
(2004) 01 KAR CK 0006
In the Karnataka High Court
Case No : S.T.A. No. 70 of 2003

Whirlpool of India Ltd.

APPELLANT

Vs

Authority for Clarification and Advance Rulings and Another

RESPONDENT

Date of Decision : 20-01-2004

Acts Referred:

Karnataka Sales Tax Act, 1957 — Section 19 C, 5 (3) (a), 5 A

Citation : (2004) 3 KCCR 263 SN : (2004) 137 STC 197

Hon'ble Judges : R.V. Raveendran, J;H. Billappa, J

Bench : Division Bench

Advocate : R.N. Narasimha Murthy, for Aravind Kamath, K.J. Kamath and K.G. Kamath, for the Appellant; B. Anand, Government Advocate, for the Respondent

Final Decision : Dismissed

Judgement

R.V. Raveendran, J.—The appellant is a registered dealer under the Karnataka Sales Tax Act, 1957 ("the KST Act", for short). The appellant is the licensee and registered user of the trademark "Whirlpool" in terms of the Trademark & Trade name Licence Agreement dated February 24, 1995 executed between M/s. Whirlpool Corporation, USA, who is stated to be the proprietor and owner of the said trademark and the appellant. The licence granted to the appellant to use the trademark is non-transferable.

2. On February 4, 2003, the appellant entered into an agreement with M/s. Applicomp India Limited (for short, "Applicomp" or the "Manufacturer") under which Applicomp agreed to manufacture and supply electronic products and electrical appliances such as refrigerators, washing machines, air-conditioner, etc., to the appellant on original equipment manufacture basis, as per the specifications of the appellant. Relevant portions of clauses 4, 5 and 6 of the agreement are extracted below :

".....The manufacturer is exempted from payment of sales tax for the goods manufactured at its factory at Hosur Road, Attibele.

4. The buyer hereby warrants that the buyer is the owner of all rights in the trademark "Whirlpool" and has the exclusive right to use the said trademark in India. Buyer hereby authorises the manufacturer to use and affix the said trademark to the products which are sold to the buyer in accordance with the specifications of the buyer.

5. Manufacturer acknowledges that this agreement does not include any licence of buyer's trademarks. Manufacturer shall not affix trademark to any products manufactured and/or sold to any third party other than that to the party of the second part in respect of the manufactured products.

6. Buyer has the right to inspect samples of the products to verify that the use of the trademark conforms to buyer's specifications and also inspect/audit the quality of the products manufactured....." (emphasis* supplied)

Thus Applicomp is neither a registered user nor a licensee in respect of the trademark "Whirlpool". The agreement just enables Applicomp to affix the trademark of the appellant to the products which are manufactured to the specifications of appellant and which are exclusively to be supplied to the appellant, and not to any other product of Applicomp.

3. The State Government, by notification dated July 20, 2000 issued in exercise of power u/s 19C of the KST Act, exempted the tax payable under the said Act, by Applicomp on the sale of finished goods manufactured by it, for a period of 10 years from the commencement of commercial production subject to the restrictions and conditions stated in the said notification. Therefore the sales by Applicomp to appellant are exempt from payment of any tax under the KST Act.

4. Section 5(3)(a) of the KST Act provides that tax shall be levied under the Act "in the case of sale of any of the goods mentioned in column (2) of the Second Schedule, by the first or the earliest of successive dealers in the State who is liable to tax under that section, a tax at the rate specified in the corresponding entry in column (3) of the said Schedule, on the taxable turnover of sales of such dealer in each year relating to such goods". Refrigerators falls under entry 6 of part R of the Second Schedule, the rate of tax being 20 per cent from April 1, 2002 ; and washing machines as electrical goods, falls under entry 2(v) of Part E of the Second Schedule, the rate of tax being 16 per cent from June 1, 2003. The third proviso and the sixth proviso to Section 5(3)(a) as also Explanation III thereto, which are relevant are extracted below :

"Third Proviso to Section 5(3)(a)--Provided further that where any goods liable to tax under this Act are produced or manufactured by a dealer with the brand name or trademark of any other dealer and which are not used by the latter as raw materials, component parts or packing materials as defined under the explanation to Section 5-A, the sale of such goods by the dealer who has produced or manufactured to the dealer who is the brand name or trademark holder, shall not be deemed to be, but the sub-sequent sale of such goods by the dealer having the right either as proprietor or otherwise to use the said name or

the trademark, either directly or through another, on his own account or on account of others shall be deemed to be the sale by the first dealer liable to tax under this section.

