आयकर अपीलीय अधिकरण "एल" न्यायपीठ मुंबई में।

IN THE INCOME TAX APPELLATE TRIBUNAL "L" BENCH, MUMBAI

BEFORE SHRI SHAMIM YAHYA, AM AND SHRI SANDEEP GOSAIN, JM

आयकर अपील सं./I.T.A. Nos. 926 & 927/Bang/2012

(**निर्धारण वर्ष /** Assessment Year: 2009-10 & 2010-11)

M/s. Shell India Markets Private Limited Trent House, First Floor, G Block, Plot No. C-60, Bandra Kurla Complex, Bandra (E), Mumbai-400 051	**बनाम**/ Vs.	ITO (International Taxations), Ward 2(1), Bangalore (now transferred to ITO (TDS)-LTU, Mumbai))
स्थायी लेखा सं./जीआइआर सं./PAN/GIR No.AAICS1404 P		
(अपीलार्थी /**Appellant**)	:	(प्रत्यर्थी / **Respondent**)

अपीलार्थी की ओर से / **Appellant by**	:	Shri Madhur Agarwal & Shri Dinesh patil
प्रत्यर्थी की ओर से/**Respondent by**	:	Shri M. V. Rajguru

सुनवाई की तारीख / **Date of Hearing**	:	30.10.2017
घोषणा की तारीख / **Date of Pronouncement**	:	08.01.2018

आदेश / O R D E R

Per Shamim Yahya, A. M.:

These are appeals by the assessee directed the against order of the ld. Commissioner of Income Tax (Appeals)-IV, Bangalore dated 30.05.2012 and pertains to the assessment years 2009-10 and 2010-11.

2. The common grounds of appeal read as under:

Assessment year 2009-10

1. The learned CIT(A) has erred, in law, and in facts, by upholding the order issued by the Income-tax Officer (International Taxation), Ward-2(1), Bangalore ("the learned AO") under Section 201(1) and 201(1A) of the Act. The Appellant craves that the orders of the learned CIT(A) and the learned AO, being based on incorrect interpretation of law, are bad in law and hence, be set aside and the demand be quashed.

2. The learned CIT(A) has erred in law and in facts by upholding the order of the learned AO by holding that the Appellant was under an obligation to deduct tax at source under Section 195 of the Act, on the payments made by the Appellant to Shell International Exploration and Production BV ("SIEP BV"), Shell International BV ("SIBV") and Shell Global Solutions International BV ("SCSI BV"), collectively known as Shell Overseas entities for acquiring access/user rights of software.

3. Based on the facts and circumstances of the case, the learned CIT(A) has erred in law and in facts, by upholding the order of the learned AO, and hence, erred on the following counts:

3.1 Holding that that the grant of user rights amounts to transfer of right in respect of a copyright.

3.2 Not appreciating the distinction between a transaction involving the 'transfer of copyrighted article' and 'transfer of rights in a copyright'.

3.3 Holding that when a person has the exclusive right to do or authorise the doing of the acts specified in the section 14 of the Copyright Act, 1957 in the case of a literary work in which copyright subsists, such right is considered as copyright, irrespective of the fact whether that person is permitted to commercially exploit the work or authorised to use the work for his own use.

4. The learned CIT(A) has erred in law and in facts, by upholding the order of the learned AO by concluding that the consideration paid for the use of copyrighted software is in the nature of "royalty", both under the Act and the Double Taxation Avoidance Agreement between India and Netherlands ("the Tax Treaty").

5. The learned CIT(A) has erred in law and in facts, by not accepting the contentions filed by the Appellant while distinguishing the case of the Appellant from the facts of the decision of the Karnataka High Court in the case of CIT Vs Samsung Electronics Co Ltd and Others (ITA No 2808 of 2006 and others).

6. The learned CIT(A) has erred in law and in facts, by upholding the order of the learned A.O., deeming the Appellant as an assessee – in –default for non-deduction of taxes at sources under section 195 of the Act.

7. The learned CIT(A) has erred in law and in facts, by confirming a sum of Rs.5499,090 (# 1) as payable the appellant under section 201(1) of the Act for A.Y. 2009-10.

8. The learned CIT(A) has erred in law and in facts, by confirming the amount of Rs.14,74,990 (# 2) as interest under section 201(1A) of the Act for A.Y. 2009-10.

(# 1) - Rs.4926,310/- for A.Y. 2010-11

(# 2) – Rs.9,66,000/- for A.Y. 2010-11

3. During the financial years 2008-09 and 2009-10, the assessee company had made payments towards purchase of licensed software from the following foreign companies, collectively known as Shell Overseas entities:

Sl. No.	Name of the foreign company to whom payments were made	F.Y.	Total payment in Rs.
01	Shell International BV	2008-09	25,43,600
02	Shell International BV	2009-10	21,70,256
03	Shell Global Solutions International	2008-09	1,39,69,003
04	Shell Global Solutions International	2009-10	1,82,73,640
05	Shell International Exploration & Production BV	2008-09	3,84,78,291
06	Shell International Exploration & Production BV	2009-10	2,76,15,756
07	Shell International Ltd.	2009- 10	12,03,637

All the above payments were made without deducting any tax at source. The assessee is an Indian Company and the payees are foreign companies incorporated in Netherlands.

