

**IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH: 'C' NEW DELHI**

**BEFORE SHRI R. K. PANDA, ACCOUNTANT MEMBER
AND
MS SUCHITRA KAMBLE, JUDICIAL MEMBER**

I.T.A .No. 7123/DEL/2017 (A.Y 2014-15)

Godaddy.com LLC C/o. Deloitte Haskins & Sells, Building No. 10B, 7 th Floor, DLF Cyber City, Phase-2, Gurgaon Haryana AAECG7133K (APPELLANT)	Vs	DCIT Circle-1(3)(1), International Taxation, Room NO. 410, 4 th Floor, Block- E2, Civic Centre, J. L. N. Marg, New Delhi (RESPONDENT)
--	----	---

Appellant by	Sh. S. P. Singh, AR, Sh. Manoneet Dalal, AR, Smt. Prachi Bhtia, AR
Respondent by	Sh. G. K. Dhall, CIT DR

Date of Hearing	18.07.2018
Date of Pronouncement	24.07.2018

ORDER

PER SUCHITRA KAMBLE, JM

This appeal is filed by the assessee against the Assessment Order dated 26.10.2017 passed by the DCIT, Circle-(1)(3)(1), New Delhi for Assessment Year 2014-15.

2. The grounds of appeal are as under:-

“Appeal against the order under section 143(3) read with Section 144C(13) of the Income- tax Act, 1961 ("the Act") dated 26 October 2017 for the Assessment Year

2014-15 passed by the Deputy Commissioner of Income Tax, Circle 1(3)(1), Intl. Taxation, New Delhi ("AO") pursuant to the directions of Dispute Resolution Panel-I ("DRP")

1. That on the facts and in the circumstances of the case and in law, the impugned order of assessment framed by the AO pursuant to the directions of the DRP is erroneous and bad in law as well as in facts.

2. That on the facts and in the circumstances of the case and in law, the AO/DRP has wrongly alleged that receipts from domain name registration amounting to INR 437,761,396 should be charged to tax as royalty as per the provisions of section 9(l)(vi) read with section 115A of the Act.

3. That on the facts and circumstances of the case and in law, the AO/DRP has erred in holding that the web hosting services provided/rendered by the Appellant qualify as fees for included services as per Article 12(4)(a) of the India-USA Tax Treaty as well as under Section 9(l)(vii) of the Act.

4. That on the facts and circumstances of the case and in law, the AO/DRP has erred in not appreciating that the Appellant has characterized income from web hosting services as royalty and already offered the same to tax as per the provisions of section 9(l)(vi) read with section 115A of the Act.

5. That on the facts and circumstances of the case and in law, the A.O/DRP has erred in holding that the appellant has concealed its particulars of income or has not disclosed accurate particulars of income and has separately initiated penalty proceedings u/s 271 (1)(c)

6. That on the facts and circumstances of the case and in law the AO/DRP has erred in charging interest under section 234B and 234C of the Act to the Appellant."

3. The assessee, M/s Godaddy.com LLC has filed a return of income for A.Y. 2014-15 on 30.09.2014 declaring income of Rs. 41,19,81,166/- as royalty and FTS for web hosting services/on demand sale and web designing/SSL Certification services respectively. The case was selected for scrutiny. Notice

u/s 143(2) of the Act was issued dated 01.09.2015 and served upon the assessee. Subsequently, notice under Section 142(1) issued on 12.04.2016 and served upon the assessee. The assessee through CAs attended the proceedings and filed various details which were examined by the Assessing Officer. Thus, the draft Assessment order was passed on 14.12.2016 against which the objections were filed by the Assessee before the DRP. The DRP vide directions dated 22.09.2017 directed the Assessing Officer to complete the assessment as per the directions given therein. The Assessing Officer vide order dated 26.10.2017 held that the payment for domain name registration is for use of server of the assessee and hence amounts to royalty as per Section 9(1)(vi) of the Income Tax Act, 1961 as well as Article 12(3)(a) of the India-US Tax Treaty. This view was also taken for earlier Assessment Year 2013-14 by the Assessing Officer. Being aggrieved by the same the Assessee filed appeal before us. During the hearing the Ld. DR pointed out that for A.Y. 2013-14, the Tribunal vide order dated 03.04.2018 held this issue against the assessee being ITA No. 1878/Del/2017.

4. The Ld. AR put up his written submission and the same are as under:-

Background

1. *The Appellant, a Delaware Limited Liability Company, (located in Arizona, USA), is the world's largest ICANN (Internet Corporation for Assigned Names and Numbers) accredited domain name registrar. During the captioned year, the Appellant earned revenues from the following services rendered to Indian customers [Refer Para 3.2 final assessment order at Page 81 of Appeal Set]:*

<i>Particulars</i>	<i>Amount (INR)</i>	<i>Offered to tax (INR)</i>
<i>Web hosting services/on-demand</i>	<i>411,981,166</i>	<i>411,981,166</i>

<i>sale</i>		
<i>Web designing/SSL Certification Services</i>	<i>437,761,396/-</i>	
<i>Domain registration</i>		

Meaning of domain name

2. A website is a combination of files, images, text, music etc. As there are more than a billion websites on the internet, it is important for each website to have a unique identity which could be used to connect to that particular website. This identity of a website is its IP address (Internet Protocol address). Any person with internet access can type in the website's IP address that he wishes to browse on his device and he will land on that website. IP address is a series of numbers, which is unique to each website. For instance, the IP address of the website of the Hon'ble Delhi High Court is '164.100.60.183'.

