
(2010) 11 AP CK 0067

In the Andhra Pradesh High Court

Case No : Tax Revision Case No's. 253 and 260 of 2010

Nutrine Confectionery Co. Pvt. Ltd.

APPELLANT

Vs

State of Andhra Pradesh

RESPONDENT

Date of Decision : 03-11-2010

Acts Referred:

Andhra Pradesh General Sales Tax Act, 1957 — Section 2, 20(2), 22(1), 5E
Andhra Pradesh Value Added Tax Act, 2005 — Section 34
Constitution of India, 1950 — Article 366
Trade Marks Act, 1999 — Section 37, 38, 39, 40, 41

Citation : (2011) 40 VST 327

Hon'ble Judges : V.V.S. Rao, J;Ramesh Ranganathan, J

Bench : Division Bench

Advocate : S. Dwarakanath, for the Appellant; P. Balaji Varma, Special Standing Counsel for Commercial Taxes, for the Respondent

Judgement

V.V.S. Rao, J.—The two tax revision cases u/s 22(1) of the Andhra Pradesh General Sales Tax Act, 1956 (the GST Act) read with Section 34 of the Andhra Pradesh Value Added Tax Act, 2005 (the VAT Act) are being disposed of by this common judgment. They are against common order dated 31.3.2010 passed by the Sales Tax Appellate Tribunal, Hyderabad, in T.A. Nos. 949, 953, 1038 and 1105 of 2005. By the impugned order, the learned Tribunal considered three questions. The questions (a) and (c) related to T.A. Nos. 949 and 953 of 2005 with which these revision cases are not concerned as those appeals related to the assessment years 1995-96 and 1996-97 were allowed. Whether the liability fixed u/s 5-E of the GST Act in respect of the royalty received by the Appellant against the right to use the trade mark and the patent is sustainable in law? This formed question (b). On this, the learned Tribunal held that the consideration received by the Petitioner from the other companies/concerns for transfer of the right to use its "nutrine" trade mark and "bunny" logo, is the amount realized in respect of the transfer of the right to use the goods and, therefore, it attracts levy of tax. This finding is put in issue in these two revision cases.

2. Turning to the brief fact of the matter, it may be noticed that the Petitioner, which is registered on the rolls of the Commercial Tax Officer-II, Chittoor, is a company engaged in manufacturing and marketing of confectionery i.e., chocolates, toffees etc. It has a trade mark "nutrine" and a logo "bunny", which they use on the wrappers, pouches, containers, invoices, letterheads and advertising materials. The Petitioner entered into four agreements on 01.4.1994 with M/s. BVR Confectionery Pvt. Ltd., and M/s. Nutrine Biscuits Ltd. The Petitioner also entered into another agreement on 01.6.1997 with M/s. Nutrine Sweets Ltd. Under these five agreements, which contain similar clauses, the Petitioner agreed to allow the above companies (hereafter called, transferee/ assignee) to use "nutrine" trade mark and "bunny" logo. The agreed royalty is Rs. 500/- per ton of production by the assignee and the agreement is terminable by one month notice on either side. The Commercial Tax Officer (CTO) finalized the assessment for the year 1997-98 determining taxable turnover of Rs. 51,86,100/-, out of which T. Rev.C. No. 253 of 2010 arises. The CTO determined the turnover for 1998-99 at Rs. 10,29,766/- out of which T. Rev.C. No. 260 of 2010 arises. The assessment proceedings were challenged before the Appellate Deputy Commissioner (CT), Kurnool, which were partly allowed. But the Additional Commissioner of Commercial Taxes, Hyderabad, by two separate orders dated 06.5.2004, revised the appellate orders u/s 20(2) of the GST Act, as a result of which the turnover/tax for the assessment year 1997-98 stood at Rs. 51,86,100/- and Rs. 2,59,305/-, out of which T. Rev.C. No. 253 of 2010 arises. The turnover/tax for the assessment year 1998-1999 stood at Rs. 10,29,766/- and Rs. 61,452/- out of which T. Rev.C. No. 260 of 2010 arises. Aggrieved by these orders, tax appeals were filed before the learned Tribunal, which were dismissed holding that the royalty received by the Petitioner from the assignees under different agreements is liable to tax as "goods" under Entry-197 of Schedule-I of the GST Act.

