

HIGH COURT OF DELHI**Bench: HON'BLE MR. JUSTICE RAJIV SHAKDHER and HON'BLE MR. JUSTICE GIRISH KATHPALIA****Date of Decision: December 11, 2023****ITA 891/2018**

GODADDY.COM LLC Appellant

versus

ASSISTANT COMMISSIONER OF INCOME TAX..... Respondent

ITA 261/2019

GODADDY. COM LLC Appellant

versus

DCIT, CIRCLE 1 (3) (1) Respondent

ITA 75/2023

GODADDY.COM LLC Appellant

versus

DEPUTY COMMISSIONER OF INCOME TAX, CIRCLE 1(3)(1),

Sections, Acts, Rules, and Articles mentioned in the judgment:

Section 144C(1) and Section 143(3) of the Income Tax Act, 1961

Section 9(1)(vi) of the Income Tax Act, 1961

Article 12(3)(a) of the Indo-US Double Taxation Avoidance Agreement (DTAA)

Registrar Accreditation Agreement

Trademarks Act, 1991

Section 2(m) and Section 2(zb) of the Trademarks Act, 1991

Subject of the Judgment:

The judgment deals with the classification of income received by the appellant, GoDaddy.com LLC, for providing domain name registration services under the Income Tax Act, 1961. It examines whether such income should be considered as "royalty" under Section 9(1)(vi) of the Act.

Headnote.

Income Tax Appeal – Taxation of domain name registration services – Whether the income received by the appellant as consideration for providing domain name registration services amounted to 'royalty' under Section 9(1)(vi) of the Income Tax Act, 1961 [in short, "Act"]? – Appellant, a US-based company, offers domain name registration services – Appellant is not the owner of the domain names registered, only acts as a Registrar – Domain names treated as trademarks – Tribunal's reliance on the judgment in Satyam Infoway and Tata Sons is misconceived – Appellant's fee for domain

registration services cannot be characterized as royalty – Appeals allowed.
[Para 12-18]

Referred Cases:

Satyam Infoway v. Siffynet Solutions, (2004) 6 SCC 145
Tata Sons v. Manu Kishori and Ors., 90 (2001) DLT 659 (Delhi)
People Interactive (India) Pvt. Ltd vs. Vivek Pahwa 2016 SCC Online Bom
7351
PDR Solutions FZC v DCIT (2023) 145 taxmann.com 84 (MumbaiTrib.)
Reebok India Company v. DCIT, (2017) 56 ITR(T) 211 (Delhi Trib.)

Representing Advocates:

For Appellant (GoDaddy.com LLC): Mr. Porus Kaka, Senior Advocate, along with Mr. Divesh Chawla and Mr. Prakash Kumar, Advocates.

For Respondent (Assistant Commissioner of Income Tax): Mr. Sunil Agarwal, Senior Standing Counsel, along with Mr. Shivansh B. Pandya, Standing Counsel, and Mr. Utkarsh Tiwari, Advocate.

For Appellant (GoDaddy.com LLC) in other cases: Mr. Porus Kaka, Senior Advocate, along with Mr. Divesh Chawla and Mr. Prakash Kumar, Advocates.

For Respondent (Deputy Commissioner of Income Tax): Mr. Aseem Chawla, Senior Standing Counsel, along with Mr. Viplav Acharya, Standing Counsel, Ms. Pratishtha Chaudhary, and Mr. Aditya Gupta, Advocates.

CORAM:

HON'BLE MR. JUSTICE RAJIV SHAKDHER

HON'BLE MR. JUSTICE GIRISH KATHPALIA

[Physical Hearing/Hybrid Hearing (as per request)]

RAJIV SHAKDHER, J.:

Prefatory Facts:

1. The above-captioned appeals concern Assessment Year (AY) 2013-14 [ITA No.891/2018], AY 2014-15 [ITA No.261/2019] and AY 2015-16 [ITA No.75/2023].
2. Although these appeals were admitted on different dates, an identical substantial question of law has been framed in all three appeals. Insofar as ITA No.891/2018 is concerned, the question of law was framed on 25.02.2019. Likewise, concerning ITA No.261/2019, the question of law was framed on 29.07.2019. Similarly, the question of law in ITA No.75/2023 was framed on 10.02.2023.
3. The common question of law which arises for consideration, thus, reads as follows:

“Whether on the facts of the case and in law, the Income Tax Appellate Tribunal [in short, “Tribunal”] erred in holding that the income received by the appellant as a consideration for providing domain name registration services amounted to „royalty” under Section 9(1)(vi) of the Income Tax Act, 1961 [in short, “Act”]?”