3. Obviously, it is not practical to remember each website's IP address. To solve this problem, Domain Name System was introduced in the early 1980s. Under this system, a website's IP address can be assigned a domain name, a name which can consist of alphabets and numbers. Now, instead of typing the IP address, a user can type the domain name which is assigned to that IP address and reach the website. For instance, the domain name of the website of the Hon'ble Delhi High Court is 'delhihighcourt.nic.in'.

Domain name registration process

4. The internet began as a program called ARPANET in the early 1970s. As the internet began to expand, a process evolved to establish a new organization which would organize and co-ordinate a database of the domain names in addition to performing other important functions in respect of internet. Internet Corporation for Assigned Names and Numbers (ICANN) was established in 1998 as a 'not for profit organization' and selected to perform

this role.

5. With respect to domain name registration, ICANN formulates policies and inter-alia helps in coordinating and supporting the registration and maintenance of domain names.

6. For this purpose, ICANN enters into agreements with 'Registries', whose function is to keep the master database of all the registered domain names. ICANN has also accredited around 2500 companies to be 'Registrars' (the Appellant is one of them). Their function is to register the domain names of the customers, i.e. the 'Registrants' and facilitate the entire domain name registration process.

7. In a typical domain name registration, a 'Registrant' (i.e. the customer), desirous of registering a domain name, approaches the 'Registrar' (the Appellant). The 'Registrar' then asks the 'Registry' whether the proposed domain name is available. The 'Registry' checks its database and informs the 'Registrar' accordingly. If the domain name is available, i.e., it is not registered in the name of anyone else, the 'Registrant' can pay a fees and get the name registered with the help of the 'Registrar'. In order to keep the domain name, the 'Registrant' has to pay a periodical fee to the 'Registrar' i. e. the fee for domain name registration.

Assessment History - AY 2013-14

8. Assessing Officer ("AO") while passing the assessment order for AY 2013-14 held that the payment for domain name registration is for use of server of the Appellant and hence amounts to royalty as per section 9(l)(vi) of the Income-tax Act, 1961 ("Act") as well as Article 12(3)(a) of the India-US tax treaty. **[Refer Para 3 of the assessment order at Page 134 of the Paper Book]**

9. Hon'ble Bench vide order dated April 13, 2018 held that the domain

names were similar to trademarks and the services provided by the Appellant were in connection with the use of the trademarks and the income therefrom constitutes 'royalty' within the meaning of clause (vi) read with clause (iii) of Explanation 2 to section 9(1) of the Act. [Refer Para 12 of the ITAT order at Page 208 of the Paper Book]

10. *Hon'ble ITAT while passing order for AY 2013-14 has not appreciated an important fact that the owner of domain name is the ultimate customer and not the Appellant. Consequently, clause (iii) of Explanation 2 to section 9(1)(vi) of the Act will not apply since the Appellant wasn't competent to grant the right to use in the said property which was owned by the ultimate customers. Hence, clause (vi) of Explanation 2 to section 9(1)(vi) of the Act will not apply.*

11. *The Appellant is in the process of filing an appeal before the Hon'ble Delhi High Court against the said order.*

Assessing Officer's Contentions for the AY 2014-15

1. *The AO passed the assessment order alleging that income from domain name registration amounting to INR 437,761,396 should be charged to tax as royalty as per the provisions of section 9(1)(vi) of the Act. [Refer Para 6.5 of the final assessment order at Page 95 of Appeal Set]. The contentions of the AO while passing the order for captioned AY is similar to AY 2013-14.*

2. *The Ld. AO/DRP have linked web hosting services with domain name registration services.*

3. *The AO while passing the order has alleged that the payment for domain name registration is for use of server of the Appellant and hence amounts to royalty. Relevant extracts of the AO's order at Page 94 of the Appeal Set are as below:*

Quote

"Domain registration partakes the character of web hosting charges since without domain registration being in place, web hosting is not possible. As domain registration charges have been essentially charged for granting right to use the servers of the assessee, domain registration being the precondition to web hosting etc and the same being highly technical process and because of its inherent quality, the same squarely falls under the definition of royalty under the provisions of the Act and Double Taxation Avoidance Agreement."

Unquote

4. *The AO also alleged that web hosting services provided/ rendered by the Appellant qualify as fee for technical services ("FTS") as per Article 12(4)(a) of the India-USA tax treaty as well as under section 9(l)(vii) of the Act. of income as royalty u/s 9(l)(vi) of the Act.***[Refer Page 85 of the Appeal Set]**

5. *The Appellant filed an appeal before Dispute Resolution Panel ("DRP") which upheld the order of the AO. The AO framed final assessment order dated 26 October, 2017 maintaining the aforesaid position.*

6. *Being aggrieved by the final assessment order passed by Ld. AO, the Appellant filed an appeal before Hon'ble ITAT.*

Appellant's contentions with respect to taxability of domain name registration services

1. *At the outset the Appellant wishes to submit that facts involved in AY 2013-14 are similar to the AY 2014-15 (i.e. the present AY).*

2. *The AO while passing orders for both AYs 2013-14 (prior year) and 2014-15 (year in appeal) has assessed income from domain name registration services as 'royalty' under section 9(l)(vi) of the Act by holding that the income was received by the Appellant on account of granting to the*

customers, the right to use its server and thus is in the nature of right to use industrial, commercial or scientific equipment.

3. The Hon'ble Bench while passing its order for AY 2013-14 held that the domain names were similar to trademarks. The services provided by the Appellant were in connection with the use of the trademarks and the income therefrom constitutes 'royalty' within the meaning of clause (vi) read with clause (iii) of Explanation 2 to section 9(1) of the Act.

4. It is relevant to note that the Hon'ble Bench while passing its order for AY 2013-14 considered the order and findings of the AO. However, the Bench has upheld that the income is taxable as royalty by holding that the same is in connection with the use of trademark and not on account of the fact that it is for the granting to the customers, the right to use server (as contented by the AO). Accordingly, the contention of the AO, that income from domain name registration service is for granting a right to use server, no longer holds good.

