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INCOME FROM TRANSFER OF A FOREIGN OWNED INTELLECTUAL PROPERTY – IS IT TAXABLE IN INDIA

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(This article has been co-authored by the team of LexCounsel and Hewlett-Packard India Sales Private Limited)

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INCOME FROM TRANSFER OF A FOREIGN OWNED INTELLECTUAL PROPERTY – IS IT TAXABLE IN INDIA

Taxability of income arising out of sale and purchase transactions undertaken internationally has been a matter of debate for long in India. Foreign collaborators and investors have been strongly campaigning for clarity on their tax liabilities under Indian tax regulations for transactions undertaken outside the taxable territories of India.

One such dispute arose with respect to the situs or location of intellectual property rights such as logos, brands, trademarks, which are capital assets, which are intangible in nature. CUB PTY Limited, an Australian Company ("**Petitioner**"), sought an advance ruling from the Authority of Advance Rulings (Income Tax) ("**AAR**") with regard to taxability of the receipts arising in favour of the Petitioner from transfer of its right, title and interest in and to the trademarks, Foster's Brand intellectual property and grant of exclusive perpetual license of Foster Brewing intellectual property under the (Indian) Income Tax Act,1961 and the Double Taxation Avoidance Agreement between India and Australia.

While answering the above questions, the AAR held the income accrued to the Petitioner from the transfer of its right, title and interest in and to the trademarks and Foster's Brand intellectual property as taxable in India under the Income Tax Act,1961. The AAR used the justification that intellectual property belonging to the Petitioner had

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its 'tangible presence' in India at the time of the transfer. Aggrieved by the above order of the AAR, the Petitioner field a writ petition before the Delhi High Court ("**DHC**")[1].

Contentions of the Petitioner:

The Petitioner pleaded that in so far as the tangible assets are concerned, they exist at a specific location. However, the intangible assets such as intellectual property rights do not exist at a particular location due to their very nature of not having a physical form. The Petitioner further pleaded that because of the nature of an intangible capital asset, the common law principle *'mobilia sequuntur personam*' has been evolved (which means movable follow person), i.e. a fiction is created to the effect that the situs of an intangible capital asset would be the situs of the owner of that asset. In this backdrop, it was contended that since the Petitioner (i.e., the owner of the intangible assets in question) was located in Australia, the intangible assets, which include the intellectual property rights of the petitioner, were also located in Australia. Therefore, the transfer of those assets would not result in any income deemed to have accrued in India and would not be exigible to tax in India.

Judgement of DHC:

The DHC agreed with the contentions of the Petitioner and observed that the legislature through a deeming fiction could have provided for location of an intangible capital assets, such as intellectual property rights, but no such deeming fiction has been created by the legislature in India till date. The DHC observed that with regard to a share or interest in a company registered/incorporated outside India, Explanation 5 has been added to section 9 (1) (i) of the Income Tax Act, 1961 by virtue of the Finance Act, 2012 with retrospective effect from 01.04.1962. Thus, the DHC concluded that where the legislature intended to include a particular asset, it did so by way of an amendment, However, no such provisions has been created for intangible assets such as trademark, brands, logos, i.e., intellectual property, which creates a deeming fiction with respect to situs of intellectual property rights.

In the absence of such a provision, the DHC followed the internationally accepted maxim/principle '*mobila sequunter personam'* and held that situs of the owner of an intangible asset would be the closest approximation of the situs of an intangible asset. It further said that this is an internationally accepted rule, unless it is altered by a local legislation. Since there is no such alteration in the Indian context, the Petitioner's submission that the situs of the trademarks and intellectual property rights of the Petitioner, which were assigned pursuant to an agreement,

[1] CUB PTY Limited *v* UOI and Ors., [WP (C) 6902/2008].

would not be in India because the owner thereof was not located in India at the time of the transaction, was accepted by DHC.

The DHC rejected the view taken by the AAR and passed the judgement in favour of the Petitioner holding that the income accruing to the Petitioner from transfer of its rights, title or interest in and to the trademarks in Foster's Brand intellectual property is not taxable in India under the Income Tax Act, 1961.

Our View:

The judgement lays down a fundamental question of law and rightfully addresses the treatment on intangible assets and its suits. It also provides valuable direction to multinational companies having brand presence and registered intellectual property across the world including India and in potential mergers and acquisition transactions involving transfer of intangible assets. While the judgement brings relief to the Petitioner for the time being it would be interesting to watch the next move of the Revenue, which may challenge this far reaching judgement, relying on the fact that the DHC failed to dwell into the effect of brand license agreement creating a tangible presence for the transferred marks in India.

Endnotes

[1] CUB PTY Limited *v* UOI and Ors., [WP (C) 6902/2008].

Feedback