

आयकर अपीलीय अधिकरण, दिल्ली न्यायपीठ “डी”, नई दिल्ली में

**IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH ‘D’, NEW DELHI**

सुश्री सुषमा चावला, उपाध्यक्ष एवं श्री एन. के. बिल्लैया, लेखा सदस्य के समक्ष
BEFORE MS. SUSHMA CHOWLA, VP & SHRI N.K.BILLAIYA, AM

[THROUGH VIDEO CONFERENCING]

आयकर अपील सं. / ITA No.1000/Del/2017

निर्धारण वर्ष / Assessment Year 2013-14

Symantec Asia Pacific Pte. Ltd.,
6 Temasek Boulevard,
#12-01, Suntec Tower Four,
Singapore 038986
PAN-AAOCS1828F

.....अपीलार्थी / Appellant

vs

The DCIT (International Taxation),
Circle-3(1)(2), Room No.419,
Block E-2, Civic Centre,
J.L.N.Marg, New Delhi-110002.

..... प्रत्यर्थी / Respondent

अपीलार्थी की ओर से / Appellant by : Sh. Nageshwar Rao, Adv. &
Ms. Deepika Aggarwal, Adv.

प्रत्यर्थी की ओर से / Respondent by : Sh. Satpal Gulati, CIT DR

सुनवाई की तारीख/ Date of Hearing : 21.07.2020	घोषणा की तारीख / Date of Pronouncement: 31.08.2020
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आदेश / ORDER

PER SUSHMA CHOWLA, VP

The present appeal filed by assessee is against order of DCIT, Circle-3(1)(2), International Transaction, New Delhi dated 08.11.2016 relating to assessment year 2013-14 against the order passed under section 143(3)r.w.s 144C(13) of the Income-tax Act, 1961 (in short ‘the Act’).

2. The assessee has raised following grounds of appeal:-

“Based on the facts and circumstances of the case, Symantec Asia Pacific Ptd Ltd (hereinafter referred to as the 'Appellant') respectfully craves leave to prefer an appeal under section 253(1)(d) of the Income-tax Act, 1961 (hereinafter referred to as the 'Act'), against the order dated 8 November 2016 (received by the Appellant on 4 January 2017) passed by the learned Deputy Commissioner of Income-tax, Circle 3(1)(2), International Taxation, New Delhi (hereinafter referred to as 'AO') in pursuance of the directions issued by the Hon'ble Dispute Resolution Panel - 2, New Delhi (hereinafter referred to as 'DRP') dated 17 October 2016 under section 143(3) of the Income-tax Act, 1961 ('Act') read with section 144C(13) of the Act on the following grounds, which are independent of and without prejudice to each other.

Ground 1 - Consideration from sale of software licenses of Rs. 2,37,63,86,143 taxed as royalty

- i. On the facts and in the circumstances of the case and in law, the learned AO and the Hon'ble DRP has erred in treating the consideration received from sale of software license taxable as 'Royalty' both under the provisions of the Act as well as Article 12 of the Double Taxation Avoidance Agreement ('DTAA') between India and Singapore.*
- ii. The learned AO and the Hon'ble DRP failed to appreciate the Appellant's arguments and submissions explaining that the software licences sold by the Appellant are goods and not services.*
- iii. The learned AO and the Hon'ble DRP erred in holding that the Appellant grants right in the copyright of the software licenses, instead of treating the grant of software licenses as copyrighted article without any rights in the copyright.*
- iv. The learned AO and the Hon'ble DRP erred in holding that the term 'use' or 'right to use' does not presuppose commercial exploitation of software.*
- v. The learned AO and the Hon'ble DRP erred in treating that sale of software licenses by the Assessee involved consideration for use or right to use any process assuming that computer program is process.*

vi. The learned AO and the Hon'ble DRP erred in not following the binding decisions of the jurisdictional Hon'ble Delhi High Court which squarely covered the aforesaid issue.

Ground 2 - Erroneous levy of surcharge and cess on the tax rate applicable as per DTAA

On the facts and in the circumstances of the case and in law, the learned AO erred in levying surcharge as well as secondary and higher secondary cess on the tax rate adopted under India - Singapore DTAA

Ground 3 - Initiation of penalty proceedings under section 271(1)(c) of the Act

On the facts and in the circumstances of the case and in law, the learned Assessing Officer erred in initiating penalty proceedings under section 271(1)(c) of the Act.”

2. Briefly in the facts of the case the assessee is incorporated under the laws of Singapore and is engaged in the business of sale of software licensing relating to information security and storage technology. During the year under consideration, the assessee had declared revenue of Rs.22,37,63,86,143/- against sale of software licenses to the end user customers either directly or through authorized distributor/ re-salers in India. The case of the assessee was taken up for scrutiny. The Assessing Officer relying on the ratio laid down by the Delhi Bench of Tribunal in *Gracemac Corporation vs ADIT 143 TTJ 257 (Del.)*, taxed the income received from sale of software licenses as Royalty under Article 12 of India Singapore Agreement. The Assessing Officer in final part of the assessment order also held the same to be consideration received from use of process, taxable under Explanation (iii) to section 9(1)(vi) of the I.T.Act.

3. Before the DRP, the assessee placed heavy reliance on the ratio laid down by the Jurisdictional High Court in the case of DIT vs Infrasoftware Ltd. 264 CTR 329 (Del.). The DRP vide directions dated 17.10.2016 upheld the order of the Assessing Officer on the ground that the Department has filed SLP before the Hon'ble Apex Court against the decision of Hon'ble Delhi High Court in DIT vs Infrasoftware Ltd. (supra) and the matter needs to be kept alive in view thereof. The Assessing Officer passed final assessment order against which the assessee is in appeal before us.

4. The Ld.AR for the assessee points out that the issue raised vide Ground of appeal No.1 is against the taxability of consideration received on sale of software. Further, he pointed out that the assessee was a non-resident in India and it is noted by the Assessing Officer that there is no Permanent Establishment (in short "PE") in India and hence, the receipts are not to be taxed as Royalty either under the provision of DTAA or under the provisions of the Act. Our attention is drawn to various parts of assessment order wherein major reliance was placed on the decision of Delhi Bench of Tribunal in Gracemac Corporation vs ADIT 42 SOT 550 (Del.). The Ld.AR for the assessee points out that the issue stands covered by the order of Hon'ble High Court in DIT vs Infrasoftware Ltd. (supra) case and also by the decision of the Tribunal in subsequent case of MOL Corporation & Others for Assessment Years 2007-08 to 2009-10 in ITA Nos. 6089 to 6091/Del/2012, order dated 26.09.2016, wherein reliance was placed on the order of Hon'ble Delhi High Court and it was held that the decision in Gracemac Corporation vs ADIT (supra) was no

longer good law. The Ld.AR for the assessee also referred to the decision of Pune Bench of Tribunal in Symantec Corporation vs DCIT in ITA No.387/Pune/2017 relating to Assessment Year 2013-14 order dated 05.04.2019 and it was pointed out that the similar issue was decided in favour of the assessee.

5. Coming to the second issue raised vide Ground of appeal No.2, it was pointed out that the same was alternate plea and would not survive incase the first issue is decided in favour of the assessee.

6. The issue raised vide Ground of appeal No.3 is against the initiation of penalty proceedings, was pre-mature.

7. The Ld. DR fairly conceded that the issue has been decided by the Hon'ble High Court in Infrasoftware Ltd.(supra). However, the second aspect of process was not considered by the Hon'ble High Court in Infrasoftware Ltd.(supra) and the same may be considered.

