

आयकर अपीलीय अधिकरण, मुंबई न्यायपीठ 'L', मुंबई ।
IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI BENCHES "L", MUMBAI

Before Shri Shamim Yahya, AM & Shri Ravish Sood, JM

ITA Nos.3819, 3820 & 3821/Mum/2014
Asst.Year 2004-2005

M/s.Kotak Mahindra Old Mutual Insurance Limited 7 th Floor, Kotak Infiniti, Building No.21 Infinity Park, Off WE Highway General AK Vaidya Marg, Malad (E) Mumbi – 400 097. PAN : AAACO3983B.	बनाम/ Vs.	The Jt.Commissioner of Income-tax (International Taxation) Range – 3 Mumbai.
(अपीलार्थी /Appellant)		(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से /Appellant by : S/Shri Farookh Irani & Chetan Kaka

प्रत्यर्थी की ओर से /Respondent by : Shri Jasbir Chauhan (CIT-DR)

सुनवाई की तारीख / Date of Hearing : 12.04.2017	घोषणा की तारीख / Date of Pronouncement : 24.05.2017
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आदेश / ORDER

Per Shamim Yahya, AM

These are appeal by the assessee against respective orders of learned CIT(A) u/s 195(1), 195(2) and 201 r.w.s. 201(1A) for assessment year 2004-2005. Since grounds and issues are common, we are adjudicating the issue by referring to facts and figures from ITA No.3819/Mum/2014.

2. The grounds of appeal read as under:-

Ground No. 1: Remittances of Purchase of software not taxable in India

1. The Commissioner of Income tax (Appeals)-IO [“the CIT(A)”]erred in holding that payment of US\$ 1,36,832.23 and US\$ 1,23,229.02 made towards purchase of software , to Apex

Systems P. Ltd., Singapore ("Apex") as a royalty payment, requiring tax deduction at source @ 15%.

2. He further erred in holding that such payments are nothing but consideration for license to use a software and hence covered by the definition of royalty both under section 9(l)(vi) of the Income tax Act, 1961 as well as under Article 12 of India-Singapore Tax Treaty for Avoidance of Double Taxation.

3. He further erred in concluding that selling or giving on hire of the software or offering for sale or for commercial rental any copy of the computer program regardless of whether such a copy has been sold or given on hire on earlier occasion constitute the grant of a right to use copyrights

4. He further erred in concluding that use of software program on computer will amount to transfer of copyright under section 14 of the copyright Act since the buyer of software makes use of the copyright contained in the said software purchased and the same would amount to transfer of part of the copyright.

5. He further erred in concluding that the definition of Article 12(3) of the Treaty is wider than that contained in the Income Tax Act 1961 as it also ropes in payment of consideration for the use of a copyright in addition to the consideration paid for the right to use a copyright, covered by the definition in the Act.

6. He further erred in applying newly inserted explanation 4 to section 9(l)(vi) of the Act for payments made in FY 2003-04 without appreciating the fact that a retrospective amendment in law cannot change the tax withholding liability, with retrospective effect

7. He failed to appreciate and ought to have held that

a. The licence is non-transferable and non-exclusive

b. The Appellant is given a licence to use the software only for use in the ordinary course of its own life insurance business i.e. self-use and not for commercial exploitation.

c. *There is a prohibition against the Appellant reverse engineering or using undocumented facilities to enable development capability of the software product.*

d. *The licence granted to the Appellant is personal to it and the Appellant is not entitled to sell, licence, sub-licence, lease or assign the software to any third party, except users of the customer, without written consent of Apex.*

e. *Since the programmes from Apex have been obtained in the form of CDs, it would be considered as purchase of "goods" and the amount paid by the appellant to Apex can be regarded only as "Business Profits" and not as "Royalty."*

f. *The Appellant has acquired from Apex only a copy-righted article for use in its own business and has not obtained any copyright as it has not acquired any right to reproduce or to distribute and to sell the software acquired by it from Apex .*

