

IN THE HIGH COURT OF KERALA AT ERNAKULAM

PRESENT

THE HONOURABLE MR.JUSTICE K.VINOD CHANDRAN

&

THE HONOURABLE MR.JUSTICE ASHOK MENON

THURSDAY, THE 06TH DAY OF DECEMBER 2018 / 15TH AGRAHAYANA, 1940

W.P(C).No.13408 of 2009-U

PETITIONER:

M/S.LAL PRODUCTS, HOUSE NO.39/188,
KARIKKAMURI ROAD, COCHIN-682011,
REPRESENTED BY ITS MANAGING PARTNER, DR.C.K.REVI.

BY ADVS.
SRI.JOSEPH KODIANTHARA (SR.)
SRI.TERRY V.JAMES

RESPONDENT:

- 1 INTELLIGENCE OFFICER,
INVESTIGATION BRANCH, COMMERCIAL TAXES, ALAPPUZHA.
- 2 STATE OF KERALA,
REPRESENTED BY SECRETARY (TAXES), TRIVANDRUM.

R1 & R2 BY SENIOR GOVT.PLEADER SRI.V.K.SHAMSUDHEEN.

OTHER PRESENT:

SRI.JOSEPH MARKOS (SR.) FOR PETITIONER.

THIS WRIT PETITION (CIVIL) HAVING BEEN FINALLY HEARD ON
13.11.2018, ALONG WITH OT.Rev.19/2010, OT.Rev.33/2009,
WP(C).6404/2010, WP(C).16931/2010, THE COURT ON 06.12.2018
DELIVERED THE FOLLOWING:-

W.P(C) No.13408/2009 & - 2 -
connected cases

IN THE HIGH COURT OF KERALA AT ERNAKULAM

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THE HONOURABLE MR. JUSTICE ASHOK MENON

THURSDAY, THE 06TH DAY OF DECEMBER 2018 / 15TH AGRAHAYANA, 1940

O.T.Rev.No.19 of 2010

AGAINST THE ORDER IN TA(VAT) NO.154/2008 DATED 30.06.2009
OF KERALA VALUE ADDED TAX APPELLATE TRIBUNAL, ERNAKULAM
[ASSESSMENT YEAR 2005-06]

REVISION PETITIONER/RESPONDENT/REVENUE:

STATE OF KERALA,
REPRESENTED BY JOINT COMMISSIONER (LAW),
COMMERCIAL TAXES, ERNAKULAM.

BY SENIOR GOVT.PLEADER SRI.V.K.SHAMSUDHEEN.

RESPONDENT/APPELLANT/ASSESSEE:

M/S.ORIENTAL EXTRACTIONS (P) LTD.,
THIRUVANANTHAPURAM, DHANWANTHARI BHAVAN,
POST BOX NO.4204, M.O. WARD, ALAPPUZHA.

BY ADVS.
SRI.ANIL D. NAIR
SRI.NIVEDITA.A.KAMATH

THIS OTHER TAX REVISION (VAT) HAVING BEEN FINALLY HEARD ON
13.11.2018, ALONG WITH WP(C).13408/2009, WP(C).6404/2010,
WP(C).16931/2010, OT.Rev.33/2009, THE COURT ON 06.12.2018 PASSED
THE FOLLOWING:

W.P(C) No.13408/2009 & - 3 -
connected cases

IN THE HIGH COURT OF KERALA AT ERNAKULAM

PRESENT

THE HONOURABLE MR.JUSTICE K.VINOD CHANDRAN

&

THE HONOURABLE MR. JUSTICE ASHOK MENON

THURSDAY ,THE 06TH DAY OF DECEMBER 2018 / 15TH AGRAHAYANA, 1940

O.T.Rev.No.33 of 2009

AGAINST THE ORDER IN TA(VAT) NO.154/2008 [ORIGINALLY NUMBERED AS
T.A.(VAT) NO.3/2007] DATED 30.06.2009
OF KERALA VALUE ADDED TAX APPELLATE TRIBUNAL, ERNAKULAM
[ASSESSMENT YEAR 2005-06]

PETITIONER/APPELLANT IN T.A.:

ORIENTAL EXTRACTIONS (P) LTD.,
THIRUVANANTHAPURAM, DHANWANTHARI BHAVAN,
POST BOX NO.4204, M.O.WARD, ALAPPUZHA,
REPRESENTED BY ITS MANAGING DIRECTOR, MR.K.RAMESH.

BY ADVS.
SRI.ANIL D. NAIR
SMT.NIVEDITA A.KAMATH

RESPONDENT/RESPONDENT IN T.A.:

STATE OF KERALA,
REPRESENTED BY THE SECRETARY, TAXES DEPARTMENT,
THIRUVANANTHAPURAM.

BY SENIOR GOVT.PLEADER SRI.V.K.SHAMSUDHEEN.

