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**[2016] 69 taxmann.com 311 (Mumbai - Trib.)**


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**IT/ILT : To constitute "royalty" under India-USA DTAA, it is the consideration for transfer of "use of copyright in the work" and not the "use of work" itself. However, 'Explanation 4' inserted under section 9(1)(vi) by the Finance Act, 2012, provides that the transfer of rights includes and has always included the right for use or right to use a computer software including granting of a license. Thus, it cannot be said that the definition of royalty under the Income Tax Act is in *paramateria* with that under the DTAA. Even otherwise, TDS liability does not arise on basis of retrospective amendment in definition of royalty**

**Facts**

- (a) The assessee had purchased software from residents of different countries for its business of oil and gas exploration. It made payment for such purchase without deducting tax at source.
- (b) Assessing Officer was of the view *Explanation 4* has been inserted with retrospective effect in section 9(1)(vi) which specifically includes computer software in the definition of royalty. These payments would be liable for TDS deduction u/s 195. Thus, assessee to be treated as assessee-in-default.
- (c) On appeal, the CIT(A) held that the payment made by the assessee for purchase of software would not amount to royalty.
- (d) The aggrieved-revenue filed an instant appeal before the Tribunal.

**The Tribunal Held in favour of assessee as under:**

- (1) A perusal of the definition of royalty as provided in Article 12 of the India-USA 'DTAA' reveals that it is the payment which is received as consideration for the 'use of' or the 'right to use' **'any copyright of literary, artistic, scientific work including....'(emphasis supplied)**
- (2) Hence, what is relevant is the consideration paid 'for the use of' or the right 'to use' any 'copyright'. The right to use a computer software programme has not been specifically mentioned in the DTAA with any country
- (3) However, '*Explanation 4*' inserted under section 9(1)(vi) by the Finance Act, 2012, provides that the transfer of rights in respect of any right, property or information includes and has always included the right for use or right to use a computer software including granting of a license.
- (4) Under the circumstances, it cannot be said that the definition of royalty under the Income Tax Act is in *paramateria* with that under the DTAA. Since the definition provided under the royalty in the DTAA is more beneficial to the assessee, as per the provisions of section 90, the definition of royalty as provided under DTAA is to be taken.
- (5) One has to understand the difference between the term "use of copy right in software" and "use of software" itself. To constitute "royalty" under DTAA, it is the

consideration for transfer of "use of copyright in the work" and not the "use of work" itself.

- (6) In our view the sale of a CD ROM/diskette containing software is not a license but it is a sale of a product which, of course, is a copyrighted product and the owner of the copyright by way of agreement puts the conditions and restrictions on the use of the product so that his copyrights in such copyrighted article or the work may not be infringed.
- (7) The assessee could not be said to have paid the consideration for use of or the right to use copyright but had simply purchased the copyrighted work embedded in the CD-ROM which could be said to be sale of 'good' by the owner. The consideration paid by the assessee as per the clauses of the DTAA could not be said to be royalty and the same would be outside the scope of the definition of 'royalty' as provided in the DTAA.
- (8) Amendment vide which the *Explanation 4* has been with retrospective effect to section 9(1)(vi) and has the effect of change in the law. By the introduction of the said *Explanation 4*, computer software has been specifically included in the definition of 'right, property or information' which was never assumed to have been included by any court of law prior to such insertion
- (9) The assessee was under the *bonafide belief* that there was no liability to deduct tax in respect of the consideration paid for the said purchase of software. Hence, assessee was not supposed to deduct TDS on such purchases.



**[2016] 69 taxmann.com 311 (Mumbai - Trib.)**

**IN THE ITAT MUMBAI BENCH 'L'**

**Deputy Director Income-tax (IT)-2 (1), Mumbai**

**v.**

**Reliance Industries Ltd.**

SANJAY GARG, JUDICIAL MEMBER  
AND ASHWANI TANEJA, ACCOUNTANT MEMBER  
IT APPEAL NOS. 1980 TO 1982, 1984, 1986 OF 2008,  
5264 TO 5266 (MUM.) OF 2009 AND OTHER  
MAY 18, 2016

**Jasbir Chauhan** for the Appellant. **Sunil Moti Lala** and **Rajesh Lakhara** for the Respondent.

## **ORDER**

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**Sanjay Garg, Judicial Member** - The above titled appeals by the Revenue, but two by the assesseees have been preferred against the different orders of the Commissioner of Income Tax (Appeals) [hereinafter referred to as the CIT (A)] involving identical issue.

2. The common issue raised in all the appeals is as to whether the remittance made by the Indian residents-assessee companies to the foreign parties/residents of Foreign States on account of consideration for the purchase of certain software for internal use in the business of the assessee is liable to tax in India as 'Royalties' under the provisions of section 9(1)(vi) of the Income Tax Act or the same is to be treated as business income of the foreign company-recipient/supplier of the software, not taxable in India as per the provisions of DTAA with that respective country. It is

pertinent to mention here that the facts in ITA No. 5829/M/2009 and 5264/M/2009 are a bit different on the aspect that the software in these cases had been purchased by the assessee from the resident of Hong Kong with which India has no tax treaty/DTAA. We will discuss the effect of absence of DTAA in the above stated two appeals in the latter part of this order.

3. The assessee herein purchased different type of software from residents of different countries such as Australia, Canada, Singapore, Netherlands, Germany, USA, UK, and France etc.; Undisputedly, India has a tax treaty/Double Taxation Avoidance Agreement (hereinafter referred to as DTAA) with all these countries. According to the AO, the consideration paid by the assessee in these cases for the purchase of the software from the foreign resident companies, falls in the definition of 'royalty' hence taxable in India, whereas, the contention of the assessee is that the same does not constitute royalty hence not taxable in India and they, therefore, were not liable to withhold tax upon the said consideration paid.

4. Before proceeding further, we list out below the appeal wise, name of the party and the name of the country from whom the assessee had purchased the software and also the brief description of the software supplied along with the date of purchase order etc.

*Name of assessee: Reliance Industries Limited.*

<i>Sr. No.</i>	<i>ITA No.</i>	<i>Name of the Vendor</i>	<i>Country of Residence</i>	<i>Brief description of software supplied</i>	<i>Date of purchase order</i>
1.	1980/M/08	M/s Paradigm Geophysical Pty Ltd.	Australia	Geological and Seismic Data Processing/Interpretation software for Oil & Gas business	17.02.03
2.	1981/M/08	M/s Hampson-Russell Ltd	Canada (Hampson)	Seismic Data Processing/Interpretation Software	31.03.03
3.	1982/M/08	M/s Sun Microsystems Pte Ltd	Singapore (Sun)	Information Technology Software	10.07.02
4.	1984/M/08	M/s Clarity International Ltd	Australia	Information Technology Software	28.02.02
5.	1986/M/08	M/s Veritas DGC Asia Pacific Ltd	Singapore	RC2 Seismic Data Processing/Interpretation Software	14.02.03
6.	2523/M/08	M/s Shell Global Solutions International, BV	Netherlands	Downstream Solutions Components for use in assessee's logistics and distribution activities and midstream solutions for use in assessee's midstream activities	19.12.03
7.	2529/M/08	M/s IES Integrated Exploration Systems	Germany	Software modeling package, parallel processing package, prospect risking and ranking package etc. for O&G Projects.	15.05.04
8.	3576/M/10	Murex South East Asia Pte Ltd	Singapore	Mx Generation 2000 and Mures Limits Controller	08.03.06

9.	3577/M/10	Halliburton Export Inc	USA	G&G Software	16.02.07
10.	3578/M/10	Halliburton Export Inc	USA	G&G Software	18.03.06
11.	3579/M/10	KVC Process Technology Ltd	UK	KBC Petrosim software	18.01.07
12.	3582/M/10	Fugro Jason Netherlands BV	Netherlands	My bench software	15.02.06
13.	4587/M/10	Bechtel France SAS	France	Topnir multiuser software for crude petroleum refinery at Jamnagar	11.05.07
14.	4590/M/10	Halliburton Export Inc	USA	G&G Software for 3D interpretation for O&G Division	21.11.07
15.	4593/M/10	Ansys Inc	USA	Ansys fluent bundle of software for fluid flow analysis.	18.02.08
16.	5264/M/09	Hewlett Packard Asia Pacific Ltd	Hong Kong	Information Technology Software	10.05.02 13.05.02
17.	5265/M/09	Thin Multimedia Inc	USA	Information Technology Software	08.10.02
18.	5266/M/09	Flying J Inc	USA	Information Technology Software	31.07.02
19.	5829/M/09	M/s Business Objects Greater China Ltd.	Hong Kong	Information Technology Software	26.09.03
20.	5832/M/09	Scandpower Petroleum Technology FZ-LLC	UAE	OLGA Engineering Software for O & G Division	27.06.07
21.	3219/M/12	Aspen Technology Inc Re	USA	Information Technology Software	16.11.05

*Name of assessee: Reliance Industrial Infrastructure Ltd.*

22.	3354/M/11	EMC Computer System (South Asia) Pte. Ltd	Singapore	EDMS package software	26.07.07
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*Name of assessee: Reliance Corporate IT Park Ltd.*

23.	2728/M/2012	Codeware Inc	USA	Compress pressure vessel design software	06.02.06
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5. Both the Ld. Representatives of the parties have submitted that they would like to argue the matter taking the facts of ITA No.1980/M/2008 as a lead case. Hence, for the sake of convenience,

ITA No.1980/M/2008 is taken as lead case for the purpose of narrating the facts.

6. The facts in the lead case as derived from the impugned order of the lower authorities are that M/s. Reliance Industries Limited (assessee), is a Public Limited company. The assessee placed Purchase Order No.2001-GEL-E1-CG-S-426-ME dated 17.02.2003 with M/s. Paradigm Geophysical Pty. Ltd. Australia (Paradigm) for supply of Geological and Seismic Data Processing/Interpretation Software for its Oil & Gas business. Copy of the agreement and copy of purchase order was filed by the assessee before the AO along with the application u/s.195 seeking remittance of US\$ 5,27,250/-without deduction of tax. The assessee explained to the Assessing Officer that 'Paradigm' was a company registered in Australia and tax resident of Australia and that as per the Conditions/terms of the purchase agreement, assessee did not acquire any copyright in the software so purchased within the meaning of Article 13 of Indo-Australia Double Taxation Avoidance Agreement ('DTAA') and hence the payment made by assessee to 'Paradigm' did not amount to royalty. 'Paradigm' did not have a Permanent Establishment ('PE') in India and accordingly its business income was not taxable in India as per Article 7 and 5 of the DTAA.

