sup>

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<sup>638</sup> Ibid s3

<sup>639</sup> Ibid s5(4)(b)

<sup>640</sup> Ibid s5(4)(a)

<sup>641</sup> Ibid s5(4)(d)

<sup>642</sup> Ibid s5(4)(c)

<sup>643</sup> Intellectual Property Office, “Image Rights Forms and Fees,”

<<http://ipo.guernseyregistry.com/article/101133/Image-Rights-Forms--Fees>> accessed 24<sup>th</sup> May 2018

<sup>644</sup> David McArdle, (2016) Legal Studies, “You had me at “no capital gains tax on a disposal”: legal and theoretical aspects of standalone image rights,” page 5

As of October 2017, the register contains just 82 individuals/undertakings. Although the register boasts the inclusion of successful music artists Tiesto and Afrojack, and relatively well-known athletes such as tennis player Heather Watson and footballers Michael Owen and Patrick Roberts, it is predominantly filled by a number of lesser known “celebrities” such as MTV reality stars Gary Beadle and Scott Timlin from *Geordie Shore*, Arsenal women’s midfielder Jordan Nobbs and 2013 BBC’s *The Voice* contestant Jessica Steele<sup>645</sup> - illustrative that the register may be relatively unknown amongst celebrities and their advisors and also that the process is simply not significantly advantageous to justify the cost.

However, for tax purposes, this need not matter. The existence of a standalone image right in their name, even in another jurisdiction, may serve as sufficient evidence that the disposal of their image for capital gains tax or an image rights payment or a company dividend is a legitimate transaction. The Image Rights register could be perceived as “key to overcoming the potential challenge from HMRC.”<sup>646</sup> In any case, ensuring that the assignment is not one in gross is critical in the control of image rights and taxation responsibilities – what is being assigned must be substantial, whether this be a distinguishing trademark, copyright, registration under Guernsey or a history of exploitation of trade over a period of time.

For athletes who are deemed UK resident for tax purposes, in absence of an image right under UK law, it is possible to transfer the goodwill of their image to a company with a view to commercial exploitation of that image. In essence, athletes are exploiting a right which does not exist in UK law. Until a stand-alone right exists, it is likely payments made to image rights companies will be subject to scrutiny by HMRC and the recent decision to investigate all Premier League, Championship and Scottish Premiership Clubs image rights payments over a three year period,<sup>647</sup> their investigations into matters such clubs paying

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<sup>645</sup> Intellectual Property Office, “Guernsey Image rights Register,” <<http://ipo.guernseyregistry.com/article/104530/View-the-Image-Rights-Register?cur=3>> accessed 24<sup>th</sup> May 2018

<sup>646</sup> Freddie Huxtable, (18<sup>th</sup> February 2015) “Image is Everything. Taxing celebrities’ income from the exploitation of image rights,” <<https://www.taxation.co.uk/Articles/2015/02/17/332699/image-everything>>, accessed 18<sup>th</sup> June 2018, page 4

<sup>647</sup> Step, (12<sup>th</sup> October 2017) “UK: HMRC attacks football club's 'sham' image rights agreement with player,” <<https://www.step.org/news/uk-hmrc-attacks-football-clubs-sham-image-rights-agreement-player>> accessed 24<sup>th</sup> May 2018

players holiday costs, travel costs of spouses<sup>648</sup> and the recent tax case at Rangers FC all highlight the revenues interest in the legitimacy of tax practices in sport generally. However, so long as these companies continue to exist and operate in this manner, athletes will continue to seek the benefit of image rights payment to reduce their tax liabilities and it seems the non-existence of an image right does nothing to hinder such payments and in any case, HMRC have been willing to acknowledge the transfer of an athletes' goodwill to an image rights company – providing the athlete is able to evidence the establishment of a business which seeks to exploit their image.

### **5.12. *Category 2 Athletes – Foreign Domiciled***

Foreign domiciled athletes can similarly seek advantage when it comes to reducing their UK tax bill. These athletes will have various image rights agreements or an image right company outside the UK and often a second company within the UK. Resident non-domiciled athletes (those who reside in the UK for long periods of time) are able to legally avoid paying tax in the UK by opting to be taxed on what is regarded as the “remittance basis.” The remittance tax regime in practice means that athletes will be liable for income and capital gains accumulated within the UK, namely from their remuneration from their club and any image rights deals, however, any remuneration or capital gains earned outside the UK will not be susceptible to UK tax unless is its remitted back into the UK.<sup>649</sup>

UK income and gains will be charged at the UK rates - although it is possible that if the individual has a UK image rights company, they will be able to reduce their tax liability in the same way as UK athletes as discussed above, by virtue of the reduced rate corporation tax and non-payment of national insurance. This will similarly be under scrutiny by HMRC (as any UK player would be) and athletes may be required to prove that they have goodwill and an image worth protecting - but it is arguable that these foreign athletes will be at an advantage in doing so if they have recognised image rights by law in their jurisdiction<sup>650</sup> (for example in certain states of the U.S. such as Florida and Hawaii or various provinces of

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<sup>648</sup> Alex Miller, (13<sup>th</sup> January 2012) Sporting Intelligence, HMRC Aim to Give Elite Football “A Good Kicking” After Tax Evasion Tip-Off, <<http://www.sportingintelligence.com/2012/01/13/hmrc-aim-to-give-elite-football-“a-good-kicking”-on-tax-after-evasion-tip-off-130101/>> accessed 24<sup>th</sup> May 2018

<sup>649</sup> HMRC Guidance Notes, (6<sup>th</sup> April 2017) “Remittance Basis” <<https://www.gov.uk/government/publications/remittance-basis-hs264-self-assessment-helpsheet/hs264-remittance-basis-2014>> accessed 11<sup>th</sup> June 2018

<sup>650</sup> Freddie Huxtable (18<sup>th</sup> February 2015) “Image is Everything, Taxing celebrities’ income from the exploitation of image rights,” <<https://www.taxation.co.uk/Articles/2015/02/17/332699/image-everything>> accessed 11<sup>th</sup> June 2018, page 6

Canada including Manitoba and Newfoundland) and this is further enhanced if they have a history of successfully commercially exploiting their image before becoming resident in the UK,<sup>651</sup> as opposed to UK athletes who have no such possibility, only *Irvine* has been compelled to bring a passing off case which is expensive, has no guarantee of success and cases cannot be brought simply to satisfy the taxman. The above relies too greatly on soft HMRC guidance and asks celebrities to prove they possess a right which does not exist in law. This a precarious basis for such a financially significant area and source of potential revenue, and only the introduction of a statutory defined image right will remedy this.

With regard to foreign gains, they will be regarded as being remitted back to the UK if they are:

“brought to, or received in, or used in the UK by you or another relevant person, brought to, or received in, or used in the UK for your benefit or that of another relevant person, used to pay for a service provided in the UK to you or another relevant person, used to pay for a service provided in the UK for your benefit or that of another relevant person or used outside of the UK in respect of a relevant debt in the UK.”<sup>652</sup>

If this does not occur, then athletes will be eligible to opt to pay tax on the remittance basis. The remittance basis has the advantage of being free of charge for the first six years of residency and is thereafter charged at an annual fee of £30,000. This fee will rise under two circumstances: to £60,000 if the athlete has been resident for 12 of the previous 14 tax years or if the athlete has been resident for 17 of the previous 20 tax years, the charge will rise to £90,000 per annum.<sup>653</sup> The athlete can opt to be charged remittance tax on a yearly basis, dependant on their financial circumstances or future intentions at that time.<sup>654</sup> Thus, given the sizable value of image rights and the sums athletes have the potential to make by exploiting them, the remittance basis offers foreign domiciled athletes an advantageous economical tax saving.

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<sup>651</sup> Ibid

<sup>652</sup> HMRC Guidance Notes, (6<sup>th</sup> April 2017) Remittance Basis.

<<https://www.gov.uk/government/publications/remittance-basis-hs264-self-assessment-helpsheet/hs264-remittance-basis-2014>> accessed 11<sup>th</sup> June 2018

<sup>653</sup> Income Tax Act (2007), Part 14 Income Tax Liability, Miscellaneous Rule s809H

<sup>654</sup> Jon Elphick, (13<sup>th</sup> October 2016) “How athletes will be affected by the UK’s changes to “non-dom” tax rules,” <<https://www.lawinsport.com/topics/articles/item/how-athletes-will-be-affected-by-the-uk-s-changes-to-non-dom-tax-rules>> accessed 11<sup>th</sup> June 2018

Changes made by virtue of the Finance Act 2017, mean that the ability to maintain permanent non-dom status is no longer possible. If an athlete resides in the UK for 15 of the previous 20 tax years,<sup>655</sup> known as the 15/20 rule, these foreign athletes will thereafter become UK resident for tax purposes and be required to pay tax on any foreign income or gains in the same way in which UK born athletes are under an obligation to do so. However, should the athlete leave the UK for 6 consecutive tax years, they will be able to enjoy the benefit of claiming the remittance basis for a further 15 years upon their return.<sup>656</sup> In reality, these new rules mean that foreign domiciled athletes, such as Liverpool's Mohamed Salah, residing in the UK, with global marketability, can continue to avoid paying tax on income and gains accumulated outside of the UK. These changes will only have an effect on foreign athletes who are resident in the UK for 15 years.

#### **5.12.1. *Anti-Avoidance Measures***

Additional taxation reforms in relation to non-domiciled individuals have involved the application of anti-avoidance rules, designed to prevent residents in the UK from moving sources of income and capital to offshore companies and structures. As such, the government has taken numerous steps in recent years to regulate more closely and make it increasingly difficult for individuals to use tax avoidance schemes by utilising offshore structures.

#### **5.12.2. *Accelerated Payment Notices or Partner Payment Notices***

Consideration must first be given to Accelerated Payment Notices (APN's) or Partner Payment Notices (PPN's) when issued to partnerships, introduced by the Finance Act (2014). APN's are notices issued by HMRC to participants of tax avoidance schemes, before the dispute has come before the Court or Tribunal. The rationale behind said notices is that until the dispute at hand is resolved by the courts, the taxpayer continues to seek a monetary advantage from the avoidance scheme – which an APN is designed to eliminate.<sup>657</sup>

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<sup>655</sup> Finance (No.2) Act (2017) c.32, Part 1 Direct Taxes, Domicile, Overseas Property etc, s29, Rule 835BA(4)

<sup>656</sup> Corinna Coors, (2016) "Sports Image Rights in the UK: Countering tax evasion in the football industry," <<https://core.ac.uk/download/pdf/76978363.pdf>> accessed 11<sup>th</sup> June 2016, page 3

<sup>657</sup> Andy Woods, Enterprise Tax Consultants, "APN's, HMRC & The Courts – Guilty Until Proven Innocent?" <<https://www.enterprisetax.co.uk/accelerated-payment-notices-guilty-until-proven-innocent/>> accessed 11<sup>th</sup> June 2018

Under the Finance Act 2014, s219, an APN can be issued in the following circumstances: a tax enquiry or appeal is in progress<sup>658</sup> and tax advantage has resulted from the arrangements in question.<sup>659</sup> Additionally, one of the following conditions must also be met: a follower notice has been given<sup>660</sup> (a follower notice can be issued to an individual or corporate body who has used a tax avoidance scheme which, through another person's litigation, has been exposed as ineffective. The notice informs the taxpayer that they may be subject to a penalty of up to 50% of the tax if they fail to amend their tax return or settle the dispute at hand),<sup>661</sup> the arrangements are notifiable under the Disclosure of Tax Avoidance Schemes (DOTA)<sup>662</sup> which requires participants of tax avoidance schemes to inform HMRC,<sup>663</sup> or in instances where a General Anti Abuse Rule (GAAR) Counteraction notice has been given<sup>664</sup> (a notice of a final decision to counteract an anti-avoidance rule).

If an individual is issued with an APN no right of appeal exists - although representations can be made to HMRC. Representations are possible in instances where the taxpayer is objecting to the notice on the grounds that the conditions discussed above have not been met or against the amount specified in the notice.<sup>665</sup> The payment of the APN is due within 90 days, or penalties shall follow as specified under s226 of the Act.

In the absence of a right to appeal, taxpayers have been forced to challenge APN's by means of judicial review. Judicial review is articulated by Lord Diplock in *Council of Civil Service Unions v Minister for the Civil Service*,<sup>666</sup> where it was made clear that the decision by the public body must be "so outrageous in its defiance of logic or accepted moral standards that no sensible person who had applied his mind to the question to be decided could have arrived at it,"<sup>667</sup> for a judicial review to be successful.

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<sup>658</sup> Finance Act 2014, s219 (2)(a) & (b)

<sup>659</sup> Ibid, s219 (3)

<sup>660</sup> Ibid, s219 (4)(a)

<sup>661</sup> HMRC Guidance Notes, (23<sup>rd</sup> July 2015) "Follower notices and accelerated payments,"

<<https://www.gov.uk/government/publications/follower-notices-and-accelerated-payments/follower-notices-and-accelerated-payments>> accessed 11<sup>th</sup> June 2018

<sup>662</sup> DOTA arrangements for the purposes of APN's are described in the Finance Act 2014, s219 (5)(a),(b)&(c)

<sup>663</sup> Ibid s219 (4)(b)

<sup>664</sup> Ibid s219, (4)(c)

<sup>665</sup> Ibid s222, (2)(a)&(b)

<sup>666</sup> [1985] A.C. 374

<sup>667</sup> Ibid [410] per Lord Diplock

Over 4000 taxpayers have sought judicial review on various grounds, the only successful ground thus far being that the conditions laid down by the Finance Act in issuing an APN had not been made.<sup>668</sup> In other cases, applicants have sought interim relief. Despite some success, the 2016 decision of *R (on the application of Vital Nut Co. Ltd and another) v HMRC*<sup>669</sup> set the bar to be granted interim relief high:

“it is necessary for those responsible to set out fully in a witness statement the current and future position of the corporate entity in question, supported by proper qualitative information, typically in the form of a source and application of funds or a cash-flow statement which can satisfy the court that if the claimant had to pay, then the ordinary operation of the business would be significantly undermined and perhaps, at the limit, put in real jeopardy,”<sup>670</sup>

whilst in *R (on the application of VVB Engineering Services Ltd and others) v HMRC*,<sup>671</sup> Supperstone J emphasised that the purpose of the Finance Act is to ensure HMRC remove the cash flow advantage from avoidance schemes and this takes precedence over the risks to the company/individual who has involved themselves in avoidance schemes in the first place,<sup>672</sup> and in any case, the claimant had failed to illustrate that the business would suffer significantly to the extent required by Sir Kenneth Parker in the *Vital Nut* litigation.<sup>673</sup> The above judgments and the high standards set within, will likely have been perceived as a disappointment to taxpayers issued with APN’s seeking to delay or avoid payment to HMRC, whilst the December 2017 Court of Appeal case is perhaps the final nail in the coffin for interim relief claims and challenges to notices as the legality of APN’s was confirmed.

On December 12<sup>th</sup>, the joined cases of *R (on the application of Rowe and Others) v HMRC* and *R (on the application of Vital Nut Co Limited and Others) v HMRC*<sup>674</sup> were heard by the Court of Appeal. The case contained six principle grounds of appeal, namely that the issue of APN’s/PPN’s were (as quoted from the judgment):

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<sup>668</sup> Andy Woods, Enterprise Tax Consultants, “APN’s, HMRC & The Courts – Guilty Until Proven Innocent?” <<https://www.enterprisetax.co.uk/accelerated-payment-notices-guilty-until-proven-innocent/>> accessed 11<sup>th</sup> June 2018

<sup>669</sup> [2016] EWCA 1128

<sup>670</sup> [2016] EWHC 1128 [37]

<sup>671</sup> [2017] EWHC 506 (Admin)

<sup>672</sup> Ibid [7]-[10]

<sup>673</sup> Ibid [17] – [20]

<sup>674</sup> [2017] EWCA Civ 2105

- “unreasonable, disproportionate and otherwise unfair, and based on an erroneous assessment of the statutory purpose,”<sup>675</sup>
- “beyond the powers conferred on HMRC by the FA 2014 in so far as HMRC sought to apply the provisions of the FA retrospectively to steps taken before that Act came into force,”<sup>676</sup>
- “not in accordance with the principles of natural justice,”<sup>677</sup>
- “in breach of the FA in that there was no “understated partner tax” as required by FA 2014, s228 and schedule 31, paragraph 4 because no tax was due and payable in the majority of cases where the partners had made “carry back” claims,”<sup>678</sup> (*Rowe* appeal only,)
- “in breach of Article 1 of the First Protocol (“A1P1”) to the European Convention of Human Rights and Articles 6 and 7 of the Convention”<sup>679</sup>
- “in breach of FA 2014 in that the decision to issue APN’s was ultra vires because it was not in accordance with FA 2014, s219 to 223.”<sup>680</sup> (*Vital Nut* appeal only.)

For the purposes of this research, grounds four and six are procedural point only and so grounds 1,2,3 and 5 will be discussed in regard to the legality of APN’s.

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<sup>675</sup> Ibid [4]

<sup>676</sup> Ibid

<sup>677</sup> Ibid

<sup>678</sup> Ibid

<sup>679</sup> Ibid

<sup>680</sup> Ibid

### 5.12.3.

#### *Ground One*

With reference to the first ground, the appellants argued the erroneous understanding of the statutory purpose was that it sought to disincentivise the use of avoidance schemes.<sup>681</sup>

However, the court dismissed this claim and adopted the view that,

“the object of the powers is to enable HMRC by exercising them to disincentivise taxpayers from entering into such scheme. Tax avoidance schemes are undesirable...because they consume an undue amount of HMRC’s scarce resources. On this basis, it must also be part of the statutory purpose that taxpayers should be deterred from stringing out appeals,”<sup>682</sup> whilst also making clear that “there is nothing irrational or unfair about operating a scheme with its terms.”<sup>683</sup>

### 5.12.4.

#### *Ground Two*

The second ground regarding retrospectivity, was similarly rejected on the grounds that, as highlighted in by Green J in *R (on the application of Walapu) v CRC*,<sup>684</sup> the key point is that for the statute not to apply in relation with existing cases where avoidance schemes have been utilised, would have been contrary to the overall statutory purpose.<sup>685</sup>

### 5.12.5.

#### *Ground Three*

On the third basis of appeal, the issuance of the APN was held not to contravene the principles of natural justice. The court noted that the process adopted by HMRC must be fair, and to ensure this, the taxpayer must be able to make representations.<sup>686</sup> Despite the submission of the appellants that the representations of the taxpayer had been a simple tick box exercise, the court held that simply because “HMRC decides on a rational basis to proceed to issue an APN/PPN despite having received submissions on the merits of the scheme”<sup>687</sup> this did not impede the principles of natural justice.