Illustration.--"A" has registered a trademark for manufacture of certain goods. He gets the said goods manufactured by "B" under the said trademark. The sale by "B" to "A" of the said goods is not the first sale but the sale by "A" or by any other person on his account is the first sale.

Sixth Proviso to Section 5(3)(a).--Provided also that where goods are sold, under a brand name by the trademark holder or the brand name holder or any other dealer having the right as proprietor or otherwise to use the said name or trademark either directly or through another on his own account or on account of others, exclusively to a marketing agent or distributor or wholesaler or any other dealer, sub-sequent sale of such goods by the latter shall also be liable to tax under this section and the tax so payable shall be reduced by the amount of tax already paid on the sale of such goods by the former.

Explanation III.--For the purpose of the sixth proviso to clause (a), where goods are sold, under a brand name by the trademark holder or the brand name holder or any other dealer having the right as proprietor or otherwise to use the said name or trademark either directly or through another on his own account or on account of others, who is exempt from tax by any notification issued u/s 8A or section 19C, the expression "tax already paid" means the tax payable under this section on such sale if the sale had been effected by any other dealer."

5. The appellant is of the view that transaction between Applicomp and appellant falls under the sixth proviso (read with Explanation III) to Section 5(3)(a). It is stated that Applicomp falls under the description of the "seller" and the appellant falls under the description of the "buyer" contained in the sixth proviso; and consequently though the sub-sequent sale of the goods by the appellant is also liable to tax u/s 5(3)(a), the tax payable on such sub-sequent sale shall be reduced by the amount of tax already paid on the sale of such goods by Applicomp to the appellant. It is next contended that having regard to explanation III, the words "tax already paid" in sixth proviso means the tax payable u/s 5(3)(a) on such sale if the sale had been effected by any other dealer. It is submitted that explanation III creates a legal fiction whereby the tax payable u/s 5(3)(a) in respect of the sale by Applicomp though not paid on account of the exemption u/s 19C can be set off against the tax payable by the appellant. It is contended that appellant is entitled to pay tax on its sales of refrigerators (or other branded goods) after deducting the amount of tax payable to Applicomp (which is exempted).

The appellant's contention based on sixth proviso and Explanation III to Section 5(3)(a) can be illustrated thus :

_____ If appellant buys branded goods Appellant buying branded

goods from a manufacturer which did from Applicomp, enjoying 100% not enjoy any exemption under exemption from tax under section 8A or 19C. 8A or 19C. _____

_____ (i) Tax that would be payable on a	(i) Tax that would be payable on a
payable on a sub-sequent sale by appel-	payable on a sub-sequent sale by appellant
Rs. 110.00	Rs. 110.00
(ii) Less tax paid by	(ii) Less tax payable on appellant to
the sale by manufacturer Rs. 100.00	the sale by manufacturer Rs. 100.00
Applicomp under Section 5(3)(a), but	Applicomp under Section 5(3)(a), but
exempted under section 19C Rs. 100.00	exempted under section 19C Rs. 100.00
(iii) Tax actually payable on the sub-sequent sale by appellant	(iii) Tax actually payable on the sub-sequent sale by appellant
_____ Rs. 10.00	_____ Rs. 10.00

6. The Commercial Tax Department is however unwilling to accept the said contention. It is of the view that the transaction is squarely covered by third proviso. In view of the perceived difference, the appellant, filed an application for confirmation of its view, before the Authority for Clarifications and Advance Rulings u/s 4 of the Act, by posing the following question :

"Whether the brand owner who is an exclusive purchaser of goods manufactured, using its brand name, by a manufacturer who is exempted u/s 8A or 19C is entitled to claim set-off on the deemed tax paid on the purchases made from such manufacturer and is required to pay tax u/s 5(3)(a), only on the value addition thereof."