7. The AO, however, observed that the assessee had only got a license to use the software and that no other title or interest in the software was transferred to the payer/assessee, hence, there was no question of sale of software per se. He, further, observed that if at all there was an element of sale, it was only in respect of career media i.e. the CD (Compact Disk) in which the software was transacted/loaded. He, therefore, observed that there was enormous difference in the values of the career media i.e. the CD and the software loaded on it. He ignored the sale price of the career media being very low, but, held that what the assessee was given was the license to use software and that the payments made for the import of software were in the shape of royalty and as per the provisions of section 9(1)(vi) of the Act, the income in respect of the same was deemed to have accrued in India and thus the assessee was liable to deduct the tax at source under section (40)(a)(i) of the Act in respect of such payments. He, accordingly, vide order dated 16.08.04 directed the assessee to deduct TDS at the rate of 17.65% on the gross amount of license fees payable to M/s. Paradigm Geophysical Pvt. Ltd. (foreign resident). He therefore rejected the petition of the assessee moved under section 195(2) of the Act.

8. In appeal, the Ld. CIT (A) relying upon the definition of 'royalty' as provided under the DTAA of India with Australia and following his own decision dated 29/10/2007 in another appeal bearing No.CIT (A)XXXI/DDIT(IT)2(1)/IT-303/02-03 in the assessee's own case in relation to the purchase of software for internal business use of the assessee from certain residents of the US, held that the payment made by the assessee for purchase of software did not amount to royalty. He observed that in the case of non-resident, covered by DTAA, provisions of DTAA would be applicable, if, they are beneficial to the non-resident as per section 90(2) of the Income-tax Act; if the definition of royalty under the DTAA did not cover the payment for purchase of software as royalty, provisions of section 9(1)(vi) would be immaterial. He held that vide the agreement in question, assessee got the right to use the software for its internal business purpose only and not for commercial exploitation. That the assessee did not receive any copyright over the software. Since the M/s. Paradigm Geophysical Pvt. Ltd. hadn't any PE (Permanent Establishment) in India, business profits of the M/s. Paradigm Geophysical Pvt. Ltd. were not taxable in India as per Article 5 & 7 of DTAA. He therefore allowed the appeal of the assessee.

9. Being aggrieved from the order of the CIT (A), the revenue has thus come in appeal before us on the following grounds:

- "1. On the facts and in the circumstances of the case and in law, the Ld. CIT (A) erred in holding that the payment made to M/s. Paradigm Geophysical Pty. Ltd., Australia (Paradigm) for supply of certain Geological and Seismic Data Interpretation Software is only business income of Paradigm and in the absence of any Permanent Establishment in India, the business profit arising in the transaction is not taxable in India.
2. On the facts and in the circumstances of the case and in law, the Ld. CIT (A) failed to

appreciate that the payment for the supply of certain Geological and Seismic Data Interpretation Software is in the nature of royalty which is liable for taxation in India.

3. The Appellant prays that the order of the Ld. CIT (A) on the above grounds be set aside and that of the A.O. restored.
4. The Appellant craves leave to amend or alter any ground or add a new ground which may be necessary."

**10.** It is pertinent to mention here that the identical grounds have been taken by the Revenue in all the appeals of the Revenue. However in the two appeals preferred by the assessee i.e. ITA No.2728/M/2012 and ITA No.3219/M/2012, the Ld. CIT (A) has upheld the findings of the AO rejecting the application of the assessee under section 195(2) of the Act and hence, the assessee has come in appeal in the said cases.

**11.** We have heard the rival contentions of the ld. Representatives of the parties. We note that both the lower authorities have relied upon the following clauses of the license agreement in arriving out at their respective conclusions.

#### "1.1. Software

SELLER'S Proprietary software tool/products for application in Processing/Interpretation of Seismic data in Oil and Gas Exploration industry.

#### 1.2 Copy of Software & agreement

Under each Software Copy, SELLER supplies Software Users Kit that comprises

- (a) a CD with executable code and documentation for the Software
- (b) Installation manual and User manuals in one softcopy (on CD) and Two Hard copies and
- (c) One Security key. The Security key allows the software tools to be installed on Network server and any number of client machines connected to the Network server. Software copies can be Concurrently accessed and used by as many users as are the Supplied number of software Copies. The Software copy shall be fully functional permanently.

The Software copy shall provide complete authorization to BUYER with regards to its usage. SELLER shall indemnify the BUYER against breach of any intellectual property or Patent regulations in developed, maintaining or selling of the software tools."

**12.** From the above, the undisputed facts before us are that the software purchased by the assessee was operational software for the internal use of the assessee's business of oil and gas exploration industry. The software had been embedded in a CD with executable code documentation along with installation manual and user manuals in one softcopy (on CD) and two hard copies. There was one security key which allowed the software tools to be installed on network server and any number of client machines connected to the network server. There was no time limit of the expiry of the said software which meant that the software copy would be fully functional permanently. The agreement of the assessee with the supplier of the software provided complete authorization to the assessee with regard to its usage. It is also undisputed that the software purchased by the assessee was a standardized software for use in the own business of the assessee only. The assessee had not been given any commercial right to reproduce and sell the copies of the software. The party from whom the assessee acquired the software was not having any permanent establishment (PE) in India.

**13.** The ld. AR has placed reliance on a number of decisions in the own cases of the assessee that in identical facts in relation to purchase of software by the assessee from foreign resident companies for use in its business, the tribunal consistently has decided the issue in favour of the assessee. That the CIT (A), while allowing the appeals of the assessee for the assessment years under

consideration, has followed his orders for earlier years which have already been upheld by the Tribunal.

The Ld. D.R, however, though, has admitted that the identical issue in earlier years has already been decided by the different co-ordinate benches of the Tribunal in favour of the assessee, however, has submitted that there is a change of position of law in view of the recent decisions of the Hon'ble Karnataka High Court in the case of "*CIT v. Samsung Electronics Co. Ltd. and others*" [2012] 345 ITR 494 and in the case of "*CIT v. Synopsis International Old Ltd.*" [2013] 212 taxman 454. The Ld. D.R. has further relied upon the decision of the co-ordinate bench of the Tribunal in the case of "*Reliance Infocom Ltd.*" dated 06.09.13 reported in [2013] 37 CCH 0069 (Mum. - Trib.) to contend that the software purchased by the assessee was a separate software and the same was neither supplied along with the equipment nor the same was an embedded software in the computer/equipment. That the assessee was not the owner of the software, the ownership of the software had remained with the seller; that the assessee was just given a license to use the software, which was only the right to use of 'copyright' in the software. He has further contended that the Tribunal in the case of "*Reliance Infocom Ltd.*" (*supra*) has relied upon the decision of the Hon'ble Karnataka High Court in the case of "*CIT v. Samsung Electronics Company Ltd. & Others*" [2012] 345 ITR 494 and upon another decision of the Hon'ble Karnataka High Court in the case of "*CIT v. Synopsis International Old Ltd.*" [2013] 212 taxman 454. The Ld. DR in this respect has also relied upon the amended definition of the 'royalty' u/s 9(1)(vi) of the Income Tax Act made vide amendment Act of 2012, vide which 'Explanation 4' has been added to section 9(1)(vi) of the Act with retrospective effect, whereby, including the 'software' in the definition of royalty. The Ld. DR has stated that the definition of royalty under the Act is in parametria with that of the DTAA, therefore, the same is to be read into the definition of treaty as provided in the DTAA for determining the tax liability of the assessee in this respect.

**14.** The contention of the Ld. A.R. of the assessee, on the other hand, has been that the issue has already been decided in favour of the assessee in earlier assessment years by the co-ordinate bench of the Tribunal and that there hasn't been any change of facts. He has further contended that since there is a DTAA of the assessee with the countries of which the sellers of the software were the residents, hence in terms of the treaty and in the light of the provisions of section 90 of the Act, the definition of the 'royalty' as described in the treaty is to be taken and further that the definition of 'royalty' as provided under the Income Tax Act and extended by subsequent amendments bringing into its scope the consideration paid for the purchase/use of software cannot be taken into consideration while interpreting the definition of 'royalty' under the treaty. He has further contended that the disk containing the software, purchased by the assessee, would fall in the definition of 'goods' as defined in the 'Sale of Goods Act' and the consideration paid was the sale price of the goods and not the royalty and hence the assessee was not liable to deduct TDS on the payment for the purchase of goods from the foreign company as the same was business income in the hands of the recipient. The Ld. A.R. of the assessee, in this respect has relied upon the decision of the Hon'ble Delhi High Court in the case of "*DIT v. Infrasoft Ltd.*" [2013] 39 taxmann.com 88 (Delhi) and further on another decision of the Hon'ble Delhi High Court in the case of "*DIT v. Ericson A.B.*" [2012] 343 ITR 470.

The Ld. A.R. has further contended that if in an earlier year, a specific view has been taken by the Revenue, thereafter they are estopped to change their view/stand in a subsequent year, for the sake of consistency and avoidance of uncertainty and confusion. He has further submitted that even otherwise, where, there are two views possible regarding the interpretation of a provision, the construction which favours the assessee is to be taken. He has further submitted that the amendment brought in the Income Tax Act, 1961 cannot be read into the treaty. He has also submitted that at the time of the purchase of the alleged software, no such 'Explanation 4' was introduced in the Income Tax Act and there was no intuition to the assessee that such an amendment will be brought into relevant provision. The assessee thus relying upon the interpretation of the relevant provision, as was in operation at the time of transaction, was rightly of the view that no TDS was required to be deducted in relation to the remittance made to the foreign

resident for the purchase of software. The assessee's above action/view was justified as per the provisions that were subsisting/in operation at the time of transaction and which view has also been affirmed by the higher authorities including the different benches of the Tribunal in the own case of the assessee. He, in this respect, has relied upon the following decisions of the co-ordinate benches of the Tribunal in the own cases of the assessee, wherein the identical issue has already been decided in favour of the assessee:

1. *DDIT v. Reliance Industries Ltd.* in ITA No.1124/M/2008 43 SOT 506 (Mum.)
2. *DDIT v. Reliance Industries Ltd.* in ITA Nos.1124 & 2526/M/2008
3. *DDIT v. Reliance Industries Ltd.* in ITA Nos.1128, 1130 & 1132/M/2008
4. *DDIT v. Reliance Industries Ltd.* in ITA Nos.1133, 1186, 1189 & 3474/M/2008
5. *DDIT v. Reliance Industries Ltd.* in ITA No.117/M/2008
6. *DDIT v. Reliance Industries Ltd.* in ITA No.118/M/2008

**15.** After hearing the Ld. Representatives of the parties, the first and foremost question for adjudication before us is as to whether the definition of 'Royalty' as provided under the Income Tax Act is to be taken or that which has been provided in the DTAA with the respective countries.

