

IN THE INCOME TAX APPELLATE TRIBUNAL
PUNE BENCH "C", PUNE – VIRTUAL COURT

BEFORE SHRI R.S. SYAL, VICE PRESIDENT AND
SHRI S.S. VISWANETHRA RAVI, JUDICIAL MEMBER

ITA No.2452/PUN/2017

निर्धारण वर्ष / Assessment Year : 2014-15

Norton Lifelock Inc., (earlier known as Symantec Corporation, C/o. S.R.B.C & Associates LLP, C-401, Panchshil Tech Park, Near Don Bosco School, Yerwada, Pune - 411006 Maharashtra PAN : AAQCS1868P	Vs.	DCIT (IT), Circle-2, Pune
Appellant		Respondent

Assessee by Shri Nageswar Rao
Revenue by Shri Navin Gupta

Date of hearing 08-01-2021
Date of pronouncement 11-01-2021

आदेश / ORDER

PER R.S.SYAL, VP :

This appeal by the assessee lays challenge to the final Assessment Order dated 23-08-2017 passed by the Assessing Officer (AO) u/s.144C(13) read with section 143(3) of the Income-tax Act, 1961 (hereinafter also called 'the Act') in relation to the assessment year 2014-15.

2. The only issue raised through various grounds is against the taxability of Rs.16,11,97,746/- as Royalty income.

3. Succinctly, the factual matrix of the case is that the assessee is a non-resident company incorporated under the laws of United States of America. It is engaged in India in the sale of software licenses relating to information security and storage technology as well as provision of support and maintenance services with respect to the above software. During the year under consideration, the assessee earned revenue from sale of software licenses in India including certification and software for authentication business which was claimed as not chargeable to tax in the absence of it having any Permanent Establishment (PE) in India. The AO show caused the assessee as to why the receipts from sale of software licenses should not be taxed as Royalty. The assessee tendered explanation elaborating that the software licenses sold by it were meant for internal business purpose of the users and not for commercial exploitation. It was further stated that the assessee did not transfer any right in respect of the copyright in the said software and only right to use the software was transferred. That was how, the assessee claimed that the consideration for the sale of software licenses was not chargeable as Royalty under the India and USA Double

Taxation Avoidance Agreement (hereinafter also called 'the DTAA'). Relying on certain decisions including the judgment of Hon'ble Karnataka High court in *CIT Vs. Samsung Electronics Co. Ltd. (2012) 345 ITR 494 (Kar.)*, the AO came to hold that the receipts derived by the assessee from sale of software licenses were taxable under Article 12 of the DTAA. He fortified his conclusion by relying on the direction given by the Dispute Resolution Panel (DRP) in the assessee's own case for the immediately preceding assessment year 2013-14. The assessee unsuccessfully assailed the draft order before the DRP. This led to the passing of the final assessment order making addition of Rs.16.11 crore treating the income from sale of software licences as Royalty income chargeable to tax at the rate of 15%., against which the assessee has approached the Tribunal.

4. We have heard the rival submissions through Virtual Court in the hue of the material placed before us. The controversy in the instant appeal lies in a narrow compass. The assessee sold software licenses to end users in India which was claimed as not chargeable to tax. The Revenue treated

such amount as Royalty income. We thus primarily need to decide the nature of income earned by the assessee from the sale of software licenses as to whether it is business income or Royalty income. In case it turns out to be business income, the same would escape taxation as admittedly the assessee did not have any PE in India. In the otherwise scenario, the same will be chargeable to tax.

5. It has been noted above that the AO, while holding income from sale of software as Royalty, *inter alia*, relied on the direction given by the DRP in the case of the assessee for the immediately preceding A.Y. 2013-14. The assessee challenged the final assessment order for such earlier year before the Tribunal. Vide order dated 5.4.2019, the Tribunal in ITA No. 387/Pun/2017, has decided the issue in favour of the assessee. A copy of the said order has been placed at page 203 onwards of the Paper book. The ld. AR invited our attention towards certain other Tribunal orders passed on the issue taking similar view. Crux of these orders is that:

- i. Sale of computer software is sale of copyrighted article and not transfer of copyright in the software.