5. The Appellant in the foregoing paragraphs has mentioned its contentions against the findings and decision of the Hon'ble ITAT for AY 2013-14 since the facts involved in the AY 2014-15 are similar to the facts for AY 2013-14.

Contentions with respect to the order passed by Hon'ble ITAT for AY 2013-14

6. The Hon'ble ITAT has held that the domain name registration services were "services rendered in respect of domain name" and the charges for such services were royalty within the meaning of clause (vi) read with clause (iii) of Explanation 2 to section 9(1) of the Act.

7. It may be clarified that the Registrant or Customer is the owner of domain name. The Appellant is neither the owner, nor does it have the right to use the domain names, which are registered by the customers. The Appellant is authorized by the international regulatory body-ICANN only to take domain

name requests from customers, forward it to the Registry Operators, and upon its acceptance by such registry operators, facilitate the registration of such domain names. Further, the fact that a domain name is owned by the Registrants (i.e. the customers) is also recognized by Hon'ble Supreme Court in case of *Satyam Infoway* (2004) (2 SCR 465) and Hon'ble Bombay High Court in the case of *Rediff Communications* (AIR 2000 Bombay 27) (i.e. the decisions relied upon by the Hon'ble Bench). The same have been summarized in paras below.

8. It is submitted that without the ownership of an Intellectual Property right ("IPR) like trademark, there cannot be any licensing and there cannot be any royalty. Para 8.1 of the OECD's commentary on 'Model Tax Convention on Income and on Capital 2014' provides: "The definition does not, however, apply to payments that, whilst based on the number of times a right belonging to someone is used, are made to someone else who does not himself own the right or the right to use it." The Hon'ble Calcutta High Court has also given a similar finding in the case of *CIT vs. Davy Ashmore India Ltd.* (1991)(190 ITR 626).

9. The Hon'ble AAR in the case of *Cushman & Wakefield (S) Pte. Ltd.* (305 ITR 208)(2008)(AAR) held: 'When the above definition of trademark is placed against the definition of royalty arising out of the use of 'trademark', as contained in clauses of Explanation 2 to section 9(l)(vi) of the Act, it emerges that the recipient of the consideration, should be either the owner of the 'trademark' or registered holder of the 'trademark'. There should also exist a connection in course of trade between the payer and the recipient.'

10. The domain names requested by the customers (if not already registered) are not owned by anyone for that matter, they simply do not exist. It is the customer who becomes the owner of such domain names upon registration, and can license it to a third party if it so desires. It is perhaps this subsequent licensing by a registered owner of a domain name which

could be examined for royalty characterization.

11. The Hon'ble Bench while passing its order relied on the judgment of the Hon'ble Supreme Court in the case of *Satyam Infoway Ltd. v. Siffynet Solutions Pvt. Ltd.* (2004)(2 SCR 465), Hon'ble Delhi High Court in the case of *Tata Sons Ltd. v. Mr. Manu Kishori & Ors.* 90(2001) DLT 659 and Hon'ble Mumbai High court in the case of *Rediff Communications Ltd. Vs. Cyberbooth* (AIR 2000 Bombay 27). The findings in the said decisions are summarized below:

- In the decision of *Satyam Infoway Ltd. v. Siffynet Solutions Pvt. Ltd.* (supra), the Plaintiff, Satyam Infoway Ltd. had registered a domain names with the word 'Sify' with ICANN in the year 1999. Subsequently, in the year 2001, the Respondent, Siffynet Solutions Pvt. Ltd. registered domain names with the word 'Siffy' with ICANN. The Plaintiff alleged that the Respondent was 'passing off' its services as those belonging to the Petitioner by using a deceptively similar word as part of its domain name. The decision was only in the context of granting a trade mark protection to a domain name in light of fraudulently 'passing off' of domain names.
- Similarly, in the case of *Tata Sons Ltd.* (supra), it was held that the Respondent's use of domain names was violative of the Plaintiff's trademark and that internet sites have also to be recognized and accepted and given protection from passing off.
- In the case of *Rediff Communications Ltd.* (supra) as well, the user of the domain name "www.radiff.com" was enjoined as it was held deceptively similar to the plaintiff's website www.rediff.com. It was held that domain name is entitled to protection equal to a trade mark.

12. In fact, the Hon'ble Supreme Court in the case of *Satvam Infoway* (supra) has observed that it is the registrant (i.e. customer! which owns the domain name and can protect the same against use by a subsequent

registrant. The said decision accordingly is in favour of the Appellant's contention. Relevant extracts mentioned below:

" Therefore, the domain name not only serves as an address for internet communication but also identifies the specific internet site. In the commercial field, each domain name owner provides information/services which are associated with such domain name "

"The outcome of consultation between ICANN and WIPO has resulted in the setting up not only of a system of registration of domain names with accredited Registrars but also the revolution of the Uniform Domain Name Disputes Resolution Policy (UDNDR Policy) by ICANN on 24th October 1999. As far as registration is concerned, it is provided on a first come first serve basis."

While registration with such Registrars may not have the same consequences as registration under the Trademark Act, 1999 nevertheless it at least evidences recognised user of a mark. **Besides the UDNDR Policy is instructive as to the kind of rights which a domain name owner may have upon registration with ICANN accredited Registrars.** In Rule 2 of the Policy, **prior to application for registration of a domain name, the applicant is required to determine whether the domain name for which registration is sought "infringes or violates someone else's rights**

These rules indicate that the disputes may be broadly categorised as : (a) disputes between trademark owners and domain name owners and (b) between domain name owners inter se. What is important for the purposes of the present appeal is the protection given to intellectual property in domain names. A prior registrant can protect its domain name against subsequent registrants. Confusing similarity in domain names may be a ground for complaint and similarity is to be decided on the possibility of deception

amongst potential customers. The defences available to a compliant are also substantially similar to those available to an action for passing off under trademark law."

