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

BEFORE SHRI SAKTIJIT DEY (JUDICIAL MEMBER) AND
SHRI N.K. PRADHAN (ACCOUNTANT MEMBER)

ITA No. 6483/MUM/2017
Assessment Year: 2012-13

Trimble Solutions Corporation C/o SRBC & Associates LLP, 14th Floor, The Ruby 29 Senapati Bapat Marg, Dadar (West), Mumbai-400028. **PAN No. AADCT2639Q**	Vs.	Deputy Commissioner of Income Tax (International Taxation)-4(1)(2), Room No. 1609, 16th Floor, Air India Building, Nariman Point Mumbai-400021.
Appellant		**Respondent**

Assessee by : Mr. Divesh Chawla, AR
Revenue by : Mr. Avaneesh Tiwari, DR

Date of Hearing :01/10/2020
Date of Pronouncement : 07/10/2020

ORDER

PER N.K. PRADHAN, A.M.

This is an appeal filed by the assessee. The relevant assessment year is 2012-13. The appeal is directed against the order dated 31.08.2017 passed by the Deputy Commissioner of Income Tax (IT)-4(1)(2), Mumbai [hereinafter 'the AO'] u/s 144C(13) r.w.s. 143(3) of the Income Tax Act 1961 (the 'Act').

2. At the start of the hearing, the Ld. counsel for the assessee submits that the 1st ground of appeal is general in nature. We turn to the 2nd, 3rd, 4th and 5th grounds of appeal which read as under :

"2. On the facts and circumstances of the case, the AO has erred in holding that payments of Rs.10,61,12,437/- received by the Appellant towards sale of 'off-the shelf' software are in the nature of 'Royalty' as per the provisions of Section 9(1)(vi) of the Act;

3. On the facts and circumstances of the case, the AO has erred in holding that payments of Rs.10,61,12,437/- received by the Appellant towards sale of 'off-the shelf' software are in the nature of 'Royalty' under India-Finland Tax Treaty;

4. On the facts and circumstances of the case, the AO has erred in holding that payments of Rs.8,56,35,946/- received by the Appellant towards maintenance and support services (including upgrades) are in the nature of 'Royalty' as per the provisions of Section 9(1)(vi) of the Act;

5. On the facts and circumstances of the case, the AO has erred in holding that payments of Rs.8,56,35,946/- received by the Appellant towards maintenance and support services (including upgrades) are in the nature of 'Royalty' under Article 12 of the India-Finland Tax Treaty;"

3. Briefly stated, the facts of the case are that the assessee filed its return of income for the assessment year (AY) 2012-13 on 30.11.2012 declaring total income of Rs. Nil. The assessee is a tax resident of Finland. It has its registered office at Metsanpojankuja 1, FI-02131 Espoo, Finland. It is engaged in the business of development and marketing of specialized software products which are used in industries like building and construction, energy distribution and infrastructure management. In India, the assessee markets and distributes the specialized software products to the end-user Customers through a distribution channel consisting of subsidiary and a third party distributor. In order to distribute its software in India, the assessee appointed Trimble Solutions India Private Limited (earlier known as Tekla India Private Limited) (hereinafter referred to as 'Trimble Solutions India'), its wholly owned subsidiary, *vide* agreement dated 28 January 2008 and DowCoMax Services India Limited ('DCMIPL')

vide agreement dated, 23 June 2008 (collectively referred to as 'Distributors'), as its non-exclusive resellers / distributors for the Indian territory. During the impugned assessment year, the assessee received the following payments from the Distributors:

Sr. No.	**Particulars**	**Amount**
1	Payment received for sale of off-the shelf software	10,61,12,437/-
2	Payment received for maintenance and support services (including upgrades)	8,56,35,946/-
3	Payment received for management fees	74,16,621/-
	Total	**19,91,65,004/-**

The AO held that the payments received for sale of specialized software and maintenance and support services (including upgrades) are in the nature of royalty and the payment received for management fees is in the nature of fees for technical services *vide* India Finland tax treaty. Accordingly, the AO taxed the same at 10% of gross receipts, as per Clause 2 of Article 12, of the new India-Finland tax treaty. We are concerned here with Sl. No. 1 and 2 hereinabove.

