

**IN THE INCOME TAX APPELLATE TRIBUNAL  
[ DELHI BENCH : "F" NEW DELHI ]**

**BEFORE DR. B. R. R. KUMAR, ACCOUNTANT MEMBER  
AND  
SH. YOGESH KUMAR U.S., JUDICIAL MEMBER**

**I.T.A. No. 2035/DEL/2019 (A.Y 2015-16)**

Valvoline Cummins Pvt. Ltd. 50-8, 1 <sup>st</sup> Floor, Janpath, Tolstoy Lane, New Delhi <b>PAN: AAACW0287A</b> <b>(APPELLANT)</b>	Vs.	ACIT Special Range-9, New Delhi <b>(RESPONDENT)</b>
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<b>Appellant by</b>	<b>Shri Neeraj Jain, Adv, Sh. Aditya Vohra, Adv &amp; Sh. Arpit Goyal, CA</b>
<b>Respondent by</b>	<b>Shri T. Kipgen, CIT DR</b>

<b>Date of Hearing</b>	<b>01.12.2022</b>
<b>Date of Pronouncement</b>	<b>09.02.2023</b>

**ORDER**

**PER YOGESH KUMAR U.S., JM**

This appeal is filed by the assessee against the order dated 24/12/2018 of the Id. Commissioner of Income Tax (Appeals)-9, New Delhi [hereinafter referred to CIT (Appeals)] for Assessment Year 2015-16.

2. The assessee has raised the following grounds of appeal:-

1. *That on the facts and circumstances of the case and in law, the Commissioner of Income-tax (Appeals) ["CIT(A)"] erred in upholding the order of the assessing officer assessing the income of the Appellant at Rs.144,44,45,110 against Rs. 139,56,95,110 returned by the Appellant.*
2. *That on the facts and circumstances of the case and in law, the CIT(A) erred in upholding disallowance of expenditure of Rs.6,50,00,000 claimed in respect of payment made by the Appellant to AMW for securing non-transferable right and license to use the name/ trade mark/ logo of AMW for a limited period, holding the same to be capital expenditure, viz., acquisition of intangible asset.*
3. *That on the facts and circumstances of the case and in law, the CIT(A) erred in holding that payment made for securing right and license to use the name/ trade mark/ logo of AMW resulted in accretion to the profit earning apparatus and hence, was a capital expenditure."*

3. Brief facts of the case are that, the assessee filed return declaring income of Rs. 1,39,56,95,110/-. The case of the assessee was selected for scrutiny, statutory notice u/s 143(2) and also notice u/s 142(1) of the Income Tax Act 'Act' for short) were issued and the assessment proceedings were initiated against the assessee. The assessment order came to be passed on 18/12/2017, wherein the expenses of Rs. 6,50,00,000/- was disallowed as

revenue expenditure. However, the assessee was allowed to claim depreciation at Rs. 25% on such amount, accordingly a sum of Rs. 4,87,50,000/- was added back to the income of the assessee.

4. As against the assessment order, the assessee has preferred an appeal before the Ld.CIT(A). The Ld.CIT(A) vide order dated 24/12/2018 confirmed the order of the Ld. A.O. and dismissed the appeal filed by the assessee vide order dated 24/12/2018.

5. Aggrieved by the order dated 24/12/2018 passed by the Ld.CIT(A), the assessee has preferred the present appeal on the grounds mentioned above.

6. Ground No. 1 is general in nature which requires no adjudication separately.

7. The Ground No. 2 & 3 is regarding the disallowance of payment made by the assessee to AMW towards co branding fees treating the same as capital expenditure.

8. The brief facts of the case are that, during the relevant previous year, the assessee entered into co branding agreement dated 16/06/2014 with AMW, a company incorporated under Companies Act, 1956 and engaged in the business of manufacturing and sale of heavy commercial vehicles. In the

return of the income filed by the assessee for the relevant Assessment Year, the assessee claimed deduction of entire amount of Rs. 6,50,00,000/- paid to AMW treating the same to be revenue expenditure. The Ld. A.O. disallowed the aforesaid deduction of Rs.6,50,00,000/-holding the same to be capital in nature; depreciation at 25% was allowed thereon. The Ld. A.O. was of the opinion that “the acquisition of the brand name will benefit the assessee company in form of increased sale and turnover long period.” Further observed that, the benefit derived by the assessee a company from the said expenditure is of the enduring nature, accordingly, held that the expenditure towards co branding fees is capital in nature.