- ii. Such transactions amount to 'Royalty' under section 9(1)(vi) of the Income-tax Act, 1961 in the light of Explanation 4 inserted by the Finance Act, 2012 w.r.e.f. 1.6.1976.
 - iii. Article 12 of several DTAAAs, including with the USA, defines Royalties as consideration for the use of or right to use, any copyright of literary work etc. Such right to use the copyright is different from the sale of off-the-shelf software and hence such consideration falls outside the ambit of Royalties.
 - iv. The amendment to the definition of the term Royalty u/s 9(1)(vi) of the Act does not *per se* alter the meaning of the term 'Royalties' under the respective DTAAAs.
6. As the Tribunal has decided the issue in the assessee's favour for the preceding year, which formed the bedrock of the A.O.'s view for the year under consideration, we respectfully follow the precedent to the extent the issue is covered.

7. The ld. DR, however, sounded a contrary note by highlighting the assessee's reply dated 7.12.2016 furnished to the AO, copy placed at page 41 onwards of the paper book, accepting that the assessee not only made direct sale of software licenses to its end user customers in India, but also licensed to the Distributors and the Resellers. It was put forth that insofar as direct sale to the end-customers in India is concerned, that may not amount to Royalty in the light of the decision of the Tribunal for earlier year, but, he submitted licensing of the software to the Distributors and the Resellers will certainly amount to receipt of consideration as Royalties within the meaning of Article 12 of the DTAA. It was further explained that the Tribunal in earlier year's order has decided the issue on the premise of the entire sale having been made to the customers in India. Since the details for this year emphatically indicate that the assessee made sales not only direct to the customers, but also sub-licensed the software to Distributors and Resellers, the decision of the Tribunal for the earlier year will not apply to the licensing of the software to the Distributors/Resellers.

8. As regards the sale of software to the end customers in India, the same has been held by the Tribunal in the preceding year as not resulting into Royalty income under the DTAA. There is no controversy on that as the same has also been conceded on behalf of the Revenue. Thus, we need not delve into nuances of that once again. The distinguishing feature in the current year, as pointed by the Id. DR, is *qua* the licensing to the Resellers and the Distributors. In order to properly appreciate the contention, we need to understand the flow of the transaction through Resellers and Distributors, which we will examine *ad seriatim*.

9. The view articulated by the Id. DR has been that the assessee company licensed its software to the Resellers in India who, in turn, commercially exploited the same by making sale to the end customers in India. We have perused the Reseller Agreement, whose copy has been provided at page 61 onwards of the paper book. This is a standard Reseller Agreement designated as “Certificate Reseller Agreement”. This Agreement unequivocally provides under clause (3) that:
`You (Reseller) shall *purchase Products for resale* to your

customers'. Para 3.1 states: 'If you wish to enroll for Products on behalf of your customers, you shall enter into agreement with your customer, which shall (a) bind your customer to contract terms applicable to the Product as specified by Symantec and published in the repository on the Symantec Website'. Para 3.1.2 of the Agreement states that all inventory or units of Products purchased must be issued within twelve (12) months following the date of purchase. Clause (4) contains Obligations of the assessee. It provides that: '*Symantec shall provide you with the user name and password to access the Reseller Console for the purpose of (a) purchasing products; and if applicable (b) ordering products on behalf of your customers; and (c) deploying URLs to your customers so that they may enroll for Products.* Clause (5) of the Agreement, which is quite material from our angle, states that: 'You shall pay Symantec the applicable fees as set forth in the Reseller Console for the Products purchased.' Para 5.4 discusses the 'Re-sale price' by providing that: "You shall be solely responsible for determining the fees you charge your customers, invoicing your customers and collecting such fees". Clause 8 deals with 'Licenses to Materials' by providing that:

`Symantec grants you a non-exclusive, non-transferable, non-sub-licensable right and license to (a) use Symantec material during the term of this Agreement solely in conjunction with the marketing, promotion and resale of the Products'. Clause 9 of the Agreement in no uncertain terms states that the assessee shall retain all intellectual property rights and title in and to all of their confidential information or other proprietary information, products and services etc.