3. The Counsel for the Petitioner submits that the assignee pays royalty for all multiple services including the use of the trademark and the logo and, therefore, there is no transfer of right to use goods as contemplated under law. He relies on *Rashtriya Ispat Nigam Limited v. CTO* (1989) 77 STC 182 (AP) (RINL-I) and the decision of Supreme Court in *State of Andhra Pradesh and Another Vs. Rashtriya Ispat Nigam Ltd.*, , which confirmed the High Court. He nextly submits that when the agreement confers on the assignee more than one uses subject to payment of consideration based on tonnage, it cannot be split up use-wise to arrive at the consideration for the transfer of right to use trade mark and logo. According to him, when there is no exclusive right to use the goods by the transferee, Section 5-E of the GST Act is not attracted. For this purpose he relies on *The State of Punjab Vs. Associated Hotels of India Ltd.*, , *Karthik Engineering Works Vs. State of Karnataka*, and *Bharat Sanchar Nigam Ltd. and Another Vs. Union of India (UOI) and Others*,

4. The Special Counsel for Commercial Taxes submits that the Petitioner failed to discharge the burden of proving that there is no transfer of right to use the trade

mark and logo and, therefore, at the stage of the revision, the Petitioner cannot be permitted to raise the plea especially when they failed to produce relevant records. He would contend that when the goods transferred are incorporeal or intangible in nature, exclusivity of use is not possible as the same trade mark with limited use or exclusive use can be utilized by the transferor and the transferee at the same time. He invites the attention of this Court to Sections 37 to 45 of the Trade Marks Act, 1999.

5. The background of the case and the rival submissions throw up the only question for consideration as to whether the agreement between the Petitioner and the assignee company is in respect of the transfer of the right to use the Petitioner's trade mark and logo by the assignee.

6. There is no dispute that "nutrine" trade mark and "bunny" logo are goods within the meaning of Section 2(h) of the GST Act. There is also no dispute that in the event of the transfer of the right to use trade mark and logo by the assignee, the Petitioner is liable to pay the tax. The Petitioner, however, contends that there is no transfer of the right to use the trade mark and logo and that the agreement contemplates the Petitioner allowing the assignee to use the former's formulas and recipes, make available to data about suppliers of raw materials and the latter agreed not to make any alterations or changes in the formulas. Thus, indisputably the agreement between the Petitioner and the assignee is not only for transfer of right to use the trade mark and logo but also obligation of the Petitioner to suggest various business modalities and provide formulas and recipes. Can it then be said that there is no transfer of right to use the goods as contemplated u/s 5-E of the GST Act, which we quote hereunder.

5-E. Tax on the amount realized in respect of any right to use goods:

(a) Every dealer who transfers the right to use any goods for any purpose whatsoever, whether or not for a specified period, to any lessee or licensee for cash, deferred payment or other valuable consideration, in the course of his business shall, on the total amount realized or realizable by him by way of payment in cash or otherwise on such transfer or transfers of the right to use such goods from the lessee or licensee, pay a tax at the rate of eight paise on every rupee of the aggregate of such amount realized or realizable by him during the year.

(b) the transfer of right to use any such goods entered into by any dealer shall be deemed to have taken place in this State whenever the goods are used within the State, irrespective of the place where the agreement whether written or oral for such transfer of right is made.

Provided that no such tax shall be levied if the total turnover of the dealer including such aggregate is less than rupees two lakhs.