4. Before us, the Ld. counsel for the assessee submits that the issues emanating from the 2nd, 3rd, 4th and 5th grounds of appeal have been decided in favour of the assessee by the Tribunal in assessee's own case for AY 2010-11 (ITA NO. 6481/Mum/2017) and AY 2011-12 (ITA No. 6482/Mum/2017). Also it is stated by him that the above issues have been decided in favour of the assessee by the Tribunal in assessee's own case for AY 2013-14 (ITA No. 7410/Mum/2017), AY 2014-15 (ITA No. 5271/Mum/2018). Facts being identical, the Ld. counsel submits that the said decisions of the Tribunal are applicable to the impugned assessment year.

On the other hand, the Ld. Departmental Representative (DR) supports the order passed by the AO u/s 144C(13) r.w.s. 143(3) of the Act.

5. We have heard the rival submissions and perused the relevant materials on record. The reasons for our decisions are given below.

In order to distribute its software in India, the assessee has appointed Trimble Solutions India, its wholly owned subsidiary, and DCMIPL as its non-exclusive resellers/distributors for the Indian territory. (Trimble Solutions India and DCMIPL are collectively referred to as 'Distributors' and the agreements are collectively referred to as 'Agreements' for the purposes of this discussion). The key features of the Agreements with respect to the distribution of software products in India are as follows:

- The Distributors have been granted a 'non-exclusive' license to market and distribute the software products developed by the assessee;
- The Distributors do not have a right to the source code of such software products;
- The Distributors are not permitted to modify, translate or recompile, add to or in any way alter the software products including its documentation;
- The Distributors are not permitted to create the source code of the software products supplied under the Agreements;
- The Distributors are not expressly permitted to reproduce or make copies of the software products under the agreements (except a backup copy as required by the customer);
- No right of any nature whatsoever has been granted to the Distributors in the Intellectual Property developed and owned by the assessee in the software products;
- All the trademarks and trade names, which the Distributors use in connection with the products supplied, remain the exclusive property of the assessee. The assessee at all times has the title to all rights to

Intellectual Property, software and proprietary information including all components, additions, modifications and updates; and

- the distributors do not have any authority to negotiate or to conclude contracts on behalf of the assessee company, act as its agent or in any way represent the assessee so as to bind it under any transaction.

The *modus operandi* of the distribution of software products transaction is set out in brief as follows:

- The transaction may be initiated due to the marketing efforts of the Distributors or by way of Customers approaching the Distributors for purchase of software products.
- Upon acceptance of the order by the Customer, the Distributor enters into a COSLA with the Customer. COSLA is an agreement between the Customer and the Distributor, whereby the Customer accepts the terms of use of the assessee's software products.
- The Distributor prepares and forwards a Repurchase Order ('REPO') to the assessee on the centralized customer relationship management system, thereby placing an order for the software product. The Customer does not have any knowledge of the REPO, since it is an arrangement between the Distributor and the assessee.
- Where the assessee accepts the order placed by the REPO, it then sends a CD / DVD or a temporary password (in the case of direct download from the internet) along with its invoice to the Distributor,
- The Distributor then forwards the CD / DVD or the temporary password to the customers. The Distributor raises its invoice on the Customers.
- The assessee, on receiving the payment for the software products supplied, sends the permanent password to the Distributor, who in turn forwards it to the Customer, on their final payment.
- In a case where the Customer does not pay the final amount, the Distributor has a right to sell the licensed software to other Customer without paying any further price to the assessee.

- The responsibility of collection of the invoiced amount from the Customers, i.e. credit risk for sales made by the Distributors, remains with the Distributors.

5.1 We find that the Tribunal in assessee's own case for AYs 2010-11 and 2011-12 has held that :

"11. We shall now advert to the contentions advanced by the ld. A.R as regards the merits of the case. As observed by us hereinabove, the assessee which is a foreign company incorporated in Finland is engaged in the business of developing and marketing specialized off- the-shelf software products which are used in industries like building and construction, energy distribution and infrastructure management. The assessee during the year had received the following payments from its non-exclusive resellers/distributors for the Indian territory viz. (i). M/s Trimble Solutions India Private Limited (earlier known as Tekla India Pvt. Ltd.); and (ii). M/s DowCoMax Services India Limited :

Sr. No.	Particulars	Amount (Rs.)
1.	Payment received for sale of off-the shelf software	7,81,72,583/-
2.	Payment received for maintenance and support services (including upgrades)	Rs. 2,22,46,237/-
3.	Payment received for management fees	31,86,724/-
	Total	**10,36,05,544/-**

Observing, that the payments received by the assessee from its distributors for sale of specialized software and maintenance and support services (including upgrades) were in the nature of "royalty" as per Article 12 of the India-Finland tax treaty, and also as per the Explanation 2 to Sec. 9(1)(vi) of the Act, the A.O/DRP had included the same in the total income of the assessee for the year under consideration.