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<sup>681</sup> Ibid [51]

<sup>682</sup> Ibid [4]

<sup>683</sup> Ibid [49]

<sup>684</sup> [2016] STC 1682, [97]

<sup>685</sup> [2017] EWCA Civ 2105, [82]

<sup>686</sup> Ibid [106]

<sup>687</sup> Ibid [113]

### 5.12.6.

### *Ground Five*

In regard to the appellant's contention that APN's/PPN's were a breach of their human rights, the court ruled against this in the context of both Article 1 and 6. A1P1 reads,

“(1) Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law. (2) The preceding provisions shall not, however, in any way impair the right of a state to enforce such laws as it deems necessary to control the use of property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties.”<sup>688</sup>

The court highlighted the German case of *Gasus Dosier – und Fordertechnik GmbH v the Netherlands*<sup>689</sup> where the British contribution to the drafting of ECHR was referred to by the ECtHR, in regard to the second paragraph of article 1, “that paragraph explicitly reserves the right to pass such laws as they may deem necessary to secure the payment of taxes.”<sup>690</sup> Thus, the court ruled that there was no requirement to rule upon whether article 1 was engaged and even if there was, the second indent meant that the government was entitled to rule article 1 did not apply in order to secure the payment of taxes.<sup>691</sup>

With regard to Article 6, which involves the right to a fair trial in civil and criminal matters, this held to be outwith the scope of the court, by virtue of the *Ferrazzini v Italy*<sup>692</sup> judgment, which read:

“in the tax field, developments which might have occurred in democratic societies do not, however, affect the fundamental nature of the obligation on individuals and companies to pay tax. In comparison with the position when the Convention was adopted, those developments have not entailed further intervention by the state into the “civil” sphere of the individual's life. The court considers that tax matters still form part of the hard core of public-authority prerogatives, with the public nature of

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<sup>688</sup> European Convention on Human Rights, Protocol 1, Article 1

<sup>689</sup> 23<sup>rd</sup> February 1995, App no 15375/89

<sup>690</sup> [2017] EWCA Civ 2105, [149]

<sup>691</sup> Ibid [150]

<sup>692</sup> [2001] STC 1314

the relationship between the taxpayer and the community remaining predominant....tax disputes fall outside the scope of civil rights and obligations,”<sup>693</sup> and thus, the provisions of the FA were held to fall outside the scope of Article 6.<sup>694</sup>

The above judgments, in particular that of the Court of Appeal in the recent 2017 judgment, confirm that at least for the time being, the issuance of APN’s/PPN’s shall be regarded as legal. There is little doubt that these notices have changed the tax landscape,<sup>695</sup> yet for the purposes of this research, it is not important to argue for and against the legal status of these notices, rather what is important is the effect they have on the tax planning and obligations of foreign domiciled individuals residing in the UK. Should athletes be involved in avoidance schemes they run the risk of being issued with an APN thus becoming liable for payment within 90 days. For the purposes of effective tax planning, it is advisable that athletes stay clear of these avoidance schemes and opt to pay tax on the remittance basis. In any case however, it would be naïve to disregard the fact that many athletes, earn considerable sums of money and so the payment of an APN may be little in comparison to the tax that they have managed to avoid before issuance. Thus, it is possible that athletes may be willing to take the risk in participating in avoidance schemes to reap the tax benefits, despite the introduction of APN’s.

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<sup>693</sup> Ibid [29]

<sup>694</sup> [2017] EWCA Civ 2105, [152]

<sup>695</sup> Andrew Hubbard, (28<sup>th</sup> June 2017) “APN’s and follower notices”

<<https://www.taxation.co.uk/Articles/2017/06/27/336607/apns-and-follower-notices>> accessed 11<sup>th</sup> June 2016

### 5.12.7. *Promoters of Tax Avoidance Schemes*

In addition to APN's, further anti-avoidance legislation has sought to make the promotion and execution of tax avoidance schemes detrimental, or at least more difficult, for the taxpayer and their agents alike. Also in 2014, the Government introduced the Promoters of Tax Avoidance Schemes (POTA's), under the Finance Act, 2014, Part 5. The POTA scheme was designed with the aim of deterring "the development and use of avoidance schemes by influencing the behaviour of promoters, their intermediaries and clients."<sup>696</sup> The scheme forces promoters of failed tax avoidance schemes to notify their customers that they have been subject to the POTA scheme, whilst HMRC may publicly name them. POTA's operate on a graduated series of sanctions, firstly a conduct notice and then a monitoring notice.<sup>697</sup>

A conduct notice requires the recipient to comply with imposed by the conditions of the notice, whilst the recipient is also entitled to an opportunity to comment on the proposed terms before they are decided.<sup>698</sup> The notice can be given for a number of reasons under s238, for example:

- "to ensure that the recipient provides adequate information to its clients about relevant proposals, and relevant arrangements, in relation to which the recipient is a promoter,"<sup>699</sup>
- "to ensure that the recipient provides adequate information about relevant proposals in relation to which it is a promoter to persons who are intermediaries in relation to those proposals,"<sup>700</sup>
- "to ensure that the recipient does not fail to comply with any duty under a specified disclosure provision,"<sup>701</sup>
- "to ensure that the recipient does not discourage others from complying with any obligation to disclose to HMRC information of a description specified in the notice."<sup>702</sup>

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<sup>696</sup> HMRC Guidance Notes, "Promoters of Tax Avoidance Schemes (POTA's)", [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/454865/POTAS.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454865/POTAS.pdf) accessed 11<sup>th</sup> June 2018, page 6

<sup>697</sup> Ibid

<sup>698</sup> Finance Act 2014, Part 5, s238(1)&(2)

<sup>699</sup> Ibid Part 5, s238(3)(a)

<sup>700</sup> Ibid Part 5, s238(3)(b)

<sup>701</sup> Ibid Part 5, s238(3)(c)

<sup>702</sup> Ibid Part 5, s238(3)(d)

The notice can last up to 2 years, or shorter if specified in the notice. The notice can be amended at any time, or withdrawn in circumstances where it is no longer necessary, or where a monitoring notice is required.<sup>703</sup>

Should the circumstance arise where a promoter has failed to apply with conditions set down by the conduct notice, the authorised officer may apply to a tribunal in order to issue a monitoring notice,<sup>704</sup> although it is worth noting here that the promoter is entitled to make representations.<sup>705</sup> Having being issued with a notice, the promoter shall be monitored for a period of 12 months following the appeal period.<sup>706</sup> By virtue of the monitored promoter status, HMRC are entitled to publish the following details: the name and business address of the promoter, the nature of the business and any other relevant information.<sup>707</sup>

Additionally, the promoter must also publish to its clients and prospective clients that it is being monitored by HMRC and also the details of the conduct notice to which it failed to comply.<sup>708</sup>

Thus, it is hoped that promoters and indeed their clients will be less likely to participate in avoidance schemes, driven by the threat of potential loss of present and future clients and similarly to the detriment of the goodwill of the business in question.

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<sup>703</sup> Ibid Part 5, s240-241

<sup>704</sup> Ibid Part 5, s242(1)(a)&(b)

<sup>705</sup> Ibid Part 5, s243(1)(b)

<sup>706</sup> Ibid Part 5, s245(1)&(2)

<sup>707</sup> Ibid Part 5, s248(2)(a)(b)(c)&(d)

<sup>708</sup> Ibid Part 5, s249(1)(a)&(b)

### 5.12.8.

### *Anti-Avoidance in ITA and TCGA*

In the interests of completeness, it is beneficial to take notice of the anti-avoidance measures implemented within the Income Tax Act (ITA) 2007 and the Transfer of Capital Gains Act (TCGA) 1992. Part 13, Chapter 2 of the ITA, implements anti-avoidance rules to prevent the use of foreign transfers by UK residents to avoid tax liabilities. By virtue of s721, a UK individual shall be liable for income tax if they receive income from an individual living abroad either through a transfer<sup>709</sup> or one or more associated operations<sup>710</sup> and the income would be liable to income tax if it were the individuals in question and was received by the individual in the UK.<sup>711</sup> Income tax can similarly be retrieved in instances where an individual has received a capital sum<sup>712</sup> (“any sum paid or payable by way of loan or repayment of a loan, and any other sum paid or payable otherwise than as income and not for full consideration in money or money’s worth”)<sup>713</sup> by transfer or through an associated operation. Otherwise, s732 provides that income tax can also be charged to non-transferors who receive benefit as a result of a transaction from abroad.

Additionally, s13 of the TCGA specifically sets out the ways in which gains accrued in foreign companies can be attributed back to the individual who set up the structure in the first instance – limiting UK residents’ ability to avoid paying tax on gains received by means of an offshore company.

In any case, the UK system of allowing foreign domiciled athletes to be taxed on the remittance basis is likely to be viewed in a positive light by athletes in this category, and the changes to the legislation will do little to change this, unless an individual stays in the UK for 15 years. Similarly, the fact that foreign gains and income are not susceptible to UK tax is advantageous for foreign domiciled individuals. However, it is evident that in recent years the government, aided by HMRC, have taken several steps in implementing anti-avoidance measure to ensure that it has, at the very least, become increasingly difficult for foreign domiciled individuals to use offshore structures as a means of avoiding their UK tax liabilities. In regard to the recent changes which sparked the end of the non-domiciled status, it is unlikely that this will have any major effect on athletes who, for the large part, will continue to be able to claim tax on the financially beneficial remittance basis, unless

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<sup>709</sup> See Income Tax Act 2007, Part 12, Chapter 2, s716 for definition of relevant transfer.

<sup>710</sup> See Income Tax Act 2007, Part 12, Chapter 2, s719 for definition of associated operation.

<sup>711</sup> Income Tax Act 2007, Part 13, Chapter 2, s721

<sup>712</sup> Ibid Part 13, Chapter 2, s728

<sup>713</sup> Ibid Part 13, Chapter 2, s729(3)(a)&(b)

they reside in the UK for more than 15 years. The recent introduction of APN's/PPN's, the POTAs scheme and the relevant sections of the Income and Taxation of Chargeable Gains Act illustrates a more stringent system of taxation in the UK – with tax avoidance for non-domiciled individuals becoming somewhat more complicated and undoubtedly requiring a substantial amount of tax planning. However, it is worth noting that in the case of high-net worth, foreign domiciled individuals, money is often no object and they are willing to pay what it takes in order to reduce what has the potential to be a substantial tax bill for income and capital gains tax. Similarly, income and gains earned on foreign shores shall not be liable to UK tax so long as it is not remitted to the UK and so athletes who can claim non-domiciled status have the potential to continue to earn substantial sums elsewhere through commercial endorsement and income opportunities.

### **5.13. Category 3 - *Internationally Mobile***

As highlighted, some athletes will not be deemed as UK resident nor foreign domiciled; rather, they are classed as internationally mobile. These athletes, irrespective of whether they are from the UK in the first instance, will visit the UK in order to perform, yet will fail to spend a sufficient amount of time in the UK (at least 46 days by virtue of the Statutory Residence Test) to be considered UK tax resident. Such athletes will simply visit for one-off events such as Wimbledon, the Olympics or athletics tournaments. However, the UK have counteracted this potential loss of tax revenue by taxing internationally mobile athletes on a source basis. As such, these athletes who perform and compete in the UK can be susceptible to UK tax liabilities, despite not being UK resident.

The general rule for taxation of internationally mobile employees is contained within the Income Tax (Earnings and Pensions) Act 2003,<sup>714</sup> which states that non-UK resident employees will be subject to UK income tax on UK earnings. With specific regard to athletes and entertainers, the UK rules for the withholding of tax at source on payments made to internationally mobile athletes were introduced by s44 and Sch 11 of the Finance Act (1984), (now contained in the Income Tax Act 2007 s966-970 and the Corporation Tax Act 2008 s1309) and the Income Tax (Entertainers and Sportsmen) Regulations 1987. The withholding tax rules state that if a payment is made to an international athlete who is not

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<sup>714</sup> Income Tax (Earnings and Pensions) Act 2003, s27

UK resident but performs a relevant activity within the tax year, the payer must deduct income tax.<sup>715</sup>

Although it is noteworthy that the total payment must exceed the personal tax allowance for the prescribed year, it is likely that in the case of sums being paid to athletes, this will almost always be the case.<sup>716</sup> Similarly, it need not matter if the payment is made through a third party – withholding tax must still be deducted.<sup>717</sup>

By virtue of the Regulations, an entertainer includes

“any description of individuals (and whether performing alone or with others) who give performances in their character as entertainers or sportsmen in any kind of entertainment or sport; and “entertainment or sport” in this definition includes any activity of a physical kind, performed by such an individual, which is or may be made available to the public or any section of the public and whether for payment or not.”<sup>718</sup>

Additionally, HMRC provide a non-exhaustive list of the types of sportspersons who are liable for withholding tax to be deducted in their “Pay tax on payments to foreign sportspersons” guidance, also known as FEU 50. This guidance states that liable sportspersons can be anything from golfers and jockeys to snooker and tennis players.<sup>719</sup> A relevant activity is said to include any appearance at a commercial occasion, in promotion of a particular event, including television and radio appearances.<sup>720</sup> As such, the HMRC advises that appearances for advertising, endorsement and promotional activities will be subject to UK income tax.<sup>721</sup> Thus, the UK system of taxing at source allows taxation of international athletes to be charged on earnings, prize money and commercial income

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<sup>715</sup> Income Tax Act 2007, s966

<sup>716</sup> HMRC Guidance, “Income Tax Rates and Personal Allowances,” <<https://www.gov.uk/income-tax-rates>> accessed 11<sup>th</sup> June 2018

<sup>717</sup> Income Tax Act 2007, s966(2)(a)

<sup>718</sup> Income Tax (Entertainers and Sportsmen) Regulations, 1987, SI No. 530, s2(1)

<sup>719</sup> HMRC Guidance, (8<sup>th</sup> December 2014) “Pay tax on payments to foreign sportspersons,” <<https://www.gov.uk/guidance/pay-tax-on-payments-to-foreign-performers>> accessed 11<sup>th</sup> June 2018

<sup>720</sup> Income Tax (Entertainers and Sportsmen) Regulations, 1987, SI No. 530, s6(2)(a)&(b)

<sup>721</sup> HMRC Guidance, (8<sup>th</sup> December 2014) “Pay tax on payments to foreign sportspersons,” <<https://www.gov.uk/guidance/pay-tax-on-payments-to-foreign-performers>> accessed 11<sup>th</sup> June 2018

derived from their one-off appearance at a sporting event within the UK – in line with the system followed by foreign tax authorities.<sup>722</sup>

What sets the UK apart from most foreign tax systems however (with the exception of the U.S),<sup>723</sup> is its taxation of non-UK source endorsement income. By virtue of Regulation 6(3), which states:

“(3) A commercial occasion or event to which paragraph (2) refers includes any description of occasion or event— (a) for which an entertainer (or other person) might receive or become entitled, for or by virtue of the entertainer’s performance of the activity, to receive anything by way of cash or any other form of property; or (b) which is designed to promote commercial sales or activity by advertising, the endorsement of goods or services, sponsorship, or other promotional means of any kind, athletes who perform in one-off competitions in the UK are subject to UK tax on a proportion of their general endorsement earnings, in addition to tax on their prize money/earnings.”<sup>724</sup>

In the years following the introduction of the legislation, HMRC adopted the view that there was a distinct difference between passive income - income which athletes would earn irrespective of their appearance at a UK event - and active income – income which derived directly from their participation at a particular competition.<sup>725</sup> Essentially, HMRC acknowledged that athletes with a high-profile would earn money by virtue of their name, likeness and personality regardless of whether they are competition or not and allocated (David Beckham is the obvious example here, whose off-field value was of much more worth than that of his on-field). Under this system of apportionment, the UK taxed only a small portion of an athletes’ active income, using a system based on the number of days spent in the UK over a denominator of 330 (a full year work minus 5 weeks annual leave), multiplied by 50% of their global endorsement income<sup>726</sup> – apportioning 50% for passive

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<sup>722</sup> Julian Hedley, (10<sup>th</sup> September 2014) “We are where we are: The efficacy of tax exemptions for UK sporting events featuring non-resident athletes,” <<https://www.taxation.co.uk/Articles/2014/09/09/330581/we-are-where-we-are>> accessed 11<sup>th</sup> June 2018, page 2

<sup>723</sup> Ibid page 3

<sup>724</sup> Income Tax (Entertainers and Sportsmen) Regulations, 1987, SI No. 530, s6(3)(a)&(b)

<sup>725</sup> Nicola Parkinson, (31<sup>st</sup> August 2016) “Attracting top talent: Why the UK should reconsider the way it taxes non-resident athletes,” <<https://www.lawinsport.com/topics/articles/item/attracting-top-talent-why-the-uk-should-reconsider-the-way-it-taxes-non-resident-athletes>> accessed 11<sup>th</sup> June 2018, page 2

<sup>726</sup> Julian Hedley, (10<sup>th</sup> September 2014) “We are where we are: The efficacy of tax exemptions for UK sporting events featuring non-resident athletes,” <<https://www.taxation.co.uk/Articles/2014/09/09/330581/we-are-where-we-are>> accessed 11<sup>th</sup> June 2018, page 3

income. However, come 1999, HMRC sought to change this policy, despite no changes being made to the underlying legislation. As such, thereafter, no consideration was given to an athletes' passive income and their entire global endorsement income was included in the apportionment, against the number of competition days in the year, as opposed to number of days spent in the UK.<sup>727</sup>

This change is particularly damning to athletes who have a substantial endorsement income or have few competition days throughout the year (for example marathon runners). The 2012 UK budget relaxed these rules, allowing athletes to now take account of training days as well as competition days,<sup>728</sup> yet the scheme has not been without controversy and has, and continues to have the potential to not only deter top-class athletes competing in the UK, but similarly affect the UK's ability to be awarded high profile sporting events.

