

CUSTOMS, EXCISE & SERVICE TAX APPELLATE TRIBUNAL

NEW DELHI

PRINCIPAL BENCH- COURT NO. I

SERVICE TAX APPEAL NO. 52898 OF 2018

(Arising out of Order-in-Original No. 08-11/COMMR/ST/GWL-II/2018 dated 27.04.2018 passed by Commissioner of CGST & Central Excise-Bhopal)

M/s Tripti Alcobrew Pvt. Ltd.

...Appellant

Village Mahatoli, P.O. Banmore
Distt. Morena (M.P.)

Versus

Commissioner of Central Excise & CGST

...Respondent

CGST & Central Excise Department, Bhopal
35-C, CGST Bhavan, Administrative Area
Arera Hills, Bhopal-462015

APPEARANCE:

Shri Kamal Sawhaney, Ms. Akansha Wadhvani and Shri Deepak Thakur,
Advocates for the Appellant

Shri Manoj Kumar, Authorized Representative of the Department

CORAM:

HON'BLE MR. JUSTICE DILIP GUPTA, PRESIDENT
HON'BLE MR. P.V. SUBBA RAO, MEMBER (TECHNICAL)

DATE OF HEARING: 07.10.2024
DATE OF DECISION: 12.11.2024

FINAL ORDER NO. 59436/2024

JUSTICE DILIP GUPTA:

M/s. Tripti Alcobrew Pvt. Ltd.¹ has sought the quashing of the order dated 27.04.2018 passed by the Commissioner adjudicating three show cause notices dated 11.10.2013, 10.09.2014 and 01.04.2016 covering the period from 2008-2009 to 2015-2016. The Commissioner has confirmed the demand of service tax with interest and penalty.

1. the appellant

2. A Lease Deed dated 14.03.2008² was executed between the appellant and Skol Breweries Limited³ for renting of land, building, plant and machinery by the appellant to Skol. The appellant discharged service tax liability on the consideration received under the head "renting of immovable property" services.

3. A License Agreement was also executed between the appellant and Skol on 30.01.2008⁴ whereby the appellant endorsed the brewery license in favour of Skol. This License Agreement was renewed from time to time and a License Agreement dated 01.03.2014 was executed between the appellant and **Sab Miller India Limited**⁵ (earlier known as Skol). The appellant treated the execution of the License Agreement to be a "deemed sale" under article 366(29A)(d) of the Constitution and paid VAT.

4. The department believed that the amount paid to the appellant under the License Agreements dated 30.01.2008 and 01.03.2014 should be included in the assessable value of "renting of immovable property service" because without the license endorsement the plant and machinery leased to the appellant could not have been put to use by Skol for brewing beer.

5. Accordingly, a show cause notice dated 11.10.2013 was issued to the appellant. The appellant has been referred to as "TAL" in the show cause notice. The relevant portion of the show cause notice is reproduced below:

"18. As discussed above on the basis of details/information gathered during the search operation and documentary evidences submitted during the investigation by TAL, the Service Tax liability on the

-
2. **the Lease Deed**
3. **Skol**
4. **the License Agreement**
5. **Sab Miller**

TAL have been worked out. TAL have received Rs. 18,93,66,667/- as License endorsement fees from SKOL which has been accounted for as **Lease rental income** by TAL in their books of account and as 'rent' by SKOL in their Balance sheet. **The License endorsement fees are being charged by TAL for assigning the privilege of running the brewing facility obtained on lease by SKOL and without the endorsement /sublicense of the brewing license the immovable property i.e. the plant and machinery cannot be put to use by SKOL for the purpose of brewing beer. Thus the services rendered by TAL by way of endorsement of the brewery license is covered under the definition of taxable service as provided in Section 65 (105)(zzzz) of the Finance Act 1994. Thus it appears the entire amount of Rs 18,93,66,667 received by TAL during the period April 2008 to Jan 2013 as license endorsement fees is liable to service tax under the renting of immoveable property services on which the service tax liability works out to Rs 2,02,15,467/- (Service Tax Rs 1,96,26,667 + Ed Cess 3,92,533/- + Ed Cess Rs 1,96,267/-).**

18.2 The above facts revealed that the TAL had neither submitted the correct ST-3 returns showing the above taxable amount nor deposited the Service Tax on the taxable amount representing the amount received from the SKOL as License endorsement fees. It appears that TAL had deliberately suppressed their receipts against License endorsement fees and have also sought to mislead the investigation by claiming that the said receipts are not related to renting of the immoveable property while both TAL the service provider and SKOL the recipient of service have accounted for the amount paid as license endorsement fees as Rent in their Balance sheets. **It therefore appears from the foregoing that the noticee has resorted to fraud, willful mis-statement, and suppression of facts with intent to evade payment of service tax. M/s TAL have thus suppressed the taxable value to**

the tune of Rs. 18,93,66,667/- from the Service Tax department and evaded the Service Tax amounting to Rs 2,02,15,467/-(Service Tax Rs 1,96,26,667 + Ed Cess 3,92,533/- + Ed Cess Rs 1,96,267/-) **in respect of taxable services rendered by them for the period 01.04.2008 to 31.01.2013 by contravening the provisions of the Finance Act, 1994 and Rules made thereunder.** Thus, the service tax not paid by TAL on the value of taxable services suppressed by them is recoverable from them by invoking the extended period under proviso to Sub-section(1) of Section 73 of the Finance Act 1994 along with interest at the appropriate rate as per Section 75 of the Finance Act 1994."

