IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH 'D', NEW DELHI

BEFORE SH. N. K. BILLAIYA, ACCOUNTANT MEMBER
AND
MS. ASTHA CHANDRA, JUDICIAL MEMBER
(THROUGH VIDEO CONFERENCING)

ITA No.1683/BANG/2012
Assessment Year: 2009-10

BEA Systems Inc. (Since merged with Oracle Systems Corporation), 7th Floor, Commerce @ Mantri Bannerghatta Road, South Taluk, Bangalore-76	**Vs**	**ADIT (International Taxation) Range-I, Banglore**
(APPELLANT)		**(RESPONDENT)**

Appellant by	Sh. Tarandeep Singh, Advocate Sh. Pulkit Verma, Advocate
Respondent by	Sh. N. C. Swain, CIT DR

Date of hearing:	16/02/2022
Date of Pronouncement:	16/02/2022

ORDER

PER N. K. BILLAIYA, AM:

This appeal filed by the assessee is preferred against the order dated 26.10.2012 framed u/s. 143 (3) r.w.s. 144 C(13) of the Act.

2. The grievance of the assessee read as under :-

GROUNDS OF APPEAL

1. That the order of the learned Additional Director of Income-tax (International Taxation), Range I, [hereinafter referred to as 'Learned AO'], which is in conformity with the directions of the Dispute Resolution Panel, Bangalore ('DRP') is contrary to the provisions of law and erroneous on the facts of the case.

2. That the Learned AO / DRP erred in treating the amount of Rs 33,882,853, received by BEA Systems Inc ('BEA') from BEA Systems India Private Limited ('BEA Systems India') on account of distribution of software product as 'Royalty' under section 9(1)(vi) of the Income-tax Act, 1961 ('Act') read with Article 12 of Double Taxation Avoidance Agreement entered into between India and USA ('Treaty').

3. That on the facts and in the circumstances of the case, the Learned AO / DRP erred in not appreciating that the aforesaid receipt of Rs 33,882,853 represents merely proceeds on account of sale of products, and is not for any transfer of intellectual property right contained in the copy right of the software.

4. That on the facts and in the circumstances of the case, the Learned AO / DRP has erred in not appreciating that the recipient of right to use is the end customer and not BEA Systems India i.e., the software procured is merely a product in the hands of BEA Systems India as it has no right to use the product being a distributor.

5. That on the facts and in the circumstances of the case, the Learned AO / DRP has erred in not appreciating that BEA retains ownership over the copyright in the software and BEA System India does not have any right to commercially exploit the copyright in the software.

6. That on the facts and in the circumstances of the case, the Learned AO / DRP failed to appreciate that the distributor was not and could not indulge in reverse engineering, de-compilation or disassembly of the imported software, nor could it commercially exploit the copyright in the software in any manner described under Section 14 of the Indian Copyright Act 1957.

7. That on the facts and in the circumstances of the case, the Learned AO / DRP failed to consider that the consideration received for selling of software, to be classified as 'royalty', the right of the person in possession of the subject matter of a copyright should be able to utilize such copyright in the manner which is otherwise protected by the copyright law.

8. That the Learned AO / DRP failed to appreciate that consideration received for the sale of software (right to use) is sale price and as such could not be chargeable to tax when it was the admitted position that the Appellant did not have a Permanent Establishment in India.

9. That the Learned AO / DRP failed to appreciate that the retrospective amendment to section 9 of the Act will not be applicable to the case as Treaty prevails over the Act and there are no revisions to the Treaty.

10. That the Learned AO erred in charging Income-tax of Rs 3,577,182 and Rs 92,559 as interest under section 234A and 234B of the Act, respectively on the amount of Rs 33,882,853 which is received by BEA from BEA Systems India.

11. That the Learned AO erred in initiating penalty proceedings under section 271(1)(c) and section 271F of the Act.

3. Briefly stated the facts of the case are that the appellant is a software company engaged in the business of research, creation of software products and selling its products through its subsidiaries across the globe. The products were in the category

of middleware products used to provide the infrastructure base for applications to elicit information from various database.

4. In terms of the agreement, BEA systems India, ordered and distributed the software products strictly against an end user order in whose name the licenses were issued by appellant. Hence, the recipient of right to use is the end customer and not BEA Systems India. It may be pertinent to note that the software procured is merely a product in the hands of BEA Systems India as it has no right to use the product being a distributor.