Background

4. To adjudicate the above-captioned appeals, we will refer to the facts obtaining in ITA No.891/2018.

5. The record discloses that a draft assessment order was passed on 31.03.2016 by the Assessing Officer (AO) under Section 144C(1) read with Section 143(3) of the Act. The draft assessment order proposed an addition concerning the income of the appellant/assessee received against domain name registration services offered to its customers by construing the same as royalty.

5.1 In this context, the draft assessment order alluded to Section 9(1)(vi) of the Act. Being aggrieved, the appellant/assessee preferred objections *qua* the same before the Dispute Resolution Panel [in short, "DRP"].

6. The objections to the draft assessment order were preferred under Section 144C(2) of the Act. The DRP sustained the view taken by the AO in the assessment order and, thus, rejected the objections raised by the appellant/assessee *via* its order dated 23.12.2016.

7. Furthermore, the DRP also approved the imposition of interest under Sections 234B & 234C of the Act. Consequentially, the DRP directed the AO to complete the assessment as per the directions contained in its aforementioned order. The DRP directed the AO to incorporate the reasons given by it concerning various objections at appropriate places while framing the final assessment order.

7.1 Resultantly, the AO passed a final assessment order dated 03.01.2017 under Section 143(3) read with Section 144C(13) of the Act, in line with the directions issued by the DRP.

8. In sum, *via* the final assessment order, the AO made an addition to the income of the appellant/assessee concerning the fee received *qua* registration of domain names by treating the same as royalty.

In this context, reference was made to Section 9(1)(vi) of the Act.

8.1 The AO's action led to an appeal being preferred with the Tribunal. The Tribunal, however, *via* order dated 03.04.2018, dismissed the appellant/assessee's appeal and, thus, sustained the addition made by the AO.

8.2 The Tribunal in reaching its conclusion, took recourse to the judgment rendered by the Supreme Court in **Satyam Infoway v. Siffynet Solutions**, (2004) 6 SCC 145 and the decision of this Court rendered in **Tata Sons v. Manu Kishori and Ors.**, 90 (2001) DLT 659 (Delhi).

8.3 It is against this backdrop that the instant appeal was filed. Notice in the appeal was issued on 20.08.2018. The appeal was admitted by a coordinate bench on 25.02.2019, and a substantial question of law was framed, which is extracted in paragraph 3 above.

Submissions of Counsel

9. On behalf of the appellant/assessee, arguments were advanced by Mr Porus Kaka, senior advocate. Submissions were made on behalf of the respondent/revenue by Mr Sunil Agarwal and Mr Aseem Chawla.

10. Mr Kaka's submissions can be broadly paraphrased as follows: (i) The appellant/assessee is a US-based company and is an accredited registrar for the Internet Corporation for Assigned Names and Numbers (ICANN).

(ii) The appellant/assessee provides services such as domain name registration, website design, and web hosting.

(iii) The appellant/assessee is one of several ICANN registrars. The appellant/assessee charges a fee from its customers for facilitating domain name registration, which is shared, three ways. While a part of the fee received from the customers is kept by the appellant/assessee, a portion of the fee is shared with ICANN and the registry. The domain name's owner is the customer who seeks domain name registration. The customer can, at his option, dissolve his engagement with the appellant/assessee and move to another registrar, having a back-to-back arrangement with ICANN and the registry appointed by it. The customer would not have been able to engage with another Registrar had the appellant/assessee been the domain name's owner.

(iv) The Tribunal has erred in concluding that a domain name is like a trademark. This view is based on a misappreciation of the ratio of the judgment rendered by the Supreme Court in **Satyam Infoway Ltd.** and the judgment of this court in **Tata Sons**.

(v) The appellant/assessee does not transfer any right to use the domain name to the customer, i.e., the registrant. It is the registrant who owns the domain name, and hence, if at all, the customer/the registrant can transfer the domain name.

(vi) The appellant/assessee is only an intermediary, as submitted above, and in this context renders registration services. The appellant/assessee thus does not have any right in the property or trademark in the domain name. The consideration received by the appellant/assessee as a fee is not received for use or right to use the domain name or even for transfer of all or any right of

such domain name. [See **Satyam Infoway Ltd., People Interactive (India) Pvt. Ltd vs Vivek Pahwa** 2016 SCC Online Bom 7351 and **PDR**

Solutions FZC v DCIT (2023) 145 taxmann.com 84 (MumbaiTrib.)]

(vii) Clause 3.5 of the registrar accreditation agreement entered into between the appellant/assessee and ICANN disclaims all rights to exclusive ownership in the domain name submitted by the appellant/assessee to the registry database.