(emphasis supplied)

6. The appellant filed a reply to the show cause notice and denied allegations made therein.

7. The Commissioner, by the impugned order dated 27.04.2018, confirmed the demand proposed in the show cause notice with interest and penalty. The appellant has been referred to as "TAL" in the order. The relevant portions of the order are reproduced below:

"18.3.2 ***** **In the instant case, M/s SKOL has taken the plant, machinery and premises of M/s TAL, situated at Village Mahtoli, Banmore along- with the brewing license on rent for the purpose of brewing beers of their own brand.** The License to manufacture/brew the alcoholic beverage in the said premises has been issued by the M.P State Excise Deptt. to TAL. **M/s SKOL is not having the requisite License to brew beer at the rented premises. Hence, SKOL can manufacture liquor after getting the factory premises, only when the License issued by the State Excise Deptt, is leased to them by TAL. It is established that without getting the factory as well as the brewing license, SKOL would not have been able to put to use the plant, machinery and premises of TAL taken on lease for the purpose of brewing beer. Thus, the**

leasing of factory along- with the brewing License agreement entered into between SKOL and TAL is the natural completion of the process of giving the premises on rent by TAL to SKOL. Here, it is also pertinent to note that the condition laid down in para 3.1 of the "lease deed cast obligation on the 'lessor' to take all necessary steps to apply for and procure a valid endorsement/sub-licensing of the brewery license in favour of the 'lessee' which shows that these two are not independent agreements.

In view of the above facts and arrangements, it can be safely concluded that the 'License agreement' entered into between both the parties is only the natural completion or validation of the lease deed and renting of the factory along-with the brewing license is an integral part of the 'renting of immovable property services' rendered by TAL to SKOL for the purpose of furtherance of their business of brewing beer. Hence, the amount paid by SKOL to TAL against the 'sub-leasing of license is includible in the 'rental income' and by not including the same in taxable value, the party has short-paid service tax."

18.3.4. It has also been the party's contention that the transfer of license tantamount to 'sale'.*****

As evident from the facts of the case and conditions laid down in the agreements, it is clear that leasing of the license in the instant case is also subject to certain restrictions and TAL have not only sub-leased the license, they have also provided a bunch of services along-with it, as discussed above. Hence, in view of the above ruling, no 'sale' has taken place in the present case and the party was not liable to pay VAT on it.*****

The above verdicts, although, given in respect of other taxable services, define the scope of term 'sale' and applicability of 'VAT' sale in the light of the said

judgments. I have reached to the conclusion that the sub-leasing of the license by TAL to SKOL was not 'sale' and would not attract VAT/sales tax.

18.4. **In view of the above discussion, I find that the party was liable to include their receipts, against the 'License agreement', in the taxable value of 'rental income' and the party was liable to pay service tax on the same.** By not including it, in the taxable value, during the period April, 2008 to June, 2016, the party has short-paid service tax (including cesses) amounting to Rs. 4,57,12,389/- as detailed above. Said amount of service tax is recoverable from them."

(emphasis supplied)

8. It is this order dated 27.04.2018 passed by the Commissioner that has been assailed in this appeal.

9. Shri Kamal Sawhaney, learned counsel for the appellant assisted by Ms. Akansha Wadhvani and Shri Deepak Thakur made the following submissions:

- (i) The License Agreements dated 30.01.2008 and 01.03.2014, by which the appellant endorsed the brewery license issued in its name to Skol/Sab Miller, is a deemed sale under article 366(29A)(d) of the Constitution and, therefore, service tax could not have been demanded on the amount received by the appellant. To support this contention, various clauses of the License Agreements have been placed which clauses shall be referred to at the appropriate stage;
- (ii) The License Agreements clearly indicate that the license was endorsed in favor Skol/Sab Miller free from any interference or hindrance. This also indicates that it was a deemed sale. To support this contention, reliance has been placed on the decisions of the Tribunal in **Commissioner of Service Tax,**

Delhi-II vs. M/s Future Brands⁶ and M/s Dish TV India Ltd. vs. Commissioner of Central Excise & Service Tax-Aurangabad⁷;

- (iii) As the appellant had discharged VAT liability, service tax liability could not be fastened on the appellant and in this connection, reliance has been placed on the decision of the Supreme Court in **Imagic Creative Pvt. Ltd. vs. Commissioner of Commercial Taxes⁸;**
- (iv) The department cannot misconstrue a contract in order to levy tax. In this connection, reliance has been placed on the judgment of the Supreme Court in **Ishikawajma-Harima Heavy Industries Ltd. vs. Director of Income Tax, Mumbai⁹** and in **Commissioner of Income Tax, Andhra Pradesh vs. Motors & General Stores (P) Ltd.¹⁰** Reliance has also been placed on the decision of the Kerala High Court in **Abbott Healthcare Pvt. Ltd. vs. Commissioner of Commercial Tax, Thrissur¹¹;** and
- (v) The extended period of limitation could not have been invoked in the facts and circumstances of the case. In this connection, reliance has been placed on the decision of the Tribunal in **M/s GD Goenka Private Limited vs. The Commissioner of Central Goods and Services Tax, Delhi South¹².**

6. **Service Tax Appeal No. 53304 of 2015 decided on 08.09.2022**
 7. **Service Tax Appeal No. 86958 of 2017 decided on 24.07.2023**
 8. **2008 (9) S.T.R. 337 (S.C.)**
 9. **(2007) 3 Supreme Court Cases 481**
 10. **AIR 1968 SC 200**
 11. **2020 (34) G.S.T.L. 579 (Ker.)**
 12. **Service Tax Appeal No. 51787 of 2022 decided on 21.08.2023**

10. Shri Manoj Kumar, learned authorized representative appearing for the department, however, supported the impugned order and made the following submissions:

- (i)** The License Agreement is an integral part of the "Lease Agreement" and has been bifurcated with the sole intention of evading payment of service tax;
- (ii)** Merely because VAT was paid by the appellant does not mean that service tax cannot be levied, if in law, the appellant had rendered service; and
- (iii)** The transfer of license does not amount to a "deemed sale" under article 366(29A)(d) of the Constitution; and
- (iv)** The extended period of limitation was correctly invoked in the facts and circumstances of the case.

11. The submissions advanced by the learned counsel for the appellant and the learned authorized appearing for the department have been considered.

12. The issue that arises for consideration in this appeal is as to whether a "deemed sale" under article 366(29A)(d) of the Constitution had taken place under the License Agreement.

