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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

Reserved on: 19th November, 2018
Decided on: 20th March, 2019

\+ **ITA 465/2003**

COMMISISONER OF INCOME TAX DELHI .... Appellant
Through: Mr. Ashok Manchanda, Sr. Standing counsel with Mr. Pankaj Sinha, Advocate.

versus

SUNIL LAMBA ..... Respondent
Through: Mr. Ajay Vohra, Sr. Advocate with Ms. Kavita Jha, Ms. Devika Jain & Mr. Anant Mann, Advocates.

CORAM:
JUSTICE S. MURALIDHAR
JUSTICE SANJEEV NARULA

JUDGMENT

Dr. S. Muralidhar, J.:

1. This appeal by the Revenue, under Section 260 A of the Income Tax Act, 1961 ('Act') is directed against an order dated 7th May, 2003 passed by the Income Tax Appellate Tribunal (ITAT) in the ITA No. 3006/Del/2000 for the Assessment Year (AY) 1995-96.

Questions of law

2. While admitting this appeal on 7th February, 2005 the following questions of law were framed by this Court:

> "1. Whether the Tribunal is correct in law in holding that assumption of jurisdiction by the CIT, under Section 263 of the Act, was illegal?
>
> 2. Whether the Tribunal has correctly interpreted the two agreements regarding non-compete and trademarks?"

Background facts

3. The background facts are that Shri P.L. Lamba, the deceased father of the Respondent Assessee, along with Shri I.K. Ghai, commenced business in the name of 'Kwality Restaurant and Ice Cream in Delhi in 1942. As the business grew, Shri Ghai and Shri Lamba promoted another firm Pure Ice Cream with effect from 1st October, 1956 for manufacturing Ice Cream at Bombay and for marketing it under the name 'Kwality'.

4. The firm got the trade mark 'Kwality' registered in January, 1957. Later the firm Pure Ice Cream was converted into a private limited company under the name of Pure Ice Cream (1967) (Pvt.) Ltd. The trade mark 'Kwality' registered in the name of the aforementioned company was licenced to the Kwality Restaurant and Ice Cream Co., New Delhi as registered user.

5. The Respondent Assessee was admitted to the benefits of the partnership i.e. Kwality Restaurant and Ice Cream Co., under the partnership deed dated 12th September, 1967. The Lamba group were represented by Shri P.L. Lamba, the Assessee and other members of the family. Shri Ghai and others represented the Ghai group in the partnership. It is stated that the firm was reconstituted from time to time and was finally dissolved on 31st December, 1977. Upon dissolution, the Lamba group was allocated to the following

units:

a) Kwality Restaurant at New Delhi

b) Kwality Ice Cream Company at New Delhi

c) Gaylord Restaurant at Bombay.

6. A fresh deed of partnership was executed on 15th February, 1978 amongst the members of the Lamba Group in order to carry on the business in the name and style of Kwality Restaurant and Ice Cream (1978) Company. This was to run the Gaylord Restaurant at Bombay, Kwality Restaurant at New Delhi and Kwality Ice Cream Company at New Delhi.

7. On 27th April, 1980 an Indenture was signed by the Ghai Group and Lamba Group for the final separation of the businesses including the assignment of use of trademarks. Clause 5 of the agreement read as under:

> "5) That pursuant to the said dissolution Unit Kwality Restaurant, New Delhi; Kwality Ice Cream Co., New Delhi and Gaylord Restaurant, Bombay allotted to be taken over by the Second Group shall belong to the Second Group together with exclusive right to use the said names Kwality restaurant and Kwality Ice Cream in and around New Delhi together with right to use the said name Gaylord Restaurant in and around Bombay as the name of the business together with assets and liabilities.. "

8. As part of the bifurcation agreement it was agreed between the parties that the mark 'Kwality' would be assigned by Ghai group for exclusive use in the territories of Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Bihar, West Bengal, Karnataka, Tamil Nadu, Assam and Orissa. The Lamba Group could exclusively use the market 'Kwality' in Jammu & Kashmir,

Punjab, Rajasthan, Haryana, Uttar Pradesh, Himachal Pradesh and the Union Territories of Chandigarh, Delhi and Kerala.

9. In the previous year (PY) in 1994-95 relevant to AY 1995-96 the Assessee entered into two agreements as under:

i) The Non-Competition Agreement dated 14th October, 1994 with Brooke Bond Lipton India Limited (BBLIL) in terms of which the Assessee was restrained from manufacturing, marketing, selling or distributing ice cream, ice lollies, dairy and non-dairy frozen desserts in lieu of receipt of non-compete fee of Rs. 1 crore.

ii) The Deed of Assignment of 'Kwality' trademark with Digital Securities Private Limited (DSPL) in terms of which the Assessee received Rs.1.85 crores out of total consideration of Rs.3.70 crores.

10. The Assessee filed a return for the AY 1995-96 disclosing an income of Rs. 26,67,520/-. In Part (IV) of the return concerning 'Income Exempt From Tax' the Assessee disclosed the receipt of the non-compete fee of Rs. 1 crore from 'BBLIL' as well as Rs.1.85 crores from DSPL on account of assignment of the 'Kwality' trademark.