9. The Ld.CIT(A) held that the payment of Rs.6,50,00,000/- gives rise to acquisition of an intangible asset, bring in the nature of commercial right and license to use the logo of AMW, for a considerable period of time of 60 months, in furtherance of business inasmuch as the same would enhance its sales and resultant profit out the manufacturing activity, accordingly by dismissing the appeal of the Assessee, the Ld. CIT(A) confirmed depreciation @ 25% on the said expenditure.

10. Before us, the Ld. Counsel for the submitted that the Ld.CIT(A) has erred in upholding the additions made by the Assessing Officer, the disallowance of expenditure of Rs. 6,50,00,000/- claimed in respect of payment made by the assessee to AMW for securing non transferable right

and license to use the name/trade mark/logo of AMW for limited period. Further submitted that, the Ld.CIT(A) has committed an error in holding that payment made for security right and license to use the name/trade mark /logo of the AMW resulted in accretion to profit earning apparatus and hence it was capital expenditure. The Ld. Counsel for the Assessee also taken us through the paper book and relied on the various judicial pronouncements.

11. Per contra, the Ld. DR relied on the orders of the Lower Authorities and submitted that the expenses of Rs. 6,50,00,000/- gives right of acquisition intangible asset being in the nature of commercials right and license to use to logo of AMW for considerable period of 60 months in furtherance of business. Therefore, the disallowance made by the A.O in characterizing the expenditure as depreciable intangible assets and allowing depreciation at Rs. 25% on the cost of payment is not only in accordance with law, but also same is reasonable.

12. We have heard the parties and perused the material available on record and gave our thoughtful consideration. We have perused the co branding agreement entered into by the assessee with AMW, wherein the assessee acquired non transferable limited right and license to use the brand name and logo of AMW on the packaging of licensed products manufactured by the assessee and the co-branded license produced products were meant for use as service fills and by way of retail sale for use in AMW vehicles only, which is

evident from the preamble and Section 2 & Section 5 Agreement which reads as under:-

**“Section 2 CO-BRANDING AND EXCLUSIVITY**

*After reviewing the features, characteristics and specifications of the Licensed Products, AMW hereby grants to VCL on exclusive basis, a non-transferable right and license to use AMW’s name, Trade Mark viz AMW’ and Logo on the packaging of the Licensed Products in such manner as may be prescribed or approved by AMW, solely for the purposes of co-branding of the Licensed Products with AMW Vehicles.*  
”

**“ Section 5 DISTRUBUTION AND MARKETING NETWORK AND OBLIGATIONS**

*5.1. The Licensed Products shall be marketed by VCL through AMW’s Authorized Dealers/Distributors, AMW B2B customers or VCL’s network.*

*5.2 AMW shall arrange for marketing of the Licensed Products throush its dealer, distributor’s network as and in the manner as mutually agreed and AMW shall extend necessary assistance to VCL for organizing workshops, training programmes anions their dealers, service personnel etc. **AMW shall support to promote the sale of the Licensed Products and shall arrange for regular follow up through its personnel.***

*5.3 AMW shall provide a list of its dealers, distributors, B2B Customers to VCL and recommend the use of the said Licensed Products. VCL in consultation with AMW may allot its own code numbers to the said dealers, distributors and B2B Customers. AMW shall inform VCL from time to time in respect of any addition to the list of the dealers, distributors and B2B Customers.*

**5.4 AMW shall ensure that its dealers, distributors. B2B Customers shall immediately pay the amount outstanding against the Product supplied to AMW's dealer, distributors, B2B customers, as mutually agreed upon with VCL.** AMW's dealers, distributors and B2B Customers will provide post-dated cheques along with orders as per agreed credit terms.