g. *The fact that the Appellant has no right to replicate or to sell the licenced software shows that the licence obtained by the Appellant cannot be regarded as the acquisition of a copyright under the Copyright Act, 1957.*

h. *There is no transfer of any rights including granting of license in respect of property and cannot be considered to have been transferred even though license is granted in respect of such rights. The rights of various payments remain protected and cannot be considered to have been transferred or even a license is granted in respect of such rights. What the Appellant ultimately paid is for use of a copyrighted article and not received any right in the copyright.*

i. *the payments for use of copyrighted software (as in the instant case) is distinguished from payments for use of copyrights in the software.*

j. *payments for the rights in relation to the acts of copying, where they do no more than enable the effective operation by the user, will not be characterised as Royalty.*

k. The tax withholding obligations from payments to non-residents, as set out in Section 195, require that the person making the payment "at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income -tax thereon at the rates in force". When these obligations are to be discharged at the point of time when payment is made or credited, whichever is earlier, such obligations can only be discharged in the light of the law as it stands that point of time

8. The Appellant prays that it be held that payment of US\$ 1,36,832.23 and US\$ 1,23,229.02 to Apex towards purchase of software are in the nature of Copyrighted Article and are not "royalty" , both under section 9(l)(vi) of the Income tax Act, 1961 as well as under Article 12 of India-Singapore Tax Treaty for Avoidance of Double Taxation and require no deduction of tax at source.

Ground No.2: Payments towards Annual Maintenance Charges

1. CIT (A) erred in holding that payment of US\$ 31,400.67 made towards Maintenance Charges for the software, to Apex as a "Fees for Technical Services (FTS)" payment, requiring tax deduction at source @ 15%.

2. He further erred in holding that such payments are nothing but Technical and/or consultancy service and hence covered by the definition of FTS both under section 9(l)(vii) of the Income tax Act, 1961 as well as under Article 12 of India-Singapore Tax Treaty for Avoidance of Double Taxation.

3. He further erred in holding that such maintenance services are ancillary and subsidiary to the application or enjoyment of any right property or information (Software Licence) for which a payment described Article 12(3) is received i.e Royalty and hence FTS under Article 12(4)(a) of the Tax treaty.

4. *He failed to appreciate and ought to have held that*
 - a. *The Services were simply software maintenance services which did not involve any transfer of Technology.*
 - b. *Unless there was a transfer of technology involved in technical services extended by apex Singapore, the 'make available' clause was not satisfied and, accordingly, the consideration for such services could not be taxed as FTS under Article 12(4) of India Singapore tax treaty.*
 - c. *the amount paid by the appellant to Apex can be regarded only as "Business Profits" and not as "FTS" and in absence of any Permanent Establishment of Apex in India, the same cannot be taxed in India.*
5. *The Appellant prays that it be held that payment of US\$ 31,400,67 to Apex towards Maintenance Charges are not "FTS" , both under section 9(l)(vii) of the Income tax Act, 1961 as well as under Article 12 of India-Singapore Tax Treaty for Avoidance of Double Taxation and are in nature of in the nature of "Business Profit" covered under article 7 of India-Singapore Tax Treaty require no deduction of tax at source in absence of any PE of Apex in India.*

Ground No.3: Interest U/s. 201(1A)

1. *The AO erred in charging the interest under section 201(1A) on short deduction of TDS.*
2. *He failed to appreciate and ought to have held that there is no short deduction/payment of TDS in the case of the Appellant since the payments are not liable to TDS.*
3. *The Appellant prays that it is not liable for interest under section 201(1A) and AO be directed to delete the interest under section 201(1A).*
4. *Without prejudice to the above, AO be directed to recalculate the interest U/s. 201(1A) consequent to the any relief granted on any of the grounds stated above.*

The Appellant craves leave to add, alter and/or amend the aforesaid Grounds of Appeal at or before the time of hearing.

3. Brief facts of the case are as under :-

The assessee Company is engaged in the business of life insurance. The assessee Company has procured, software for the administration of various life insurance policies from a Singapore Company called Apex Systems P Ltd. ("Apex") and entered into an agreement with Apex on 1.10. 2001.