8. We have heard the rival contentions and perused the record. The issue which arises in the present appeal is with regard to non-resident company, which is operating from Singapore and the issue which arises is the taxability of consideration received on sale of software and whether the same is assessable in the hands of the assessee as Royalty under the provisions of DTAA or under the provisions of Act.

9. The first aspect of the issue which has been raised before us is that the assessee was licensing its software to its customers, does not 'make available'

any process to the customers, who in turn uses the process while carrying out their business. Further, no exclusive right in the software are transferred to the customers; it is only a copyrighted Article which is being licensed, and no right to use copyright subsisting in such software is transferred. Therefore, the same does not fall within the definition of Royalty as per amended provisions of section 9(1)(vi) of the Act. The assessee also claimed that the consideration receipt cannot be for use of process, since there was no control of the customer over the software system and all rights therein are retained with the assessee. Further, the transaction merely involves supply of the products on a license basis and not the grant of rights (including any rights towards the copyright) in the software/computer programme embedded within the product.

10. Another plea raised by the assessee is that the payments received on supply of software to the end users or through the distributor do not fall within the definition of "Royalty" under Article 12 (3) between India and Singapore Tax Treaty, where such definition is narrower in ambit, as compared to the Act. On the other hand, the case of the authorities is that the sale of software is taxable as 'Royalty' in the hands of the assessee. For this proposition, reliance was placed on the ratio laid down by the Delhi Bench of the Tribunal in *Gracemac Corporation vs ADIT* (supra).

11. The question which arises is whether the receipts on sale of licensed software to the end user customers in India, which was an application software, can be covered under the term 'Royalty' income arising on sale of such software as provided in Section 9(1)(vi) of the Act and/ or under Article 12(3) of the India Singapore Treaty.

12. We have already adjudicated similar issue in the case of Nagravision S.A. vs ACIT in ITA No.9130/Del/2019 vide order dated 06.07.2020 wherein Treaty in question was between India and Sweden and the issue which was raised was whether sale of license of software was covered under the term 'Royalty' as provided in section 9(1)(vi) of the Act and/or Article 12(3) of the DTAA. Reliance was placed on the decision of DIT vs Infrasoftware Ltd. (supra). We reproduce the following paras from Nagravision S.A. (supra) for ready-reference:-

19. "The question which arises is whether such license of software by the assessee is covered under the term "Royalty" as provided in section 9(1)(vi) of the Act and/or Article 12 of the DTAA. Article 12 of the DTAA between India and Sweden stipulates and defines what is Royalty and fees for technical services. The term 'Royalty' as per clause 3 of Article 12 means payment 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 gains derived from the alienation of any such right or property which are contingent on the productivity, use of deposition thereof. The term 'Royalty' has been defined by clause 3 of Article 12 as payment received for the use of, or the right to use any copyright. Section 9(1)(vi) of the Act defines 'Royalty'. The authorities below were of the view that because of insertion of Explanation 5 to section 9(1)(vi) of the Act with retrospective effect from 01.06.1976, where the meaning of term 'Royalty' has been extended to include use of copyright or copyrighted article is to be applied and on such application, the assessee was held to be taxable. The case of the assessee is that it had not transferred any copyright but had only parted with copyrighted article, in the form of software, then it is not Royalty and was not covered under the provisions of section 9(1)(vi) of the

Act. In the alternate, it is submitted by the learned Authorized Representative for the assessee that since the definition of 'Royalty' has not been amended in Tax Treaty and the said provisions being beneficial, then provisions of Article 12(3) of DTAA with Sweden would apply and the assessee's case would fall within non amended provisions of definition of 'Royalty' under Article 12(3) of DTAA.

20. The Hon'ble High Court of Delhi in *DIT Vs. Infrasoftware Ltd.* (supra) have noted that under the license agreement, license was non-exclusive, non-transferrable and the software had to be used in accordance with agreement; the licensee was permitted to make only one copy of software and associated support information and that also for backup purpose. All copies of software were the exclusive property of 'Infrasoftware' and it was stipulated that copy shall include 'Infrasoftware' copyright and all copies of software also; and without consent of the licensor, the software could not be loaned, rented, sold, sub-licensed or transferred to any third party. The Hon'ble High Court further went on to hold that distinction had to be made between acquisition of copyright and copyrighted article; copyrighting was distinct from material object.

21. The Hon'ble High Court in *DIT Vs. Infrasoftware Ltd.* (supra) vide its decision dated 22.11.2013 was of the view that where the assessee was governed by Indo-US DTAA, the income of assessee would be chargeable to tax in terms of provisions of Indo-US DTAA and if the same was more advantageous or beneficial, then definition of the word 'Royalty' as defined in Explanation 2 to section 9(1)(vi) of the Act could not be applied. The Hon'ble High Court vide paras 64 and 65 held as under:-

"64. To be taxable as royalty income covered by Article 12 of the DTAA the income of the Assessee should have been generated by the "use of or the right to use of" any copyright.

65. The issue whether consideration for software was royalty came up for consideration before the Special Bench of the Tribunal in Delhi in the case of *MOTOROLA INC VS DEPUTY CIT (2005) 147 TAXMAN 39 (DELHI)*. The Tribunal has held as under:

155. It appears to us from a close examination of the manner in which the case has proceeded before the Income-tax authorities and the arguments addressed before us that the crux of the issue is whether the payment is for a copyright or for a copyrighted article. If it is for copyright, it should be classified as royalty both under the Income-tax Act and under the DTAA and it would be taxable in the hands of the Assessee on that basis. If the payment is really for a copyrighted article, then it only represents the purchase price of the article and, therefore, cannot be considered as royalty either under

the Act or under the DTAA. This issue really is the key to the entire controversy and we may now proceed to address this issue.

156. We must look into the meaning of the word "copyright" as given in the Copyright Act, 1957. Section 14 of this Act defines "Copyright" as "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:

It is clear from the above definition that a computer programme mentioned in Clause (b) of the section has all the rights mentioned in Clause (a) and in addition also the right to sell or give on commercial rental or offer for sale or for commercial rental any copy of the computer programme. This additional right was substituted w.e.f. 15.1.2000. The difference between the earlier provision and the present one is not of any relevance. What is to be noted is that the right mentioned in Sub -clause (ii) of Clause (b) of Section 14 is available only to the owner of the computer programme. It follows that if any of the cellular operators does not have any of the rights mentioned in Clauses (a) and (b) of Section 14, it would mean that it does not have any right in a copyright. In that case, the payment made by the cellular operator cannot be characterized as royalty either under the Income-tax Act or under the DTAA. The question, therefore, to be answered is whether any of the operators can exercise any of the rights mentioned in the above provisions with reference to the software supplied by the Assessee.

157. We may first look at the supply contract itself to find out what JTM, one of the cellular operators, can rightfully do with reference to the software. We may remind ourselves that JTM is taken as a representative of all the cellular operators and that it was common ground before us that all the contracts with the cellular operators are substantially the same. Clause 20.1 of the Agreement, under the title "License", says that JTM is granted a non - exclusive restricted license to use the software and documentation but only for its own operation and maintenance of the system and not otherwise. This clause appears to militate against the position, if it were a copyright, that the holder of the copyright can do anything with respect to the same in the public domain. What JTM is permitted to do is only to use the software for the purpose of its own operation and maintenance of the system. There is a clear bar on the software being used by JTM in the public domain or for the purpose of commercial exploitation.