13. As noticed above, a Lease Deed was executed between the appellant and Skol for renting of land, building plant and machinery by the appellant to Skol. The appellant has been described as the "Lessor" and the Skol has been described as the "Lessee" in the said Lease Deed. The relevant clauses of the Lease Deed are reproduced below:

"A. The Lessor is in lawful possession and has a clear, absolute unrestricted registered title and ownership rights with respect to wall compounded plot of land bearing Survey Numbers 1285, 1311, 1309, 1315, 1312, 1306, 1317, 1301 and 1303 admeasuring

approximately 10.925 Hectares situated at **MEHTOLI**, Manmore, Morena District, Madhya Pradesh (hereinafter referred as "**Demised Land**") as per detailed map in Schedule A, inclusive of Buildings (hereinafter referred to as "**Premised Building**", described in Schedule B annexed to this Lease Deed. (Demised Land and Demised Building are collectively referred to as "**Demised Premises**").

B. The Lessor is also the absolute owner and is in possession of certain plant, machinery and equipment situate at the Demised Premises and listed at **Schedule C** to this Lease Deed (hereinafter referred as "**Demised Equipment**").

C. The Lessee is desirous of taking the Demised Premises and the Demised Equipment (collectively referred to as "Demised Property") on lease and the Lessor has agreed to give the Demised Property on lease, on rent and on the terms and conditions contained in this Lease Deed.

NOW THIS LEASE DEED WITNESSTH AS UNDER:

1. TERMS OF THE LEASE

In consideration of the annual Rent (defined below), the Lessor demises unto the Lessee, the Demised Property, by way of lease for an initial period of 34 months commencing from the date of execution of the Lease Deed (hereinafter referred to as the "**Term**"), unless otherwise mutually agreed in writing.

2. RENT

2.1 In consideration for executing this Lease Deed, the Lessee shall pay to the Lessor an annual rent of INR 1,80,00,00 (One Crore Eightly Lakhs) ("Rent") during the Term, subject to deduction of taxes. If TDS is deductible, TDS Certificate will be provided by the Lessee to the Lessor within a period of 30 days. In addition to the annual Rent, the Lessee will also be liable for payment of

Service Tax any other Taxes as may be applicable in future.

3. **Brewery License**

3.1 Lessor shall take all necessary steps to apply for and endeavour to procure a valid endorsements/sub licensing of the Brewery License in favour of Lessee for purposes of the Lessee in the lease deed (the "**Excise Endorsement**"). Lessor undertakes to procure the Excise Endorsement no later than 3 months from the date of this Agreement. In vent it is not done within the said period or extended period as may be mutually agreed by the Parties, the parties will revert back to the earlier system but on the financial terms as stipulated in this agreement."

(emphasis supplied)

14. It also transpires that a License Agreement dated 30.01.2008 was executed between the appellant and Skol. This License Agreement was renewed from time to time and ultimately a License Agreement dated 01.03.2014 was executed between the appellant and Sab Miller (the name of Skol was changed to Sab Miller). The appellant has been referred to as "Tripti" in the Agreement. The relevant clauses of the said License Agreement dated 01.03.2014 are reproduced below:

"A. Tripti has a license to work a brewery which has been sub-licensed to SABMiller. The current licensing agreement between the Parties is valied till 31st January, 2014. Both the Parties intend to renew the agreement for the period from 1st February 2014 to 31st March 2018.

B. **Tripti has represented to SABMiller that it will procure the necessary approvals from the relevant governmental authorities for a valid endorsement or sub-license of the Brewery License in favour of SABMiller such that SABMiller can brew and manufacture beer**

utilizing the Brewery License and the capacity permitted therein from time to time ("Proposed Transaction").

- C. Parties have agreed to record the terms and conditions of this arrangement in this Agreement.

Accordingly, in consideration of the foregoing and other consideration, the sufficiency and adequacy of which is hereby acknowledged, and intending to be legally bound hereby, the Parties agree as follows:

1. Tripti shall take all necessary steps to apply for and procure a valid endorsements licensing of the Brewery License in favour of SABMiller for purposes of the Proposed Transaction (the "**Excise Endorsement**"). Tripti undertakes to procure the Excise Endorsement no later than 3 months from the date of this Agreement.
2. Subject to Tripti complying with its obligations under Clause 1 above and procuring the Excise Endorsement within the period set out in Clause 1 above, in consideration of the endorsement/sub license of the Brewery License in favour of SABMiller and in consideration of the mutual covenants and undertakings set out herein and the rights granted to SABMiller herein, SABMiller shall be liable to pay Tripti Rs. 4,67,00,000/- (Rupees Four Crore Sixty Seven Lacs only) per annum (the "**Consideration**").
3. **SABMiller shall be entitled to use the Brewery License for a period of 4 years from 1st February, 2014 or the date of the Excise Endorsement ("Term"), whichever earlier or such other period as may be mutually agreed between the Parties.**

- 5.2 **The Brewery License is free from any charges, encumbrances, liens or third party rights.**
- 5.3 **Tripti hereby confirms that SABMiller shall be entitled to utilize the Brewery License and the**

permitted capacity there under from time to time during the entire Term free from any interference, objections, claims, interruption, encumbrances or demand whatsoever by Tripti and, or, any government authority or any person lawfully or equitably claiming by, of from under or, in trust for Tripti and, or, any government authority (subject however to compliance by SABMiller of the conditions of the Brewery License).

5.5 SABMiller shall enjoy the freedom to utilize the Brewery License and operate on the basis thereof during the entire Term without any hindrance, obstruction or limitation from Tripti.

5.6 Tripti agrees to indemnify, defend and hold SABMiller harmless from and against any and all actions, causes of actions, claims, demands, costs, liabilities, expenses and damages arising out of or in connection with any claim that would constitute a breach of any of warranties and/ or obligations set out herein, relating to the period prior to the commencement of the License Agreement dated 30th January, 2008.

5.7 The Promoters shall not do or cause to be done any act that will result in breach of this Agreement or the Lease Deed and shall cause the Company to perform all its obligations hereunder. The obligations of the Promoters and the Company under this Agreement shall be joint and several.

6. This Agreement shall terminate only in accordance with the following provisions:

6.2 This Agreement shall be co-terminus with the lease deed executed on even date between the Parties

(the "**Lease Deed**") and shall automatically terminate upon the termination of the said Lease Deed, unless otherwise mutually agreed in writing.