4. The assessing officer was of the opinion that assessee should have deducted tax at source from these payments which in his opinion were royalty payments. In response, the assessee submitted as under:

1. That it has been granted only right to access a particular software application and has not obtained any right to commercially exploit the software and make multiple copies of the same. According to the assessee for the purpose of categorizing income from a transaction as amounting to royalty what is to be seen is whether the transferee has the right of commercial exploitation of the intellectual property contained therein. In the instant cases, as it is not permitted to exploit the copyright commercially, the assessee does not have this rights associated with a copyright in terms of Sec. 14 of the Copyright Act. Therefore in such case, what it acquired cannot be considered as a copyright right;

2. That it has obtained only a user right in the copyrighted article in the form of software applications and not the right of use of copyright. Whereas use of copyright encompasses exploitation of the rights embedded in a copyright, a mere user right is a limited right and consideration paid for such user right cannot be regarded as consideration for use of or right to use a copyright;

3. None of the suppliers have provided the assessee with source code or any technical documentation pertaining to software application. The intellectual property right associated with the software does not vest with the assessee but is retained by the concerned supplier. Hence the payments cannot be held for the use of copyright but the payment would be towards use of copyrighted article;

4. Under the Indian Copyright Act, a mere transfer of a computer programme to another person does not amount to allowing the use of the copyright by such other person. However, if the owner of copyright authorizes the other person to reproduce the work in any material form or to make any translation of the work or to make any adaptation of the work it would be construed as the grant of a right to use the copy right in the computer program. The right granted to the assessee to use the software should not be regarded as the right to use the copyright since it involves only a mere transfer of user right of a copyrighted article to another person and does not to allowing the use of the copyright by such other person.

In support of its claim that the payments in question are not fees for technical services, it is submitted that no managerial, technical or consultancy services were received.

It was also submitted that as the sum paid to the above companies not taxable in India, there is no liability to deduct tax in respect of the same. The assessee

quoted several case laws in support of its claim wherein it has been held that the payments for the import of software is not royalty.

5. However assessing officer was not convinced. He elaborately considered the issue and concluded as under;

> From the above discussion, it has been proved that the payment made by the assessee to the Suppliers, as listed above, during the F.Ys. 2008-09 & 2009-10 for the use of software of which these Suppliers are the copyright holders, constitute Royalty, both under Sec. 9(1)(vi) of the Income Tax Act, 1961, and under the Double Taxation Avoidance Agreement between India and Netherlands, and is chargeable to tax in India. Sec. 195 of the Income Tax Act, 1961, casts an obligation on the person making payment of the sums chargeable to tax to a foreign company to deduct tax at the time of making such payment, or at the time of crediting the amount, whichever is earlier. But no tax had been deducted by the assessee thereon either at the time of crediting or subsequently. As the assessee has failed to discharge its obligation to deduct tax at source as stipulated u/s. 195 of the Income Tax Act, 1961, as per the provisions of sec. 201(1) of the Income Tax Act, 1961, for the asst. years 2009-10 and 2010-11. I am holding the assessee as assessee in default in respect of tax not deducted at source in respect of royalty payable to the Suppliers listed above.

6. Against the above order, the assessee appealed before the ld. Commissioner of Income Tax (Appeals).

7. The ld. Commissioner of Income Tax (Appeals) agreed with the finding of the Assessing Officer. He noted the submission of the assessee and reliance by the assessee upon the Hon'ble Delhi High Court decision in the case of *DCIT vs. Ericsson A.B., New Delhi* (in ITA 504/2007 and others vide order dated 23.12.2011). However, he proceeded to place reliance upon the decision of Hon'ble Karnataka High Court in the case of *CIT vs Samsung Electronics Co. Ltd. & others* (in ITA No. 2808 of 2006

and others). Making quotations from the aforesaid order, the ld. Commissioner of Income Tax (Appeals) concluded as under:

> In the circumstances when it is not in the dispute that the issues raised in the appeal are squarely covered against the appellant in decision of the jurisdictional High Court (Supra) which is binding on the undersigned , the undersigned is duty bound to follow the same . Further, through finance Bill 2012, the explanation 4 & 5 (which reads as under) are proposed to be inserted with retrospective effect with effect from 01-06-1976 to clause (vi) to sub-section (1) of Sec.9 of the Income tax Act, also makes it clear that the payment for the ' use of software amount to royalty :
>
> "Explanation 4:- For the removal of doubts, it is hereby clarified that the transfer of all or any rights in respect of any right, property or information includes and has always included transfer of ail or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.
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> "Explanation 5:- For the removal of doubts, it is hereby clarified that the royalty includes and has always included consideration in respect of any right, property or information, whether or not-
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> a) the possession or control of such right, property or information is with the payer;
> b) such right, property or information is used directly by the payer;
> c) the location of such right, property or information is in India.
>
> In view of the above, tax u/s. 201(1) and consequential interest u/s. 201(1A) of the Income Tax Act, 1961 imposed by the Assessing Officer for the above assessment years is upheld.