THIS OTHER TAX REVISION (VAT) HAVING BEEN FINALLY HEARD ON
13.11.2018, ALONG WITH WP(C).13408/2009, WP(C).6404/2010,
WP(C).16931/2010, OT.Rev.19/2010, THE COURT ON 06.12.2018 PASSED
THE FOLLOWING:

W.P(C) No.13408/2009 & - 4 -
connected cases

IN THE HIGH COURT OF KERALA AT ERNAKULAM

PRESENT

THE HONOURABLE MR.JUSTICE K.VINOD CHANDRAN

&

THE HONOURABLE MR.JUSTICE ASHOK MENON

THURSDAY, THE 06TH DAY OF DECEMBER 2018 / 15TH AGRAHAYANA, 1940

WP(C).No.6404 of 2010-A

PETITIONER:

M/S.LAL PRODUCTS,
HOUSE NO.39/188, KARIKKAMURI ROAD, COCHIN-682011,
REPRESENTED BY ITS MANAGING PARTNER, DR. C.K.REVI.

BY ADVS.
SRI.JOSEPH MARKOS (SR.)
SRI.MATHEWS K.UTHUPPACHAN
SRI.B.J.JOHN PRAKASH
SRI.TERRY V.JAMES

RESPONDENTS:

1 ASSISTANT COMMISSIONER (ASSMT.) .
SPECIAL CIRCLE-2, COMMERCIAL TAXES, ERNAKULAM.

2 STATE OF KERALA,
REPRESENTED BY SECRETARY (TAXES), TRIVANDRUM.

R1 & R2 BY SENIOR GOVT.PLEADER SRI.V.K.SHAMSUDHEEN.

THIS WRIT PETITION (CIVIL) HAVING BEEN FINALLY HEARD ON
13.11.2018, ALONG WITH WP(C).13408/2009, WP(C).16931/2010,
OT.Rev.19/2010, OT.Rev.33/2009, THE COURT ON 06.12.2018 DELIVERED
THE FOLLOWING:

W.P(C) No.13408/2009 & - 5 -
connected cases

IN THE HIGH COURT OF KERALA AT ERNAKULAM

PRESENT

THE HONOURABLE MR.JUSTICE K.VINOD CHANDRAN

&

THE HONOURABLE MR. JUSTICE ASHOK MENON

THURSDAY, THE 06TH DAY OF DECEMBER 2018 / 15TH AGRAHAYANA, 1940

W.P(C).No.16931 of 2010-N

PETITIONER:

M/S.ORIENTAL EXTRACTIONS (P)LTD.,
DHANWANTHARI BHAVAN, POST BOX NO.4204,
M.O.WARD, ALAPPUZHA,
REPRESENTED BY ITS MANAGING DIRECTOR, MR.K.RAMESH.

BY ADVS.
SRI.ANIL D. NAIR
SMT.NIVEDITA.A.KAMATH

RESPONDENTS:

- 1 THE ASSISTANT COMMISSIONER (ASSESSMENT),
COMMERCIAL TAXES, SPECIAL CIRCLE, ALAPPUZHA.
- 2 THE STATE OF KERALA,
REPRESENTED BY ITS SECRETARY (TAXES),
SECRETARIAT, THIRUVANANTHAPURAM.

R1 & R2 BY SENIOR GOVT.PLEADER SRI.V.K.SHAMSUDHEEN.

THIS WRIT PETITION (CIVIL) HAVING BEEN FINALLY HEARD ON
13.11.2018, ALONG WITH WP(C).13408/2009, WP(C).6404/2010,
OT.Rev.19/2010, OT.Rev.33/2009, THE COURT ON 06.12.2018 DELIVERED
THE FOLLOWING:

"C.R."

JUDGMENT

[WP(C).13408/2009, OT.Rev.19/2010, OT.Rev.33/2009,
WP(C).6404/2010, WP(C).16931/2010]

Vinod Chandran, J.

The revisions and writ petitions raise an identical issue as to where the *situs* of a sale is, when the sale is of a trade mark or patent, admittedly assessable to tax as a sale of intangible, incorporeal goods.

2. Arguments were addressed by learned Senior Counsel Sri.Joseph Markos, learned Counsel Sri.Anil D.Nair and the learned Senior Government Pleader Sri.V.K. Shamsudheen.

3. One Lal Products sold its trade mark "Chandrika", obtained for bath-soaps, to "Wipro Chandrika Ltd" and the agreement was executed in Ahmedabad in the assessment year 2004-05. The sale agreement having been executed in Ahmedabad, it was treated as a sale within the State of Gujarat and sales tax was paid in accordance with the tax enactment applicable to that State at 4% on the volition of the assessee. Admittedly, the registered office of the seller was in Kerala and the registered office of the purchaser was in Bangalore. The sales tax authorities initiated penalty proceedings and imposed penalty at twice the amount of tax

sought to be evaded. The penalty order produced as Exhibit P7 and the notice of demand at Exhibit P8 are challenged in W.P(C) No.13408/2009. Consequent to the imposition of penalty, the Assessing Officer completed the assessment for the year 2004-05 which is produced as Ext. P-9 and challenged in W.P(C)No.6404/2010. As per the assessment order, the non-competition fee received by the petitioner-assessee based on an agreement entered into with the purchaser of trade mark, was assessed as local sale, under the Kerala General Sales Tax Act, 1968 (for brevity 'KGST Act"). In carrying out the assessment, the Assessing Officer also levied tax, as inter-State sale on the sale of "Good-Will", ie: sale of trade mark, by the assessee to the purchaser, for which transaction penalty was earlier levied. The sale of good-will was treated as inter-state under the Central Sales Tax Act, (for brevity CST Act) which order is produced as Ext. P-10 and challenged in W.P(C)No.6404/2010.