The Assessment Order

11. The Assessing Officer ('AO') scrutinised the return and passed an Assessment Order dated 31st December, 1997 under Section 143 (3) of the Act accepting the returned income and without making any additions. An audit objection was subsequently raised *qua* the said assessment to the effect

that pointing out that the Assessee had not brought to tax the aforementioned two receipts. The AO, however, defended the assessment and pointed out that the claim of the Assessee that the aforementioned receipts were exempted from tax, was supported by judgments of the Supreme Court. It was further pointed out that the amendments in law making such receipts taxable were not retrospective and did not apply in the AY in question.

Proceedings under Section 263

12. A notice under Section 263 of the Act dated 13th March, 2000 was issued by the Commissioner of Income Tax (CIT) asking the Assessee to explain why the order of the AO be not modified or enhanced as it was erroneous or prejudicial to the interest of the Revenue. The Assessee filed a detailed reply on 27th March, 2000 pointing out to the CIT that the two receipts had been duly disclosed to the return and that they were not liable to tax in terms of the law applicable during the AY in question. The Assessee contended that intangible assets like trademark, brand names etc. were self-generated and not acquired from others could be brought to tax only with effect from 1st April, 1998.

13. The CIT passed an order dated 29th March, 2000 setting aside the assessment order and observed as under:

> "1. Firstly, the trade mark of "Kwality" is not a self-generated asset of Shri Sunil Lamba, he was not at all associated with the trade mark when it was initially registered.
>
> 2. Secondly, M/s Pure Ice-cream Co., M/s. Pure Ice-cream Co. Pvt. Ltd. and M/s. Gaylord Pvt. Ltd. are separate legal entities quite distinct from Shri Sunil Lamba. He has acquired rights over the trade

marks from these concerns. It is not clear whether any consideration has passed for acquiring the trade mark rights by Sh. Sunil Lamba. Even if no consideration was paid to these concerns for acquiring the trade mark rights, the cost of acquisition is clearly determinable for the purpose of computation of capital gains.

I am not giving any direction regarding the other issue of the receipt of Rs. 1 crore on non-compete agreement. Since I am setting aside the order of the assessing officer, this issue may be decided as per law."

Impugned order of the ITAT

14. The Assessee filed appeal before the ITAT being ITA No. 3006/Del/2000 which came to be allowed by the impugned order dated 7th May, 2003. The ITAT came to the following conclusions:

(i) Although the AO may not have recorded a specific finding in that regard, it could not be said that he had not applied his mind to the facts and details filed before him.

ii) The view taken by the AO was in accordance with the decisions of the High Court and the ITAT and therefore the assessment could not be said to be erroneous. View taken by the AO was plausible in law.

(iii) The non-compete fee was not taxable in law. It agreed with the Assessee that the trademark was 'self generated' i.e. acquired with the Assessee for no consideration. Such payment became taxable under Section 55(2) (a) of the Act by virtue of the amendment introduced by the Finance Act, 2001 with effect from 1st April, 2002. Therefore for AY 1995-96 such payment could not be subjected to tax.

(iv) The CIT had not validly assumed jurisdiction under Section 263 of the Act.

15. This Court has heard the submissions of Mr. Ashok Manchanda, learned Senior Standing counsel for the Revenue and Mr. Ajay Vohra, learned Senior counsel for the Assessee.

Case of the Revenue

16. The case of the Revenue is that as far as the consideration of Rs. 1.85 crores received by the Assessee from DSPL is concerned, it was for transfer of trademarks, brand names and the goodwill. In other words, it was not for self-generated assets but for assets that had been acquired by the Assessee over the period from different firms and companies. It was submitted that any transfer from a firm or a limited company to a partner or a substantial shareholder is a transfer under Section 47 of the Act. Therefore, it was incorrect on part of the Assessee to contend that the trademarks, brand names and goodwill were 'self generated' or that they could not be assigned any cost of acquisition on the date of transfer. It was submitted that the Assessee could not have acquired the above brand name without any cost. He had simply chosen not to disclose such cost. It is pointed out that on the date of its previous transfer on 14th October, 1994 through a deed, the transferred assets were not characterised as 'self-generated'.

17. Mr. Manchanda argued that the deed of assignment dated 14th October, 1994 revealed that it was not merely the trademarks and brand names that had been transferred to DSPL. These were, together with goodwill, in

relation to the trademarks and brand names. Both trademarks and brand names belonged to business of the Assessee. Any goodwill associated also belonged to the business. Goodwill of a business was taxable from 1st April, 1989 onwards. Inasmuch as the Assessee had not segregated his consideration by showing how much of the Rs.1.85 crores was attributable to trademarks and brand names and how much to the goodwill, the entire consideration was taxable.

Question No.2

18. The Court proposes to discuss the submissions *qua* Question No.2 first. been considered. It must be mentioned that during the pendency of the present appeal, the Assessee was permitted to bring on record documents which would go to show how the trademark and brand names had got transferred from 1942 onwards. This compilation was filed on 6th January, 2016.