158. Secondly, under the definition of "copyright" in Section 14 of the Copyright Act, the emphasis is that it is an exclusive right granted to

the holder thereof. This condition is not satisfied in the case of JTM because the license granted to it by the Assessee is expressly stated in Clause 20.1 as a "non exclusive restricted license". This means that the supplier of the software, namely, the Assessee, can supply similar software to any number of cellular operators to which JTM can have no objection and further all the cellular operators can use the software only for the purpose of their own operation and maintenance of the system and not for any other purpose. The user of the software by the cellular operators in the public domain is totally prohibited, which is evident from the use of the words in Article 20.1 of the agreement, "restricted" and "not otherwise". Thus JTM has a very limited right so far as the use of software is concerned. It needs no repetition to clarify that JTM has not been given any of the seven rights mentioned in Clause (a) of Section 14 or the additional right mentioned in Sub-clause (ii) of Clause (b) of the section which relates to a computer programme and, therefore, what JTM or any other cellular operator has acquired under the agreement is not a copyright but is only a copyrighted article.

159. Clause 20.4 of the supply contract with JTM is as under:

20.4 In pursuance of the foregoing JT MOBI LES shall:

- (a) not provide or make the Software or Documentation or any portions or aspects thereof (including any methods or concepts utilized or expressed therein) available to any person except to its employees on a "need to know" basis;*
- (b) not make any copies of Software or Documentation or parts thereof, except for archival backup purposes;*
- (c) when making permitted copies as aforesaid transfer to the copy/copies any copyright or other marking on the Software or Documentation.*
- (d) Not use the Software or Documentation for any other purpose than permitted in this Article 20, Licence or sell or in any manner alienate or part with its possession.*
- (e) Not use or transfer the Software and/or the Documentation outside India without the written consent of the Contractor and after having received necessary export or re-export permits from relevant authorities.*

This clause places stringent restrictions on the cellular operator so far as the use of software is concerned. It first says that the cellular operator cannot make the software or portions thereof available to any person except to its employees and even with regard to employees it has to be only on a "need to know basis" which means that even the

employees are not to be told in all its aspects. What the Assessee can do is only to tell the particular employee what he has to know about the software for operational purposes. The cellular operator has been denied the right to make copies of the software or parts thereof except for archival backup purposes. This means that the cellular operator cannot make copies of the software for commercial purposes. This condition is plainly contrary to Section 14(a)(i) of the Copyright Act which permits the copyright holder to reproduce the work in any material form including the storing of it in any medium by electronic means. We may also notice Section 52(1)(aa) of the Copyright Act which lists out certain acts which cannot be considered as infringement of copyright. The particular clause permits the making of copies or adaptation of a computer programme by the lawful possessor of the copy and the computer programme in order to utilize the public programme for the purpose for which it was supplied or to make backup copies purely as a temporary protection against loss, destruction or damage. Therefore, merely because the cellular operator has been permitted to take copies just for backup purposes, it cannot be said that it has acquired a copyright in the software.

160. Clause 20.4(c) makes it mandatory for the cellular operator, while making copies of the software for backup purposes, to also mark the copied software with copyright or other marking to show that the rights of the Assessee are reserved. This is one more indication that what the cellular operator acquired is not a copyright.

161. Clause 20.4(d) says that the cellular operator cannot use the software for any other purpose than what is permitted and shall not also license or sell or in any manner alienate or part with its possession. This has to be read with Clause 20.5 which says that the license can be transferred, but only when the GSM system itself is sold by the cellular operator to a third party. This in a way shows that the software is actually part of the hardware and it has no use or value independent of it. This restriction placed on the cellular operator (not to license or sell the software) runs counter to Section 14(b)(ii) of the Copyright Act which permits a copyright holder to sell or let out on commercial rental the computer programme. For this reason also it cannot be said that JTM or any cellular operator acquired a copyright in the software.

162. A conjoint reading of the terms of the supply contract and the provisions of the Copyright Act, 1957 clearly shows that the cellular operator cannot exploit the computer software commercially which is

the very essence of a copyright. In other words a holder of a copyright is permitted to exploit the copyright commercially and if he is not permitted to do so then what he has acquired cannot be considered as a copyright. In that case, it can only be said that he has acquired a copyrighted article. A small example may clarify the position. The purchaser of a book on income-tax acquires only a copyrighted article. On the other hand, a recording company which has recorded a vocalist has acquired the copyright in the music rendered and is, therefore, permitted to exploit the recording commercially. In this case the music recording company has not merely acquired a copyrighted article in the form of a recording, but has actually acquired a copyright to reproduce the music and exploit the same commercially. In the present case what JTM or any other cellular operator has acquired under the supply contract is only the copyrighted software, which is an article by itself and not any copyright therein.

163. We may now briefly deal with the objections of Mr. G.C. Sharma, the learned senior counsel for the Department. He contended that if a person owns a copyrighted article then he automatically has a right over the copyright also. With respect, this objection does not appear to us to be correct. Mr. Dastur filed an extract from Iyengar's Copyright Act (3rd Edition) edited by R.G. Chaturvedi. The following observations of the author are on the point:

"(h) Copyright is distinct from the material object, copyrighted:

It is an intangible incorporeal right in the nature of a privilege, quite independent of any material substance, such as a manuscript. The copyright owner may dispose of it on such terms as he may see fit. He has an individual right of exclusive enjoyment. The transfer of the manuscript does not, of itself, serve to transfer the copyright therein. The transfer of the ownership of a physical thing in which copyright exists gives to the purchaser the right to do with it (the physical thing) whatever he pleases, except the right to make copies and issue them to the public" (underline is ours).

The above observations of the author show that one cannot have the copyright right without the copyrighted article but at the same time just because one has the copyrighted article, it does not follow that one has also the copyright in it. Mr. Sharma's objection cannot be accepted.

164. It is not necessary, therefore, to consider the alternative argument of Mr. Dastur, namely, that even assuming that the Department is right in saying that if you have the copyrighted article, you also have the copyright right therein, still it would mean that the copyright rights are transferred (acquired by JTM) and it would not be a case of merely giving the right to use and consequently Article 13 of the DTAA would not apply. Mr. Dastur, however, was fair enough to concede that if the Department is right in saying that if you have the copyrighted article, you also have the copyrighted rights, then Clause (v) of Explanation 2 below Section 9(1) of the Income-tax Act will apply because his clause ropes in "transfer of all or any rights" and is not restricted to "use" or "right to use", the copyright. However, he added that since the basic proposition of the Department has been demonstrated to be wrong, Clause (v) of Explanation 2 below Section 9(1) is not an impediment to accepting the assessee's contention.

165. We may also usefully refer to the Commentary on the OECD Model Convention (dated 28.1.2003) which is of persuasive value and which throws considerable light on the character of the transaction and the treatment to be given to the payments for tax purposes. Paragraph 14 of the Commentary, a copy of which was filed in Paper book No. V is relevant:

COMMENTARY ON ARTICLE 12 - PAPER BOOK V

"14. In other types of transactions, the rights acquired in relation to the copyright are limited to those necessary to enable the user to operate the program, for example, where the transferee is granted limited rights to reproduce the program. This would be the common situation in transactions for the acquisition of a program copy. The rights transferred in these cases are specific to the nature of computer programs. They allow the user to copy the program, for example onto the user's computer hard drive or for archival purposes. In this context, it is important to note that the protection afforded in relation to computer programs under copyright law may differ from country to country. In some countries the act of copying the program onto the hard drive or random access memory of a computer would, without a license, constitute a breach of copyright. However, the copyright laws of many countries automatically grant this right to the owner of software which incorporates a computer program. Regardless of whether this right is granted under law or under a license agreement with the copyright holder, copying the program onto the computer's hard drive or random access memory or making an archival

copy is an essential step in utilizing the program. Therefore, rights in relation to these acts of copying, where they do no more than enable the effective operation of the program by the user, should be disregarded in analyzing the character of the transaction for tax purposes. Payments in these types of transactions would be dealt with as commercial income in accordance with Article 7."