### **5.13.1. *Agassi***

The issue of apportionment may not, as yet, have been brought before the UK courts, however tennis star Andre Agassi did challenge an HMRC decision to seek a percentage of his endorsement earnings being transferred from one US undertaking to another. Agassi, the U.S. Olympic gold medallist and 8-time grand slam winner, had never been resident in the UK. In the year in question in the litigation, he had participated in Wimbledon. Agassi owned his own personal service company, Agassi Enterprises Inc., who contracted with sports retailers Head and Nike and as such, had received image right payments from in 1998/1999. Although neither company was resident or traded in the UK in that year, nor were the payments made in the UK – the Inland Revenue issued Agassi with a closure notice as a result of his tax return which showed some (but not all) payments from Nike and Head.<sup>729</sup> The Revenue demanded a further £27,500, by virtue of the fact that the payments were, “payments that had a connection of a prescribed kind (Regulation 3 of the 1987 Regulations) with a “relevant activity” (see Regulation 6) performed by Mr Agassi in the United Kingdom.”<sup>730</sup> The Inspector of Taxes found in favour of the Revenue, holding that

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<sup>727</sup> Nicola Parkinson, (31<sup>st</sup> August 2016) “Attracting top talent: Why the UK should reconsider the way it taxes non-resident athletes,” <<https://www.lawinsport.com/topics/articles/item/attracting-top-talent-why-the-uk-should-reconsider-the-way-it-taxes-non-resident-athletes>> accessed 11<sup>th</sup> June 2018, page 3

<sup>728</sup> HM Treasury 2012 Budget, <[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/247119/1853.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/247119/1853.pdf) page 61> accessed 11<sup>th</sup> June 2018, para 2.60

<sup>729</sup> [2006] UKHL 23, [4] – [7]

<sup>730</sup> *Ibid* [6]

they had correctly assessed the income tax due by Agassi and in essence,<sup>731</sup> deemed that offshore companies who made payments to other foreign undertakings should deduct tax as a result of a non-UK athletes' performance in the UK<sup>732</sup> - which was upheld in the High Court.

In the Court of Appeal, the decision was reversed on the basis of *Clark v Oceanic Contractors Inc.*<sup>733</sup> This case concerned the territorial limitations of the PAYE income tax scheme, where it was held that the system only applied to payers who had a "tax presence" in the UK.<sup>734</sup> On this basis, together with the burden the imposed on the payer (which was described as penal),<sup>735</sup> it was held that the Regulations and relevant legislation should not have extraterritorial effect.<sup>736</sup>

In the House of Lords, the decision of the Court of Appeal was overturned on the basis that the territorial argument could not stand by virtue of the fact that the statutory provisions were introduced to allow the Revenue collect tax from foreign performers as a result of their UK presence. If the Lords upheld the decision then the tax liabilities of foreign sportspersons in this context could be avoided by ensuring there is "no residence or trading presence" in the UK and therefore all payments would be voluntary – which could not, in any case have been Parliaments intention.<sup>737</sup>

The decision of the House of Lords in *Agassi* is useful in emphasising the extent to which the UK tax authorities will go to ensure foreign sportspersons, in particular international athletes, do not escape UK tax liabilities. As pleasing as this result may have been for the Revenue, the controversy caused by the UK's policy on mobile athletes continues to exist today.

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<sup>731</sup> *Agassi v Robinson (Inspector of Taxes)* [2004] S.T.C. 610, [20]–[21]

<sup>732</sup> Timothy Brennan, Sebastian Purnell, (2016) *International Sports Law Review*, "Taxing talent: principle and pragmatism", 3, 4

<sup>733</sup> [1983] 2 A.C. 130

<sup>734</sup> *Ibid* [159]

<sup>735</sup> [2004] EWCA Civ 1518; [2005] W.L.R. 1090, [30]

<sup>736</sup> *Ibid* [31]

<sup>737</sup> [2006] UKHL 23; [2006]1 W.L.R. 1380, [17]

### 5.13.2.

### *Tax Treaties*

Internationally mobile athletes must also be cautious of their country of residence's tax agreements with the UK. In essence, if the UK does not have a double taxation treaty with the athletes' current country of residence, then unless their home country's domestic law provides unilateral relief, the athlete may be liable for tax in both countries on what is the same income – known as double taxation. For example, if Brazilian tennis player Guilherme Sarti Clezar had won Wimbledon when he participated in 2015, his prize money would have been a total of £188,000.<sup>738</sup> As there is no tax treaty with the UK, he is liable for 45% income tax on his winnings in the UK as well as any endorsement income and potentially liable for income tax in Brazil<sup>739</sup> – providing there is no domestic law. As such, the absence of a double tax treaty between their country of residence and the UK could be a costly omission to an international athlete competing in the UK. Should the country where the athlete is tax resident have a tax treaty with the UK, then this will allow the athlete to avoid falling victim to double taxation. For example, assuming that American golfer Rickie Fowler is tax resident in the US, by virtue of Article 14 of the taxation treaty between the US and the UK,<sup>740</sup> he will only have been taxed on his €760,544 Scottish Open win in the UK and not in the USA.<sup>741</sup>

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<sup>738</sup> The Championships, Wimbledon, Prize Money.

<[http://www.wimbledon.com/pdf/Wimbledon\\_Prize\\_Money\\_2015.pdf](http://www.wimbledon.com/pdf/Wimbledon_Prize_Money_2015.pdf)> accessed 11<sup>th</sup> June 2018

<sup>739</sup> HMRC Guidance Notes, (2017) “Digest of Double Taxation Treaties”,

<[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/670849/Digest\\_of\\_Double\\_Taxation\\_Treaties\\_Nov\\_2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/670849/Digest_of_Double_Taxation_Treaties_Nov_2017.pdf)> accessed 15<sup>th</sup> September 2017

<sup>740</sup> UK/USA Double Taxation Convention, (2003) Article 14,

<[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/507431/usa-consolidated\\_-\\_in\\_force.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507431/usa-consolidated_-_in_force.pdf)> accessed 15<sup>th</sup> October 2017

<sup>741</sup> 2015 Scottish Open Prize Money, (2015) <<https://www.golfandcourse.com/2015-scottish-open-prize-money/>> accessed 10<sup>th</sup> October 2017

### 5.13.3.

### *Tax Exemptions*

As highlighted above, the UK tax regime for internationally mobile athletes is a costly burden for performers. The UK seeks to obtain income tax on an athletes' prize money, earnings, UK and global endorsement income from their participation in a sporting event in the UK – the latter charge becoming particularly controversial, notably because it is a country which does not recognise an athlete image rights in law but seeks to enjoy the tax benefits from their commercial prowess.

As such, many international athletes have refused to compete in the UK as a direct result of the considerable tax consequences. In 2010, Jamaican sprinter Usain Bolt refused to compete in the Aviva London Grand Prix, eventually competing in Paris and similarly, tennis star Rafael Nadal opted to compete in Germany in 2012 instead of the Championships at Queens.<sup>742</sup> In 2008, following Wembley's failed bid to host the economically lucrative 2010 Champions League final, Michel Platini famously stated at a media conference, that the reason for this "was the taxes."<sup>743</sup>

Reacting to the possibility of missing out on hosting lucrative global sporting events has not prompted the UK to change its tax system, but rather, has opted to introduce "ad hoc" exemptions to enable it to continue its hosting of mega events. These exemptions generally allow athletes prize money and endorsement earnings to become tax free while competing in the UK. For example, the 2010 Finance Act stated,

"if an employee or contractor of an overseas team which competes in the 2011 Champions League Final is neither UK resident nor ordinarily UK resident at the time of the final...that person is not liable to income tax in respect of any income arising to the person which is related to duties or services performed by the person in the United Kingdom in connection with the final."<sup>744</sup>

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<sup>742</sup> Timothy Brennan, Sebastian Purnell, (2016) *International Sports Law Review*, "Taxing Talent: principle and pragmatism", 3, 6

<sup>743</sup> Mark Ledsom, (28<sup>th</sup> March 2008) Madrid to host 2010 Champions League Final, <<https://uk.reuters.com/article/uk-soccer-uefa-finals/madrid-to-host-2010-champions-league-final-idUKL2890831620080328>> accessed 10<sup>th</sup> October 2017

<sup>744</sup> Finance Act 2010, Schedule 20(1).

A similar section was introduced in s12 of 2012 Finance Act, which allowed the UK to host the 2013 Champions League final. The London 2012 Olympic and Paralympic Games<sup>745</sup> and the 2014 Commonwealth Games in Glasgow<sup>746</sup> also benefited from the UK's tax exemption policy and with a reported £9.9 billion boost to the economy<sup>747</sup> in London and a reported £282 million economy boost as a result of Glasgow,<sup>748</sup> therefore it is not difficult to understand the need for the UK to relax its tax policies in order to host these worldwide events.

Evidencing the UK's commitment to this policy, is s48 of the Finance Act (2014) which allows the treasury to introduce exemptions by means of regulations without the need for an act of Parliament and new legislation. Thus far, The Major Sporting Events (Income Tax Exemptions) 2016 have allowed tax exemptions in the 2016 London Anniversary Games and the 2017 World Athletics Championships whilst The Major Sporting Events (Income Tax Exemptions) 2017 allowed for the 2017 Champions League Final exemptions.

The UK policy regarding internationally mobile athletes is clearly one which has and is likely to continue to cause controversy. The system of taxing foreign athletes on their global endorsement income by virtue of their participation at one or two UK sporting events is viewed in a negative light by athletes and major events organisers. However, the government's current system of creating tax exemptions for the hosting of worldwide events, allowing athletes income which derives from participation (income or endorsement) to be tax free is a positive step in repairing the detrimental impact the UK tax system could have on the participation of star athletes and its ability to host economically beneficial sporting events.

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<sup>745</sup> Explanatory Memorandum to The London Olympic and Paralympic Games Tax Regulations 2010, (No 2913)

<sup>746</sup> Finance Act 2013, Chapter 29, s9

<sup>747</sup> BBC News (13<sup>th</sup> July 2013) "London 2012 Olympics "have boosted UK economy by £9.9 billion,""  
<<http://www.bbc.co.uk/news/uk-23370270>> accessed 11<sup>th</sup> June 2018

<sup>748</sup> BBC News, (14<sup>th</sup> November 2014) "Glasgow 2013 tourism "worth £282 million" to Scottish economy",  
<<http://www.bbc.co.uk/news/uk-scotland-glasgow-west-30025966>> accessed 11<sup>th</sup> June 2018

#### 5.14.

#### *UK taxation of high earning athletes: conclusion*

It is clear from the above findings that tax law in regard to sportspersons is by no means simple. The legislation is often complicated and the guidance by HMRC unclear. However, various conclusions can be drawn in regard to athletes' tax liabilities in the UK.

For athletes who are UK resident, their tax liabilities are generally clear in the sense that they are required to pay UK tax. What complicates the situation is, in the case of their image rights, athletes must prove they have goodwill which is capable of being transferred and the assignment is not in gross. To do so, athletes should look to prove that their goodwill is worth protecting, whether this be in the form of copyright, a trademark or registration under the Guernsey scheme. In any case however, what athletes are seeking to exploit is a right which does not currently exist under UK law and until the situation changes in this context, it is likely that payments to image rights companies will continue to be made, allowing athletes to reap the tax benefits and HMRC will likewise continue to look upon these payments scrupulously. In essence, in the case of image rights payments to UK image rights companies, the non-existence of an image right in law does not, at least for the moment, hinder athletes' ability to receive payment for exploitation of their image and enjoy the tax benefits of doing so.

In the case of foreign domiciled athletes, the option to pay tax on the remittance basis is financially beneficial and the recent legislative changes do little in reducing this benefit for athletes who stay in the UK for a period of less than 15 years. Similarly, the fact that foreign income and gains is not liable for tax unless it is remitted back to the UK will be seen as a positive measure for foreign domiciled athletes. This being said, the introduction of APN's/PPN's, the POTA scheme and the anti-avoidance measures in the ITA and TCGA illustrate HMRC and the legislators desire to crack down on tax avoidance and evasion. The schemes are not without their drawbacks and have APN's in particular have been the subject of controversy but their existence alone should make athletes and their advisors think twice before engaging in avoidance schemes. In any case however, it would be naïve to underestimate the sums of money athletes earn and are willing to pay in order to make tax savings.

The UK system of taxing internationally mobile athletes is the most controversial of the tax policies, which demands a portion of an athletes' foreign endorsement income by virtue of their participation at a UK event. This system has deterred foreign athletes from competing

in the UK and has resulted in damaging the UK's ability to host world-wide sporting events. However, the relaxation of the policy in the 2012 budget and the government's willingness to make tax exemptions for sporting events is likely to lessen the damage caused by its stringent policy.

It is clear that in the UK, a tax system is in place which allows athletes, whether they are based in the UK or on foreign shores, to reap tax benefits from their image. The issue here, which is an original contribution of this thesis, is that the UK protects the celebrity image in the taxation context yet has no image right in law – one of the original contributions of this thesis. Until this changes, perhaps by the introduction of a free-standing image right which operates coherently with tax laws, then challenges by HMRC will continue to be made and athletes will most likely continue to look to lessen their tax liabilities by means of image rights payments and avoidance schemes. In relation to the conclusions drawn by the previous chapters, which highlighted that the image rights protections in place generally provide a remedy and a crisis of under protection does not exist either in the UK or Canada, it can be persuasively argued that the benefit of these image rights protections being in place, in the UK at least, mean that the existence of a trademark, copyright or registration under an image rights register abroad, serves as evidence that they have an image worth protecting, which in turn, evidences to HMRC that endorsement payments are legitimate. All that being said, it is necessary to examine the tax laws in Canada to assess whether similar conclusions can be drawn and, if so, whether elements of the Canadian tax regime applying to high-profile athletes and other celebrities could provide a worthwhile basis for reform of the UK provisions.

Thus far, the research based upon image rights has illustrated that in spite of the differing legal mechanisms used during disputes involving unauthorised exploitations of the celebrity persona, the mechanisms in place have generally drawn the courts to the same conclusion in both the UK in Canada – that unauthorised uses by a third party for commercial purposes can result in redress. The means of securing the protection of image rights have also been shown to have a significance that goes beyond the issue of image rights protection and extends into the realms of tax planning. The previous chapter's discussion as to the relationship between image rights and taxation in the UK, highlighted the importance of the former for tax purposes. In spite of the absence of a free-standing image right under UK law, the existence of an "image right," either in the form of goodwill, a registered copyright, trademark or a right registered within another jurisdiction, is important in providing evidence to HMRC that endorsement payments are legitimate and not used as a means of escaping tax liabilities. The UK system of taxation towards internationally mobile/visiting athletes does also not exist without controversy. Having analysed and compared image rights law in both the UK and Canada, the next chapter of this thesis will focus upon taxation laws regarding professional athletes in Canada, in order to assess whether their system is similar to the UK in terms of endorsement payments or whether Canada employs a different system of taxation with regard to its professional athletes – and, similarly, to consider its relationship to image rights.

As established, in Canada, Ontario has created the tort of appropriation of personality under its common law whilst Manitoba, Newfoundland, Saskatchewan and British Columbia have enacted legislation which prevents the unauthorised exploitation of an individual's personality by virtue of Privacy Acts. This leaves the provinces of Alberta, Nova Scotia, New Brunswick and Prince Edward Island in a similar situation to the UK where there is no right to personality in common law nor is it provided for by the legislature.

As above, Ice Hockey in Canada plays a broadly comparable role to that of football in the UK, albeit with a cross-border twist. The National Hockey League (NHL) operates in both America and Canada and is considered the leading hockey league in the world. Canada has 7 participating teams: The Montreal Canadiens, Toronto Maple Leafs, Ottawa Senators, Winnipeg Jets, Edmonton Oilers, Calgary Flames and the Vancouver Canucks, whilst

America boasts a further 24 teams.<sup>749</sup> In the previous 2017-2018 season, the NHL includes athletes of 17 different nationalities,<sup>750</sup> illustrative of the potential for athletic talent migration and its accompanying tax complexities - similar to the way in which *Bosman* opened the doors for athletic migration within the EU. This potential for international movement is further enhanced by the National Basketball League (NBA), the Major Baseball League (MLB), and the Major Soccer League (MLS) who all have at least one franchise in Canada, whilst the Canada Football League (CFL) employs a host of foreign players.<sup>751</sup> Similarly, as discussed in the previous chapters, Canada continues to host a number of sporting events each year including the 2017 Bobsleigh and Skeleton World Cup, the 2017 Invictus Games as well as the 2015 Women's Soccer World Cup and the 2010 Winter Olympic and Paralympic Games – stamping its presence firmly on the international sports field.

This sporting culture attracts athletes from around the world and many of the sports mentioned above are similar to football in the UK in terms of the substantial sums of money they offer athletes in both salary and endorsement income. For example, NHL star Johnathan Toews earned a salary of \$13.8 million and another \$2.2 million in endorsement earnings captaining the Chicago Blackhawks last year.<sup>752</sup> These earnings are of course regarded as taxable income in Canada, yet the way they are apportioned and received differs substantially from the UK. As such, the NHL serves as a purposeful example as to how image rights payments are made to hockey players and subsequently how they are taxed.

