

- Read :- 1. Application dt. 03/03/2006 from M/s. The Brihan Maharashtra Sugar Syndicate Ltd.
2. This office letter dt. 10/10/2007 calling the applicant for hearing on dt. 16/10/2007.
3. This office letter dt. 17/10/2007 calling the applicant for hearing on dt. 20/11/2007.
- Heard :- 1. Shri P.C. Joshi, Advocate attended the hearing on dt. 16/10/2007.
2. Shri P.C. Joshi, Advocate and Shri S.D.Shah, Advocate attended the hearing on dt. 20/11/2007.

PROCEEDINGS

(Under section 56 (1) (d) & (e) of the Maharashtra Value Added Tax Act, 2002)

No.DDQ-11-06/Adm-5/18/B- 5

Mumbai, dt. 31.3.08

An application is received from M/s. The Brihan Maharashtra Sugar Syndicate Ltd. [hereinafter referred to as **BMSL**] requesting determination of the following questions :-

- 1. Whether the part transfer of our running business alongwith incidental assignment of trade marks and other related intellectual and intangible properties, amounts to a transaction of sale of goods as understood under the Act and if so, the sale price thereof.*
- 2. Whether any VAT is payable by us in respect of the said transaction of part transfer of business and if so, the rate thereof.*
- 3. Whether we are eligible to claim set-off on the purchases forming part of the transaction in question, and if so what are the conditions and restrictions subject to which it can be claimed.*

02. FACTS OF THE CASE

The applicant is duly registered under the Bombay Sales Tax Act, 1959 as well as the Maharashtra VAT Act, 2002 under Registration No. 413112/S/61 dt. 31.8.1999. The applicant is a manufacturer of Spirit and Indian Made Foreign Liquor (hereinafter referred to as "IMFL"). The applicant markets the IMFL under their own brand names with registered trade marks. During the course of manufacturing IMFL, the applicant has developed secret techniques, formulae, recipes, processes, standards, specifications and requirements for manufacturing and marketing the IMFL and other products. The applicant also have their own technical know-how, secret formulae and technical as well as confidential information of data relating to blending and bottling IMFL.

Being desirous of transferring a part of their business, the applicant entered into an understanding with M/s. Radico Khaitan Ltd., having their place of business at New Delhi. The said M/s. Radico Khaitan Ltd., after negotiations, agreed to take over and acquire a part of the business hitherto carried out by the applicant. Accordingly, the Board of Directors of both the companies passed resolutions in the respective Board Meetings and thereafter the authorised representatives executed the formal agreement at New Delhi on 5th October, 2005. As per the terms of the said agreement, M/s. Radico Khaitan Ltd., being desirous of expanding their business, agreed to acquire the specified business of

manufacturing, selling and distributing IMFL under various brand names and trade marks, more specifically enumerated in Annexure-I of the agreement dated 5th October 2005 titled as 'specified business transfer agreement'. In addition to the principal agreement, two ancillary agreements were also executed between the applicant and the said M/s. Radico Khaitan Ltd., for a lump sum consideration of Rs. 24,00,00,000/- (Rs. Twenty four crore only). For the purpose of accounting the said Rs. 24,00,00,000/- have been divided as under :-

Rs.

1.	For transfer of Indian Made Foreign Liquor business	3,50,00,000/-
2.	For agreeing not to compete with the said business	3,00,00,000/-
3.	For transferring intellectual and intangible assets/property including goodwill, trade mark etc.	17,50,00,000/-
		24,00,00,000/-

The applicant has accordingly made the payment of stamp duty on the valuation arrived at Rs. 17,50,00,000/- out of the total consideration for transfer of part business at Rs. 24,00,00,000/-. The following relevant clauses from the aforementioned 3 agreements between M/s. The BMSSL and M/s. Radico Khaitan Ltd. could be reproduced as follows:-

[A] SPECIFIED BUSINESS TRANSFER AGREEMENT [SBTA]

1.1 DEFINITIONS

"Agreement" shall mean this Specified Business Transfer Agreement together with all Schedules and Annexures to this Agreement;

*"Ancillary Agreements" shall mean (i) the Trade Mark Assignment Deed, and (ii) the Non Compete Agreement, to be executed between Radico and the Company at the time of Closing, or any other agreement **that may be necessary** to be executed between the Parties at the time of Closing.*

"CSD" shall mean the Canteen Stores Department of Ministry of Defence, Government of India.