4. Oriental Extraction (P)Ltd., likewise, was proceeded against for the assessment year 2005-06 under the CST Act on a similar transaction, here a sale of patent. The assessee therein had transferred its patent rights on "Manjal Soap", again a bath-soap, to Marico Industries Ltd., having registered office at Bombay. Admittedly, the assessee had a

registered office within the State of Kerala at Alappuzha. The agreement of sale was executed at Pondicherry wherein the purchaser had a unit manufacturing soaps for which the trade mark registration was obtained. As in the other case penalty proceedings were initiated against which statutory appeals were taken by the assessee. Eventually, the Tribunal while affirming the finding as to evasion of tax, modified the penalty to actual tax evaded. The revisions herein are by the assessee and State, the former against the imposition of penalty itself and that of the State, against reduction of penalty to the actual quantum of evasion. In the case of the assessee the assessment was completed, under the Kerala Value Added Tax Act, 2003 (for brevity 'KVAT Act') against which was filed W.P(C) No.16931/2010.

5. That the sale of trademark and patent is susceptible to levy under the KGST Act and KVAT Act, the latter under Third Schedule, Entry 68, is not in dispute and the learned Counsel appearing for the assessees do not at all raise a contention on that. The question is as to where the *situs* of sale is. Heavy reliance is placed on the decision in 20th Century Finance Corporation Ltd. v. State of Maharashtra [(2000) 199 STC 182]. The assessee would argue that 20th Century Finance Corporation Ltd. settles the issue and the

situs of sale has to be decided on the basis of where the transfer of property in goods from one person to another is occasioned.

6. The Hon'ble Supreme Court was considering the issue insofar as the transfer of right to use; deemed to be sale of goods under Article 366(29A)(d) of the Constitution of India. Therein, it was categorically held that the *situs* of the goods; when the contract was entered into or the actual delivery of the goods pursuant to such contract, does not have any significance in deciding the *situs* of sale. The declaration in the majority decision was to the effect that since no fiction has been created insofar as the deemed sale being taxable in the State in which the goods are situated at the time of entering into the contract or subsequently delivered; the transfer of property in goods is in the State in which the contract is entered into. The learned Judges also held that *situs* of sale can only be fixed by the appropriate Legislature by creating a legal fiction, like the omitted Explanation to Article 286(1)(a), and there could be no *situs* fixed by mere analogy to Section 4 of the CST Act. The Parliament which is empowered in so far as an inter-State sale is considered, has not fixed the *situs*, nor is the fiction adopted under the CST Act, was the finding.

7. Later to the decision, the definition of "sale" in the CST Act was amended in the year 2002, by Act 20/2002, and the fiction as available in the Constitution of India was also introduced in the CST Act. In the subject assessment years, a transaction of right to use may not be regulated by 20th Century Finance Corporation Ltd.; but, however, the principle insofar as there being no fiction created by statute squarely applies in the present case where there is a transfer of trademark or patent, which are intangible, incorporeal goods capable of being taxed under the general sales tax law, is the argument.

8. In the present case, when there is a contract entered into for transfer of property in goods, then necessarily the *situs* would be in the State where the transfer was effected, being the State in which the contract was entered into. Reliance is also placed on a decision of the High Court of Gujarat in Ambalal Sarabhai Enterprises Ltd. v. S.T.O. [(2006) 145 STC 523 (Guj.)], which was rendered after the amendment to the definition of "sale" in the CST Act was brought in. In a similar situation, when certain "corporeal" rights were assigned by a company in Gujarat by execution of documents at Mumbai, it was held that there would be no tax payable in the State of Gujarat,

especially since the "corporeal" rights transferred were intangible. With all the respect at our command we notice an anomaly in finding intangible rights to be "corporeal", which anomaly we shall elaborate on, a little later.

9. The learned Senior Government Pleader, Sri. V.K Shamsudheen would refer to Section 4 of the CST Act to specifically argue that the goods were never in Gujarat and, hence, by mere execution of an agreement in Gujarat there could not be a sale found on the basis of *situs*, as determined by the State in which the contract was entered into. It is argued that the assessee herein had their principal place of business within the State of Kerala and had applied for trademark registration in the name of the respective companies which also had their registered office within the State of Kerala. Trademark, though an intangible commodity, when its transfer is treated as a sale of goods on which sale tax is leviable, then the *situs* of the intangible goods has to be determined. In such circumstances, the trademark in the present case exists within the State of Kerala and when there is a sale made of the said goods, to an entity situated outside the State, then necessarily the contract entered into occasions the movement of the goods from one State to another, i.e., from the State in which the

trademark holder has the principal place of business to the State in which the purchaser has its principal place of business. Then, under Section 3 of the CST Act, there would be inter-State sale and tax is payable under the CST Act within the State of Kerala.

