

# IPR & Taxation

Presentation by V Lakshmi Kumaran  
Lakshmi Kumaran & Sridharan  
New Delhi-110029  
India  
vlakshmi@lakshmisri.com

Lakshmi Kumaran & Sridharan

1

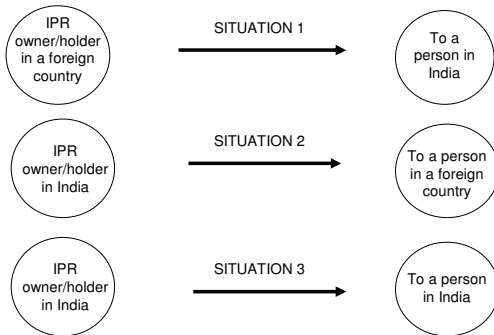
## TRANSACTIONS IN IPR

**ASSIGNMENT      LICENSING**

Lakshmi Kumaran & Sridharan

2

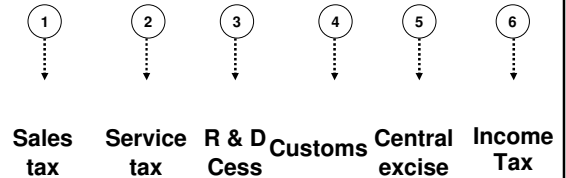
## LICENSING SCENARIOS



Lakshmi Kumaran & Sridharan

3

## HAS TAX IMPLICATIONS IN



Lakshmi Kumaran & Sridharan

4

## TAX IMPLICATIONS

- ➔ Are IPRs
  - ▶ Goods?
  - ▶ Services?
  - ▶ Both?

Lakshmi Kumaran & Sridharan

5

## DEFINITION OF GOODS

Sale of Goods Act:

- ➔ "goods" means every kind of movable property other than actionable claims and money.....
  - ▶ Both corporeal and incorporeal
  - ▶ Both tangible and intangible

General Clauses Act

- ➔ "Movable property" – any property other than immovable property

Lakshmi Kumaran & Sridharan

6

## INTANGIBLES CAN BE GOODS

### Intangibles

- ⇒ *MPEB 25 STC 188 (SC)*
  - Electricity is goods
- ⇒ *Anraj 61 STC 165 (SC)*
  - Lottery tickets are goods
- ⇒ *Vikas 102 STC 106 (SC)*
  - Import licenses are goods

### Intangibles

- ⇒ *TCS 137 STC 620 (SC)*
  - Software put in a tangible media is goods
- ⇒ *ACC 4 SCC 593 (SC)*
  - Drawings and designs put in a media are goods for Customs purposes

Lakshmi Kumaran & Sridharan

7

## IPRs ARE GOODS IN INDIA...

- ⇒ **Trademarks**
  - *Duke 112 STC 371 (Bom)*
- ⇒ **Copyright**
  - *A.V.Meiyappan 20 STC 115 (Mad)*
- ⇒ **Patents**
  - *Referred in Vikas as goods*
- ⇒ **Technical Know-how**
  - *Scientific Engineering AIR 1986 SC 338*

Lakshmi Kumaran & Sridharan

8

## ARE THESE GOODS?

- **Electromagnetic waves**
- **Telecasting rights**
- **SIM cards**
- **Software sent through e-mail**
- **Designs and drawings**
- **Patents**
- **Trademarks**
- **Know-how**

Lakshmi Kumaran & Sridharan

9

## DEFINITION OF SALE

- ⇒ Sale – transfer of property in goods for a consideration
- ⇒ 46th Constitutional Amendment - Art.366(29A) – Deemed sales
  - ▶ Tax on sale or purchase of goods includes, inter alia,
    - Transfer of right to use goods

Lakshmi Kumaran & Sridharan

10

## SALES TAX

- ⇒ Assignment or license of IPR
  - ▶ If assignment – outright sale
  - ▶ If licensing – transfer of right to use goods and thus a deemed sale

Lakshmi Kumaran & Sridharan

11

## SALES TAX

- No sales tax on export/import of goods
- Export/import takes place when goods move out of / into India

Lakshmi Kumaran & Sridharan

12

### SALES TAX: SITUATION 1

- ❖ Assignment/licensing of IPR by a owner/holder in a foreign country to a person in India (for use in India or abroad or both)
  - Whether import of IPR?
  - How to trace the movement of IPR?
  - Particularly when IPR are licensed on a non-exclusive basis to a person in India and to a person abroad, how to trace movement?
    - Single IPR, multiple movement?

