

IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH: E : NEW DELHI

**BEFORE SHRI AMIT SHUKLA, JUDICIAL MEMBER
AND
SHRI L.P. SAHU, ACCOUNTANT MEMBER**

**ITA Nos.3046/Del/2010; 3908/Del/2011;
440 & 6170/Del/2012; & 1892/Del/2014
AYs: 2006-07, 2007-08, 2008-09, 2009-10 & 2010-11**

ONGC as representative Assessee of Computer Modelling Group of Canada, The Dy. General Manager (F&A), Oil and Natural Gas Corporation Ltd., Corporate Tax Division, Room No.244, Old Secretariat Building, Tel Bhawan, Dehradun.
PAN: AAACO1598A

Vs. DDIT, International Taxation, Aayakar Bhawan, 13A, Subhash Road, Dehradun.

**ITA No.1965/Del/2014
Assessment Year : 2010-11**

DDIT,
International Taxation,
Aayakar Bhawan,
13A, Subhash Road,
Dehradun.

Vs. ONGC as representative assessee of Computer Modelling Group of Canada, The Dy. General Manager (F&A), Oil and Natural Gas Corporation Ltd., Corporate Tax Division, Room No.244, Old Secretariat Building, Tel Bhawan, Dehradun.
PAN: AAACO1598A

(Appellant)

(Respondent)

Assessee by : Shri Ajay Vohra, Sr. Advocate,
Shri Gaurav Jain & Ms. Monisha Sharma,

Revenue by : Shri Surinder Pal, Sr. DR

Date of Hearing : 12.10.2018

Date of Pronouncement : 19.11.2018

ORDER

PER AMIT SHUKLA, JM:

The aforesaid appeals have been filed by the above named assessee against separate orders of different dates passed by Ld. CIT (Appeals), Dehradun for the quantum of assessment passed u/s 143(3) for the assessment years 2006-07 to 2010-11. In assessment year 2010-11, the Revenue has also filed cross appeal.

2. Since common issues are involved in all the appeals arising out of identical set of facts, therefore, all the appeals were heard together and are being disposed off by way of this consolidated order.

3. We will first take up the appeal for A.Y. 2006-07 wherein the assessee has raised the following grounds:-

“1. The Ld. Commissioner of Income Tax (Appeals)-1. Dehradun has erred in law and in the facts and circumstances of the case in rejecting the appellant's contention that the receipts of the non-resident are exempt from tax in India.

2. Without prejudice to the preceding ground, the Ld. Commissioner of Income Tax (Appeals)-1, Dehra Dun has erred in law and in the facts and circumstances of the case in rejecting the appellant's contention that the receipts of the appellant are taxable u/s 44BB of the Act.

3. The Ld. Commissioner of Income Tax (Appeals)-1, Dehradun has erred in law and in the facts and circumstances of the case in not deciding the ground of chargeability of surcharge and education cess himself and in directing to the AO to look into the appellants contention in accordance with law.

4. The Ld. Commissioner of Income Tax (Appeals)-1, has erred in law and in the facts and circumstances of the case in not directing the AO to delete the interest levied u/s 234B.

4. The facts of the case, in brief, are that the assessee is a non-resident company which received licence fees in terms of “Membership and Technology Transfer Agreement No.I-097” dated 10.06.1992. In terms of the aforesaid agreement, ONGC was required to pay an annual membership-cum-licence fee over the tenure of the agreement which was for five years for acquisition of certain specified licences relating to Reservoirs Synchron. Technology, i.e.:-

- a) IMEX-4 Licenses
- b) STARTS – 1 License
- c) GEM-1 LICENSE
- d) Win Prop-1 license
- e) Results-8 license
- f) Builder-2 licenses.

The aforesaid agreement was renewed periodically vide continuation to Membership and Technology Transfer Agreement No.I-097 dated 03.01.2002/16.01.2002 executed between the assessee and ONGC wherein the licence fee was determined for the period of five years. Further, in terms of the technology transfer agreements, as amended from time to time, any additional software comprising the CMG Technology could be procured by ONGC through an independent purchase order to be placed upon the assessee for mutually negotiated consideration. In the assessment year 2006-07, the assessee has received license fee of USD 1,06,523 (Rs.49,22,427/-) which was claimed by the assessee as non-taxable during the relevant assessment year.

