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

BEFORE SHRI N.K. BILLAIYA, ACCOUNTANT MEMBER, AND
SHRI SUDHANSHU SRIVASTAVA, JUDICIAL MEMBER

ITA No. 630/DEL/2017 [Assessment Year: 2013-14]
ITA No. 5814/DEL/2017 [Assessment Year: 2014-15]

GE Intelligent Platforms Asia Pacific Pte Ltd, 6th Floor, 7A, Standard Chartered Building DLF Cyber City, Phase – III Gurgaon, Haryana PAN: AAECG 6481 G	Vs.	The A.C.I.T Circle – 1(3)1, New Delhi
[Appellant]		[Respondent]

Date of Hearing : 01.07.2021
Date of Pronouncement : 01.07.2021

Assessee by : Shri Sachit Jolly, Adv
Revenue by : Dr. Prabha Kant, CIT-DR

ORDER

PER N.K. BILLAIYA, ACCOUNTANT MEMBER,

These two appeals by the assessee are preferred against the two separate orders of the Assessing Officer dated 14.12.2016 and 25.05.2017 framed u/s 143(3) r.w.s 144C(13) of the Income tax Act, 1961 [hereinafter referred to as 'The Act' for short] for Assessment Years 2013-14 and 2014-15 respectively.

2. Since the underlying facts in the issues are identical in both the appeals, they were heard together and are disposed of by this common order for the sake of convenience and brevity.

3. For the sake of our convenience, we are adjudicating on the facts of ITA No. 630/DEL/2017 on the agreement that the underlying facts in ITA NO. 5814/DEL/2017 are mutatis mutandis same.

4. Grievances raised by the assessee in ITA No. 630/DEL/2017 read as under:

> "1. That the assessing officer **("AO")** and Dispute Resolution Panel **("DRP")** erred on facts and in law in computing the income of the Appellant for the relevant assessment year at Rs. 18,15,86,344/- as against 'NIL' income returned by the Appellant.

2. That the AO and DRP erred on facts and in law in assessing the revenues of the Appellant from offshore supply of standardized/shrink wrapped software as income in the nature of royalty and taxing the same under the provisions of Section 9(1)(vi) of the Income-tax Act, 1961 **("the Act")** read with Article 12 of the India Singapore DTAA **("the Treaty").**

3. That the Assessing Officer and DRP erred on facts and in law in ailing to appreciate that pursuant to Section 90(2) of the Act, the Appellant has opted to be governed by the more beneficial provisions of the Treaty, and, accordingly, the provisions of Section 9(l)(vi) of the Act are not applicable in the present case.

4. That the AOand DRP have erred on facts and in law in failing to appreciate that the Appellant's revenues are derived from the sale of a copyrighted article, namely a computer program, and as such there is no transfer of any 'right to use' of the copyrighted in such article, and therefore the same ought not constitute royalty under the provisions of Article 12(3) of the Treaty.

5. That the AOand DRP erred on facts and in law in failing to appreciate that Article 12 of the Treaty provides for an exhaustive definition of 'royalty' and does not include payments for use or right to use a computer software, and therefore the revenues earned by the Appellant in the present case ought not to be taxable in India.

The grounds of appeal made herein above are without prejudice to each other.

The Appellant craves leave to alter, amend and/or withdraw all or any of the grounds of appeal herein or add any further grounds as may be considered necessary and to submit such statements, documents and papers as may be considered necessary wither before or during the time of hearing."

5. The sum and substance of the entire grievances is that the Assessing Officer and the DRP have erred in assessing the Revenue's of the appellant from off-shore supply of standardised/shrink wrapped software as income in the nature of 'Royalty' and taxing the same under the provisions of section 9(1)(vi) of the Act r.w Article 12 of the India-Singapore DTAA.

6. The Revenue's stand can be understood from the following findings /observations of the DRP:

"ARTICLE 16 SOFTWARE.

