IN THE INCOME-TAX APPELLATE TRIBUNAL
BANGALORE BENCH 'A', BANGALORE

BEFORE SMT. P. MADHAVI DEVI, JUDICIAL MEMBER
AND
SHRI A. MOHAN ALANKAMONY, ACCOUNTANT MEMBER

I.T.A. No.160(Bang.)/2010
(Assessment Year : 2008-09)

M/s ING Vysya Bank Ltd,
ING vysya House, NO.22, MG Road,
Bangalore-560 001.
PAN No.AABCT 0529M — Appellant

Vs

The Deputy Director of Income-tax,
(International Taxation),
Circle-1(1),
Bangalore. — Respondent

Appellant by : Shri S, Ananthan, CA
Respondent by : Shri Etwa Munda, CIT-II

O R D E R

PER SMT P. MADHAVI DEVI, JM;

This is an appeal filed by the assessee and its directed against the order of the CIT(A)-IV, Bangalore, dated 30-11-2009 for the assessment year 2008-09. The assessee is aggrieved by the CIT(A) in considering the assessee as assessee is default u/s 201(1) of the Income-tax Act, 1961 on the ground that the assessee has failed to deduct tax at source u/s 195 of the Act on the payments made by it to ING Zurich for purchase of shrink wrapped software from outside

India. The AO considered the said payment as royalty under the Act as well as the DTAA between India and Switzerland.

2. Brief facts of the case are that the assessee who is engaged in the business of banking in India had made certain remittances to M/s ING Vysya Bank N.V.Switzerland during the relevant financial year. From the perusal of the CA certificate, the AO noticed that such remittances were made towards purchase of software license and also that the assessee has not deducted tax at source on the said remittance under the plea that the payments are made toward purchase of software and the same are not liable to tax in India as per provisions of treaty laws and domestic laws. He, therefore, initiated proceedings u/s 201(1) of the Act on the Indian company and asked the assessee to submit the details. The assessee submitted that M/s ING Computer lease, Belgium (ICLB) entered into license agreement with m/s Oracle Netherlands B.V vide agreement dated 27-05-2004 as per which Oracle Netherlands BV has to sell the licenses to use the Oracle Data base software and performance of technical support services with whole ING group. As per the terms of the agreement, Oracle Netherlands would grant the license to ICLB as one time payment. Consequently, ICLB has entered into a sublicensing agreement with other ING associated companies vide agreement dated 27-09-2005 to provide the use of such license and the enjoyment of supplier related maintenance and support to the sub-licenses. As per

the sub-license agreement, the sub licenses are required to pay one time charge for each sub license as calculated in sub-license sheet. The AO also observed that as per the invoice, the assessee has availed 39 CPU licenses and 320 Oracle Named User licenses which contain the oracle database software and other licenses and that also that the assessee has submitted that all these software have directly been downloaded from the website www. After considering the agreement and also the submission of the assessee with regard to the difference between CPU license and Named User Licenses and that the assessee has purchased the "shrink wrapped brand computer software" which is available off the shelf in the market, the AO held that as per the provisions of DTAA between India and Switzerland as well as the definition of "royalty" as per the Act, payment is in the nature of royalty and therefore, the assessee was required to deduct tax at source before making the remittances. Thus, the AO held that the assessee was an assessee in default u/s 201(1) of the Act and also levied interest u/s 201(1A) of the Act.