166. We may also usefully refer to the proposed amendments to the regulations of the Internal Revenue Service (IRS) in the USA.

Again these regulations may not be binding on us but they have a persuasive value and throw light on the question before us, namely the difference between a copyright right and a copyrighted article. These regulations have been placed at pages 136 to 157 of Paper book No. II. The actual regulations as well as the explanatory Note explaining the object and the purpose of the proposed regulations have also been given. In paragraph 1 of the Note titled "Background", it has been stated that the proposed regulations require that a transaction involving a computer programme may be treated as being one of the four possible categories. Two such categories are the transfer of copyright rights and the transfer of a copyrighted article. The U.S. regulations distinguished between transfer of copyright rights and transfer of copyrighted articles based on the type of rights transferred to the transferee. Briefly stated, if the transferee acquires a copy of a computer programme but does not acquire any of the rights identified in certain sections (of the U.S. Regulations), the regulation classified the transaction as the Transfer of a copyrighted article. Paragraph 3 of the Explanatory Note says that if a transfer of a computer programme results in the transferee acquiring any one or more of the listed rights, it is a transfer of a copyright right.

167. Paragraph 4 says that if a person acquires a copy of a computer programme but does not acquire any of the four listed copyright rights, he gets only a copyrighted article but no copyright.

168. The actual regulations bring out the distinction very clearly between the copyright right and a copyrighted article. They also specify the four rights which, if acquired by the transferee, constitute him the owner of a copyright right. They are:

(a) The right to make copies of the computer programme for purposes of distribution to the public by sale or other transfer of ownership, or by rental, lease, or lending.

- (ii) *The right to prepare derivative computer programmes based upon the copyrighted computer programme*
- (iii) *The right to make a public performance of the computer programme.*
- (iv) *The right to publically display the computer programme.*

169. A copyrighted article has been defined in the regulation (page 147 of the paper book) as including a copy of a computer programme from which the work can be perceived, reproduced or otherwise communicated either directly or with the aid of a machine or device. The copy of the programme may be fixed in the magnetic medium of a floppy disc or in the main memory or hard drive of a computer or in any other medium.

170. So far as the transfer of copyrighted articles and copyright rights are concerned, the regulation goes on to say (page 148 of the paper book) that the question whether there was a transfer of a copyright right or only of a copyrighted article must be determined taking into account all the facts and circumstances of the case and the benefits and burden of ownership which have been transferred. Several examples have been given below these regulations to find out whether a particular transfer is a transfer of a copyright right or a transfer of a copyrighted article.

171. The Commentary of "Charl P. du TOIT" on this question has been placed at pages 202 to 204 of Paper book No. II. The Commentary is titled "Beneficial ownership of royalties in Bilateral Tax Treaties." He has opined that articles such as Books and Records are copyrighted articles and if they are sold, the user does not obtain the right to use any significant rights in the underlying copyright itself, which is what should determine the characterization of the revenue as sale proceeds rather than royalties. He has further opined that consideration relating to sale of software can amount to royalty only in limited circumstances.

172. For the above reasons, we are of the view that the payment by the cellular operator is not for any copyright in the software but is only for the software as such as a copy righted article. It follows that the payment cannot be considered as royalty within the meaning of Explanation 2 below Section 9(1) of the Income-tax Act or Article of the DTAA with Sweden.

184. In view of the foregoing discussion, we hold that the software supplied was a copyrighted article and not a copyright right, and the payment received by the Assessee in respect of the software cannot

be considered as royalty either under the Income-tax Act or the DTAA.”

22. *The Hon’ble High Court of Delhi in DIT Vs. Infrasoftware Ltd. (supra) then refers to the decision of the Hon’ble High Court of Delhi itself in DIT Vs. Ericsson A.B. (2012) 343 ITR 470 (Del), wherein it was held that once it is held that payment in question is not Royalty which would come within the mischief of clause (vi), the Explanation will have no application and that the question of applicability of the Explanation would arise only when payment is to be treated as "Royalty" within the meaning of clause (vi) or "fee for technical services" as provided in clause (vii) of the Act. After referring to different terms of Licensing Software Agreement, the Hon’ble High Court observed as under:-*

“85. The Licensing Agreement shows that the license is non-exclusive, non-transferable and the software has to be used in accordance with the Agreement. Only one copy of the software is being supplied for each site. The licensee is permitted to make only one copy of the software and associated support information and that also for backup purposes. It is also stipulated that the copy so made shall include Infrasoftware’s copyright and other proprietary notices. All copies of the Software are the exclusive property of Infrasoftware. The Software includes a licence authorisation device, which restricts the use of the Software. The software is to be used only for Licensee’s own business as defined within the Infrasoftware Licence Schedule. Without the consent of the Assessee the software cannot be loaned, rented, sold, sublicensed or transferred to any third party or used by any parent, subsidiary or affiliated entity of Licensee or used for the operation of a service bureau or for data processing. The Licensee is further restricted from making copies, decompile, disassemble or reverse-engineer the Software without Infrasoftware’s written consent. The Software contains a mechanism which Infrasoftware may activate to deny the Licensee use of the Software in the event that the Licensee is in breach of payment terms or any other provisions of this Agreement. All copyrights and intellectual property rights in and to the Software, and copies made by Licensee, are owned by or duly licensed to Infrasoftware.”

23. *The Hon’ble High Court concluded by holding as under:-*

“87. In order to qualify as royalty payment, it is necessary to establish that there is transfer of all or any rights (including the granting of any licence) in respect of copyright of a literary, artistic or scientific work. In order to treat the consideration paid by the Licensee as royalty, it is to be established that the licensee, by

making such payment, obtains all or any of the copyright rights of such literary work. Distinction has to be made between the acquisition of a "copyright right" and a "copyrighted article". Copyright is distinct from the material object, copyrighted. Copyright is an intangible incorporeal right in the nature of a privilege, quite independent of any material substance, such as a manuscript. Just because one has the copyrighted article, it does not follow that one has also the copyright in it. It does not amount to transfer of all or any right including licence in respect of copyright. Copyright or even right to use copyright is distinguishable from sale consideration paid for "copyrighted" article. This sale consideration is for purchase of goods and is not royalty.

88. The license granted by the Assessee is limited to those necessary to enable the licensee to operate the program. The rights transferred are specific to the nature of computer programs. Copying the program onto the computer's hard drive or random access memory or making an archival copy is an essential step in utilizing the program. Therefore, rights in relation to these acts of copying, where they do no more than enable the effective operation of the program by the user, should be disregarded in analyzing the character of the transaction for tax purposes. Payments in these types of transactions would be dealt with as business income in accordance with Article 7.

89. There is a clear distinction between royalty paid on transfer of copyright rights and consideration for transfer of copyrighted articles. Right to use a copyrighted article or product with the owner retaining his copyright, is not the same thing as transferring or assigning rights in relation to the copyright. The enjoyment of some or all the rights which the copyright owner has, is necessary to invoke the royalty definition. Viewed from this angle, a non-exclusive and non-transferable licence enabling the use of a copyrighted product cannot be construed as an authority to enjoy any or all of the enumerated rights ingrained in Article 12 of DTAA. Where the purpose of the licence or the transaction is only to restrict use of the copyrighted product for internal business purpose, it would not be legally correct to state that the copyright itself or right to use copyright has been transferred to any extent. The parting of intellectual property rights inherent in and attached to the software product in favour of the licensee/customer is what is contemplated by the Treaty. Merely authorizing or enabling a customer to have the benefit of data or instructions contained therein without any further right to deal with them independently does not, amount to transfer of rights in relation to copyright or conferment of the right of using the copyright. The transfer of rights in or over copyright or the

conferment of the right of use of copyright implies that the transferee/licensee should acquire rights either in entirety or partially co-extensive with the owner/ transferor who divests himself of the rights he possesses pro tanto.