*5.5 It has been agreed between the Parties that the Parties shall jointly take insurance policy from a recognized insurance company to cover the outstanding amount, losses, damages (including collection of pending forms from AMW's dealers, distributors and B2B customers) etc. incurred to VCL if AMW's dealers, distributors, B2B customers fail to make timely payment to VCL. Further, the Parties agree that both the Parties shall equally bear the cost of premium and all the losses, outstanding amount, damages (including collection of pending forms from AMW's dealers, distributors and B2B customers) etc. which Insurance Company fails to make good or compensate. VCL reserves the right to deduct the said amount from the charges as specified in Annexure B, payable by VCL to AMW.*

*5.6 VCL shall deliver the Licensed Products at its own cost to AMW dealer's locations, B2B Customers and at other retail network places of AMW as specifically informed to VCL by AMW from time to time.*

..... (Emphasis supplied)

13. On perusal of the above two Sections it is found that the co-branded Licensed Products were only for use in AMW vehicles- inasmuch as marketing of the same was to be done through the dealer, distributors network of AMW, the Assessee was obliged to deliver the same at its own cost to AMW dealer's

locations, B2B Customers and at other retail network places of AMW. In other words, the co- branded Licensed Products could not be used by the Assessee to service its other clients. The sole and exclusive customer of the Assessee in respect of the co-branded Licensed Products was AMW itself for use as service fills or retail use.

14. It is further observed that the said license is valid for specified period of six months commencing from 16/06/2014 and on completion of the 60 months both the parties i.e. assessee and AMW have right to revenue/extend the agreement by giving three months prior notice in writing to the other party. The said agreement further depicts that in case of termination of agreement, as per Section 9.1 of the said agreement, AMW had the right to forfeit the entire front of co branding fees and after the expiry of the agreement as per term of Section 9.3.5 of the Agreement, the assessee cannot use the brand name ie: AMW on the products manufacture by it. Thus, the agreement did not confer/vest in the Assessee's proprietary rights in the trademark/ license/ brand name, the Assessee was only granted an exclusive, non-transferable right and license to use the brand name of AMW on products manufactured by it.

15. From the above fact, the assessee did not have absolute ownership of brand name of AMW and merely obtain right and license to use the said brand name on the products manufactured by the assessee. The use of the co brand license product was also only for one customer i.e. AMW itself. The

Jurisdictional High Court in the case of Hilton Roulnds Ltd. CIT(A): 255 Taxman 209 (Del) wherein the Hon'ble High Court held that that the fundamental test to determine as to whether a particular mark has been licensed or assigned is to see if the licensor/ assignor has retained any rights in the mark. If rights are retained with the owner, usually it is a license and if no rights are retained by the owner, then it would usually be an assignment. A license, therefore, in the opinion of the Hon'ble High Court, is nothing but a permissive use of the mark, whose permission, is revocable. A 'right to use' is usually a license and not an assignment, except in certain circumstances. The relevant portion of the judgment of the Coordinate Bench is as under:-

*"27. The fundamental test to determine as to whether a particular mark has been licensed or assigned is to see if the licensor/ assignor has retained any rights in The mark. If rights are retained with the owner, usually it is a license and if no rights are retained by the owner, then it would usually be an assignment. A license is, therefore, nothing but a permissive use of the mark, which permission, is revocable. A 'right to use ' is usually a license and not an assignment, except in certain circumstances. Some of the questions that determine whether an arrangement is a license or an assignment include:*

*(i) Whether the user acknowledges the licensor's right and title over the mark?*

*(ii) Whether it is a mere right to use the mark or it was a transfer/ assignment of a permanent nature?*

*(iii) Whether the manner of use is specified and restricted and the effect thereof on the rights of the user?*

*(iv) Whether the payment made by the User is one-time, fixed running royalty or a percentage of sales, with or without investment made by the Licensor on marketing and advertising?*

*(v) Whether the licensor has right of supervision and control over the use of the mark?*

*(vi) Whether sole and exclusive right was conferred on the user and the effect thereof?*

*(vii) Whether the user can further transfer his rights to third party, with and without consent of the licensor and the effect thereof?*

*(viii) Whether the licensor had the right to terminate the license and if so, under what circumstances?*

*(ix) Whether upon termination by the licensor, the user has to stop use of the mark?*

*(x) Whether or not the right to sue is given and conferred on the user?*

*(xi) Whether there is a transfer of goodwill of the business and/or goodwill in the mark?*

*(xii) Whether there are multiple users of the same mark?*

.....

