

IPR & Taxation

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1

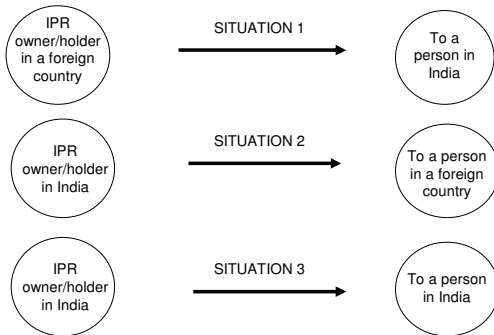
TRANSACTIONS IN IPR

ASSIGNMENT LICENSING

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2

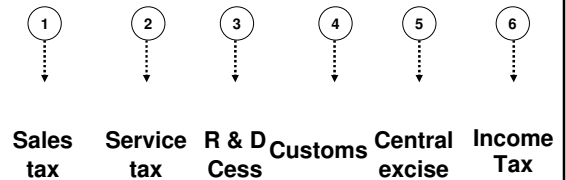
LICENSING SCENARIOS



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3

HAS TAX IMPLICATIONS IN



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TAX IMPLICATIONS

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

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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

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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

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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*

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ARE THESE GOODS?

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

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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

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SALES TAX

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

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SALES TAX

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

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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?

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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?

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14

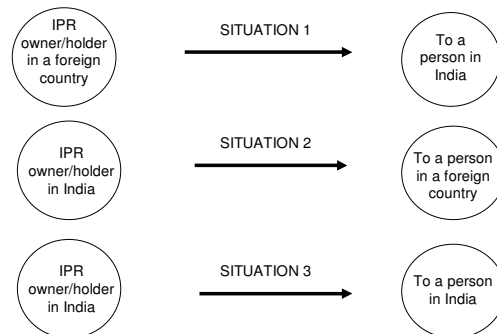
SALES TAX: SITUATION 3

- ❖ 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?

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15

SALES TAX IMPLICATIONS



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16

WHAT IS SERVICE?

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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

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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

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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

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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

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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?

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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?

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CONSULTING ENGINEER SERVICE

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

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24

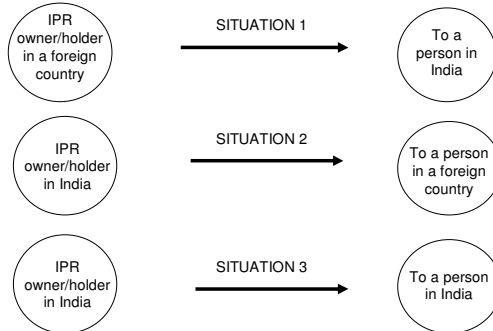
SERVICE TAX: ISSUES

- ➔ 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

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SERVICE TAX IMPLICATIONS



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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

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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

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28

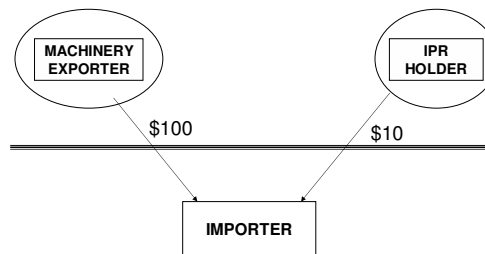
CUSTOMS

- ❖ 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

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29

CUSTOMS



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

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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)*

CUSTOMS...

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

▶ *SBI 2000 (115) ELT 597 (SC)*

CUSTOMS...

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

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

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)*

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)*

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?

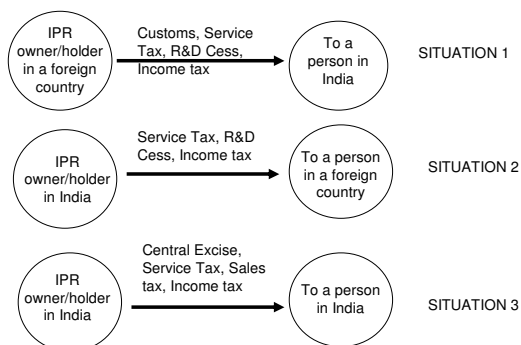
INCOME TAX

- ❖ 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
43

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Thank You



a powerful choice . . .