**16.** The Ld. D.R. at this stage relying upon the decision of the Hon'ble Madras High Court in the case of "*Vrizon Communication Singapore v. ITO*" 361 ITR 0575 (Mad.) has contended that in 'Para 100' of the said decision, the Hon'ble Madras High Court has observed that the definition of royalty under DTAA and the Indian Income Tax are in paramateria. He has further stated that the said decision of the Hon'ble Madras High Court in the case of "*Vrizon Communication Singapore*" (*supra*) has been followed by the Mumbai Bench of the Tribunal in "*Viacom 18 Media Pvt. Ltd. v. ADIT (International Taxation)*" reported in [2014] 44 taxman.com 1 (Mumbai). He, therefore, has vehemently contended that the definition of royalty as provided under the various clauses and explanations of section 9 of the Income Tax Act should be adopted. He, in this respect, has stated that the Explanation 4 to section 9(1) (vi), introduced vide Amendment Act of 2012, is clarificatory in nature under which the software has been specifically included in the definition of royalty and that it should be read along with the definition of royalty as provided under the DTAA. He therefore has contended that the consideration paid by the assessee for the use of software is to be treated as royalty.

On the other hand the contention of the Ld. AR of the assessee has been that if the provisions of DTAA are more beneficial to the assessee then the same would prevail over the provisions of the Income Tax Act as provided under section 90 of the Income Tax Act. He, in this respect, has relied upon the decision of the Hon'ble Supreme Court in the case of "*Union of India v. Azadi Bachao Andolan*" [2003] 263 ITR 607.

**17.** We have considered the rival contentions of the Ld. Representatives in this respect. We have also gone through the relevant definitions of 'royalty' as provided under the DTAA and under the Income Tax Act. So far as the definition of royalty as provided under section 9(1)(vi) of The Income Tax Act is concerned, the relevant part of the said provision is reproduced as under:

Section 9(1)

"(vi) income by way of royalty payable by—

- (a) the Government ; or
- (b) a person who is a resident, except where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India ; or



- (c) a person who is a non-resident, where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India :

Provided that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process or trade mark or similar property, if such income is payable in pursuance of an agreement made before the 1st day of April, 1976, and the agreement is approved by the Central Government :

Provided further that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum payment made by a person, who is a resident, for the transfer of all or any rights (including the granting of a licence) in respect of computer software supplied by a non-resident manufacturer along with a computer or computer-based equipment under any scheme approved under the Policy on Computer Software Export, Software Development and Training, 1986 of the Government of India.

Explanation 1.—For the purposes of the first proviso, an agreement made on or after the 1st day of April, 1976, shall be deemed to have been made before that date if the agreement is made in accordance with proposals approved by the Central Government before that date; so, however, that, where the recipient of the income by way of royalty is a foreign company, the agreement shall not be deemed to have been made before that date unless, before the expiry of the time allowed under sub-section (1) or sub-section (2) of section 139 (whether fixed originally or on extension) for furnishing the return of income for the assessment year commencing on the 1st day of April, 1977, or the assessment year in respect of which such income first becomes chargeable to tax under this Act, whichever assessment year is later, the company exercises an option by furnishing a declaration in writing to the Assessing Officer (such option being final for that assessment year and for every subsequent assessment year) that the agreement may be regarded as an agreement made before the 1st day of April, 1976.

Explanation 2.—For the purposes of this clause, "royalty" means consideration (including any lump sum 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 or 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) and (v).

Explanation 3—For the purposes of this clause, "computer software" means any computer programme recorded on any disc, tape, perforated media or other information storage device and includes any such programme or any customized electronic data.

Explanation 4—For the removal of doubts, it is hereby clarified that the transfer of all or any rights in respect of any right, property or information includes and has always included transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.

Explanation 5—For the removal of doubts, it is hereby clarified that the royalty includes and has always included consideration in respect of any right, property or information, whether or not—

- (a) the possession or control of such right, property or information is with the payer;
- (b) such right, property or information is used directly by the payer;
- (c) the location of such right, property or information is in India.

Explanation 6—For the removal of doubts, it is hereby clarified that the expression "process" includes and shall be deemed to have always included transmission by satellite (including up-linking, amplification, conversion for down-linking of any signal), cable, optic fibre or by any other similar technology, whether or not such process is secret;

**18.** The definition of "royalty" as provided under DTAA with USA and other countries including that with Australia, (the DTAA under consideration in the lead case) have been considered and reproduced by the Tribunal in the case of "*Reliance Infocom*" (*supra*), which for the sake of convenience are further reproduced as under:

"1. USA: Article 12(3)

The term "royalties" as used in this article means:

- a. payments of any kind received as 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 information concerning industrial, commercial or scientific experience including gains derived from the alienation of any such right or property which are contingent on the productivity, use or disposition thereof; and
- b. payments of any kind received as consideration for the use of, or the right to use, any industrial, commercial or scientific equipment, other than payments derived by an enterprise described in paragraph 1 of article 8 (Shipping and Air Transport) from activities described in paragraph 2(c) or 3 of article 8.

2. Israel: Article 12(3)

The term "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 literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.

3. China: Article 12(3)

The term "royalties" as used in this Article means payment of any kind received as a consideration for the use of or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or tapes for 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, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

#### 4. Sweden: Article 12(3)(a)

The term "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 literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.

#### 5. Singapore: Article 12(3)

The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use:

- a. any copyright of literary, artistic or scientific work, including cinematograph film, or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right, property or information;
- b. any industrial, commercial or scientific equipment, other than payments derived by an enterprise from activities described in paragraph 4(b) or 4(c) of Article 8.

#### 6. Japan: Article 12(3)

The term "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 literary, artistic or scientific work including cinematograph films and films or tapes for 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, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

#### 7. Australia: Article 12(3)

The term "royalties" in this article means payments or credits, whether periodical or not, and, however described or computed, to the extent to which they are made as consideration for:

- a. the use of, or the right to use, any copyright, patent, design or model, plan, secret formula or process, trade mark, or other like property or right;
- b. the use of, or the right to use, any industrial, commercial or scientific equipment;
- c. the supply of scientific, technical, industrial or commercial knowledge or information;
- d. the rendering of any technical or consultancy services (including those of technical or other personnel) which are ancillary and subsidiary to the application or enjoyment of any such property or right as is mentioned in sub-paragraph (a), any such equipment as is mentioned in sub-paragraph (b) or any such knowledge or information as is mentioned in sub-paragraph (c);
- e. the use of, or the right to use:
  - i. motion picture films;

- ii.* films or video tapes for use in connection with television; or
  - iii.* tapes for use in connection with radio broadcasting;
- f.* total or partial forbearance in respect of the use or supply of any property or right referred to in sub-paragraphs (a) to (e); or
- g.* the rendering of any services (including those of technical or other personnel) which make available technical knowledge, experience, skill, know-how or processes or consist of the development and transfer of a technical plan or design; but that term does not include payments or credits relating to services mentioned in sub- paragraphs (d) and (g) that are made;
- h.* for services that are ancillary and subsidiary, and inextricably and essentially linked, to a sale of property;
- i.* for services that are ancillary and subsidiary to the rental of ships, aircraft containers or other equipment used in connection with the operation of ships or aircraft in international traffic;
- j.* received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematographic films or films or tapes for 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 industrial, commercial or scientific equipment, other than an aircraft, or for information concerning industrial, commercial or scientific experience;

#### 8. Canada: Chapter III Article 12(3)

The term "royalties" as used in this Article means:

- a.* payment 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, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof; and
- b.* payments of any kind received as consideration for the use of, or the right to use, any industrial, commercial, or scientific equipment, other than payments derived by an enterprise described in paragraph 1 of Article 8 from activities described in paragraph 3(c) or 4 of Article 8.

#### 9. United Kingdom of Britain and Northern Ireland: Article 13(3)

For the purposes of this Article, the term "royalties" 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 work on films, tape or other means or reproduction for use in connection with radio or television broadcasting, any patent, trade mark, design or model, plan, 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, other than income derived by an

enterprise of a Contracting State from the operation of ships or aircraft in international traffic.

#### 10. Netherlands: Chapter III Article 12(4)

The term "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 literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.'

**19.** A perusal of the above definitions in treaties with different countries reveal that in all the treaties, the Article 12 therein, generally, deals with the payments in respect of royalties and almost identical/similarly worded definition of 'royalty' has been provided in the treaties of India with various countries. This fact has also been noticed by the Hon'ble Karnataka High court in the case of *Synopsis International Old Ltd. (supra)*. For further discussion of the matter, as agreed by both the representatives of the parties also, we take the base definition of 'royalty' as provided in treaty with USA.

**20.** A comparison of the definition of 'royalty' as provided under the DTAA (USA), as reproduced above, with the definition of 'royalty' as provided under Income Tax Act shows that the same are not in paramateria with each other. The definition provided under the DTAA is the very short and restrictive definition, whereas, the definition of the royalty as provided under the Income Tax Act is a very wide and inclusive definition but the same seems to be somewhat vague also. A careful reading of the relevant provisions under the DTAA and as compared with that of the Income Tax Act, 1961, reveals that the DTAA covers only a part of the items mentioned under sub clauses (i) to (v) to Explanation 2 to section 9(1)(vi). A perusal of the definition of royalty as provided in Article 12 of 'DTAA' reveals that it is the payment which is received as consideration for the 'use of or the 'right to use' 'any copyright of literary, artistic, scientific work including . . . . .' (Emphasis Supplied by us).