13. *Similarly, Bombay High court in the case of Rediff Communications Ltd. (supra) recognized the fact that the registrant is the owner of domain name and domain name registrars merely performs the function of registering a domain name. The domain name registrar does not determine the legality of domain names. Relevant extracts reproduced:*

"Internet Domain names are similar to telephone number mnemonics, but they are of greater importance, since there is no satisfactory Internet equivalent to a telephone company white pages or directory assistance, and Domain names may be a valuable corporate asset, as it facilitates communication with a customer base. The uniqueness of Internet addresses is ensured by the registration services of the Internet Network Information Center ("Internic"), a collaborative project established by the National Science Foundation. I may hasten to add that it is the NSI which provides registration services of domain names under the name Internet Network Information Center ("Internic"). NSI registers names free on the basis of "first come first served". NSI does not determine the legality of the domain name registration, or otherwise evaluate whether that registration or use may infringe upon the rights of a third party. Anyone can apply for the registration of a domain name and if the name is available, it is allotted to the applicant. "

14. *It is also submitted that once a customer is registered with a particular Registrar, the customer has the option of switching to any other Registrar for the very same domain name at its will. If the Registrar, in fact, had the right to license and assign a domain name, it would have been at the discretion of the Registrar to transfer the domain name to any customer and not at the discretion of the customer to discontinue the services of the Registrar which had registered its domain name to begin with. Customers are*

allowed to and as a matter of fact do shift from one Registrar to another. It could not be said that the right to use an IPR is given by one entity in one year and by another entity in another year. Reference may be drawn to Clause 4 of Domain Name Registration Agreement between the Appellant and the customers. (Refer Clause 4 of the Domain Name Registration Agreement at Page 58 of the Paper Book)

15. *Appellant wishes to highlight Clause 3.5 of the Registrar Accreditation Agreement between Godaddy and ICANN which indicates that the Appellant does not any right in the domain names "Rights in Data. Registrar disclaims all rights to exclusive ownership or use of the data elements listed in Subsections 3.2.1.1 through 3.2.1.3 for all Registered Names submitted by Registrar to the Registry Database for, or sponsored by Registrar in, each gTLD for which it is Accredited."*

16. *It is submitted that the services provided by the Appellant are similar to services provided by professionals who help in registering a company's name with the Registrar of Companies (ROC).*

17. *Simply providing services in connection with a trade mark is not sufficient to invite the application of clause (vi). The said clause shall apply when the services are in connection with "the activities" referred to in that section. It may be noted that the activity referred to in clause (iii) is 'the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;'. Accordingly, an entity which licenses its trade mark and also provides services in connection with the activity of licensing will be covered in clause (iii) for the first set of services and in clause (vi) for the second set of services.*

18. *If simply providing services in connection with trademark, patent etc. is taken to be covered within the definition of 'royalty' (without there additionally being the grant of a license thereto), the consequences would be*

absurd. In such a situation, even an advocate drafting an Intellectual Property Right ("IPR") transfer agreement will be receiving 'royalty' for his services as they will be in connection with the IPR.

19. *For the service fee to be characterized as royalty, the entity which provides services in connection with the right to use an IPR must also be in a position to grant the license to use such IPR. Clause (vi) can never apply independently.*

In view of facts and law discussed above, the Appellant, most respectfully wishes to submit that income from domain name registration services is not in the nature of royalty and is not taxable under the provisions of Income-tax Act"

5. The Ld. DR submitted as under:-

1. *Either the client enters into a WHA with Appellant or gives the details of domain settings of its web host. In case of GoDaddy customer who has already set up its customer profile, designating the its domain name settings for new domain name registration, it need not complete this step again. (Cl. 10 of DRA, p.43 of PB)*
2. *Appellant is the "Default Web Host" (Cl. 10 of DRA, p.44 of PB)*
3. *In case the details of domain settings of the web host is not given, the domainname is directed to a "Parked Page" and the client can't customise it as per its needs and can't modify the content displayed in it.(Cl.10 of DRA, p.44 of PB)*
4. *The content, advertisement and revenue from the websites in the 'parked page' are provided by the appellant who uses them to generate revenue. (Cl. 10 of DRA, p.44 of PB)*

Question-1

Whether DNR and WHA are inter-related or independent processes:

Claim of the Appellant

That the transactions described in stages 5 & 8 (i.e. DRA & WHA) are processes independent of each other and the taxability of the amounts received by it in lieu of these have to be examined separately.

Claim of Revenue

The transactions are NOT processes independent of each other but rather are directly associated or inextricably connected to each other and need to be treated as parts of one single and integrated process. DNR can't be completed and Registered Domain names can't be customised and used for the benefit of the client without entering WHA (irrespective of whether with the appellant or any other agency) and specifying the details of domain name settings and name servers. (Ref. Cl. 10 of DRA, p.43-44 of PB as discussed above)

Question-2

Taxability of the receipts in lieu of DNR and WHA:

Claim of the Appellant

- > *Amount received for web-hosting (WHA) is taxable in India and offered to tax as Royalty;*
- > *Amount received for domain name registration (DNR) is not taxable in India because-*
 - o *It is not in the nature of FTS as it doesn't involve any human intervention (Ref. submissions before AO, DRP & ITAT in Pages- 62 of Paperbook);*

o It is not in the nature of Royalty as the appellant does not own copyright in the domain names(Ref. submissions before AO, DRP & ITAT in Pages- 62 of Paper book);

o No activity is carried out in India and all the services are rendered outside India. Hence, no part of the payment for such services would be deemed to accrue in India even if the agreement gives rise to a business connection.