5. The ld. Assessing Officer held that the aforesaid amount was covered within the definition of 'Royalty' as envisaged under clauses (iii) or (iv) of Explanation 2 to section 9(1)(vi) and was taxable in India u/s 115A of the Act. However, considering the fact that the assessee was resident of Canada, the Assessing Officer applied the tax rate of royalty @ 15% prescribed in the DTAA. Further, the Assessing Officer, while computing the tax liability of the royalty income has also added surcharge and

educational cess @ 15% and also imposed interest u/s 234B and 234D for non-payment of the aforesaid taxes.

6. In the first appeal, the ld.CIT(A) has upheld the order of the Assessing Officer holding that licence fees receivable was taxable as royalty u/s 9(1)(vi). The sum and substance of his findings are as under:-

- (i) The Assessing Officer has rightly held that payment made to the assessee by ONGC was in the nature of 'royalty' under the provisions of section 9(1)(vi) as the proprietary right continued to be with the assessee, but, the payment has been made for the use of process, trade mark or similar property which has been clearly mentioned in Explanation 2 to section 9(1)(vi). Thus, the Assessing Officer was right in holding that such a payment was to be assessed u/s 115AA.
- (ii) The scientific knowledge vested in the software which has been permitted to be used by ONGC on payment of licence fee through which right to access and administer the system devised by the assessee has been obtained and, therefore, it does not partake the use of a finished product by customer on payment of tagged price.
- (iii) The software has been devised to transfer scientific knowledge and the ONGC has been privileged to access such information through granting of licence which means that payment of license fees has been as a consideration for scientific work.

7. The alternative plea of the assessee that the receipt of the assessee should be covered u/s 44BB was also rejected on the ground that the said payment is covered u/s 115A. Regarding surcharge and education cess, he has given direction to the Assessing Officer to examine the matter in accordance with the law and interest levied under various sections has been held to be consequential.

8. Before us, the ld. Sr. counsel for the assessee submitted that as per the terms of the agreement, the licences granted were on non-transferrable and on non-exclusive basis. Apart from that, the title of ownership was to remain with the assessee and ONGC had no right to sell or sub-license to any third party. This was pointed out from clause (4)(iii) of the Agreement. As per the agreement the licence was to be used only for internal purposes which are evident from clause (6) of the Agreement. Source code was last issued in 1997 only for the internal use by the ONGC and, thereafter, the software has been made available purely on licence basis. The source code of CMG software had not been made available to the assessee and the software licences have been transferred upon payment of licence fee. Thus, considering the fact that in terms of the agreement the assessee did not

transfer any right to exploit copyright in the software to ONGC, as per the provisions of section 14 of the Copyright Act, 1957, the consideration received was *in lieu* of providing only right to use copyrighted article as against the right to use the copyright. Under Article 12(3) of India-Canada DTAA, the payment can be taxed as 'royalty' only when there is right to use the copyright. Thus, under the Treaty, the entire consideration received during the year cannot be taxed as royalty. In support, reliance was placed on various decisions of the Tribunal as also the Hon'ble Delhi High Court. Some of them are as under:-

- i) DIT vs. Nokia Networks OY, 253 CTR 417 (Del)/358 ITR 259 (Delhi);
- ii) DIT vs. Infrasoftware Ltd., 20 Taxman 273 (Del)
- iii) CIT vs. Dynamic Vertical Software India (P) Ltd., 332 ITR 222 (Del);
- iv) PCIT vs. M. Tech India P. Ltd., 381 ITR 31 (Del);
- v) CIT vs. ZTE Corporation (2017) 392 ITR 80 (Del);
- vi) CIT vs. Vinzaz Solutions India (P) Ltd. (2017) 245 Taxman 289 (Mad. HC); and
- vii) Dassault Systems K.K, 322 ITR 125 (AAR).

9. Regarding the sharing of source code of software for internal operation would not be taxable as process or copyright or royalty, strong reliance was placed on the judgment of ITAT, Mumbai Bench in the case of *ADIT vs. Baan Global B.V. (2016) 49 ITR (T) 73 (Mum)*. Lastly, it was submitted that in so far as the amendment brought by the Finance Act, 2012, wherein *Explanation 4* has been inserted with retrospective effect, which brings into the consideration received for right to use the computer software within the ambit of 'royalty' as contained under that section, now, it is the settled proposition by various courts including that of the Delhi High Court that the said amendment to section 9(1)(vi) cannot be read into the definition of 'Royalty' as contained under the DTAA. In support, he relied upon *DIT vs. New Skies Satellite B.V. & ors. (2016) 382 ITR 114*.