Hence, what is relevant is the consideration paid 'for the use of or the right 'to use' any 'copyright'. The right to use a computer software/programme has not been specifically mentioned in the DTAA with any country. We may clarify here that the contention of the revenue is that the term 'literary work' includes 'software' also, which contention we will discuss in the latter part of this order.

Now coming to the relevant provisions of the Income Tax Act, 1961, we may mention here that the scope of 'royalty' under clauses (a), (b), & (c) to section 9(1)(vi) is very broad to cover consideration paid for any right, property or information used or services utilized for the purpose of business or profession. Further, we find that the said clauses (a), (b) & (c) of section 9(1) (vi), are not properly worded. To gather as to what payment made by the Indian resident to a foreign resident would constitute royalty, one requires to draw inference from the wording of exception to clause (b). Even, if we draw inference from the 'exception' under clause (b) read with the wording in clause (c) which is in relation to a payment made by a non resident, even then, what the 'royalty', under the Act, may constitute will be the income payable in respect of any 'right', 'property' or 'information' used or services utilized for the purpose of business or profession by such resident to a non resident. Further, vide various explanations introduced subsequently; the above definition of the 'royalty' has been further expanded. 'Explanation 4' inserted by Finance Act, 2012, provides that the transfer of rights in respect of any right, property or information includes and has always included the right for use or right to use a computer software including granting of a license.

We find that so far as Income Tax Act is concerned, 'computer software' has neither been included nor is deemed to be included within the scope or definition of 'literary work' under section 9(1)(vi) of the Act. The term 'literary work' has been separately mentioned under clause (v) to 'Explanation 2' to include the consideration paid for the same within the scope of royalty, whereas, the 'Explanation 4' has broadened the scope of clauses (a) (b) and (c) of section 9(1)(vi) to include 'computer software' under the definition of 'right', 'property' or 'information.'

Hence, the computer software has been recognized as a separate item not only in 2nd proviso to clause (vi) but in 'Explanation 4' also and has been included in the definition and within the scope of the words 'right', 'property' or 'information' as provided under clauses (b) and (c) to section 9(1) (vi) . The term 'computer software' has not been included in the meaning and scope of the term 'literary work' under clause (v) to Explanation 2.

It is also pertinent to mention here that the consideration paid for 'computer software' has not been specifically included under the definition of royalty under the DTAA.

**21.** Under the circumstances, it cannot be said that the definition of royalty as under the Income Tax Act is in paramateria with that under the DTAA. Since the definition provided under the royalty in the DTAA is more beneficial to the assessee, hence as per the provisions of section 90, the definition of royalty as provided under DTAA is to be taken.

So far as the reliance of the Ld. D.R. on the decision of the Hon'ble Madras High Court in the case of "*Vrizon Communication Singapore*" (*supra*) and of the Mumbai Tribunal in the case of "*Viacom 18 Media Pvt. Ltd.*" (*supra*) is concerned, we find that the said decisions have been rendered in context of some other item relating to the consideration paid for transponder/band width/telecom services. In that context, the Hon'ble Madras High Court has interpreted the right to use the 'equipment' and the word 'process' applying the definition provided under the domestic Income Tax Act as the definition of the same was not available in the DTAA. However, in the case in hand, we have to define the term 'literary work' and the term 'copyright'; the definitions of the same are not available under the Income Tax Act, but, the same are available under the Copyright Act, 1957.

**22.** The Hon'ble Delhi High Court in the case of "*DIT v. Nokia Networks OY*" [2012] Taxmann.com 225 (Delhi) has held that though 'Explanation 4' was added to section 9(1)(vi) by the Finance Act 2012 with retrospective effect from 1.6.1976 to provide that all consideration for user of software shall be assessable as 'royalty', the definition in the DTAA has been left unchanged. That in "*Siemens AG*" 310 ITR 320 (Bom.), it was held that amendments cannot be read into the treaty. As the assessee has opted to be assessed by the DTAA, the consideration cannot be assessed as "royalty" despite the retrospective amendments to the Act. The relevant findings of the Hon'ble Delhi High Court as given in para 23 of the said decision, for the sake of convenience are reproduced as under:

"However, the above argument misses the vital point namely the assessee has opted to be governed by the treaty and the language of the said treaty differs from the amended Section 9 of the Act. It is categorically held in *CIT v. Siemens Aktiongesellschaft*, 310 ITR 320 (Bom.) that the amendments cannot be read into the treaty. On the wording of the treaty, we have already held in *Ericsson* (*supra*) that a copyrighted article does not fall within the purview of Royalty."

Further, in a recent judgment in the case of "*DIT v. New Skies Satellite BV*," (ITA 473/2012 vide order dated 08.02.2016), the Hon'ble Delhi High Court has observed that no amendment to the Act, whether retrospective or prospective can be read in a manner so as to extend its operation to the terms of an international treaty. In other words, a clarificatory or declaratory amendment, much less one which may seek to overcome an unwelcome judicial interpretation of law, cannot be allowed to have the same retroactive effect on an international instrument affected between two sovereign states prior to such amendment. That an amendment to a treaty must be brought about by an agreement between the parties. Unilateral amendments to treaties are therefore categorically prohibited. Even the Parliament is not competent to effect amendments to international instruments. As held by the Hon'ble Supreme Court in "*Azadi Bachao Andolan*" [2003] 263 ITR 607, these treaties are creations of a different process subject to negotiations by sovereign nations. While relying on the decision of the Hon'ble Madras High Court, in "*CIT v. VR. S.RM. Firms & Ors*", the Hon'ble Delhi High Court has held that the tax treaties are considered to be mini legislation containing in themselves all the relevant aspects or features which are at variance with the general taxation laws of the respective countries. The Parliament is not equipped with the power to,

through domestic law, change the terms of a treaty. Amendments to domestic law cannot be read into treaty provisions without amending the treaty itself. 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) cannot result in a change. It is imperative that such amendment is brought about in the agreement as well. Hon'ble Delhi High Court concluded in the said decision (*supra*) that the Finance Act, 2012 will not affect Article 12 of the DTAAs, it would follow that the first determinative interpretation given to the word 'royalty' prior to the amendment in the Income Tax Act will continue to hold the field for the purpose of assessment years preceding the Finance Act, 2012 and in all cases which involve a Double Tax Avoidance Agreement, unless the said DTAAs are amended jointly by both parties.

23. Further, we find that in all the decisions of the Hon'ble High Courts, relied upon by both the Ld. Representatives of both the parties, i.e. not only in the decisions relied upon by the assessee of the Hon'ble Delhi High Court in the case of "*Infrasoft Ltd.*" (*supra*) and "*Ericson A.B.*" (*supra*), but also in the decisions relied upon by the Revenue i.e. "*Samsung Electronics Company Ltd. & Others*" (*supra*), "*Synopsis International Old Ltd.*" (*supra*) and of the Tribunal in the case of "*Reliance Infocom Ltd.*" (*supra*), the different Benches of the High Courts and the Tribunal have been unanimous to hold that as per the law laid down by the Hon'ble Supreme Court in the case of "*Union of India v. Azadi Bachao Andolan*" [2003] 263 ITR 607, that where a specific provision is made in the DTAA, that provision will prevail over the general provisions contained in the Income Tax Act if, the same is more beneficial to the assessee as provided under section 90(2) of the Income tax Act. All the Hon'ble High Courts (*supra*) have also been unanimous to further hold that the definition of 'royalty' is restrictive in DTAA whereas the definition of royalty under the Income Tax Act is broader in its content; Therefore, the definition of royalty in DTAA is more beneficial to the assessee and hence the case of the assessee is to be examined in the light of the definition of royalty as provided in the DTAA and that the provisions of the DTAA will, in such an event, override the provisions of the Income Tax Act.

Since, in the cases in hand also, the Ld. AR of the assessee has stated that the definition of treaty in the DTAA is more beneficial to the assessee and that the case of the assessee be decided taking the definition as provided in the treaty, hence, in the light of above cited decisions, we proceed to examine as to the consideration paid by the assessee for the purchase of the software can be covered within the scope of the definition of 'royalty' as provided under the DTAA.

24. As discussed in earlier paras of this order, that though the definition of 'royalty' under DTAA not only covers the payment made as a consideration for the use of, or the right to use, any copyright of a literary work but also for certain other rights/items such as any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, scientific equipment etc. However, the Ld. DR has neither stressed nor has advanced any argument as to that 'software' falls in any of the above mentioned other categories. All the contentions of the revenue are concentrated on the point that 'software' is covered under the term 'copy right in a literary work' and thus included in the definition of 'royalty' as provided under the DTAAs of India with the other countries as detailed in the table above. It has been submitted by the Ld. DR that the definition of 'Literary work' as provided under the domestic law viz. Copyright Act, 1957 should be considered while deciding the scope of the term "Royalty" as defined under the treaty. This issue has been discussed by the Hon'ble Karnataka High Court in the case of "*Samsung Electronics Company Ltd. & Others*" (*supra*) while relying upon Article 3 sub section (2) of the DTAA with US, observing that any term not defined in the convention shall, unless the context otherwise requires, have the meaning which it has under the laws of that 'State' concerning the tax to which the convention applies. Hence, the reference is to be made to the respective law of the taxing State (India in this case) regarding the definition of 'literary work' and 'copyright'. The relevant part of the Article 3 of the DTAA for the purpose of ready reference is reproduced as under:

Art 3. "(2.) As regards the application of the Agreement by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have, the meaning which it has

under the law of that State concerning the taxes to which the Agreement applies."

**25.** Hence, the first question before us, at this stage, is as to whether the term 'literary work' as mentioned in the definition of royalty in the treaty would include 'software' or not?

We note that the term 'Literary work' covers work, which is expressed in print or writing irrespective of the question of its literary merit or quality. It must be expressed in some material form, i.e. writing or print or in some form of notation or symbols, which means in a form capable of either visually or audibly recreating the representation of the original work. As per the provisions of section 2(o) of the Indian Copyright Act, 1957, the term 'literary work' includes computer programs, tables and compilations including computer data base. Therefore, the computer software has been recognized as a literary work in India, if they are original intellectual creations.