7. When it is the case of transfer of right to use any goods, Section 5-E of the GST Act overrides all other provisions of the GST Act. What is taxable is the

consideration received by the dealer for "transfer of the right to use any goods for any purpose, whatsoever" to any lessee or licensee for cash, deferred payment or other valuable consideration in the course of the business. The use of the phrase "... for any purpose, whatsoever" is the key to understand and resolve the question raised in these revision cases. If the legislature had intended that the exclusive transfer of right to use the goods alone is taxable without there being the transfer of technical knowhow, manufacturing process etc., the legislature must have said so. It is conspicuously absent. Even if there is transfer of right to use goods along with the transfer of other services and facilities even if it is for any limited period, the event is taxable. Either in relation to the taxable event or taxable person, the legislature does not leave any ambiguity or doubt. There can be transfer of right to use goods under an agreement intended for that purpose or there could be such transfer of the right to use the goods under an agreement for different purposes to be acted upon by the parties as agreed different situations.

8. The relevant clauses to which our attention has been invited in the agreement between the Petitioner and the assignee are Clauses 2, 4, 5, 7, 9 and 10, which read.

2. The party of the first part shall allow the party of the second part to use the "nutrine" trade mark and "bunny" logo on the wrappers, pouches, containers, invoices, letterheads and advisement materials. It is expressly understood that there will be no exclusive entrustment of the logo and trade mark to the party of the second part and the party of the first part will use the same for its own operations.

4. The party of the first part hereby agrees to suggest suitable items of confectionery products keeping in view the facilities available with the second party, provide formulas and recipes for such products and periodically suggest measures for cost reduction.

5. The party of the first part will also suggest locations and areas for getting maximum advantage for their products, the method of advertising their products and proper structuring of the prices.

7. The party of the second part shall sue the logo and trade mark only at the places permitted by the first party.

9. In consideration of the party of the first part permitting usage of logo and trade mark and providing various supports and amenities as detailed above, the party of the second part shall pay a sum of Rs. 500/- (Rupees five hundred only) per tonne of production as royalty.

10. The royalty amount mentioned above shall be calculated on the monthly production and shall be paid to the first party within 15 days from and of the month.

9. The agreement is without any title to give any indication as to nature of the

agreement. But it is settled rule of interpretation of documents that every document or deed has to be interpreted keeping in view the intention of the parties. It is also well settled that the intention of the parties to a transaction has to be determined with reference to the language and if there is any difficulty or ambiguity in so doing, it is always open to look to attending circumstances. In the absence of any evidence with regard to the circumstances that lead the parties to enter into the transaction or enter into a deed or document, such circumstances can even be inferred from the agreement itself. Clause 2 itself uses the terminology to the effect that, "the party of the first part shall allow the party of the second part to use "nutrine" trade mark and "bunny" logo ...". This is very clear and unambiguous and amounts to transfer of the right to use the trade mark and logo. Clauses 4 and 5 are only incidental aspects and no transfer is involved therein. Clause 4 is to the effect that, "party of the first part agrees to suggest suitable items of confectionery products keeping in view the facilities available with the second party, provide formulas and recipes for such products and periodically suggest measures for cost reduction." Clause 5 also speaks of the Petitioner making suggestions regarding locations for getting maximum advantage for those products. These are only add on services offered by the Petitioner and they do not amount to transfer of trade mark nor they are different services. When one understands the brand value of the trade mark things would be clear. More often than not the brand value is result of the trade mark of the company itself. By allowing the assignee to use trade mark and logo, the Petitioner only ensuring that brand value of "nutrine" to get a competitive edge in the market. The facilitating use of technical knowhow, recipes and formulas are indeed related to the brand value and, therefore, the Petitioner undertook the obligation of providing these services. This is made clear by reference to Clause 9 which says that the consideration of payment of royalty is only for permitting the assignee to use the trade mark and logo. Therefore the agreement in question is certainly one evidencing the transaction of transfer of the right to use nutrine trade mark and bunny logo.