Claim of Revenue

A. Domain Name Registration-

- > Amount received for DNR is a part of a single and composite process and can't be treated on a separate footing from that of Web Hosting.*
- > The DRA gives rise to a business connection - a fact accepted by the appellant.*
- > Amount received for domain name registration (DNR) is taxable in India as Royalty because-'Domain Name' is an intangible asset in the nature of 'trademark' as held in the following decisions:*

Satyam Infoway Ltd. Vs. Siffynet Solutions Pvt. Ltd. (SC) 2004 supp (2) SCR 465

In that case, the principal question raised was whether internet domain names are subject to the legal norms applicable to other intellectual properties such as trademarks. It was contended by the respondents before Hon'ble SC "that registration of a domain name with ICANN did not confer any intellectual property right: that it is a contract with a registration authority allowing communication to reach owners computervia internet links channelled through the registration authority's server and that it is akin to registration of a

company name which is a unique identifier of a company but of itself confers no intellectual property rights."

The Hon'ble SC in its order observed that "The original role of a domain name was no doubt to provide an address for computers on the internet. But the internet has development from a mere means of communication to a mode of carrying on commercial activity. With the increase of commercial activity on the internet, a domain name is also used as business identifier. Therefore, the domain name not only serves as an address for internet communication but also identifies the specific internet site. In the commercial field, each domain name owner provides information/services which are associated with such domain name. Thus domain name may pertain to provision of services within the meaning of Section 2(zl) A domain name is easy to remember and use, and is chosen as an instrument of commercial enterprise not only because it facilitates the ability of consumers to navigate the Internet to find websites they are looking for, but also at the same time, services to identify and distinguish the business itself, or its goods or services, and to specify its corresponding online internet location. Consequently a domain name as an address must, of necessary, be peculiar and unique and where a domain name is used in connection with a business, the value of maintaining an exclusive identity becomes critical. "As more and more commercial enterprises trade or advertise their presence on the web, domain names have become more and more valuable and the potential for dispute is high. Whereas large number of trademarks containing the same name can comfortably co-exist because they are associated with different products, belong to business in different jurisdictions etc.. the distinctive nature of the domain name providing global exclusivity is much sought after. The fact that many consumers searching of a particular site are likely, in the first place, to try and guess its domain name has further enhanced this value"

The Hon'ble SC, after recapitulating the provisions of the Indian Trade Marks Act 1999 (sections 2(l)(m) to 2(zb)), rejected the submissions of the respondents by concluding that a domain name is a sign which can have a distinguishing function indicating the source of a good or of a service and that it thus has the usual features of a trademark. After putting domain names in the same category as trademarks, the Court did not focus on domain names anymore, since there is no use of the phrases 'domain name' or 'domain names'. It then shifts its focus to passing-off actions in trademark law and held that "... although the operation of the Trademarks Act, 1999 itself is not extra territorial and may not allow for adequate protection of domain names, this does not mean that domain names are not to be legally protected to the extent possible under the laws relating to passing off."

In that case permanent injunction was sought against the defendants from using the trademark/domain name www.tatainfotech.in or any other mark/domain name which is identical with or deceptively similar to the plaintiffs trademarks TATA/TATA INFOTECH. The Hon'ble Delhi High Court held that "... domain names or internet sites are entitled to protection as a trademark because they are more than a address. The rendering of internet services is also entitled to protection in the same way as goods and services are, and trade mark law applies to activities on internet."

The Hon'ble High Court also reaffirmed the decision of the Hon'ble Mumbai High Court in the case of Rediff Communication Ltd. Vs Cyberbooth (2000) wherein it was held that ".. the internet domain names are of importance and can be a valuable corporate asset and such domain name is more than an internet address and is entitled to protection equal to a trademark."

Gary Kremen vs. Stephen Michael Cohen et al. US Court of Appeal. Ninth Circuit (2003) 337 F.3d 1024

Perhaps the best depiction of the nature of the domain names and the right they enshrine upon the registrant has been made in the above case. In this case, the question before the Hon'ble Court was whether registrants have property rights in their domain names. The Hon'ble Court reversed the judgement of the District Court by applying a three- part test to determine whether a property right exists i.e. "First, there must be an interest capable of precise definition: second, it must be capable of exclusive possession or control: and third, the putative owner must have established a legitimate claim to exclusivity." It was concluded by the Hon'ble Court that "Domain names satisfy each criterion. Like a share of a corporate stock or a plot of land, a domain name is a well-defined interest. Someone who registers a domain name decides where on the internet those who invoke that particular name- whether by typing it into their web browsers, by following a hyperlink, or by other means - are sent. Ownership is exclusive in that the registrant alone makes that decision. Moreover, like other forms of property, domain names are valued, bought and sold, often for millions of dollars....Finally, registrants have a legitimate claim to exclusivity. Registering a domain name is like staking a claim to a plot of land at the title office. It informs others that the domain name is the registrant's and no one else's."

Makemytrip (India) Pvt. Ltd. Vs Dv. CIT (2012)(ITA Nos. 3961/Del/2009 & 4087 /Del/2009)

In this case, the issue in question was whether website development cost should be treated as "software" or as "intangible asset" for the purpose of capitalization and allowance of depreciation. The Hon'ble ITAT, Delhi, dismissed the appeal affirming the decision of CIT(A) that it is in the nature of an "intangible asset."