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<sup>749</sup> For more information, see <https://www.nhl.com/>

<sup>750</sup> Active NHL Players Totals by Nationality, 2017-18, <<http://www.quantohockey.com/nhl/nationality-totals/active-nhl-players-2017-18-stats.html>> accessed 11<sup>th</sup> June 2018

<sup>751</sup> Mark Jadd, Norman Bacal, Kay Leung, (2008) Canadian Tax Journal, Volume 56, No 53, "Performing in Canada: Taxation of Non-Resident Artists, Athletes, and Other Service Providers," 589, 591

<sup>752</sup> Kurt Badenhausen, (2017) Forbes, "The NHL's Highest Paid Players 2017-2018," <<https://www.forbes.com/sites/kurtbadenhausen/2017/12/05/the-nhls-highest-paid-players-2017-18/#4e0fb5662ac3>> accessed 11<sup>th</sup> June 2018> accessed 18<sup>th</sup> June 2018

## 6.1.

### *Ice Hockey in Canada*

As mentioned in the above example, there is considerable scope for athletes to commercially exploit their image through endorsement deals. This being said, the way in which this scope is realised differs from that of football in the UK. Footballers often receive a percentage of their salary in the form of an image right payment to a personal service company, which can offer the potential for a substantial tax reduction. Using hockey as an example in Canada, athletes playing in the NHL do not receive a percentage of their salary as an image rights payment. Rather, their employment conditions are negotiated and controlled through the collective bargaining agreements between the NHL and the National Hockey League Players Association (NHLPA). At present, the current agreement was made on January 12<sup>th</sup>, 2013 and expires on September 15, 2022 – with both the NHL and NHLPA given the right to terminate after a period of 8 years.<sup>753</sup>

The starting point as to the bargaining agreement and a player's image rights is the fact that the agreement contains a salary cap. This cap was introduced following the season of 2005's lockout. 2005 saw the first shut down of a professional sports league for an entire season<sup>754</sup> and as such, teams have been said to have lost an estimated \$2million in revenue sales from tickets, media and merchandise; whilst the economic impact was felt across cities with stadium attendants amongst a host of staff to lose their jobs. Players were forced to move abroad with professional leagues in Finland, Sweden and the Czech Republic proving popular, nevertheless, players suffered substantial salary losses.<sup>755</sup> The lockout was primarily caused by the increase in player salaries. Between the period from 1993 – 2004, the average salary more than tripled from \$558,000 to \$1,830,000. Forbes reported that in the 2002-2003 season, teams lost \$123 million, with salaries consuming 66% of this loss. As such, the NHL was losing money.<sup>756</sup>

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<sup>753</sup> NHLPA, Collective Bargaining Agreement, <<https://www.nhlpa.com/the-pa/cba>> accessed 12<sup>th</sup> January 2018

<sup>754</sup> Paul Staudohar, (2005) Monthly Labor Review, "The hockey lockout of 2004-2005," <<https://www.bls.gov/opub/mlr/2005/article/hockey-lockout-of-2004-05.htm>> accessed 13<sup>th</sup> January 2018, page 23

<sup>755</sup> Ibid page 26

<sup>756</sup> Ibid page 24-25

On July 13, 2005, a settlement was reached between the NHL and NHLPA. This settlement introduced the salary cap. Salary caps involve imposing a restriction on player remuneration, by limiting the overall amount that each club can spend on player payments. Notably, this is not on the amount that can be paid to an individual player.<sup>757</sup> This gives the owners of NHL clubs “cost certainty” and also prevents the richest clubs from continually attracting the best players – which is a considerable factor in the parity present between teams in the NHL today.<sup>758</sup> For example, in the last 6 years, four different teams have won the Stanley Cup, as opposed to the Scottish Premier League where Celtic FC have been the sole champions since 2011. The current salary cap works by a projection of income, referred to as “Hockey Related Income”, compiled by the NHL for the upcoming season. Thereafter, this income is divided equally, 50% is given to the owners of the teams, whilst the other 50% is given the players. The players’ share is then divided by the number of teams (currently sitting at 31) in order to determine the mid-point of the salary range. The salary cap limit is then set +/- 15% of this midpoint – creating the cap-ceiling and the cap floor, which is the maximum and minimum amount clubs can spend on player salaries, respectively.<sup>759</sup> The current upper limit for the 2017-2018 season is \$75 million (an increase in \$2million from the previous year), with the lower limit sitting at \$55.4 million. It is noteworthy that the agreement allows players to be paid bonuses in respect of signing, performance,<sup>760</sup> roster or reporting.<sup>761</sup>

In the context of a players’ image rights, the “Hockey Related Income” discussed above is regarded as:

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<sup>757</sup> Chris Davies, (2010) European Competition Law Review, The financial crisis in the English Premier League: is a salary cap the answer?, 442, 444

<sup>758</sup> Micha Hofer, Swiss Hockey Blogs, <<https://swisshockeynews.ch/index.php/swisshockeyblogs-ch/65-nhl-explained/8124-how-does-the-salary-cap-work>> accessed 15<sup>th</sup> January 2018

<sup>759</sup> Chris Beardy, (2018) “How Escrow is becoming a Growing Concern in the NHL” <<https://www.nhlnumbers.com/2016/08/12/how-escrow-is-becoming-a-growing-concern-in-the-nhl>> accessed 20<sup>th</sup> January 2018

<sup>760</sup> See special rules for performance bonus. Collective Bargaining Agreement Between the National Hockey League and the National Hockey League Players’ Association, September 16 2012 – September 15 2022, page 248, Article 50.1 (A)(C)(i), <https://www.nhlpa.com/the-pa/cba>

<sup>761</sup> Ibid page 247, Article 50.2 (B)(b)(i), <https://www.nhlpa.com/the-pa/cba>

“operating revenues, including Barter (as defined below), from all sources, whether known or unknown, whether now in existence or created in the future, as expressly set forth in this Section 50.1(a), of each Club or the League, for or with respect to that League Year, as expressly set forth in this Section 50.1(a), on an accrual basis, derived or earned from, relating to or arising directly or indirectly out of the playing of NHL hockey games or NHL-related events in which current NHL Players participate or in which current NHL Players' names and likenesses are used, by each such Club or the League, or attributable directly to the Club or the League from a Club Affiliated Entity or League Affiliated Entity, as expressly set forth herein, and is subject to any inclusions or exclusions as expressly set forth in the Article 50<sup>762</sup>.”

In practice, this means that although hockey players in the NHL do not receive a separate image rights payment, they do receive a percentage through their salary as a result of the cap and the agreement between the NHL and NHLPA. There are several ways of looking at this. One perspective is fairness – allowing all players, not just a handful of commercially attractive athletes, to reap the benefits of endorsement income. Conversely, another view could be that the player who sells the most jerseys with their name, for example Pittsburgh Penguins star player Sidney Crosby, may be aggrieved that a player who has generated far less sales receives a portion of his endorsement income through their salary. In any case, it is not out with the realms of possibility that the players with the greatest endorsement potential are generally the best players (although this may not always be so) and it is therefore likely they will earn the highest salaries regardless.

In essence, it is the collective bargaining agreement which provides the mechanism to allow clubs to utilise their players' image as part of their employment contract. By virtue of Article 1 of the Standard Players Contract:

“The Club recognizes that the Player owns exclusive rights to his individual personality, including his likeness. The Player recognizes that the Club owns exclusive rights to its name, emblems and uniform, which the Player wears as a hockey Player for the Club. The Player hereby irrevocably grants to the Club during the period of this SPC and during any period when he is obligated under this SPC to enter into a further SPC with the Club the right to permit or authorize any firm, person or corporation to take and make use of any still photographs, motion pictures

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<sup>762</sup> Ibid page 223, Article 50.1 (a), <https://www.nhlpa.com/the-pa/cba>

or electronic (including television) images of himself in uniform and agrees that thereafter all rights in such photographs, pictures and images (including the right to identify him by name) shall belong to the Club exclusively for the purposes of telecasts, film or video documentaries or features, advertisements and promotions of the Club's games, use by the media for reportorial purposes, game programs, yearbooks, magazines and the like, and purposes in which the focus is on the Club or game and not the individual Player. The Club hereby irrevocably grants to the Player during the period of this SPC and thereafter the right to use the name of the Club (but not the emblem or uniform unless otherwise agreed) to identify himself, truthfully, as a Player of the Club, past or present.”<sup>763</sup>

“The Player further agrees that during the period of this SPC and during any period when he is obligated under this SPC to enter into a further SPC with the Club, he will not make public appearances, participate in radio or television programs, or permit his picture to be taken, or write or sponsor newspaper or magazine articles, or sponsor commercial products without the written consent of the Club which consent shall not be unreasonably withheld.”<sup>764</sup>

As such, although players are not paid endorsement income by way of an image rights payment, their contract does not restrict them contracting with endorsers outside of their club responsibilities, so long as they obtain permission. By means of example, in spite of the bargaining agreement, Crosby earns a reported \$5 million in endorsement deals annually, whilst Evander Kane of the San Jose Sharks earns \$4.5 million with deals with the likes of Nike and Beats.<sup>765</sup>

In any case however, these endorsement and income earnings are liable for taxation under Canadian law. Before establishing the particular tax liabilities for each category of athlete, (Canadian athletes, foreign athletes and internationally mobile athletes) an overview of Canadian tax law and the mechanisms it employs generally is required.

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<sup>763</sup> Ibid page 315, Exhibit 1, s8(a), <https://www.nhlpa.com/the-pa/cba>

<sup>764</sup> Ibid page 315, Exhibit 1, s8(b), <https://www.nhlpa.com/the-pa/cba>

<sup>765</sup> Kurt Badenhausen, (2017) Forbes, “The NHL’s Highest Paid Players 2017-2018”, <<https://www.forbes.com/sites/kurtbadenhausen/2017/12/05/the-nhls-highest-paid-players-2017-18/#38df288a2ac3>> accessed 12<sup>th</sup> January 2018

## 6.2.

### *Tax Law in Canada*

Tax law in Canada is controlled by both legislation and the Canada Revenue Agency (CRA) – similar to HMRC in the UK. For the purposes of this research, the primary legislation, in the context of athletes, endorsement income and taxation, is the Income Tax Act (ITA) 1985. As Canada comprises of federal and provincial government, different taxation rates arise in different provinces. The system of income tax is managed by individuals paying income tax to both the federal government and their own provincial government. In all provinces, with the exception of Quebec, the federal government collects its own income tax as well as the provincial tax and pays this money back to the provinces by means of various different programs.<sup>766</sup> Thus, dependent upon where an individual resides, they may be subject to more/less provincial income tax. For example, British Columbia charges 16.8% tax on income over \$150,000, whereas Nova Scotia charges 21% on income over the same amount<sup>767</sup> – meaning athletes may think carefully about where they choose to play in the context of their tax liabilities. At present, the federal tax rates in 2018 are as follows: 15% on the first \$46,605 of taxable income, 20.5% on the next \$46,603 of taxable income, 26% on the next \$51,281 of taxable income, 29% on the next \$61,353 of taxable income and 33% of taxable income over \$205,842.<sup>768</sup>

As in the UK, the Canadian tax law system is founded upon the principle of residency. Thus, to be deemed liable for Canadian tax, an individual must first be deemed resident in Canada. The term resident is not specifically defined by the ITA, rather its meaning has been determined by the courts and the guidance on residency is primarily provided by the CRA. The case of importance in this context is *Thomson v Minister of National Revenue*<sup>769</sup> where residence was defined as “a matter of the degree to which a person in mind and fact settles into or maintains or centralises his ordinary mode of living with its accessories in social relations, interests and conveniences at or in the place in question.”<sup>770</sup> In line with this definition, the CRA have developed different categories of resident in Canada, namely:

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<sup>766</sup> Turbotax, (2018, Jan 26) “Canada 2017: Provincial tax brackets and due dates”, <<https://turbotax.intuit.ca/tips/canada-tax-federal-and-provincial-tax-tax-brackets-and-due-dates-141>> accessed 1<sup>st</sup> February 2018

<sup>767</sup> Government of Canada, “Canadian income tax rates for individuals – current and previous years,” <<https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html>> accessed 2<sup>nd</sup> February 2018

<sup>768</sup> Ibid

<sup>769</sup> [1946] S.C.R. 209

<sup>770</sup> Ibid [225] per Rand J

ordinarily resident, factually resident, deemed resident, deemed non-resident under the Income Tax Act 1985.

### **6.2.1.                      *Ordinarily/Factually Resident Individuals***

A person who is considered ordinarily resident, can also be considered factually resident.<sup>771</sup> Under s250(3) of the Act, “a reference to a person resident in Canada includes a person who was at the relevant time ordinarily resident in Canada.”<sup>772</sup> Ordinarily resident defined in *Thomson* as,

“residence in the course of the customary mode of life of the person concerned, and it contrasted with special or occasional or casual residence. The general mode of life is, therefore, relevant to a question of its application...ordinary residence can best be appreciated by considering its antithesis, occasional or casual or deviatory residence. The latter would seem clearly to be not only temporary in time and exceptional circumstances, but also accompanied by a sense of transitoriness and of return.”<sup>773</sup>

This definition has generally been accepted by the courts, whilst the CRA will also refer to all of the relevant facts of each case, including residential ties and the amount time spent in Canada.<sup>774</sup>

Individuals who leave Canada can also be considered factually resident, as well as those who enter Canada. With regard to the former, the overriding factor to be considered to determine whether an individual who has left Canada, remains factually resident for tax purposes is whether the individual has continued to maintain residential ties in Canada. The CRA guidance states that:

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<sup>771</sup> Government of Canada, Income Tax Folio S5-F1-C1, “Determining an Individual’s Residence Status,” <<https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-5-international-residency/folio-1-residency/income-tax-folio-s5-f1-c1-determining-individual-s-residence-status.html>> accessed 28<sup>th</sup> January 2018, para 1.9

<sup>772</sup> Income Tax Act 1985, s250(3)

<sup>773</sup> [1946] S.C.R. 209, [224] – [225] per Rand J

<sup>774</sup> Government of Canada, Income Tax Folio S5-F1-C1, “Determining an Individual’s Residence Status,” <<https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-5-international-residency/folio-1-residency/income-tax-folio-s5-f1-c1-determining-individual-s-residence-status.html>> accessed 28<sup>th</sup> January 2018, para 1.8

“while the residence status of an individual can only be determined on a case by case basis after taking into consideration all of the relevant facts, generally, unless an individual severs all significant residential ties with Canada upon leaving Canada, the individual will continue to be a factual resident of Canada,”<sup>775</sup>

and as such, subject to income tax. Significant residential ties are considered to be determining of residence are the individual’s dwelling place of themselves, their spouse/common-law partner and their dependants. Generally, if the individual leases their home and their partner/dependants also leave Canada, then they will not be considered factually resident. On the other hand, if the individual leaves Canada but their partner/dependants stay, this will be considered a significant residential tie.<sup>776</sup> The CRA will also consider secondary residential ties such as personal property, social ties and economic ties, amongst others.<sup>777</sup> In circumstances where the individual has been absent from Canada for an extended period but has not severed all of their residential ties, this is generally not regarded as sufficient to avoid being deemed resident for tax purposes. Thus, where an individual maintains ties with Canada whilst abroad, the CRA will consider evidence of intention to permanently sever residential ties, the regularity of visits and length of visits to Canada, as well as residential ties outside of Canada.<sup>778</sup>

An individual can also become factually resident upon entering Canada. As above, the most important factors which the CRA will consider upon entry are the residential ties discussed. Similarly, landed immigrant status and provincial health coverage, will almost always amount to significant residential ties and as such, the individual will be liable for tax.<sup>779</sup> In cases where these residential ties have been established, the individual is generally considered to become tax resident in Canada upon date of entry.<sup>780</sup>

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<sup>775</sup> Ibid para 1.10

<sup>776</sup> Ibid para 1.11 – 1.13

<sup>777</sup> Ibid para 1.14

<sup>778</sup> Ibid, para 1.16

<sup>779</sup> Ibid para 1.25

<sup>780</sup> Ibid para 1.25

### 6.2.2.

#### *Deemed Residents*

As mentioned above, an individual can also be a “deemed resident” of Canada. Deemed residents cannot be considered factually resident. A deemed resident is someone who has not established sufficient residential ties with Canada, but under the ITA s250 (1)(a), sojourns in Canada for 183 days or more per calendar year.<sup>781</sup> A deemed resident is subject to income tax throughout the year. S250(1) also prescribes circumstances where individuals will be deemed resident automatically, including: members of the Canadian armed forces, individuals who were officers or servants of Canada or a province and members of the Canada overseas Canadian Forces school staff, amongst others.<sup>782</sup> It is notable that despite being liable for tax in Canada throughout the duration of the year, deemed residents will not be entitled to any tax credits or benefits including property taxes or help with dependents.<sup>783</sup>

### 6.2.3.

#### *Non-residents*

An individual can also be deemed non-resident by virtue of s250(5). This shall occur in circumstances where although the individual would normally be deemed resident in Canada, they are also considered resident in another country under an income tax treaty. As such, s250(5) will be applicable where the tie-breaker rules in a treaty between Canada and another country deems that the individual is resident in the other country and not Canada.<sup>784</sup>

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<sup>781</sup> Income Tax Act 1985, s250(1)(a)

<sup>782</sup> Ibid s250(1)(b)-(f)

<sup>783</sup> Government of Canada, Income Tax Folio S5-F1-C1, “Determining an Individual’s Residence Status,” <<https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-5-international-residency/folio-1-residency/income-tax-folio-s5-f1-c1-determining-individual-residence-status.html>> accessed 28<sup>th</sup> January 2018, para 1.30

<sup>784</sup> Ibid para 1.37

#### **6.2.4. Part-residents**

In the interests of completeness, it is also noteworthy that an individual can be considered part-time resident under s114. This means that should an individual leave/enter Canada permanently, the taxation year is split and the individual is classified as part-time resident and subject to particular rules such as income splitting.<sup>785</sup>

In any case, the residency requirements as established by the ITA, CRA and the courts provide guidance to individuals as to their tax liabilities. These requirements, although set out by different definitions and requirements of residency, are similar to the UK in that a framework is provided in determining the residency status of individuals. Both countries have provisions for resident, and non-resident, and provide reference to certain ties and circumstances which are indicative of an individual's residency. As such, in order to provide a sufficient overview of tax law in relation to athletes and their image rights, it is necessary to assess the taxation benefits/liabilities for each category of athlete, namely: Canadian based athletes, foreign athletes employed in Canada and internationally mobile athlete competing in one-off events.

#### **6.3. Canadian Residents**

The previous chapter discussed a category of athletes which were UK citizens, residing and playing in the UK. As Canada has no category of "foreign-domiciled" athletes which can elect to pay tax on a remittance basis, the tax liabilities of both Canadian athletes playing in their home country as well as those foreign athletes competing professionally in Canada will be discussed as one. As above, these athletes will be deemed ordinarily/factually resident and thus liable for Canadian income tax.

The general consensus among clubs, athletes and indeed the CRA is that professional athletes' careers are relatively short lived. In the context of ice hockey, a career spanning 10-15 years or rather beyond the age of 30 is considered significant. In real terms, only 4% of players participate in more than 1000 games, with over half NHL players playing less than 100 games in their career. In fact, for around 5% of NHL athletes, their first game is also their last.<sup>786</sup> Subsequently, with the exception of athletes who possess the ability to attract substantial commercial endorsements throughout and beyond their playing career,

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<sup>785</sup> Income Tax Act 1985, s114

<sup>786</sup> Quant Hockey, Average Length of an NHL Player,

<<http://www.quanthockey.com/Distributions/CareerLengthGP.php>> accessed 20<sup>th</sup> January 2018

professional sportspersons in Canada generally have to employ a cautious system of tax planning in order to ensure continued and future financial stability. This is true also of athletes in the UK, and athletes generally worldwide, however, the Canadian tax authorities have provided a framework by which athletes can plan their financial future beyond professional participation.

