



## Global Business Tax Alert Sharp Insights

Lionbridge Technologies  
Private Limited (Mum ITAT)

**Issue no: GBTA/55/2015**

**In this issue:**  
Upcoming Dbriefs - Register  
Contacts

Mumbai ITAT in the case of Lionbridge Technologies Pvt Ltd (assessee) held that cost to cost reimbursements made to overseas group company which are not chargeable to tax are not liable for tax withholding u/s 195 of the Act.

The brief facts of the case were that assessee, an Indian company, made payments to its parent company, Lionbridge USA, towards reimbursement of cost of software. Lionbridge USA had entered into an agreement with vendors like Microsoft Inc. for the purchase of standard off-the-shelves software to be used by Lionbridge group entities across the globe. The cost of the purchase of the software has been allocated amongst various group entities without any mark-up. Accordingly, assessee reimbursed its share of cost to Lionbridge USA.

The issue for consideration before the Tribunal was whether cost to cost reimbursements made outside India towards cost of software is liable for tax withholding under section 195 of the Income Tax Act, 1961 (Act).

Mumbai ITAT observed that it is pure case of reimbursement of cost and admittedly, there is no mark-up involved. ITAT further noted that no assessment has been made in the hands of the recipient (Lionbridge US) in respect of reimbursements received by it from India. It was observed that in the present case, Lionbridge US has not developed software which has been given for use to the assessee, rather, the software was purchased from Microsoft, the cost of which has been distributed amongst all group entities.

Hon'ble ITAT relied on the decision of Supreme Court in the case of G E India Technology Centre P Ltd and observed that a person paying any sum to a non-resident is not liable to deduct tax if such sum is not chargeable to tax under the Act. ITAT reiterated the following reasoning in support of this proposition:

- The most important expression in Section 195(1) consists of the words 'chargeable under the provisions of the Act'. A person paying any sum to a non-resident is not liable to deduct tax if such sum is not chargeable to tax under the Act.
- If the contention of the Department is to be accepted that the moment there is remittance the obligation to deduct tax at source arises, then the words 'chargeable under the provisions of the Act' in Section 195(1) become otiose. Further, in such case, the consequence would be that the Department would be entitled to appropriate the moneys deposited by the payer even if the sum paid is not chargeable to tax because there is no provision in the Act by which a payer can obtain refund.

- There are adequate safeguards in the Act which would prevent revenue leakage in case tax is not deducted. Section 40(a)(i) provides that deduction shall not be allowed if assessee fails to deduct tax in respect of payments made outside India which are chargeable as per the Act. Similarly, Section 195(6) requires the payer to furnish information relating to payment of any sum in such form and manner as may be prescribed by the Board.
- The expression 'sum chargeable under the provisions of the Act' is used only in Section 195 and no other section under Chapter XVII-B uses this expression. Therefore, meaning and effect has to be given to the said expression.
- Section 195 has to be read in conformity with the charging provisions, i.e., Sections 4, 5, 9, 90, 91

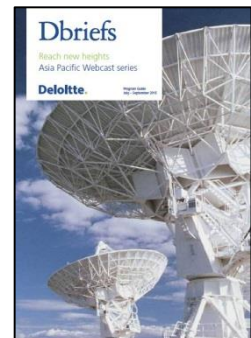
Relying upon the above observations of Supreme Court, it was held that assessee was not liable to deduct TDS on reimbursement of cost of software as sum paid to non-resident i.e. Lionbridge US was not chargeable to tax in India.

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# Contacts

## Ahmedabad

Heritage, 3rd Floor,  
Near Gujarat Vidyapith,  
Off Ashram Road,  
Ahmedabad – 380 014.  
Tel: + 91 (079) 2758 2542  
Fax: + 91 (079) 2758 2551

## Bangalore

Deloitte Centre, Anchorage II,  
100/2, Richmond Road,  
Bangalore 560 025.  
Tel: +91 (080) 6627 6000  
Fax: +91 (080) 6627 6010

## Chennai

No.52, Venkatanarayana Road,  
7th Floor, ASV N Ramana Tower,  
T-Nagar,  
Chennai 600 017.  
Tel: +91 (044) 6688 5000  
Fax: +91 (044) 6688 5050

## Coimbatore

Shanmugha Manram  
41, Race Course,  
Coimbatore  
Tamil Nadu - 641018  
Tel: + 91 (0422) 439 2801  
Fax: +91 (0422) 222 3615

## Delhi/Gurgaon

Building 10,  
Tower B, 7th Floor,  
DLF Cyber City,  
Gurgaon 122 002  
Tel : +91 (0124) 679 2000  
Fax : + 91 (0124) 679 2012

## Hyderabad

1-8-384 and 385, 3rd Floor,  
Gowra Grand S.P.Road,  
Begumpet,  
Secunderabad – 500 003.  
Tel: +91 (040) 6603 2600  
Fax: +91 (040) 6603 2714

## Kolkata

Bengal Intelligent Park Building Alpha,  
1st floor, Block EP and GP Sector V,  
Salt Lake Electronics Complex,  
Kolkata - 700 091.  
Tel : + 91 (033) 6612 1000  
Fax : + 91 (033) 6612 1001

## Mumbai

Indiabulls Finance Centre,  
Tower 3, 28th Floor,  
Elphinstone Mill Compound,  
Senapati Bapat Marg, Elphinstone (W),  
Mumbai – 400013  
Tel: + 91 (022) 6185 4000  
Fax: + 91 (022) 6185 4101

## Pune

106, B-Wing, 7<sup>th</sup> Floor,  
ICC Trade Tower,  
Senapati Bapat Road,  
Pune – 411 016.  
Tel: + 91 (020) 6624 4600  
Fax: +91 (020) 6624 4605

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