10. It is argued that 20th Century Finance Corporation Ltd. never considered the aspect of inter-State sale and was concerned only with the issue of determination of *situs* of sale insofar as a transfer of right to use goods, when a contract is entered into within one State; the goods, at the time of execution of contract, existing in another State and delivery occasioned in one another State. The issue of a transaction occasioning the movement of goods from one State to another as provided under Section 3 of the CST Act never came up for consideration in 20th Century Finance Corporation Ltd., since the definition of "sale" as available in the CST Act did not take in, the transfer of right to use goods as available in Article 366(29A) of the Constitution. It is also argued on the strength of the decision in CUB PTY Limited v. UOI and Ors. [(2016) 388 ITR 617 (Delhi)] that the *situs* of an intangible asset has to be determined looking at the *situs* of the owner of such intangible asset.

11. 20th Century Finance Corporation Ltd. considered the provisions under the various enactments, specifically that of the State of Maharashtra, wherein the transfer of right to use goods, by an Explanation, was deemed to have taken place in the State of Maharashtra if the goods are situated in that State, at the time of their use, irrespective of the place where the agreement for such transfer was made. The learned Judges of the Hon'ble Supreme Court who endorsed the majority judgment, noticed the prohibition of power of State Legislature to levy tax on inter-State trade or commerce. Insofar as inter-State trade or commerce, it was held so, in paragraph 20, categorically finding that the *situs* can only be determined by the Parliament:

"20. While examining the power of State Legislature under entry 54 of List II in earlier part of this judgment, we have noticed that the *situs* of the sale or purchase is wholly immaterial as regards the inter-State trade or commerce, as held in Bengal Immunity Co. Ltd.' case [1955] 6 STC 446 (SC); [1955] 2 SCR 603. Further, the State Legislature cannot by law treat sales outside the State and sales within its State in the definition of sale, as it is within the exclusive domain of the appropriate Legislature, i.e., Parliament, to fix the location of sale by creating legal fiction or otherwise".

12. The challenge was against the provisions in the sales tax enactments which provided taxing of a transaction which took place outside the State; which was held to be outside the scope of power conferred on the State Legislature. It was found that there are no settled principles for determining the *situs* of sale and it can be fixed either by appropriate legislation or by Judge made law and it was held so in paragraph 24, which is extracted hereunder:

"24. The aforesaid decisions unambiguously laid down that where *situs* of sale has not been fixed or covered by any legal fiction created by the appropriate Legislature, the location of sale would be place where the property in goods passes. The Constitution Bench held, that it was the passing of the property within the State that was intended to be fastened on for the purpose of determining whether the sale was "inside" or "outside" the State.

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"Where a party has entered into a formal contract and the goods are available for delivery irrespective of the place where they are located, the *situs* of such would be where the property in goods passes, namely, where the contract is entered into".

"26. Next question that arises for consideration is, where is the taxable event on the transfer of the

right to use any goods. Article 366(29A) (d) empowers the State legislature to enact law imposing sales tax on the transfer of the right to use goods. The various sub-clauses of Clause (29A) of Article 366 permit the imposition of tax thus: Sub-clause (a) on transfer of property in goods; Sub-clause (b) on transfer of property in goods; Sub-clause (c) on delivery of goods; Sub-clause (d) on transfer of the right to use goods; Sub-clause (e) on supply of goods; and Sub-clause (f) on supply of services. The words "and such transfer, delivery or supply..." in the latter portion of Clause (29A), therefore, refer to the words transfer, delivery and supply, as applicable, used in the various sub-clauses. Thus, the transfer of goods will be a deemed sale in the cases of sub-clauses (a) and (b), the delivery of goods will be a deemed sale in case of Sub-clause (c), the supply of goods and services respectively will be deemed sales in the cases of sub-clauses (e) and (f) and the transfer of the right to use any goods will be a deemed sale in the case of Sub-clause (d). Clause (29A) cannot, in our view, be read as implying that the tax under Sub-clause (d) is to be imposed not on the transfer of the right to use goods but on the delivery of the goods for use. Nor, in our view, can a transfer of the right to use goods in Subclause (d) of Clause (29A) be equated with the third sort of bailment referred to in "Bailment" by Palmer, 1979 edition, page 88. The third sort referred to there is when goods are left with the bailee to be used by him for hire, which implies the transfer of the goods to the bailee. In the case of

Sub-clause (d), the goods are not required to be left with the transferee. All that is required is that there is a transfer of the right to use the goods. In our view, therefore, on a plain construction of Sub-clause (d) of Clause (29A), the taxable event is the transfer of the right to use the goods regardless of when or whether the goods are delivered for use. What is required is that the goods should be in existence so that they may be used. And further contract in respect thereof is also required to be executed. Given that, the locus of the deemed sale is the place where the right to use the goods is transferred. Where the goods are when the right to use them is transferred is of no relevance to the locus of the deemed sale. Also of no relevance to the deemed sale is where the goods are delivered for use pursuant to the transfer of the right to use them, though it may be that in the case of an oral or implied transfer of the right to use goods, it is effected by the delivery of the goods".