> That in lieu of receipt of Domain Registration charges, the Registrar appellant has permitted the Registrant to use all or some rights in the said asset;

> *The claim of the appellant that it is only a channel between the Registrant and the Registree can't be accepted on account of the following -*

a. *That the appellant has been accredited by ICAAN to register domain names and as per the Accreditation Agreement between the appellant and ICAAN, the rights to register, assign and transfer and manages specific domain names lies exclusively with the appellant.*

b. *The Appellant enjoys absolute and exclusive rights to assign domain names under specific domain extensions. Neither ICAAN nor Registry Operator can allocate, assign, insert, transfer, deactivate the domain names. The ICAAN owns domain extensions but has granted the registrar all the rights and risks relating to the assignment, allocation, transfer and management of specific domain names within such extensions to various registrars like the appellant. (Clause 2 & 3 of Accreditation agreement)*

c. *What the Appellant Registrar pays to ICAAN is the Accreditation Fee to use and enjoy an asset in the form of 'domain names'. The Accreditation agreement transfers a bundle of rights to the Registrar that include-*

i. *Right to **own** domain names for the purpose of conducting its Registrar services. (Cl. 3.7.7 of Accreditation Agreement, p.93 of PB)*

ii. *Right to **allocate, register** new domain names and **transfer** existing ones and insert such names into the registry database (Cl.2.1 of Accreditation Agreement, p.84 of PB);*

iii. *Right to **cancel/de-activate** the domain registrations/names in certain given situations like false declaration by the client, Non-renewal etc. (Cl. 3.7.5 of Accreditation Agreement, p.91 of PB & Cl.2 & 10 of Domain Registration Agreement)*

iv. *Right to **Renew** domain registration without explicit consent of the registrant. (Cl. 3.7.5.2 of Accreditation Agreement, p.91 & Cl.3(B) of Domain*

Registration Agreement, P. 36 of PB)

v. Right to **suspend** and put the registered domain names in "Parked Site" under certain given situations (Cl.3(B) & 10 of Domain Registration Agreement, P. 37 & 43 of PB);

vi. Right to **auction** and transfer domain names;

vii. Right to **exploit** the registered domain name to generate revenue in case of default by domain owner, before the domain returns to ICANN, right to retain the same for a limited time in a parking site and use it to earn income.(Cl. 10 of Domain Registration Agreement, P. 44 of PB)

viii. Right of refusal/exclusion of registrant from accessing the registered domain and customising it or advertising there in in case the domain has been parked. (Cl. 10 of Domain Registration Agreement, P. 44 of PB)

ix. Right to issue Certified Domain seal which is a trademark and is protected by copyright, trademark and other intellectual property laws.

> The appellant Registrar thus, has right to **own, assign, allocate, transfer, cancel, deactivate, suspend, auction, renew and exploit** domain names under accreditation agreement with ICANN.

> The appellant Registrar in turn, transfers and allocates all or part of such assigned rights to the Registrant to enable it to use such rights in respect of such property i.e. domain names.

> Domain Registration charges were made to the Appellant **inside India**:

> Accordingly, and in view of the above, the amount received by the appellant towards Domain Registration charges are in the nature of 'Royalty' within the meaning of section 9(l)(vi) and should be taxed accordingly.

- > *Provisions of DTAA not aplicable as the appellant has requested not to be considered under the provisions of India-USA DTAA.*
- > *Since the nature of payment is in the nature of "Royalty" which was paid/received in India and there is business connection, the enire amount received towards Domain Registration Chrges should be treated as accrued or arises or as deemed to accrue or arise in India.*
- > *Even otherwise, the appellant does not challenge the fact that income has already been 'received' within the meaning of section 5(2)(a) of the Act.*
- > *Moreover, the claim of the appellant that there is no human intervention involved is also not acceptable because of the following -*
 - a. *In case of manual renewal, registrant may renew the domain by calling the customer care. (Cl. 3(B)(iii) of Domain Registration Agreement]*
 - b. *When the domain name is in non-renewal status, the client can renew the domain name **only by calling GoDaddy** and requesting that the domain name be renewed. It cannot renew the domain name through your Account Manager. (Cl. 3(B)(iii) of Domain Registration Agreement)*
 - c. *Registrar shall either verify the applicable contact information manually or suspend the registration, until such time as Registrar has verified the applicable contact information. If Registrar does not receive an affirmative response from the Account Holder), Registrar shall verify the applicable contact information manually, but is not required to suspend any registration Accredation Agreement, P.120 of PB)*
 - d. *Registrar shall verify the telephone number of the registered name holder by either calling or sending an SMS (Accredation Agreement, P.119 of PB)*

B. Web Hosting -

> Amount received for web-hosting (WHA) is a part of a single and composite process and can't be treated on a separate footing from that of Domain Name Registration.

The appellant has already offered and need to be taxed Royalty/FTS;”

6. We have heard both the parties and perused the material available on record. It is pertinent to note that this issue is already decided in favour of Revenue in assessee's own appeal and the contentions taken herein by the Ld. AR that the issue of ownership with whom it is applicable has also been dealt with in the said order. The Tribunal held as under:-

“8. We have carefully considered the arguments of both the sides and perused relevant material placed before us. The limited question before us is whether the domain registration fee received by the assessee can be termed as royalty. At the outset, we clarify that the appellant himself has mentioned that since it is not a tax resident of USA, therefore, it is not claiming any benefit under the provisions of India-US tax treaty. Accordingly, we have to examine within the meaning of Income-tax Act, more particularly, Section 9(1)(vi) to examine whether the receipt by the assessee on account of domain registration fee can be termed as royalty. Section 9(1)(vi) of the Income-tax Act reads as under :-

“9. (1) The following incomes shall be deemed to accrue or arise in India :-

(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.].”