10. This Court, after giving anxious consideration, is of the opinion that even if the consideration cannot be separated nor is it discernible as to which part of the consideration for which service, it does not make any difference nor the obligation undertaken by the Petitioner to provide supporting services dilute Clause 2 which speaks of transfer of right to use the trade mark and logo. None of the decisions relied on by the Counsel would support the Petitioner's contention. It is well settled that the nature of transfer of right to use on the plain language of Section 5-E of the GST Act is immaterial. The transfer of right to use any goods "for any purpose whatsoever" falls within the ambit of Section 5-E of the GST Act and merely because the agreement speaks of other aspects in addition to creating a right in the assignee to use the trade mark and logo does not make any difference especially when the goods so transferred are incorporeal or intangible in character like copy right, patent, trade mark etc.

11. In RINL-I, a Division Bench of this Court considered the test to determine

whether a transaction amounts to transfer of right to use the goods was indicated as follows, "whether the transaction amounts to transfer of right or not cannot be determined with reference of a particular word or clause in the agreement. The agreement has to be read as a whole, to determine the nature of the transaction. From a close reading of all the clauses in the agreement, it appears to us that the contractor is entitled to make use of the machinery for purposes of execution of the work of the Petitioner and there is no transfer of right to use as such in favor of the contractor. We have reached this conclusion because the effective control of the machinery even while the machinery is in the use of the contractor is that of the Petitioner-company".

12. The above view was affirmed by the Supreme Court in RINL-II, observing as under.

On a careful reading and analysis of the various clauses contained in the agreement and, in particular, looking to Clauses 1, 5, 7, 13 and 14, it becomes clear that the transaction did not involve transfer of right to use the machinery in favor of contractors. The High Court was right in arriving at such a conclusion. In the impugned order, it is stated, and rightly so in our opinion, that the effective control of the machinery even while the machinery was in use of the contractor was that of the Respondent company; the contractor was not free to make use of the machinery for the works other than the project work of the Respondent or move it out during the period the machinery was in his use; the condition that the contractor would be responsible for the custody of the machinery while it was on the site did not militate against Respondent's possession and control of the machinery.

13. Applying the above tests, we are convinced that in the case on hand, the assignee is free to make use of the trade mark and logo and has full control over such use. The Petitioner does not in any manner regulate the use of trade mark or logo although, "keeping in view the facilities available with the assignee" the Petitioner undertook to suggest suitable items provide formulas and recipes and suggest locations for marketing. These do not in any manner amount to retaining the control on the use of trade mark by the Petitioner. Clause 2 provides that, "there will be no exclusive entrustment of the logo and trade mark to the assignee" and that the Petitioner shall also use them for its operations. Does it in any manner mitigate in favor of the Petitioner? This Court is afraid not. The authorities relied on by the Counsel would not help the Petitioner.

14. In Associated Hotels, the Supreme Court held that when a hotel supplies meals to the guests staying in the lodge, the Revenue is not entitled to split up the transaction into two parts one of service and the other of sale of food stuffs and to split up the bill charged as consisting of charges for lodging and charges for food stuffs. A similar view was also taken subsequently in Northern India Caterers (India) Ltd. Vs. Lt. Governor of Delhi, following Associated Hotels. The effect of these two decisions was neutralized by insertion of Clause (29A)(f) in Article 366 of the Constitution of India by the Constitution (Forty-sixth

Amendment) Act, 1982, which defines "tax on the sale or purchase of goods" as including inter alia "a tax on the supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink". Article 366(29A)(d) was also added authorizing the tax on the transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration. It is also needless to add that Section 5-E of the

GST Act itself was inserted in the GST Act after the Constitution amendment.