8. Against above order, the assessee is in appeal before us.

9. We have heard both the counsel and perused the records. The ld. Counsel of the assessee submitted that the issue is covered in favour of the assessee by several

decisions of the ITAT, Mumbai. He submitted that the ld. Commissioner of Income Tax (Appeals) has followed the Hon'ble Karnataka High Court decision. However, he submitted that there is contrary Hon'ble Delhi High Court decision which is in favour of the assessee. He submitted that in the absence of any jurisdictional High Court decision, the ratio from the Hon'ble Apex Court decision in the case of *CIT v. Vegetable Products Ltd.* [1973] 88 ITR 192 (SC) has been followed by the ITAT Mumbai and following the Hon'ble Delhi High Court decision, the issue has been decided in favour of the assessee.

10. Per Contra, the ld. Departmental Representative submitted that the ld. Commissioner of Income Tax (Appeals) in this case has followed the Hon'ble Karnataka High Court decision which was the jurisdictional High Court for the ld. Commissioner of Income Tax (Appeals). Hence, the ld. Departmental Representative submitted that no-fault can be found in the order of the ld. Commissioner of Income Tax (Appeals) who has followed his jurisdictional High Court decision as per the mandate of law.

11. In rejoinder, the learned counsel of the assessee submitted that the taxpayer entity in this case has got merged with the concern whose jurisdiction lies with assessing officer and the ITAT at Mumbai. Hence, he pleaded that the jurisdictional High Court in this present appeal before the ITAT is not Hon'ble Karnataka High Court. The ld. Counsel of the assessee has made the following submissions:

Shell Technology India Private Limited ("STIPL"), a company having its registered office in Bangalore merged with Shell India Markets Private Limited ('the Appellant'). The appointed date of merger as per the amalgamation scheme (enclosed as Annexure 1) was 1 April 2008. The amalgamation scheme was approved by the Bangalore High Court vide order dated 22 February 2010 and Madras High Court vide order dated 24 February 2010.

STIPL had made certain payments for the financial years 2008-09 and 2009-10 *i.e.* after the appointed date of merger but before the effective dated of the merger. However, on account of the appointed date of the merger, being 1st April, 2008, the payments were deemed to have been made by the Appellant, as all acts done by STIPL after the appointed date was deemed to have been done by STIPL. The issue involved in the instant case is whether tax was required to be withheld on the payments made by the Appellant to Non-Resident ('NR') entities in the financial years 2008-09 and 2009-10.

In the instant case, the order under section 201 (1) & 201 (1A) of the Income-tax Act, 1961 ('the Act') was passed I* the Officer in Bangalore on 11 March 2011 and the 'CIT(A)' order was passed by the CIT(A), Bangalore on 30 May 2012. The Appellant against the order passed by the CIT(A), Bangalore, filed an appeal before the Bangalore Income Tax Appellate Tribunal ('ITAT') on 24 July 2012.

The Appellant filed an application for the transfer of files to the Mumbai jurisdiction before the AO vide letter dated 30 July 2012 (enclosed as Annexure 2). Subsequently, the AO passed an order dated 24 August 2012 (enclosed as Annexure 3) for transfer of files from Bangalore to Mumbai as the Appellant (amalgamated company) is assessed to tax in Mumbai. On receipt of the order, the Appellant filed an application for transferring the captioned appeals from Bangalore ITAT to Mumbai ITAT on 29 August 2012 (enclosed as Annexure 4). Considering the application filed by the Appellant, the President of the Tribunal transferred the optioned appeals to Mumbai ITAT vide order dated 4 January 2013 (enclosed as Annexure 5). Similarly, the riles relating to the captioned appeals were also transferred to LTD, Mumbai.

In the instant case, the transaction for payment to NR entities is actually a transaction entered by the transferee i.*e.* the Appellant as stated aforesaid. The Appellant at the date of passing of the order by the AO was assessed to tax in Mumbai and the AO as well as the CIT(A) has passed the order in the name of the Appellant. Thus, the date on which the transactions were undertaken as well

as the dates on which the orders were passed, the jurisdiction of the Appellant was at Mumbai.

We also wish to bring to your Honors notice, Instruction No. 8/2011 dated 11 August 2011 (attached as Annexure 6) relating to Instructions on process of filing appeals to ITAT. Para 7 of the said Instruction specifies the procedure to be followed on the transfer of jurisdiction outside of CIT's charge during the pendency of appeal. It provides that in a case of transfer of jurisdiction over a case involving two different Benches of ITAT during the pendency of appeal, necessary steps shall betaken by the transferor CIT to request the ITAT Bench where the case impending to transfer the same to the Bench of ITAT having jurisdiction over the cases of transferee AO.

12. The ld. Counsel of the assessee submitted that jurisdiction of court is determined by situs of transferee assessing officer. For this proposition, he placed reliance upon following case laws:

1. *CIT vs. AAR BEE Industries* [2013] 36 taxmann.com 308 (Delhi)
2. *CIT vs. Sahara India Financial Corpn. Ltd.* [2007] 162 Taxman 357 (Delhi)

13. The ld. Counsel of the assessee submitted case laws for the proposition that decision of non jurisdictional High Court is not binding on Mumbai ITAT.

14. Accordingly, the learned counsel submitted that the Mumbai ITAT has jurisdiction over the assessee and, the Mumbai ITAT has the jurisdiction to decide on the issue raised by the assessee of non-deduction of taxes on payment to NR entities based on the jurisdictional decisions [Bombay High Court (in the matter of service tax) and Mumbai ITAT]. The Mumbai ITAT while deciding on the issue is not bound by the decision followed by the CIT(A) in the case of *Samsung Electronics* (supra).