90. The license granted to the licensee permitting him to download the computer programme and storing it in the computer for his own use is only incidental to the facility extended to the licensee to make use of the copyrighted product for his internal business purpose. The said process is necessary to make the programme functional and to have access to it and is qualitatively different from the right contemplated by the said paragraph because it is only integral to the use of copyrighted product. 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.

91. There is no transfer of any right in respect of copyright by the Assessee and it is a case of mere 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 either under the Income Tax Act or under the DTAA.”

24. The Hon’ble High Court then referred to the decision of the Hon’ble High Court of Karnataka in CIT Vs. Samsung Electronics Co. Ltd. (supra) and distinguished the same holding as under:-

“98. We are not in agreement with the decision of the Andhra Pradesh High Court in the case of Samsung Electronics Co. Ltd (supra) that right to make a copy of the software and storing the same in the hard disk of the designated computer and taking backup copy would amount to copyright work under section 14(1) of the Copyright Act and the payment made for the grant of the licence for the said purpose would constitute royalty. The license granted to the licensee permitting him to download the computer programme and storing it in the computer for his own use was only incidental to the facility extended to the licensee to make use of the copyrighted product for his internal business purpose. The said process was necessary to make the programme functional and to have access to it and is qualitatively different from the right contemplated by the said provision because it is only integral to the use of copyrighted product. The right to make a backup copy purely as a temporary

protection against loss, destruction or damage has been held by the Delhi High Court in DIT v. M/s Nokia Networks OY (Supra) as not amounting to acquiring a copyright in the software.”

25. Further, the Hon’ble High Court of Delhi in *Pr.CIT vs M.Tech India Ltd. (P.)* [2017] 381 ITR 31 (Del.) held as under:-

“12. In the cases where an Assessee acquires the right to use a software, the payment so made would amount to royalty. However in cases where the payments are made for purchase of software as a product, the consideration paid cannot be considered to be for use or the right to use the software. It is well settled that where software is sold as a product it would amount to sale of goods. In the case of Tata Consultancy Services v. State of Andhra Pradesh: (2004) 271 ITR 401 (SC), the Supreme Court examined the transactions relating to the purchase and sale of software recorded on a CD in the context of the Andhra Pradesh General Sales Tax Act. The court held the same to be goods within the meaning of Section 2(b) of the said Act and consequently exigible to sales tax under the said Act. Clearly, the consideration paid for purchase of goods cannot be considered as ‘royalty’. Thus, it is necessary to make a distinction between the cases where consideration is paid to acquire the right to use a patent or a copyright and cases where payment is made to acquire patented or a copyrighted product/material. In cases where payments are made to acquire products which are patented or copyrighted, the consideration paid would have to be treated as a payment for purchase of the product rather than consideration for use of the patent or copyright.”

26. The Hon’ble High Court has thus, made distinction between the cases where consideration is paid to acquire right to use, patent or copyright and cases where payment is made to acquire patented or copyrighted products / material and has held that where the payment is made to acquire products which are patented or copyrighted, consideration paid would have to be treated as payment for purchase of product rather than consideration for use of patent or copyright. In para 13, the Hon’ble High Court in *Pr.CIT Vs. M.Tech India (P) Ltd. (supra)* refers to earlier decision of Coordinate Bench of the Hon’ble High Court of Delhi in *DIT Vs. Infrasoftware Ltd. (supra)* and also refers to the reliance placed upon by the Revenue on the decision of the Hon’ble High Court of Karnataka in *CIT Vs. Samsung Electronics Co. Ltd. (supra)* and holds that the Bench in *DIT Vs.*

Infrasoft Ltd. (supra) has unequivocally expressed its view that it was not in agreement with that decision. The question was thus, decided holding the consideration paid could not be considered as 'royalty' for use or right to use software.

27. Further, reference may also be made to earlier decision of the Hon'ble High Court of Delhi in *DIT Vs. Ericsson A.B. (supra)*. Relying on the ratio laid down by the Hon'ble Supreme Court in *Tata Consultancy Services Vs. State of Andhra Pradesh (2004) 271 ITR 401 (SC)*, the Hon'ble High Court of Delhi in *DIT Vs. Ericsson A.B. (supra)* had held as under:-

"56. A fortiori when the assessee supplies the software which is incorporated on a CD, it has supplied tangible property and the payment made by the cellular operator for acquiring such property cannot be regarded as a payment by way of royalty.

.....

59. Be that as it may, in order to qualify as royalty payment, within the meaning of section 9(1)(vi) and particularly clause (v) of Explanation 2 thereto, it is necessary to establish that there is transfer of all or any rights (including the granting of any licence) in respect of copyright of a literary, artistic or scientific work. Section 2(o) of the Copyright Act makes it clear that a computer programme is to be regarded as a "literary work". Thus, in order to treat the consideration paid by the cellular operator as royalty, it is to be established that the cellular operator, by making such payment, obtains all or any of the copyright rights of such literary work. In the present case, this has not been established. It is not even the case of the Revenue that any right contemplated under section 14 of the Copyright Act, 1957, stood vested in this cellular operator as a consequence of article 20 of the supply contract. Distinction has to be made between the acquisition of a "copyright right" and a "copyrighted article".

*60. Mr. Dastur is right in this submission which is based on the commentary on the OECD Model Convention. Such a distinction has been accepted in a recent ruling of the Authority for Advance Ruling (AAR) in *Dassault Systems KK 229 CTR 125*. We also find force in the submission of Mr. Dastur that even assuming the payment made by the cellular operator is regarded as a payment by way of royalty as defined in Explanation 2 below Section 9 (1) (vi), nevertheless, it can never be regarded as royalty within the meaning of the said term in article 13, para 3 of the DTAA. This is so because the definition in the DTAA is narrower than the definition in the Act. Article 13(3) brings within the ambit of the definition of royalty a payment made for the use of or the right to use a copyright of a*

literary work. Therefore, what is contemplated is a payment that is dependent upon user of the copyright and not a lump sum payment as is the position in the present case.

We thus hold that payment received by the assessee was towards the title and GSM system of which software was an inseparable parts incapable of independent use and it was a contract for supply of goods. Therefore, no part of the payment therefore can be classified as payment towards royalty.”

28. *The Hon’ble High Court of Delhi in DIT Vs. Infrasoftware Ltd. (supra) has taken note of the said decision of DIT Vs. Ericsson A.B. (supra) in para 71 and in para 72 held as under:-*

“72. The Delhi High Court further in ERICSSON CASE (SUPRA) further held that once it is held that payment in question is not royalty which would come within the mischief of clause (vi), the Explanation will have no application and that the question of applicability of the Explanation would arise only when payment is to be treated as "royalty" within the meaning of clause (vi) or "fee for technical services" as provided in clause (vii) of the Act.”