15. Karthik Engg. Works is the case which dealt with an agreement between the Assessee and licensee for the use of the premises and machinery of factory. The plea of the Revenue that there was transfer of right to use movable goods was rejected by the Division Bench of Karnataka High Court observing that, "the machinery itself being an immovable property, it is beyond the scope of the "goods" as defined in the Act, as the machinery is attached and fixed in the building." These decisions do not in any manner support the contention. BSNL inter alia considered the question whether there is any transfer of right to use any goods by providing access or telephone connection by the telephone service provider to the subscriber and whether such transaction is a composite contract for service and sale. Five questions were considered and the conclusions by the Division Bench of the Supreme Court are as follows.

Question Answer

A) what are "goods" in telecommunication for the purposes of Article 366(29A)(d)? A) Goods do not include electromagnetic waves or radio frequencies for the purpose of Article 366(29A)(d). The goods in telecommunication are limited to the handsets supplied by the service provider. As far as the SIM cards are concerned, the issue is left for determination by the Assessing Authorities.

B) is there any transfer of any right to use any goods by providing access or telephone connection by the telephone service provider to a subscriber ? B) There may be a transfer of right to use goods as defined in answer to the previous question by giving a telephone connection.

C) is the nature of the transaction involved in providing telephone connection a composite contract of service and sale? If so, is it possible for the States to tax the sale element? C) The nature of the transaction involved in providing the telephone connection may be a composite contract of service and sale. It is possible for the State to tax the sale element provided there is a discernible sale and only to the extent relatable to such sale.

D) If the providing of a telephone connection involves sale is such sale an inter state one? D) The issue is left unanswered.

E) Would the "aspect theory" be applicable to the transaction enabling the States to levy sales tax on the same transaction in respect of which the Union Government levies service tax. E) The aspect theory would not apply to enable

the value of the services to be included in the sale of goods or the price of goods in the value of the service.

16. The law declared by the Supreme Court while dealing with the questions B and C as above is relied on by the Petitioner. According to the Counsel, when there is a discernible sale only, to the extent of such sale, the event is taxable and if there is a composite contract of sale, it cannot be taxed. We have perused the agreement between the Petitioner and the assignee and are convinced that transfer of right to use "nutrine" trade mark and "bunny" logo is clearly discernible, which is dominant purpose and notwithstanding the provision of various supports and amenities, the transaction does not cease to be a sale. The Counsel relies on para 98 of STC from the concurring judgment and contends that when there is no exclusion of the Petitioner in the use of the goods, there is no transaction for the transfer of right to use the goods. We are afraid, we cannot accept the submission.

17. BSNL was dealing with a case of mobile telephone connections. It is not a case of assignment/transfer of a trade mark or a logo. The contract for providing a mobile connection invariably contains clause that the licensee shall use the mobile connection exclusively for himself or herself and nobody else would use. In the case of a trade mark as provided in Chapter v. (Sections 37 to 45) of the Trade Marks Act, 1999, the same can be used by the assignee without any exclusive right. A reference to Section 41 of the Trade Marks Act makes it very clear. The proprietor of a trade mark can always assign a registered or unregistered trade mark for exclusive use or a limited use to different persons at the same time under license. Indisputably the Petitioner retained the right to use the "nutrine" trade mark and "bunny" logo for its own operations. This itself does not remove the transaction under the agreement outside the purview of Section 5-E. As rightly pointed out by the Special Counsel, a trade mark or logo which is incorporeal or intangible, can always be assigned by the proprietor while retaining the right to use for itself. Furthermore, as pointed by majority in BSNL the determination whether a transaction amounts to transfer of right to use the goods, "... would depend ultimately upon the intention of the parties" and therefore, by reading one clause of the agreement, the intention cannot be gathered. On reading of the agreement between the Petitioner and the assignee, the learned Tribunal correctly came to the conclusion that the consideration received as royalty for allowing the assignee the use of trade mark and logo, is realized in respect of the transfer of the right to use the goods. This does not call for any interference.

18. In the result, for the above reasons, these two Tax Revision Cases fail and are accordingly dismissed. There shall be no order as to costs.