7. The authority, by order dated October 27, 2003 has given a clarification holding that the transactions between Applicomp and the appellant are governed by the third proviso to Section 5(3)(a). It held that the benefits contemplated under sixth proviso and Explanation III to Section 5(3)(a) are not available on the following reasoning :

"In the sixth proviso "any other dealer having the right as proprietor or otherwise to use the said name or trademark either directly or through another on his own account or on account of other", refers to the dealer acquiring right to use of trademark as provided in the Trade and Merchandise Marks Act. Section 49 of the Trade and Merchandise Marks Act, 1958 requires the user to file application jointly with the proprietor of the trademark for registration as registered user and registered as such. Further such sales have been made to exclusive marketing agent or distributor or wholesaler or any other dealer. Any other dealer referred to therein takes the colour of exclusive marketing agent or distributor or wholesaler.

Applicant M/s. Whirlpool India Ltd., are owners of brand name "Whirlpool" registered under the Trade and Merchandise Marks Act, 1958. Under an agreement, the refrigerators and other consumer durables are got manufactured from M/s. Applicomp India Ltd. As per the agreement M/s. Applicomp India Ltd., have to manufacture the products under the brand name "Whirlpool" and sell

exclusively the manufactured products to the applicant. M/s. Applicomp India Ltd., are not the registered user of the brand name "Whirlpool" under the Trade and Merchandise Marks Act. Further the sales made by M/s. Applicomp India Ltd., to applicant are not sales to exclusive marketing agent or distributor or wholesaler or any other dealer but are only sales of manufactured branded goods to the brand owner. Hence, the sixth proviso and Explanation III to Section 5(3) (a) is not applicable to the transaction between M/s. Applicomp India Ltd., and the applicant."

Feeling aggrieved the appellant has filed this appeal, reiterating the contentions urged before the said authority.

8. The appellant submits that having regard to the permission granted by it to Applicomp under the agreement dated February 4, 2003 to use its trademark, Applicomp has to be considered as a "dealer having the right as proprietor or otherwise to use the said name or trademark, either directly or through another, on his own account or on account of others", referred to in the sixth proviso. It is also submitted having regard to the condition in the agreement dated February 4, 2003 that Applicomp should sell all the goods affixed with the trademark "Whirlpool" only to the appellant, the sale by Applicomp to appellant will be a sale "exclusively to a marketing agent or distributor or wholesaler or any other dealer". According to the appellant, therefore, sixth proviso is attracted. As a consequence when goods are sold under the brand name of "Whirlpool" by Applicomp to the appellant, and appellant in turn sells the goods, the subsequent sale of such goods by the appellant will also be liable to tax, but the tax so payable shall be reduced by the amount of tax already paid on the sale of such goods by Applicomp. It is submitted that having regard to Explanation III the expression "tax already paid" would refer to tax payable but exempted by notification u/s 19C.

9. The sixth proviso to Section 5(3) will apply, only if the following three conditions mentioned therein exist :

- (i) The goods must be sold under a brand name.
- (ii) The sale should be by (a) the trademark holder or (b) the brand name holder or (c) any other dealer having the right as proprietor or otherwise to use the said name or trademark either directly or through another on his own account or on account of others ;
- (iii) The sale should be exclusively to a marketing agent or distributor or wholesaler or any other dealer.

10. The basic requirement to attract the sixth proviso, is that the sale of goods should be under a brand name. A trademark owner or user getting certain goods manufactured by a manufacturer, with his trademark, is not the same as, and should not be confused with, a manufacturer selling branded goods to any dealer. While the former falls under third proviso, the latter falls under the sixth proviso.