29. *The Hon’ble High Court of Delhi in DIT Vs. Nokia Networks OY (2013) 358 ITR 259 (Del) had held that Explanation 4 was added to section 9(1)(vi) of the Act by Finance Act, 2012 with retrospective effect from 01.06.1976 to provide that all consideration for use of software shall be assessable as ‘Royalty’. However, the definition in DTAA has been left unchanged. It is an admitted fact that though Explanation 5 has been inserted in section 9(1)(vi) of the Act but no amendment has been made to the definition of ‘Royalty’ under DTAA and since the provisions of DTAA are beneficial to the assessee, then the said provisions would be applied.*

30. *In view of the above said propositions, we hold that what has been transferred is limited right to use copyrighted material, then the receipts on sale of licensing of software is not Royalty in view of the beneficial provisions of the DTAA between India and Sweden. We further hold that amended definition of ‘Royalty’ under the domestic law cannot be extended to the definition of ‘Royalty’ under DTAA, where the term ‘Royalty’ originally defined has not been amended. As per definition of ‘Royalty’ under DTAA, it is payment received in consideration for use or right to use any copyright of literary, artistic or scientific work, etc.; thus, purchase of copyrighted article does not fall in realm of ‘Royalty’. We also hold that since the provisions of DTAA overrides the provisions of Income Tax Act and are more beneficial and the definition of ‘Royalty’ having not*

undergone any amendment in Tax Treaty, the assessee was not liable to be taxed on aforesaid receipts of Licensing software and also on sale of Hardware. Accordingly, we hold so. The Ground of appeal Nos. 3 to 6 are thus allowed.”

13. We may also refer to the decision of the Pune Bench of the Tribunal in the case of sister concern of the assessee i.e. Symantec Corporation wherein also similar issue arose and the only difference was that assessee therein was based in USA as against the assessee, who is based in Singapore. It may be pointed out that the provisions of DTAA between India and Sweden; also between India and USA; & India and Singapore in Article 12(3) are similar. The Tribunal vide paras 5 onwards had considered the factual aspects of the case and had relied on the ratio laid down by the Hon'ble Delhi High Court in Infrasoftware Ltd. (supra) and Pune Bench of the Tribunal in John Deere India Pvt. Ltd vs DDIT in ITA Nos. 905 & 906/PUN/2015 vide order dated 23.01.2019 and held as under:-

8. *“The assessee is non-resident entity and is recipient of consideration on sale of software products. The assessee claims that the said income is not taxable in its hands. On the other hand, the case of Revenue authorities is that receipts from sale of software license are to be taxed as 'royalty' both under the Income Tax Act and as per DTAA with USA. The assessee claims to have sold standard software to its customers, wherein end users were not allowed to modify, copy, sub-license, rent, lease or transfer any portion of said software. The said article sold by the assessee was a copyrighted article and the assessee claimed that it had not transferred copyright of the literary, artistic or scientific work to the end user.*

9. *The Hon'ble High Court of Delhi in the case of Infrasoftware Ltd. (supra) had held that sale of standard software is not covered under the realm of 'royalty' as defined under the Income Tax Act or as per DTAA.*

10. Further, Pune Bench of Tribunal in *John Deere India Pvt. Ltd. Vs. DDIT (supra)* while deciding the issue of tax deduction at source under section 201(1) of the Act on payment made for purchase of software has elaborated on the settled legal propositions from para 45 onwards and had observed as under:-

"65. The Hon'ble High Court of Delhi in *DIT Vs. Infrasoftware Ltd. (supra)* have noted that under the license agreement, license was non-exclusive, non-transferrable and the software had to be used in accordance with agreement; the licensee was permitted to make only one copy of software and associated support information and that also for backup purpose. All copies of software were the exclusive property of „Infrasoftware" and it was stipulated that copy shall include „Infrasoftware" copyright and all copies of software also; and without consent of the licensor, the software could not be loaned, rented, sold, sub-licensed or transferred to any third party. The Hon'ble High Court further went on to hold that distinction had to be made between acquisition of copyright and copyrighted article; copyrighting was distinct from material object.

66. The Hon'ble High Court in *DIT Vs. Infrasoftware Ltd. (supra)* vide its decision dated 22.11.2013 was of the view that where the assessee was governed by Indo-US DTAA, the income of assessee would be chargeable to tax in terms of provisions of Indo-US DTAA and if the same was more advantageous or beneficial, then definition of the word „royalty" as defined in Explanation 2 to section 9(1)(vi) of the Act could not be applied. The Hon'ble High Court vide paras 64 and 65 held as under:-

"64. To be taxable as royalty income covered by Article 12 of the DTAA the income of the Assessee should have been generated by the "use of or the right to use of" any copyright.

65. The issue whether consideration for software was royalty came up for consideration before the Special Bench of the Tribunal in Delhi in the case of *MOTOROLA INC VS DEPUTY CIT (2005) 147 TAXMAN 39 (DELHI)*. The Tribunal has held as under:

155. It appears to us from a close examination of the manner in which the case has proceeded before the Income-tax authorities and the arguments addressed before us that the crux of the issue is whether the payment is for a copyright or for a copyrighted article. If it is for copyright, it should be classified as royalty both under the Income-tax Act and under the DTAA and it would be taxable in the hands of the Assessee on that basis. If the payment is really for a copyrighted article, then it only represents the purchase price of the article and, therefore,

cannot be considered as royalty either under the Act or under the DTAA. This issue really is the key to the entire controversy and we may now proceed to address this issue.

156. We must look into the meaning of the word "copyright" as given in the Copyright Act, 1957. Section 14 of this Act defines "Copyright" as "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:

It is clear from the above definition that a computer programme mentioned in Clause (b) of the section has all the rights mentioned in Clause (a) and in addition also the right to sell or give on commercial rental or offer for sale or for commercial rental any copy of the computer programme. This additional right was substituted w.e.f. 15.1.2000. The difference between the earlier provision and the present one is not of any relevance. What is to be noted is that the right mentioned in Sub -clause (ii) of Clause (b) of Section 14 is available only to the owner of the computer programme. It follows that if any of the cellular operators does not have any of the rights mentioned in Clauses (a) and (b) of Section 14, it would mean that it does not have any right in a copyright. In that case, the payment made by the cellular operator cannot be characterized as royalty either under the Income-tax Act or under the DTAA. The question, therefore, to be answered is whether any of the operators can exercise any of the rights mentioned in the above provisions with reference to the software supplied by the Assessee.

157. We may first look at the supply contract itself to find out what JTM, one of the cellular operators, can rightfully do with reference to the software. We may remind ourselves that JTM is taken as a representative of all the cellular operators and that it was common ground before us that all the contracts with the cellular operators are substantially the same. Clause 20.1 of the Agreement, under the title "License", says that JTM is granted a non - exclusive restricted license to use the software and documentation but only for its own operation and maintenance of the system and not otherwise. This clause appears to militate against the position, if it were a copyright, that the holder of the copyright can do anything with respect to the same in the public domain. What JTM is permitted to do is only to use the software for the purpose of its own operation and maintenance of the system. There is a clear bar on the software being used by JTM in the public domain or for the purpose of commercial exploitation.

158. Secondly, under the definition of "copyright" in Section 14 of the Copyright Act, the emphasis is that it is an exclusive right granted to the holder thereof. This condition is not satisfied in the case of JTM because the license granted to it by the Assessee is expressly stated in Clause 20.1 as a "non exclusive restricted license". This means that the supplier of the software, namely, the Assessee, can supply similar software to any number of cellular operators to which JTM can have no objection and further all the cellular operators can use the software only for the purpose of their own operation and maintenance of the system and not for any other purpose. The user of the software by the cellular operators in the public domain is totally prohibited, which is evident from the use of the words in Article 20.1 of the agreement, "restricted" and "not otherwise". Thus JTM has a very limited right so far as the use of software is ITA No.387/PUN/2017 Symantec Corporation concerned. It needs no repetition to clarify that JTM has not been given any of the seven rights mentioned in Clause (a) of Section 14 or the additional right mentioned in Sub-clause (ii) of Clause (b) of the section which relates to a computer programme and, therefore, what JTM or any other cellular operator has acquired under the agreement is not a copyright but is only a copyrighted article.