15. We have carefully considered the submissions and propositions. We find ourselves in agreement with the submission of the ld. Counsel of the assessee that there is no Hon'ble Bombay High Court decision on this issue. In such circumstances, the co-ordinate bench of this tribunal in *National Stock Exchange of India Ltd.* (in ITA no.7735/Mum./2011 dated 18.05.2017) has considered identical issue as under:

> 6. We have heard both the counsel and perused the records.
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> 7. Ld. Counsel of the assessee submitted that the issue is squarely covered in favour of the assessee by decision of Hon'ble Delhi High Court. He further referred to several other case laws of tribunal in favour of the assessee. The submissions of the Ld. Counsel of the assessee which were also before the Ld. CIT-A in brief are as under:
>
> *"The appellant has purchased software for the internal use and is operational software. The appellant was granted non-exclusive & perpetual license to use the software enumerated in the agreement solely for internal operation.*
>
> *The general terms and conditions and the restrictions under which the said software is provided to the appellant, under the license agreement are as follows:*
>
> *(i) The appellant has no right to use, copy, duplicate or display the software except as specifically provided in the agreement.*
>
> *(ii) The appellant cannot make more copies of the software than what is specified in the agreement.*
>
> *(iii) The appellant cannot provide access to the software to anyone, other than appellant's employees, contractors or consultants under a written contract by which all of them would be bound by the terms and conditions as are applicable to the appellant on purchase of software.*
>
> *(iv) The appellant cannot sell license, distribute, pledge, lease, rent or commercially share (including timeshare) the above software or any rights therein.*
>
> *(v) The appellant cannot modify, translate, reverse engineer, decrypt, decompile, disassemble, create directive works based on, or otherwise attempt to discover the above mentioned software source code or underlying ideas or algorithms.*
>
> *There is no acquisition of copyright which remains the property with the supplier. Generally there are two types of softwares namely, "Unbranded software" which is specialised and exclusively custom made to cater to the*

needs of individual clients, and "Branded software" or "off-the-shelf software" which is standardised and marketed as such. When off-the-shelf software is sold there is no doubt that the essence of such transaction is an outright sale. The said software purchased by the appellant company is "off the shelf" software/Shrink wrapped Software. The appellant company is authorized to use only the software and cannot tamper/copy/sale the same to any other person. The said software is delivered electronically by downloads from the respective websites. Activation key/code is then e-mailed for initialization. Software is then installed by putting the activation key/code and prompt-based installation is done thereafter. Thus, the appellant company does the installation by itself and no onsite support is provided by any of the vendors. Source code is not made available to the appellant company and it is provided with Activation code only for installation. Therefore, the appellant company does not have any copyright to give it forward to any other person to use. The transfer of licensed software cannot be considered as 'Royalty' within the meaning of Article 12(3) of the India-US Tax Treaty.

As per the provisions laid down in clause (v) of Explanation (2) to section 9(1)(vi), the consideration for transfer of all or any rights (including the granting of a license), inter-alia, in respect of any copyright is treated as royalty income. Thus, transfer of rights in respect of copyright is envisaged and unless the transferee does not acquire and enjoy the same rights as that of the transferor, it cannot be said that there is any such transfer as envisaged in clause (v) of Explanation (2) to section 9(1)(vi). In the instant case non-exclusive and non-transferable license has been granted to the appellant. As licensee, the appellant is allowed to use the software only for its own business without any liberty to loan, rent, sell, sub-license or transfer the said software or any rights therein. Therefore, it cannot be said that there is any transfer of all or any rights in the software purchased by the appellant.

The definition of the term "Royalty" under the Indo-USA D.T.A.A. is as under:

The term "Royalties" as used in this Article 12(3) means:

> *"a) Payments of any kind received as consideration for the use of, or right to use, any copyright of a literary, artistic to use, any copyright of a literacy, artistic or scientific work, including cinematograph, films or work on films, tapes or other means of reproduction for use in connection with radio or television broadcasting, any patent, trademark, design or model, plan, secret formula or process or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such rights or properly which are contingent on the productivity, or use or disposition thereof, and*
>
> *(b) Payments of any kind received as a consideration for the use of, or the right to use any industrial, commercial or scientific equipment,*

other than payments derived by an enterprise described in Para 1 or article 8 (Shipping and Air Transport) from activities described in Para 2(c) or 3 article 8."

This definition is much narrower and restricted than the definition of "Royalty" under the Income-tax Act. In the case of Samsung Electronic Co. Ltd. (supra) the Bench has considered this issue and had given a finding, that under the Indo-US DT AA, payment made for a copyrighted article is not "Royalty" and that only Article '7' is attracted.

The OECD Commentary clarifies the distinction between the right to use copyright and transfer of a copyrighted article. According to OECD, only a transfer that enables a transferee to commercially exploit software copyright will give rise to royalty income. But where the transferee gets exclusive rights for use, though it is short of full ownership, it will nevertheless be a case of sale of software. In such cases, the transaction will be outside the tax net in India as the said transaction will give rise to business income and in the absence of Permanent Establishment (PE) in India of Minitab Inc. Of U.S.A, business income are not be chargeable to tax in India as per Article 7 of India -USA DT AA.