9. Explanation 2 after the sub-section defines the word “royalty”, which reads as under :-

“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)."*

10. The contention of the Revenue is that the domain name is an intangible asset which is similar to trademark. The assessee is rendering services in connection with such domain name registration and therefore, the charges received by the assessee clearly fall within the definition of royalty as provided in Section 9(1)(vi) of the Income-tax Act. We find that Hon'ble Apex Court has considered the similar aspect in the case of Satyam Infoway Ltd. (supra). The question before Hon'ble Apex Court was whether internet domain names are subject to the legal norms applicable to other intellectual properties such as trademarks. Hon'ble Apex Court decided the issue in favour of the assessee. The relevant observation of their Lordships reads as under :-

"The use of the same or similar domain name may lead to a diversion of users which could result from such users, mistakenly accessing one domain name instead of another. This may occur in e-commerce with its rapid progress and instant (and theoretically limitless) accessibility to users and potential customers and particularly so in areas of specific

overlap. Ordinary consumers/users seeking to locate the functions available under one domain name may be confused if they accidentally arrived at a different but similar web site which offers no such services. Such users could well conclude that the first domain name owner had misrepresented its goods or services through its promotional activities and the first domain owner would thereby lose their custom. It is apparent therefore that a domain name may have all the characteristics of a trademark and could found an action for passing off.

Over the last few years the increased user of the internet has led to a proliferation of disputes resulting in litigation before different High Courts in this country. The Courts have consistently applied the law relating to passing off to domain name disputes. Some disputes were between the trademark holders and domain name owners. Some were between domain name owners themselves. These decisions namely Rediff Communication Ltd. v. Cyberbooth and Anr., AIR (2000) Bombay 27, Yahoo Inc. v. Akash Arora, (1999) PTC 19 201, Dr. Reddy's Laboratories Ltd. v. Manu Kosuri, (2001) PTC 859 (Del.), Tata Sons Ltd. v. Manu Kosuri, (2001) PTC 432 (Del.), Acqua Minerals Ltd. v. Pramod Borse & Anr., (2001) PTC 619 (Del.), and Info Edge (India) Pvt.Ltd. & Anr. V. Shailesh Gupta & Anr., (2002) 24 PTC 355 (Del.) correctly reflect the law as enunciated by us. No decision of any court in India has been shown to us which has taken a contrary view. The question formulated at the outset is therefore answered in the affirmative and the submission of the respondent is rejected."

(emphasis by underlining supplied by us)

11. That Hon'ble Jurisdictional High Court in the case of Tata Sons Limited (*supra*) has also examined the identical question and held as under :-

"6. In Yahoo Inc! Vs Akash Arora 1999 PTC 201 while granting an injunction restraining the defendants from using Yahoo either as a part of its domain name or as a trademark, learned Single Judge of this Court applied the law relating to trademark to a dispute regarding Internet. It was further held that considering the vast import of Internet and its user, several Internet users are not sophisticated enough to distinguish between the domain names of the parties. It was also held that with the ease of access from all corners of the world, Courts should take a strict view of copying as the potentiality of the harm is far greater because of the easy

access and reach by any one from every corner of the globe. The Court also held after analyzing Section 27 and Section 29 of the Trade & Merchandise Marks Act, that passing off action can be maintained in respect of services as well as goods.

7. In *British Telecom Plc. Vs. One in a Million* 1999 FSR 1 the Court held that in the case of a registration of domain names of third party trademarks of well-known names, there was jurisdiction to grant injunctive relief when the defendant was equipped with or was intending to equip another with an instrument of fraud. It was also held that a name which would by reason of similarity to the name of another, inherently lead to passing off, was such an instrument. It was held that in case it would not inherently lead to passing off but the Court concluded on the facts without regard to the defendant's intention that the name was produced to enable passing off, was adapted to be used for passing off and, if used, was likely to be used fraudulently, an injunction would be appropriate.

8. In *Rediff Communications Ltd. Vs. Cyberbooth* AIR 2000 Bombay 27 the user of the Website "www.radiff.com" was enjoined as it was held deceptively similar to the plaintiff's website "www.rediff.com". In the above decision, the Court held that the Internet domain names are of importance and can be a valuable corporate asset and such domain name is more than an Internet address and is entitled to protection equal to a trade mark. It was held that with the advancement and progress in technology the services rendered by an Internet site have also to be recognized and accepted and are being given protection from passing off.

9. In view of the above decisions, I am satisfied that it is now settled law that with the advent of modern technology particularly that relating to cyberspace, domain names or Internet sites are entitled to protection as a trade mark because they are more than a mere address. The rendering of Internet services is also entitled to protection in the same way as goods and services are, and trade mark law applies to activities on Internet."

(emphasis by underlining supplied by us)

12. Learned counsel for the assessee has also relied upon the decision of Hon'ble Jurisdictional High Court in the case of *Asia Satellite Telecommunications Co.Ltd.* (supra). However, we find that the facts in that case were altogether different. In the said case, the assessee company carried on the business of private satellite communications and broadcasting