Lakshmi Kumaran & Sridharan

13

### SALES TAX: SITUATION 2

- ❖ Assignment/licensing by a owner/holder of IPR in India to a person in foreign country (for use in India or abroad or both)
  - Whether export of IPR?
  - How to trace the movement of IPR?
  - Particularly when IPR are licensed on a non-exclusive basis to a person in India and to a person abroad, how to trace movement?
    - Single IPR, multiple movement?

Lakshmi Kumaran & Sridharan

14

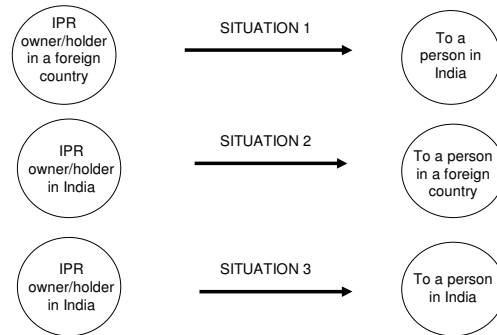
### SALES TAX: SITUATION 3

- ❖ Assignment/licensing by a owner/holder of IPR in State A in India to a person in State B in India (for use in State A or State B or both and / or other States)
  - Whether inter-State sale?
  - How to trace the inter-state movement of IPR?
  - Particularly when IPRs are licensed on a non-exclusive basis to a person in State A and to a person in State C, how to trace movement?

Lakshmi Kumaran & Sridharan

15

### SALES TAX IMPLICATIONS



Lakshmi Kumaran & Sridharan

16

### WHAT IS SERVICE?

Lakshmi Kumaran & Sridharan

17

### SERVICE TAX - IPR SERVICE

- 'Intellectual Property Right' means
  - ▶ Any right to intangible property, viz.
    - Trade marks
    - Designs
    - Patents
    - or any other similar intangible property
    - Under any law for the time being in force
- Specifically excludes copyright

Lakshmi Kumaran & Sridharan

18

## IPR SERVICE ...

- Laws in India relating to IPR
  - ▶ Patents Act, 2005
  - ▶ Trade Marks Act, 1999
  - ▶ Geographical Indication of Goods (Registration & Protection) Act, 1999
  - ▶ Copyright Act, 1957
  - ▶ Industrial Designs Act, 2000

Lakshmi Kumaran & Sridharan

19

## IPR SERVICE ...

- “Under any law for the time being in force”
  - ▶ Does it mean ‘created’ or ‘recognized’ or ‘protected’ or ‘registered’ or ‘covered’ under any law?
  - ▶ Enacted Law vs. Common Law
- Trade mark registered outside India but not registered in India – Whether covered?
- Undisclosed information or trade secret
- Integrated circuits

Lakshmi Kumaran & Sridharan

20

## IPR SERVICE ...

- ‘Intellectual Property Service’ means
    - ▶ Transferring temporarily; or
    - ▶ Permitting the use or enjoyment of
- Any intellectual property right
- Assignment of IPR does not amount to rendering service

Lakshmi Kumaran & Sridharan

21

## IPR SERVICE: SITUATION 1

- ❖ Licensing of IPR by a owner/holder in a foreign country to a person in India
  - For use in India
    - Explanation to Section 65(105)
    - Service receiver liable to pay service tax
  - For use outside India (overseas branch)
    - Explanation to Section 65(105)
    - Is recipient located outside India?

Lakshmi Kumaran & Sridharan

22

## IPR SERVICE: SITUATION 2

- ❖ Licensing of IPR by a owner/holder in India to a person in a foreign country
  - For use outside India
    - Export of Services Rules
    - Recipient located outside India
    - If recipient has office in India – additional conditions to be satisfied
  - For use in India
    - Still export of service?