**26.** The next controversy that has been raised before us as to whether the sale of software can be said to be sale of 'Goods' or grant of 'License to use' the same. In the past, software were often sold as an integral part of the computer system, but now a days, software products are sold or licensed in the form of computer readable media such as diskettes and CD-ROMs or directly over the Internet. The software sale/purchase contracts involve two distinct parties who could discuss all the terms of such agreement between them. The rights assigned by the author/owner of the software would be very specific in their scope, indicating clearly to the purchaser the actions that he/she is permitted to perform in relation to the software embedded in such discs. Software contracts, like many other transactions, are governed by the common law principles as embodied in the Indian Contract Act. Contracts can be in the nature of sale or assignment/license. If the computer software is considered as a 'goods', the 'Sale of Goods Act, 1930' will have relevance in the formation and execution of the sale contract. In context of copyright law, a license is a permission to do an act, that, when the doing of the same without permission, would be unlawful. In Software Licences, the copyright owner retains substantial rights and greater ability to control the use of software. Licence may have provisions relating to the persons who may use the programme, the number of copies that can be made, warranty, limitation of liability, distribution of the software, etc. These are generally biased towards the licensor. Now, the question before us is as to whether the sale of such computer software by the non-resident to the resident assessee amounts to the transfer for the 'use of or the right 'to use' any copyright in a literary work?

**27.** The plea raised on behalf of the Revenue is that in case of sale of software, the title to the disk, manual etc. in which the software is embedded may pass to the buyer, but, the title to Intellectual Property in the software does not. The Ld. DR has relied upon the decision of the Hon'ble Karnataka High Court in "*CIT v. Samsung Electronics Company Ltd. & Others*" [2012] 345 ITR 494 wherein it has been observed that under the agreement, what had been transferred was only a license to use the copyright belonging to the non-resident subject to the terms and conditions of the agreement and that the non-resident supplier continued to be the owner of the copyright and all other intellectual property rights; license is granted for making use of the copyright in respect of software under the respective agreement and that the same would amount to transfer of part of the copyright. The Ld. DR has also relied upon another decision of the Hon'ble Karnataka High Court in the case of "*CIT v. Synopsis International Old Ltd.*" [2013] 212 taxman 454, wherein, the Hon'ble Karnataka High Court has observed that even in case of end-user software license agreement granted for a non exclusive, non transferable, without right of sub license of use of the licensed software and design techniques, that does not take away the software out of the definition of the copyright. Even if it is not a transfer of exclusive right in the copyright, the right to use the confidential information embedded in the software in terms of the license makes it abundantly clear that there is transfer of certain rights which the owner of a copyright possesses in the said computer software/programme in respect of the copyright. The Hon'ble Karnataka High Court while analyzing the provisions of the DTAA held that the consideration paid 'for the use' or 'right to use' the said confidential information in the form of computer programme software itself constitutes royalty and attracts tax.

**28.** However, different benches of the Hon'ble Delhi High Court in the case of "*DIT v. Infrasoft*"



*Ltd.*" (*supra*); "*DIT v. Nokia networks OY*" (*supra*) and in the case of "*DIT v. Ericson A.B.*" (*supra*) have been unanimous to hold that the license granted to the licensee permitting him to download the computer programme and storing it in computer for its own use is only incidental to the facility extended to the licensee to make use of the copyrighted product for his internal business purposes. The said process is necessary to make the program functional and to have access to it. Apart from such incidental facility, the licensee has no right to deal with the product just as the owner would be in a position to do. The Hon'ble Delhi High Court has observed that in such a case there is no transfer of any right in respect of copyright to the assessee and it is a case of transfer of a copyrighted article. The payment is for a copyrighted article and represents the purchase price of an article and cannot be considered as royalty. The Hon'ble Delhi High Court has further held that what is transferred is neither can be right in the software nor the use of the copyright in the software, but is the right to use copyrighted material or article which is clearly distinct from the rights in a copyright and the same does not give rise to any royalty income and would be the 'business income' of the non-resident. The Hon'ble Delhi High Court in the case of "*Infrasoft Ltd.*" (*supra*) has also relied upon another decision of the Hon'ble Delhi High Court in the case of "*DIT v. Nokia Networks OY*" (2013) 212 taxman 68 wherein the Hon'ble Delhi High Court has held that the copyright is distinct from material object. It is intangible, incorporeal right in the nature of privilege, quite independent of any material substance such as manuscript. The transfer of the ownership of a physical thing in which copyright exists comes to the purchaser with the right to do with it whatever he pleases, except the right to make copies and issue them to the public. Just because one has the copyrighted article, it does not follow that one has also copyright in it.

**29.** Now, after going through the divergent views of the different Benches of the Hon'ble High Courts on this issue and considering the different aspects of the matter, our humble view in respect of this issue is as follows:

Section 2 (7) of the Sale of Goods Act, 1930 defines 'goods' as 'every kind of movable property other than actionable claims and money, and includes stock and shares, growing crops, grass....' This definition of 'goods' thus includes all types of movable properties, whether tangible or intangible. The Hon'ble Supreme Court in the case of "*Tata Consultancy Services v. State of Andhra Pradesh*" 271 ITR 401 (2004), has considered computer software as 'goods' and stated that notwithstanding the fact that computer software is intellectual property, whether it is conveyed in diskettes, floppy, magnetic tapes or CD ROMs, whether canned (shrink-wrapped) or uncanned (customized), whether it comes as part of the computer or independently, whether it is branded or unbranded, tangible or intangible; is a commodity capable of being transmitted, transferred, delivered, stored, processed, etc., and therefore, as a 'good' liable to sales tax. The Hon'ble Supreme Court held that, 'it would become 'goods' provided it has the attributes thereof having regard to (a) its utility; (b) capable of being bought and sold; and (c) capable of being transmitted, transferred, delivered, stored and possessed. If a software whether customized or non-customized satisfies these attributes, the same would be 'goods.' The Hon'ble Apex court while citing the decision of the US court in "*Advent Systems Ltd v Unisys Corporation*" (925) F 2d 670 (3rd Cir 1991), held that a computer program may be copyrightable as intellectual property, does not alter the fact that once in the form of a floppy disc or other medium, the program is tangible, movable and available in the market place. In such a case, the intellectual property has been incorporated on a media for purposes of transfer. The software and the media cannot be split up.

In "*Associated Cements Co. Ltd. v. Commissioner of Customs*", AIR 2001 SC 862, the Hon'ble Supreme Court examined whether the drawings and license could be considered as 'goods'. The Hon'ble Supreme Court held that all tangible, movable articles are goods for charge of custom duties under section 12 read with section 2(22)(e) of the Customs Act, 1962, irrespective of what the article may be or may contain. It may be that what the importer wanted and paid for was technical advice or information technology, an intangible asset, but the moment the information or advice is put on media, whether paper or cassette or diskette or any other thing, that what is supplied, it becomes chattel. The Hon'ble Supreme Court, thus, held that the intellectual property such as drawings, license and technical material when put on a media is to be regarded as an article

and there is no scope for splitting the engineering drawings or encyclopedia into intellectual input on the one hand and the paper on which it is scribed on the other hand.

**30.** No doubt, the dominant object of sale in such transaction is the computer software and not the disk or the CD upon which such software is loaded. As understood by us, what the 'computer programme' or the 'software' is an expression of work/ideas written on a media in a computer programming language and that is why it has been included worldwide in the category of literary work.

As per the definition provided in section 2 (ffc) of the Indian 'Copyright Act 1957' "Computer Programme" means a set of instructions expressed in words, codes, schemes or in any other form, including a machine readable medium, capable of causing a computer to perform a particular task or achieve a particular result; As per Explanation 3 to section 9(1)(vi), the computer software has been defined as follows:

"computer software' means any computer programme recorded on any disc, tape, perforated media or other information storage device and includes any such programme or any customized electronic data."

Hence, like any other literary work, computer programme can not be read or utilized without downloading on a media like hard disk, CD, floppy or any other such device. An author of a literary work may be having some ideas in his mind in an intangible form but the copyright in those ideas is created only when they are expressed in a particular manner in the shape of some impressions, symbols or language or visuals etc. on a media such as book, film or CD or screen etc. Now a days, not only the computer programmes, but also, the other literary work can be transmitted over the internet from one media/computer to the other media /computer. But these expressions of ideas called literary work including computer programmes cannot be read or utilized without downloading or writing them on a media. Hence, though the same as a result of advancement in technology can be transmitted in an intangible form, but to constitute a literary work, these have to be transformed into a tangible form. Computer programmes in itself can not be equated and categorized into an intangible material or right, such as a business or commercial right like copy right, right to practice some profession or noncompeting right etc.; Once incorporated on a media, it become 'goods' and cannot be to be said to be copy right in itself; however a copy right can be created in respect of such computer software/ideas expressed on a media. Further the copyright doesn't protect the idea itself but only protects the way or the manner in which such ideas are expressed.

**31.** In the case in hand, the software has been embedded in a disk. The assessee/purchaser after paying the price of the disk, is supposed to have right to use that goods/disc. On the completion of the sale, the property in such a goods passes to the buyer and the buyer has every right of fair use of the said product and subject to the conditions mentioned in the sale agreement which in fact are restrictions or limitations to the effect that the buyer will not misuse the product which may amount to infringe of copyright in the product. So what the buyer purchases is the copyrighted product and he is entitled to fair use of the product. The restriction or the terms mentioned in the agreement are the conditions of sale restricting misuse and cannot be said to be license to use. The purchaser, thus, is entitled to perform all or any of the activities which is essentially required for the fair use for the purpose for which the product is purchased by him. Section 52 of the Copyright Act expressly recognizes such a right of the purchaser, which we will discuss in later part of this order.

Further, the computer software, as generally observed, has a shorter life cycle. When software is sold, the owner gets the price of the copy of the product/work. He in fact receives the price for the expected life of the work and product. In such case the purchaser pays the price for the product itself and not for the license to use.

**32.** Even if we assume, for the sake of arguments, that it is the license to use which is granted by the owner of the software, the question comes as to whether it is a license to use the software itself or the copy right in the software. The contention of the Revenue is that in case of software

Licenses, the copyright owner gives a license to use the copyright in the software and that the owner of software exercises power over not only the software itself, but also, over people who may wish to use the software and that the owner of the software decides who will use his work. It has therefore been strongly contended on behalf of the Revenue that it is the right given to use the copyright in the software.