10. In so far as the levy of surcharge, the ld. Sr. Counsel submitted that the rate prescribed under DTAA cannot be increased by any surcharge levied under that. However, regarding education cess, he agreed that the same would be covered within para 2 of DTAA. As regards levy of interest u/s 234B, he strongly relied upon the judgment of the Hon'ble Delhi High Court in the

case of ***DIT vs. GE Packaged Power Inc. (2015) 373 ITR 65 (Del)*** and also the assessee's own case for assessment year and also the judgment of Uttarakhand High Court in the case of ***DIT vs. Maersk Company Ltd. (2011) 334 ITR 79 (UK)***.

11. On the other hand, the ld. DR strongly relied upon the order of the CIT (A) and pointed out that the judgements referred and relied upon by the ld. counsel are distinguishable and, in support, has strongly relied upon the judgment of the Hon'ble Karnataka High court in the case of *CIT vs. Samsung Electronic Company Ltd. (2012) 345 ITR 494 (Kar.)*.

12. We have heard the rival submissions and also perused the relevant finding given in the impugned order as well as the material referred to before us. The sole issue involved is, whether the amount received by the assessee from ONGC for 'annual membership-cum-licence fee' over the tenure of agreement for five years for the acquisition of certain specified licences relating to 'Reservoir Synch. Technology' can be taxed as 'royalty'; *firstly*, u/s 9(1)(vi) of the Income-tax Act; or *secondly*, under Article 12(3) of India-Canada DTAA. First of all, we have to see whether the payment under the Membership Agreement is for Membership

with CMG, i.e., Computer Modelling Group. Clause (4) (iii) provides that CMG will grant to the member a non-transferrable, non-exclusive licence fee to use the CMG technology. The relevant clause reads as under:-

*“(3) In accordance with the provisions of this Membership Agreement, **CMG hereby grants to the Member a non-transferrable, non-exclusive license to use CMG's Technology.** Such license is for CMG's complete Technology, present and future. **Title and ownership of the Technology shall remain with CMG. Without limitation, the Member may not at anytime sell, sublicense or transfer any Technology in any form or any manner to any Third Party.**”*

“FEES AND PAYEMENTS AND DELIVERY.

The Member shall pay to CMG the Fees as setforth in this Membership Agreement. Beginning in 1996, for each additional five-year period of Membership, the Member shall pay to CMG the Membership Fee in effect at that time, provided, however, that Membership Fee for each subsequent period may be changed by CMG's Board of Directors by providing 120 days notice prior to April 1st of each period. Delivery and payments shall be effective or deemed effective at CMG's offices in Calgary. Payments are due within 30 days of invoice date.”

“TERM OF MEMBERSHIP

- (1) *The initial Membership term is indicated in page 3 of this Membership Agreement. The Membership provided by this Membership Agreement shall automatically renew for five year periods (a Membership Period) on April 1st of each period unless either the Member or CMG gives a termination notice. A termination notice given by the Member or CMG shall be effective on the first day of the Membership Period following the calendar year in which it is given. A termination notice given by CMG for breach of contract shall be effective when received by the Member, if not remedied within 30 days.*
- (2) *The Membership pursuant to this Membership Agreement can be terminated, but this Membership Agreement (contract) shall survive membership termination.*
- (3) *The Member's license to use any CMG technology, including Source Code, received by it prior to the effective date of such termination notice shall continue perpetually subject otherwise to the terms of this Membership Agreement.*

The other relevant clauses for fees and payment, terms of membership and assignment, etc. are as under:-

“(5) Each member of CMG has the right to reasonable enjoyment of Membership and each member shall respect such right of other members.

(6) Membership is subject to the provisions of CMG's incorporating documents and bylaws. CMG is a member organization and the members establish member rights, privileges and obligations of general application through

participation in the CMG organization and voting at Annual Member Meetings and Technical Advisory Committee (TAC) Meetings. Member rights, privileges and obligations are also established through the Board of Directors which are elected by the members to direct CMG's operations. Member rights, privileges and obligations are therefore subject to change from time to time by CMG's Board of Directors and members' participation.