Lakshmi Kumaran & Sridharan

23

## CONSULTING ENGINEER SERVICE

- Covers rendering of
    - ▶ Advice
    - ▶ Consultancy
    - ▶ Technical assistance
- in one or more disciplines of engineering

Lakshmi Kumaran & Sridharan

24

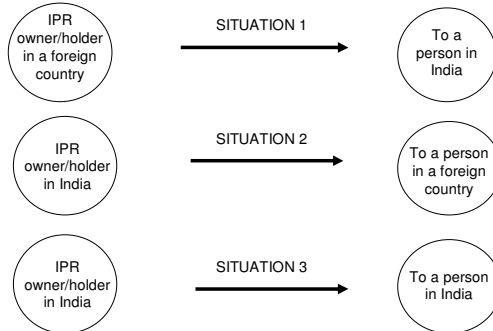
## SERVICE TAX: ISSUES

- ➔ Consulting Engineer or IPR service?
  - Transfer of technical know-how
    - Available off-the-shelf
    - Customized
  - Transfer of designs and drawings
    - Available off-the-shelf
    - Customized

Lakshmi Kumaran & Sridharan

25

## SERVICE TAX IMPLICATIONS



Lakshmi Kumaran & Sridharan

26

## R&D CESS

- ❖ R&D Cess payable on payment made towards 'import of technology' under a 'foreign collaboration'
  - 'Technology' widely defined – would include transactions both in IPR and services

Lakshmi Kumaran & Sridharan

27

## CUSTOMS

- ❖ Import duty payable on goods imported into India
  - Goods includes all moveable property
  - However, Tariff covers only tangible goods
  - Value of tangible goods will include the value of IPR
- ❖ Value is price paid or payable adjusted for certain payments

Lakshmi Kumaran & Sridharan

28

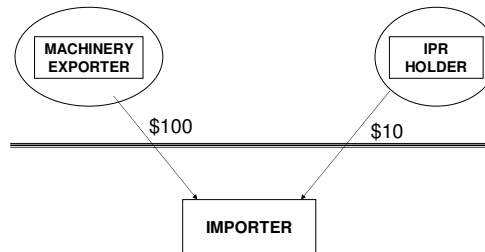
## CUSTOMS

- ❖ Royalty and license fees - includible in transaction value
  - ⇒ If condition of sale of the imported machinery/ goods
  - ⇒ If related to imported goods
- ❖ Royalty and license fees may relate, inter-alia, to patents, trademarks and copyrights

Lakshmi Kumaran & Sridharan

29

## CUSTOMS



VALUE ON WHICH CUSTOMS DUTY IS PAYABLE = \$100 + \$10 = \$110

Lakshmi Kumaran & Sridharan

30

## CUSTOMS...

- Royalty / License fee paid to Patent holder for use of imported machinery performing the patented process is includible in the value of imported machinery

– *Essar Gujarat 1996 (88) ELT 609 (SC)*

Lakshmi Kumaran & Sridharan

31

## CUSTOMS...

- Value of software imported in Diskettes to include the license fee paid for use of software

▶ *SBI 2000 (115) ELT 597 (SC)*

Lakshmi Kumaran & Sridharan

32

## CUSTOMS...

- Software import
  - ▶ Chapter heading 85.24
  - ▶ Chapter note 6
  - ▶ Value of hardware includes software value?
  - ▶ Taxability of software imported

Lakshmi Kumaran & Sridharan

33

## CENTRAL EXCISE

- ❖ Drawings and designs or manufacturing know-how provided to the manufacturer
  - ▶ Free-of-cost
  - ▶ Against payment
- ❖ Will be additional consideration under Rule 6

Lakshmi Kumaran & Sridharan

34

## CENTRAL EXCISE...

- ❖ Goods manufactured by job worker by affixing brand name of principal supplier
- ❖ No consideration paid by job worker for use of brand name
- ❖ No issues arise
  - ▶ *Ujagar Prints (SC)*
  - ▶ *CCE v. SHS Electronics 183 ELT 374 (Tri)*