28. A license agreement usually has some or all of the above stipulations. Thus, the nature of the agreement can be easily deduced from the existence of all or any of the above conditions/characteristics. In some circumstances however, an exclusive licence which excludes the owner from using the mark and vests perpetual rights without any termination clause, could constitute an assignment. However, the present case is not one such case.

29. **The question in the present case is as to whether the right in the mark "HILTON" was transferred in a manner that**

*was to give a Ions term benefit to the Appellant. The first agreement contains an acknowledgment that HRL was the owner of the mark. The agreement grants an exclusive right to use "HILTON" owned by HRL to the Appellant. The Appellant could not, without HRL's permission apply for registration of the mark on its own or dispute the ownership of HRL. If any infringement came to the knowledge of the Appellant, it had to seek the prior written consent of HRL, which had the right to decide as to what action it would take whether with or without the Appellant, in respect of such infringer. An application could have been filed to register the Appellant as a registered user and such application could have been made jointly only. The termination clause was clear. Though the initial period was 10 years, the agreement could have been terminated with 12 months' written notice by either party. The termination was automatic under some circumstances as detailed in the agreement. One of the reasons for termination could be the termination of the joint venture agreement. Upon termination of the license agreement, the Appellant would not have any rights to use or seek registration of the mark "HILTON". This agreement was in the nature of a license agreement and had all the trappings of a license. The rights of HRL were completely preserved and only a right to use was being given to the Appellant. No Ions term benefit accrued to the Appellant. The royalty payable by the Appellant was 1.8% of the net selling price from the date of commercial production.*

.....

32. It is relevant to record some important facts at this stage. The

mark "HILTON" in respect of Raw Edge, Wrapped V Belts, was a mark which was known in India in the relevant industry. It was being used by HRL which was the original owner for many years prior to the joint venture agreement. The registration of the mark Hilton dates back to 3rd June, 1977 and the user claimed for the said mark was from 1st December, 1972. When the joint venture was entered into, the mark was licensed to the joint venture company i.e. the Appellant which, thereafter, became a subsidiary of RF. HRL did not have any stake in the Appellant after 9<sup>th</sup> November 1995. The Appellant company which was known as Hilton Roulunds Ltd. is now known as Contitech India Private Limited. Thus even the corporate name of the company has changed, though subsequently.

**The settled position in law is that use by a licensee would also inure to the benefit of a licensor, for it would continue to remain the owner, unless there was also part transfer of title. In this case, title and ownership of the mark was not transferred. The Appellant only had permission and approval to use the mark. Thus, the benefit of the use of the mark "HILTON" during the period when it stood licensed to the Appellant inures to HRL.** In *Fedders Lloyd Corpn. Ltd. v. Fedders Corpn.* ILR (2005) I Delhi 478, it was held use of the trademark by a licensee inures to the benefit of the licensor. This position was again reiterated by this Court in *Formula One World Championship Ltd. v. CIT*, International Taxation [2017] 390ITR 199/[2016] 76 taxmann.com 6 (Delhi).

**33.** Thus, when the benefit of the use of the mark has inured to the licensor i.e. HRL, the amount, that has been paid to HRL was a consideration for permission to use the mark, and not for acquiring ownership rights in the mark. The mark "HILTON" did not belong to the Appellant. It also

***did not belongs to either of its current promoters i.e. RF or IFU. It belonged to HRL which was one of the joint venture partners when the Appellant was initially formed. The use of the mark "HILTON" thus, merely facilitated the Appellant's business in India i.e. it facilitated the Appellant's entry into India under the brand name and the trade name which was familiar to the industry and market. The advantage of having used the mark "HILTON" between 1992 and 2005 could endure and benefit the Appellant as a permitted and authorized user, but it cannot be called an acquisition and benefit of capital nature so as to constitute capital expenditure. The Appellant did not purchase and acquire title in the trademark. It did not retain any rights in the mark. In fact the Appellant no longer uses the word "HILTON" either as a trade mark or trade name or as a part of its corporate name. Thus, the payment of Rs.1 crore was for the purpose of obtaining an advantage in carryings on its business and is therefore in the revenue field.***