13. The levy of tax was held to be on the transfer of right to use goods and not on the use of goods itself. The un-amended definition of "sale" in the CST Act was also specifically referred to and it was held that "the transfer is *sine qua non* for the right to use any goods". The CST Act at that time did not include a fiction as to the right to transfer goods or the other transactions under Article 366(29A), being a sale of goods. We would also with emphasis,

observe that here there is no transfer of right to use. The transactions under Article 366(29A) were transactions which were deemed to be sale of goods; which but for the 42nd amendment would not be termed as sale of goods. The fiction only applies to the said transactions and cannot be imported to others. Here there is transfer of property in goods and not mere transfer of right to use.

14. As pointed out by the learned Senior Government Pleader, the definition of "sale" now stands amended, bringing in the fiction insofar as a transfer of right to use goods, being deemed to be a sale of goods. However the amended definition of sale in the CST Act does not at all affect the subject transaction, that being a sale of goods, without any fiction thereof. In Vikas Sales Corporation Vs. CCT [1996 (102) STC 106] it was held that the REP licenses or Exim scrips were goods for the purpose of levy of sales tax. Those were licences providing registered exporters with facility for importing essential inputs for the manufacture of the goods exported. But there was no obligation on such exporters, to themselves, use the facility and the same could be sold to another and there could also be subsequent sales effected. The definition of "goods" and "property" in the Sale Of Goods Act, 1930 were

examined, to find that "goods" includes every kind of movable property and "property" includes not merely special property but general property in goods as well. Definition of "movable property" in the General Clauses Act, 1897 was noticed which took in "property of every description except immovable property" The sales tax enactments of the various States, which arose for consideration there, did not define property but, the definition of "goods": means 'all kinds of property except newspapers, actionable claims, stocks and shares and securities...' was the finding. Considering the inherent value of such licenses, which could be transferred by way of a letter from the transferor recording the transfer, it was held that they were treated and dealt with in the commercial world as merchandise; as goods, and were neither a chose-in-action or an actionable claim.

15. Vikas Sales Corporation also relied on H.Anraj v. Government of Tamil Nadu [(1986) 61 STC 165]. However, H.Anraj was overruled by a Constitution Bench in Sunrise Associates v. Govt. of NCT of Delhi [(2006) 5 SCC 603]. The Constitution Bench expressed doubt with respect to Vikas Sales Corporation only on one aspect, as is evidenced from paragraph 38:

"38. What then is the distinction between actionable claims and other goods on the sale of which sales tax may be levied? The Court in *Vikas Sales* said: (SCC p.449, para 35)

"35. When these licences/scrips are being bought and sold freely in the market as goods and when they have a value of their own unrelated to the goods which can be imported thereunder, it is idle to contend that they are in the nature of actionable claims."

It was assumed that actionable claims are not transferable for value and that that was the difference between "actionable claims" and those other goods which are covered by the definition of "goods: in the Sale of Goods Act, 1930 and the sales tax laws. The assumption was fallacious and the conclusion insofar as it was based on this erroneous perception equally wrong".

A later three-Judge Bench decision in *Yasha Overseas v. CST* [(2008) 8 SCC 681] found that *Vikas Sales Corporation* was doubted only to the extent it had given free marketability of REP as an additional reason in support of its conclusion. *Yasha Overseas*, held that this did not in any way change the legal position regarding sale of REP licence as concluded by *Vikas Sales Corporation*. Hence, *Vikas Sales Corporation* holds the field on all other respects.

16. *Associate Cement Companies Ltd. Vs Commissioner of Customs* [2001 (124) STC 59] and *Tata Consultancy Services*

Vs. State Of Andhra Pradesh [2004 (137) STC 620] found that technological advice or information put on media and software programmes have an intrinsic value, not confined to the value of the media in which it is abstracted. Intellectual property when put in media was held to be goods. Whether the amounts received as royalty for transfer of technological know-how, by deputing suitable personnel, would be goods, was the question raised before a Division Bench of this Court in *2006 (144) STC 536(Ker) [Mechanical Assembly Systems (India) Pvt.Ltd. Vs. State of Kerala]*. It was argued that the technological know-how not being copied or incorporated into a media could not be treated as goods. Relying on the afore cited decisions of the Apex Court it was held that all material, even if they be intangible or incorporeal, capable of abstraction, consumption and also possible of being transmitted, transferred or delivered would come within the definition of goods, the meaning of which was found to have undergone a radical change from its traditional understanding; but all the same coming within the scope of its definition as available in the taxing statute. *2009 (24) VST 327(Ker) [Jojo Frozen Foods (P) Ltd. Vs. State of Kerala]* and *2009 (24) VST 327(Ker) [Kreem Foods (P) Ltd. Vs. State of Kerala]* affirmed the levy made on royalty collected

from franchisees for use of trade mark. There is hence no fiction employed and the incorporeal rights conferred by registration of a trade mark for a product or a patent for a manufacturing process has an intrinsic value and the same is capable of being abstracted, used and transferred from one to another which makes them merchandise and hence goods.

