

IN THE INCOME TAX APPELLATE TRIBUNAL, DELHI 'D' BENCH,
NEW DELHI [THROUGH VIDEO CONFERENCE]

BEFORE SHRI N.K. BILLAIYA, ACCOUNTANT MEMBER, AND
SHRI AMIT SHUKLA, JUDICIAL MEMBER

ITA No. 2326/DEL/2018
[Assessment Year: 2014-15]

The Dy. C.I.T
Circle 1(1)(2)
New Delhi
New Delhi

Vs.

M/s Black Duck Software Inc.
C/o Shilpi Agarwal, B-18, LGF
Express Green, Sector - 44,
Noida

PAN : AAECB 2775 L

[Appellant]

[Respondent]

Date of Hearing : 11.10.2021
Date of Pronouncement : 11.10.2021

Assessee by : Shri Abhimanyu Jhamb, Adv

Revenue by : Shri R.K. Jain, Sr. DR

ORDER

PER N.K. BILLAIYA, ACCOUNTANT MEMBER:-

This appeal by the Revenue is preferred against the order of the
ld. CIT(A)- 42, New Delhi dated 23.01.2018 pertaining to A.Y 2014-15.

2. The solitary grievance of the Revenue is that the Id. CIT(A) erred in holding the addition of Rs. 4,52,11,000/- on account of 'Royalty Income' being receipt from supply of software/FIS u/s 9(1)(vi) of the Income tax Act, 1961 [hereinafter referred to as 'The Act' for short] and under Article of India - USA DTAA.

3. Briefly stated, the facts of the case are that the assessee company is a company registered in the State of Delaware, USA and is a leading provider of products and services for amounting the management, compliance and secure use of open source software in mutli-source development at enterprise scale.

4. The assessee claims to be providing its customers a non-exclusive non transferrable license for the programs in which the company is normally dealing. Customers subscribe for these licenses for a specified period as per the agreement entered with the company.

5. During the course of scrutiny assessment proceedings, the Assessing Officer was of the firm belief that the assessee's receipts from supply of software are taxable in India as royalty both u/s 9(1)(vi) of the Act and under Article 12(3) of USA DTAA.

6. The Assessing Officer was of the further opinion that the service portion though not specified into contract or invoices shall be subjected to tax as FTS/FIS, and accordingly, treated the receipts for supply of software/FIS amounting to Rs. 4,52,11,000/- taxable as royalty.

7. The assessee carried the matter before the Id. CIT(A) and placed strong reliance on the decision of the Hon'ble High Court of Delhi in the case of Intrasoft Ltd 220 Taxman 273 and further drew the attention of the Id. CIT(A) towards the decision of the Tribunal in assessee's own case for Assessment Year 2012-13.

8. After considering the facts and submissions and drawing support from the decisions relied upon by the assessee, the Id. CIT(A) held as under:

"5.10 Relying upon the judgment of Hon'ble Delhi High Court in the case of DIT vs. Intrasoft Ltd (supra), the appellant submitted that here in this case also similar kind of software license was given and even the terms of agreement were by and large same. In that context, the Hon'ble Delhi High Court held that India USA Treaty still recognizes the difference between a copyright and a copyrighted article. The Hon'ble High Court after referring to another decision of the Hon'ble Delhi High Court in the case of

DIT vs. Nokia Networks (supra), held that, firstly, amendment in section 9(l)(vi) cannot be read into treaty; and secondly, granting license to use copyrighted software for licensees' own business purpose, cannot be brought to tax under Article 12(3) of India USA DTAA. The Hon'ble High Court has also dissented from the judgment of Hon'ble Karnataka High Court in the case of CIT vs. Samsung Electronics Co. Ltd.(supra) which has been strongly referred and relied upon by the AO. The assessee brought my attention to the decision of Hon'ble ITAT, Delhi in the case of the assessee for Assessment Year 2-12-13 whereing the ITAT has decided the issue in favour of the assessee. . As regards the scope of license agreement entered with Infosys and Wipro, the Hon'ble ITAT observed as under:

"14. From a perusal of the aforesaid scope of license, it is quite apparent that the assessee provide to its customers a non- exclusive; non-transferable license within the applicable subscription period. The clause dealing with license restriction clearly envisages that it is not a perpetual license and customer has no right to retain or use the programme after termination of applicable subscription period for any reason. The customers are not permitted any access or use of the programmes for any users other than the user's license paid for by the customer. Though the customer is entitled to make reasonable number of copies of the programme for inactive back up; disaster recovery; failover or archival purposes, however, it has no right to rent; lease, assign; transfer; sub-license; display or otherwise distribute or make the program available to any third party. The customer is further prohibited not to modify; disassemble; decompile or otherwise reverse engineer the program nor can permit any third party to do so. In other words, the assessee has all the rights not

only on the copyright in the software, but also debars its customers in several ways as highlighted above. Thus, the payment, which has been received by the assessee, is purely for copyrighted software product as against payment for giving any right to use any copyright in the software. The customers have a very limited right to access copyright software for its own business purpose and does not acquire any kind of right to exploit the copyright in the software. These facts are uncontroverted in the impugned order."

5.11 Hon'ble ITAT in the case of the assessee held that in order to fall within the realm and ambit of right to use copyright the computer software programme, any right as enumerated in Section 14 of Copyright Act, 1957 must be given and if the said rights are not given then, there is no copyright in the computer programme or software. Hon'ble IT A T categorically observed that in this case, none of these conditions or such rights are flowing from the Master License and Subscription Agreement to the customers, albeit the agreement as incorporated above illustrates lot of restrictive covenants and gives very limited right to the customers for self-use at enterprise level.

5.12 In the case of EDIT vs Infrasoftware Ltd [supra] in fact the license agreement was by and large quite akin to the license agreement in the present case. Hon'ble Delhi High Court in its detailed judgment have analysed this issue threadbare and have come to the conclusion that mere copyrighted material, i.e., software programme cannot be taxed as royalty in terms of Article 12(3) of India USA DTAA. The Hon'ble Court also held that the amendment in the Domestic law, that is, in the Income Tax Act cannot be read into the Treaty.

5.13 Hon'ble ITAT also considered the Supplement Agreement wherein there is a stipulation of unlimited number of users and unlimited size of managed code base; and also access has been granted at enterprise level. ITAT held that the supplementary agreement does not enlarge the scope of the main license agreement but only envisages providing access to all the persons within the enterprise. ITAT also held that since the software is to be run at an enterprise level, managed code base size has to be kept unlimited but within the organization and is not meant to the outsiders. Further, ITAT observed that it is not the case of the Revenue also that software is being commercially exploited by the customers albeit it has to be used only for private use within the organization.

5.14 Thus, in view of the discussion made above and respectfully following the judgment of Hon'ble ITATA in the case of the assessee and Hon'ble Delhi High Court, in the cases of DIT vs. Nokia Networks (supra); DIT vs. Ericsson A.F (supra); DIT vs. Infracsoft Ltd. (supra); and CIT vs. Alcatel Lucent Canada (supra) I hold that the payment received by the assessee does not fall within the ar of 'royalty'¹ under Article 12(3) of India USA DTAA and hence, the same c be taxed under the terms of India USA Treaty. If the receipts cannot be taxed under the treaty as royalty , then it cannot be taxed under the domestic law u/s 9(1)(v) of the Act and amended provision cannot be read into treaty as held by the Hon'ble Delhi. Accordingly, the appeal of the assessee is allowed."

9. No distinguishing decision has been brought to our notice by the ld. DR. Therefore, we do not find any reason to interfere with the findings of the ld. CIT(A).

10. In the result the appeal of the Revenue in ITA No. 2326/DEL/2018 is dismissed.

The order is pronounced in the open court in the presence of both the representatives on 11.10.2021.

Sd/-

[AMIT SHUKLA]
JUDICIAL MEMBER

Sd/-

[N.K. BILLAIYA]
ACCOUNTANT MEMBER

Dated : 11th October, 2021

VL/

Copy forwarded to:

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

Asst. Registrar,
ITAT, New Delhi

Date of dictation	
Date on which the typed draft is placed before the dictating Member	
Date on which the typed draft is placed before the Other Member	
Date on which the approved draft comes to the Sr.PS/PS	
Date on which the fair order is placed before the Dictating Member for pronouncement	
Date on which the fair order comes back to the Sr.PS/PS	
Date on which the final order is uploaded on the website of ITAT	
Date on which the file goes to the Bench Clerk	
Date on which the file goes to the Head Clerk	
The date on which the file goes to the Assistant Registrar for signature on the order	
Date of dispatch of the Order	