Under this Agreement, the following three types of payments were made by the Appellant to Apex:

- (a) a licence to use the software package developed by Apex, for which the assessee was to pay Apex a licence fee;
- (b) maintenance of the software package by resolving queries and problems which were faced by the assessee during implementation of the software;
- (c) consultancy services for implementation of the software;

The assessee made following payments from December 2001 to June 2003 without deducting any taxes on the basis of undertakings and CA certificates.

Sl. No.	Nature of Payment	Amount in US\$
1.	Annual Maintenance Charges	31,400.67*
2.	Modification & Implementation	1,23,229.02
3.	License Fees	1,36,832.23

On the receipt of these CA. certificates from the remitting banks, proceedings u/s 201 of the I.T. Act were initiated on 14-08-2003 by DDIT(IT)-2{1}, Mumbai. The case was transferred to DDIT(IT)-3(1) and thereafter assigned to Jt. DIT(IT) ,Range-3, Mumbai. The Jt. DIT(IT) vide its order dated 16/01/2004 held that above payments are "Royalty" within the meaning of section 9(l)(vi) as well as under Treaty with Singapore and held appellant as "assessee in default" for not deducting the TDS of Rs.24,76,610 @ 15%(grossed up) on payments of Rs. 1,40,34,123 made during the period 17th December 2001 to 23rd June 2003 u/s. 201(1A). Further, under said order interest of Rs.5,95,791 was also levied u/s. 201(1A) of the Act."

4. Upon assessee's appeal, learned CIT(A) elaborately considered the issue. He inter alia referred to several Hon'ble Karnataka High Court decisions and concluded that the amount paid was royalty payment u/s 9(1)(vi) and Article 12(3) of the Tax Treaty with Singapore requiring the assessee to deduct tax at source at the rate of 15%. As regards the maintenance charges paid for the software purchase, he linked the same to the payment for software being royalty payment and held the same to be fee for technical services and affirmed the Assessing Officer's action.

5. Against the above order assessee is in appeal before us.

6. We have heard both the Counsel and perused the records. The arguments of both the Counsel are the same as in the case of M/s.Kotak Mahindra Bank Limited v. ITO in ITA No.2536/Mum/2008, heard by this Bench on the same day.

7. Both the Counsels also agreed that the facts are also similar. We find that in the said case vide order dated 22nd May, 2017, we had adjudicated the issue as under:-

"5. We have heard both the Counsels and perused the records. Learned Counsel of the assessee submitted that the amount paid is not a royalty both under the Income-tax Act as well as Indo-Japan DTAA. He submitted that assessee has been granted limited use of the software for own internal purposes. There is complete prohibition for making copy for sale or transferring it to others. Furthermore, learned Counsel placed reliance upon several case laws for the proposition that similar issue has been decided in favour of the assessee. For this proposition, he placed reliance upon following case laws:-

(i) Reliance Industries Ltd. ITA Nos.1980, 1981, 1982, 1984, 1986, 2523, 2529/Mum/2008 (Mumbai Tribunal)

(ii) Capegemini Business Services (India) Ltd. ITA No.7779/Mum/ 2011 (Mumbai Tribunal)

(iii) Infracsoft Ltd. [(2013) 39 Taxmann.com 88 (Delhi HC)

(iv) Allianz SE (Formerly known as Allianz AG) ITA No.1569/PN/ 2008 (Pune Tribunal)

(v) Solid Works Corporation ITA No.3219/Mum/2010 (Mumbai Tribunal)

(vi) First Advantage (P) Ltd. [2017] 77 taxmann.com 195 (Mumbai Tribunal)

(vii) Lionbridge Technologies Pvt. Ltd. 61 Taxmann.com 335 (Mumbai Tribunal)

(viii) Locuz Enterprise Solutions Ltd. 61 Taxmann.com 47 (Hyderabad Tribunal)