5. BEA India was the one making payments to BEA Systems and not the end user.

6. The AO was of the firm belief that the payment received by the assessee is for right in a copy right and accordingly treated the same as royalty under Article 12 of DTAA.

7. Objections were raised before the DRP. The DRP after considering the objections came to the conclusion that the Tribunal in the case of the assessee for A.Y. 2007-08 held that the payments constitute royalty and confirmed the view of the AO. The DRP further observed that for the year under consideration there was no change in the issues involved and followed the decision of the DRP in A.Y.2007-08 and confirmed the view of the AO. In A.Y.2008-09 the quarrel travelled upto the

Hon'ble High Court of Karnataka and the Hon'ble High Court in ITA No.421/2012 C/W ITA No.269/2012 decided the quarrel in favour of the revenue. The relevant findings of the judgment of the Hon'ble Karnataka High Court (supra) read as under :-

> 5. Since it is not in dispute that all the questions raised in the present appeals are squarely covered by the judgment of this Court in Samsung Electronics, **we *dispose of these appeals also in terms of the said judgment.*** In other words, in view of the judgment of this Court in Samsung Electronics, all the questions, as raised in the instant appeals, stand answered in favour of the revenue and against the asseesee. We direct the Assessing Officer to pass consequential orders as contemplated by Section 260(1A) of the Income Tax Act, 1961 after the Supreme Court finally dispose of the SLP arising from the judgment of this Court in Samsung Electronics. In other words, till then, the Assessing Officer shall keep the matter pending for passing consequential orders.

8. The quarrel relating to the impugned issue as now been well settled by the judgment of the Hon'ble Supreme court in the case of Engineering Analysis Centre of Excellence Private Limited 432 ITR 471 wherein the Hon'ble Supreme Court has also considered

the Judgment of Hon'ble Karnataka High Court. The relevant finding of the Hon'ble Supreme Court read as under :-

> **168**. Given the definition of royalties contained in Article 12 of the DTAAs mentioned in paragraph 41 of this judgment, it is clear that there is no obligation on the persons mentioned in section 195 of the Income-tax Act to deduct tax at source, as the distribution agreements/EULAs in the facts of these cases do not create any interest or right in such distributors/end-users, which would amount to the use of or right to use any copyright. The provisions contained in the Income-tax Act (section 9(1)(*vi*), along with explanations 2 and 4 thereof), which deal with royalty, not being more beneficial to the assessees, have no application in the facts of these cases.
>
> **169**. Our answer to the question posed before us, is that the amounts paid by resident Indian end-users/distributors to non-resident computer software manufacturers/suppliers, as consideration for the resale/use of the computer software through EULAs/distribution agreements, is not the payment of royalty for the use of copyright in the computer software, and that the same does not give rise to any income taxable in India, as a result of which the persons referred to in section 195 of the Income-tax Act were not liable to deduct any TDS under section 195 of the Income-tax Act. The answer to this question will apply to all four categories of cases enumerated by us in paragraph 4 of this judgment.
>
> **170**. The appeals from the impugned judgments of the High Court of Karnataka are allowed, and the aforesaid judgments are set aside. The ruling of the AAR in Citrix Systems (AAR) (*supra*) is set aside. The appeals from the impugned judgments of the High Court of Delhi are dismissed.

9. Respectfully following the decision of the Hon'ble Supreme Court (supra) we direct the AO to delete the impugned addition the appeal filed by the assessee is accordingly allowed.

10. The order is pronounced in the open court on 16.02.2022 in the presence of both the rival representatives.

Sd/-	Sd/-
(ASTHA CHANDRA)	**(N. K. BILLAIYA)**
JUDICIAL MEMBER	**ACCOUNTANT MEMBER**

NEHA
Date:-16.02.2022
Copy forwarded to:
1. Appellant
2. Respondent
3. CIT
4. CIT(Appeals)
5. DR: ITAT

ASSISTANT REGISTRAR
ITAT NEW DELHI

Date of dictation	16.02.2022
Date on which the typed draft is placed before the dictating Member	
Date on which the typed draft is placed before the Other member	
Date on which the approved draft comes to the Sr.PS/PS	
Date on which the fair order is placed before the Dictating Member for Pronouncement	
Date on which the fair order comes back to the Sr. PS/ PS	
Date on which the final order is uploaded on the website of ITAT	18.02 2022
Date on which the file goes to the Bench Clerk	
Date on which file goes to the Head Clerk.	
The date on which file goes to the Assistant Registrar for signature on the order	
Date of dispatch of the Order	