We, however, are not convinced with the above argument of the revenue. Even if, the owner of a software makes a contract for sale/supply of such software to a specific person/persons as it may not be of use to general customers, because the same being Industry/ task specific, that, itself, doesn't in any way may mean or infer that the owner has transferred or sold the copy right in the work. One has to understand the difference between the term 'use of copy right in software' and use of software' itself. To constitute 'royalty' under DTAA, it is the consideration for transfer of 'use of copyright in the work' and not the 'use of work' itself.

In our view, the sale of a CD ROM/diskette containing software is not a license but it is a sale of a product which of course is a copyrighted product and the owner of the copyright by way of agreement puts the conditions and restrictions on the use of the product so that his copyrights in such copyrighted article or the work, may not be infringed. The purchaser gets the right to use the product/diskette along with the property in the 'good' in the shape of work embedded or written in it when the sale is complete i.e. when such diskette/COD ROM is delivered by the seller to the purchaser in lieu of the consideration paid to him. Thus what is restricted by the so called agreement or commonly used software license is that the user will not infringe the copyrights of the owner of the work in the product. The purchaser is always entitled to fair use of the work which he has purchased. The terms of agreements in case of software are thus the conditions of the sale of the product.

**33.** Further, a question, which needs to be examined whether the statutory rights of the purchaser/user of the software can be curtailed or done away with by the terms of such licenses/agreements. A License Agreement, in spite of the fact that it may fulfill all the requirements of a valid contract, such an agreement may not be enforceable, if, its stipulations conflict with the law governed in the country where such licenses are intended to be enforced, or if it is an unconscionable or unreasonable bargain. In computer software, generally it is the tendency of software producers to do away with the rights and privileges of the user, even which are specifically conferred upon the user by the relevant prevalent laws such as Copyright Act, Contract Act and other relevant laws. The fair use of the purchased article is the other plea which contradicts the license theory. As per the provisions of section 52 of the Copyright Act 1957, which has provisions similar to the provisions of section 117 of the US Copyright Act, the owner of a copyright of computer software is legally entitled to fair use that copy of software even without a license from the software publisher and any condition put in a license restricting the fair or reasonable use of the product purchased by the buyer in that respect will have to be ignored. If the license severely limits the rights of the consumers, such as implied conditions and warranties in a contract, it cannot be enforced. If in the license agreement, there are certain conditions which are in violation of the provisions of the Contract Act, then such conditions cannot be enforced and even under some circumstances, the whole contract can be held to be void. Further the condition in the agreement that the ownership of each copy of software would remain with the software publisher and that the user will have only right to use the software is to be looked in terms of the Indian Contract Act to arrive at a conclusion whether such a condition is reasonable and is not against the public policy or whether it is restricting the fair use of right of the user/purchaser of the product. It is also a determinative factor as to whether the property in the goods after buying the product/software CD has passed on to the purchaser or not as per the provisions of 'Sale Of Goods Act 1930'. So what the buyer buys is the copyrighted product and he is entitled to fair use of the product as is provided under section 52 of the Copyright Act. He is also entitled to perform all or any of the activities which is essentially required for the fair use and for the purpose for which the product is purchased by the buyer. Even as discussed above, even if we assume that such licenses may be legally enforceable in relation to all the terms mentioned therein, even then, what at the

most can be assumed is that the licensor/owner has granted the right to use the software. It doesn't in any manner give any inference that the seller/licensor has given/licensed the copyright in the software. It may also be pointed out here that whether such a license agreement is signed or not by the licensee/purchaser, still the owner of the product will have the copyrights in such a product, as are defined and explained under the Indian Copyright Act; even the registration of the product or the work under the Copyright Act is not compulsory. The owner of the work is deemed to be protected in relation to the copyrights in the work but the fair use of the product/work cannot be denied and any clause in such agreement should be deemed to be void as against the principle of fair use of the product.

**34.** Further, to determine whether a copyright in a work is infringed or not or would be deemed to be infringed or not, the most important test is to find out whether the use is likely to harm the potential market or the value of the copyrighted work. When it is not the allegation of the owner/purchaser of the work that the purchaser/user was reproducing the work and distributing it so as to affect his potential market in exercising the reproduction right, then it cannot be said that the user has infringed the rights of the purchaser, who in fact has paid the consideration to use the copyrighted work. The use of the product 'itself' by the purchaser for the purpose for which he purchases such a product/diskette/CD ROM is thus within the scope of fair use. Copyright does not protect the fair or exclusive use of the work, rather, the purpose of copyright protection is to regulate the reproduction of the copies of the copyrighted work and distribution thereof. It is pertinent to mention here that the use of information viz. a new technology or invention, though, can be protected under the Patents Act, 1970; yet, under the Patents Act 1970, the computer software cannot be patented. The computer software, subject to certain exceptions, has been specifically excluded from patentable items under the Patents Act, 1970.

**35.** At this stage, we think it appropriate to discuss here the relevant provisions of the Copyright Act, 1957 also. The copyright has been defined under section 14 of the Copyright Act, 1957 as under:—

"14. Meaning of copyright - For the purposes of this Act, 'copyright' means the exclusive right subject to the provisions of this Act, to do or authorize the doing of any of the following acts in respect of a work or any substantial part thereof, namely:

- (a) in the case of a literary, dramatic or musical work, not being a computer programme, -
  - (i) to reproduce the work in any material form including the storing of it in any medium by electronic means;
  - (ii) to issue copies of the work to the public not being copies already in circulation;
  - (iii) to perform the work in public, or communicate it to the public;
  - (iv) to make any cinematograph film or sound recording in respect of the work;
  - (v) to make any translation of the work;
  - (vi) to make any adaptation of the work;
  - (vii) to do, in relation to a translation or an adaptation of the work, any of the acts specified in relation to the work in sub-cl. (i) to (vi);
- (b) in the case of a computer programme,—
  - (i) to do any of the acts specified in cl. (a);
  - (ii) to sell or give on commercial rental or offer for sale or for commercial rental any copy of the computer programme:

Provided that such commercial rental does not apply in respect of computer programmes

where the programme itself is not the essential object of the rental.

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**36.** A perusal of the above provisions of the copyright Act reveals that the computer software is included in the definition of literary work and is covered under the purview and scope of copyright. The exclusive rights to do or authorize the doing of certain acts as mentioned in clause (a) and clause (b) of section 14 vests in the owner of the work such as to reproduce the work, to issue copies, to make translation or adaptation, to sell or give on commercial rental in respect of a work. The internal use of the work for the purpose it has been purchased does not constitute right to use the copy right in work. Our above view also finds support from certain other provisions of the Copyright Act, which we discuss in the following paras.

**37.** Section 51 of the copyright Act deals as to when the copyright is infringed, which, for the sake of convenience, is reproduced as under:

## "CHAPTER XI

### Infringement of Copyright

51. When copyright infringed. -Copyright in a work shall be deemed to be infringed-

(a) when any person, without a licence granted by the owner of the copyright or the Registrar of Copyrights under this Act or in contravention of the conditions of a licence so granted or of any condition imposed by a competent authority under this Act-

(i) does anything, the exclusive right to do which is by this Act conferred upon the owner of the copyright, or

(ii) permits for profit any place to be used for the communication of the work to the public where such communication constitutes an infringement of the copyright in the work, unless he was not aware and had no reasonable ground for believing that such communication to the public would be an infringement of copyright; or

(b) when any person-

(i) makes for sale or hire, or sells or lets for hire, or by way of trade displays or offers for sale or hire, or

(ii) distributes either for the purpose of trade or to such an extent as to affect prejudicially the owner of the copyright, or

(iii) by way of trade exhibits in public, or

(iv) imports into India, any infringing copies of the work

Provided that nothing in sub-clause (iv) shall apply to the import of one copy of any work for the private and domestic use of the importer.

Explanation.- For the purposes of this section, the reproduction of a literary, dramatic, musical or artistic work in the form of a cinematograph film shall be deemed to be an "infringing copy"

**38.** Certain provisions of section 52 of the Copyright Act which are relevant are also reproduced as under:

"52. Certain acts not to be infringement of copyright.-(1) The following acts shall not constitute an infringement of copyright, namely:

- (a) a fair dealing with a literary, dramatic, musical or artistic work 104 [not being a computer programme] for the purposes of-
- private use, including research; criticism or review, whether of that work or of any other work;"
- (aa) the making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme, from such copy- in order to utilize the computer programme for the purposes for which it was supplied; or
- to make back-up copies purely as a temporary protection against loss, destruction or damage in order only to utilise the computer programme for the purpose for which it was supplied;"
- (ab) the doing of any act necessary to obtain information essential for operating inter-operability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available;
- (ac) the observation, study or test of functioning of the computer programme in order to determine the ideas and principles which underline any elements of the programme while performing such acts necessary for the functions for which the computer programme was supplied;
- (ad) the making of copies or adaptation of the computer programme from a personally legally obtained copy for non-commercial personal use;"

**39.** The proviso to section 57 of the Act is also relevant. The said section 57 of the Act of 1957 is also reproduced as under:

"57. [Author's special rights. (1) Independently of the author's copyright and even after the assignment either wholly or partially of the said copyright, the author of a work shall have the right-

- (a) to claim authorship of the work; and
- (b) to restrain or claim damages in respect of any distortion, mutilation, modification or other act in relation to the said work which is done before the expiration of the term of copyright if such distortion, mutilation, modification or other act would be prejudicial to his honour or reputation:

Provided that the author shall not have any right to restrain or claim damages in respect of any adaptation of a computer programme to which clause (aa) of sub-section (1) of section 52 applies."

**40.** Hence, as per section 51 of the Act, copyright in a work shall be deemed to be infringed when any person without license granted by the owner of the copyright or in contravention of the conditions of a license so granted does anything, the copyright of the owner is stated to be infringed.

However a perusal of the above provisions of the Copyright Act further reveals that even in some cases unauthorized uses of a copyright work is not necessarily infringing. An unlicensed use of the copyright is not an infringement unless it conflicts with one of the specific exclusive rights covered by the copyright statute. Further there are certain exceptions also. As per the proviso to sub clause (iv) to the clause (b) to section 51, import into India of one infringing copy of any work for the private and domestic use of the importer will not be considered as infringement.