34. *In order to ascertain whether there was permanent transfer of the trademark "HILTON" in favour of the Appellant, we had asked and called upon the counsel for the Appellant to state the present position. The Appellant has filed additional documents stating that the name of the Appellant was changed to 'Roulands Codan India Limited' on 29th November, 2006. Subsequently, there was another change as of 11th December, 2006. The Appellant is now known as 'Contitech India Private Limited'. Appellant states that they had applied for transfer and registration of the trademark "Hilton Euroflex" on 13th January, 1994, but on 28th April, 1999 they had deleted the word "Hilton" from the said application. Appellant has also placed on record pamphlet/price list that they had not used the*

mark "HILTON" and are marketing their goods on the mark "Roflex", which is their registered trademark since 10th July, 1996. We would accept and not proceed on the basis that the subsequent change in trademark would not be conclusive and determinative of the fact whether the mark "HILTON", was acquired by the Appellant as a capital asset or the payment made was to use the mark "HILTON", which belonged to and was owned by a third party, namely, HRL. Subsequent facts would only confirm our opinion and ratio that the right conferred on the Appellant under the second license agreement entered into 9th November, 1995 had only authorized the Appellant to use the mark for ten years. The Appellant had not acquired any permanent ownership or title in the said mark. The said payment though in lump sum was made to use the said mark and could well have been made with reference to the total sales as was the position in the first agreement dated 27th January, 1993. Certain terms and conditions for using the mark "HILTON" were changed and altered vide agreement dated 9th November, 1995, but in substance with reference to the rights acquired there was no difference between this agreement and earlier license agreement dated 27th January, 1993.

**35. All the above facts point to the clear conclusion that the payment of Rs. 1 crore ought to be treated as revenue expenditure.** There is no doubt in the proposition relied upon by the revenue, as held in *Honda Siel Power (P.) Ltd. (supra)*, the Court has to look at the real nature of the agreement. On an analysis of the agreement on record, there is no doubt that it was merely a trademark license agreement, which conferred no enduring benefit or long term benefit to the Appellant.

36. A supplemental corporate license agreement was executed

along with the first license and the second license agreement. Under these agreements also the right to use the corporate name "Hilton " was nonexclusive and royalty free. Though, it was to remain in full force and executed without any limit of time, a licensor had the right to terminate the said agreement with 30 days' notice. Thus, even the corporate name license agreement was terminable and did not create ownership rights in the Appellant for the word "HILTON". The Court takes notice of the fact that the corporate name has in any event been changed by the Appellant. Moreover, before the Income Tax Authorities, the Appellant had filed to letters dated 16th March, 1997 and 24th September, 1997 signed by the Company Secretary of the Appellant and by HRL, respectively. Both these letters confirm that the right to use the mark "HILTON" was for a limited period of 10 years. The Revenue submits that under clause 12, there was no limitation of time in the license. This position when considered in isolation would be correct, however, when read with the letters submitted to the Income Tax Authorities, as also the stoppage by the Appellant of the use of the mark "HILTON" both as a trade mark and as a trade name, it is clear that the Appellant was merely a licensee of the mark.

37. **Under these circumstances, the question of law is answered in the negative, in favour of the assessee and against the Revenue. It is directed that the payment of Rs. 1 Crore be treated as revenue expenditure for the Assessment Year 1996-97.** In the facts of the present case, there shall be no order as to costs."

16. In view of the above facts and circumstances and relying on the judgment of the Jurisdictional High Court we are of the opinion that the Lower Authorities have committed an error in disallowing the expenditure of Rs. 6,50,00,000/- claimed in respect of payment made by the assessee to AMW, accordingly the addition made by the Revenue Authorities is deleted and the Grounds of Appeal are allowed.

17. In the result, the appeal filed by the assessee is allowed.

**Order pronounced in the Open Court on : 9<sup>th</sup> February, 2023.**

**Sd/-**  
**(B. R. R. KUMAR)**  
**ACCOUNTANT MEMBER**

**Sd/-**  
**(YOGESH KUMAR U.S.)**  
**JUDICIAL MEMBER**

Dated : 09/02/2023  
\*R. N, Sr. PS\*

Copy forwarded to :

1. Appellant
2. Respondent
3. CIT
4. CIT (Appeals)
5. DR: ITAT

ASSISTANT REGISTRAR  
ITAT NEW DELHI