17. In Ambalal Sarabhai Enterprises Ltd., a Division Bench of the High Court of Gujarat noticed that certain sales not being sale of goods within the meaning of the Sale of Goods Act, which hitherto escapes sales tax, have been brought within the purview of the Gujarat Act making the incidence of transfer, taxable under the enactment. With all the respect at our command it has to be noticed that it is not so; Vikas Sales Corporation, Associated Cement Companies and Tata Consultancy Services held that intangible, incorporeal rights are also sale of goods looking at the definitions in the Sale of Goods Act and the taxing statutes. The Gujarat High Court held that the levy was on a fiction and even then, the *situs* of the specified sale has not been fixed by creating a legal fiction and, hence, it was held that the transfer of right to use trademark and 'corporeal' rights would be taxable at the place where

the contract was executed, relying on 20th Century Finance Corpn. Ltd., which according to us, with due respect, is not correct.

18. We find ourselves unable to be persuaded to follow the view of the Division Bench of the Gujarat High Court in Ambalal Sarabhai Enterprises Ltd. In the present case, there is no fiction created so as to bring within the concept of sales, a transaction which ordinarily would not have been termed to be sale of goods. In this context, the submission of the assessee that they had been using the trademark or patent rights in their products which could be sold all over India has to be dealt with. It was also pointed out that, just as the transferor, the transferee also gets the right to use the trademark or patent rights on specified goods which could be marketed and sold anywhere in the country. However, we are not inclined to think that the use of the trademark or patent rights, being widely possible, all over the country, would lead to the position of such trademark or patent rights being available as goods for sale within any of the States where there is a sale of the product effected. Again, succumbing to the view of repetition, by the sale effected, there is no transfer of right to use but a transfer of property in goods proper. The right to use the

trade mark in the manufactured products or the right to carry on a process for which patent has been received is the intangible, incorporeal goods, that is sold. This is clearly distinguishable from the transfer of right to use goods.

19. In one of the cases herein, the assessee, with their principal place of business in Kerala, had executed the agreement of transfer at Gujarat while the purchaser's principal place of business was situated at Bangalore. In the other case, the assessee who had its principal place of business in Kerala, had gone to the State in which the purchaser had a factory manufacturing soap, the product on which the trademark was granted, for the purpose of executing the contract. If the *situs* of the trademark is to be so obscure and enigmatic, as the assessees would want us to hold, then the agreement could be executed anywhere within India without reference to the principal place of business. What is required is only a mere assertion that the goods manufactured, on which the trademark is affixed or the patent rights are enforced, are marketed or sold within that State within which the contract was executed.

20. The consideration of *situs* of sale insofar as the parties to the transaction herein, the seller and the purchaser, whose principal place of business exist in two

different States offers no difficulty insofar as the specific provisions under the CST Act. We are also of the opinion that the amendment to the definition of "sale" in the CST Act though relevant for the six instances where there is a deemed sale of goods, has no effect insofar as the subject transaction. *Dehors* the amendment, the sale would come within the concept of sale as available under the CST Act, in which instance we have to look at Section 3, having accepted the sale of a trademark or patent rights as a sale of goods. Though intangible and incorporeal, it has an existence and its *situs* also has to be pinned down to a particular place with reference to the owner. The *situs* of the principal place of business, from where the owner of such trademark exercises his right to sell specified goods, under the trademark or enforces his patent rights, which has been obtained by them as a statutory right, is the place where the goods exist.

21. In this context, though under the Income Tax Act; we refer to the decision of the High Court of Delhi in *CUB PTY Limited*. Therein, the question raised was as to the *situs* or location of intellectual property rights such as logos, brands, trade marks, which are capital assets, but intangible in nature. Whether the income accrued to the petitioner, who was not situated in India, for transfer of a

trade mark, could be assessed to income tax, as income accrued by way of transfer of capital asset under Section 9(1) (i), finding the *situs* of the capital asset within India was the issue arising. We extract the operative portion, herein below:

"19. The issue of situs of an intangible asset, such as the intellectual property rights in trademarks, brands, logos etc. is indeed a tricky one. Insofar as the tangible assets are concerned, there is absolutely no difficulty. They exist in physical form and their existence is at specific locations. Thus, fixing their situs does not pose any problem. An intangible capital asset, by its very nature, does not have any physical form. Therefore, it does not exist in a physical form at any particular location. The legislature could have, through a deeming fiction, provided for the location of an intangible capital asset, such as intellectual property rights, but, it has not done so insofar as India is concerned. With regard to a share or interest in a company registered/incorporated outside India, Explanation 5 has been added to Section 9(1) (i) of the Income Tax Act, 1961 by virtue of the Finance Act, 2012 with retrospective effect from 01.04.1962. The said Explanation 5 reads as under:-

"Explanation 5. - For the removal of doubts, it is hereby clarified that an asset or a capital asset being any share or interest in a company or entity registered or incorporated outside India shall be deemed to be and shall always be deemed to have been situated in India, if the

share or interest derives, directly or indirectly, its value substantially from the assets located in India."