7. The promoters who hold 100% of the issued and paid up share capital of Tripti hereby grant the option and right of first refusal to SABMiller to acquire upto the entire equity share capital of Tripti at the end of the Term, upon the terms and conditions mutually agreed between the Parties. Further, at any time during the Term, if the Promoters want to sell their shareholding in Tripti to any third person or Tripti proposes to induct any third person as a new shareholder or investor through a fresh issuance of share capital or convertible instruments or otherwise, including any competitor of SABMiller the first right of refusal to purchase/acquire such shares/convertible instruments on the same terms and conditions as offered by any such third person. It is however clarified that the right of first refusal provided herein by the Promoters shall not apply to any sale transfer transmission of shares *interse* between the family members and/or lineal ascendants/descendants of the Promoter family (or the Dinshaw F. Bapuna Family)."

(emphasis supplied)

15. According to the appellant, the License Agreement is a "deemed sale" under article 366(29A)(d) of the Constitution and, therefore, no service tax can be levied on the consideration received by the appellant under the License Agreement. The appellant also contends that the amount of consideration received by the appellant under this License Agreement from Skol/Sab Miller cannot be clubbed with the consideration received by the appellant under the Lease Deed and be subjected to service tax under the head "renting of immovable property" service.

16. The contention of the department is that "deemed sale" had not taken place under the License Agreement and the consideration received by the appellant under the License Agreement has been correctly clubbed with the consideration received under the Lease Deed for the purposes levy of service tax.

17. The Commissioner, in the impugned order, noticed that Skol had taken the plant and machinery of the appellant on rent for the purpose of brewing beer. Skol did not have the requisite license to brew beer at the rented premises and it could manufacture beer only when there was an endorsement in the License in favour of Skol. The Commissioner, therefore, concluded that:

"the 'License agreement' entered into between both the parties is only the natural completion or validation of the lease deed and renting of the factory along-with the brewing license is an integral part of the 'renting of immovable property services' rendered by TAL to SKOL for the purpose of furtherance of their business of brewing beer."

(emphasis supplied)

18. It is for this reason that the Commissioner held that the amount paid by Skol/Sab Miller to the appellant under the License Agreement would be includable in the rental income and by not including it, the appellant short paid service tax.

19. The contention of the appellant that the License Agreement is "a deemed sale" under article 366(29A)(d) of the Constitution was repelled by the Commissioner for the reason that:

"from the facts of the case and conditions laid down in the agreements, it is clear that leasing of the license in the instant case is also subject to

certain restrictions and TAL have not only sub-leased the license, they have also provided a bunch of services along-with it, as discussed above. Hence, in view of the above ruling, no 'sale' has taken place in the present case and the party was not liable to pay VAT on it."

(emphasis supplied)

20. To appreciate the issue that has been raised in this appeal, it would be pertinent to refer to Entry 54 of List II of the Seventh Schedule to the Constitution. It empowers State to levy tax on sales and purchase of goods. The relevant Entry is reproduced below:

"54.Taxes on the sale or purchase of goods other than newspaper, subject to the provisions of Entry 92 A of List I"

21. The forty-sixth amendment to the Constitution extended the meaning of **"sale or purchase of goods"** by giving an inclusive definition to the phrase **"tax on the sale or purchase of goods"** under article 366(29A) of the Constitution. The said amendment is reproduced below:

"366(29A) "tax on the sale or purchase of goods" includes-

(a) a tax on transfer, otherwise that in pursuance of a contract, of property in any goods for cash, deferred payment or other valuable consideration; (b) a tax on the transfer of property in goods (whether as goods or in some other form) involved in the execution of works contract;

(c) a tax on the delivery of goods on hire purchase or any system of payment of installments;

(d) a tax on the transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration;

(e).....

(f)....."

(emphasis supplied)

22. It would be seen from the aforesaid that the Constitution empowers the State to levy Sales Tax/VAT on transactions in the nature of transfer of right to use goods, which were earlier not exigible to sales tax as such transactions were not covered under the definition of "sale" as given in the Sale of Goods Act, 1930.

23. "**Goods**" have been defined under section 2(m) of the Madhya Pradesh Value Added Tax Act, 2002¹³ in the following manner:

"**2(m) Goods** means all kinds of movable property including computer software but excluding actionable claims, newspapers, stocks, shares, securities or Government stamps and includes all materials, articles and commodities, whether or not to be used in the construction, fitting out improvement or repair of movable or immovable property, and also includes all growing crops, grass, trees, plants and things attached to, or forming part of the land which are agreed to be severed before the sale or under the contract of sale;"

24. "**Sale**" has been defined in section 2(u) of the MP Value Added Tax Act in the following manner:

"**2(u) Sale** with all its grammatical variations and cognate expressions means any transfer of property in goods for cash or deferred payment or for other valuable consideration and includes,-

- (i) a transfer, otherwise than in pursuance of a contract, of property in any goods for cash, deferred payment or other valuable consideration;
- (ii) a transfer of property in goods whether as goods or in some other form, involved in the execution of works contract;
- (iii) a delivery of goods on hire purchase or any system of payment by instalments;
- (iv) a supply of goods by any unincorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration;

13. the MP Value Added Tax Act

(v) a supply, by way of or as part of any service or in any other manner whatsoever, of goods being food or any other article for human consumption or any drink (whether or not intoxicating) where such supply or service is for cash, deferred payment or other valuable consideration;

(vi) a transfer of the right to use any goods including leasing thereof for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration,

and such transfer, delivery or supply of any goods shall be deemed to be a sale of those goods by the person making the transfer, delivery or supply and purchase of those goods by the person to whom such transfer, delivery or supply is made, but does not include a mortgage, hypothecation, charge or pledge;

Explanation *****

25. Schedule II of the MP Value Added Tax Act gives the description of goods and amongst others it includes all intangible goods like copyright, patent and rep license.

26. It can safely be said that under the Sales Tax Act, there is transfer of possession and effective control in goods, while there is no such transfer of possession and effective control under service tax.