(7) The Member shall have the rights and privileges of Membership pursuant to this Membership Agreement only during the period the Member's Membership is in good standing.'

“(12) ASSIGNMENT

The Member agrees it will not at any time assign its interest or rights under this Membership Agreement without having obtained the prior written consent of CMG.”

MODIFICATIONS

No waiver, alteration, or modification of any of the provisions hereof shall be binding unless in writing and signed by a duly authorized representative of the Member or its Member Representative and by a duly authorized representative of CMG. In the event the Member issues a standard-form instrument relating to this Membership Agreement, it is hereby specifically agreed that such is for the Member's internal purposes only. Except as herein expressly provided to the contrary, the provisions of this Membership Agreement

are for the benefit of the parties hereto solely, and not for the benefit of any other person, persons or legal entities.”

13. As per clause (5), the following amounts were to be paid:-

1.1	Initial Entrance and Membership, Technology Transfer, all Computer Programs, Installation, Testing and Training	\$198,000
1.2	Membership for Five Years 1991 through 1996	\$167,000
	Total (US \$)	\$365,000

14. From the aforesaid clauses, it is seen that; *firstly*, under the membership agreement, the member is granted a non-transferrable, non-exclusive licence to use the CMG technology. The title and ownership of the technology always remained with the CMG and member is prohibited for sale, sub-licence or transfer of any technology in any form or in any manner to any third party at any time; *secondly*, the membership is only for a period of five years which though may be extended; *thirdly*, the agreement is only for the members’ internal operation and benefit; and *lastly*, members will not, at any time, assign its interest or rights under the Membership Agreement. Thus, there is no transfer of any ‘right’ or ‘right to use’ any copy right in the software of CMG’s technology. The members are only given the

right to use only for their internal purpose. Since the assessee is a tax resident of Canada, therefore, benefit of India-Canada DTAA in terms of section 90 of the Act has to be given. Para 3 of the Article 12 of Indo-Canada DTAA reads as under:-

“3. The term “royalties” as used in this Article means:

(a) Payment of any kind received as a consideration for the use of, or the right to use, any copyright of a literary, artistic, or scientific work including cinematograph films or work on film tape 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 process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof; and

(b) Payments of any kind received as 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 paragraph 1 of Article 8 from activities described in paragraph 3(c) or 4 of Article 8.”

15. The main emphasis is on payment for ‘the use of or right to use any copyright’ of various nature which are not an exclusive rights to use any copyright in an article which is in the nature of

terms defined therein and the said use of copyright has to be given to the end user. Here, as can be seen from the terms of the agreement, no use or right to use any copy right of any nature has been given to the ONGC. This coordinate Bench in the case of **Adobe Systems Software, Ireland Ltd. (ITA No.5433/Del/2011, order dated 09.05.2018)**, have threadbare discussed the definition of 'royalty' under Indo-Ireland DTAA which is quite similar to the definition given in the present DTAA after considering various definitions as well as the definition enshrined in the 'Indian Copyright Act, 1957' has been analysed.

The relevant observations and the findings are as under:-

"16. The main emphasis is on payment 'for the use of or right to use any copyright of various nature, which connotes an exclusive right to use any 'copyright' in an article which is in the nature of the terms defined therein and said use of copyright has to be given to the end user. The concept of 'copyright' first of all needs to be discerned. In a famous treatise on copyright, Copinger and Skones James on copyright (1999 Edn.) has defined copyright as; 'Copyright gives the owner of the copyright in a work of any description the exclusive right to authorize or prohibit the exploitation of the copyright work by the third parties. This includes the right to copy the work itself and also to use the work in other ways protected under the law'. Copyright alludes to some kind of negative right. Further passage from the same commentary is worth taking note of; 'It is important to recognize that ownership of copyright in a work is different from the ownership of the physical material in which the copyright work may happen to be embodied. Just as the owner of the physical material on which a copyright work is first recorded is not necessarily the

first owner of the copyright, so the transfer of title to the original physical material does not by itself operate to transfer the title to the copyright.....’ Thus, the rights associated with the copyright should be of such a nature which enables the recipients to commercially exploit the product and if such exclusive right for commercial exploitation of the product is not given, then it cannot be reckoned that ‘use or right to use in a copyright’ has been given by the recipient to the payer. A limited right to use a copyright product with a non exclusive license to the end user being some kind of license program through the computer to the end user does not tantamount to the use of copyright or right to use the same. A distinction has to be drawn between the passing of a right to use and facilitating the use of a product for which the owner has the copyright. It is a sine qua non that some kind of enjoyment or all the rights which the copy right owner has, is necessary to trigger the concept of “royalty” as defined in the treaty. The non exclusive and non transferable license enabling the use of a copyrighted product cannot be construed as an authority to enjoy any or all of the enumerated rights ingrained in a copyright. The parting of some kind of intellectual property right inherent in and attached to the software product in favour of the licensee/customer is what has been contemplated in the phrase, use and right to use the copyright in the treaty.