20. Thus, the legislature, where it wanted to specifically provide for a particular situation, as in the case of shares, where the share derives, directly or indirectly, its value substantially from assets located in India, it did so. There is no such provision with regard to intangible assets, such as trademarks, brands, logos, i.e., intellectual property rights. Therefore, the well accepted principle of 'mobilia sequuntur personam' would have to be followed. The situs of the owner of an intangible asset would be the closest approximation of the situs of an intangible asset. This is an internationally accepted rule, unless it is altered by local legislation. Since there is no such alteration in the Indian context, we would agree with the submissions made on behalf of the petitioner that the situs of the trademarks and intellectual property rights, which were assigned pursuant to the ISPA, would not be in India. This is so because the owner thereof was not located in India at the time of the transaction".

22. We are in respectful agreement with the aforesaid decision that the *situs* of the owner of an intangible asset, would be the closest approximation of the *situs* of an intangible asset. On the above reasoning, it has to be held that the exercise of the right to a trademark or a

patent right; which has been obtained by the assesseees, who had their principal places of business in the State of Kerala, is exercised from the principal place of business. When transferring their rights obtained under a statute, to another entity having its place of business in another State; from where the transferee intends to exercise such rights thereafter, postulates a movement of the intangible, corporeal goods from one State to another and, hence, would be an inter-State sale assessable to tax under the CST Act. The transferor's principal place of business being within the State of Kerala, the sale would be an inter-State sale. We, at the shame of repetition, reiterate that the transfer is not a transfer of right to use, but a transfer of property in goods, vesting the complete rights with the transferee and the transferor having no subsisting right thereafter.

23. Section 3 of the CST Act, applies on all fours and the agreement of transfer of the intangible, incorporeal rights; nay goods, occasions the movement of the said goods from Kerala to that other State where the transferee has their principal place of business. The agreement executed in Gujarat and Puducherry does not make the sale within that State or Union Territory, as Section 4 of the CST Act provides that sale of goods is deemed to take place in a

State, only when the goods are within the State. Otherwise any goods could be taken by the seller to another State and delivered to the purchaser making it an intra-State sale.

24. As to the assessment of non-competition fee, at the hands of the assessee, it is to be observed that the fee is paid by the transferor to the transferee, in pursuance to an agreement by which the transferee-assessee manufactures the goods under trade mark, which right has already been transferred. There is no sale of goods in the said transaction and it has to be reiterated that the fees are paid by the purchaser outside the State to the assessee within the State. Hence Exhibit P9 to the extent it assess the non-competition fee is set aside. Exhibit P10 is upheld to the extent the transfer of trade mark or good will is assessed under the CST Act. W.P.(C) No.6404 of 2010 is partly allowed. If the petitioner has any other issue, not decided herein, to be agitated in statutory appeal, if not already filed, the same shall be taken up within 30 days from the receipt of the certified copy of this judgment and then it will be treated as filed within time. The levy though is not debatable, the assessee was led to follow the course it took, on a misunderstanding of the decision in 20th Century Finance Corpn. Ltd., which was *bonafide*, hence there is no

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connected cases

cause for penalty. W.P.(C) No. 13408 of 2009 is allowed and the order imposing penalty set aside.

25. Likewise the revisions are with respect to the penalty levied and O.T.Rev.33 of 2009, by the assessee, is allowed finding no cause for penalty on the reasoning above and as a consequence the revision of the State O.T. Rev.No.19 of 2010 is rejected. W.P.(C) No.16931 of 2010 is dismissed sustaining the order of assessment to the extent the transfer of patent right is assessed under the CST Act. If the petitioner has any other issue, not decided herein, to be agitated in statutory appeal, if not already filed, the same shall be taken up within 30 days from the receipt of the certified copy of this judgment and then it will be treated as filed within time.

Ordered accordingly. Parties are left to suffer their respective costs.