27. It needs to be remembered that the term "transfer of right to use goods" has neither been defined in the Constitution nor in any of the State VAT Acts or Central Sales Tax Act, 1956. The said phrase was interpreted by the Supreme Court in **Bharat Sanchar Nigam Ltd. vs. Union of India**¹⁴, wherein the Supreme Court laid down five attributes for a transaction to constitute a "transfer of right to use goods". In this connection paragraph 91 of the judgment of the Supreme Court is reproduced below:

14. 2006 (2) STR 161 (sc)

"91.To constitute a transaction for the transfer of the right to use the good, the transaction must have the following attributes:

- a. There must be goods available for delivery;
- b. There must be consensus ad idem as to the identity of the goods;
- c. The transferee should have a legal right to use the goods consequently all legal consequences of such use including any permission or licenses required therefore should be available to the transferee;
- d. For the period during which the transferee has such legal right, it has to be the exclusion of the transferor this is the necessary concomitant of the plain language of the statute- - viz. a 'transfer of the right to use' and not merely a license to use the goods;
- e. Having transferred the right to use the goods during the period for which it is to be transferred, the owner cannot again transfer the same rights to others."

(emphasis supplied)

28. The Supreme Court in **Commissioner of Service Tax, Delhi Vs. Quick Heal Technologies Limited**¹⁵ summed up the principles relating to a "deemed sale" in the following manner:

"53.1. The Constitution (Forty-sixth Amendment) Act intends to rope in various economic activities by enlarging the scope of "tax on sale or purchase of goods" so that it may include within its scope, the transfer, delivery or supply of goods that may take place under any of the transactions referred to in sub-clauses (a) to (f) of clause (29-A) of Article 366. The works contracts, hire purchase contracts, supply of food for human consumption, supply of goods by association and clubs, contract for transfer of the right to use any goods are some such economic activities.

53.2. The transfer of the right to use goods, as distinct from the transfer of goods, is yet another economic activity intended to be exigible to State tax.

15. (2023) 5 Supreme Court Cases 469

53.3. There are clear distinguishing features between ordinary sales and deemed sales.

53.4. Article 366(29-A)(d) of the Constitution implies tax not on the delivery of the goods for use, but implies tax on the transfer of the right to use goods. The transfer of the right to use the goods contemplated in sub-clause (d) of clause (29-A) cannot be equated with that category of bailment where goods are left with the bailee to be used by him for hire.

53.5. In the case of Article 366(29-A)(d) the goods are not required to be left with the transferee. **All that is required is that there is a transfer of the right to use goods. In such a case taxable event occurs regardless of when or whether the goods are delivered for use.** What is required is that the goods should be in existence so that they may be used.

53.6. The levy of tax under Article 366(29-A)(d) is not on the use of goods. It is on the transfer of the right to use goods which accrues only on account of the transfer of the right. In other words, the right to use goods arises only on the transfer of such right to use goods.

53.7. The transfer of right is the *sine qua non* for the right to use any goods, and such transfer takes place when the contract is executed under which the right is vested in the lessee.

53.8. The agreement or the contract between the parties would determine the nature of the contract. Such agreement has to be read as a whole to determine the nature of the transaction. If the consensus *ad idem* as to the identity of the good is shown the transaction is exigible to tax.

54. From the judicial decisions, the settled essential requirement of a transaction for the transfer of the right to use the goods are:

54.1. It is not the transfer of the property in goods, but it is the right to use the property in goods.

54.2. Article 366(29-A)(d) read with the latter part of clause (29-A) which uses the words, "and such transfer, delivery or supply"... would indicate that the tax is not on the delivery of the goods used, but on the transfer of the right to use goods regardless of when or whether the goods are delivered for use subject to the condition that the goods should be in existence for use.

54.3. In the transaction for the transfer of the right to use goods, delivery of the goods is not a condition precedent, but the delivery of goods may be one of the elements of the transaction.

54.4. The effective or general control does not mean always physical control and, even if the manner, method, modalities and the time of the use of goods is decided by the lessee or the customer, it would be under the effective or general control over the goods.

54.5. The approvals, concessions, licences and permits in relation to goods would also be available to the user of goods, even if such licences or permits are in the name of owner (transferor) of the goods.

54.6. During the period of contract exclusive right to use goods along with permits, licenses, etc. vests in the lessee."

(emphasis supplied)

29. The Andhra Pradesh High Court in **Rashtriya Ispat Nigam Ltd. vs. Commercial Tax Officer, Company Circle, Vishakhapatnam**¹⁶ observed that whether there is a transfer of right to use or not is a question of fact which has to be determined in each case having regard to the terms of the contract under which there is transfer of right to use and in this connection, observed as follows:

16. 1989 (12) TMI 325- Andhra Pradesh High Court

“Whether there is a transfer of the right to use or not is a question of fact which has to be determined in each case having regard to the terms of the contract under which there is said to be a transfer of the right to use. In the instant case, the petitioner - Rashtriya Ispat Nigam Limited owning Visakhapatnam Steel Project, for the purpose of the steel project allotted different works of the project to contractors. To facilitate the execution of work by the contractors with the use of sophisticated machinery, **the petitioner has undertaken to supply the machinery to the contractors for the purpose of being used in the execution of the contracted works of the petitioner and received charges for the same.** The respondents made provisional assessment levying tax on the hire charges under section 5-E of the Act. In this writ petition, the petitioner prays for a declaration that the tax levied by the 1st respondent in purported exercise of power under section 5-E of the Act on the hire charges collected during the period 1988-89, is illegal and unconstitutional. The respondents filed a counter-affidavit in support of the levy stating that the validity of A.P. Amendment Act (18 of 1985) which introduced section 5-E of the Act was upheld by the High Court of Andhra Pradesh in Padmaja Commercial Corporation v. Commercial Tax Officer [1987] 66 STC 26; (1987) 4 APSTJ 26. It is further stated that the provisional assessment under section 15 of the Act has been made every month on account of submission of incorrect monthly returns claiming wrong exemption. **The petitioner, it is stated, is lending highly sophisticated and valuable imported machinery to the contractors engaged by the petitioner for the purpose of construction of steel project.** The machinery like cranes, docers, dumfors, road rollers, compressors, etc., are lent by the petitioner to the contractors for the use in the execution of project work for which hire charges at specified rate are being collected by it. **The machinery is given in the possession of the contractor and he is responsible for any loss or damage to it. The contractor has got every right to use it in his work at his**

discretion. It is further stated that in view of these clear terms and conditions there is transfer of property in goods for use, for a specific purpose and for a specified period for money consideration. The amounts charges by the petitioner attracts tax liability under section 5-E of the A.P. General Sales Tax Act, 1957.