12. On a perusal of Article 12 of the India-Finland tax treaty, we find, that the definition of the term "royalty" therein envisage payments received as a consideration for the use of, or the right to use certain specific works which could include intellectual properties (such as copyright, patents etc.) by the

owner of such intellectual properties from any other person. For the sake of clarity, Article 12 of the India- Finland tax treaty is reproduced as under :

"ARTICLE 12

Royalties and Fees for Technical Services

1. Royalties or fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such royalties or fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed 10 per cent of the gross amount of the royalties or fees for technical services.

3. (a) 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, and films or tapes for television or radio broadcasting, any patent, trademark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience,

(b) The term "fees for technical services" as used in this article means payments of any kind, other than those mentioned in articles 14 and 15 of this Agreement as consideration for managerial or technical or consultancy services, including the provision of services of technical or other personnel.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties or fees for technical services, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties or fees for technical services arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the royalties or fees for technical services are paid is effectively connected with such permanent

establishment or fixed base. In such case the provisions of article 7 or article 14, as the case may be, shall apply.

5. Royalties or fees for technical services shall be deemed to arise in a Contracting State when the payer is that State itself, a political sub-division, a local authority, or a resident of that State. Where, however, the right or property for which the royalties are paid is used within a Contracting State or the fees for technical services relate to services performed, within a Contracting State, then such royalties or fees for technical services shall be deemed to arise in the State in which the right or property is used or the services are performed. Where, however, the person paying the royalties or fees for technical services, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the liability to pay the royalties or fees for technical services was incurred, and such royalties or fees for technical services are borne by such permanent establishment or fixed base, then such royalties or fees for technical services shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement."

13. As is discernible from the records, we find, that the assessee company as per the terms and conditions of its respective "agreements" with its non-exclusive resellers/distributors for the Indian territory, viz. (i). M/s Trimble Solutions India Private Limited, WOS of the assessee company; and (ii). M/s DowCoMax Services India Limited, had merely granted to the said distributors the right to distribute the copyrighted article (i.e software products) and not the copyright in

the said article. In fact, we find that the assessee exclusively owned all the Intellectual Property Rights (IPR‟s) in relation to the software, viz. "Trimble software". As per the respective "agreements" entered into by the assessee with its resellers/distributors, we find, that the distributors did not use or had any right to use the copyright in the software programme. In our considered view as the software provided by the assessee to its resellers/distributors was only for the purpose of resale/distribution to the end user customer for use as a "copyrighted article" (i.e. software product) with no right to use the copyright embedded in the software, therefore, it can safely or rather inescapably be concluded that the payments received by the assessee from its distributors were in the nature of sales revenue and not "royalty". On a perusal of the respective "agreements" entered into by the assessee with its resellers/distributors the rights which were vested with them can briefly be culled out as under :

- the distributors were granted a non-exclusive license to market and distribute the software products developed by the assessee company;
- the distributors did not have a right to the source code of such software products;
- the distributors were not permitted to modify, translate or recompile, add to or in any way alter the software products including its documentation;
- the distributors were not permitted to create the source code of the software products supplied under the agreements;
- the distributors were not expressly permitted to reproduce or make copies of the software products under the agreements (except a backup copy as required by the customer);
- the distributors were not vested with any right of any nature in the Intellectual Property developed and owned by the assessee company in the software products;
- that all the trademarks and trade names which the distributors used in connection with the products supplied, remained the exclusive property of the assessee company which at all times had the title to all rights to Intellectual Property, software and proprietary information including all components, additions, modifications and updates; and

- the distributors did not have any authority to negotiate or to conclude contracts on behalf of the assessee company, act as its agent or in any way represent the assessee so as to bind it under any transaction.