- (ix) *Galatea Ltd. ITA No.5434/Mum/2015 Mumbai Tribunal.*
- (x) *Baan Global B.V. [2016] 71 taxmann.com 213 (Mumbai Tribunal)*
- (xi) *Quaocomm India (P) Ltd. [2017] 77 taxmann.com 213 (Hyderabad Tribunal)*

6. *Further, learned Counsel submitted that this payment for software was not under the ambit of definition of royalty as per the extant provisions of section 9(1)(vi). He submitted that Explanation 4 to this section has been inserted by the Finance Act, 2012 with retrospective effect. He submitted that this Explanation seeks to bring software such as the one falling under the present appeal under the ambit of royalty. Learned Counsel submitted that this Explanation was not there when the assessee's liability to deduct tax at source arose. He submitted that a subsequent amendment cannot fasten liability on the assessee from retrospective effect, hence he submitted that assessee is not at all liable to deduct tax at source from the payment made for software.*

7. *Per contra, learned Departmental Representative submitted that although there is Delhi High Court decision in favour of the assessee, he claimed that there are several Hon'ble Karnataka High Court decisions which are in favour of the Revenue. He furthermore submitted that if ambulatory approach is applied Explanation 4 to section 9(1)(vi) supports the case of the Revenue. He submitted that in some other decisions, Hon'ble jurisdictional High Court has favoured ambulatory approach. As against this, he submitted that Hon'ble Delhi High Court has applied static approach under which domestic law at the time of entering of the DTAA is applied and not the domestic law as prevailing as which the ambulatory approach mandates.*

8. *We have carefully considered the submissions and perused the records. We find that learned Counsel of the assessee has referred to several case laws of various benches*

of the Tribunal, wherein similar issue was decided in favour of the assessee. Furthermore, the same Bench of the Tribunal as the present one in the case of National Stock Exchange of India Ltd. v. DDIT in ITA No.7735/Mum/2011 vide order dated 18.05.2017 has considered identical issue. The Tribunal had extensively referred to the decision of the Tribunal in the case of ADIT (IT) v. First Advantage (P.) Ltd. [(2017) 77 taxmann.com 195 (Mumbai-Trib.)]. Further the Tribunal in the case of National Stock Exchange of India Ltd. (supra) had also referred to decision of Hon'ble Delhi High Court and Karnataka High Court, and concluded as under:-

"15. In this regard we may also refer to Hon'ble Delhi High Court exposition on this subject in the case of DIT vs Ericsson AB 343 ITR 470 as under:

"That in order to qualify as royalty payment, within the meaning of section 9(1)(vi) and particularly clause (v) of Explanation 2 there to, it is necessary to establish that there is transfer of all or any rights (including the granting of any licence) in respect of copyright of a literary, artistic or scientific work. Section 2(0) of the Copyright Act, 1957, makes it clear that a computer programme is to be regarded as a literary work. Thus, in order to treat the consideration paid by the cellular operator as royalty, it is to be established that the cellular operator, by making such payment, obtains all or any of the copyright rights of such literary work. This was not established. It was not even the case of the Revenue that any right contemplated' under section 14 of the 1957 Act stood vested in the cellular operator as a consequence of article 20 of the supply contract. Distinction has to be made between the acquisition of a "copyright right" and a "copyrighted article." Even assuming that the payments made by the cellular operator were regarded as a payment by way of royalty as defined in Explanation 2 below section 9(1)(vi), nevertheless, it could never be regarded as royalty within the meaning of the term in article 13, paragraph (3) of the DT AA. This is so because the definition in the DTAA is narrower than the definition in the Act. Article 13(3) brings within the ambit of the definition of royalty a payment made for the use of or the right to use a

copyright of a literary work. Therefore, what is contemplated is a payment that is dependent upon the user of the copyright and not a lump sum payment as was the position in the present case. Once the payment in question was not royalty which would come within the mischief of clause (vi) the Explanation to section 9(1) would have no application. The payment received by the assessee was towards the title and GSM system of which soft- ware was an inseparable part incapable of independent use and it was a contract for supply of goods. Therefore, no part of the payment, therefore could be classified as payment towards royalty."