There is no acquisition of the software rights in the present case and that the copyright will remain the property of the supplier. It is an outright sale of the software by the non-resident to the appellant company and thus the payment made by the appellant is not for "Royalty". The payments for obtaining computer software is in the nature of business receipts.

The beneficiary of the receipts is not having any Permanent Establishment in India. They are not having any fixed place of business through which their business is wholly or partly carried on in India. Therefore, no operations have been carried in India i.e. no part of the business activities is carried in India by the non-resident sellers. Therefore, the income does not accrue or arise in India and hence there being no liability to income-tax in India, there is no withholding tax liability on such payments."

8. Various decisions relied upon by the Ld. Counsel of the assessee are as under:

(a) DIT vs Infrasoft Ltd. (264 CTR 329) (Del He)
(b) DIT vs Nokia Networks QY (358 ITR 259) (Del He)
(c) DIT vs Ericsson A. B. (343 ITR 470) (Del He)
(d) CIT vs Halliburton Export Inc (ITA No 363 of 2016) (Del He)
(e) DDIT vs Reliance Industries Ltd (159 ITO 208) (Mum ITAT)
(f) Capgimini Business Services (India) Ltd Vs ACIT (158 ITD 1) (MUM ITAT)
(g) ADIT vs. Baan Global BV (ITA No 7048/Mum/2010) (Mum ITAT)
(h) Galatea Limited vs CIT (157 ITD 938) (Mum ITAT)

(i) ADIT (IT) vs First Advantage (P) Ltd (77 taxmann.com 195) (Mum ITAT)

9. Per contra Ld. DR submitted that though the Hon'ble Delhi Court has decided the similar issue in favour of the assessee there are Hon'ble Karnataka High Court decisions which are in favour of the revenue. He submitted that the Hon'ble Karnataka High Court has decided the issue in favour of the revenue in the cases of CIT V. Synopsis International Old Ltd., 212 Taxman 0454 (Kar.HC), dated:03-08-2010, CIT V Samsung Electronics Co. Ltd. & Others, (2011) 345 ITR 0494, Kar HC, dated:15.10.2011, CIT V. Wipro Ltd. (2011), 355 ITR 0284(Kar)/ 203 Taxman 621 (Kar.) HC, dated: 15.10.2011 and CIT Vs. CGI information Systems and Management consultants (P) Ltd., (2014) 48 Taxmann.com 264 (KAR), dated: 9-6-2014. That the High court of Karnataka has decided the issue of software Royalty, both before the insertion of Explanations 4, 5 and 6 in Section 9(1)(vi) of the LT. Act by the Finance Act, 2012 and even after their insertion. That the insertion of these Explanations has not altered the views of Hon'ble High Court of Karnataka and on the contrary the views of the Hon'ble High court have been reaffirmed.

10. Ld. DR further submitted that it's that explanation 4 inserted section 9(1)(vi), has to be given retrospective effect, in as much as it is clarificatory in nature. In this regard he submitted that whether amendment/explanations inserted in the Income Tax Act can be read into the DTAA or not has to be considered on the anvil of ambulatory approach to interpretation of treaty, as against static approach adopted by the Hon'ble Delhi High Court. He further submitted that Hon'ble Bombay High Court in the case of CIT vs. Siemens AG, 310 ITR 320 has approved the ambulatory approach. Ld. DR further submitted that eminent author Klaus vogel in his commentary has also supported ambulatory approach. According to this approach, law in force as per the domestic law would be law as it stands on the date of application of Treaty. As against this Static Approach considers that law in force as per the domestic law would be law as it stood on the date of entering into of Treaty.

11. Ld. DR further submitted that in a recent decision in the case of DIT Vs. New Skies Satellite BV & Others, 382 ITR 0114, dated: 08-02-2016, the Hon'ble Delhi High Court in paras 48 to 50 of its order seems to have corrected its earlier stand regarding decision of Bombay High Court in the case of Siemens AG, supra and acknowledged that the Bombay High court has followed Ambulatory approach to interpretation of treaties. (Paras). That the Hon'ble Delhi High court has been very categorical in this regard when in para 50 of its order it has held that:

".....The Bombay High court seems to accept the ambulatory approach in such a situation, thus allowing for successive amendments into the realm of "law in

force". We express no opinion in this regard since it is not in issue before this court....”

12. Hence Ld. DR pleaded that in view of the above pleadings this issue should be decided in favour of the revenue.

13. We have carefully considered the submissions and perused the records. Before proceeding further we may refer to the relevant law and clauses of DTAA –

Section 9(1)(vi) : The following income shall be deemed to accrue or arise in India. Income by way of Royalty payable by

(a) the Government ; or

(b) a person who is a resident, except where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India ; or

(c) a person who is a non-resident, where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India :

Provided that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process or trade mark or similar property, if such income is payable in pursuance of an agreement made before the 1st day of April, 1976, and the agreement is approved by the Central Government :

Provided further that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum payment made by a person, who is a resident, for the transfer of all or any rights (including the granting of a licence) in respect of computer software supplied by a non-resident manufacturer along with a computer or computer-based equipment under any scheme approved under the Policy on Computer Software Export, Software Development and Training, 1986 of the Government of India.