17. Since copyright has not been specifically defined under the treaty, therefore, the courts have held that the definition as enshrined in ‘Indian Copyright Act, 1957’ has to be seen. The relevant section of the copyright Act reads as under:

“14. Meaning of copyright - For the purpose of this Act, "copyright" means the exclusive right to the provisions of this Act, to do or authorize 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 my cinematograph film or sound recording in respect of the

work; (v) to make any translation of the work; (vi) to make any adaptation of the 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 subclauses (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 given 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;

The rights enshrined in the aforesaid section are exclusive in nature and anyone who carry out any of the activities as mentioned in the aforesaid section or authorizes someone else to carry any of such activity, will alone fall within the scope and definition of 'copyright'. In other words, if any of these rights are parted with in favour of another so that the other person can enjoy that right in the same manner in which owner can, then it can be said that those specific rights concerning the use of copyright have been conferred on him. The nature of right which has been granted depends upon the type of work; however such activity must include the exclusive right to: 1) copy the work (reproduction right); 2) issue copies of the work to the public (distribution right); 3) rent or lend the work to the public (rental or lending right); 4) perform, show, or play the work in public (public performance right); 5) broadcast the work (broadcasting right); 6) include it in a cable-programme service (cable right); 7) make an adaptation of the work, or do any of the above acts in relation to an adaptation (right of adaptation); 8) the right to authorize others to carry out any of these activities.

18. Further section 51 of the Copyright Act enlists copyright in a work which shall be deemed to be infringed; and section 52 specifies the acts which do not construe infringement of copyright. For the sake of ready reference relevant portion of section 51 and 52 are reproduced hereunder:-

“51. When copyright infringed- Copyright in a work shall be deemed to be infringed-

(a) when any person, without a licence granted by the owner of the copyright or the Registrar of Copyrights under this Act or in contravention of the conditions of a licence so granted or of any condition imposed by a competent authority under this Act-

(i) does anything, the exclusive right to do which is by this Act conferred upon the owner of the copyright, or

(ii) permits for profit any place to be used for the communication of the work to the public where such communication constitutes an infringement of the copyright in the work, unless he was not aware that had no reasonable ground for believing that such communication to the public would be an infringement of copyright; or when any person-

(i) makes for sale or hire, or sells or lets for hire, or by way of trade displays or offers for sale or hire, or

(ii) distributes either for the purpose of trade or to such an extent as to affect prejudicially the owner of the copyright, or

(iii) by way of trade exhibits in public, or

(iv) imports into India, any infringing copies of the work: Provided that nothing in sub-clause (iv) shall apply to the import of one copy of any work for the private and domestic use of the importer. Explanation - For the purposes of this Section, the reproduction of a literary, dramatic, musical or artistic work in the form of a cinematograph film shall be deemed to be an "infringing copy"

52(a) xx xx xx xx xx xx xx xx

(aa) the making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme from such copy-

(i) in order to utilize the computer programme for the purpose for which it was supplied; or

(ii) to make back-up copies purely as a temporary protection against loss, destruction or damage in order only to utilize the computer programme for the purpose for which it was supplied;

(ab) the doing of any act necessary to obtain information essential for operating interoperability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available;

(ac) the observation, study or test of functioning of the computer programme in order to determine the ideas and principles which underline any elements of the programme while performing such acts necessary for the functions for which the computer programme was supplied;
(ad) the making of copies or adaptation of the computer programme from a personally legally obtained copy for noncommercial personal use. ”

19. From the aforesaid provisions, it can be inferred that ‘copyright’ is not a positive right but a negative right, i.e., right to refrain others from exploiting the work without the copyright owners’ consent or license. The copyright in a work remains with the copyright owner and the purchaser has not bought any part of it and he cannot lawfully enjoy any of those exclusive rights, reproduction, adaptation or the like, which ownership of the copyright preserves exclusively for the copyright owner. Purchaser may buy the copyrighted article and can use the article as he deems fit, but it does not enable him to use the article in a way which infringes the vendors’ right.