As is borne from the records, the software provided by the assessee to its distributors was for the purpose of resale/distribution to the end user customers and there was no right to use the copyright embedded in the said copyrighted article (i.e software products). In our considered view, as the assessee had only granted the right to distribute the software products and not any right to reproduce or make copies of the software product, therefore, in the absence of vesting of any right of commercial exploitation of the Intellectual property contained in the copyrighted article (i.e software products) with the transferee, the amounts received by the assessee from its distributors was clearly in the nature of sales revenue and could not be held as "royalty" in its hands. In sum and substance, we find that as the right acquired by the transferee from the sale of the software was to use the "copyrighted article" (i.e. software products) and not the right to use the copyright embedded in the software, therefore, the payments received by the assessee from its distributors could not be stamped as "royalty" in the hands of the assessee. We also find substance in the claim of the ld. A.R that as per the Copyright Act, a transfer of the copyrighted article (i.e. the software product) which is the subject of copyright would not necessarily involve a transfer of the copyright. As can be gathered from a perusal of the "agreements" between the assessee and its distributors, the rights acquired by the transferee on the sale of the copyrighted article (i.e software products) is to use the copyrighted article and not the right to use the copyright embedded in the software. On the basis of our aforesaid observations, we are of the considered view that as the sale of the copyrighted article (i.e. software products) by the assessee company cannot be regarded as a sale of copyright in the software, therefore, the payments received by the assessee on such sale of software would be its "business income" and cannot be regarded as "royalty" income under the provisions of India-Finland tax treaty. Our aforesaid view is fortified by the judgments of the Hon'ble High Court of Delhi in the case of DIT Vs. Infrasoft Ltd. (2014) 264 CTR 329 (Del). In the said judgment the Hon'ble

High Court had observed that the *consideration* received by the assessee on grant of licences for use of software is not taxable as "royalty" within the meaning of Article 12(3) of the DTAA between India and the USA. Also, the ITAT, Mumbai "L" Bench in DDIT Vs. Reliance Communications Ltd. (2018) 52 CCH 292 (Mum) had in its recent order held, that as the payment made by the assessee was for copyrighted article i.e software and there was no transfer of copyright of the software in any manner, thus the same did not amount to "royalty" within the definition of Article 12/13(3) of the respective tax treaties and resultantly the assessee remained under no obligation to deduct tax at source while making the remittances.

14. We shall now advert to the observations of the A.O/DRP, wherein they had through Article 3(2) of the India-Finland tax treaty tried to read the "Explanation 4", "Explanation 5" and "Explanation 6" to Sec. 9(1)(vi) as had been made available in the Income-tax Act, 1961 by the legislature vide the Finance Act, 2012 w.e.f 01/04/1976, into the definition of "royalty" contemplated in Article 12 of the India-Finland tax treaty. We are unable to persuade ourselves to subscribe to the aforesaid view of the lower authorities. Article 3(2) of the India-Finland tax treaty provides that as regards the application of the Agreement at any time by a Contracting State any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the law of that State for the purposes of the taxes to which the Agreement applies. As such, if a particular term has been specifically defined in the tax treaty, then the amendment to the definition of such term under the Act would have no bearing on the definition of such term in the context of the convention, unless the tax treaty is also correspondingly amended. In our considered view, a country which is a party to the tax treaty cannot unilaterally alter its provisions. In fact, an amendment to the provision of the treaty can be made bilaterally after entertaining deliberations from both the countries who signed it. Accordingly, if there is no amendment to the provisions of the tax treaty but there is some amendment adverse to the assessee in the Act, which provision has been specifically defined in the tax treaty or there is no reference in the tax treaty to the adoption of such provision from the Act, then such amendment will have no effect on the tax treaty. On a perusal of the India-Finland tax treaty, we find, that

the term "royalty" has been defined in Article 12(3)(a). Such definition of the term "royalty" as per the said article is exhaustive. We find that pursuant to the insertion of Explanation 4, Explanation 5 and Explanation 6 by the Finance Act, 2012 w.e.f 01/04/1976, no corresponding amendment has been made in the India-Finland tax treaty to bring the definition of "royalty" therein envisaged at par with that provided under Sec. 9(1)(vi) of the Act. Accordingly, we are of the considered view that the retrospective insertion of Explanation 4, Explanation 5 and Explanation 6 to Sec. 9(1)(vi) of the Act as had been made available on the statute by the Finance Act, 2012 w.r.e.f 01/06/1976 cannot be read into the India-Finland tax treaty. Our aforesaid view is fortified by the judgment of the Hon'ble High Court of Delhi in DIT vs. New Skies Satellite BV (2016) 382 ITR 114 (Del). In the said case it was observed by the Hon'ble High Court that no amendment to the Act, whether retrospective or prospective can be read in a manner so as to extend its operation to the terms of an international treaty. Further, it was observed that clarificatory or declaratory amendment, much less one which may seek to overcome an unwelcome judicial interpretation of law, cannot be allowed to have the same retroactive effect on an international instrument effected between two sovereign states prior to such amendment. Also, similar view had been taken by a coordinate bench of the ITAT Mumbai "I" Bench, Mumbai in the ACIT (IT)- 4(1)(1), Mumbai vs. Reliance Jio Infocomm Ltd. [ITA No. 6331 to 6334/Mum/2018, dated 15/11/2019] and the ITAT Delhi Bench "B" in Datamine International Ltd. Vs. Addl. DIT, Range 1, International Taxation, New Delhi [2016] 158 ITD 84 (Delhi). In the backdrop of our aforesaid deliberations, we are unable to persuade ourselves to subscribe to the view taken by the lower authorities that "Explanation 4", "Explanation 5" and "Explanation 6" to Sec. 9(1)(vi) as had been made available in the Income-tax Act, 1961 by the legislature vide the Finance Act, 2012 w.r.e.f 01/06/1976, are to be read into the definition of "royalty" as envisaged in Article 12 of the India-Finland tax treaty.