Lakshmi Kumaran & Sridharan

35

## CENTRAL EXCISE...

- ❖ Royalty charged by Assessee from the buyer for use of Assessee's trademark on goods sold by the buyer
  - ▶ Includible in the assessable value of goods manufactured by Assessee
    - *Pepsi Foods Ltd. 158 ELT 552 (SC)*

Lakshmi Kumaran & Sridharan

36

### EXCISE: SSI EXEMPTION

- ❖ Exemption not available if the goods bear brand name of another person
- ❖ Such brand name may be registered or unregistered
- ❖ Assignment Vs. License to use

### IS SSI EXEMPTION AVAILABLE?

- ❖ Use of House mark of another person
  - Astra Pharma  
75 ELT 214 (SC)
- ❖ Use of Brand name of a foreign person
  - Namtech  
115 ELT 238 (Tri-LB)

### IS SSI EXEMPTION AVAILABLE?...

- ❖ Joint Venture Co in India – using brand name of foreign collaborator
- ❖ Will right to use brand name on exclusive basis make any difference?

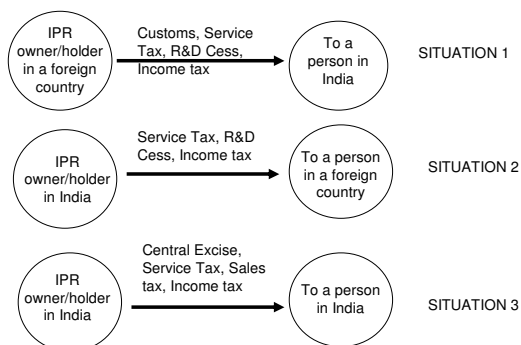
### INCOME TAX

- ❖ Royalty or any sum received by a non-resident IPR owner for licensing of IPR is deemed to be Income arising in India
  - Sec. 9(1)(vi) of IT Act, 1961
- ❖ Tax to be deducted at source by the licensee from the royalty payable
- ❖ Benefits of Double Taxation Avoidance Agreements (DTAA) available

### INCOME TAX...

- ❖ Royalty income is deemed to arise in India
- ❖ Non-resident licensor is an assessee liable to file a return of income in India
- ❖ Benefits of Double Taxation Avoidance Agreements (DTAA) available

### TAX IMPLICATIONS



<input type="radio"/> Review all existing agreements	<input type="radio"/> Future agreements should be properly drafted

**Our contacts**

**New Delhi**  
 B-6/10, Sakbarjung Enclave  
 New Delhi - 110 028, India  
 Ph: +91-11-26192243, 4129 9800  
 Fax: +91-11-26197578, 4129 9899  
 E-mail: Laks@Lakshmisri.com


**Bangalore**  
 "SPL ENDERLEY", Flat 5-D,  
 26, Cubbon Road, Bangalore  
 Ph: +91-80-22868256, 57  
 Fax: +91-80-22899349  
 E-mail: Labl@Lakshmisri.com

**Hyderabad**  
 Block No 301, 3<sup>rd</sup> Floor  
 Heritage office complex  
 148 Fort Road, Hyderabad - 500 001  
 Tel: +91-40-2323 4624/25  
 Fax: +91-40-2323 4626  
 E-mail: Lhh@Lakshmisri.com

**Mumbai**  
 401-404, Kakad Chambers,  
 132, Dr. Annie Besant Road  
 Wafi, Mumbai - 400 018  
 Ph: +91-22-24914352, 84/86  
 Fax: +91-22-24914388  
 E-mail: Labom@Lakshmisri.com


**Chennai**  
 2, Wallace Garden, 2<sup>nd</sup> Street  
 Chennai - 600 006  
 Tel: +91-44-2833 4700/701  
 Fax: +91-44-2833 4702  
 E-mail: Lamts@Lakshmisri.com

**LAKSHMIKUMARAN & SRIDHARAN  
ADVOCATES**



vlakshmi@Lakshmisri.com

**Thank You**



*a powerful choice . . .*