The system of income tax within Canada generally taxes residents on all worldwide earnings whilst those who are non-resident are taxed only on income which is connected to a Canadian source.<sup>787</sup> This has the potential to result in a considerable tax bill for resident athletes, by virtue of the ITA which regards a host of payments as income; including salaries, bonuses, living and travelling income as well as endorsement earnings.<sup>788</sup> As such, athletes do not have the ability to make a tax saving by awarding a portion of their salary to “image rights” and pay a lesser rate (through an image rights company and corporation tax) as they do in the UK. However, the Canadian tax authorities do provide athletes with various options in order to reduce their tax liabilities. These are set out within the ITA and indicate a conscious acknowledgement of the relatively short span of their careers in contrast to other employees as well as including an element of transparency in accepting athletes desire to reduce their tax bills in a way which contrasts the UK approach.

### **6.3.1. *The specificity of the short-spanning athletic career***

As above, the tax authorities in Canada take the short-spanning nature of the athletic career into consideration and offer a number of mechanisms by which these athletes can legitimately reduce their tax bill. The rationale for this is that the athletic career lasts significantly less than the average career of a doctor or teacher. Athletes, particularly in ice hockey, where the risk of injury is high, have the potential to have a significantly shorter career than the general population and thus, the Canadian tax regimes in relation to athletes reflects this. Notably these athletes, even with a short-spanning career will most likely earn more than those in “typical” careers, thus raising the question of the fairness of these tax regimes in that they provide the already high earning athlete mechanisms by which they can legitimately reduce their tax bill. However, the discussion and consideration as to the existence of these mechanisms in relation to fairness and equity are outside the scope of

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<sup>787</sup> Thomas Fellhauer, (29<sup>th</sup> May 2014) “Determining Residency for Canadian Taxation Purposes,” <https://www.pushormitchell.com/2014/05/determining-residency-canadian-taxation-purposes/> accessed 21<sup>st</sup> January 2018

<sup>788</sup> Income Tax Act 1985, s6

this thesis. Rather, the importance of the Canadian tax authority's acknowledgement of the specificity of the short-spanning athletic career lies in its willingness to provide a system which is clear, transparent and predictable, in contrast to the convoluted system of taxation used in the UK and thus, provides a model for reform.

The short-spanning nature of the athletic career can generally be described as atypical. There are few other industries in which an individual's career lasts for such a relatively short period of time. A few other examples may be actors and musicians where the potential exists to be a 'one hit wonder' or even the military where the minimum term in the UK is 4 years and 3 months and the maximum is a period of 22 years.<sup>789</sup> However, what is unique about the Canadian authorities take on athletes is that the tax structures take account of the fact that this isn't what would generally be considered a 'normal working life'. This is in contrast to the UK, where even though the 'normal' or rather 'typical' taxation rules can accommodate both employed athletes such as footballers through the system of PAYE and also the self-employed such as tennis players or golfers, through the self-assessment system operated by HMRC. Yet by allowing lower rates of tax to be paid in regard to image rights, these atypical, protean work forms athletes have and the way by which they are taxed means that not only are the work forms and contracts unusual and flexible, but the tax regimes which apply to them also operate in this way.

As such, this atypicality generally breeds uncertainty. However, the Canadian approach to the taxation of athletes illustrates that this does not necessarily have to be the case. The UK system is an example of one which ultimately fails to reconcile atypicality with what is typically regarded as the fundamental requirements of a tax system – that of certainty – resulting in a battle between the tax authorities and the atypical athletes, one of whom (the athlete) benefits from atypicality while the other (the tax authorities) want to minimise the uncertainty that comes with it. This is in contrast to Canada, where as highlighted above, the authorities may not have considered aspects such as fairness and equality in relation to giving the already financially well-off a tax advantage, but have managed to reconcile this atypical work form with the principle of certainty through a clear, unambiguous system whereby the athletes, their advisors and the tax authorities know both their rights and responsibilities; thus proving the hypothesis of this thesis' research aim four that Canada offers a system of taxation which allows athletes to legitimately reduce their tax bills in a

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<sup>789</sup> Monster, "Joining the Army," <<https://www.monster.co.uk/career-advice/article/frequently-asked-questions-about-joining-the-army>> accessed 30<sup>th</sup> July 2019

clear, transparent and predicable manner, which the UK could look to as a model for reform. This system of taxation and the various mechanisms available are discussed below.

### **6.3.2. *Salary Deferral Arrangements***

The ITA offers tax residents the option of a Salary Deferral Arrangement (SDA). This is defined in the legislation as,

“a plan or arrangement, whether funded or not, under which any person has a right in a taxation year to receive an amount after the year where it is reasonable to consider that one of the main purposes for the creation or existence of the right is to postpone tax payable under this Act by the taxpayer in respect of an amount that is, or is on account or in lieu of, salary or wages of the taxpayer for services rendered by the taxpayer in the year or a preceding taxation year.”<sup>790</sup>

In reality, this enables athletes to elect to defer a portion of their salary (providing their employment contract allows), of which the amount is subject to no limitations.<sup>791</sup> This deferred income can be paid back to athletes, in years to come - generally after their career is over and as such gross income is lower. The overall result is that athletes' overall tax liability is lower by virtue of the fact that the deferred payment attaches no tax implications until it is made.<sup>792</sup>

The deferred payment is subject to the conditions that it is not funded by third parties and the amounts are not segregated by the employer team to be paid at a future date.<sup>793</sup> As such, any right to receive a deferred payment is treated as being received in the current year – “to the extent that the amount was not otherwise included in computing the taxpayer's income for the year or any preceding taxation year.”<sup>794</sup>

The ability to utilise a SDA is a recognition by the tax authorities of the short nature of professional athletes' careers and the economic benefits of being able to reduce or spread out their tax liabilities over a longer period of time. However, it would be negligent not to acknowledge the overriding issue with these arrangements in that athletes are, in essence, unsecured creditors to the teams they play for. As such, if their employer club encounters

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<sup>790</sup> Ibid s248(1)

<sup>791</sup> Kevin Koresky, (2001) Sports Law Journal, “Tax Considerations for U.S. Athletes Performing in Multinational Team Sport Leagues or “You Mean I Don't Get All of MY Contract Money?!” 101, 119

<sup>792</sup> Income Tax Act, 1985, S13

<sup>793</sup> Ibid

<sup>794</sup> Ibid s6(11)

financial difficulty, they run the risk of not being paid the salary they are owed. This situation occurred in 1999, where Pittsburgh Penguin owners Howard Baldwin and Roger Marino had launched the club into bankruptcy, with NHL icon Mario Lemieux owed over \$26 million in salary deferment. Although the situation was resolved - albeit unusually with Lemieux buying the club,<sup>795</sup> the existence of the dilemma in the first place in an all too real reminder to athletes of the financial risk they take when entering into an SDA.

### **6.3.3. *Employee Benefit Plans***

An athlete may, justifiably so, perceive the above risk of a salary deferral arrangement as too great. However, the ITA also provides the more financially secure options of funded plans – in the form of an employee benefit plan (EBP) or a retirement compensation plan (RCP).

Addressing the former, an EBP is defined by the ITA as:

“an arrangement under which contributions are made by an employer or by any person with whom the employer does not deal at arm’s length to another person...and under which one or more payments are to be made to or for the benefit of employees or former employees of the employer or persons who do not deal at arm’s length with any such employee or former employee.”<sup>796</sup>

The EBP works by allowing the team to pay the deferred salary to a trustee, whose sole responsibility is to hold the funds for the athlete. As such, the athlete shall not be subject to tax on the deferred income until the funds are distributed<sup>797</sup> whilst conversely, no tax deduction is available to the employer club until the athletes’ funds are paid out.<sup>798</sup>

However, the yearly income accumulated by the EPB shall be distributed to the athlete on a yearly basis and taxed accordingly as employment income.<sup>799</sup>

The benefit of the plan is that it allows the athlete to earn income on the deferred income and potentially pay less tax on withdrawal<sup>800</sup> – dependant entirely upon tax rates at time of

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<sup>795</sup> Thomas Heath, (7<sup>th</sup> October 1999) “On Thin Ice, Penguins Saved,” <[www.washingtonpost.com/wp-srv/sports/nhl/daily/oct99/07/mario7.htm](http://www.washingtonpost.com/wp-srv/sports/nhl/daily/oct99/07/mario7.htm)> accessed 13<sup>th</sup> February 2018

<sup>796</sup> Income Tax Act, 1985, s248(1)

<sup>797</sup> Patto, K (2007) Sports Law Journal, “The Taxation of Professional U.S. Athletes in both the United States and Canada,” 29, 39

<sup>798</sup> Kevin Koresky, (2001) Sports Law Journal, “Tax Considerations for U.S. Athletes Performing in Multinational Team Sport Leagues or “You Mean I Don’t Get All of MY Contract Money?!”” 101, 120

<sup>799</sup> Income Tax Act, 1985, s6(g)

<sup>800</sup> Kevin Koresky, (2001) Sports Law Journal, “Tax Considerations for U.S. Athletes Performing in Multinational Team Sport Leagues or “You Mean I Don’t Get All of My Contract Money?!”” 101, 120

withdrawal and the amount which is being withdrawn. In any case, it provides the athlete with a potential secondary income and a safety net should their career be cut short or when its eventual termination comes to fruition. However, the primary issue with these plans is that the clubs are not able to enjoy the tax deduction until the funds are withdrawn. This may, in reality, deter the club from entering into such agreements with its athletes.

#### **6.3.4. *Retirement Compensation Plan***

Another funded mechanism available to athletes is a retirement compensation plan (RCP). Such plans are defined as:

“a plan or arrangement under which contributions...are made by an employer or former employer of a taxpayer, or by a person with whom the employer or former employer does not deal at arm’s length, to another person or partnership...in connection with benefits that are to be or may be received or enjoyed by any person on, after or in contemplation of any substantial change in the services rendered by the taxpayer, the retirement of the taxpayer or the loss of an office or employment of the taxpayer.”<sup>801</sup>

The RCP works under three processes/conditions: the employer team will either pay the deferred compensation to a third party or otherwise segregate the amount in its entirety from its assets, the funds must be retained by the club or third party until the athletes’ employment is terminated and the person in charge of the funds in question must not be a licenced public trustee.<sup>802</sup>

In reality, under an RCA, the employer and/or employee make contributions to a custodian, who shall hold the contributions in trust until the termination of the employees’ contract/retirement. Generally, an RCA is a supplementary to a Registered Pension Plan or an Individual Pension Plan, which provides the employee with a secondary income beyond these standard plans. An RCA increases a pension plan by virtue of the fact there is no limit as to the amount which can be contributed by the employee or employer, so long as it is considered reasonable.<sup>803</sup> The CRA have described reasonable contributions as follows:

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<sup>801</sup> Income Tax Act, 1985, s248(1)

<sup>802</sup> Kevin Koresky, (2001) Sports Law Journal, “Tax Considerations for U.S. Athletes Performing in Multinational Team Sport Leagues or “You Mean I Don’t Get All of My Contract Money?!”” 101, 120

<sup>803</sup> Wealth Management, Retirement Compensation Arrangement, <<https://ca.rbcwealthmanagement.com/documents/634020/634036/The+Navigator+-+Retirement+Compensation+Arrangement.pdf/2f7c7df1-766a-4a8b-8084-58ead729e978>> accessed 12<sup>th</sup> February 2018

“a normal level of benefits would be the same benefit provided under a registered pension plan without regard to the Revenue Canada maximum. This would be 2% x years of service x final five year average earning or about 70% of pre-retirement income for an employee with 35 years of service.”<sup>804</sup>

As such, the CRA considers that contributions would be similar to a normal pension plan, without imposing the maximum amounts sanctioned by the ITA.<sup>805</sup>

Under such a plan, an athlete could potentially reduce his Canadian tax liabilities by 25%.<sup>806</sup> As defined by s248(1) above, the employer contributions are 100% tax-deductible by the employer and the employee will not be taxed until they receive them. Upon contributing to an RCA, 50% is made to the custodian of the trust, whilst the other 50% is distributed to a Refundable Tax Account (controlled by the CRA). An RCA imposes a 50% refundable tax on all contributions and income earned within the plan.<sup>807</sup> As such, the RCA shall refund \$0.50 for every \$1 dollar paid in tax, when a distribution is made to the employee. In turn, this should amount to a considerable sum.<sup>808</sup> In fact, 100% of the balance of the refundable tax account can be recovered if the complete balance is paid out in a single transaction.<sup>809</sup>

An RCA provides that the employer can make tax free contributions, whilst the athlete is not taxed until they receive the benefit – possibly when they are in a lower tax bracket post-retirement as a result of decreased gross income. In any case, the contributions are subject to a 50% refundable tax and do not attract the same risk as the unfunded SDA plans. However, it is notable that the refundable tax account is a non-interest bearing account.<sup>810</sup> Thus, an RCA shall not accumulate any interest in contributions in the same way as an EBP. An RCA may be particularly advantageous to a foreign athlete – who may have

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<sup>804</sup> Ibid

<sup>805</sup> See Income Tax Act, 1985, s8503

<sup>806</sup> Patto, K (2007) Sports Law Journal, “The Taxation of Professional U.S. Athletes in both the United States and Canada,” 29, 38

<sup>807</sup> Retirement Compensation Arrangements,

<<https://ca.rbcwealthmanagement.com/delegate/services/file/637769/content>> accessed 12<sup>th</sup> February 2018, page 1

<sup>808</sup> Ibid

<sup>809</sup> Wealth Management, Retirement Compensation Arrangement,

<<https://ca.rbcwealthmanagement.com/documents/634020/634036/The+Navigator+-+Retirement+Compensation+Arrangement.pdf/2f7c7df1-766a-4a8b-8084-58ead729e978>> accessed 12<sup>th</sup> February 2018

<sup>810</sup> Wealth Management, Retirement Compensation Arrangement,

<<https://ca.rbcwealthmanagement.com/documents/634020/634036/The+Navigator+-+Retirement+Compensation+Arrangement.pdf/2f7c7df1-766a-4a8b-8084-58ead729e978>> accessed 12<sup>th</sup> February 2018

returned home after their career has ended, with the subsequent effect that their tax liability will indeed be lower, if not nothing at all, with the added benefit that they have a supplementary retirement income (perhaps in addition to a pension plan in their country of origin).

The above plans illustrate the CRA and the legislators' acknowledgment that athletes' careers are relatively short in comparison to other employees and of athletes need to employ mechanisms which help reduce their tax bills. Salary deferral arrangements, employee benefit plans and retirement compensation plans come with both advantages and disadvantages but for the purpose of this research, their existence is in contrast to the mechanisms used by HMRC in the UK in relation to tax resident athletes. The UK system focuses on the image rights of those able to commercially exploit their image whereas the Canadian system provides taxation benefits the athletic pool as a whole – regardless of whether athletes are able to earn a supplementary income through endorsement deals. The Canadian system of reducing tax liabilities for high earning individuals is embedded in the legislation and CRA guidance in a transparent manner – with the legislators fully aware and accepting of athletes' desire to reduce their tax bills in light of the short nature of their careers. The UK system however, is dictated to primarily by HMRC guidance which is often open to interpretation and subsequent confusion, and those within HMRC, the government, athletes themselves and their advisors are often aware that tax benefits are achieved primary by identifying loopholes in the legislation and setting up structures to minimise their bill. In Canada however, these structures are in place by the legislation and the system appears to run on the understanding of their over-riding purpose of aiding the reduction of tax liabilities. In any case, before making any definitive conclusions on the Canadian system of tax, it is necessary to examine the mechanisms and systems used when taxing non-resident/internationally mobile athletes, in comparison to the UK.

#### 6.4.

#### *Non-Resident Athletes*

As discussed, Canada, like the UK, bases its taxation laws on the principle of residence, applying the CRA guidance and the ITA to the circumstances of an individual in determining whether they are resident or not. As such, those individuals who are resident in Canada shall be taxed on their worldwide sources (in contrast to the UK who allow foreign athletes tax free income on foreign gains). However, Canada also employs the source basis principle of tax, where those who are considered non-resident are still tax liable can on income from Canadian sources.<sup>811</sup> In the case of athletes, in the absence of a remittance basis of tax, non-residents are taxed in the same way as any other employee, in spite of their ability to earn substantial amounts in short periods of time and thus, are potentially liable for a considerable amount of tax. Non-resident athletes will generally be those who are considered internationally mobile – travelling to Canada for a short period of time to compete in sporting events. Given Canada’s hosting of worldwide sporting events and inclusion of teams in multinational leagues such as the NHL, NFL and NBA, the taxation of non-residents is an issue which travelling athletes should take note of.

#### 6.4.1.

#### *The Legislative Basis*

The starting point when assessing an athletes’ potential tax liability lies within the ITA. Under the ITA, a non-resident athlete can either be tax liable under Part I or Part XIII of the act.

Part I tax shall be payable should one of the following three conditions are met: the individual was employed in Canada, the individual carried on a business in Canada or the individual disposed of Canadian property in the tax year.<sup>812</sup> As such, a non-resident athlete who has competed in Canada, can be liable for tax by virtue of the fact that during the tax year, they were employed and/or carried on a business under s2(3). Once it has been established that a non-resident is subject to income tax by virtue of the previous conditions, s115 is relevant. S115 requires all non-residents to include “all incomes from the duties of offices and employments performed by the non-resident person in Canada”<sup>813</sup> and “all incomes from businesses carried on by the non-resident person in Canada.”<sup>814</sup> Thus, the first requirement shall be relevant in cases where the individual is an employee and the

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<sup>811</sup> Income Tax Act, 1985, s115(1)(a)(i)

<sup>812</sup> Income Tax Act, 1985, s2(3)

<sup>813</sup> Ibid s115(1)(a)(i)

<sup>814</sup> Ibid s115(1)(a)(ii)

second where the individual is an independent contractor - the importance of which shall be discussed in the following section. The tax rate for Part I tax begins at 15% but can increase to 33% dependant on the amount of income received.<sup>815</sup>

A non-resident can also be liable for income gained in Canada should none of the above discussed conditions apply. Part XIII tax is deducted by virtue of s212(1) which states that 25% will be deducted from certain types of payments made to a non-resident, including: management fees, royalties, pension benefits, and retirement incomes.<sup>816</sup> Thus, the ITA gives the CRA a number of avenues to collect income tax from individuals who are not considered resident in Canada but nonetheless accumulate earnings from Canadian sources within a particular tax year.

