

TAXATION OF DOMAIN NAME REGISTRATION FEES

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BACKGROUND

Taxation of Technological aspects relating to Internet transactions has become frantic in the recent days as there is only a thin line for a receipt of income by Non Resident to fall into either of the two different categories involving different treatment. Categorisation of receipt of income on account of Domain Name Registration fee which can be taxed under Fees for Technical Services (FTS) or under Royalty within the meaning of Section 9(1) (vi) and 9(1) (vii) of the act respectively or business income of foreign company covered under Explanation (a) of Section 9(1) (i) of the act and the relevant tax treaty requires clarity. **The question of Domain name being treated at par with Trade Mark and subjecting it to legal norms as are applicable to intellectual property such as Trade Mark is to be examined in reference to the ITAT decision in Godaddy.com LLC v. ACIT¹.**

FACTS

1. Godaddy.com, being limited liability company located in USA is engaged as an accredited name registrar authorized by Internet Corporation for Assigned Names and Numbers (in short 'ICANN') and offered the income received from web hosting services/on demand sale as royalty.
2. There were two issues involved, (a) While AO assessed the income from web hosting services as fees for technical services (FTS), the same was affirmed by Dispute Resolution Panel for which assessee raised grounds for action though they were not pressed at the time of hearing. (b) Apart from Web hosting charges, the assessee earned income from domain name registration which he claimed not to be taxable in India which was assessed as income from royalty by AO.
3. ICANN, being the Central Organisation, appoints registrars for whom a fee is charged under a fixed predetermined formula and performs a variety of functions related to the Internet's unique identifiers including operational functions, collaboration, coordination and engagement.
4. The assessee registers the Domain name of desirous customers for fees after confirmation with ICANN for availability of such names and one part of the fee is

¹ ITA No.1878/Del/2017

- received for web hosting which is allegedly being offered to tax as royalty and the other for domain name registration, a fixed percentage of which is given to ICANN.
5. The receipt of income on account of domain name registration was termed as royalty according to Section 9(1) (vi) of the Income Tax Act, 1961 and Article 12(3) (a) of the Tax Treaty.
 6. Since the order of AO was upheld by DRP, the assessee preferred appeal before ITAT.

FINDINGS OF ITAT

1. **Applicability of provisions of IT Act:** The appellant is not a tax resident of USA which disables him from claiming benefit under India-USA tax treaty and therefore only the provisions of Income-tax Act, 1961 is applicable especially Section 9(1)(vi) of the act.
2. The **relevant provision** in the case at hand is **Section 9(1) (vi)** which reads as follows:

“9. (1) The following incomes shall be deemed to accrue or arise in India :- (vi) income by way of royalty payable by – (a) the Government; or (b) a person who is a resident, except where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India; or (c) a person who is a non-resident, where the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India: Provided that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum consideration for the transfer outside India of, or the imparting of information outside India in respect of, any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process or trade mark or similar property, if such income is payable in pursuance of an agreement made before the 1 st day of April, 1976, and the agreement is approved by the Central Government : [Provided further Provided further Provided further that nothing contained in this clause shall apply in relation to so much of the income by way of royalty as consists of lump sum payment made by a person, who is a resident, for the transfer of all or any rights (including the granting of a licence) in respect of computer software supplied by a non-resident manufacturer along with a computer or computer-based equipment under any scheme

approved under the Policy on Computer Software Export, Software Development and Training, 1986 of the Government of India.]”

Explanation 2 after the sub-section defines the word “royalty”, which reads as under:-

“Explanation 2 – For the purposes of this clause, “royalty” means consideration (including any lump sum consideration but excluding any consideration which would be the income of the recipient chargeable under the head “Capital gains”) for –

(i) the transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;

(ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;

(iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;

(iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;

(iva) the use or right to use any industrial, commercial or scientific equipment but not including the amounts referred to in section 44BB;

(v) the transfer of all or any rights (including the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films; or

(vi) the rendering of any services in connection with the activities referred to in sub-clauses (i) to [(iv), (iva) and] (v).”

3. **Dependence of Web Hosting on Domain Name Registration:** The AO/ DRP was of the view that Domain name registration is a tool which equips the customer with the right to use the server of Godaddy and web hosting charges are ancillary and subsidiary to the application or enjoyment of the right, property or information for which a payment of domain registration fee is received. The web hosting services and domain name registration are interdependent processes connected to each other.
4. Domain registration forms an intrinsic part of the services provided by the assessee and it partakes the character of web hosting charges since domain registration is a precondition to web hosting, etc. Therefore it squarely falls within the ambit of definition of royalty under the provisions of the act and DTAA due to its high technical process and inherent quality.