facilities. During the relevant assessment year, it was the lessee of a satellite, called Asia-Sat 1 and was the owner of a satellite, called Asia Sat 2. Those satellites were launched by the assessee and were placed in a geostationary orbit in the orbital slots. Those satellites neither used the Indian orbital slots nor were they positioned over Indian airspace. However, the footprint area (the area of earth's surface over which a signal is relayed from satellite) of those satellites covered the territory of India. The assessee entered into an agreement with TV channels, communication companies or other companies who desired to utilize the transponder capacity available on its satellite to relay their signals. The customers had their own relaying facilities, which were not situated in India. From those facilities, the signals were beamed into space where they were received by a transponder located in the assessee's satellite. The role of the assessee in this cycle was that of receiving the signals, amplifying them and after changing frequency relaying them over the entire footprint area. For that service, the TV channels made payments to the assessee. The question before the Hon'ble High Court was whether such payments can be said to be royalty chargeable to tax in India. Hon'ble High Court answered the question in the negative. However, the facts in the assessee's case are clearly different. In the case under appeal before us, the issue is whether the fees received by the assessee for rendering services for domain registration can be said to be royalty. Therefore, in our opinion, the above decision of Hon'ble Delhi High Court relied upon by the learned counsel for the assessee would have no application. The learned counsel has also relied upon the decision of Authority for Advance Rulings in the case of Dell International Services (India) Private Limited (supra). In that case also, the issue before the Authority for Advance Rulings was whether the payment for providing communication through telecom bandwidth can be termed as royalty within the meaning of Section 9(1)(vi) of the Income-tax Act. Thus, the facts in the above case were also different than the facts under appeal before us. On the other hand, the issue before Hon'ble Apex Court in the case of Satyam Infoway Ltd. (supra), Hon'ble Jurisdictional High Court in the case of Tata Sons Limited (supra) and Hon'ble Bombay High Court in the case of Rediff Communications Ltd. – AIR 2000 Bombay 27 was whether the domain names can be considered as intellectual properties such as trademark. Hon'ble Apex Court in the case of Satyam Infoway Ltd. (supra) has held that the domain name is a valuable commercial right and it has all the characteristics of a trademark and accordingly, it was held that the domain names are subject to legal norms applicable to trademark. Hon'ble Bombay High Court in the case of Rediff Communications Ltd. (supra) held that domain names are of importance and can be a valuable corporate asset

and such domain name is more than an internet address and is entitled to protection equal to a trademark. Hon'ble Jurisdictional High Court in the case of Tata Sons Limited (supra) held that domain names are entitled to protection as a trademark because they are more than an address. Respectfully following the above decisions of Hon'ble Apex Court, Hon'ble Bombay High Court and Hon'ble Jurisdictional High Court, we hold that the rendering of services for domain registration is rendering of services in connection with the use of an intangible property which is similar to trademark. Therefore, the charges received by the assessee for services rendered in respect of domain name is royalty within the meaning of Clause (vi) read with Clause (iii) of Explanation 2 to Section 9(1) of Income-tax Act. In view of the above, we uphold the orders of the lower authorities on this point and reject ground No.2 of the assessee's appeal.

13. *Ground Nos.3 & 4 of the assessee's appeal, which read as under, were not pressed by the assessee at the time of hearing :-*

"3. That on the facts and circumstances of the case and in law, the AO/DRP has erred in holding that the web hosting services provided/rendered by the Appellant qualify as fees for included services as per Article 12(4)(a) of the India-USA Tax Treaty as well as under Section 9(1)(vii) of the Act.

4. That on the facts and circumstances of the case and in law, the AO/DRP has erred in not appreciating that the Appellant has characterized income from web hosting services as royalty and already offered the same to tax as per the provisions of section 9(1)(vi) read with section 115A of the Act."

14. *At the time of hearing, the learned counsel stated that the assessee itself has offered the income from web hosting services as royalty. The Assessing Officer has assessed the same as fees for technical services which is upheld by the DRP. He stated that since the rate of tax for royalty as well as for FTS is the same, the assessee would not like to contest ground Nos.3 & 4 because so far actual tax liability is concerned, these grounds are only academic. In view of the above, ground Nos.3 & 4 of the assessee's appeal are rejected being not pressed.*

15. *Ground No.5 is against initiation of penalty proceedings u/s 271(1)(c) of the Act. This ground is premature at this stage and accordingly, rejected as such.*

16. *Ground No.6 relating to charging of interest u/s 234A, 234B and 234C is admitted to be consequential and since no relief is allowed on any other point in this appeal, accordingly, there would be no variation in the quantum of interest. Thus, ground No.6 is also rejected.*

17. *In the result, the appeal of the assessee is dismissed.”*

The Ld. AR during the course of the hearing submitted that the ITAT while passing order for AY 2013-14 has not appreciated that the owner of domain name is the ultimate customer and not the assessee and consequently, clause (iii) of Explanation 2 to section 9(l)(vi) of the Act will not apply since the assessee wasn't competent to grant the right to use in the said property which was owned by the ultimate customers. Hence, clause (vi) of Explanation 2 to section 9(l)(vi) of the Act will not apply as per the contentions of the Ld. AR. But this aspect was also dealt by the Tribunal for A.Y. 2013-14. Thus, this issue is decided by the Tribunal in the assessee's own case against the assessee. Therefore, this appeal is dismissed.

7. In result, appeal of the assessee is dismissed.

Order pronounced in the Open Court on 24th July, 2018.

Sd/-

(R. K. PANDA)
ACCOUNTANT MEMBER

Sd/-

(SUCHITRA KAMBLE)
JUDICIAL MEMBER

Dated: 24/07/2018
R. Naheed *

Copy forwarded to:

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

ASSISTANT REGISTRAR

ITAT NEW DELHI

Date of dictation	19.07.2018
Date on which the typed draft is placed before the dictating Member	23.07.2018
Date on which the typed draft is placed before the Other Member	
Date on which the approved draft comes to the Sr. PS/PS	
Date on which the fair order is placed before the Dictating Member for pronouncement	
Date on which the fair order comes back to the Sr. PS/PS	24.07.2018
Date on which the final order is uploaded on the website of ITAT	24.07.2018
Date on which the file goes to the Bench Clerk	24.07.2018
Date on which the file goes to the Head Clerk	
The date on which the file goes to the Assistant Registrar for signature on the order	
Date of dispatch of the Order	