The sale and purchase of PRODUCTS hereunder shall not be construed as a sale and purchase of any pproprietary rights in PRODUCTS which are in the form of software or in software which is embedded in PRODUCTS which are in the form of hardware. Consistent with Article 20 below, and for the sales territory of GE Fanuc Systems, OE Fanuc-NA hereby grants GE Fanuc Systems the right to distribute those PRODUCTS which are in the form of software and to distribute any other software embedded in PRODUCTS which are in the form of hardware. Ad such distributions by GE Fanuc Systems shall be according to terms and conditions approved by GE Fanuc-NA and sufficient to protect the proprietary rights of GE Fanuc-NA and/or its licensors in such software, which terms and conditions shall be in substantial conformance with those under which GE Fanuc-NA distributes the same software.

The right to distribute software PRODUCTS and embedded software does not include the rightjo reproduce such software, and all copies thereof acquired hereunder shall be ordered in "a<xor35nce with the procedures hereof for acquiring ad PRODUCTS" whether hardware or software,"

7. The DRP followed the decision of the Hon'ble Karnataka High Court in the case of Samsung Electronics Co. Ltd 345 ITR 494 and further observed that the Special Bench decision and TCS decision were largely rendered in the context of pre-amended law with respect to amendments brought by the Finance Act, 2012. This means that the DRP has based its

findings on the amendment brought in the relevant provisions of the Act.

8. The DRP further based its findings observing that the Government of India is consistent on its stand that wherever a position has been expressed by India on the OECD Model Convention, and India does not agree with the views of OECD it would interpret provisions of DTAAs according to its position.

9. After considering several judicial decisions, the DRP finally concluded as under:

> "Where the software is an integral part of the supply of equipment, the consideration for that is not assessable as royalty but where the software is sold separately, the consideration is assessable as "royalty". On facts, the assessee had acquired the software independent of the equipment, and received a license to use the copyright in the software belonging to the non-resident. The non-resident supplier continued to be the owner of the copyright and all other intellectual property rights. As there was a transfer of the right to use the copyright, the payment made by Reliance to Lucent was "for the use of or the right to use copyright" and constituted "royalty" under s. 9{l)(vi) and Article

> 12(3) of the India-USA DTAA (Synopsis International 212 Taxman 454 (Kar), Samsung Electronics 345 ITR 494 (Kar), Lucent Technologies 348 ITR 196 (Kar), Citrix Systems 343 ITR 1 (AAR) & Mlcrosoft/Gracemac Corp 42 SOT 550 (Dei) followed."

10. In this background of the case in hand, we find that the entire quarrel has now been settled by the Hon'ble Supreme Court in the case Engineering Analysis Centre of Excellence Pvt Ltd in a bunch of appeal in Civil Appeal Nos. 8733 – 8734 of 2018 and others.

11. The Hon'ble Supreme Court at para 3 observed as under:

> "3. One group of appeals arises from a common judgment of the High Court of Karnataka dated 15.10.2011 reported as **CIT v. Samsung Electronics Co. Ltd., (2012) 345 ITR 494**, by which the question which was posed before the High Court, was answered stating that the amounts paid by the concerned persons resident in India to non-resident, foreign software suppliers, amounted to royalty and as this was so, the same constituted taxable income deemed to accrue in India under section 9(1)(vi) of the Income Tax Act, 1961 ["**Income Tax Act**"], thereby making it incumbent upon all such persons to deduct tax at source and pay such tax deductible at source ["**TDS**"] under section 195 of the Income Tax Act. This judgment dated 15.10.2011 has been relied upon by the

subsequent impugned judgments passed by the High Court of Karnataka to decide the same question in favour of the Revenue."