Explanation 1.—For the purposes of the first proviso, an agreement made on or after the 1st day of April, 1976, shall be deemed to have been made before that date if the agreement is made in accordance with proposals approved by the Central Government before that date; so, however, that, where the recipient of the income by way of royalty is a foreign company, the agreement shall not be deemed to have been made before that date unless, before the expiry of the time allowed under sub-section (1) or sub-section (2) of section 139 (whether fixed originally or on extension) for furnishing the return of income for the

assessment year commencing on the 1st day of April, 1977, or the assessment year in respect of which such income first becomes chargeable to tax under this Act, whichever assessment year is later, the company exercises an option by furnishing a declaration in writing to the Assessing Officer (such option being final for that assessment year and for every subsequent assessment year) that the agreement may be regarded as an agreement made before the 1st day of April, 1976.

Explanation 2.—For the purposes of this clause, "royalty" means consideration (including any lump sum consideration but excluding any consideration which would be the income of the recipient chargeable under the head "Capital gains") for—

(i) the transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property ;

(ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property ;

(iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property ;

(iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill ;

(iva) the use or right to use any industrial, commercial or scientific equipment but not including the amounts referred to in section 44BB;

(v) the transfer of all or any rights (including the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films ; or

(vi) the rendering of any services in connection with the activities referred to in sub-clauses (i) to (iv), (iva) and(v).

Explanation 3.—For the purposes of this clause, "computer software" means any computer programme recorded on any disc, tape, perforated media or other information storage device and includes any such programme or any customized electronic data.

Explanation 4.—For the removal of doubts, it is hereby clarified that the transfer of all or any rights in respect of any right, property or information includes and has always included transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.

Explanation 5.—For the removal of doubts, it is hereby clarified that the royalty includes and has always included consideration in respect of any right, property or information, whether or not—
(a) the possession or control of such right, property or information is with the payer;
(b) such right, property or information is used directly by the payer;
(c) the location of such right, property or information is in India.
Explanation 6.—For the removal of doubts, it is hereby clarified that the expression "process" includes and shall be deemed to have always included transmission by satellite (including up-linking, amplification, conversion for down-linking of any signal), cable, optic fibre or by any other similar technology, whether or not such process is secret;

14. The term royalty has been defined in Article 12(3) of the INDO-USA DTAA as under:-

> *"a) Payments of any kind received as consideration for the use of, or right to use, any copyright of a literary, artistic to use, any copyright of a literacy, artistic or scientific work, including cinematograph, films or work on films, tapes or other means of reproduction for use in connection with radio or television broadcasting, any patent, trademark, design or model, plan, secret formula or process or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such rights or properly which are contingent on the productivity, or use or disposition thereof, and*
> *(b) Payments of any kind received as a consideration for the use of, or the right to use any industrial, commercial or scientific equipment, other than payments derived by an enterprise described in Para 1 or article 8 (Shipping and Air Transport) from activities described in Para 2(c) or 3 article 8."*

We find that identical issue was considered by this tribunal in ADIT (IT) Vs. First Advantage P. Ltd (77.Taxmann.com 195).
Where similar item and same DTAA with USA was under consideration. The tribunal vide order dated 11.01.2017 had held as under, in favour of the assessee

"*We have heard rival contentions and perused the record. The Ld D.R placed his reliance on various case laws including the decision rendered by Hon'ble Karnataka High Court in the case of Cit Vs. CGI Information Systems & Management Consultants (*
P) Ltd (2014)(275 CTR 72), Synopsis International Old Ltd (2013)(212 Taxman 0454) and CIT Vs. Samsung Electronics Co Ltd (2011)(245 CTR 0481) in order to support the order passed by the AO. On the contrary, the Ld A.R submitted that the assessee has obtained only license to use the

software. He submitted that the assessee is entitled to use the software for its internal business operations only (Clause 1 of the agreement). He submitted that the clause 2(b) of the agreement curtails the rights of the assessee and reads as under:

"2(b) Licensee may not (i) (other than accessing the Software as contemplated by this Agreement) attempt to circumvent any security device or licensing restriction contained in the software; (ii) assign, loan, rent, lease, sublease, license, sublicense, encumber, mortgage, translate, modify, alter, adapt, decompile, or disassemble the software or create derivate works based on the software or otherwise reverse engineer the software; (iii) make copies of Licensor Documentation except for one internal archival copy for each Licensed User or (iv) remove alter, cover or obfuscate any copyright notice or other proprietary rights notice placed in or on or displayed by the Software and the Documentation, whether in machine language or human readable form..."

The Ld A.R submitted that the ownership, title and interest in the IPR of the software vested with the US company and the assessee has no right in respect of the same except the license to use the software as expressly granted under the agreement. The Ld A.R submitted that the assessee has obtained only copyrighted article from the US company and not the copyright in the software. Accordingly he submitted that the payment made by the assessee to a copyrighted article, which is akin to "off the shelf" software is not royalty. He submitted that the Hon'ble Delhi High Court, in the case of DIT Vs. Ifrasoft Ltd (264 CTR 329) has taken its view in favour of the assessee in this matter and hence the decision rendered by Hon'ble Karnataka High Court, which was relied upon by the Ld D.R, need not be followed. He submitted that the identical issues have been decided by the co-ordinate benches of tribunal in various cases in favour of the assessee by following the decisions rendered by Hon'ble Delhi High Court. He submitted that the co-ordinate bench of Mumbai ITAT, in its recent decision dated 13-06-2016 rendered in ITA No.7048/Mum/2010 in the case of ADIT Vs. M/s Baan Global B V (now known as Information Global Solution (Barneveld) BV) has considered an identical issue under the provisions of Income tax Act as well as India-US DTAA and has decided the issue in favour of the assessee. He further submitted that the provisions of DTAA will prevail over retrospective amendment made in the Income tax Act.