#### **6.4.2. *Is an athlete an employee or independent contractor?***

As discussed, by virtue of s115, a non-resident athlete is liable for income accumulated from employment and also for income generated from a business in Canada. The distinction between the two is essentially a question of whether the individual is regarded as an employee or independent contractor and is important in determining whether the employer of the non-resident has to deduct the withholding tax obligation, as well as whether there is any availability of deductions or treaty exemptions.<sup>817</sup>

Determining the employment status of an individual is done on a fact-by-fact basis, with reference to the relevant case law. There is a vast amount of jurisprudence in this area, however for the purposes of this research, it is necessary only to look at the leading authorities and the CRA guidance in relation to non-resident athletes. *Wiebe Door Services Ltd v MNR*<sup>818</sup> provides the leading authority, in which the applicant installed and repaired doors for a number of companies on the understanding that they each ran their own businesses and were thus responsible for their own tax and workers compensation payments as well as unemployment insurance and Canadian Pension Plan contributions.<sup>819</sup> The court held that the above agreement was not it itself “determinative of the relationship between

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<sup>815</sup> For a breakdown of tax rates see “Canadian income tax rates for individuals, current and previous years”. <https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html?wbdisable=true>

<sup>816</sup> Income Tax Act, 1985, s212

<sup>817</sup> Mark Jadd, Norman Bacal, Kay Leung, (2008) Canadian Tax Journal, Volume 56, No 3, “Performing in Canada: Taxation of Non-Resident Artists, Athletes and Other Service Providers,” 589, 598

<sup>818</sup> [1986] 70 N.R. 214 (FCA)

<sup>819</sup> Ibid [1] – [2]

the parties”<sup>820</sup> and introduced a four part test<sup>821</sup> to which courts should consider when assessing employee/employer relationships. Consideration should be given to: the degree or absence of control exercised by the employer, the ownership of tools, the chance of profit and the risk of loss.<sup>822</sup> This approach has been used in a number of cases since,<sup>823</sup> but was affirmed and clarified by *671122 Ontario Ltd v Sagaz Industries Canada Inc*<sup>824</sup> where the court discussed various criticisms of the test, one being that it was too simplistic. Thus, the court held the “factors constitute a non-exhaustive list, and there is no set formula as to their application. The relative weight of each will depend on the particular facts and circumstances of the case.”<sup>825</sup> paying particular attention to who the business belongs to in the first instance.<sup>826</sup> Notably, the CRA guidance corresponds with the above ruling.<sup>827</sup>

The above jurisprudence states that consideration must be given to a number of factors and as such, there is no definitive answer as to whether athletes are employees or self-employed and must be decided on a case-by-case basis. However, it is legitimate to conclude that athletes who are employed by a sports club (for example NHL athletes), who are generally controlled by their employer and who do not own the business as such, will be considered employees whilst tennis players or professional golfers who compete individually, who are not controlled by a particular employer and bear the risk of profit and loss themselves dependant on their performance, will be regarded as independent contractors.<sup>828</sup>

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<sup>820</sup> Ibid [2]

<sup>821</sup> The test was established with reference to the decision of *Montreal v Montreal Locomotive Works* [1947] 1 D.L.R. 161 (PC)

<sup>822</sup> [1986] 70 N.R. 214 (FCA), [3]

<sup>823</sup> For example see *Levesque v MNR* [2005] TCC 248

<sup>824</sup> [2001] 2 S.C.R. 983

<sup>825</sup> Ibid para 48

<sup>826</sup> Ibid para 43

<sup>827</sup> See Government of Canada, “Employee or Self-Employed?” <<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4110-employee-self-employed/employee-self-employed.html>> accessed 11<sup>th</sup> June 2018

<sup>828</sup> Taxpage, (26<sup>th</sup> October 2016) “Taxation of Non-Resident Athletes in Canada,” <<https://taxpage.com/articles-and-tips/non-resident-taxation/taxation-of-non-resident-athletes/>> accessed 11<sup>th</sup> June 2018

### 6.4.3.

### *Tax Consequences*

The result of being regarded as an employee or as an independent contractor is based primarily around the duty to withhold tax. Both employees and contractors will be subject to tax on income accumulated in Canada, however, if the individual is an employee, the duty is on the employer to deduct withholding tax. In this sense, withholding tax is comparable to the PAYE system in the UK. In the case of a contractor, there is no withholding tax on payments,<sup>829</sup> they will be required to fill out a tax return should they have received money from a sports event and thus Canadian tax is due,<sup>830</sup> by which their tax rate will be determined by the current maximum and minimum values in the tax year.

S105 requires employers to deduct the withholding tax when making salary payments, whilst the Income Tax Regulations state that “every person paying to a non-resident person a fee, commission or other amount in respect of services rendered in Canada, of any nature whatever, shall deduct or withhold 15 per cent of such payment.”<sup>831</sup> The CRA guidance regards athletic events such as motor car racing as the type of activity which will be subject to s105 withholding tax.<sup>832</sup> It is notable that the withholding tax is not representative of the final tax obligations of the non-resident, which will be determined when they file their tax return – the withholding tax essentially provides the CRA with a safety net that they will receive at least 15% (unless a refund is due).<sup>833</sup>

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<sup>829</sup> Ralph Winne, (2005) “A Separate International Tax Regime for Non-Resident Athletes,” <[http://taxprof.typepad.com/taxprof\\_blog/files/2005-2745-1.pdf](http://taxprof.typepad.com/taxprof_blog/files/2005-2745-1.pdf)> accessed 11<sup>th</sup> June 2018, 69,75

<sup>830</sup> Income Tax Act, 1985, s150(1)

<sup>831</sup> Income Tax Regulations C.R.C. c945, s105

<sup>832</sup> Government of Canada, (2005) “Requiring Withholding from Amounts Paid to Non-residents Providing Services in Canada,” <<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/ic75-6r2/required-withholding-amounts-paid-non-residents-providing-services-canada.html?wbdisable=true>> accessed 11<sup>th</sup> June 2018, para 10

<sup>833</sup> Ibid para 81

#### 6.4.4.

#### *Waivers and Treaty Exemptions*

S153 provides that an individual (employee, not independent contractor) may apply to the CRA for a waiver/reduction of the withholding tax on the basis that it would cause “undue hardship,”<sup>834</sup> in that the withholding tax exceeds the ultimate tax liability.<sup>835</sup> It is likely this will not apply to the high-earning individuals whom which this thesis is concerned with, however, an overview of s153 is necessary to provide a complete overview of the taxation system. The application must be made 30 days prior to the applicant’s services or employment begins or before the initial payment is made.<sup>836</sup> The CRA has also provided guidance as to the circumstances in which it will grant waiver of s105. The CRA provides three tests, namely: a non-resident independent individual who earns less than CAN\$5,000 for the current calendar year (including expenses reimbursed or paid on the waiver applicant's behalf):

“a non-resident person whose presence in Canada is not "recurring" and who performs services in Canada for less than 180 days under the current contract/engagement or a non-resident person whose presence in Canada is "recurring", but whose cumulative presence is less than 240 days during "the period", and less than 180 days under the current contract/engagement.”<sup>837</sup>

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<sup>834</sup> The Income Tax Act, 1985, s153(1.1)

<sup>835</sup> Government of Canada, (2005) “Requiring Withholding from Amounts Paid to Non-residents Providing Services in Canada,” <<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/ic75-6r2/required-withholding-amounts-paid-non-residents-providing-services-canada.html?wbdisable=true>> accessed 11<sup>th</sup> June 2018, para 56

<sup>836</sup> Ibid para 62

<sup>837</sup> Government of Canada, “Guidelines for Treaty-Based Waivers Involving Regulation 105 Withholding,” <<https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/information-been-moved/rendering-services-canada/guidelines-treaty-based-waivers-involving-regulation-105-withholding.html>> accessed 11<sup>th</sup> June 2018

The first test will result in an automatic waive of the withholding tax, however tests 2 and 3 will not be satisfied if a number of conditions are met, including residents of non-treaty countries, non-residents who have previously been resident in Canada and have not had a break in the previous 2 years and residents of countries whose treaty with Canada specifies a deemed permanent residence (for example construction work and specified off-short activities).<sup>838</sup>

S102 also provides that a non-resident will be exempt from Canadian taxes should their country of residence have a bi-lateral treaty with Canada.<sup>839</sup> This is essentially the equivalent of what the UK calls double taxation treaties. Similar to the regulation s105 requirements, the applicant (either the employee or employer) must make the application 30 days prior to the commencement of employment. It is notable that as of 2015, if the employer is an approved non-resident employer, then there is no need to apply.<sup>840</sup> At present, Canada has tax treaties with over 90 countries, including the UK, France and Japan.<sup>841</sup>

#### **6.4.5. *Allocation of Income***

Having determined that the non-resident athlete is liable for tax as a result of competing in Canada, the question arises as to how the income is allocated? This is essentially a question of determining how much of the income is attributable to the athletes' presence in Canada and various approaches have been employed by the CRA in doing so. The general approach has been a "per day" allocation which reflects the number of days the individual was present in Canada. This calculation would begin with the first day of pre-season and end on the last day the team is involved in a play-off game.<sup>842</sup> Other methods have included the

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<sup>838</sup> For full list of conditions Government of Canada, "Guidelines for Treaty-Based Waivers Involving Regulation 105 Withholding," <<https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/information-been-moved/rendering-services-canada/guidelines-treaty-based-waivers-involving-regulation-105-withholding.html>> accessed 11<sup>th</sup> June 2018

<sup>839</sup> Income Tax Regulations C.R.C. c945, s105

<sup>840</sup> Government of Canada, "Guidelines for Treaty-Based Waivers Involving Regulation 105 Withholding," <<https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/information-been-moved/rendering-services-canada/guidelines-treaty-based-waivers-involving-regulation-105-withholding.html>> accessed 11<sup>th</sup> June 2018

<sup>841</sup> Department of Finance Canada, "Status of Tax Treaty Negotiations," <[https://www.fin.gc.ca/treaties-conventions/treatystatus\\_-eng.asp#status](https://www.fin.gc.ca/treaties-conventions/treatystatus_-eng.asp#status)> accessed 11<sup>th</sup> June 2018

<sup>842</sup> Alan Pogroszewski, Kari Smoker, Marquette Sports Law Review, (2011) Volume 22 Issue 1, "Cross-Checking: An Overview of the International Tax Issues for Professional Hockey Players," 193, 197

same calculation minus play-off games and the percentage of games played in Canada as a whole, regardless of the location of the team.<sup>843</sup>

This issue has been addressed by the courts in *Austin v The Queen*<sup>844</sup> where Austin, a non-resident, played for and as such accumulated income from the BC Lions and the Toronto Argonauts in the 1995 and 1994 Canadian Football League season. The applicant argued this his salary should be apportioned on a per game basis as opposed to the CRA per day approach.<sup>845</sup> With particular reference to the CFL's contract terms, where the player is paid in equal instalments (a payment per game) throughout the season and is not paid for games in which they do not participate in for reason other than injury, the court concluded that Mr Austin did in fact get paid get on a per game basis and as such, it would be "overly restrictive" to apportion his income on a per-day basis.<sup>846</sup>

However, despite the ruling in *Austin*, this area of law remains unclear and the nature of some sports reinforces this. For example, although the CBA in the NHL restricts bonuses for the majority of players, some remain able to earn performance related bonuses such as goals scored. The agreement stipulates that players who are on an entry level contract, players who have a one-year contract and are over 35 and players who have a one-year contract after returning from a long-term injury (on the conditions that they have played over 400 games and spent 100 or more days on the injured reserve list in the last year of their most recent contract) have the ability to enter performance bonuses.<sup>847</sup> For tax purposes, this may have the potential to cause problems given that the NHL plays in both the U.S. and Canada. For example, should a non-resident hockey player receive a performance bonus for scoring a certain number of goals in a season, how should this income be apportioned?<sup>848</sup> Should this income be apportioned using the per day approach adopted by the CRA or perhaps by allocating an amount of the bonus to the number of goals scored within the Canadian hockey context. Given the differing approaches adopted by the CRA, this seems an area of law which requires further clarification; particularly in

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<sup>843</sup> Mark Jadd, Norman Bacal, Kay Leung, (2008) Canadian Tax Journal, Volume 56, No 3, "Performing in Canada: Taxation or Non-Resident Artists, Athletes and Other Service Providers," 589, 610

<sup>844</sup> [2004] D.T.C. 2181

<sup>845</sup> Ibid [2]–[4]

<sup>846</sup> Ibid [10]–[13]

<sup>847</sup> Collective Bargaining Agreement Between the National Hockey League and the National Hockey League Players' Association, September 16 2012 – September 15 2022, page 249, Article 50.2 (C)(2) <<https://www.nhlp.com/the-pa/cba>> accessed 11<sup>th</sup> June 2018

<sup>848</sup> Mark Jadd, Norman Bacal, Kay Leung, (2008) Canadian Tax Journal, Volume 56, No 3, "Performing in Canada: Taxation or Non-Resident Artists, Athletes and Other Service Providers," 589, 611

the context of the NHL where the CBA plays a prominent role in ensuring players, clubs and agents are bound by the terms of the agreement.

A non-residents allocation of income is further increased by the vast amount of payments covered by “income.” Under CRA guidance, income includes salaries, bonuses and endorsement income. As such, the athlete is required to compute all of the above in their taxable income. However, this is only in relation to income earned within Canada – in contrast to the UK approach which seeks to tax an athletes’ worldwide endorsement income as a result of their participation at a UK event during the tax year.

One particular area of contention has been the concept of signing bonuses for non-residents. The ITA states that a non-resident must compute a signing bonus in their income if such bonus is tax deductible from their employer club.<sup>849</sup> However, the athlete can escape paying taxes on the signing bonus should the following conditions be met: the bonus is classed as a “true” signing bonus and there is a provision contained in a tax treaty between Canada and the athlete’s country of residence which allows the bonus to be exempt<sup>850</sup> – preventing double taxation. A true signing bonus has been regarded by the CRA as a payment made with the intent only to induce an athlete to sign a contract<sup>851</sup> and as such, not subject to any conditions or as means to circumvent the payment of tax.<sup>852</sup>

The concept of a signing bonus in regard to taxation was addressed by the Courts in *Khabibulin v The Queen*.<sup>853</sup> Khabibulin (a non-resident) signed for the Winnipeg Jets in 1994, on agreement that he would receive a signing bonus in two instalments – the first in 1994 and the second in 1995 which was dependant on his participation in the team. The court held the first payment should be regarded as a “true signing bonus” given that it was paid as an inducement for him to sign<sup>854</sup> and as such, should be tax free as a result of Canada’s taxation treaty with the USSR (the athletes’ country of residence).<sup>855</sup> The second

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<sup>849</sup> Income Tax Act, 1985, s115(2)c.1

<sup>850</sup> Income Tax Act, 1985, s110(1)(f)(i)

<sup>851</sup> Alan Pogroszewski, Kari Smoker, Marquette Sports Law Review, (2011) Volume 22 Issue 1, “Cross-Checking: An Overview of the International Tax Issues for Professional Hockey Players,” 193, 199

<sup>852</sup> Ralph Winne, (2005) “A Separate International Tax Regime for Non-Resident Athletes”, <[http://taxprof.typepad.com/taxprof\\_blog/files/2005-2745-1.pdf](http://taxprof.typepad.com/taxprof_blog/files/2005-2745-1.pdf)> accessed 11<sup>th</sup> June 2018, 69,74

<sup>853</sup> [1999] 531 (T.C.C)

<sup>854</sup> Ibid [11]

<sup>855</sup> Ibid [5]

payment was not regarded as a bonus – given the condition that Khabibulin must play in order to receive it.<sup>856</sup>

#### **6.4.6. *Legislative Exemptions***

As discussed, Canada has played host to a number of worldwide sporting events in recent years, however only the 2010 Winter Olympic Games provided non-resident athletes with tax exemptions. However, it is also true that in any case, its other mega-event, the 2015 Women's Soccer World Cup, failed to attract the same amounts of income given the smaller following of women's soccer worldwide, despite its increasing popularity. It is also true that given the Canadian tax authorities only seek payment from income earned within Canada, as opposed to the UK's stance on worldwide endorsement earnings, competing in Canada is perhaps less of an issue for athletes who are mindful of their tax liabilities than it is in the UK. In any case, the ITA provided tax relief for both the International Olympic Committee and the International Paralympic committee which exempted all withholding taxes made to them between the period of 2006 and before 2011, in respect of payments made in connection with the Games,<sup>857</sup> whilst foreign athletes, media and team support staff were exempt from income tax on income accumulated in connection with the Games after 2009 and before April 2010.<sup>858</sup> The ITA also made provisions that Regulation 105 (as discussed above which requires employers to deduct 15% withholding) should not apply to the above individuals in respect of services rendered in Canada.<sup>859</sup> As such, foreign athletes who gained endorsement income/sponsorship as a result of their presence at the 2010 Olympic Games will not have been subject to withholding tax on that income – provided it was paid within the stipulated time frame.

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<sup>856</sup> Ibid [11]

<sup>857</sup> Income Tax Act, 1985, s212(17.1)

<sup>858</sup> Ibid s115(2.3)

<sup>859</sup> Ibid s153(1)(a)&(g)

#### 6.4.7.

#### *Canadian taxation of high-earning athletes*

The multinational status of the NHL, NBA and NFL opens the potential for a number of athletes playing within these structures to be regarded as non-resident in Canada. This coupled with Canada's hosting of worldwide sporting events means Canada has a considerable interest in ensuring it can retrieve income tax from income generated by non-resident athletes as a result of their performance in Canada. The ITA provides the legislative basis for the taxation of these athletes which seeks to derive tax from income such as salary and endorsement earnings as well as any income from payments such as royalties by virtue of Part XIII of the Act. As such, non-resident athletes will be subject to taxation on their income which is generated in Canada. Should the athlete be regarded as an employee, the duty will be on the employer to withhold the tax at a rate of 15% - subject to a waiver being granted.

Conversely, if the athlete is regarded as an independent contractor, it will be the responsibility of the athlete themselves to file an accurate tax return, however, it is notable that the distinction between an employee and contractor in the context of athletes is open to interpretation and clarification from the CRA would be useful. Similarly, the allocation of an athletes' salary has the potential to cause confusion as to what exact amount is earned within Canada and a confirmed system of calculation is advisable. In any case however, the athletes' income will include salary, bonuses and endorsement earnings – in contrast to the UK system which allows athletes a lower rate of taxation on endorsement earnings through image rights companies.