16. From the above case laws it is amply clear that it has been held that the software sold by M/s. Minitab Inc USA to the assessee fell into the category of "copyrighted article" against acquisition of "copyright" which qualified as royalty payment. Furthermore Hon'ble Delhi High Court had held that even if the item was regarded as royalty payment as defined in explanation to Section 9(1)(vi) nevertheless the DTAA would prevail where royalty is dependent upon the use of the copyrights and not a lump sum as was in the present case. That once the payment in question was not royalty which would, within the mischief of clause (vi) the explanation to section 9 (1) would have no application.

17. In this regard we have noted that Hon'ble Karnataka High Court has taken a contrary view as under in the case of CIT vs. Samsung Electronics Co Ltd (Supra). (Head notes only) "The assessee imported "shrink-wrapped"/ "off-the-shelf" software from suppliers in foreign countries and made payment for the same without deducting tax at source u/s 195. The AO & CIT (A) held that the payments were assessable to tax as "royalty" u/s 9(1)(vi)/ Article 12 and that the assessee was liable to pay the tax u/s 201. On appeal, the Tribunal relied on the judgement of the Supreme Court in Tata Consultancy Services vs. State of AP 271 ITR 401 (SC) and held that the assessee had acquired a "copyrighted article" but not the "copyright" itself and so the amount paid was not assessable as "royalty". On appeal by the department, HELD reversing the Tribunal:

(i) U/s 9(1)(vi) of the Act & Article 12 of the DTAA, "payments of any kind in consideration for the use of, or the right to use, any copyright of a literary, artistic or scientific work" is deemed to be "royalty". Under the Copyright Act, 1957, a software programme constitutes a "copyright". A right to make a copy of the software and use it for internal business by making copy of the same and storing it on the hard disk amounts to a use of the copyright u/s 14 (1) of that Act because in the absence of such a licence, there would have been an infringement of the copyright. Accordingly, the argument that there is no transfer of any part of the copyright and the transaction involves only a sale of a copyrighted article is not acceptable. The amount paid to the supplier for supply of the "shrink-wrapped" software is not the price of the CD alone nor software alone nor the price of licence granted. It is a combination of all. In substance unless a licence was granted permitting the end user to copy and download the software, the CD would not be helpful to the end user;

(ii) There is a difference between a purchase of a book or a music CD because while these can be used once they are purchased, software stored in a dumb CD requires a license to enable the user to download it upon his hard disk, in the absence of which there would be an infringement of the owner's copyright. (TCS vs. State of AP distinguished as being in the context of sales-tax);"

18. We have also noted the submission of the Ld. DR that the seller of the software has a copyright upon it. That distinction between copyright and copyrighted article was originally coined by the US Internal Revenue Service. He had also submitted that this interpretation is supportive of internal revenue of the USA as majority of the software and the copyrights originate from USA. By terming such transfer of software which are under copyright in the USA as copyrighted article the software sellers of the USA were taken out of the ambit of taxation of the other countries which were purchasing/acquiring the software. Furthermore Ld. Counsel of the assessee has pleaded that after the insertion of explanation iv to Section 9(i)(iv), this software sale has also come under the ambit of royalty. However Hon'ble Delhi High Court has applied the static

approach under which domestic law as at the time of the entering of the DTAA is applied and not the domestic law as prevailing as which the ambulatory approaches mandates. He has further submitted that eminent author Klaus Vogel has also favoured the ambulatory approach. He has further mentioned the Hon'ble jurisdictional Bombay High Court has also favoured ambulatory approach in some other decisions. We also note the Ld. CIT-A has referred to a decision of Federal Court of Australia in the case of IBM vs. CIT (supra) which held that similar payment by IBM Australia to IBM USA under similar DTAA was royalty payment.

