

IN THE INCOME TAX APPELLATE TRIBUNAL,

DELHI BENCH: ' D ' NEW DELHI

**BEFORE SHRI SAKTIJIT DEY, JUDICIAL MEMBER AND SHRI
PRADIP KUMAR KEDIA, ACCOUNTANT MEMBER**

ITA Nos. 713 & 715/Del/2020
Assessment Year: 2016-17 & 2015-16

DCIT, Circle 1(1)(1), International Taxation, New Delhi	Vs.	Alcatel Lucent International, Route De Villejust, Nokia Paris, Saclay 91620 Nozay, Foreign, France
PAN : AAICA7576		
(Appellant)		(Respondent)

Appellant by	Ms. Sapna Bhatia, CIT-DR
Respondent by	Shri Prashant Meharchandani, Adv.

Date of hearing	12.01.2022
Date of pronouncement	09.02.2022

ORDER

PER SAKTIJIT DEY, JM:

Captioned appeals by the Revenue arise out of two separate orders, both dated 05.11.2019, of learned Commissioner of Income-tax(Appeals), 42 Delhi, pertaining to the assessment years 2015-16 and 2016-17.

2. The grounds raised in both the appeals are identical and read as under:

1. Whether on the facts and in the circumstances of the case the Ld. CIT(A) is correct in law in holding that the income from supply of software embedded in the hardware equipment or otherwise to customers in India does not amount to royalty under Section 9(1)(vi) of the Income-tax Act and under Article 13 of the Double Taxation Avoidance Agreement (DTAA) between India and France?
2. Whether on the facts and circumstances of the case Ld. CIT(A) was right in ignoring specific provision as given in section 9(1)(vi) of the Income-tax Act, 1961 holding the software to be taxed as royalty?
3. The appellant craves leave to add, modify, amend or alter any grounds of appeal at the time of, or before, the hearing of appeal”

3. As could be seen from the grounds raised, the dispute arising for consideration is, whether the embedded software supplied along with the hardware is taxable either under the provisions of India-France Double Taxation Avoidance Agreement (DTAA) or under the provisions of Section 9(1)(vii) of the Income-tax Act, 1961.

4. Briefly, the facts are, the assessee is a company incorporated in France and is a tax-resident of France. As stated by the departmental authorities and appears from record, Alcatel Group which also includes the assessee is a leading tele-communication equipment and infrastructure manufacturer and supplier. As stated by the Assessing Officer, Alcatel Lucent France is the flagship company of the group. Be that as it may, in the impugned assessment year, the assessee derived income from supply of tele-communication equipment. The income in the nature of fee for technical services (FTS) was offered by the assessee to tax in India. However, the income derived from supply of telecommunication equipments to customers in India on offshore basis was not offered to tax on the plea that assessee does not have any Permanent Establishment (PE) in India in terms of Article 5 of India-France DTAA. Insofar as, supply of software embedded to the telecommunication equipment; the assessee pleaded that since that software is inextricably linked to the equipment supplied, the payment received cannot be treated as royalty, hence, not taxable either under

the provisions of the Act or under the Tax-Treaty. The Assessing Officer, however, did not agree with the submissions of the assessee. He held that the assessee has a PE in India in terms of Article 5 of the Tax-Treaty. Further, he held that attribution of profit to the PE can be made only in respect of supply of hardware. However, he found that there is no profit which is attributable to the PE.

5. Having held so, he relied upon the Assessment Order passed in case of Alcatel Lucent France for the assessment year 2006-07 and held that payment for software embedded to the telecommunication equipments supplied to Indian customers is taxable as royalty on gross basis, both, under the provisions of the Act as well as the Tax-Treaty. Accordingly, he brought to tax the royalty on the embedded software while completing the assessment for the impugned assessment years. Against the assessment order so passed, assessee preferred appeals before learned Commissioner (Appeals).