(viii) There is a significant difference between transferring the right to use the trademarks and facilitating the process of registering the trademarks. The appellant/assessee is not engaged in licensing domain names; it simply assists customers/registrants in obtaining registration of domain names. Hence, the consideration received for such service cannot possibly be characterized as royalty.

(ix) There is a qualitative difference between domain names and trademarks.

(a) Domain name is a creation of the registration process with limited use, and that too for a defined timeline. On the other hand, a trademark is created out of goodwill and is independent of registration. The trademark is protected even if it is not registered as long as it depicts distinctiveness.

(b) A trademark is subjected to a stringent verification process before being registered. The verification process seeks to ensure that trademarks that are similar or deceptively similar and thus inject confusion amongst the customers regarding the source of the goods are not registered. However, no such verification is possible or is carried out *qua* domain names. Domain names are registered based on the first come, first serve principle. [See **PDR Solutions FZC v. DCIT**]

(c) Although one could possibly register, for example, tata.com, as a domain name, the same cannot be registered as a trademark. That said, registering tata.com as a domain name could open the registrant to the risk of being sued for passing off and injunction actions. Both the domain name registrant and the trademark owner would be required to show that goodwill has been acquired, as the institution of an action by either would have to be founded on goodwill, not registration. The decision of the Supreme Court in **Satyam Infoway** is based on this fundamental premise.

(x) The services offered by the appellant/assessee are similar to those provided by company secretaries and lawyers to their respective clients who seek registration of a company's name with the registrar of companies or

registration of patents and trademarks with the concerned registrars appointed under the relevant statute.

(xi) The Tribunal's reliance on Clause (vi) of Explanation 2 appended to Section 9(1) is misconceived. Clause (vi) of Explanation 2 alludes to the consideration received for rendering services in connection with activities referred to in sub-clauses (i) to (iv), (iva) and (v) of the very same Explanation. Thus, only those services are covered in Clause (vi) of Explanation 2, which are rendered in connection with activities referred to in the previous sub-clauses of the same Explanation. [See **Reebok India Company v. DCIT**, (2017) 56 ITR(T) 211 (Delhi Trib.), an order affirmed by this court in (2009) 319 ITR 228 (AAR).]

(xii) For the consideration received by the appellant/assessee to come within the ambit of the Expression "Royalty" as defined in Explanation 2 appended to Section 9(1) (vi) of the Act, it must satisfy the following attributes:

- (a) A domain name (trademark) must exist.
- (b) The domain name/trademark ownership must vest in the assessee.
- (c) The assessee must transfer all or any rights, including the right to use such domain name/trademark to its customers.
- (d) The assessee must offer some services in connection with the primary transaction, inter alia, concerning the use of such domain name/trademark. None of these attributes are attracted to the registration service offered by the appellant/assessee.

11. In rebuttal, Messrs Sunil Agarwal and Aseem Chawla primarily relied upon the impugned order passed by the Tribunal. Besides this, they made the following submissions on behalf of the respondent/revenue.

(i) Messrs Agarwal and Chawla contended that the domain name registration was inextricably linked to the web hosting services the appellant/assessee offered. Concededly, the appellant/assessee had offered the consideration received against web-hosting and web design services for the imposition of tax in India. The AO characterized the web-hosting services as a fee for technical services (FTS), although the consideration received was declared as royalty by the appellant/assessee. The respondent/revenue has thus recovered tax on FTS at 10%.

(ii) The Tribunal was right in holding that the domain name was like a trademark, and hence, the consideration received by the appellant/assessee could not have been treated as anything but royalty. The provisions of Section 9(1)(vi) are undoubtedly attracted in the instant case. The Tribunal correctly appreciated the ratio of the judgment rendered in **Satyam Infoway Ltd.** and

Tata Sons. The contention advanced on behalf of the appellant/assessee is untenable in law.

Analysis and Reasons

12. Having heard the learned counsel for the parties and perused the record before proceeding further, the following facts, which are not in dispute, are required to be noticed.

(i) The appellant/assessee is based in the United States of America (US). (ii) It does not have a permanent establishment or a fixed place of business in India.

(iii) The appellant/assessee is in the business of providing domain name registration services, web designing and web hosting.