159. Clause 20.4 of the supply contract with JTM is as under:

20.4 In pursuance of the foregoing JT MOBI LES shall:

(a) not provide or make the Software or Documentation or any portions or aspects thereof (including any methods or concepts utilized or expressed therein) available to any person except to its employees on a "need to know" basis;

(b) not make any copies of Software or Documentation or parts thereof, except for archival backup purposes;

(c) when making permitted copies as aforesaid transfer to the copy/copies any copyright or other marking on the Software or Documentation.

(d) Not use the Software or Documentation for any other purpose than permitted in this Article 20, Licence or sell or in any manner alienate or part with its possession.

(e) Not use or transfer the Software and/or the Documentation outside India without the written consent of the Contractor and after having received necessary export or re -export permits from relevant authorities.

This clause places stringent restrictions on the cellular operator so far as the use of software is concerned. It first says that the cellular operator cannot make the software or portions thereof available to any person except to its employees and even with regard to employees it has to be only on a "need to know basis" which means that even the employees are not to be told in all its aspects. What the Assessee can do is only to tell the particular employee what he has to know about the software for operational purposes. The cellular operator has been denied the right to make copies of the software or parts thereof except for archival backup purposes. This means that the cellular operator cannot make copies of the software for commercial purposes. This condition is plainly contrary to Section 14(a)(i) of the Copyright Act which permits the copyright holder to reproduce the work in any material form including the storing of it in any medium by electronic means. We may also notice Section 52(1)(aa) of the Copyright Act which lists out certain acts which cannot be considered as infringement of copyright. The particular clause permits the making of copies or adaptation of a computer programme by the lawful possessor of the copy and the computer programme in order to utilize the public programme for the purpose for which it was supplied or to make backup copies purely as a temporary protection against loss, destruction or damage. Therefore, merely because the cellular operator has been permitted to take ITA No.387/PUN/2017 Symantec Corporation copies just for backup purposes, it cannot be said that it has acquired a copyright in the software.

160. Clause 20.4(c) makes it mandatory for the cellular operator, while making copies of the software for backup purposes, to also mark the copied software with copyright or other marking to show that the rights of the Assessee are reserved. This is one more indication that what the cellular operator acquired is not a copyright.

161. Clause 20.4(d) says that the cellular operator cannot use the software for any other purpose than what is permitted and shall not also license or sell or in any manner alienate or part with its possession. This has to be read with Clause 20.5 which says that the license can be transferred, but only when the GSM system itself is sold by the cellular operator to a third party. This in a way shows that the software is actually part of the hardware and it has no use or value independent of it. This restriction placed on the cellular operator (not to license or sell the software) runs counter to Section 14(b)(ii) of the Copyright Act which permits a copyright holder to sell or let out on commercial rental the computer programme. For this reason also it cannot be said that JTM or any cellular operator acquired a copyright in the software.

162. A conjoint reading of the terms of the supply contract and the provisions of the Copyright Act, 1957 clearly shows that the cellular operator cannot exploit the computer software commercially which is the very essence of a copyright. In other words a holder of a copyright is permitted to exploit the copyright commercially and if he is not permitted to do so then what he has acquired cannot be considered as a copyright. In that case, it can only be said that he has acquired a copyrighted article. A small example may clarify the position. The purchaser of a book on income-tax acquires only a copyrighted article. On the other hand, a recording company which has recorded a vocalist has acquired the copyright in the music rendered and is, therefore, permitted to exploit the recording commercially. In this case the music recording company has not merely acquired a copyrighted article in the form of a recording, but has actually acquired a copyright to reproduce the music and exploit the same commercially. In the present case what JTM or any other cellular operator has acquired under the supply contract is only the copyrighted software, which is an article by itself and not any copyright therein.

163. We may now briefly deal with the objections of Mr. G.C. Sharma, the learned senior counsel for the Department. He contended that if a person owns a copyrighted article then he automatically has a right over the copyright also. With respect, this objection does not appear to us to be correct. Mr. Dastur filed an extract from Iyengar's Copyright Act (3rd Edition) edited by R.G. Chaturvedi. The following observations of the author are on the point:

"(h) Copyright is distinct from the material object, copyrighted:

It is an intangible incorporeal right in the nature of a privilege, quite independent of any material substance, such as a manuscript. The copyright owner may dispose of it on such terms as he may see fit. He has an individual right of exclusive enjoyment. The transfer of the manuscript does not, of itself, serve to transfer the copyright therein. The transfer of the ownership of a physical thing in which copyright exists gives to the purchaser the right to do with it (the physical thing) whatever he pleases, except the right to make copies and issue them to the public" (underline is ours).

The above observations of the author show that one cannot have the copyright right without the copyrighted article but at the same time just because one has the copyrighted article, it does not follow that one has also the copyright in it. Mr. Sharma's objection cannot be accepted.

164. It is not necessary, therefore, to consider the alternative argument of Mr. Dastur, namely, that even assuming that the Department is right in saying that if you have the copyrighted article, you also have the copyright right therein, still it would mean that the copyright rights are transferred (acquired by JTM) and it would not be a case of merely giving the right to use and consequently Article 13 of the DTAA would not apply. Mr. Dastur, however, was fair enough to concede that if the Department is right in saying that if you have the copyrighted article, you also have the copyrighted rights, then Clause (v) of Explanation 2 below Section 9(1) of the Income-tax Act will apply because his clause ropes in "transfer of all or any rights" and is not restricted to "use" or "right to use", the copyright. However, he added that since the basic proposition of the Department has been demonstrated to be wrong, Clause (v) of Explanation 2 below Section 9(1) is not an impediment to accepting the assessee's contention.

165. We may also usefully refer to the Commentary on the OECD Model Convention (dated 28.1.2003) which is of persuasive value and which throws considerable light on the character of the transaction and the treatment to be given to the payments for tax purposes. Paragraph 14 of the Commentary, a copy of which was filed in Paper book No. V is relevant:

COMMENTARY ON ARTICLE 12 - PAPER BOOK V "14. In other types of transactions, the rights acquired in relation to the copyright are limited to those necessary to enable the user to operate the program, for example, where the transferee is granted limited rights to reproduce the program. This would be the common situation in transactions for the acquisition of a program copy. The rights transferred in these cases are specific to the nature of computer programs. They allow the user to copy the program, for example onto the user's computer hard drive or for archival purposes. In this context, it is important to note that the protection afforded in relation to computer programs under copyright law may differ from country to country. In some countries the act of copying the program onto the hard drive or random access memory of a computer would, without a license, constitute a breach of copyright. However, the copyright laws of many countries automatically grant this right to the owner of software which incorporates a computer program. Regardless of whether this right is granted under law or under a license agreement with the copyright holder, copying the program onto the computer's hard drive or random access memory or making an archival copy is an essential step in utilizing the program. Therefore, rights in relation to these acts of copying, where they do no more than enable the effective operation of the program by the user, should be disregarded in analyzing the character of the transaction for

tax purposes. Payments in these types of transactions would be dealt with as commercial income in accordance with Article 7."

166. We may also usefully refer to the proposed amendments to the regulations of the Internal Revenue Service (IRS) in the USA.

Again these regulations may not be binding on us but they have a persuasive value and throw light on the question before us, namely the difference between a copyright right and a copyrighted article. These regulations have been placed at pages 136 to 157 of Paper book No. II. The actual regulations as well as the explanatory Note explaining the object and the purpose of the proposed regulations have also been given. In paragraph 1 of the Note titled "Background", it has been stated that the proposed regulations require that a transaction involving a computer programme may be treated as being one of the four possible categories. Two such categories are the transfer of copyright rights and the transfer of a copyrighted article. The U.S. regulations distinguished between transfer of copyright rights and transfer of copyrighted articles based on the type of rights transferred to the transferee. Briefly stated, if the transferee acquires a copy of a computer programme but does not acquire any of the rights identified in certain sections (of the U.S. Regulations), the regulation classified the transaction as the Transfer of a copyrighted article. Paragraph 3 of the Explanatory Note says that if a transfer of a computer programme results in the transferee acquiring any one or more of the listed rights, it is a transfer of a copyright right.