6. Taking note of the fact that in case of Alcatel Lucent France in assessment year 2006-07, both Learned Commissioner and Tribunal have reversed the decision of the Assessing Officer in treating the software component supplied with the equipment as royalty, which has been affirmed by the Hon'ble Delhi High Court while dismissing Revenue's appeals, deleted the additions made by the Assessing Officer in both the assessment years under dispute. While doing so, he also took note of the decision of the Hon'ble Delhi High Court in assessee's own case in assessment year 1997-98 holding that supply of software is not taxable as royalty either under Section 9(1)(vii) or even under the Tax-Treaty.

7. We have considered the rival submissions and perused the material available on record. It is a common point between the learned Counsel appearing for the assessee and learned Departmental Representative that the issue arising for consideration is squarely covered by various judicial precedents, including, the decision of the

Tribunal in assessee's own case for assessment years 2013-14 and 2014-15. Undisputedly, the Assessing Officer has treated part of the payment received by the assessee as royalty for the embedded software supplied with the telecommunication equipments. While doing so, he has relied upon the Assessment Order passed in case of another group company viz. Alcatel Lucent France. As discussed by the learned Commissioner(Appeals), the decision of the Assessing Officer in case of Alcatel Lucent France was not only reversed by the First Appellate Authority but Tribunal also upheld the decision of the First Appellate Authority by holding that the payment received for embedded software cannot be treated as royalty. It is a fact on record that the decision of the Tribunal in case of Alcatel Lucent France was upheld by the Hon'ble Delhi High Court. In fact, the Special Leave Petition (SLP) filed by the Revenue against the aforesaid decision of the Hon'ble Delhi High Court has been dismissed by the Hon'ble Apex Court while deciding the issue in case of Engineering Analysis Centre of Excellence Private Ltd. decided on 2nd of March 2021. Taking note of

the aforesaid factual position, the Tribunal while deciding assessee's appeals for assessment years 2013-14 and 2014-15, has held that the amount received for embedded software supplied along with the telecommunication equipments cannot be treated as royalty. The relevant observations of the Tribunal in the latest order passed for the assessment year 2014-15 in ITA No. 6273/Del/2017 dated 30.09.2021 is reproduced hereunder:

"6. On perusal, we find that identical issues has been decided by this Tribunal in favour of the assessee in ITA Nol.6272/Del/2017 (supra). The relevant findings of the order of the Tribunal (supra) read as under:

"8. A similar quarrel was decided by the Tribunal in favour of the assessee and against the Revenue in a bunch of appeals in ITA Nos.4866/Del/2010 and others vide order dated 04.04.2014. This order of the Tribunal confirmed by the Hon'ble High Court of Delhi in ITA Nos. 119 to 157/2015 vide order dated 27.02.2015. The relevant findings of the Hon'ble High Court of Delhi read as under:

"4. Re-assessment proceedings were initiated for the year under consideration. The assessee claimed that the income declared originally, the assessment proceedings be treated as return filed in the assessment

proceedings. In the reassessment order, the A.O. observed that the assessee is a company incorporated in France and other concerned countries used to manufacture, trade and supply equipments and services for GSM Cellular Radio Telephones Systems. The assessee had supplied hardware and software to various entities in India. Software licensed by the assessee embodies the process which is required to control and manage the specific set of activities involved in the business use of its customers. Software also made available the process to its customers, who used it to carry out their business activities. In this view of the matter, the A.O. felt that the consideration of supply of software amounted to royalty under Sect 9(1)(vi) of the Income-tax Act. The CIT(Appeals) – to whom the assessee appealed and later the ITAT to whom the Revenue appealed concurred held that the supply of embedded software (which was part of the hardware supplied to the assessee's customers by it) under consideration did constitute royalty and therefore, Section 9(1)(vi) was not attracted and the same reasons. Article 13(3) of the DTAA was not involved.

5. We have noticed, at the outset, that the ITAT had relied upon ruling of this Court in Director of Income-tax V Ericsson A.B. (2012) 3 ITR 470 wherein identical argument with

respect to whether consideration paid towards supply of software along with hardware – rather software embedded in the hardware amounted to royalty. After noticing several contentions of the revenue, this Court held in *Ericsson A.B. (supra)* follows:-

“54. It is difficult to accept the aforesaid submissions in the facts of the present case. We have already held above that the assessee did not have any business connection in India. We have also held that the supply of equipment in question –was in the nature of supply of goods. Therefore, this issue is to be examined keeping in view these findings. Moreover, another finding of fact is recorded by the Tribunal that the Cellular Operator did not acquire any of the copyrights referred to in Section 14(b) of the Copyright Act, 1957.