Further, the section 52 of the Act provides for certain other exceptions and the doing of such acts as mentioned under section 52 is not considered as infringement of the copyright as per the statute.

In case of software, it has been provided that making of copies or adaptation of a computer programme by the lawful possessor of a copy of such computer programme from such copy in order to utilize the computer programme for the purpose of which it was supplied or to make back-up copies purely as a temporary protection against loss, destruction or damage and in order to utilize the computer programme and further the doing of any act necessary to obtain information essential for operating inter operability of an independently created computer programme with other programmes in case such information is not otherwise readily available, the observation, study or test of functioning of computer programme with determination, the ideas and principles necessary for the functions for which the computer programme was supplied and the making of copies or adaptation of computer programme from a personally and legally obtained copy from non-commercial personal use, have been excluded from the definition of infringement of copyright.

Even import of one infringed copy of the work for private and domestic work of the importer has been excluded from the scope of infringement of Copyright under the Act.

**41.** It is also pertinent to mention here that the Income Tax Act does not specifically include the 'computer software' in the term 'literary work' and under such circumstances, if we apply the provisions of Income Tax to define the scope of 'Literary Work', then perhaps the 'computer software' will be out of the scope of the term royalty as defined under the DTAA. However, if we apply the Copyright Act, then the 'computer software' will have to be included in the term 'literary work' but to constitute 'royalty' under the treaty, the consideration should have been paid for the use of or the right to use the copyright in the 'literary work' and not the 'literary work' itself.

**42.** Further, when we read the definition of copyright and literary work as provided in the Copyright Act, 1957, it is also important to note down that what constitutes infringement of copyright and what are the exceptions to it. If the software purchased by the assessee and the use of it by the assessee is covered within the exceptions as provided under section 52 of the Copyright Act, then in that event it cannot be said that the transfer of right to use or for use of the copyright has passed. The proviso to section 57 of the Copyright Act has further clarified that the author of the work shall not have right to restrain or claim damages in respect of any adaptation of a computer programme to which clause (aa) of sub section (1) of section 52 applies.

**43.** Further in case of imported software i.e. if the original work has been published outside India, as per the provisions of the Copyright Act, apart from the work being original and not copied from elsewhere, the work should be first published in India or if the work is published outside India, the author on the date of publication, if the author is dead, at the time of his death, should be citizen of India. In case of unpublished work, the author on the date of making of a work should be a citizen of India or domicile in India. Section 40 of the Copyright Act 1957, provides for International Copyrights. As per the section 40 of the said Act, the Government of India may by an order published in the official gazette direct that all or any provisions of this Act shall apply to the work published or unpublished in any territory outside India. Such a right is extended in relation to countries which have entered into a treaty or which are a party to a convention relating to rights of the copyright owners and have undertaken to make such provisions in their laws in relation to the Indian authors for protection of their rights in their country. Sections 40, 40A and section 41 of the Copyright Act, 1957 are relevant in this respect. Section 42 of the Copyright Act, however, put certain restrictions on the rights in works of foreign authors first published in India wherein it has been provided that if a foreign country does not give adequate protection to the works of the Indian authors, the Central Government may direct that such of the provisions of the Act as confer copyright on works first published in India of the foreign authors shall not apply. So if a foreign country recognizes the copyrights of the Indian authors in their copyrighted work, the India also allows the copyright to the foreign authors on reciprocal basis. So a foreign author can claim the copyright in a product, if India has a treaty with that country or if India and that other country are signatories of the certain international treaties or conventions e.g. Berne convention to which India is a signatory. Under such circumstances, in respect of works done in foreign countries or by foreign authors, the copyright does not automatically flow or extended to them. The rights of the foreign author are to be examined in the light of the Copyright Act and the relevant treaty or the

convention, if any, signed by India with that country to which the foreign author belongs. The copyright in a foreign product thus does not flow automatically or impliedly, so far as the Indian copyright laws are concerned.

**44.** Hence, while interpreting the definition of 'royalty' as provided in the DTAA, it is to be seen as to what has been purchased by the assessee i.e. whether the 'copyright' itself has been purchased or what the assessee has purchased is only a 'copyrighted work'. It is also required to be analysed as to whether the use of such right would amount to infringement of copyright if a license or permission in this respect is not given by the owner; and when assessee has purchased a copyrighted product, whether the use of the same for the business purpose of the assessee is covered within the exceptions as provided under section 52 of the Copyright Act. Further, in case of imported work/product, whether the protection of copyright is available to the foreign author in terms of section 40,40A, 41 and 42 of the Copyright Act 1957.

**45.** The provisions of the Copyright Act, as discussed above are clear and unambiguous in this respect. If the assessee has purchased a copy of a computer software programme and he uses the said copy for his business purpose and if the said use falls within the scope and purview of the exceptions of section 52, such as the use of it for the purpose for which it is supplied and to make backup copies for temporary purpose as a protection against loss or damage and doing of any act necessary to obtain information essential for operating the software for the purpose for which it is purchased etc. as provided under section 52 of the copyright Act, then in that event it cannot be said to be an infringement of copyrights of the author or owner of the work. Even the Hon'ble Karnataka High Court in the case of "Samsung Electronics Company Ltd. & Others" (*supra*) while relying upon Article 3 sub section (2) of the DTAA with US as the identically worded article being there in almost all the tax treaties with other countries, has held that any term not defined in the convention shall, unless the context otherwise requires, have the meaning which it is under the laws of that 'State' concerning the tax to which the convention applies. In view of above, when we see the definition as per the statutory provisions/domestic law of the country i.e. Copyright Act, 1957 of India (the taxing State in this case), it is apparent that the fair use of the work for the purpose of which it is being purchased and doing of such other acts including making of copy for protection from damage or loss cannot, in any case, be said to be any infringement of copyright whether or not any license in this respect has been granted by the author/owner of the work. The right to use or for use of the product accrues to the purchaser by the operation of the statute and as held by the Hon'ble Delhi High Court in the case of "*Infrasoft Ltd.*" (*supra*), the same would amount to the sale of a goods and the acts done such as downloading of the same to the computer or making backup copies etc. would be the necessary acts for enabling the use of the product and would not amount to the transfer of copyright therein, but only the transfer of the copyrighted product and thus will not be covered under the definition of royalty under DTAA. The consideration, thus, paid will be the business income of the non-resident and taxable in accordance with the provisions of DTAA. We may clarify here that even in cases where the owner of the copyrighted work may restrict the use of or right to use the work by way of certain terms of the license/software agreement, the validity or the enforceability of the same may be subject matter in other laws such as Indian Contract Act 1872, Sale of goods Act 1930 or the Consumer Protection Act 1986 etc., but, the same in any way can not be said to grant of or infringement of copyright in the light of specific statutory provisions of Copyright Act 1957.

**46.** While finalizing this order, we have come across a recent decision of the Co-ordinate Delhi Bench of the Tribunal in the case of "*Datamine International Ltd. v. ADIT*" in ITA No.5651/Del/2010 vide order dated 14.03.16 on the identical issue wherein the definition of royalty vis-à-vis computer software in the light of India UK Treaty has been discussed. The Tribunal in para 12.1 of the said order (*supra*) has observed that in the India-UK Treaty, in para 3(a) of Article 13 which deals with the definition of 'royalty' in the relevant India-UK Treaty, there was no specific mention of word 'computer software' along with other terms such as 'literary, artistic or scientific work, patent, trade mark' etc. The Tribunal observed that such a language of the India-UK DTAA was in sharp contrast to the specific use of the term 'computer software' or 'computer software



programme' together with other terms such as literary, artistic or scientific work, patent, trade mark etc. in many other DTAA's such as India-Malaysia Treaty, wherein, the term 'computer software programme' has been separately mentioned along with the words copy right of a literary, artistic or scientific work .... plan, knowhow, computer software programme, secret formula or process. The Delhi Bench of the Tribunal (*supra*) has further illustrated on this point as under:

"To illustrate, Article 12 of the DTAA between India and Malaysia defines 'Royalties' to mean 'payments of any kind received as consideration for the use of or right to use any copyright of a literary, artistic or scientific work..... plan, knowhow, computer software programme, secret formula or process.....' Similarly, the DTAA between India and Kazakhstan defines the term 'royalties' in Article 12(3)(a) to mean : 'payments of any kind received as a consideration for the use of or the right to use any copyright of literary, artistic or scientific work including software, cinematograph films...'. Similarly, the DTAA with Turkmenistan also defines 'Royalties' in Article 12 to mean : 'payments of any kind received as consideration for the use of or the right to use any copyright of literary, artistic or scientific work, ..... computer software, any patent, trademark...'. It is thus clear that wherever the Government of India intended to include consideration for the use of software as 'Royalties', it explicitly provided so in the DTAA with the concerned country. Since Article 13(3)(a) of the DTAA with UK does not contain any consideration for the use of or the right to use any 'computer software', the same cannot be imported into it."

**47.** The above analysis made by the Tribunal (*supra*) of various tax treaties of India with other countries clinches the issue. Even at the cost of repetition, we deem it proper to refer to the observations of the Hon'ble Delhi High Court in the case "*DIT v. New Skies Satellite BV*," (*supra*), that an international instrument affected between two sovereign states is the result of the negotiations by those sovereign nations which in itself is considered to be mini legislation containing in it all the relevant aspects or features which may be at variance with the general taxation laws of the respective countries and the same are to be read as such. We, therefore, fully agree with the observations of the co-ordinate bench of the Tribunal in the case of "*Datamine International Ltd. v. ADIT*"(*supra*) that wherever the Government of India intended to include consideration for the use of software as 'Royalties', it explicitly provided so in the DTAA with the concerned country viz. Malaysia, Kazakhstan and Turkmenistan. We find that in the cases before us, in the DTAA of India with respective countries (names mentioned in the chart given above), the definition of royalty in none of the respective treaties specifically include any consideration for the use of or the right to use any 'computer software' and therefore, the same cannot be imported or read into it.

**48.** We may further clarify here that without expressing our opinion or any view in relation to the definition of 'royalty' vis-à-vis 'computer software' as provided under the Income Tax Act, we have given our findings only in respect of the scope of 'royalty' under the DTAA.