The research at present is contrasting to the UK in that endorsement earnings are considered as income for non-residents and through the CBA agreement in the NHL. However, the legislative basis for the taxation of athletes in Canada is primarily in place in order to help athletes reduce their tax liabilities in light of the relative short-term nature of their careers. As such, in the interests of fullness, it is necessary to examine the tax treaty between the U.S. and Canada in order to assess how the legislators have dealt with the cross-border nature of sport between the two countries.

## 6.5.

### *US-Canada Tax Treaty and the Alberta NHL Tax*

As above, income tax in Canada is controlled by both federal and provincial government, both of whom can have varying rates. The tax is collected wholly by the federal government which is then redistributed provincially through various programmes. This system, under the ITA, also allows for the taxation of non-resident athletes, who, by virtue of their profession, perform services in Canada throughout the tax year.

The taxation treaty which exists between Canada and the United States, prevents the taxation of non-resident athletes who visit either country by virtue of their employment, for example in the NHL, NBA or the NFL. In general, the treaty states that artists/entertainers and athletes will be taxed in the state where their performance takes place.<sup>860</sup> However, article XVI(3) states that this will not apply to a professional athlete who is an “employee of a team which participates in a league with regularly scheduled games in both Contracting States.”<sup>861</sup> As such, players in professional leagues such as the NHL or the NBA are subsequently subject to the provisions of Article XV – Dependant Professional Services, which provides that athletes shall not be taxed on income accumulated in either unless they have spent 183 days in the country of which they are non-resident.<sup>862</sup> In practice, this means athletes playing in the NHL will generally not be taxed on income received by virtue of their performance in the country of which they are not considered resident. For example, Carey Price, who is a Canadian resident and plays for the Montreal Canadiens, will not be charged U.S. income tax as a result of income earned in his salary by virtue of his participation in NHL games in America. As such, it is not out with the realms of possibly that athletes will choose carefully which team to sign for dependent upon provincial or state tax rates.

Provincial and state taxes are however, not all that NHL, NBA or NFL athletes have to worry about. Athletes may also find themselves paying the “jock tax” – a tax employed by a number of American states and cities. This is a tax which is levied on non-resident professional athletes participating in sports events within the state and is not avoidable through the Treaty. Generally, this is largely due to the fact that US states, have the power to tax the earnings of non-residents providing services within the state under constitutional

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<sup>860</sup> Department of Finance Canada, “Convention Between Canada and the United States of America With Respect to Taxes on Income and on Capital, Article XVI(1)”, <[https://www.fin.gc.ca/treaties-conventions/USA\\_-eng.asp](https://www.fin.gc.ca/treaties-conventions/USA_-eng.asp)> accessed 11<sup>th</sup> June 2018

<sup>861</sup> Ibid

<sup>862</sup> Ibid

law<sup>863</sup> and many states simply do not recognise their international Treaty obligations.<sup>864</sup> Thus, athletes in multinational leagues may be liable for additional taxation in each state they compete in. At present, 20 states have employed “jock taxes”, including California, which was first responsible for its introduction. However, these jock taxes, as a whole, generally do not apply to Canadian residents playing on Canadian teams, with the exception of California, New Jersey, Indiana, Columbus and St. Louis, whilst Canadian resident athletes who play on U.S teams are taxed under most.<sup>865</sup> The intricate details of the jock taxes and the reasons for their introduction are beyond the scope of this research – the importance of which is the introduction of the Alberta NHL Players Tax.

### **6.5.1. *Alberta NHL Players Tax***

The Alberta NHL players tax was introduced between the period of 2002-2005, by virtue of the Alberta Personal Income Tax 2002 and is reasonably comparable to the U.S. jock tax. The tax was introduced in order to provide financial security to the Calgary Flames and the Edmonton Oilers – Alberta’s two NHL teams (Alberta has no teams in any other professional sports leagues). Prior to the introduction of the tax, a reduction in the number of Canadian based teams in the NHL had resulted in financial difficulty. In the 94-95 NHL season, 8 of 24 teams were based in Canada compared to the 02-03 season where only 6 of 30 teams originated from Canada – with U.S government subsidies for professional sports teams creating a vulnerable and financially unstable market for the remaining Canadian NHL teams.<sup>866</sup> As such, the tax in Alberta was introduced. The Alberta tax is novel in that it exclusively targets a specific group of athletes – those playing in the NHL and the revenue generated from the tax (which was an estimated \$6 million per year) does not go back into provincial projects in the same way income tax does. Rather, the tax is given directly back to the owners of the Flames and Oilers in two equal portions.<sup>867</sup>

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<sup>863</sup> Mark Lavitt, (2004) “The Alberta NHL Players Tax: The Jock Tax Comes to Alberta – or does it?”, <<https://www.fcf-ctf.ca/ctfweb/Documents/PDF/2004ctj/04ctj2-lavitt.pdf>> accessed 11<sup>th</sup> June 2018, page 522

<sup>864</sup> Kevin Koresky, (2001) Sports Law Journal, “Tax Considerations for U.S. Athletes Performing in Multinational Team Sport Leagues or “You Mean I Don’t Get All of MY Contract Money?!”” 101, 107

<sup>865</sup> Alan MacNaughton, Kim Wood, (2003) “Should Provinces Tax Non-Resident Athletes?” <<https://www.ctf.ca/ctfweb/Documents/PDF/2004ctj/04ctj2-macnaughton.pdf>> page 449

<sup>866</sup> Donald Brean, Aldo Forgione, Missing the Net: The Law of Economics of Alberta’s NHL Players Tax, <<https://www.albertalawreview.com/index.php/ALR/article/view/1330/1319>> accessed 11<sup>th</sup> June 2018, page 427

<sup>867</sup> Ibid page 429

The players tax states that all NHL players who “perform hockey duties or services while in Alberta” are bound by the tax.<sup>868</sup> An NHL player is defined as a player on the roster of the team<sup>869</sup> – thus coaches and other team employees are exempt from the tax. Interestingly, hockey duties and services are complete when a player participates in an NHL game or where the player is in the facility where the game is being played for all or part of the game<sup>870</sup> – with the result of this being players who are on the roster but do not play are still taxed by virtue of their presence. S48.4 provides the basis by which players are taxed – at a rate of 12.5% of the total NHL salary earned in Alberta.<sup>871</sup> This is calculated per game using the following formula: A/B where A “is the base salary of the player in effect on the day of the game played in Alberta” and “B is the number of calendar days in the NHL regular season in which the game is played.”<sup>872</sup> Each NHL team is responsible themselves for withholding the tax owed by its players to the Alberta Revenue. Provided these remittances have been made, players do not have to file a tax return in Alberta.<sup>873</sup>

The Alberta players tax differs from the U.S jock taxes in a number of ways: the Alberta tax applies to all athletes irrespective of their residence, whilst jock taxes apply only to non-residents. The Alberta tax also only applies to NHL players, the American taxes applies to athletes across all sports. Finally, the Alberta tax revenue is redistributed to clubs and is taxed at 12.5% whilst the U.S. taxes are not committed to clubs (although they are sometimes given to fund stadiums) and is taxed in line with normal state taxes. Clearly, differences exist between the taxes, yet with U.S. states imposing an additional tax on non-resident athletes, it is arguably surprising that more Canadian provinces have not employed a similar tax of their own given Alberta and the U.S. circumvention of the Treaty. However, aside from difference between the Alberta and jock taxes, the NHL players tax itself prompts a number of interesting issues.

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<sup>868</sup> The Alberta Personal Income Tax Act, 2002, s48.3(2) available from [www.canlii.org](http://www.canlii.org)

<sup>869</sup> Ibid s48.1(1)(d)

<sup>870</sup> Ibid s48.1(2)

<sup>871</sup> Ibid s48.4

<sup>872</sup> Mark Lavitt, (2004) “The Alberta NHL Players Tax: The Jock Tax Comes to Alberta – or does it?” <<https://www.fcf-ctf.ca/ctfweb/Documents/PDF/2004ctj/04ctj2-lavitt.pdf>> accessed 11<sup>th</sup> June 2018, page 531

<sup>873</sup> Ibid page 532

The first and perhaps most obvious point is the fact that the tax applies exclusively to a particular group of not only employees, but athletes, singling out a particular profession in professional hockey players. The question as to whether the tax would have been equally applied across all sports should Alberta have had any other teams in the professional sports leagues remains to be answered, yet the existence of a tax aimed solely at one profession certainly raises employment equality concerns. One argument for this may be that double taxation in the context of professional hockey players may be regarded as a “drop in the ocean” for them, yet with the earlier concerns of the short nature of hockey players’ careers and the steps the Federal government has taken to allow tax liabilities to be reduced through its legislation, it is surprising that a tax which imposes what is essentially a double taxation on these athletes has been allowed. Should the tax subsequently be applied to all high earning individuals? Similarly as concerning, is the fact that athletes’ salary is being returned directly to their employers by means of taxation. What is not surprising however, is the NHLPA’s reaction to the tax – who raised a grievance following its introduction on the basis of its discriminatory nature.<sup>874</sup> However, the legality of the tax was upheld and in any case, given that Alberta had acted under its constitutional authority in relation to tax matters, it was not legally bound to respond to the grievance in the first instance.<sup>875</sup>

The second concern is the undue burden on players within Alberta as opposed to those spread across the NHL. As the tax is calculated on the basis of how many games are played in Alberta, athletes of the Calgary Flames and Edmonton Oilers are instantly disadvantaged. For example, there were 82 fixtures per team in the 2002/2003 season,<sup>876</sup> with both teams playing half of these at home as well as the fixtures against each other – consequently leading to a larger number of games played in Alberta than teams outside the province. Brean and Forgione specifically illustrate the financial burden of this, explaining that in 2003 the Oilers goalkeeper Tommy Solo received a base salary of \$3.5 million, incurring a tax of \$105,000, whilst Detroit Red Wings player Curtis Joseph earned a base

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<sup>874</sup> CBC Sports (6<sup>th</sup> March 2003) “Arbitrator upholds Alberta NHL tax,”

<<http://www.cbc.ca/sports/hockey/arbitrator-upholds-alberta-nhl-tax-1.370474>> accessed 11<sup>th</sup> June 2018

<sup>875</sup> Donald Brean, Also Forgione, “Missing the Net: The Law of Economics of Alberta’s NHL Players Tax,” <<https://www.albertalawreview.com/index.php/ALR/article/view/1330/1319>> accessed 11<sup>th</sup> June 2018, page 433

<sup>876</sup> “NHL Standings, 2001-2002,” <<https://www.nhl.com/standings/2001/division>> accessed 11<sup>th</sup> June 2018

salary of \$8 million, paying a total of \$16,000 in the Alberta tax.<sup>877</sup> Thus, the tax is clearly discriminatory in terms of Oilers and Flames athletes.

Defenders of the tax will ultimately argue that the tax simply allows players to take advantage of the foreign tax credit system, which essentially allows foreign athletes to deduct the tax from the amount taxable to their country of residence.<sup>878</sup> However, for the purposes of this research, the importance of this tax is its differentiation from the tax measures employed in Canada. Thus far, the research has indicated a transparent and ultimately legal manner in which taxation in relation to athletes in Canada operates. The mechanisms employed by the ITA allow athletes to defer and reduce their final tax bill given the short nature of their careers in comparison to that of other professions. It is notable that the tax only lasted until 2005, shortly after the new CBA was agreed in 2004. The tax could ultimately be viewed as a stop-gap to ensure the financial stability of Canadian teams until the salary cap was introduced to even the playing field between U.S. and Canadian professional hockey, yet ultimately, the introduction of a tax which completely contradicts the system which the federal government has sought to employ in respect of its professional athletes is peculiar at best.

#### **6.6. *Canadian tax law and image rights: concluding remarks***

Canada offers an interesting comparison with the UK in terms of its taxation of athletic personalities. With the UK, we are presented with a culture which promotes only its very best, irrespective of how long their careers may last and is subsequently one which provides these star athletes with considerable taxation deductions by virtue of their image – a right which does not exist within the UK legal framework. Canada however, is concerned with allowing athletes, regardless of their commercial prowess, to take advantage of tax deductions on the basis that NHL stars and athletes generally, have relatively short careers compared to that of individuals in other sectors and as such, should be entitled to “plan for the future,” and as such - the Canadian system of tax allows them to do so.

The NHL collective bargaining agreement is indicative of the image rights benefits which athletes receive as portion of their salary, however athletes are not restricted to promoting their club and can seek endorsement deals elsewhere so long as their employer agrees. The

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<sup>877</sup> Donald Brean, Aldo Forgione, “Missing the Net: The Law of Economics of Alberta’s NHL Players Tax,” <<https://www.albertalawreview.com/index.php/ALR/article/view/1330/1319>> accessed 11<sup>th</sup> June 2018, page 432

<sup>878</sup> Ibid page 434

Canadian system of taxation is similar to the UK in that it taxes an individual dependant on the principle of residency, although some differences do exist in the way in which residency is determined.

The Canadian system of taxation, unlike the UK, ultimately provides athletes with the ability to make tax savings based not upon image rights, but upon the reasoning that their career span will not be significant. The first option Canada provides is a Salary Deferral Arrangement which allows athletes to defer a portion of their salary which can be paid back in later years, when it is likely their gross income will be significantly lower, and as such, their tax liabilities shall thus be lower. However, as above, it is important to note that these arrangements essentially render the athlete an unsecured creditor of the club and this itself could be a risky financial strategy when planning for the future. The second option, an Employee Benefit Plan, arguably provides the athlete with a more financially stable option. An EBP, as discussed, allows a portion of the athlete's salary to be paid to a trustee who shall hold the funds. This allows athletes to earn money (interest) from the EBP and provides a potential tax saving as no tax is payable until the funds are withdrawn – dependant on the tax rates at that time. However, it is notable that as clubs cannot claim a tax saving until the funds are withdrawn, this may deter employers from entering into such agreements. A Retirement Compensation Plan on the other hand, offers a system in which the employer can make contributions and the employee is not taxed until they receive them – again likely to be when overall income is lower. This is subject to a 50% refundable tax and does not attract the same risk as an SDA, however, the account is unable to accumulate income in the same way as an EBP. However, in any case, it is clear the Canadian system for taxation of residents is structured with the nature of sport in mind and allows athletes to plan for the future, in a financial sense.

For non-resident athletes, Canada has also employed the principle of source, meaning they can tax individuals who are not ordinarily resident in Canada. With the multi-national status of sport in Canada, collecting tax from individuals who earn income in Canada is of importance. Non-residents shall be charged on endorsements and salary, which has the potential to lead to considerable tax liabilities. It is notable that should the athlete be regarded as an employee, the duty remains on the employer to withhold the 15% tax, whilst those regarded an independent contractor shall be responsible for submitting their own tax returns. In any case, non-resident status shall not prevent athletes being taxed for their

performance in Canada, unless a waiver, such as those applied to the 2010 Winter Games occurs.

As above, the Alberta NHL tax presented a system which existed in contrast to that of the Federal Government. The tax placed an extra burden on athletes playing in Alberta, which essentially amounted to double taxation in spite of Canada's treaties with other jurisdictions and in particular the U.S. The system similarly penalised more heavily those athletes playing within the Alberta province. In any case, the research above illustrated a transparent system by which athletes were able to gain tax benefits in light of the short nature of their career. This tax on the other hand, completely contradicted that system and thus presents an interesting consideration when assessing this particular area of law.

When comparing the UK and Canada taxation systems as a whole, the overriding contrast is the purposes for which they operate. The UK system provides taxation benefits to only those players who have sufficient commercial prowess to earn income from image rights deals, whilst the Canadian system is focused upon all athletes, allowing them not to gain taxation benefits through their image, but for the purposes of providing financial security in light of the short nature of their careers. As such, it is legitimate to conclude that although the image rights research between both jurisdictions illustrated that in spite of the different legal mechanisms utilised, the courts in both countries generally provided legal redress for unauthorised exploitations of an individual's personality by a third party. However, in terms of taxation of these individuals, the UK system allows tax deductions based upon a right which does not exist in law, and deductions which applies to a relatively small handful of athletes. This method has left the system open to exploitation, and without a clearly defined 'image right' either in law or in HMRC guidance, issues will continue to arise. The Canadian system does not exist in this way and is a system which provides mechanisms for all high earning athletes (regardless their endorsement potential) to plan for financial stability beyond their careers, in a way which is legal and transparent. Should the UK consider reform, this Canadian system provides a legitimate framework by which the taxation of high earning athletes is collected and controlled in a manner which is transparent and predictable.



## **Chapter Seven *Final Conclusion – the relationship between image rights and taxation***

This thesis focuses upon image rights protections and taxation law within both the UK and Canada. The initial interest in these areas of law stemmed from the Commission funded study<sup>879</sup> discussed in chapter two, which established the different legal mechanisms employed by the member states in instances of contractual image rights disputes. Although this study was not included in the final paper submitted to the Commission, it is nevertheless important (particularly in the development of this thesis), in establishing the legal mechanisms employed across the member states where the image rights of athletes are in contention.

As discussed, the relationship between celebrity and brand endorsement is well established in both the UK and Canada through the above discussed authorities such as *Irvine*, *Rihanna*, *Krouse* and *Athans*. This, coupled with the evolution of social media, has created a pathway for celebrities to endorse products and communicate with the public in the click of a button. Image rights are worth a substantial amount of money to those who possess the commercial prowess to attract lucrative endorsement contracts and also to the brands who seek to exploit the image of the celebrity to increase the popularity of their goods and services. This relationship between celebrity and image has become particularly prominent in the sporting industry, with athletes regularly advertising products which have no evident association to the sport they play. Thus, protecting one's image from unauthorised commercial exploitations is important. The courts in both the UK and Canada have provided legal redress (through a patchwork of remedies) to celebrities in instances of unauthorised exploitations, primarily because it is the celebrity's individual right to be able to control, protect and exploit aspects of their personality.<sup>880</sup> This right is unique to these individuals and their career as an athlete and the law has protected this right. However, having analysed the image rights laws and disputes which exist within both jurisdictions, it is clear that there is no crisis of under-protection exists nor is there a vast array of case law troubling the courts in either the UK or Canada. As such, it is a finding of this thesis that the relationship between athlete image rights and the desire for legal protection of these

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<sup>879</sup> See Bernt Hugenholdz, Ben Van Rompuy, Thomas Margoni, Nico van Eijk, David McArdle, Tilman Becker, Catherine Jasserand-Breeman, Marco van der Haast, (2014) "Study on Sports Organisers' Rights in the European Union Luxembourg": EU Publications Office, available at [www.ivir.nl/publications/download/1353](http://www.ivir.nl/publications/download/1353) accessed 21st July 2018

<sup>880</sup> As illustrated through authorities such as *Irvine v Talksport* [2002] 1 W.L.R. 2355 and *Krouse v Chrysler* [1974] 1 O.R. (2d) 255

rights is, primarily in the UK, closely linked to taxation law and the ability to make savings based upon promotion of the athletic image. This not always lawful, demonstrated by the 171 professional footballers and 44 League Clubs currently being investigated for tax evasion.<sup>881</sup> It is the opinion of this thesis that these issues have occurred as a result of the refusal to create or define an image right in law, whilst simultaneously allowing athletes to make tax savings based upon this “image right” which ultimately does not exist. Canada provides an alternative, well-structured and transparent system of taxation, which exists with the acknowledgement of short-lived nature of athletic careers and allows athletes to make taxation savings based upon this acknowledgement. Before answering the thesis research aims, it is useful first to conclude upon the outcome of each chapter.

