IN THE INCOME TAX APPELLATE TRIBUNAL, DELHI 'D' BENCH, NEW DELHI

BEFORE SHRI N.K. BILLAIYA, ACCOUNTANT MEMBER, AND SHRI N.K. CHOUDHRY, JUDICIAL MEMBER

ITA No. 6253/DEL/2019 [A.Y 2015-16]
ITA No. 6254/DEL/2019 [A.Y 2016-17]

The Dy.C.I.T Circle -1(1)(2) International Taxation New Delhi	Vs.	M/s Black Duck Software Inc C/o Shilpi Aggarwal & Co. B-18, LGF, Express Greens Winter Street, Sector -44 Noida PAN: AAECB 2775 L
(Applicant)		(Respondent)

Assessee By : None
Department By : Shri Sanjay Kumar, Sr, DR

Date of Hearing : 14.07.2022
Date of Pronouncement : 14.07.2022

ORDER

PER N.K. BILLAIYA, ACCOUNTANT MEMBER:-

These two separate appeals by the Revenue are preferred against two separate orders of the CIT(A) - 42, New Delhi dated 13.05.2019 pertaining to Assessment Years 2015-16 and 2016-17.

2. Since common grievance is involved in both the appeals, they were heard together and are disposed of by this common order for the sake convenience and brevity, though the quantum of deletion of addition may differ.

3. The common grievance in both the appeals relates to the deletion of addition on account of royalty income [received from supply of software] u/s 9(1)(vi) of the Income-tax Act, 1961 [hereinafter referred to as 'The Act'] and under Article 12 of India USA DTAA.

4. The Revenue is aggrieved by the findings of the ld. CIT(A) who held that payment received by the assessee did not fall within the ambit of royalty under Article 12(3) of the India USA DTAA.

5. None appeared on behalf of the assessee inspite of notice. We decided to proceed exparte.

6. The ld. DR was heard at length, but he fairly conceded that the quarrel is now well settled by the decision of the Hon'ble Supreme Court by the case of Engineering Analysis Center of Excellence Pvt Ltd. [2021] 432 ITR 471.

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

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

5. In Assessment Year 2015-16, the assessee received payment of Rs. 2.93 crores from Infosys Ltd, Rs. 1.08 crores from Wipro Limited and Rs. 5.76 lakhs from Lyra Infosystems pvt Ltd.

6. During the course of scrutiny assessment proceedings, the Assessing Officer perused the Master License and Subscription License Agreement and asked the assessee to explain as to whether there is any change in the factual matrix with respect to earlier Assessment Years and show cause why the receipts of the assessee shall not be taxed as royalty income.

7. The assessee replied that the sale of software is not taxable as royalty under the provisions of the Act as what has been sold to the customers was copyrighted article and no copy right itself.

8. The Assessing Officer was not convinced and taking a leaf out of the earlier Assessment Years, came to the conclusion that the assessee's receipts from supply of software are taxable as royalty both u/s 9(1)(vi) of the Act and under Article 12 of the India USA DTAA and completed the assessment accordingly.

9. The assessee challenged the assessment before the ld. CIT(A).

10. Before the ld. CIT(A), the assessee drew his attention to the decision of the Tribunal in assessee's own case for Assessment Year 2012-13 wherein the Tribunal has decided the issue in favour of the assessee. The relevant findings of the ld. CIT(A) read as under:

> "The assessee brought my attention to the decision of Hon'ble ITAT, Delhi in the case of the assessee for AY 2012-13 wherein 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 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 ITAT 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 DIT vs. Infrasoft Ltd (supra), in fact the license agreement was by and large quite akin to the license agreement in the present case. The Hon'ble Delhi High Court in its detailed judgment have analyzed this issue threadbare and have come to the conclusion that mere transfer of right to use 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 exploiter only for private use within the organization

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5.14 Thus, in view of the discussion made above and respectfully following the judgment of Hon'ble ITAT 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.B. (supra); DIT vs. Infrasoft Ltd. (supra); and CIT vs. Alcatel Lucent Canada (supra). I hold that the payment received by the assessee does not fall within the ambit of 'royalty' under Article 12(3) of India USA DTAA and hence, the same cannot 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 under section 9(l)(vi) Income Tax Act and the amended provision cannot be read into treaty as held by the Hon'ble Delhi High Court in aforesaid cases. Accordingly, the ground of appeal is allowed.

11. We have carefully considered the orders of the authorities below. We are of the considered view that the impugned quarrel is now well settled by the decision of the Hon'ble Supreme Court in favour of the assessee and against the Revenue in the case of Engineering Analysis Center of Excellence Pvt Ltd. [supra] wherein the Hon'ble Supreme Court, in a bunch of appeals, conclusively held as under:

> "168.Given the definition of royalties contained in Article 12 of the DTAAs 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(l)(vi), along with explanations 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 were not liable to deduct any TDS under 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.
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> 170. The appeals from the impugned 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."

12. Respectfully following the aforesaid decision of the Hon'ble Apex Court [supra], we direct the Assessing Officer to delete the impugned addition.

13. In the result, both the appeals of the Revenue in ITA Nos. 6253 & 6254/DEL/2019 are dismissed.

The order is pronounced in the open court on 14.07.2022.

Sd/-	**Sd/-**
[N.K. CHOUDHRY**]**	**[N.K. BILLAIYA]**
JUDICIAL MEMBER	**ACCOUNTANT MEMBER**

Dated: 14th July, 2022.

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	
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