20. Here in the present case, from the reading of the relevant clauses of the argument, it is quite ostensible that no use or right to use of a copyright in the software has been ever divested either to the distributors or to the end users. Even for the sake of argument, it is accepted that copyright has been transferred, then requirement of law is that, assignments of the copyrights has to be complied with as provided in sections 18 & 19 of the Copyright Act, which reads as under:

“18. Assignment of copyright –

(1) The owner of the copyright in an existing work or the prospective / owner of the copyright in a future work may assign to any person the copyright either wholly or partially and either generally or subject to limitations and either for the whole of the copyright or any part thereof: Provided that in the case of the assignment of copyright in any future work, the assignment shall take effect only when the work comes into existence.

(2) Where the assignee of a copyright becomes entitled to any right comprised in the copyright, the assignee as respects the

rights so assigned and the assignor as respects the rights not assigned, shall be treated for the purposes of this Act as the owner of copyright and the provisions of this Act shall have effect accordingly.

(3) In this section, the expression "assignee" as respects the assignment of the copyright in any future work includes the legal representatives of the assignee, if the assignee dies before the work comes into existence.

19. Mode of assignment:

(1) No assignment of the copyright in any work shall be valid unless it is in writing signed by the assignor or by his duly authorised agent.

(2) The assignment of copyright in any work shall identify such work, and shall specify the rights assigned and the duration and territorial extent to such assignment.

(3) The assignment of copyright in any work shall also specify the amount of royalty payable, if any, to the author or his legal heirs during the currency of the assignment and the assignment shall be subject to revision, extension or termination on terms mutually agreed upon by the parties.

(4) Where the assignee does not exercise the right assigned to him under any of the other sub-sections of this section within a period of one year from the date of assignment, the assignment in respect of such rights shall be deemed to have lapsed after the expiry of the said period unless otherwise specified in the assignment.

(5) If the period of assignment is not stated, it shall be deemed to be five years from the date of assignment.

(6) If the territorial extent of assignment of the rights is not specified, it shall be presumed to extend within India.

(7) Nothing in sub-section (2) or sub-section (3) or sub-section (4) or sub-section (5) or sub-section (6) shall be applicable to assignment made before the coming into force of the Copyright (Amendment) Act, 1994]”.

21. Thus, the mode of assignments should be by writing and sub-section (2) of section 19 requires that the assignment of copyright in any work must; identify such work; specify right

assign; the duration of the assignment and the territorial extent of the assignment. In none of the agreements, it can be seen that there is any kind of assignment of copyright.”

16. The Tribunal has also taken note of the commentary given in OECD Model Tax Convention on Royalty and also the judgment of the Hon'ble Delhi High Court in the case of **Nokia Networks, DIT vs. Infrasoftware Ltd. and CIT vs. Alcatel Lucent Canada (supra)**. Thus, if one goes by the definition as enshrined in the Treaty read with relevant provisions of Indian Copyright Act, 1957 and also the relevant Agreement amongst the parties, it is seen that the payment for CMG's membership by the ONGC is purely for non-exclusive, non-transferable licence to use the technology only for the internal purpose. There is neither sale nor licence of the copyright in any kind of software or technology. Thus, under the treaty, such a payment cannot be held to be reckoned as royalty.

17. In so far as whether amendment in section 9(1)(vi) can be read into the Treaty, this issue now stands at rest for the various judgments of the Hon'ble Delhi High Court including that of **DIT vs. Infrasoftware Ltd.** (supra) wherein the Hon'ble High Court has held that the amendment in the domestic law cannot be read into

the Treaty. The relevant observations and the ratio laid down by the Hon'ble High Court in sum and substance are as under:-