Sri P. Venkatarama Reddy, the learned counsel for the petitioner, submits that under the terms and conditions of the contract, the contractor is provided with the facility of using the machinery if the same is available with the petitioner and there is no transfer of the right to use the machinery and for this purpose he relies on clauses 1, 5, 7, 13, and 14 of the contract to show that there is no transfer; while the learned Government Pleader submits that clauses 10 and 12 clearly show that there is a transfer of right and, therefore, tax is validity levied. In our view, whether the transaction amounts to transfer of right or not cannot be determined with reference to a particular word or clause in the agreement. The agreement has to be read as a whole, to determine the nature of the transaction. **From a close reading of all the clauses in the agreement, it appears to us that the contractor in entitled to make use of the machinery for purposes of execution of the work of the petitioner and there is no transfer of right to use as such in favour of the contractor. We have reached this conclusion because the effective control of the machinery even while the machinery is in the use of the contractor is that of the petitioner-company. The contractor is not free to make use of the same for other works or move it out during the period the machinery is in his use. The condition that he will be responsible for the custody of the machinery while the machinery is on the site does not militate against the petitioners' possession and control of the machinery. For these reasons, we are of the opinion that the transaction does not involve transfer of the right to use the machinery in**

favour of the contractor. As the fundamental requirement of section 5-E is absent, the hire charges collected by the petitioner from the contractor are not exigible to sales tax.”

(emphasis supplied)

30. The appeal filed by the Department against the decision of the Andhra Pradesh High Court was dismissed by the Supreme Court (**State of Andhra Pradesh and another vs. Rashtriya Ispat Nigam Ltd¹⁷**).

The relevant portion of the decision of the Supreme Court is reproduced below:

“The High Court after scrutiny and close examination of the clauses contained in the agreement and looking to the agreement as a whole, in order to determine the nature of the transaction, concluded that the transactions between the respondent and contractors did not involve transfer of right to use the machinery in favour of the contractors and in the absence of satisfying the essential requirement of Section 5-E of the Act, i.e., transfer of right to use machinery, the hire charges collected by the respondent from the contractors were not exigible to sales tax. On a careful reading and analysis of the various clauses contained in the agreement and, in particular, looking to clauses 1, 5, 7, 13 and 14, it becomes clear that the transaction did not involve transfer of right to use the machinery in favour of contractors. The High Court was right in arriving at such a conclusion. **In the impugned order, it is stated, and rightly so in our opinion, that the effective control of the machinery even while the machinery was in use of the contractor was that of the respondent company; the contractor was not free to make use of the machinery for the works other than the project work of the respondent or move it out during the period the machinery was in his use;** the condition that the

17. 2002 (3) TMI 705- Supreme Court

contractor would be responsible for the custody of the machinery while it was on the site did not militate against respondent's possession and control of the machinery."

(emphasis supplied)

31. It transpires from the aforesaid two decisions in **Rashtriya Ispat Nigam Ltd.** rendered by the Andhra Pradesh High Court and the Supreme Court that it was because of the terms of contract underwhich there was a transfer of the right to use that it was held that since the effective control of the machinery, even while the machinery was in the use of the contractor, was that of the company that had given the machinery on hire, sales tax could not have been charged from the appellant therein under the provisions of the State Sales Tax Act.

32. In **G.S. Lamba & Sons and others vs. State of Andhra Pradesh**¹⁸, the issue that arose before the Andhra Pradesh High Court was whether the contract with M/s. Grasim Industries Limited for transporting the Ready Mix Concrete was for transfer of the right to use Transit Mixers and the following principles were summarised:

"40. **That brings us to the construction of the agreement between the parties which indisputably came into force on 01.10.2002. The intention of the parties as noticed supra has to be understood by reading the entire agreement; reading a word here or a clause there is not sufficient.** Grasim was looking for a transporter to take care of the transporting need of their RMC plants in Hyderabad. The petitioners, who are owners of Transit Mixers, were looking for advancing their business interest in Hyderabad. The latter approached the former offering their Transit Mixers to take care of all transporting solution needs. These essentially form part of the recitals. **The Habendum of the**

18 . 2012-TIOL-49-HC-AP-CT

agreement speaks of the petitioners providing a dedicated fleet of five Transit Mixers painted in a particular style and colour as well as brand name of "Grasim" to transport RMC, on 24 hours basis every day of the week as instructed by the lessee, failure of which will attract penalties. The staff of the petitioners were required to obey the instructions issued by Grasim, and they should use safety equipment like helmets. These Transit Mixers cannot move or carry RMC to the work sites as per their convenience but are to be used as per the delivery schedule given by Grasim. The counsel also does not dispute that the agreement between the parties speaks of a dedicated fleet of vehicles to be made available on 24/7 basis duly painted in a particular style and colour, and staff being under the instructions of Grasim alone. It is, however, submitted that the parties agreed for five dedicated vehicles as RMC needs to be transported immediately after it is manufactured in the batching plant, and the manufacturer cannot identify and negotiate with the transporter for carrying the products every time an order is placed. Therefore, such a clause was included in the agreement to ensure there is no delay in delivering the product to the customers. He also submits that making available the vehicles through out the day or painting them with brand name of Grasim is required keeping in view the possible hurdles in logistics, and to ensure customer satisfaction of getting the required branded RMC. According to him, these clauses by themselves do not warrant an inference of transfer of the right to use Transit Mixers.

42. In addition to the above clauses, we have thoroughly perused and analysed the agreement between the petitioners and Grasim.

45. Reading the recitals and various clauses, indeed there is a transfer of the right to use Transit Mixers. All the tests as indicated hereinabove exist in the contract between the petitioners and

Grasim. **The vehicles are maintained by the petitioners. They appoint the drivers and fix their roster. The licences, permits and insurances are taken in their names by the petitioners, which they themselves renew. The Transit Mixers go to Grasim's batching plants in Miyapur and Nacharam, where they are loaded with RMC and then proceed to the construction sites of customers. The product carried is manufactured by Grasim, which is delivered to the customers and the customers pay the cost of the RMC to Grasim and the petitioners nowhere figure in the process of putting the property in Transit Mixers to economic use.** The entire use in the property in goods is to be exclusively utilised for a period of 42 months by Grasim. The existence of goods is identified and the Transit Mixers operate and are used for the business of Grasim. **Therefore, conclusively it leads to the only conclusion that the petitioners had transferred the right to use goods to Grasim.** For these reasons, we are not able to countenance any of the submissions made by the petitioners' counsel."