12. The Hon'ble Supreme Court at para 4 observed as under:

"4. The appeals before us may be grouped into four categories:

i) The *first category* deals with cases in which computer software is purchased directly by an end-user, resident in India, from a foreign, non-resident supplier or manufacturer.3

ii) The *second category* of cases deals with resident Indian companies that act as distributors or resellers, by purchasing computer software from foreign, non-resident suppliers or manufacturers and then reselling the same to resident Indian end-users.4

iii) The *third category* concerns cases wherein the distributor happens to be a foreign, non-resident vendor, who, after purchasing software from a foreign, non-resident seller, resells the same to resident Indian distributors or end-users.5

iv) The *fourth category* includes cases wherein computer software is affixed onto hardware and is sold as an integrated unit/equipment by foreign, non-resident suppliers to resident Indian distributors or end-users.6 "

13. The Hon'ble Supreme Court at paras 100 and 101 observed as under:

"100. Also, any ruling on the more expansive language contained in the *explanations* to section 9(1)(vi) of the Income Tax Act would have to be ignored if it is wider and less beneficial to the assessee than the definition contained in the DTAA, as per section 90(2) of the Income Tax Act read with *explanation* 4 thereof, and Article 3(2) of the DTAA. Further, the expression "copyright" has to be understood in the context of the statute which deals with it, it being accepted that municipal laws which apply in the Contracting States must be applied unless there is any repugnancy to the terms of the DTAA. For all these reasons, the determination of the AAR in **Citrix Systems (AAR)** (supra) does not state the law correctly and is thus set aside.

101. The High Court of Karnataka, in a judgment impugned in various appeals before us, namely, **CIT v. Samsung Electronics Co. Ltd., (2012) 345 ITR 494**, also held that what was sold/licensed by way of computer software, included the grant of a right or interest in copyright, and thus gave rise to the payment of royalty, which then required the deduction of TDS. The reasoning of this judgment under appeal is set out as follows:

> "…Accordingly, we hold that right to make a copy of the software and use it for internal business by making copy of the same and storing the same in the hard disk of the

designated computer and taking back up copy would itself amount to copyright work under section 14(1) of the Act and licence is granted to use the software by making copies, which [would], but for the licence granted, have constituted infringement of copyright and the licensee is in possession of the legal copy of the software under the licence. Therefore, the contention of the learned senior counsel appearing for the respondents that there is no transfer of any part of copyright or copyright and transaction only involves sale of copy of the copyright software cannot be accepted.

It is also to be noted that what is supplied is the copy of the software of which the respondent-supplier continues to be the owner of the copyright and what is granted under the licence is only right to copy the software as per the terms of the agreement, which, but for the licence would amount to infringement of copyright and in view of the licence granted, the same would not amount to infringement under section 52 of the Copyright Act as referred to above

Therefore, the amount paid to the non-resident supplier towards supply of shrink-wrapped software, or off-the-shelf software is not the price of the C.D. alone nor software alone nor the price of licence granted. This is a combination of all and in substance, unless licence is granted permitting the end user to copy, and download the software, the dumb C.D. containing the software would not in any way be helpful to the end user as software would become operative, only if it is downloaded to the hardware of the designated computer as per the terms and conditions of the agreement and that makes, the difference between the computer software and copyright, in respect of books or prerecorded music [C.D.], as book and prerecorded music C.D. can be used once they are purchased, but so far as software stored in dumb C.D. is concerned, the transfer of dumb C.D. by itself would not confer any, right, upon the end user and the purpose of the C.D. is only to enable the end user to take a copy of the software and to store it in the hard disk of the designated computer if licence is granted in that behalf and in the absence of licence, the same would amount to infringement of copyright, which is exclusively owned by non-resident suppliers, who would continue to be the proprietor of copyright. Therefore, there is no similarity between the transaction of purchase of the book or prerecorded music C.D. or the C.D. containing software and in view of the same, the Legislature in its wisdom, has treated the literary work like books and other articles separately from "computer" software within the meaning of the "copyright" as referred to above under section 14 of the Copyright Act.