"Intellectual Property" shall mean all Intellectual Property attached to the Specified Trade Marks including but not limited logo, graphics, display material, flavour descriptors, formulations, blend code, seasonings, research, copyright, design in relation to the Specified Trade Marks.

"Non Compete Agreement" shall mean the Non Compete Agreement to be executed between Radico and the Company for the non compete obligations to be undertaken by the company with respect to the Specified Business, in the form attached herewith as Annexure II.

"Products" shall mean the IMFL products using the Specified Trade Marks and manufactured, sold, distributed or marketed by the Company.

"Specified Business" shall mean that part of the business of the Company which relates to manufacture, marketing, distribution of only those Products which are under the Specified Trade Marks along with their goodwill and their brand registrations with CSD;

"Specified Trade Marks" shall mean the Trade Marks listed at Annexure I hereto in respect of the Products of the Company, whether registered or pending registration under Class 33 of the Trade and Merchandise Marks Act, 1958, or under the Trade Marks Act, or unregistered.

“Taxes” shall mean any and all tax, duty, impost, levy, cess, surcharge, charge in the nature of tax and any fine, penalty or interest connected therewith including income-tax, withholding taxes, capital gains tax, gift tax, wealth tax, sales tax, service tax, octroi, turnover tax, excise duty, customs duty, stamp duty, registration fee, development cess, rates, property tax, which is payable under any taxation or other statute.

“Trade Marks Assignment Deed” shall mean the Trade Marks Assignment Deed to be executed between Radico and the Company for the assignment of Specified Trade Marks alongwith their goodwill in the form attached herewith as Annexure III.

2. TRANSFER OF SPECIFIED BUSINESS

2.1 *The Company hereby agrees to sell to Radico and Radico hereby agrees to purchase from the Company, from the Closing Date, the Specified Business as a going concern with respect to only the Specified Trade Marks, in the manner and subject to the terms and conditions of this Agreement.*

2.2 *The Company as the beneficial owner, agrees to assign, transfer and convey to Radico all its rights, title, and interests to the Specified Business including other intangible benefits and, or, rights related to the Specified Business to the end and intent that Radico shall be the full and undisputed owner of the Specified Business effective as at the close of the business hours on the Closing Date and entitled as such to carry on the Specified Business.*

3. CONDITIONS PRECEDENT

3.1 *All obligations of Radico under this Agreement are, at its option, subject to the fulfillment prior to or at the closing of each of the following conditions precedent:*

3.1.1 *Execution of the Trade Mark Assignment Deed;*

3.1.2 *Execution of the Non Compete Agreement;*

3.1.3 *The Company shall have applied to CSD for price revisions of the products;*

3.1.4 *Receipt of corporate approvals from Radico and the Company approving the sale and purchase of Specified Business contemplated herein;*

3.1.5 *The Company shall have forwarded to Radico all correspondence with CSD of the products in order to ensure smooth sale/transfer of the Specified Business from the Company to Radico.*

3.1.6 *The Company shall also hand over copies of all documents/correspondence in relation to the Formulations to Radico,*

3.1.7 *The Company shall have forwarded to Radico a list of all work orders/purchase orders/permits received, for the products, from CSD pending execution as on the date of Closing.*

3.2 *If any of the Conditions Precedent is not satisfied by the Closing Date, Radico shall be entitled to:*

3.2.1 *Waive the satisfaction of such condition and may proceed to close the transaction by the Closing Date as far as practical (without limiting its rights under this Agreement); or*

3.2.2 *Mutually agree with the Company in writing to extend the Closing Date; or*

3.2.3 *Terminate this Agreement at its sole option, by giving notice of thirty (30) days to the Company.*

3.3 Upon the execution hereof and up to Closing Date, the Company shall not enter into any negotiations, discussions, agreements or similar arrangements concerning the Specified Business, with any third party whatsoever.

