

Royalty payment made to secure manufacturing technical know-how is revenue expenditure

Summary – The Delhi ITAT in a recent case of Honda Cars India Ltd., (the Assessee) held that Royalty payment made to secure manufacturing technical know-how is revenue expenditure

Facts

- The assessee entered into a Technical Collaboration Agreement (TCA) with a motor company whereby the assessee was granted a license to manufacture, use and sell cars using Intellectual Property Rights (IPRs) and technical information provided.
- The assessee made payment of royalty in respect of manufacture of the products listed in the TCA.
- The Assessing Officer made additions on the basis that payment made by the assessee had resulted into a benefit of enduring nature and, thus, the expenditure was capital in nature.
- The Commissioner (Appeals) deleted the additions.
- On the revenue's appeal before the Tribunal:

Held

- The ITAT held that the facts of the instant year have already been considered by the Co-ordinate Bench of the Tribunal, Delhi in another assessment year of the assessee and since neither side has brought any distinguishing facts and circumstances a view different from view already taken on the issue by the Co-ordinate Bench of the Tribunal and by the Delhi High Court is not warranted. Following the orders of the Delhi High Court and the Co-ordinate Bench of the Tribunal, the disputed issue regarding royalty and lump sum fee is decided in favour of the assessee.