3. Aggrieved, the assessee preferred an appeal before the CIT(A) who, after considering the assessee's submissions as well as the assessing authorities finding, held that the assessee has obtained only a license to use the Oracle Database software and no other right or interest in the said software has been granted to it. He held that the software has been supplied along with necessary documentation

including user/operating/technical manuals necessary for the installation, operation and use of such software but the ownership still vests with Oracle BV. He held that the transfer of limited right of use is different from transfer of ownership right and as such, the transaction in question cannot be regarded as a sale simplicitor and since the transaction involved sale of computer software, nature of payment received depends upon the nature of rights acquired by the transferee in regard to use and exploitation of the said software. He held that the rights in computer programme are a form of intellectual property and where there is an outright sale of software, consideration is for the transfer of such intellectual property and has to be treated as royalty. He held that in the instance case, the assessee has acquired only a limited right to use the Oracle Database Software while Oracle BV has retained its proprietary rights therein and therefore, the consideration paid for such limited right of user is only in the nature of royalty. He also relied upon the decision of the jurisdictional High Court in the case of CIT Vs Samsung Electronics Co. Ltd.,(2009) (320 ITR 209) wherein it has been held that the Indian Company, when it is making payment to a non-resident, has to compulsorily deduct tax at source irrespective of whether the payment is liable for tax in India or not. Aggrieved, the assessee is in second appeal before us.

4. Shri S. Ananthan, the learned counsel for the assessee, while reiterating the submissions made by the assessee before the authorities below, submitted that the assessee only purchased a license to use the Oracle Database Software which is used by many others and mere sale of license is not the sale of right. He submitted that the assessee has only purchased the "shrink wrapped software" provided by Oracle Database and it is nothing but sale of software and no TDS is required to be made from such remittances. He submitted that the decision of the jurisdictional High Court in the case of Samsung Electronics Co. Ltd.,(supra) has been set aside by the Hon'ble Supreme Court in the case of GE India Technology Centre Vs CIT. Thus, according to him, the assessee cannot be held as the assessee in default u/s 201(1) of the Act. He also placed reliance upon the decision of the Bangalore Bench 'B' of the Tribunal in the case of Velankani Mauritius Ltd., Vs Dy. Director of Income-tax (International Taxation)(2010) 132 TTJ 124 wherein the sale of 'off the shelf shrink wrapped software' in India is held to be only sale of copyrighted article and income there from is not royalty under the Act or under the DTAA.

5. Shri Etwa Munda, the learned DR, on the other hand placed reliance upon the orders of the authorities below. He submitted that the assessee has in fact, purchased software with a license to use the same and therefore, the consideration for the same constituted

royalty. The assessee having not deducted TDS is assessee in default u/s 201(1) of the Act and is also liable to pay interest u/s 201(1A) of the Act.

6. Having heard both the parties and having considered the material on record, we find that the assessee has purchased the license from Oracle Data Base to use its software and the license is for the purpose of its usage only. The software is not 'tailor made' specifically for the assessee and the assessee has only a limited right to use the software and could not alter or modify the software or sell the license to any other person. When the right of use of software is such limited one, that is only to use and operate, it cannot be said that there is any transfer of intellectual property. The licensed software has been developed by Oracle by use of intellectual property no doubt, but the product is only permitted to be used and operated and the assessee has no right to modify or transfer the said license. Thus, we are of the opinion, that there is no transfer of intellectual property. Now, the question to be considered is the nature of the payment whether it constitutes 'royalty' under the Indian Income Tax Act and the DTAA between India and Switzerland ?. If it is in the nature of royalty then whether or not the royalty is taxable in India in the hands of the non-resident will depend upon the provisions of the IT Act and the relevant DTAA if any. The article on royalty in a treaty between two nations assumes significance since the assessee in view

of the provision of sec.90(2) of the Indian Income Tax Act, has an option to opt for taxation either under the Indian Income- Tax Act or the Treaty whichever is more beneficial to it. Therefore, whenever royalty is paid to or received by a person who is a resident of another country with which there exists a treaty, then the definition of 'Royalty' as contained in the relevant treaty will prevail, if it is more beneficial to the assessee. If the payment is made to non-resident, though royalty under the Indian Income-tax Act, but if it does not constitute royalty, under the treaty then the said payment will generally not be taxable in India, unless the said payment is attributable to the permanent establishment of the said non-resident in India. Therefore, it is imperative for us to look at the meaning of royalty given in the Indian Income-tax Act and also in the DTAA between India and Switzerland. Explanation -2 of sec.9(1) and clause-(vi) defines royalty as under;