(iv) In the period in issue, it earned an income of Rs.20,42,77,864/- for providing web hosting and web designing services. Although the appellant/assessee had shown the income received towards web hosting as income from royalty, it was characterised by the AO as FTS and accordingly brought to tax @ 10%. The appellant/assessee did not assail the AO's recharacterization of web hosting services as, according to it, it would not have impacted the rate at which tax was imposed on the said service. (v) The AO brought to tax the fee received by the appellant/assessee for providing domain registration services as right to use or the use of servers maintained by the appellant/assessee in the country. Thus, according to the AO, the consideration received could be categorized as royalty under Section 9(1)(vi) on this score, as well as under Article 12(3)(a) of the IndoUS Double Taxation Avoidance Agreement [DTAA]. On the other hand, even though the Tribunal has agreed with the conclusion arrived at by the AO—that the consideration received by the appellant/assessee towards services offered by it for domain name registration is royalty—the rationale provided is different. The Tribunal has equated a domain name with a trademark and hence concluded that the consideration received by the appellant/assessee was in the nature of royalty since it involved the right to use or use of a trademark. In reaching this conclusion, the Tribunal has

relied upon, as noticed above, the judgments rendered in **Satyam Infoway** and **Tata Sons**.

(vi) The dispute in this case is confined to the consideration received by the appellant/assessee for providing services to its customers for obtaining domain name registration. In the period in issue, the appellant/assessee received Rs.17,41,54,636/- for providing registration services *qua* domain names.

(vii) Concededly, the appellant/assessee is not seeking the benefit of the DTAA, even while contesting the exigibility to tax with regard to the fee received for providing domain name registration services to its customers.

(viii) The appellant/assessee is one of the many registrars who have entered into an accreditation agreement with ICANN. The registrars, in turn, enter into domain name registration agreements with their respective clients.

13. Given the facts mentioned above, we must also indicate how the appellant/assessee functions in providing domain name registration services.

14. The appellant/assessee appears to facilitate the registration and transfer of generic top-level domains, such as .com, .net, .org, and .info. Besides this, the appellant/assessee also provides the same service for country code top-level domains, which includes .us, .ca, .mx, .fr, .it, .de, .es.

14.1 If a person is desirous of obtaining a particular domain name for itself, he needs to visit the appellant/assessee's website and accordingly place a request *qua* the same. The appellant/assessee thereafter checks with the registry whether the domain name for which the request is lodged is available for registration. In other words, the only verification that is carried out is whether or not the requested domain name has already been registered by another person/entity. The registration request is declined if the requested domain name is already registered. If the registry confirms that the requested domain name is available for registration, the appellant/assessee enters into an agreement with its customers/registant against payment of the prescribed fee.

14.2. With the domain name's registration, a unique internet protocol address (IP address) is created in favour of the appellant/assessee's customer/registant. As indicated above, the fee received for this service by the appellant/assessee is shared three ways. After the appellant/assessee has kept its share out of the registration fee paid by the customer/registant, the rest is remitted to ICANN and the Registry.

14.3. The database concerning domain names and IP addresses is maintained in the servers owned by the appellant/assessee.

14.8 Likewise, the definition of gTID or gTIDs provided in Clause 1.11 reads thus:

“1.11 “gTLD” or “gTLDs” refers to the top-level domain(s) of the DNS delegated by ICANN pursuant to a registry agreement that is in full force and effect, other than any country code TLD (ccTLD) or internationalized domain name (IDN) country code TLD.”

14.9 The fact that there may be a change in sponsorship of any registered name and thus, in a sense, lending credence to the assertion of the appellant/assessee that it is not the owner of the domain name comes through by perusing the following part of Clause 3.5:

“3.5 Rights in Data. “Registrar” disclaims all rights to exclusive ownership or use of the data elements listed in Subsections 3.2.1.1 through 3.2.1.3 for all Registered Names submitted by Registrar to the Registry Database for, or sponsored by Registrar in, each gTLD for which it is Accredited. Registrar does not disclaim rights in the data elements listed in Subsections 3.2.1.4 through 3.2.1.6 and Subsections 3.3.1.3 through 3.3.1.8 concerning active Registered Names sponsored by it in each gTLD for which it is Accredited, and agrees to grant non-exclusive, irrevocable, royalty-free licenses to make use of and disclose the data elements listed in Subsections 3.2.1.4 through 3.2.1.6 and 3.3.1.3 through 3.3.1.8 for the purpose of providing a service or services (such as a Whois service under Subsection 3.3.4) providing interactive, query-based public access. Upon a change in sponsorship form Registrar of any Registered Name in each gTLD for which it is Accredited, Registrar acknowledges that the registrar gaining sponsorship shall have the rights of an owner to the data elements listed in Subsections 3.2.1.4 through 3.2.1.6 and 3.3.1.3 through 3.3.1.8 concerning that Registered Name, with Registrar also retaining the rights of an owner in that data. Nothing in this Subsection prohibits Registrar from (1) restricting bulk public access to data elements in a manner consistent with this Agreement and any Specifications or Policies or (2) transferring rights it claims in data elements subject to the provisions of this Subsection 3.5.”