15. As observed by us hereinabove, the assessee in addition to distribution of software products in India had also provided software upgrades, maintenance and support services with regard to its software to the distributors, who in turn provided the same to the end user customers who had entered into a

maintenance agreement with the distributors. The assessee during the year had received an amount of Rs.2,22,46,237/- from its distributors towards maintenance and support services (including upgrades). On a perusal of the records, we find, that the assessee would grant to its distributors a right of new official sub-release i.e a modification to a licensed software product which would incorporate the correctness and provide a functional or performance improvement. Also, the assessee would grant to its distributors a right of new official main release i.e an update to the existing software product with enhanced features, which the customers would prefer instead of buying new licensed software. Accordingly, the end user customers by entering into a maintenance agreement could access and download the updates offered by the assessee. As the payments received by the assessee towards distribution of sub-releases and main releases were also for a right to provide a copyrighted article i.e software updates, which was akin to the amounts received for distribution of the specialized off-the-shelf software products, and not for any right to use the copyright embedded in the said copyrighted article (i.e software products), therefore, the same too in our considered view cannot be construed as "royalty" income, and would be the "business income" of the assessee. On a similar footing, we find, that as per the distributors agreements, it was the responsibility of the distributors to resolve the end user customers queries. In case, the distributors would require assistance on issues as regards functionalities, trouble shooting and verifying error situations, the assessee would provide the same. The aforesaid queries would be resolved via e-mails or telephone calls by the employees of the assessee based in Finland. In our considered view, as the payments received by the assessee from rendering of the maintenance and support services does not fall within the scope and gamut of the definition of "royalty" in Article 12 of the India-Finland tax treaty, therefore, the payments received by the assessee for providing such support services cannot be held as "royalty" in the hands of the assessee.

16. In terms of our aforesaid observations, we are of the considered view that the amount received by the assessee from its distributors for sale of specialized software and maintenance and support services (including upgrades) cannot be

held as being in the nature of "royalty" as per Article 12 of the India-Finland tax treaty."

5.2 Similar view has been taken by the Tribunal in assessee's own case for AYs 2013-14 and 2014-15.

Facts being identical, we respectfully follow the above orders of the Co-ordinate Bench in assessee's own case for AYs 2010-11, 2011-12, 2013-14 and 2014-15. Accordingly, we allow the 2nd, 3rd, 4th and 5th grounds of appeal.

6. The Ld. counsel submits that the assessee would not press the 6th and 7th grounds of appeal. Accordingly, the 6th and 7th grounds of appeal are dismissed as not pressed.

The 8th and 9th grounds of appeal being charging of interest u/s 234A and 234B are consequential in nature.

As the penalty has been initiated only, the 10th ground of appeal is premature.

7. In the result, the appeal is party allowed.

Order pronounced through notice board under rule 34(4) of the Income Tax (Appellate Tribunal) Rules, 1963.

Sd/-	Sd/-
(SAKTIJIT DEY)	**(N.K. PRADHAN)**
JUDICIAL MEMBER	**ACCOUNTANT MEMBER**

Mumbai;
Dated: 07/10/2020
Rahul Sharma Sr. PS

Copy of the Order forwarded to :

1. The Appellant
2. The Respondent.
3. The CIT(A)-
4. CIT
5. DR, ITAT, Mumbai
6. Guard file.

BY ORDER,

//True Copy//

(Dy./Asstt. Registrar)
ITAT, Mumbai