" Explanation-2 For the purposes of this clause, "royalty" means consideration (including any lumpsum consideration but excluding any consideration which would be the income of the recipient chargeable under the head "Capital Gains" for-

i) the transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process of trade mark or similar property;

ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;

iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;

iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge experience or skill;

iva) the use or right to use any industrial, commercial or scientific equipment but not including the amounts referred to in section 44BB:)

v) the transfer of all or any rights (including, the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting but not including consideration for the sale, distribution or exhibition of cinematographic films; or

vi) the rendering of any services in connection with the activities referred to in sub-clauses()i) to (iv) (iva) an (v)..

Thus, it can be seen that clause-(i) of Explanation -2 refers to 'Royalty' as the consideration for the transfer of any right including 'the granting of license' in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property and clause-v) refers to the transfer of all or any rights (including the granting of a license) in respect of any copyright, literary, artistic or scientific work including……'. Thus, the license to use the software developed by Oracle also falls under this category of property.

Further, the payment of royalty can be periodical or a lumpsum consideration. Thus, it is clear that under the Indian Income-tax Act, the one time payment made by the assessee for obtaining license of 'Oracle Data Base software' is royalty and is taxable in India.

7. Let us now examine the definition of 'royalty' given in Article 12(3) of DTAA between India and Switzerland;

> *" The terms 'royalties' as used in this Article means 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 work on film, tape or other means of reproduction for use in connection with radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, any industrial commercial or scientific equipment or for information concerning industrial, commercial or scientific experience".*

7.1 From a plain reading of the above Article also it is clear that any payment made for the use of or right to use of the properties mentioned there in would be royalty. We find that both the definitions are similar and encompass the payment for 'the use of and the right to use of' any intellectual property mentioned therein such as copyright of a literary, artistic or scientific work or any patent, trade mark, design or model, plan etc.. Thus, the license granted by Oracle Data

Base for use of its software by the assessee company constitutes royalty. The consideration, constituting royalty may be periodic or lumpsum consideration. In the case before us, the assessee has made a one time lumpsum payment for the use of the sub-license. Now, the question as to whether the assessee is liable to deduct tax at source from the payment is to be considered. The CIT(A) had relied upon the decision of the Hon'ble Karnataka High Court, in the case of M/s Samsung Electronics to hold that irrespective of the taxability of the income in India, the payer has to deduct tax at source before making the remittances. However, as brought to our notice, the Hon'ble Supreme Court in the case of GE India Technology Centre (cited supra) has reversed this decision and remitted it back to the Hon'ble Karnataka High Court to decide the taxability of the remittances. Therefore, the decision of the Hon'ble Karnataka High Court in the case of M/s Samsung Electronics is no longer applicable. Even otherwise, we have already held that the remittances are in the nature of 'Royalty' both under the Indian Income Tax Act as well as the DTAA between India and Switzerland. In such case, the assessee is required to deduct tax at source before making the remittances. As the assessee has failed to do so, the assessee has to be treated as an assessee in default u/s 201(1) of the Act. The decision relied upon by the assessee is not applicable to the facts of the case before us. In view of the same, we are of the opinion, that both the AO and the

CIT(A) are right in holding that the assessee is an assessee in default u/s 201(1) of the IT Act, 1961.

8. In the result, the assessee's appeal is dismissed.

(A. MOHAN ALANKAMONY **(SMT. P. MADHAVI DEVI)**
ACCOUNTANT MEMBER **JUDICIAL MEMBER**
Place: Bangalore
Dated: 05-08-2011
am*

Copy to :

1. The Assessee
2. The Revenue
3. CIT(A)
4. CIT
5. DR
6. GF(B'lore)

By Order

AR, ITAT, BANGALORE