(emphasis supplied)

33. In **Petronet LNG Ltd. vs. Commissioner of Service Tax, New Delhi**¹⁹, the Tribunal observed as follows:

"**25.** The issue that therefore falls for our consideration is whether the transactions involving the two long-term charters and one short-term charter (of the vessels Disha, Rahi and Trinity Glory, respectively) amount to a transfer of the right of possession and effective control of these vessels for use by the assessee from the owners thereof. **If the transactions establish a transfer of the right to use possession and effective control, the transactions fall outside the purview of the enumerated taxable service.**

29. ***** In the adjudication order the analysis of law and consideration of the relevant facts of the

19. 2016 (46) STR 513 (Tri.-Delhi)

transaction occurs only in paragraph 37.3, in relation to taxability of the transaction, under Section 65(105)(zzzzj). **Further the mere fact that the Manager, Master, personnel and other crew are employed by the owner does not in any manner derogate from the fact that the transaction constitutes transfer of the right to use the tangible goods, including possession and effective control of the tankers.** This is so since there are several other clauses in the agreements between the parties (referred in para 10 supra), which disclose that the personnel on board the tankers function and operate strictly in terms of detailed instructions, guidelines and directives issued or to be issued by the assessee in terms of the authority of the assessee to do so, under the agreements. The personnel and crew must also be replaced by the owners on valid complaint about their misbehaviour lodged by the assessee. **On a true and fair analysis of the several clauses of the charter - agreements, considered as a whole, mere employment of the personnel and crew by owners does not derogate from the reality of transfer of possession to and effective control by the assessee over the tankers, for the use of these tangible goods."**

(emphasis supplied)

34. In **Gimmco Ltd. vs. Commissioner of Central Excise and Service Tax, Nagpur**¹²⁰, the Tribunal observed as follows:

"5.2 Revenue's contention is based on the clauses in the agreement relating to restrictions of use by the lessee, provision of skilled operator by the lessor and maintenance and repairs of the equipment by the lessor. **Merely because restrictions are placed on the lessee, it can not be said that there is no right to use by the lessee.** Such a view of the revenue does not appear to be tenable when we read carefully the provisions of the agreement. Cl. 13 of the agreement provides for Hirer's Covenants. As per Cl. 13.1, the hirer will use the equipment only for the

20. 2017 (48) S.T.R. 476 (Tri.- Mum.)

purpose it is hired and shall not misuse or abuse the equipment. Similarly in Cl. 13.3, it is provided that the hirer will ensure the safe custody of the equipment by providing necessary security, parking bay, etc., and will be responsible for any loss or damage or destruction. Cl. 13.5 provides that the hirer shall be solely responsible and liable to handle any dispute entered with any third party in relation to the use and operation of the equipment. Further Cl. 14 dealing with title and ownership specifically provides that "equipment is offered by GIMMCO Ltd. only on "rights to use" basis". Cl. 15 relating to damages provides for compensation to be paid by the hirer to the assessee in case of damage to the equipment during the period of use. **These responsibilities cast on the hirer clearly show that the right of possession and effective control of the equipment rest with the hirer; otherwise the hirer cannot be held responsible for misuse/abuse, safe custody/security, liability to settle disputes with third parties in relation to use etc.** Further Cl. 4.3 of the agreement provides for charging of VAT at 12.5% on the monthly invoice value which shall be payable by the hirer. These terms and conditions stipulated in the agreement, lead to the conclusion that the transaction envisaged in the agreement is one of "transfer of right to use" which is a deemed sale under Section 2(24) of the Maharashtra Value Added Tax Act, 2002. The Finance Minister's speech and the budget instructions issued by the C.B.E. & C. also clarify that if VAT is payable on the transaction, then service tax levy is not attracted."

(emphasis supplied)

35. In **Dipak Nath vs. Oil and Natural Gas Corporation Ltd. and others**²¹, the Gauhati High Court observed as follows:

"The above analysis of the relevant provisions of the contract agreement between the parties indicate the clear dominion and control of ONGC over the crane during the entire period of operation of the contract once a crane is placed at

21. 2009 (11) TMI 834- Guahati High Court

the disposal of the ONGC under the contract. The crane is to be deployed at worksites as per the discretion of the ONGC and though the normal period of deployment is 10 hours in a day, such deployment at the discretion of the ONGC may be for any period beyond the normally contemplated 10 hours. The deployment of the crane in oil field operations as well as other hazardous situations is at the sole discretion of the ONGC. Though the cranes are operated by the crew provided by the contractor such crew while operating a crane is under the effective control of the ONGC and its authorities. Therefore, under the contract though the normal operational time is 10 hours in a day, the ONGC is entitled to deploy the cranes, if required, to the entire period of 24 hours to perform duties the kind of which and the locations whereof is to be decided by the ONGC. **The mere fact that after the operation of the crane is over on any given day the crane may come back to the owner/contractor will hardly be material to decide as to who has dominion over the crane inasmuch as the crane can be recalled for duty by the ONGC at any time.** Under the contract the crane is to be operated for 26 days in a month and the remaining four days are to be treated as maintenance off days. Though the crane is not operational on the maintenance off days, yet, 50% of the operational charges is paid by the ONGC for the maintenance off days and the terms of the contract make it clear that even on the off days the crane can be called for operation by the ONGC at its sole discretion.

The above features of the contract, in our considered view, makes it abundantly clear that it is the ONGC and not the contractor who has exclusive control and dominion over the crane during the subsistence of the contract, though, during the aforesaid period, at times, physical possession of the crane may come back to the contractor. Such temporary physical possession of the contractor, according to us, would hardly be relevant as under the contract the ONGC is vested with the authority to requisition the crane for operational

purposes at any time. Besides, such temporary possession of the crane by the contractor does not mitigate against the transfer of the right to use the crane which event, as already indicated on the authority of the decision of the Apex Court in 20th Century Finance Corpn. Ltd. (supra), constitutes the taxable event under article 366(29A)(d) of the Constitution.”