The first sale of a goods, under a brand name, can only be by a dealer entitled to use the brand name to his product and thereby sell his product as a branded product. When a brand holder commissions a manufacturer or engages a manufacturer, to produce certain goods to his specifications and also instructs the manufacturer to affix or imprint his (brand holder's) trademark or brand name to such goods, the trademark or brand name merely becomes a part of the specifications of the brand holder. In such an event, the supply of the goods manufactured with the trademark to the brand holder cannot be considered as a "sale of goods under a brand name". The first sale of branded goods can be only by a brand holder to others. The first sale of a branded goods cannot be by a non-brand holder to the brand holder himself. The sale by Applicomp to the appellant is not sale under brand name. Applicomp has no right to sell any branded goods with the trademark "Whirlpool". The sale by Applicomp to appellant is goods manufactured by it to the specifications of the appellant which included the affixing of the trademark. Therefore, the very basic requirement for applying sixth proviso is absent.

11. Admittedly Applicomp is neither the "trademark holder" nor a "brand name holder", either as proprietor or as registered user. Applicomp is also not a "licensee" or "assignee" of the trademark, under the agreement with appellant. Nor does Applicomp have the "right" to use the trademark on its own account or on account of others. In fact the agreement between Applicomp and appellant cannot give Applicomp any "right" relating to the trademark, as appellant's licence to use the trademark is non-transferable. The agreement in fact makes it clear that Applicomp does not have a licence or permission to use the trade mark. The agreement contemplates the Applicomp manufacturing and supplying products like refrigerators and washing machines to the appellant as per the specifications of the appellant on "original equipment manufacture" basis and affixing the trademark of "Whirlpool" to the products before supply to appellant, without creating any kind of right in Applicomp with reference to the trademark. Applicomp cannot manufacture or sell any goods with the trademark "Whirlpool" to anyone other than the appellant. Applicomp is also not entitled to use the trademark Whirlpool to any of its products independent of the agreement with the appellant. Therefore, when Applicomp affixes the trademark to the products sold to appellant, it is not doing so because of any right it possesses in regard to the trademark, but as a part of the specification in regard to the product to be incorporated while manufacturing the product. Therefore, Applicomp does not fall under the category of "any other dealer having the right as proprietor or otherwise to use the said name or trademark either directly or through another on his own account or on account of others" referred to in the sixth proviso. Therefore the second condition for applicability of the sixth proviso is also not fulfilled. We find no error in the finding of the authority that sixth proviso is inapplicable.

12. On the other hand the transaction between Applicomp and appellant squarely attracts the third proviso to Section 5(3)(a). Third proviso applies where (a) any

goods liable to tax are manufactured by a dealer (Applicomp) with the trademark of any other dealer (appellant) ; (b) such goods are not used by the latter (appellant) as raw materials, component parts or packing materials as defined under the explanation to Section 5A. As those conditions apply, the sale of such goods by the dealer who has manufactured the goods (Applicomp) to the dealer who is the trademark or brand name holder (appellant) shall be deemed to be not a sale by the first dealer liable to tax u/s 5(3)(a). On the other hand the subsequent sale of such goods by the dealer having the right either as proprietor or otherwise to use the sold name or the trademark, either directly or through another, on his own account or on account of others (appellant) shall be deemed to be the sale by the first dealer liable to tax under the section. The illustration given u/s 5(3)(a) extracted above, reiterates this position.

13. The position will therefore be thus :

(i) The sale by Applicomp to appellant will fall under the third proviso. As a consequence, the transaction liable to tax u/s 5(3)(a) would be the sale by the appellant. The sale by Applicomp in favour of appellant will not be liable to tax having regard to the third proviso.

(ii) The sale by appellant to its Marketing Agent/distributor/ wholesaler/dealer will attract the sixth proviso. Therefore the sale by the marketing agent/distributor/wholesaler/dealer of appellant will also be liable to tax, but the tax payable in regard to such sale shall be reduced by the amount of tax already paid on the sale by the appellant.

14. We, therefore, affirm the clarification given by the authority and dismiss this appeal.