10. On going through the Certificate Reseller Agreement, it is manifested that the assessee has entered into agreements with Resellers for establishing contact with the end customers and make sales. Resellers are obliged to purchase the Symantec Products from the assessee for resale. A Reseller simply gets a user name and password for accessing to the Reseller Console of the assessee just for the purpose of purchasing Symantec Products and then for further sale to the customers. Price per product is already settled at which the Symantec products will be available to the Resellers. Price to be charged by the Reseller from customers is to be decided by him without the assessee's involvement. Right in the

intellectual property of the computer software remains with the assessee at all times. Thus it is abundantly clear that it is not a case as projected on behalf of the Revenue that the Resellers have been given a license by the assessee for consideration to commercially exploit such license at their end.

11. Article 12(3) of the DTAA between India and the USA defines the term Royalties to mean:

“(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 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 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) payment of any kind received as consideration for the use of, or the right to use, the 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 or Article 8.”

12. On going through the language of Article 12 defining the term ‘Royalties’, it is palpable that the same means a consideration for the *use of, or the right to use, any copyright*

of a literary work etc. Selling or sub-licensing or transferring Copyright means assigning a right to copy the `work' for commercial exploitation and not simply using the work for self consumption. Assigning a right to copy for commercial exploitation is different from the right to use the copy of the work for self purpose. *Ex consequenti*, giving a right to copy is a salient feature of the term `Royalties' under the DTAA, which means that the licensee must acquire a right to copy the work or the intellectual property so acquired on the goods sold or services rendered by him during the course of his business. But where the intellectual property or work is simply used by the licensee for his internal use and not for exploiting it commercially for earning income directly, the consideration paid by him ceases to be a royalty income in the hands of the licensor. Simply allowing one-to-one user of the intellectual property or a product using intellectual property is not the same thing as the other person commercially exploiting such a right in his business for selling the work as it is or selling products or services using the intellectual property. It is only when the licensee gets a right to copy the intellectual property either on the goods/services sold by him to customers or to

sub-license the same to third persons for commercial exploitation, that the consideration amounts to royalty in the hands of the licensor.

13. Reverting to the factual panorama, it is seen that Resellers have not been conferred with any right to copy the software for further sale by them. They just purchase the Symantec Products as such for resale to the end customers in India. Each item of Symantec product is to be separately purchased by them for resale. The position would have been otherwise, if the assessee, instead of selling Symantec Products to the Resellers, would have licensed them the right to copy it for their commercial exploitation, which would have merited consideration of the matter from a different perspective. In our considered opinion, the position *qua* the sale to Resellers is no different from the direct sales made by the assessee to its end customers in India. Thus the essential ingredient of the Royalty, being, granting of use or right to use the copyright is lacking insofar as sale to Resellers is concerned.

14. Now we move forward to examine the nature of transactions between the assessee and its Distributors, which has also been claimed by the Id. DR to be in the nature of Royalty. For this purpose, we have perused the Distributors Agreement, whose copy has been placed at page 71 onwards of the paper book. Para 1(b) of the Agreement states that the: ‘Distributor’s appointment is limited to distribution of Symantec Products to resellers and specifically excludes resale of the Symantec Products to end-users. *Symantec grants the distributors the non-exclusive, non-transferable right during the Term to acquire and distribute Symantec Products to Resellers in the territory to allow such resellers to distribute Symantec Products to end-users*’. Para 1(c) of the Agreement further states that the: ‘Distributor’s appointment only grants to Distributor *a license to transfer such Symantec Products to Distributor’s customers, and does not transfer any right, title or interest in any such software to Distributor*’. Clause 2 of the Agreement enumerates “Obligations of Distributor”. Para 2(g) states that: ‘Distributor will distribute Symantec Product to resellers only under the terms of the end-user license agreement’. Para 5 of the Agreement deals with ‘Prices, Per