Sd/-
K.VINOD CHANDRAN
JUDGE

Sd/-
ASHOK MENON
JUDGE

vku/-

APPENDIX OF WP (C) 13408/2009

PETITIONER'S EXHIBITS:

- EXHIBIT P1 TRUE COPY OF DEED OF ASSIGNMENT OF TRADE MARK FOR INDIA DATED 9.6.2004 BETWEEN THE PETITIONER AND MR.C.K.JINAN AND OTHERS.
- EXHIBIT P2 TRUE COPY OF NOTICE DATED 16.10.2007 ISSUED BY THE 1ST RESPONDENT TO THE PETITIONER.
- EXHIBIT P3 TRUE COPY OF AFFIDAVIT DATED 29.11.2007 OF THE PETITIONER FILED BEFORE THE 1ST RESPONDENT.
- EXHIBIT P4 TRUE COPY OF NOTICE DATED 17.1.2008 ISSUED BY THE 1ST RESPONDENT TO THE PETITIONER.
- EXHIBIT P5 TRUE COPY OF NOTICE DATED 12.2.2008 ISSUED BY THE 1ST RESPONDENT UNDER SECTION 45A OF THE KGST ACT.
- EXHIBIT P6 TRUE COPY OF OBJECTION DATED 22.2.2008 FILED BY THE PETITIONER BEFORE THE 1ST RESPONDENT.
- EXHIBIT P7 TRUE COPY OF ORDER DATED 14.3.2009 ISSUED BY THE 1ST RESPONDENT TO THE PETITIONER.
- EXHIBIT P8 TRUE COPY OF NOTICE OF DEMAND DATED 6.4.2009 ISSUED BY THE 1ST RESPONDENT TO THE PETITIONER.

APPENDIX OF OT.Rev 19/2010

PETITIONER'S ANNEXURES:

- ANNEXURE-A TRUE COPY OF THE ORDER OF IMPOSING PENALTY
DATED 8/5/2007.
- ANNEXURE-B A TRUE COPY OF THE APPELLATE ORDER DATED
24/11/2007
- ANNEXURE-C A TRUE COPY OF THE ORDER OF THE KERALA
VALUE ADDED TAX APPELLATE TRIBUNAL
DATED 30/6/2009.

APPENDIX OF OT.Rev 33/2009

PETITIONER'S ANNEXURES:

- ANNEXURE A TRUE COPY OF THE VAT ORDER OF THE INTELLIGENCE OFFICER (IB) ALAPPUZHA FOR 2005-06 ISSUED TO THE PETITIONER NO.CR.17/05-06 DATED 8.5.2007.
- ANNEXURE B TRUE COPY OF THE ORDER ISSUED BY THE DY.COMMISSIONER OF COMMERCIAL TAXES (APPEALS), ERNAKULAM TO THE PETITIONER DATED 24.11.2007.
- ANNEXURE C TRUE COPY OF THE ORDER ISSUED BY THE VAT APPELLATE TRIBUNAL, ERNAKULAM TO THE PETITIONER (TA (VAT)NO. 154/2008) DATED 30.6.2009.

APPENDIX OF WP(C) 6404/2010

PETITIONER'S/S EXHIBITS:

- EXHIBIT P1 TRUE COPY OF ASSIGNMENT DEED DATED 9.6.2004.
- EXHIBIT P2 TRUE COPY OF ORDER DATED 14.3.2009 OF THE INTELLIGENCE OFFICER, ALAPPUZHA.
- EXHIBIT P3 TRUE COPY OF INTERIM ORDER DATED 10.7.2009 OF THE KERALA HIGH COURT IN WP(C)NO.13408/2009.
- EXHIBIT P4 TRUE COPY OF NOTICE DATED 6.11.2009 OF THE 1ST RESPONDENT.
- EXHIBIT P5 TRUE COPY OF REVISED NOTICE DATED 4.12.2009 OF THE 1ST RESPONDENT ISSUED UNDER SECTION 17(3) OF THE KGST ACT.
- EXHIBIT P6 TRUE COPY OF NOTICE DATED 5.12.2009 OF THE 1ST RESPONDENT ISSUED UNDER RULE 6(2) OF THE CST ACT.
- EXHIBIT P7 TRUE COPY OF OBJECTION OF THE PETITION AGAINST NOTICE UNDER SECTION 17(3) OF KGST ACT.
- EXHIBIT P8 TRUE COPY OF OBJECTION OF THE PETITIONER AGAINST NOTICE UNDER RULE 6(2) OF CST ACT.
- EXHIBIT P9 TRUE COPY OF KGST ASSESSMENT ORDER DATED 14.1.2010.
- EXHIBIT P10 TRUE COPY OF CST ASSESSMENT ORDER DATED 14.1.2010.
- EXHIBIT P11 TRUE COPY OF NON-COMPETE AGREEMENT DATED 10.6.2004.

APPENDIX OF WP(C) 16931/2010

PETITIONER'S EXHIBITS:

- EXHIBIT P1 TRUE COPY OF THE NOTICE DATED 10.3.2010
ISSUED BY THE FIRST RESPONDENT TO THE
PETITIONER.
- EXHIBIT P2 TRUE COPY OF THE REPLY DATED 9.4.2010
SUBMITTED BY THE PETITIONER TO THE FIRST
RESPONDENT.
- EXHIBIT P3 TRUE COPY OF THE ORDER DATED 13.5.2010
ISSUED BY THE FIRST RESPONDENT TO THE
PETITIONER.
- EXHIBIT P4 TRUE COPY OF THE ORDER DATED 1.3.2010 OF
THIS HON'BLE COURT IN WP(C)NO.6404 OF 2010.

vku/-

[TRUE COPY]