(emphasis supplied)

36. From the decisions referred to above, it clearly transpires that:
- (i)** Whether there is a transfer of right to use or not is a question of fact which has to be determined in each case having regard to the terms of the contract under which there is a transfer of right to use;
 - (ii)** If with the transfer of the right to use, possession and effective control is also transferred, the transaction falls outside the purview of service tax liability. However, when the effective control and possession is not transferred and it continues to remain with the person who has transferred the right, it would not be open to the authority to levy service tax;
 - (iii)** Mere fact that the persons are employed by the owner does not in any manner deter from the fact that the transaction constitutes a transfer of the right to use the tangible goods with possession and effective control; and
 - (iv)** The fact that after the operation is over on any given day and the tangible goods come back to the owner is not a material fact for deciding who has the dominion over the tangible goods.

37. The terms of the License Agreement have, therefore, to be examined in order to determine whether there was a transfer of right to use goods with control and possession.

38. In the present case, the nature of transaction between the appellant and Skol/Sab Miller under the License Agreement reveals that:

- (i)** The appellant was issued a brewery license. It endorsed the brewery license in favour of Skol/Sab Miller so that they can brew and manufacture beer utilizing the brewery and the capacity permitted from time to time to the appellant;
- (ii)** Skol/Sab Miller, in consideration of the rights granted to them, would have pay to the appellant a certain amount of money per annum;
- (iii)** Skol/Sab Miller became entitled to use the brewery license and the permitted capacity from time to time during the entire term free from any interference, objections, claims, interruptions, encumbrances or demand whatsoever by the appellant for a period of 4 years;
- (iv)** The brewery license is free from any charges, encumbrances, liens or third party rights;
- (v)** Sab Miller shall enjoy the freedom to utilize the brewery license and operate on the basis of thereof during the entire term without any hindrance, obstruction or limitation from the appellant;
- (vi)** The appellant agreed to indemnify, defend and hold Skol/Sab Miller harmless from and against any and all actions, causes of actions, claims, demands, costs, liabilities, expenses and damages arising out of or in connection with any claim that would constitute a breach of any of warranties and/or obligations, relating to the period prior to

the commencement of the License Agreement dated 30th January, 2008; and

- (vii)** The promoters shall not do or cause to be done any act that will result in breach of the License Agreement.

39. It is, therefore, clear from the aforesaid terms of the License Agreement that it is not merely the use of the License that has been transferred to Skol/Sab Miller by the appellant. What has been transferred by the appellant is the right to use the License. As can be seen from the Agreement, Skol/Sab Miller have been transferred the right to use the brewery license and the permitted capacity for a period of 4 years free from any charges, encumbrances, liens or third party rights. Skol/Sab Miller shall also enjoy the freedom to utilize the brewery license and operate during the entire term without any hindrance, obstruction or limitation from the appellant. In fact, the appellant also agreed to indemnify, defend and hold Skol/Sab Miller harmless from any actions, causes of actions, claims, demands, costs, liabilities, expenses and damages arising out of or in connection with any claim that would constitute a breach of any of warranties and/ or obligations, relating to the period prior to the commencement of the License Agreement dated 30.01.2008. The agreement also provides that the promoters shall not do or cause to be done any act that will result in breach of the License Agreement. The appellant does not, with the transfer of the right to use by Skol/Sab Miller, have any right to itself use the brewery license. There is, therefore, no manner of doubt that a "deemed sale" under article 366(29A)(d) of the Constitution had taken place when the appellant granted the right to use the License to Skol/Sab Miller. The findings to the contrary recorded by the Commissioner cannot be sustained.

40. The Commissioner placed much emphasis on the Lease Deed executed between the appellant and Skol for renting of land, building, plant and machinery and in particular to clause 3 which provides that the appellant shall procure a valid endorsement/sub-license of the brewery license in favour of Skol. According to the Commissioner, the License Agreement that was subsequently executed was only to complete or validate the Lease Deed and, therefore, renting of the factory along with the brewery license is an integral part of the "renting of immovable property" services. The two documents, namely, the Lease Deed and the License Agreement have to be separately examined and merely because there is a recital in the Lease Deed that the appellant shall procure a valid endorsement/sub-license of the brewery license in favour of Skol does not mean that the subsequently executed License Agreement becomes an integral part of the Lease Deed.

41. The contention of the appellant that a deemed sale had taken place has also been repelled by the Commissioner for the reason that leasing of brewery license was subject to certain restrictions. Only a bald statement had been made. In fact, the terms of the License Agreement give complete freedom to Skol/Sab Miller to operate the brewery and the License Agreement does not cause any hindrance.

42. A finding had also been recorded by the Commissioner that no "sale" had taken place. The contention of the appellant was that a "deemed sale" contemplated under article 366(29A)(d) of the Constitution had taken place. There is a marked difference between "sale" and "a deemed sale" as was pointed out by the Supreme Court in **Quick Heal Technologies**.

43. As noticed above, a deemed sale had taken place when the

appellant transferred the right to use the brewery license issued to the appellant in favour of Skol/Sab Miller on execution of the License Agreement. The consideration received by the appellant on the execution of the License Agreement cannot, therefore, be subjected to service tax nor can such consideration be clubbed with the consideration received by the appellant under the Lease Deed so as to be subjected to service tax under "renting of immovable property" service.

44. The impugned order dated 27.04.2018 passed by the Commissioner adjudicating the three show cause notices, therefore, deserves to be set aside.

45. It will, therefore, not be necessary to examine the contention of the learned counsel for the appellant that the extended period of limitation contemplated under the proviso to section 73(1) of the Finance Act could not have been invoked.

46. The impugned dated 27.04.2018 passed by the Commissioner is, accordingly, set aside and the appeal is allowed with consequential(s) relief, if any.

(Order Pronounced on **12.11.2024**)

(JUSTICE DILIP GUPTA)
PRESIDENT

(P.V. SUBBA RAO)
MEMBER (TECHNICAL)