## **7.1. *Chapter Conclusions***

### **7.1.1. *Image Rights in the EU28***

Following the introduction to the issues in chapter one, chapter two “Image Rights in the EU28” exists as a case study and analysed the results of respondents of the EU28 and the guidance of the European Court of Justice in both *Von Hannover* and *Axel*. The study asked each member state what the courts of their country would decide in an instance of a football club having an endorsement contract with one brand and a player of the football club having a contractual endorsement agreement with another. The legal mechanisms which member states would employ were varied, these included: employment contract terms, specific intellectual property law legislation, constitutional provisions, wide-ranging civil codes, sport-specific acts, collective agreements and standard contract terms. The general outcome amongst the EU28 was that the club could prevent the player wearing the brand of their individual endorsement contract when in a “club context” but could not prevent him doing so outside his employment duties. Remedies ranged from injunctions and sanctions for breach of contract to criminal liability in some states. Very few member states could provide “real life” examples of image rights disputes in this manner. However, the fact that despite the differing legal mechanisms and the low number of cases on the issues presented by the respondents, the EU28 generally came to the same conclusions as to how courts would address such issues. As such, it can be concluded that across the EU28, in cases of

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<sup>881</sup> The Telegraph, (23rd October 2018) “HMRC investigating 171 footballers in £332m tax avoidance crackdown”, <<https://www.telegraph.co.uk/tax/news/hmrc-investigating-171-footballers-332m-tax-avoidance-crackdown/>> accessed 20th November 2018

image rights disputes, the courts will generally evoke a mechanism which will protect the celebrity image.

The German case law was useful in providing example of how the European Court would deal with instances of unauthorised invasions of celebrity's privacy. A celebrity's right to privacy is important in the context of this research, as it allows athletes to protect their ability to secure and maintain endorsement contacts, and ultimately in the UK, make a tax saving based upon this. Invasions of privacy which paint the athlete in a bad light, have the potential to impact endorsement contracts and thus an athletes' tax bill. This acknowledgement highlighted the need to assess unauthorised exploitations of an athletes' image and the remedies available to the courts.

### **7.1.2. *Image Rights, Sport and the UK***

Chapter three, "Image Rights, Sport and the UK" analysed the remedies available in the UK to celebrities in cases of unauthorised exploitations of their image. As there is no legislation which provides for a free-standing image right in the UK, when such cases have arisen in the courts, there has been a reliance on the more traditional intellectual property remedies. Passing off and breach of confidence actions have both afforded celebrity's protection in cases such as *Campbell, Douglas, Irvine* and *Rihanna*. This has been due to the courts' interpretation of the remedies in order to allow them to apply in circumstances which the common law had not previously been applied. Trademark law should not apply to the protection of the celebrity image, by virtue of their contrasting functions. However, celebrities such as Jesse Lingard and Damon Hill have obtained trademarks for certain aspects of their personality. Until such trademarks are infringed and the issues are brought before the courts, it remains unclear whether the trademarks will remain valid or be revoked. However, the way the courts have approached unauthorised image right invasions in breach of confidence and passing off actions suggests that they would also provide remedy in the context of trademark law. Copyright, in theory, could provide protection under the Copyright, Designs and Patents Act 1988, however the (albeit dated) opinion of the Whitford Committee and the court in *Merchandising Corp* rejected its use - although s85 may provide some limited protection to those who have commissioned their own work. Defamation has provided redress to celebrities in instances where their reputation has been damaged, however, in instances where the exploitation heightens the fame of the celebrity, defamation will not be applicable and is thus limited to this end. The remedies discussed

are traditional intellectual property remedies (with the exception of defamation), yet it is legitimate to conclude that in situations of unauthorised exploitations of the celebrity persona, the courts have generally been able to provide remedy through these mechanisms. Similar to the conclusions developed by chapter two, there have been relatively few cases which have troubled the courts. Thus, it can be concluded that the traditional remedies are not resulting in under-protection and in the small number of cases which have appeared before the courts, the remedies are able to be interpreted in such a way as to protect the celebrity persona. The issue with the non-existence of an image right however becomes problematic in tax law where athletes are making savings based upon an image right which does not exist in law.

### 7.1.3

#### *Image Rights in Canada*

In chapter four, “Image Rights in Canada” the thesis analysed the image rights laws in Canada and established the protections available. In the provincial areas of British Columbia, Manitoba, Saskatchewan and Newfoundland, legislation has been enacted in the form of privacy acts which provide celebrities with remedy in cases where their personality is used without authorisation. These acts were not introduced by virtue of a crisis of under-protection, rather by the courts unwillingness to rely on the commonwealth precedent of relying on the traditional intellectual property remedies such as passing off. Although these acts have been infrequently used and have been criticised for their lack of specificity, in the context of the research aims of this thesis, it is important to acknowledge the positive nature of the existence of the acts in the first instance – informing celebrities of their rights, deterring third parties from appropriating the personalities of these celebrities and thus, providing remedy in cases where an appropriation occurs. Chapter four also establishes the possible use of copyright and trademark law, however it is notable that the use of these remedies has been rare.

In the context of the common law, Ontario provided an example of a jurisdiction which has developed its own tort – in order to protect celebrities from unauthorised exploitations of their personality. Notably, it is a finding of this thesis that this tort was developed on the basis of a misunderstanding of the law in the UK and the U.S and was developed by a small number of cases. Nevertheless, the route which the cases have taken has allowed for a framework of rules by which the tort of appropriation of personality exists. Although clear differences exist in the way Canada addresses its image rights laws to that of the UK, it is

also clear that as with the situation in the UK, the doctrine of image rights is not an area of law which is troubling the courts with an influx of cases. Even in Ontario, the law was developed on a basis of only five cases. Thus, it can be concluded that the mechanisms employed by Canada are able to provide celebrities with a remedy in cases of image rights dispute and in any case, these occasions do not occur often.

#### **7.1.4. *Taxation and Image Rights in the UK***

Chapter five, “Taxation and Image Rights in the UK” set out to establish the importance of the relationship between image rights and taxation. It is clear that this is by no means a straightforward area of law and is one which is continually evolving. With regard to UK tax liabilities for professional athletes, it is a conclusion of this thesis that the importance of image rights for athletes is closely linked to the ability to make tax savings through one’s image/personality. This is made more complicated by the fact that no “image right” exists within the UK so athletes are essentially making tax savings based upon a right which does not exist in law. For the moment at least, this has not hindered athletes’ ability to do so. In the case of UK domiciled athletes, they must prove to HMRC (if questioned) that they have goodwill which is capable of being transferred (to an IRC). For these purposes, registration of image rights under a Guernsey like scheme or within another jurisdiction is beneficial. Thus, for an athlete to allow a portion of their salary to be classed as an image rights payment and eligible for a lower tax rate, the athlete must possess goodwill in their image – they must prove that they have something worth protecting. For foreign domiciled athletes, the option to pay tax on a remittance basis provides a legitimate way of reducing their tax bill in the UK, so long as they stay for no longer than 15 years. The introduction of an anti-avoidance scheme should act as a deterrent for foreign domiciled athletes, however so long as their endorsement earnings are paid into foreign image rights companies and not remitted back to the UK, they will not be subject to UK income tax. In regard to internationally mobile athletes, this area has caused particular controversy and exists in contrast to its approach to foreign domiciled athletes. Its policy on taxing athletes on foreign endorsement earnings by virtue of their appearance at UK events has resulted in athletes choosing not to participate in the UK, although its exemptions for the 2012 Olympics marked a positive change. In conclusion, the UK system on taxation and image rights is a complicated one. This is primarily due to the fact that an image right does not exist in UK law, yet athletes are allowed to make tax savings based upon this non-existent image right. Also of concern, is the number of clubs and players currently being investigated by HMRC. The system of

tax currently employed in the UK is allowing athletes to make tax savings in a non-transparent manner, and the importance of image rights law in this context is to allow athletes to prove they have a right worth protecting – even if this is not the case. Until the UK introduces a free-standing image right which exists together with a legitimate system of taxation, athletes will continue to look for loopholes in which they can make tax savings and HMRC will continue to be faced with these issues of non-compliance. In any case, it is the conclusion the importance of proving of an image right for athletes in the UK is not to prevent unauthorised exploitations, rather to allow them to make tax savings.

#### **7.1.5. *Canadian Taxation of Athletes***

The purpose of chapter six, “Canadian Taxation of Athletes” was to establish the way in which Canada sets out its taxation system in relation to image rights payments and professional athletes, looking specifically at ice hockey for the reasons outlined in the chapter itself. The primary contrast between Canada and the UK in this respect is the fact that Canadian athletes are paid endorsement earnings as part of their salary under the CBA and this is regardless of their ability to enhance the attractiveness of goods and services. Athletes are still however, allowed to seek endorsement opportunities outside of the club context. With regard to the specifics of the taxation system, Canada employs a system which exists in the acknowledgement of the short-nature of athletic careers and seeks to allow athletes to legitimately reduce their tax bills in order to provide financial stability beyond their athletic careers. This is achieved through three mechanisms: a salary deferral arrangement, an employee benefit scheme and a retirement compensation plan – all designed to allow athletes to assign a portion of their salaries to a particular scheme and only pay tax in the future when their gross earnings are lower; thus providing a lower tax bracket and ultimately a tax reduction. For non-resident athletes, participation at events or matches in Canada can result in liability for Canadian taxation, however, this is only upon salary and endorsement earnings inside of Canada and not on worldwide income as it is in the UK. The Alberta NHL Players tax exists in contrast to the system employed in Canada, resulting in double taxation of athletes playing in Alberta. However, given the purpose of this was to ensure the financial stability of the two NHL teams in Alberta and no longer exists, it can be concluded that this does not define the way in which the Canadian system of taxation seeks to operate. As such, the overriding conclusion of chapter six is that the Canadian taxation system of athletes exists in contrast to that of the UK. Its primary purpose is to ensure the financial stability of athletes beyond their playing careers and

exists in a manner which is clear, transparent and predictable. The CRA is aware that when utilising an RCA, SDA or EBP, an athletes' ultimate aim is to reduce their tax bill – legitimately.

## **7.2. *The Research aims***

### **7.2.1. *To establish the patchwork of image rights protections available in (a) the UK and (b) Canada***

As illustrated in chapter two and three, both the UK and Canada use a patchwork of legal protections to protect the image rights of athletes. The UK has relied particularly on the remedies of passing off and breach of confidence actions which have provided the most success. Canada has both statutory and common law frameworks. The image rights protections in both the UK and Canada generally provide remedy to athletes who suffer from unauthorised exploitations of their image – although these occasions have been rare. However, the UK provides an image rights framework by which courts are required to apply the common law and or legislation in a way which provides legal uncertainty. The legislation regarding trademarks, defamation and copyright were not designed to deal with unauthorised exploitations of celebrity personalities nor were the common law remedies of passing off or breach of confidence. As such, despite the criticisms of the Privacy Acts in Canada and the novel way in which the common law of the tort of appropriation of personality in Ontario – this still provides a better image rights framework than the UK. These mechanisms were designed specifically for instances in which an individual's personality is exploited without permission and as such, can address the issues in manner which is clear, and decisions of the courts can be anticipated, whilst changes can be made to the legislation and common law in reaction to the way in which this specific area of law evolves, without having to creatively interpret legal mechanisms.

**7.2.2. *To establish, in the context of athletes, the system of taxation applicable of high-earning celebrity athletes (a) in the UK and (b) Canada.***

As established by chapter four and five, the UK and Canada operate contrasting systems of taxation on the context of high earning celebrity athletes. The UK handles this by using the above patchwork of intellectual property remedies, in particular goodwill in relation to passing off and HMRC guidance. This has resulted in a convoluted system of taxation which has allowed athletes to make taxation savings in a non-transparent manner. Ultimately, it is the conclusion of this thesis that by not defining an image right in law, athletes have been able to make taxation savings based upon an image right which does not exist. The consequence of this is that athletes, both UK and foreign domiciled are exploiting the law in order to reduce their tax bill. The taxation system in Canada however, allows athletes to reduce their tax bills in a clear, transparent and predictable manner. It provides athletes with mechanisms by which they can legitimately reduce their tax bills, whilst the CRA are aware that this is what they are trying to do. The UK system of taxing high earning athletes is ultimately complicated and unpredictable, with the media continually reporting on alleged tax evasions by both players and clubs.

**7.2.3. *To establish whether reform is required in the UK in relation to the taxation of celebrity athletes and its image right protections***

Ultimately, it is the conclusion of this thesis that the system of image rights and taxation in the UK requires reform. The system currently in place which allows athletes to exploit an image right through taxation but does not protect nor define an image right in law is incoherent and unpredictable. Until there is a framework of image rights protections which exist coherently with taxation provisions, athletes will continue to look for and exploit loopholes in the current law in order to make taxation savings.

**7.2.4. *To test whether the hypothesis of this thesis is correct in that Canada offers a system of taxation which allows athletes to legitimately reduce their tax bills in a clear, transparent and predictable manner, which the UK could look to as a model for reform.***

It is the conclusion of this thesis that the hypothesis that Canada offers a system of taxation which allows athletes to legitimately reduce their tax bills in a clear, transparent and predictable manner,

In the event of an independent Scotland or UK reform, the Canadian system is one possible way by which the UK could make a movement away from issues of non-compliance of high earning athletes and sports clubs in favour of a regime more fit-for-purpose. It is the recommendation of this thesis, that the UK should also employ a Guernsey-like system by which athletes register their image and as such, HMRC can be satisfied of the legitimacy of their claim. This system should employ mechanisms by which it can be proven that the “image” of the celebrity is indeed a lucrative commodity (perhaps by proof of a series of secured endorsement contracts) rather than by simple registration.

**7.3. *Future Research***

This thesis presents the opportunity to embark on future research in two ways. Firstly, having established that the UK tax regime allows athletes to exploit a right which does not exist in law and that this particular area of tax avoidance has caused controversy in recent years, this thesis provides the potential for law reform. The comparison with Canada provides example of a country which not only has statutory and common law relating to image rights protection but also a system of tax in relation to high-earning athletes which exists in a clear, transparent and predictable manner. As such, an intended future research project would be to create a legal framework, either for the UK or an independent Scotland, by which image rights protection and taxation work coherently, providing athletes, brands, representatives and HMRC a clear framework of law by which all parties are aware of their rights and responsibilities.

A second research project would be to examine the relationship between endorsement deals and athletes. As established by this thesis, the potential for athletes to increase their salary through endorsement deals can be extremely lucrative. However, these opportunities are only available to a handful of athletes who possess the desired qualities to attract such deals. Broadly defined, the principal beneficiaries are those widely-recognised,

predominately male, “celebrity athletes” in the globalised sports such as football or in sports with a considerable following in a smaller number of countries. Although athletes who fall outside this group may benefit from exploitation agreements reached by their employer club or by a national squad of which they may be members – in most sports, in most countries, the concept of lucrative personal endorsements is an alien one even for elite national athletes. Put another way, there is no automatic link between sporting prowess and endorsement opportunity and simply being “among the best” does not necessarily open the doors of commercial exploitation. For example, whilst in the run up to the 2012 London Olympics, Great Britain handball players found themselves having to work part-time and rely on their families to provide for them whilst living abroad in “expert” handballing nations such as Denmark and Norway.<sup>882</sup>

In particular, the concept of lucrative endorsement deal is particularly alien for the majority of female athletes, with female sport still playing second fiddle to its male counterpart. In spite of sports development of youth and perusal of admirable athleticism as well as a number of other positive factors, the sports field remains heavily influenced by gender and its relationship with the media reinforces this, serving as one of the “primary forces helping to preserve and maintain hegemonic masculinities in Western societies.”<sup>883</sup> Female sport, in spite of increases in interest and participation in recent years, undoubtedly and inarguably struggles to attract media attention in the same way as the male game, and so the image protections and tax deductions through such protections offered by the UK and Canada are all but redundant to the majority of female athletes (with obvious exceptions including the Williams sisters and Sharapova). Participation and opportunities in female sport has increased in recent years– yet the media has failed to keep up with this trend. Despite these increases, the reality for the majority is that the sports world is a predominately male-orientated jurisdiction and “a site for the construction, reconstruction, strengthening and naturalisation of gender differences,”<sup>884</sup> – facilitated and maintained by sports symbiotic relationship with the media. The how and the why of this relationship is beyond the scope of this research, however, a possible future research project could examine how the law can

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<sup>882</sup> The Guardian, (2011) London 2012 handball: Family, home, careers come second for Team GB <<https://www.theguardian.com/sport/2011/nov/04/london-2012-handball-team-gb>> accessed 3<sup>rd</sup> November 2018

<sup>883</sup> Ten EM Kian and Galen Clavio (2011) “A comparison of online media and traditional newspaper coverage of the men’s and women’s US Open tennis tournaments.” *Journal of Sports Media* 6, 55-84 at 58

<sup>884</sup> Nathalie Koivula (2001) “Perceived characteristics of sports categorised as gender-neutral, feminine and masculine.” *Journal of Sport Behaviour*, 24(4) 377, 378

facilitate opportunities for female athletes, and also male athletes who fall outside the scope of the generic male celebrity athletes, to allow better exploit and protect their image.

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