15. Therefore, Clause 3.5 of the Accreditation Agreement clearly establishes that the appellant/assessee who acts as a Registrar and, in that capacity, provides domain registration services to its customers does not have any proprietorship rights in the domain name.

15.1 If there was any doubt as to whether the appellant/assessee was the owner of the domain name registered at the request of its customers, that is set to rest upon perusal of the following Clause obtaining in the agreement dated 12.05.2016 executed between itself and its customers.

“2. PROVISIONS SPECIFIC TO ALL REGISTRATIONS xxx

xxx

xxx

Ownership. You acknowledge and agree that registration of a domain name does not create any proprietary right for you, the registrar, or any other person in the name used as a domain name or the domain name registration and that the entry of a domain name in the Registry shall not

be construed as evidence or ownership of the domain name registered as a domain name. You shall not in any way transfer or purport to transfer a proprietary right in any domain name registration or grant or purport to grant as security or in any other manner encumber or purport to encumber a domain name registration.

[Emphasis is ours]

15.2 A close perusal of the aforementioned Clause would show that what is agreed between the appellant/assessee and its customers is that mere registration of a domain name does not create any proprietorship rights in the name used as the domain name or in the domain name registration either in the appellant/assessee or the customers or even any other third party.

15.3 Therefore, the submission advanced on behalf of the appellant/assessee, i.e., that since it is not the domain name's owner, it cannot confer the right to use or transfer the right to use the domain name to another person/entity, deserves acceptance.

16. We are also of the view that passing off and injunction actions are entertained by the courts where domain name registrations are brought about in bad faith or to perpetuate fraud. The courts tend to grant injunctive relief where the defendant, in such actions, is seen to be feeding off the plaintiff's goodwill and causing confusion amongst its customers regarding the origin of the subject goods and services. Such reliefs are granted on the basis that the definition of the expression "mark" includes a "name", and in turn, the expression "trademark" so defined to include a mark, distinguishes the goods and services of one person from those of others. Therefore it is possible in a given situation that a domain name may have the attributes of a trademark. [See Section 2m read with Section 2zb of Trademarks Act, 1999¹].

16.1 The Supreme Court, in **Satyam Infoway**, held that it is the registrant (and not the Registrar) who owns the domain name, and can protect its goodwill by initiating passing off action against a subsequent registrant of the same domain name/a deceptively similar domain name. The observations made in the following paragraphs of **Satyam Infoway**, being apposite, are extracted hereafter:

"What is important for the purposes of the present appeal is the protection given to intellectual property in domain names. A prior registrant can protect its domain name against subsequent registrants. Confusing similarity in domain names may be a ground for complaint and similarity is to be decided on the possibility of deception amongst potential customers. The defences available to a compliant are also substantially similar to those available to an action for passing off under trademark law... What is also important is that the respondent

admittedly adopted the mark after the appellant. The appellant is the prior user and has

¹ *2(m) "mark" includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colours or any combination thereof.*

Xxx xxx xxx

(zb) "trade mark" means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours; and

(i) in relation to Chapter XII (other than section 107), a registered trade mark or a mark used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right as proprietor to use the mark; and

(ii) in relation to other provisions of this Act, a mark used or proposed to be used in relation to goods or services for the purpose of indicating or so to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right, either as proprietor or by way of permitted user, to use the mark whether with or without any indication of the identity of that person, and includes a certification trade mark or collective mark."

the right to debar the respondent from eating into the goodwill it may have built up in connection with the name..."

16.2 From a perusal of the above, it is clear that the Court in Satyam Infotech was concerned only with the rights of the domain name owner and not the Registrar, while determining whether passing off action can be initiated in relation to domain names. Given this position, the Tribunal's reliance on this judgment is misconceived.

16.3 In this case, however, we need not travel down this path, as the appellant/assessee is only acting as a Registrar and thus offering its services to its customers for having their domain names registered.

16.4 The aforementioned principle may have been attracted if the appellant/assessee had granted rights in or transferred the right to use its domain name, i.e., Godaddy.com, to a third person. Therefore, the fee received by the appellant/assessee for registration of domain names of third parties, i.e., its customers, cannot be treated as royalty.

17. Thus, for the foregoing reasons, we are of the view that the question of law has to be answered in favour of the appellant/assessee and against the respondent/revenue.

18. The appeals are accordingly allowed.

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