We notice that the co-ordinate bench of tribunal has decided an identical issue in the case of M/s Baan Global B V (supra) has considered an identical issue and rendered its decision as under:

"10. We have heard the rival submissions, perused the relevant finding given in the impugned order and also the various decisions, cited before us.

The sole issue involved before us is, whether the payment received by the assessee on sale of computer software product is to be treated as income by way of "royalty" or business income. In case, if it is a 'business' income, then admittedly, assessee being a non-resident company with no permanent establishment in India, the same will not be taxable in India and if it is a "royalty", then it has to be taxed at the rate of 15% as provide under the treaty. Thus, the only issue for consideration is, whether the said payment falls within the terms of "royalty" under Article 12(4) of India-Netherland DTAA or under 9(1)(vi) of Income Tax Act. Here again, it is an undisputed fact that, assessee being a tax resident of Netherland has sought benefit under Indo Netherland DTAA, therefore, the payment received by the assessee from its Indian Subsidiary, INFOR India has to be examined under the treaty provisions. Briefly recapitulating the relevant facts for the purpose of our adjudication emanating from the impugned order is that, Assessee Company is engaged in the business of development and sale of computer software and also provides "other general services" in relation to the software. For both the activities, it has entered into a "distribution agreement" with its Indian subsidiary INFOR India which mainly functions as a distributor of computer software. So far as payments received from "other general services" of Rs.4,79,36,944/-, same has been offered to tax in India as 'fee for technical services' on which there is no dispute. The dispute is with regard to the payment of Rs.3,75,25,291/- received by the assessee company as a sale consideration for the computer products supplied by it. The computer software is sold "off shelf" which is mainly used by the Indian customer in their business for financial accounting, inventory management, HR management etc. INFOR India carries out marketing and sale of the software in India and places order with the assessee. The software supplied is then distributed to the Indian customers through INFOR. The consideration charged by INFOR India is based on terms agreed between the assessee and INFOR India as per the 'distribution agreement'. Under the terms of the agreement, as noted by the CIT(A), there is no transfer of any copyright in the software product. The payment received by the assessee is purely towards a copyrighted software product as against the payment for any copyright itself. The assessee does not give any right to use the copyright embedded in the software. In other words, the Indian Customer (or INFOR India) except for the limited right to access the copyright software for its own business purpose does not acquire any kind of right to exploit the copyright in the computer software. These facts have not been controverted by the department and, therefore, what has been incorporated and stated by the CIT(A) in his order is reckoned as admitted facts.

Now, on these facts, we have to decide, whether the payment received by the assessee can be reckoned as "royalty" within the terms of article 12(4) of DTAA. Before that, the relevant paragraph of Article 12 dealing with the definition of "royalty" reads as under:-

"4. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience".

From the plain reading of the article it can be inferred that, it refers to payments of any kind received as a consideration for the use of, or the right to use any 'copyright' of literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience. Thus, in order to tax the payment in question as "royalty", it is sine qua non that the said payment must fall within the ambit and scope of Para 4 of Article 12. The main emphasis on the payment constituting 'royalty' in Para 4 are for a consideration for the 'use of' or the 'right to use' any copyright..... The key phrases "for the use" or "the right to use any copyright of'; "any patent.....; "or process", "or for information.....,"; "or scientific experience", etc., are important parameter for treating a transaction in the nature of "royalty". If the payment doesn't fit within these parameters then it doesn't fall within terms of "royalty" under Article 12(4). The computer software does not fall under most of the term used in the Article barring "use of process" or "use of or right to use of copyrights" Here first of all, the sale of software cannot be held to be covered under the word "use of process", because the assessee has not allowed the end user to use the process by using the software, as the customer does not have any access to the source code. What is available for their use is software product as such and not the process embedded in it. Several processes may be involved in making computer software but what the customer uses is the software product as such and not the process, which are involved into it. What is required to be examined in the impugned case as to whether there is any use or right to use of copyright? The definition of copyright, though has not been explained or defined in the treaty, however, the various Courts have consistently opined that the definition of "copyright" as given in the 'Copyright Act, 1957' has to be taken into account for understanding the concept. Section 14 of the said Act defines the 'copyrights' to mean as under:-

"14.Meaning of copyright –For the purposes of this Act, "copyright" means the exclusive right subject to the provisions of this Act, to do or authorise the doing of any of the following acts in respect of a work or any substantial part thereof, namely:-

(a) in the case of a literary, dramatic or musical work, not being a computer programme, -

(i)to reproduce the work in any material form including the storing of it in any medium by electronic means;

(ii)to issue copies of the work to the public not being copies already in circulation;

(iii)to perform the work in public, or communicate it to the public;

(iv)to make any cinematograph film or sound recording in respect of the work;

(v)to make any translation of the work;

(vi)to make any adaptation ofthe work;

(vii)to do, in relation to a translation or an adaptation of the work, any of the acts specified in relation to the work in sub-clauses (i) to (vi);

(b) in the case of a computer programme,-

(i) to do any of the acts specified in clause (a);

(ii) to sell or give on commercial rental or offer for sale or for commercial rental any copy of the computer programme: Provided that such commercial rental does not apply in respect of computer programmes where the programme itself is not the essential object of the rental."