167. Paragraph 4 says that if a person acquires a copy of a computer programme but does not acquire any of the four listed copyright rights, he gets only a copyrighted article but no copyright.

168. The actual regulations bring out the distinction very clearly between the copyright right and a copyrighted article. They also specify the four rights which, if acquired by the transferee, constitute him the owner of a copyright right. They are:

- (a) The right to make copies of the computer programme for purposes of distribution to the public by sale or other transfer of ownership, or by rental, lease, or lending.*
- (ii) The right to prepare derivative computer programmes based upon the copyrighted computer programme*
- (iii) The right to make a public performance of the computer programme.*
- (iv) The right to publically display the computer programme.*

169. A copyrighted article has been defined in the regulation (page 147 of the paper book) as including a copy of a computer programme from which the work can be perceived, reproduced or otherwise communicated either directly or with the aid of a machine or device. The copy of the programme may be fixed in the magnetic medium of a floppy disc or in the main memory or hard drive of a computer or in any other medium.

170. So far as the transfer of copyrighted articles and copyright rights are concerned, the regulation goes on to say (page 148 of the paper book) that the question whether there was a transfer of a copyright right or only of a copyrighted article must be determined taking into account all the facts and circumstances of the case and the benefits and burden of ownership which have been transferred. Several examples have been given below these regulations to find out whether a particular transfer is a transfer of a copyright right or a transfer of a copyrighted article.

171. The Commentary of "Charl P. du TOIT" on this question has been placed at pages 202 to 204 of Paper book No. II. The Commentary is titled "Beneficial ownership of royalties in Bilateral Tax Treaties." He has opined that articles such as Books and Records are copyrighted articles and if they are sold, the user does not obtain the right to use any significant rights in the underlying copyright itself, which is what should determine the characterization of the revenue as sale proceeds rather than royalties. He has further opined that consideration relating to sale of software can amount to royalty only in limited circumstances.

172. For the above reasons, we are of the view that the payment by the cellular operator is not for any copyright in the software but is only for the software as such as a copy righted article. It follows that the payment cannot be considered as royalty within the meaning of Explanation 2 below Section 9(1) of the Income- tax Act or Article Article of the DTAA with Sweden.

184. In view of the foregoing discussion, we hold that the software supplied was a copyrighted article and not a copyright right, and the payment received by the Assessee in respect of the software cannot be considered as royalty either under the Income-tax Act or the DTAA."

67. The Hon"ble High Court while referring to the decision of Tribunal in *Motorola Inc Vs. DCIT* (supra) in the said case noted that the Tribunal had held and rightly so, that the question whether there was a transfer of a copyright right or only of a copyrighted article must be determined taking into account all the facts and circumstances of the case and the benefits and burden of ownership which have been transferred."

11. *The Tribunal in final analysis held as under:-*

"90. In conclusion, we hold that purchase of software by the assessee being copyrighted article is not covered by the term „royalty“ under section 9(1)(vi) of the Act. Where the assessee did not acquire any copyright in the software, is not covered under Explanation 2 to section 9(1)(vi) of the Act. We further hold that amended definition of „royalty“ under the domestic law cannot be extended to the definition of „royalty“ under DTAA, where the term „royalty“ originally defined has not been amended. As per definition of „royalty“ under DTAA, it is payment received in consideration for use or right to use any copyright of literary, artistic or scientific work, etc.; thus, purchase of copyrighted article does not fall in realm of „royalty“. We also hold that since the provisions of DTAA overrides the provisions of Income Tax Act and are more beneficial and the definition of „royalty“ having not undergone any amendment in DTAA, the assessee was not liable to deduct tax for payments made for purchase of software. In such scenario, the assessee cannot be held to be in default and the demand created under section 201(1) and interest charged under section 201(1A) of the Act is thus, cancelled."

12. The Tribunal thus, in the hands of recipient had held that where the purchase of software was copyrighted article, then the same was not covered by the term 'royalty' under section 9(1)(vi) of the Act and it was further held that the amended definition of 'royalty' under the domestic law could not be extended to the definition of 'royalty' under DTAA, where the term originally defined had not been amended. Applying the said ratio to the facts of the present case, we hold that in the hands of assessee, the consideration received on sale of software is not 'royalty' under Explanation 2 to section 9(1)(vi) of the Act and is also not covered by the definition of 'royalty' under DTAA between India and USA. Accordingly, the assessee is not exigible to tax on the said consideration received in its hands. We reverse the orders of authorities below in this regard."

14. The issue raised in the present appeal is similar to the issue raised in the decision of Hon'ble High Court in Infrasoftware Ltd. (supra) and sister concern of the assessee in Symantec Corporation (supra) and also in the case of the Nagravision S.A. (supra). The Hon'ble High Court of Delhi in DIT vs Nokia Networks OY [2013] 358 ITR 259 (Delhi) had held that Explanation 4 was

added to section 9(1)(vi) of the Act by the Finance Act, 2012 with retrospective effect from 01.06.1976 to provide that all consideration for use of software shall be assessable as “Royalty”. However, the definition in the DTAA has been left unchanged. It is an admitted fact that though Explanation 5 has been inserted in section 9(1)(vi) of the Act but no amendment has been made to the definition under the DTAA and since the provisions of the DTAA are beneficial to the assessee, then the said provisions would be applied. Thus, we hold that the amended definition of Royalty under the domestic law even if amended with retrospective effect cannot be extended to the definition of “Royalty” under the DTAA since the term “Royalty” under the DTAA has not been amended. As the provision of DTAA over-ride the provision of Income Tax Act, 1961 and being more beneficial shall apply and since the definition of “Royalty” has not been amended in the DTAA, receipts by the assessee on sale of copyright Article was not taxable in the hands of the assessee. Before parting, we may also point out that there is no merit in the plea of the Ld. DR for the Revenue that whether the copyrighted Article was processed or not. We reiterate that as per the provisions of DTAA has not been amended and the same being more beneficial, the same are to be applied and the consideration received by the assessee on sale of copyrighted license is not taxable in the hands of the assessee. Ground of appeal No.1 raised by the assessee is thus allowed.

15. Ground of appeal No.2 raised by the assessee is being alternate plea, does not survive.

16. Ground of appeal No.3 is pre-mature and the same is dismissed.

17. In the result, the appeal of the assessee is allowed.

Order pronounced in the open court on 31st August, 2020.

Sd/-
(N.K.BILLAIYA)
लेखासदस्य/ ACCOUNTANT MEMBER

दिल्ली / दिनांक Dated : 31st August, 2020

Amit Kumar

Sd/-
(SUSHMA CHOWLA)
उपाध्यक्ष / VICE PRESIDENT

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

1. **अपीलार्थी / The Appellant**
2. **प्रत्यर्थी / The Respondent**
3. **आयकर आयुक्त(अपील) / The CIT(A)**
4. **मुख्य आयकर आयुक्त / The Pr. CIT**
5. **विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, दिल्ली/ DR, ITAT, Delhi**
6. **गार्ड फाईल / Guard file.**

आदेशानुसार/ BY ORDER,

सत्यापित प्रति//True Copy//

सहायकरजिस्ट्रार, आयकर अपीलीय अधिकरण ,दिल्ली
Assistant Registrar, ITAT, Delhi