It is also clear from the abovesaid analysis of the DTAA, the Income-tax Act, the Copyright Act that the payment would constitute "royalty" within the meaning of article 12(3) of the DTAA and even as per the provisions of section 9(1)(vi) of the Act as the definition of "royalty" under clause 9(1)(vi) of the Act is broader than the definition of "royalty" under the DTAA as the right that is transferred in the present case is the transfer of copyright including the right to make copy of software for internal business, and payment made in that regard would constitute "royalty" for imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill as per clause (iv) of *Explanation* 2 to section 9(1)(vi) of the Act. In any view of the matter, in view of the provisions of section 90 of the Act, agreements with foreign countries DTAA would override the provisions of the Act. Once it is held that payment made by the respondents to the non-resident companies would amount to "royalty" within the meaning of article 12 of the DTAA with the respective country, it is clear that the payment made by the respondents to the non-resident supplier would amount to royalty. In view of the said finding, it is clear that there is obligation on the part of the respondents to deduct tax at source under section 195 of the Act and consequences would follow as held by the hon'ble Supreme Court while remanding these appeals to this court. Accordingly, we answer the substantial question of law in favour of the Revenue and against the assessee by holding that on the facts and in the circumstances of the case, the Income-tax Appellate Tribunal was not justified in holding that the amount(s) paid by the respondents) to the foreign software suppliers was not "royalty" and that the same did not give rise to any "income" taxable in India and wherefore, the respondent(s) were not liable to deduct any tax at source and pass the following order:

All the appeals are allowed. The order passed by the Income-tax Appellate Tribunal, Bangalore Bench "A" impugned in these appeals is set aside and the order passed by the Commissioner of Income-tax (Appeals) confirming the order passed by the Assessing Officer (TDS)-I is restored."

14. Further, at para 102, the Hon'ble Supreme Court considered the judgment by AAR in Citrix Systems as under:

"102. The reasoning of this judgment also does not commend itself to us. The same error as was made by the AAR in **Citrix Systems (AAR)** (supra), was made in this judgment, i.e., no distinction was made between computer software that was sold/licensed on a CD/other physical medium and the parting of copyright in respect of any of the rights or interest in any of the rights mentioned in sections 14(a) and 14(b) of the Copyright Act. This being the case, the reasoning of this judgment suffers from the same fundamental defect that the ruling in **Citrix Systems (AAR)** (supra) suffers from. By no stretch of imagination, can the payment for such computer software amount to royalty within the meaning of Article 12 of the DTAA or section 9(1)(vi) of the Income Tax Act.

15. Further, at para 105, the Hon'ble Supreme Court considered the judgment of the Hon'ble High Court of Karnataka in the case of Synopsis International as under:

> 105. The reasoning of the High Court of Karnataka in **Synopsis Intl.** (supra) does not commend itself to us. *First and foremost*, as held in **State of Madras v. Swastik Tobacco Factory, (1966) 3 SCR 79**, the expression "in respect of", when used in a taxation statute, is only synonymous with the words "on" or "attributable to". Such meaning accords with the meaning to be given to the expression "in respect of" contained in *explanation* 2(v) to section 9(1)(vi) of the Income Tax Act, and would not in any manner make the expression otiose, as has wrongly been held by the High Court of Karnataka.

16. Further, at para 162, the findings of the Hon'ble Supreme Court read as under:

> "162. These reports also do not carry the matter much further as they are recommendatory reports expressing the views of the committee members, which the Government of India may accept or reject. When it comes to DTAA provisions, even if the position put forth in the aforementioned reports were to be accepted, a DTAA would have to be bilaterally amended before any such recommendation can become law in force for the purposes of the Income Tax Act."