(c) in the case of an artistic work,-

(i) to reproduce the work in any material form including depiction in three dimensions of a two dimensional work or in two dimensions of a three dimensional work;

(ii) to communicate the work to the public;

(iii) to issue copies of the work to the public not being copies already in circulation;

(iv) to include the work in any cinematograph film;

(v) to make any adaptation of the work;

(vi) to do in relation to an adaptation of the work any of the acts specified in relation to the work in sub-clauses (i) to (iv);

(d) In the case of cinematograph film,

(i) to make a copy of the film, including a photograph of any image forming part thereof;

(ii) to sell or give on hire, or offer for sale or hire, any copy of the film, regardless of whether such copy has been sold or given on hire on earlier occasions;
(iii) to communicate the film to the public;
(e) In the case of sound recording, -
(i) to make any other sound recording embodying it;
(ii) to sell or give on hire, or offer for sale or hire, any copy of the sound recording regardless of whether such copy has been sold or given on hire on earlier occasions;
(iii) to communicate the sound recording to the public.
Explanation: For the purposes of this section, a copy which has been sold once shall be deemed to be a copy already in circulation".
Thus, the definition of 'copyright' in section 14 is an exhaustive definition and it refers to bundle of rights. In respect of computer programming, which is relevant for the issue under consideration before us, the copyright mainly consists of rights as given in clause (b), that is, to do any of the act specified in clause (a) from (i) to (vii) as reproduced above. Thus, to fall within the realm and ambit of right to use copyright in the computer software programme, the aforesaid rights must be given and if the said rights are not given then, there is no copyright in the computer programme or software. As noted by the CIT(A), under the terms of the agreement between the assessee and INFOR India, the agreement specifically forbids them from decompiling, reverse engineering or disassembling the software. The agreement also provides that the end user shall use the software only for the operation and shall not sublicense or modify the software. None of the conditions mentioned in section 14 of the Copyright Act are applicable. If the conclusion of Ld, CIT(A) are based on these facts and agreement, then he has righty concluded that the consideration received by the assessee is for pure sale of "shrink wrapped software" off the shelf and hence, cannot be considered as a "royalty" within the meaning of Article 12(4) of the DTAA, as the same is consideration for sale of copyrighted product and not to use of any copyright.
12. One of the issue which was raised by the Ld. DR before us is that, the Explanation 4 to section 9(1)(vi) which has been with brought by Finance Act 2012 with retrospective effect in section 9(1)(vi), therefore, the meaning and definition of 'royalty' as given therein should be read into the DTAA. We are unable to appreciate this contention of the Ld. DR because the retrospective amendment brought into statute with effect from 01.06.1976 cannot be read into the DTAA, because

> *the treaty has not been correspondingly amended in line with new enlarged definition of 'royalty'. The alteration in the provisions of the Act cannot be per se read into the treaty unless there is a corresponding negotiation between the two sovereign nations to amend the specific provision of "royalty" in the same line. The limitation clause cannot be read into the treaty for applying the provisions of domestic law like in Article 7 in some of the treaties, where domestic laws are made applicable. Here in this case, the 'royalty' has been specifically defined in the treaty and amendment to the definition of such term under the Act would not have any bearing on the definition of such term in the context of DTAA. A treaty which has entered between the two sovereign nations, then one country cannot unilaterally alter its provision. Thus, we do not find any merit in the contention of the Ld. DR that the amended and enlarged definition should be read into the Treaty."*

Identical view has been expressed in the following cases also:-
(a) M/s Quaolcomm India P Ltd Vs. ADIT (ITA Nos. 1664 to 1667/Hyd/2011)
(b) Reliance Industries Ltd & Ors (47 CCH 94)(Mum-Trib)
(c) Capgemini Business Services (India) Ltd (46 CCH 253) (Mum-Trib)
We notice that the above said decisions have been rendered in favour of the assessee by following the decision rendered by Hon'ble Delhi High Court in the case of Infrasoft ltd (supra) and other decisions rendered by Hon'ble Delhi High Court. Accordingly, by following the decisions rendered by the co-ordinate benches of the Tribunal, we uphold the orders passed by Ld CIT(A) in both the years under consideration."

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 where 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.

16. Respectfully following the precedent as above, we set aside the order of the authorities below and decide the issue in favour of the assessee.

17. In the result, this appeal by the assessee stands allowed.

Order pronounced in the open court on 08.01.2018

Sd/-	Sd/-
(Sandeep Gosain)	(Shamim Yahya)
न्यायिक सदस्य / Judicial Member	लेखा सदस्य / Accountant Member

मुंबई Mumbai; दिनांक Dated :08.01.2018

व.नि.स./Roshani, Sr. PS

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

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

आदेशानुसार/ BY ORDER,

उप/सहायक पंजीकार (Dy./Asstt. Registrar)

आयकर अपीलीय अधिकरण, मुंबई **/ ITAT, Mumbai**