55. Once we proceed on the basis of aforesaid factual findings, it is difficult to hold that payment made to the assessee was in the nature of royalty either under the Income-tax Act or under the DTAA. We have to keep in mind what was sold by the assessee to the Indian customers –was a GSM which consisted both of the hardware as well as the software, therefore, the Tribunal is right in holding that it is not permissible for the Revenue to assess the same under two different articles. This software that was loaded on the hardware

did not have any independent existence. The software supply is an integral part of the GSM mobile telephone system and is used by the cellular operator for providing the cellular services to its customers. There could not be any independent use of such software. This software is embedded in the system and the Revenue accepts that it could not be used independently. This software merely facilitates the functioning of the equipment and is an integral part thereof. On these facts, it would be useful to refer to this judgment of the Supreme Court in TATA Consultancy Service vs. State of Andhra Pradesh (2004) 271 ITR 401 (SC), wherein the Apex Court held that software which is incorporated on media would be goods and, therefore, liable to sales tax. Following discussion in this behalf is required to be noted:

“In our view the term “goods” as used in Article 56(12) of the Constitution of India and as defined under the said Act are very wide and include all types of movable properties, whether those properties be tangible or intangible. We are in complete agreement with the observations made by this Court in Associated Cement Companies Ltd. (supra). A software program may consist of various commands which enable the computer to perform a designated task. The copyright in that programme may

remain with the originator of the programme. But the moment copies are made and marketed, it becomes goods, it 'Inch are susceptible to sales tax.

Even intellectual property, once it is put on to a media, -whether it be in the form of books or canvas (In case of painting) or computer discs or cassettes, and marketed would become "goods". We see no difference between a sale of a software are programme on a CD floppy disc from a sale of music on a cassette CD or a sale of a film on a video cassette CD. In all such cases, the intellectual property has been incorporated on a media for purposes of transfer. Sale is not just of the media which by itself has very little value. The software are and the media cannot be split up. What the buyer purchases and pays for is not the disc or the CD. As in the case of paintings or books or music or films the buyer is purchasing the intellectual property and not the media i.e. the paper or cassette or disc or CD. Thus a transaction sale of computer software is clearly a sale of "goods" within the meaning of the term as defined in the said Act. The term "all materials, articles and commodities" includes both tangible and intangible incorporeal property which is capable of abstraction, consumption and use and which can be transmitted, transferred, delivered, stored, possessed

etc. The software programmes have all these attributes.....

In *Advent Systems Ltd. Vs. Unisys Corpn*, (925 F.2nd 6th Cir. 1991 n. relied on by Mr. Sorabjee, the court was concerned with interpretation of uniform civil code which “applied to transactions in goods”. The goods therein were defined as “all things (including specially manufactured goods) which are moveable at the time of the identification for sale”. It was held:

“Computer programs are the product of an intellectual process, but once implanted in a medium are widely distributed to computer owners. An analogy can be drawn to a compact disc recording of an orchestral rendition. The music is produced by the artistry of musicians and in itself) is not a good, but when transferred to a laser-readable disc becomes a readily merchantable commodity. Similarly, when a professor delivers a lecture, it is not a good, but, when transcribed as a book, it becomes a good.

That a computer program may be copyrightable as intellectual property does not alter the fact that once in the form of a floppy disc or other medium, the program is tangible, moveable and

available in the market place. The fact that some programs may be tailored for specific purposes need not alter their status as “goods” because the Code definition includes,; “specially manufactured goods”.

56. A Fortiorari when the assessee supplies the software which is incorporated on a CD, it has supplied tangible property and the payment made by the cellular operator for acquiring such property cannot be regarded as a payment by way of royalty.

6. This Court also noticed that the ITAT had in addition relied upon other judgment of this Court i.e. Director of Income-tax Vs. Ms. Nokia Networks. (2013) 358 ITR 259 (Delhi).