- To be taxable as royalty income covered by article 12 of the DTAA the income of the assessee should have been generated by the “use of or the right to use” of any copyright. • The Licensing Agreement shows that the license is nonexclusive, non-transferable and the software has to be used in accordance with the agreement. Only one copy of the software is being supplied for each site. The licensee is permitted to make only one copy of the software and associated support information and that also for backup purposes.
- It is also stipulated that the copy so made shall include Infrasoftware's copyright and other proprietary notices. All copies of the software are the exclusive property of Infrasoftware. The Software includes a licence authorisation device, which restricts the use of the Software. The software is to be used only for Licensees own business as defined within the Infrasoftware Licence Schedule. Without the consent of the assessee the software cannot be loaned, rented, sold, sub-licensed or transferred to any third party or used by any parent, subsidiary or affiliated entity of Licensee or used for the operation of a service bureau or for data processing.
- The Licensee is further restricted from making copies, decompile, disassemble or reverse-engineer the Software without Infrasoftware's written consent. The software contains a mechanism which Infrasoftware may activate to deny the

licensee use of the Software in the event that the Licensee is in breach of payment terms or any other provisions of this Agreement. All copyrights and intellectual property rights in and to the Software, and copies made by Licensee, were owned by or duly licensed to Infracsoft.

- In order to qualify as royalty payment, 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. In order to treat the consideration paid by the Licensee as royalty, it is to be established that the licensee, by making such payment, obtains all or any of the copyright rights of such literary work.
- Distinction has to be made between the acquisition of a "copyright right" and a "copyrighted article" Copyright is distinct from the material object, copyrighted. Copyright is an intangible incorporeal right in the nature of a privilege, quite independent of any material substance, such as a manuscript.
- Just because one has the copyrighted article, it does not follow that one has also the copyright w it. It does not amount to transfer of all or any right including licence in respect of copyright. Copyright or even right to use copyright is distinguishable from sale consideration paid for 'copyrighted' article. This sale consideration is for purchase of goods and is not royalty.

- The license granted by the assessee is limited to those necessary to enable the licensee to operate the program. The rights transferred are specific to the nature of computer programs. Copying the program onto the computer's hard drive or random access memory or making an archival copy is an essential step in utilizing the program.
- Therefore, rights in relation to these acts of copying, where they do no more than enable the effective operation of the program by the user, should' be disregarded in analyzing the character of the transaction for tax purposes. Payments in these types of transactions would be dealt with as business income in accordance with article 7 of DTAA.
- There is a clear distinction between royalty paid on transfer of copyright rights and consideration for transfer of copyrighted articles. Right to use a copyrighted article or product with the owner retaining his copyright, is not the same thing as transferring or assigning rights in relation to the copyright. The enjoyment of some or all the rights which the copyright owner has, is necessary to invoke the royalty definition.
- Viewed from this angle, a non-exclusive and nontransferable licence enabling the use of a copyrighted product cannot be construed as an authority to enjoy any or all of the enumerated rights ingrained in Article 12 of DTAA. Where the purpose of the licence or the transaction is only to restrict use of the copyrighted product for internal business purpose, it would not be legally correct to state

that the copyright itself or right to use copyright has been transferred to any extent.

- The parting of intellectual property rights inherent in and attached to the software product in favour of the licensee/customer is what is contemplated by the Treaty. Merely authorizing or enabling a customer to have the benefit of data or instructions contained therein without any further right to deal with them independently does not, amount to transfer of rights in relation to copyright or conferment of the right of using the copyright.
- The transfer of rights in or over copyright or the conferment of the right of use of copyright implies that the transferee/licensee should acquire rights either in entirety or partially co-extensive with the owner- transferor who divests himself of the rights he possesses pro-tanto.
- The license granted to the licensee permitting him to download the computer programme and storing it in the computer for his own use is only incidental to the facility extended to the licensee to make use of the copyrighted product for his internal business purpose. The said process is necessary to make the programme functional and to have access to it and is qualitatively different from the right contemplated by the said paragraph because it is only integral to the use of copyrighted product. Apart from such incidental facility, the licensee has no right to deal with the product just as the owner would be in a position to do.

- There is no transfer of any right in respect of copyright by the assessee and it is a case of mere transfer of a copyrighted article. The payment is for a copyrighted article and represents the purchase price of an article and cannot be considered as royalty either under the Act or under the DTAA.
- The licensees are not allowed to exploit the computer software commercially, they have acquired under licence agreement, only the copyrighted software which' by itself is an article and they have not acquired any copyright in the software.
- In the case of the Assessee company, the licensee to whom the assessee company has sold/licensed the software were allowed to make only one copy of the software and associated support information for backup purposes with a condition that such copyright would include Infracsoft copyright and all copies of the software would be exclusive properties of Infracsoft.
- Licensee was allowed to use the software only for its own business as specifically identified and was not permitted to loan/rent/sale/sub-licence or transfer the copy of software to any third party without the consent of Infracsoft.
- The licensee has been prohibited from copying, decompiling, de-assembling, or reverse engineering the software without the written consent of Infracsoft. The licence agreement between the Assessee Company and its customers stipulates that all copyrights and intellectual

property rights in the software and copies made by the licensee were owned by Infracsoft and only Infracsoft has the power to grant licence rights for use of the software.