**49.** In view of our detailed discussion made above, the assessee cannot be said to have paid the consideration for use of or the right to use copyright but has simply purchased the copyrighted work embedded in the CD- ROM which can be said to be sale of 'good' by the owner. The consideration paid by the assessee thus as per the clauses of DTAA cannot be said to be royalty and the same will be outside the scope of the definition of 'royalty' as provided in DTAA and would be taxable as business income of the recipient. The assessee is entitled to the fair use of the work/product including making copies for temporary purpose for protection against damage or loss even without a license provided by the owner in this respect and the same would not constitute infringement of any copyright of the owner of the work even as per the provisions of section 52 of the Copyright Act, 1957.

**50.** Even otherwise, the Revenue has not cited any direct case law of the jurisdictional High Court of Bombay before us. In the case laws cited by the Revenue of the Hon'ble Karnataka High Court in the matter of "*CIT v. Samsung Electronics Company Ltd.*" (*supra*) and "*CIT v. Synopsis International Old Ltd.*" (*supra*), though, a view in favour of the Revenue has been taken, but the

Hon'ble Delhi High Court in the case of "*DIT v. Infrasoftware Ltd.*" (*supra*), which is a latter decision, has discussed the Samsung case also and has taken the view in favour of the assessee. The Hon'ble Delhi High court has taken the identical view favouring the assessee in the case of "*DIT v. Nokia Network*" (*supra*) and in the case of "*DIT v. Ericson A.B.*" (*supra*) also. The Hon'ble Bombay High Court in the case of "*The Addl. Commissioner of Sales Tax v. M/s Ankit International*," Sales Tax Appeal No.9 of 2011 vide order dated 15 September, 2011 while relying upon the decisions of the Hon'ble Supreme Court in "*The Commissioner of Income Tax v. Vegetable Product Ltd.*" [1973] 88 ITR 192 and in "*Mauri Yeast India Pvt. Ltd. v. State of U.P.*" [2008] 14 VST 259(SC) : [2008] 5 S.C.C. 680 has held that, if two views in regard to the interpretation of a provision are possible, the Court would be justified in adopting that construction which favours the assessee. Reliance can also be placed in this regard on the decision of Hon'ble Supreme Court in "*Bihar State Electricity Board and another v. M/s. Usha Martin Industries and another* : [1997]5 SCC 289. We accordingly adopt the construction in favour of the assessee.

51. The Ld. A.R. of the assessee, at this stage, has raised another important argument. He has submitted that the purchase orders for the softwares were made much prior to the year 2012. The dates of purchase orders have been mentioned in the 4th column of the table drawn in initial paras of this order. He has submitted that explanation 4 to section 9(1)(vi) has been inserted by Finance Act, 2012 with retrospective effect 01.06.1976, vide which the right for use or right to use a computer software including granting of license has been included in the definition of the term right, property or information, the consideration paid for which has been deemed to be income by royalty under section 9(1)(vi) of the Act. He has stated that the said explanation though preceded with the phrase 'it is hereby clarified' and is followed by the words 'includes' and 'has always included' yet the said explanation cannot be applied retrospectively. He has stated that vide said explanation, computer software has been specifically added into the definition of right, property or information. However, prior to the insertion of explanation 4 to section 9(1)(vi), no such interpretation as has ever been done by any court of law to include computer software in the definition of right, property or information under section 9(1)(vi) of the Act. He has further invited our attention to sub clause (v) to Explanation 2 (as reproduced and discussed above) under which the consideration paid for the transfer of all or any rights in respect of any copyright in literary, artistic or scientific work was to be considered in the definition of royalty. He has further stated that the above clause (v) to Explanation 2 to section 9(1)(vi) as discussed above was in paramateria to the definition of royalty as provided under the treaty. He, therefore, has contended that in view of this, the assessee was not supposed to deduct TDS on the remittance made for the purchase of software prior to the bringing of amendment/insertion of Explanation 4 to the section 9(1)(vi) of the Act, as per the interpretation of the relevant provision done by various courts, the assessee was under bonafide belief that no TDS was deductible as the consideration paid for purchase off the shelf/shrink wrapped software would not fall in the definition of royalty. Even the above view of the assessee has been subsequently confirmed by the various decisions of the Tribunal in the own case of the assessee. He, bringing our attention to the orders dated 29.10.2010 (*supra*) and 26.11.2010 (*supra*) and also various other orders in the case of assesseees in the earlier assessment years has contended that the different benches of the Tribunal have upheld the findings in relation to the interpretation of the provisions of section 9(1)(vi) made by the first appellate authority [CIT(A)] which has been summed up in the following points:

- "(a) It is now established law that Computer software after being put on to a media then sold, becomes goods like any other Audio Cassette or painting on canvas or a book and that the Assessing Officer is wrong in holding that Computer software media, continues to be an intellectual property right and that the Assessing Officer was wrong in treating this computer software as a "Patent" or as "Invention" the payment cannot be termed as "Royalty".
- (b) That the definition of the term 'Royalty' in article 12(3) of the Indo-US DTAA is restrictive than what is provided in section 9(1)(vii) of the Income-tax Act, 1961 that in such a situation the provisions of the Double Taxation Avoidance Agreement override

the domestic law.

- (c) That the assessee has purchased a copyrighted article and not the copyright. There is no transfer of any part of copyright.
- (d) As what is paid is not "royalty" under the Indo-US DTAA, and as it is covered Article 7, which deals with "Business Profit" and as the foreign party does not have Permanent Establishment in India, the same is not taxable in India and the assessee is not required to deduct tax at source from the said payment.
- (e) The present computer software cannot be treated as a patent or an invention."

**52.** The Id. AR has further relied in this respect on the decision of the Hon'ble Supreme Court in the case of "*Sedco Forex International Drill INC. & Others v. Commissioner of Income Tax & another*" (2005) 199 CTR (SC) 320 and also of the co-ordinate bench of the Tribunal in the case of "*Rich Graviss Products (P.) Ltd. v. ACIT*" [2014] 49 taxman.com 531 (Mum-Trib.). He has also relied upon the decision of the co-ordinate bench of the Tribunal in the case of "*JM Morgan Stanley Securities Pvt. Ltd. v. ACIT*" in ITA No.6340/M/2004 decided vide order dated 05.03.2007 wherein the Tribunal has taken a view that wherein an earlier case a specific view has been taken in the case of an assessee, then the consistency should be maintained in the subsequent year on identical set of fact and circumstances.

**53.** The Ld. D.R., on the other hand, has stressed that since the Explanation 4 has been inserted with retrospective effect, hence the same should be read for the purpose of definition of royalty in the years in which the liability to deduct TDS had arisen.

**54.** We have considered the above submissions of the Ld. Representatives of the parties. Admittedly, as noted in 4th column of the table drawn in para 4 of this order, the purchase orders were made by the assessee for the softwares as mentioned in column No.5, prior to the bringing of amendment vide Finance Act, 2012, though the amendment has been made with retrospective effect from 01.06.1976. However, we find that the said amendment vide which the Explanation 4 has been inserted to section 9(1)(vi) has the effect of change in the law as was existing and even interpreted by the various higher courts of the country prior to the insertion of Explanation 4 in the said provision. By the introduction of the said Explanation 4, computer software has been specifically included in the definition of 'right, property or information' which was never assumed to have been included by any court of law prior to the insertion of Explanation 4 vide amendment of Act of 2012. The Hon'ble Supreme Court in the case of "*Sedco Forex International Drill INC. & Others v. Commissioner of Income Tax & another*" (*supra*) has held that if an explanation added to a provision changes the law, then it is not to be presumed to be retrospective irrespective of the fact that the phrase used are 'it is declared' or 'for the removal of doubts'. As it is an admitted position that in the earlier years, not only the various High Courts but also the Tribunal in the cases of the assessee has taken a view that the consideration paid for the purchase of the software cannot be treated as royalty; the assessee was, thus, under the bonafide belief that no TDS/withholding of tax was required to be done in respect to said purchases. The assessee had no reason to believe or to foresee a subsequent event vide which the definition of royalty has been extended to include the consideration for the use of or right to use the software has been included in the definition of royalty under the Act. As per the existing law which was in operation at the time of purchase of software, the assessee was under the bonafide belief that there was no liability to deduct tax in respect of the consideration paid for the said purchase of software. It may be further observed that as the definition as was in existence before the insertion of Explanation 4, there was a remote possibility to give a broad interpretation to the definition of 'right, property or information' so as to include the right to use or right for use of the software in the said definition. The Explanation 4 has brought and added a further meaning to the provision which was not supposed to be foreseen by the assessee. The co-ordinate bench of the Tribunal in the case of "*Rich Graviss Products (P.) Ltd. v. ACIT*" (*supra*), while relying upon various other decisions of the Tribunal, has held that the disallowance cannot be made under section 40(a)(ia) on the basis of a subsequent amendment

brought into the Act with retrospective effect. In view of this, even otherwise, the Explanation 4 inserted vide Finance Act, 2012 cannot be applied retrospectively to the case of the assessee as the said Explanation 4 has the effect of change in law and the assessee was not expected to foresee such change at the time of making the remittance in consideration of purchase of the software in question. Hence, under such circumstances, even otherwise, the assessee was not supposed to deduct TDS on such purchases.

**55.** We may mention here that in cases of ITA Nos.5264 & 5829/M/2009 before us, there is no treaty/DTAA of India with 'Hong Kong,' from the resident of which country, the assessee had made purchase of software in the above two cases. In the light of the law laid down by the Hon'ble Supreme Court in the case of "*Sedco Forex International Drill INC. & Others v. Commissioner of Income Tax & another*" (*supra*) and in view of the observations made above, we hold that the assessee during the relevant period prior to the insertion of explanation 4 to section 9(1)(vi) of the I.T. Act, was not liable to deduct TDS even in above said two cases also even though there was no DTAA with the countries from the residents of whom the assessee had made the purchases.

**56.** No other point has been raised or argued by any of the Id. Representatives of the parties. Hence, in view of our above discussion of the matter, the issue under consideration is decided in favour of the assessee.

**57.** The appeals of the Revenue are hereby dismissed and that of the assessee are hereby allowed.

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