5. Both these services fall under different categories as a result of its peculiar nature and therefore income from web hosting is taxed under FTS (involvement of high technique) and Domain registration under royalty (confers right). The ITAT seems to have accepted the very same view taken by AO/ DRP though it has not commented in that regard.
6. **Domain name protected as a Trade Mark:** Domain name is an intangible asset similar to Trade Mark. Assessee enjoys absolute and exclusive rights to assign domain names under specific domain extensions over which ICANN holds ownership but has granted all the rights and risks under accreditation agreement.
- The Hon'ble Apex Court in Satyam Infoway Ltd.² where the Apex court stated that Usage of similar/same name may divert the users thereby resulting in mistaken access of one domain name instead of the other.
 - The Hon'ble Jurisdictional High Court in Tata Sons Ltd v. Manu Kishori & Ors³ highlighted the following:
 - Domain name is more than an Internet address and is a valuable corporate asset which is of importance and thus entitled to protection like that of Trade Mark. (Rediff communication Ltd v. Cyberbooth and Anr⁴)
 - Jurisdiction to grant injunctive relief when equipped with fraud in case of a registration of domain names of third party trademarks of well-known names. (In British Telecom Plc. Vs. One in a Million⁵)
 - The law relating to Trade Mark was applied to a dispute involving internet while granting an injunction restraining use of Yahoo either as domain name or as a Trade Mark.(Yahoo inc v. Akash Arora⁶)

Therefore, as per ITAT, internet domain names are subject to the legal norms applicable to other intellectual properties such as trademarks.

7. Distinguishing Asia Satellite Delhi High Court case⁷, which the assessee relied upon, from the present case, Hon'ble ITAT, Delhi held that Domain name registration charges were paid to assessee in India and therefore the charges received by the assessee for registration of domain name is royalty within the meaning of Clause (vi)

2 [2004] Supp (2) SCR 465 (SC)

3 90 [2001] DLT 659 (Delhi)

4 AIR 2000 Bombay 27

5 [1999] FSR 1

6 [1999] PTC 19 201

7 [2011] 197 Taxman 263

read with Clause (iii) of Explanation 2 to Section 9(1) of Income-tax Act and rightly taxed by AO/DRP.

ANALYSIS

Having gone through the *Godaddy (supra)* ITAT decision we are unable to agree with the conclusion of the ITAT and substantiate the same below:

1. The findings of the ITAT reflect that all rights and risks were assigned by ICANN to Godaddy, but it was made only with respect to domain name registration after confirmation sought from the former. Therefore, Godaddy was merely a facilitator between ICANN and its customers but not an owner of domain names while ICANN remained to be the owner of the specific domain extensions.
2. It is significant to note that the agreement entered into by Godaddy with its customers was on behalf of ICANN as with the fact that ICANN has not granted any right over domain names apart from functioning as a facilitator by merely registering the domain names of customers and collecting fees for such services.
3. The registration charges have been essentially charged by Godaddy for granting the customers the right to use its server for the purpose of registration of domain names for and on behalf of ICANN which amounts to delegation of work.
4. It appears that a component of royalty has been embedded in the income received from registration of domain name by Godaddy for the reason that Godaddy enjoys absolute and exclusive rights to register domain names. But the extent of such rights is only to register, assign, transfer and manage specific domain names owned by ICANN.
5. Moreover, Domain name registration is not an integral part as domain name is only a name given to locate a computer for communication instead of using number called IP address since it is difficult to remember. Such communication can be made using IP address and do away with the domain names. Therefore, both these services have independent existence and it is incorrect on the part of AO/ DRP to state that Domain registration is a precondition to web hosting services. It is noteworthy that even the ITAT has not commented on this regard.
6. Domain name is indeed an intangible asset having immense value having all the characteristics of a Trade Mark but this cannot become the basis for bringing payments as royalty under Section 9(1) (vi) of the act.

7. Section 9(1) (vi) envisages the payment for the use of a trademark (**For Example:** An Indian company using a foreign trademark via a trademark license agreement). But in the present case, the payment is made for registering the domain name with the online directory, which can also be changed at the will of the user (**For Example:** from Godaddy.com to Gandhi.net)
8. Only if website name is to be used in some promotional activity or licensing deal then it can be use of trademark to be brought within the ambit of Section 9(1) (vi).
For Example: saprlaw.com (or) Hotstar.com
9. So, prima facie, while there may be a probable case for the payment to have embedded in it a Royalty component (given this is the only way to register a website and direct payment to ICANN isn't made), to merely decide this on basis of civil suits rationale for trademark passing-off seems non-intuitive.
10. Since all the services/business operations provided by Godaddy are provided from outside India and there is no fixed place of business in India, payment made towards such services is not attributable to be taxed in India. Though there is a business connection in India as envisaged by the act under Section 9(1) (i) to be an income accruing or arising in India but it escapes taxability in India through the explanation (a) to Section 9(1) (i). Therefore, such income is ought to be taxed as 'business income' taxable in US and not as 'royalty' in India.

CONCLUSION

In light of the above, it is just and right to hold that income received as fees for Domain name registration by accredited registrars CANNOT be termed as 'Royalty' under Section 9(1) (vi) of the act. These registrars are merely a facilitator between ICANN and the customers and not the owners of such domain names even to bring about the dispute of Trade Marks. Therefore, income derived out of such Domain name registration ought to be taxed as 'business income' in US and not in India.