19. These documents show that in 1942 trademark and brand name was with the Kwality Restaurant and Ice Cream Company constituted by Shri Ghai and Shri Lamba. Factually the trademark was self-generated by Shri P.L. Lamba, the Assessee's father and Shri Ghai. The devolvement of said mark on the Assessee was in his capacity as partner of Kwality Ice Cream Company. These vested in the Assessee for no consideration and were subsequently assigned by the Assessee to DSPL for a sum of Rs. 1.85 crores.

20. The agreement between the Assessee showed that K (North) i.e. the

Assessee and his father were the registered proprietor of trademarks 'Kwality' (with its distinctive get up in logo and colour scheme). K (North) or its nominees had been in continuous and uninterrupted use of the trademark for over 50 years without any objection or claim or counter claim from any other party in respect of the territories mentioned.

21. As held in ***CIT v. B.C. Srinivasa Setty (1981) 128 ITR 294 (SC)*** any amount received towards assignment of a self-generated asset would not be liable to tax in the absence of the cost of acquisition.

22. Section 55(2) (a) of the Act was amended by the Finance Act, 2001 with effect from 1st April, 2002 whereby there was deemed to be a nil cost of acquisition in respect of a self-generated trademark. Consequently, from AY 2002-03 onwards any amount received for assignment/transfer of a trademark would be taxable under 'capital gains'. This amendment was clearly prospective. As held in ***CIT v. Associated Electronics & Electrical Industries (Bangalore) (P.) Ltd. (2016) 65 Taxmann.com 253 (Karnataka)*** and ***Birla Sunlife Asset Management Co. v. DCIT (2011) 128 ITD 64 (Mum)***, payment received for assignment of a self-generated trademark prior to AY 2002-03 was not liable to tax.

23. This Court in ***Hilton Roulunds Limited v. CIT (2018) 255 Taxman 209 (Del)*** held that "an exclusive right to use, to the exclusion of the owner, though termed as license, could be a transfer of title in the mark." Any amount received for such transfer could not be said to be a revenue receipt. Likewise the non-compete fee received from BBLIL was in the nature of a

capital receipt. This resulted in sterilization of the profit making apparatus of the Assessee. Such payment has been held by the Supreme Court in ***Guffic Chem (P.) Ltd. v. CIT (2011) 332 ITR 602 (SC)*** to be a capital receipt and not a revenue receipt. Even the amendment of Section 28 (5) (a) of the Finance Act, 2002 with effect from 1st April, 2003 bringing such receipts to tax as business income, was held in ***Guffic Chem (P) Ltd.*** *(supra)* to be prospective. Till AY 2003-04, it was treated as a capital receipt.

24. Both receipts i.e. the 'non-compete fee' and the payment towards assignment of trademark were disclosed by the Assessee in Part-IV of the return for the AY in question. With the trademark being 'self-generated' and not acquired for consideration, the cost of acquisition of the said marks could not be substituted as the market value as on 1st April, 1981 so as to attract 'capital gains.' In ***PNB Finance Limited v. CIT (2008) 307 ITR 75 (SC)***, the Supreme Court observed as under:

> "19. Before concluding, we may state that in this case, section 55(2) did not operationalize. Under section 55(2), fair market value as on 1- 1-1954could have substituted the figure of cost of acquisition provided the figures of both "cost of acquisition" and "fair market value as on 1- 1-1954" were ascertainable. The letter dated 30-9-1970 does not indicate the choice. Even the working done by the Assessing Officer based on capitalization of last 5 years' profits would give the Enterprise Value of the Undertaking and not the cost of acquisition. Hence, section 55(2) was not applicable."

25. The Court accordingly rejects the plea of the Revenue that the non-compete fee and the consideration for the assignment of the mark were both capital receipts and could not have been brought to tax. Question No.2 is

accordingly answered in the affirmative i.e. in favour of the Assessee and against the Revenue.

Question No.2

26. The second issue pertains to assumption of the jurisdiction by the CIT under Section 263 of the Act. In ***Malabar Industrial Co. Ltd. v. CIT (2000) 243 ITR 83 (SC)*** it was held that jurisdiction under Section 263 of the Act cannot be assumed in respect of a 'debatable issue'. This was reiterated in ***CIT vs. Max India Ltd. (2007) 295 ITR 282 (SC)***.

27. The view taken by the AO on the nature of the non-compete fee and the consideration for assignment of trademark was a plausible one. There was no occasion for the CIT to assume jurisdiction under Section 263 of the Act. In ***PCIT v. Delhi Airport Metro Express Pvt. Ltd.*** (decision dated 5th September, 2017 of this Court in ITA No.705/2017) it was held that the CIT had to come to a *prima facie* finding as regards the merits of an issue before seeking to set aside the same and remanding it to the AO for de novo adjudication. That is absent in the case on hand. Question No.1 is accordingly answered in the affirmative i.e. in favour of the Assessee and against the Revenue.

Conclusion

28. Both questions are accordingly answered in favour of the Assessee against the Revenue.

29. The appeal is accordingly dismissed but with no order as to costs.

S. MURALIDHAR, J.

SANJEEV NARULA J.

MARCH 20, 2019
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