19. We have carefully considered the above. However we find that admittedly there is no direct jurisdictional High Court decision on the subject. However there is a direct Hon'ble Delhi High Court decision which is in favour of the assessee. As against this there are decisions of Hon'ble Karnataka High Court which are in favour of revenue. In this regard we note that Hon'ble Apex Court in the case of vegetable products 88 ITR 192 had held that if two constructions are possible one in favour of the assessee should be adopted. Accordingly respectfully following the precedent we follow the Hon'ble Delhi High Court decision. Accordingly we set aside the order of authority below. We hold that the transfer / sale of software in this case is not taxable as royalty. Hence the assessee was not liable to deduct tax at source u/s 195 of the Income-tax Act, before remitting the money to the US supplier."

9. Now we examine the present case on the touchstone of above said decisions. In this case we find that assessee has purchased software from overseas supplier from Japan. As per the terms of purchase assessee is entitled to make copies of the same for its internal use. It cannot be copied and sold. In this factual background the A.O. and the learned CIT(A) are of the opinion that the purchase of software comes under the ambit of Royalty as per Section 9(1)(vi). However, assessee's plea is that the said software is a copyrighted article as distinct from copyright on which royalty is payable. Learned DR has submitted that by way of insertion of Explanation 4 to Section 9(1)(vi), article such as the present one have also come under

the ambit of Royalty with retrospective effect. As against this it is the plea of the Counsel of the assessee that this purchase does not come under the ambit of Royalty as per section 9(1)(vi) inasmuch as the software involved is a copyrighted article which cannot be said to be coming under the ambit of Royalty. Assessee's plea is that it is settled law that the provisions of double taxation avoidance agreement take precedence over the domestic laws. Even if it is accepted that as per the present domestic law the software purchase comes under the ambit of Royalty payment, the same does not fall under the purview of Royalty as per the double taxation avoidance agreement. Hence, it is the plea of the assessee that provisions of the double taxation avoidance agreement will prevail and the software purchase will not come under the ambit of Royalty payment u/s 9(1)(vi).

10. We find that the submission of the assessee and its Counsel find support from the decisions of Hon'ble Delhi High Court and the ITAT decision as above. Accordingly, respectfully following the precedence, we are of the considered opinion that the transfer / sale of software in this case is not taxable as Royalty. Hence the assessee was not liable to deduct tax at source u/s 195 of the Income-tax Act before remitting money for the purchase.

11. There is another limb to the learned Counsel of the assessee's argument. He has submitted that even if it is considered that this software purchase comes under the ambit of royalty as per Explanation 4 to section 9(1)(vi), the said Explanation was inserted with retrospective effect by Finance Act, 2012. He said that by no stretch of imagination assessee can be said to have envisaged at the time when its liability to deduct tax at source arose that subsequently a retrospective amendment would come into force. We find considerable cogency in the submission of the learned Counsel of the assessee Even if upon application of Explanation 4 to section 9(1)(vi), it is considered that the payment was royalty, it cannot be said that assessee could have anticipated insertion of Explanation 4 with retrospective effect at an earlier date. It is

settled law that nobody can be expected to do the impossible. Hence it was not possible for the assessee to foresee a retrospective Explanation so as to fasten upon it the liability to deduct tax at source in this case. The assessee succeeds on this limb of the argument also.

12. *In the result, this appeal filed by the assessee stands allowed."*

8. Since facts are identical, following the above order, we set aside the orders of authorities below and hold that the payment was not royalty and hence assessee was not liable to deduct tax at source.

9. In the result, these appeals filed by the assessee stand allowed.

Order pronounced on this 24th day of May, 2017.

**Sd/-
(Ravish Sood)
JUDICIAL MEMBER**

**Sd/-
(Shamim Yahya)
ACCOUNTANT MEMBER**

मुंबई Mumbai; दिनांक Dated : 24th May, 2017.
Devdas*

आदेश की प्रतिलिपि अग्रेषित/Copy of the Order forwarded to :

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. आयकर आयुक्त(अपील) / The CIT, Mumbai.
4. आयकर आयुक्त / CIT(A)-XXXIII, Mumbai
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, मुंबई / DR,
ITAT, Mumbai
6. गार्ड फाईल / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

**उप/सहायक पंजीकार (Dy./Asstt. Registrar)
आयकर अपीलीय अधिकरण, मुंबई / ITAT, Mumbai**