- The licence agreement stipulates that upon termination of the agreement for any reason, the licensee shall return the software including supporting information and licence authorization device to Infracsoft.
- The incorporeal right to the software, i.e., copyright remains with the owner and the same was not transferred by the assessee. The right to use a copyright in a programme is totally different from the right to use a programme embedded in a cassette or a CD which may be a software and the payment made for the same cannot be said to be received as consideration for the use of or right to use of any copyright to bring it within the definition of royalty as given in the DTAA.
- What the licensee has acquired is only a copy of the copyright article whereas the copyright remains with the owner and the licensees have acquired a computer programme for being used in their business and no right is granted to them to utilize the copyright of a computer programme and, thus, the payment for the same is not in the nature of royalty.
- It is not necessary to examine the effect of subsequent amendment to section 9(1)(vi) and also whether amount received for use of software would be royalty in terms

thereof for the reason that the assessee is covered by the DTAA, the provisions of which are more beneficial.

- The amount received by the assessee under the licence agreement for allowing the use of the software is not royalty under the DTAA.
- What is transferred is neither the copyright in the software nor the use of the copyright in the software, but what is transferred is the right to use the copyrighted material or article which is clearly distinct from the rights in a copyright.
- The right that is transferred is not a right to use the copyright but is only limited to the right to use the copyrighted material and the same does not give rise to any royalty income and would be business income. • In view of above, it is concluded that the Tribunal was right in holding that the consideration received by the assessee on grant of licenses for use of software is not royalty within the meaning of article 12(3) of the DTAA between India and USA

18. The aforesaid observation and the ratio have been further reiterated in the judgment of Alcatel Lucent Canada (supra). Thus, in view of the binding judicial precedents and discussion made above, we hold that nature of payment as received by the assessee through ONGC in terms of the aforesaid agreement cannot be characterized as 'royalty' and, therefore, the same is

outside the purview of taxation in view of India-Canada DTAA. Accordingly, this issue is decided in favour of the assessee.

19. In view of our finding given above, the issue of levy of surcharge and interest u/s 234B has become purely academic though as stated by the ld. counsel this issue now stands covered in favour of the assessee by the judgments referred and relied upon before us.

20. In the assessment years 2007-08 to 2010-11, similar issue is permeating, therefore, our finding given above will apply *mutatis mutandis* in these years also. However, from assessment year 2007-08 onwards there is a payment for purchase order of additional software for annual lease wherein certain addition has been made in the earlier membership and technology transfer agreement whereby certain technology executable has been given access to. The ONGC is paying annual lease charge with maintenance, which again, is not for purchase of any software and similar payment in assessment year 2005-06 has been held to be not royalty by the ld. CIT(A). From the perusal of the invoices raised, it is seen that the payment has been made for annual lease charges with maintenance and once in the earlier

years it has been held not to be in the nature of royalty, then, same payment cannot be held to be 'royalty' in this year. Otherwise also all the other elements in these years remain the same and, therefore, our finding given for the assessment year 2006-07 will apply as it is. Thus, all the appeals of the assessee are treated as allowed.

21. In so far as the Revenue's appeal for assessment year 2010-11 is concerned, the same is with regard to levy of interest u/s 234B. The same has rendered purely academic as the income which has been sought to be taxed has already been deleted by us.

22. In the result, all the appeals of the assessee are allowed and the Revenue's appeal is dismissed.

Order pronounced in the open court on 19.11.2018.

Sd/-
(L.P. SAHU)
ACCOUNTANT MEMBER

Sd/-
(AMIT SHUKLA)
JUDICIAL MEMBER

Dated:19th November, 2018

dk

Copy forwarded to

1. Appellant
2. Respondent
3. CIT
4. CIT(A)
5. DR

Asstt. Registrar, ITAT, New Delhi