7. In view of this settled position, this court is of the opinion that no substantial question of law arises. The appeal is accordingly dismissed.

9. This order of the Hon’ble High Court of Delhi has been upheld by the Hon’ble Supreme Court in a bunch of appeals in the case of Engineering Analysis Centre of Excellence Private

Ltd. Vide order dated 02.03.2021 and in the bunch of appeals the assessee is at Civil appeal No. 10674 of 2016, 010673 of 2016 and SLP(C) No. 28868 of 2016. The relevant findings of the Hon'ble Supreme Court read as under:-

“168. Given in the definition of royalties contained (in Article 12 of the DTAA's mentioned in paragraph 41 of this judgment, it is clear that there is no obligation on the persons mentioned in section 195 of the Income-tax Act to deduct tax at source, as the distribution agreements/EULAs in the facts of these cases do not create any interest or right in such distributors/end-users, which would amount to the use of or right to use any copyright. The provisions contained in the Income-tax Act (Section 9(1)(vi), along with explanation 2 and 4 thereof), which deal with royalty, not being more beneficial to the assessees, have no application in the facts of these cases.

169. Our answer to the question posed before us, is that the amounts paid by resident Indian end-users/distributors to non-resident computer software manufacturers/suppliers, as consideration for the resale/use of the computer software through EULAs/distribution agreements, is not the payment of royalty for the use of copyright in the computer software, and that the same does not give rise to any income taxable in India, as a result of which the persons referred to

in section 195 of the Income-tax Act, The answer to this question will apply to all four categories of cases enumerated by us in paragraph 4 of this judgment.

170. The appeals from the judgments of the High Court of Karnataka are allowed, and the aforesaid judgments are set aside. The ruling of the AAR in Citrix Systems (AAR) (supra) is set aside. The appeals from the impugned judgments of the High Court of Delhi are dismissed.

10. Considering the facts of the case in the light of the decisions mentioned here in above we do not find any merit in this appeal by the revenue and the same is accordingly dismissed.

11. In the result, the appeal filed by the revenue is accordingly dismissed.

7. In view of above, respectfully following the decision of the Tribunal mentioned herein above, we do not find any infirmity in the orders of the learned CIT(A), therefore, we uphold the same.”

8. Pertinently, while completing assessment in assessee’s own case in assessment year 2018-19, the Assessing Officer has decided the issue in favour of the assessee holding as under:

“3. The equipment supplies made by assessee included both hardware and software. In this

connection, in the Assessment Orders for AY 2013-14 to AY 2017-18 in assessee's own case, it was held that consideration towards software is taxable as royalty as per the Act and under the corresponding provisions of the tax treaty. However, during the course of assessment proceedings for AY 2018-19, it was submitted by the assessee vide letter dated 10.03.2021 that owing to the decision of Hon'ble Supreme Court in case of Engineering Analysis Centre of Excellence Pvt. Ltd. Vs. CIT & Anr. (2021) 125 Taxmann.com 42 (SC), also covering the cases of group companies of the assessee, the issue stands squarely covered in favour of the assessee. Consequently, no adverse inference is drawn for AY 2018-19 in case of the assessee on this issue."

9. Similar is the finding of the Assessing Officer while deciding the issue in assessment year 2019-20. There being no difference in the factual position in so far as it relates to taxability of royalty on embedded software, we respectfully follow the decision of the coordinate benches in assessee's own case, as referred to above, and hold that no addition on account of payment of royalty can be made at the hands of the assessee. Accordingly, we uphold the decision of

learned Commissioner (Appeals) on the disputed issue. Grounds are dismissed.

10. In the result, both the appeals are dismissed.

Order pronounced in the open court on 9th February, 2022

Sd/-

**(PRADIP KUMAR KEDIA)
ACCOUNTANT MEMBER**

Sd/-

**(SAKTIJIT DEY)
JUDICIAL MEMBER**

Dated: 9Th February, 2022.

Mohan Lal

Copy forwarded to:

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

Asst. Registrar, ITAT, New Delhi