17. Further, at para 105, the Hon'ble Supreme Court considered the submissions of the Additional Solicitor General on application of amendment made vide Finance Act, 2012 w.r.e 01.06.1976 and observed as under:

> 77. It is equally difficult to accept the learned Additional Solicitor General's submission that *explanation* 4 to section 9(1)(vi)of the Income Tax Act is clarificatory of the position as it always stood, since 01.06.1976, for which he strongly relied upon CBDT Circular No. 152 dated 27.11.1974. Quite obviously, such a circular cannot apply as it would then be explanatory of a position that existed even before section 9(1)(vi) was actually inserted in the Income Tax Act vide the Finance Act 1976. Secondly, insofar as section 9(1)(vi) of the Income Tax Act relates to computer software, *explanation* 3 thereof, refers to "computer software" for the first time with effect from 01.04.1991, when it was introduced, which was then amended vide the Finance Act 2000. Quite clearly, *explanation* 4 cannot apply to any right for the use of or the right to use
>
> 78. Furthermore, it is equally ludicrous for the aforesaid amendment which also inserted *explanation* 6 to section 9(1)(vi) of the Income Tax Act, to apply with effect from 01.06.1976, when technology relating to transmission by a satellite, optic fibre or other similar technology, was only regulated by the Parliament for the first time through the Cable Television Networks (Regulation) Act, 1995, much after 1976. For all these reasons, it is clear that

explanation 4 to section 9(1)(vi) of the Income Tax Act is not clarificatory of the position as of 01.06.1976, but in fact, expands that position to include what is stated therein, vide the Finance Act 2012.

79. The learned Additional Solicitor General then relied upon the Finance Minister's statement made before the Lok Sabha on 07.09.1990, which allowed lump sum payments to be made without the deduction of tax at source under section 195(1) of the Income Tax Act and did away with the dual levy, both by way of customs duty and income tax, on royalty payments for the licensing of software. This statement, again, in no manner furthers the case of the Revenue that *explanation* 4 is merely clarificatory of the legal position as it always stood. Likewise, Notification No. 21/2012 dated 13.06.2012, which deals with section 194J of the Income Tax Act, does no more than providing that a transferee is exempt from deducting TDS under section 194J when TDS has already been deducted under section 195 on the payment made in the previous transfer of the same software which the transferee acquires without any modification. In any case, this notification being issued on 13.06.2012, i.e., after *explanation* 4 was inserted vide the Finance Act 2012, it would not assist the Revenue in asserting that *explanation* 4 clarifies the legal position as it always stood.

18. At para 155, the Hon'ble Supreme Court considered the judgment of the Hon'ble High Court of Delhi in the case of New Skies Satellite BV 382 ITR 114 as under:

"155. In **Director of Income Tax v. New Skies Satellite BV, (2016) 382 ITR 114** ["**New Skies Satellite**"], a Division Bench of the High Court of Delhi correctly observed that mere positions taken with respect to the OECD Commentary do not alter the DTAA's provisions, unless it is actually amended by way of bilateral re-negotiation. This was put thus:

"**68.** On a final note, India's change in position to the OECD Commentary cannot be a fact that influences the interpretation of the words defining royalty as they stand today. The only manner in which such change in position can be relevant is if such change is incorporated into the agreement itself and not otherwise. A change in executive position cannot bring about a unilateral legislative amendment into a treaty concluded between two sovereign states. It is fallacious to assume that any change made to domestic law to rectify a situation of mistaken interpretation can spontaneously further their case in an international treaty. Therefore, mere amendment to Section 9(1)(vi)"

156. It is significant to note that after India took such positions *qua* the OECD Commentary, no bilateral amendment was made by India and the other Contracting States to change the definition of royalties contained in any of the DTAAs that we are concerned with in these appeals, in accordance with its position. As a matter of fact, DTAAs that were amended subsequently, such as the Convention between the Republic of India and the Kingdom of Morocco for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes On Income,[48] ["**India-Morocco DTAA**"], which was amended on 22.10.2019,[49] incorporated a definition of royalties, not very different from the definition contained in the OECD Model Tax Convention, as follows:

> "The term "royalties" as used in this Article means:
>
> (a) payments of any kind received as a consideration for the use of, or the right to use, any copyright of a literary, artistic or scientific work, including cinematograph films or recordings on any means of reproduction for use for radio or television broadcasting, any patent, trade mark, design or model, plan, computer software programme, secret formula or process, or for information concerning industrial, commercial or scientific experience; and
>
> (b) payments of any kind received as consideration for the use of, or the right to use, any industrial, commercial or scientific equipment"

19. At para 117 of its order, the Hon'ble sc summarized as under:

"117. The conclusions that can be derived on a reading of the aforesaid judgments are as follows:

i) Copyright is an exclusive right, which is negative in nature, being a right to restrict others from doing certain acts.

ii) Copyright is an intangible, incorporeal right, in the nature of a privilege, which is quite independent of any material substance. Ownership of copyright in a work is different from the ownership of the physical material in which the copyrighted work may happen to be embodied. An obvious example is the purchaser of a book or a CD/DVD, who becomes the owner of the physical article, but does not become the owner of the copyright inherent in the work, such copyright remaining exclusively with the owner.

iii) Parting with copyright entails parting with the right to do any of the acts mentioned in section 14 of the Copyright Act. The transfer of the material substance does not, of itself, serve to transfer the copyright therein. The transfer of the ownership of the physical substance, in which copyright subsists, gives the purchaser the right to do with it whatever he pleases, except the right to reproduce the same and issue it to the public, unless such copies are already in circulation, and the other acts mentioned in section 14 of the Copyright Act.

iv) A licence from a copyright owner, conferring no proprietary interest on the licensee, does not entail parting with any copyright, and is different from a licence issued under section 30 of the Copyright Act, which is a licence which grants the licensee an interest in the rights mentioned in section 14(a) and 14(b) of the Copyright Act. Where the core of a transaction is to authorize the end-user to have access to and make use of the "licensed" computer software product over which the licensee has no exclusive rights, no copyright is parted with and consequently, no infringement takes place, as is recognized by section 52(1)(aa) of the Copyright Act. It makes no difference whether the end-user is enabled to use computer software that is customised to its specifications or otherwise.

v) A non-exclusive, non-transferable licence, merely enabling the use of a copyrighted product, is in the nature of restrictive conditions which are ancillary to such use, and cannot be construed as a licence to enjoy all or any of the enumerated rights mentioned in section 14 of the Copyright Act, or create any interest in any such rights so as to attract section 30 of the Copyright Act.

vi) The right to reproduce and the right to use computer software are distinct and separate rights, as has been recognized in **SBI v. Collector of Customs, 2000 (1) SCC 727** (*see* paragraph 21), the former amounting to parting with copyright and the latter, in the context of non-exclusive EULAs, not being so."

20. And the final conclusion reads 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(1)(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.

> 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. "

21. All the averments found in the order of the DRP stand answered by the Hon'ble Supreme Court [supra] and the entire quarrel has been decided in favour of the assessee and against the Revenue. Therefore, respectfully following the decision of the Hon'ble Supreme Court [supra], we order accordingly.

22. In the result, both the appeals of the assessee in ITA Nos. 630/DEL/2017 and 5814/DEL/2017 are allowed.

The order is pronounced in the open court on 01.07.2021 in the presence of both the representatives.

Sd/-	sd/-
[SUDHANSHU SRIVASTAVA]	[N.K. BILLAIYA]
JUDICIAL MEMBER	ACCOUNTANT MEMBER

Dated: 01st July, 2021

VL/

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2. Respondent
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4. CIT(A)
5. DR

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ITAT, New Delhi

Date of dictation	
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Date on which the typed draft is placed before the Other Member	
Date on which the approved draft comes to	
Date on which the fair order is placed before the Dictating Member for pronouncement	
Date on which the fair order comes back to	
Date on which the final order is uploaded on the website of ITAT	
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