Copy License Fees and Payment'. It states that *Symantec will invoice distributors on the basis of the Symantec buy price list for the Symantec Products*. Para 5(g) deals with 'Appliances Return or Exchange'. It states that the: 'Distributor may exchange to Symantec a portion of the Appliance(s) which were shipped to Distributor hereunder during any calendar quarter during the term of this Agreement to the extent that Distributor has more than four (4) weeks of inventory of such Appliance(s)'. Clause 8 of the Agreement, which is relevant for our purpose, deals with 'Trademarks, Trade Names and Copyrights'. Para 8(a) states that: 'During the term of this Agreement, Distributor is authorized by Symantec to use the trademark "Symantec", the Symantec logos for Symantec Products and the designation "Authorized Symantec Distributor" in connection with Distributor's advertisement, promotion and distribution of Symantec Products. Distributor's use of such trademark, logos and designation will be in accordance with Symantec's policies in effect from time to time.' Para 8(b) states that: 'Distributor agrees not to alter, erase, deface or overprint any notice on anything provided by Symantec'. Clause (c) of para 8 has caption - 'No Distributor

Rights in Trademarks or Copyrights'. Clause (e) or para 8 states that: *'Distributor will not alter, reverse engineer, decompile, disassemble, rent, electronically distribute or market by interactive cable, remote processing services Symantec Products.'*

15. On going through the above clauses of the Distributor Agreement, it becomes immensely clear that the Distributors have been appointed by the assessee in India to serve a link with Resellers. The Distributors simply acquire the Symantec Products which they specifically sell to the Resellers. Trademarks, Trade Name and Copyrights in Symantec Products remain with the assessee and the Distributor cannot make any deviation in the Symantec products in any manner. Thus, it is overt that the assessee has appointed Distributors in India to facilitate sale of Symantec Products. The Symantec products sold as such to the Distributors do not confer any right on them to copy the software license. The Distributors, except for passing over the Symantec products as acquired by them from the assessee company, do not acquire any right or

title in the intellectual property used in the software which always remains with the assessee.

16. The above discussion boils down that be it a case of sale to the Resellers or the Distributors, the assessee only transfers Symantec Products to them. It is not as if the Distributors or the Resellers acquire any right from the assessee to copy the software and then exploit it commercially. Their transactions are confined to purchasing specific Symantec Products from the assessee and then eventually selling the same to the end customers in India. There is no qualitative difference between the direct sales made by the assessee to its customers in India, which have already passed the scrutiny by the Tribunal in assessee's own case for earlier year and the sales made by the assessee through the Distributors or the Resellers. In both the sets of circumstances, it is only one-to-one sale of the Symantec Products by the assessee and at no stage the right to use the copyright in the software is licensed either to the Distributor or the Reseller. Thus, the decision taken by the Tribunal in the context of direct sales made by the assessee to end customers in India applies with full force insofar as the

sales through Distributors and Resellers are concerned. That being the position, we hold that the income earned by the assessee from sale of software, either directly to the customers in India or through Distributors or Resellers constitutes its business income and not the Royalty income. As admittedly the assessee did not have any Permanent Establishment in India, such income will not magnetize Indian taxation. We, therefore, overturn the impugned order.

17. In the result, the appeal is allowed.

Order pronounced in the Open Court on 11th January,
2021.

Sd/-
(S.S. VISWANETHRA RAVI)
JUDICIAL MEMBER

Sd/-
(R.S.SYAL)
VICE PRESIDENT

पुणे Pune; दिनांक Dated : 11th January, 2021
सतीश

आदेश की प्रतिलिपि अग्रेषित/Copy of the Order is forwarded to:

1. अपीलार्थी / The Appellant;
2. प्रत्यर्थी / The Respondent;
3. The CIT(A)-13, Pune
4. The CIT (IT/TP), Pune
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, पुणे
“सी” / DR ‘C’, ITAT, Pune
6. गार्ड फाईल / Guard file

आदेशानुसार/ BY ORDER,

// True Copy //

Senior Private Secretary
आयकर अपीलीय अधिकरण ,पुणे / ITAT, Pune

		Date	
1.	Draft dictated on	08-01-2021	Sr.PS
2.	Draft placed before author	11-01-2021	Sr.PS
3.	Draft proposed & placed before the second member		JM
4.	Draft discussed/approved by Second Member.		JM
5.	Approved Draft comes to the Sr.PS/PS		Sr.PS
6.	Kept for pronouncement on		Sr.PS
7.	Date of uploading order		Sr.PS
8.	File sent to the Bench Clerk		Sr.PS
9.	Date on which file goes to the Head Clerk		
10.	Date on which file goes to the A.R.		
11.	Date of dispatch of Order.		

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