4.1 CESSATION OF SPECIFIED BUSINESS BY COMPANY

4.1.1 On and from the date of Closing, Company shall cease to manufacture the Products and use of the Specified Trade Marks and Formulations and shall cease to receive any orders/permits for the manufacture and sale of the Products. Radico shall have the right to manufacture and sell the Products and all rights thereto shall vest solely with Radico.

4.1.2 On and from the date of Closing, Company shall cease to sell the Products from any of its undertakings, plant locations, including any depots etc., and all Products lying unsold with the Company including its CFA, depot etc. on the date of Closing, shall be handed over to Radico at purchase price / landed price and title therein will pass to Radico.

4.1.3 The Company shall be solely responsible for all products manufactured and sold by it on or before the Closing Date and the Company shall indemnify and keep Radico indemnified against any third party claim or liability whether civil or criminal raised by any persons or authority, arising out of any incidental to any product manufactured and sold by the Company before the Closing Date.

4.1.4 After the Closing Date the Specified Business shall be done by the Company for and on behalf of Radico till such time Radico deems it necessary.

4.1.5 At closing, the Company shall hand over all CSD brand registrations for the products to Radico. The Company shall give a No Objection Certificate to CSD for the transfer of the brand registrations pertaining to the Specified Trade Marks in favor of Radico.

5. OTHER COMMERCIAL ARRANGEMENTS

5.1 Radico and the Company may, subject to mutual agreement, enter into separate bottling agreement for supplies to CSD and Maharashtra civil business.

5.2 Radico shall purchase grape spirit and other matured malt spirit from the Company on cost plus fifteen percent (15%) basis for its operations.

5.3 Radico shall also purchase Extra Neutral Alcohol (ENA) from the Company for Maharashtra civil business and CSD supply at the prevailing basic market price plus applicable taxes.

7.2 LIABILITIES

Radico shall not accept, take over or assume any liability of the Company. The Company expressly acknowledges that all or any liability, known or unknown, asserted or unasserted, including one limited to liabilities in contract or tort or pursuant to any alleged act of environmental accident or emission, industrial accident, statutory breaches or default or any other act of commission or omission in any manner relating to the Specified Business, that exists or may exist as on closing, shall remain the sole and exclusive liability of the Company and the Company shall at all times keep Radico fully indemnified and hold Radico harmless against all such liabilities and claims including but not limited to marketplace issues.

7.4 EMPLOYEES

The company shall be solely responsible for all persons employed or engaged by the Company in connection with the Specified Business (including all casual and contract

labour). All costs in respect of such persons, including termination costs and benefits shall continue to be the sole responsibility and liability of the Company. The Company shall keep Radico fully indemnified against any liability, claims or costs in this regard.

8. CONSIDERATION

The consideration for the transfer and acquisition of the Specified Business shall be a sum of Rs. 3,50,00,000/- (Rupees Three Crores and Fifty Lakhs only) (the “**Consideration**”) which will be payable by Radico to the Company on January 31, 2006.

15. ENTIRE AGREEMENT

This Agreement along with the Ancillary Agreements sets forth the entire agreement and understanding between Radico and the Company in connection with the sale and purchase of the Specified Business.

ANNEXURE I - TRADE MARKS

Sr.No.	IMFL Brands of the Company	Status of brand
1	Brihans Premium Whisky	Registered
2	Brihans No. 1 Whisky	Registered
3	Brihan’s Fine Whisky	Registered
4	Brihan’s No. 1	Registered
5	Brihan’s Whisky	Registered
6	Brihan’s Premium Blue Whisky	Unregistered
7	Brihans Grape Brandy	Registered
8	Brihans Napoleon Brandy	Pending
9	Brihan’s Napoleon Genuine Grape Brandy	Unregistered
10	Brihan’s Napoleon	Pending
11	Lord Nelson Rum	Unregistered
12	Nelson	Pending
13	Nelson Export Quality Malt Whisky	Pending
14	Tropicana White Rum	Unregistered
15	Tropicana (in class 33, whether word or label)	Word is registered label has expired
16	Calcutta Dry Gin	Pending
17	Red Russian Vodka	Registered
18	Brihan’s Vodka	Registered
19	Red Russian Deluxe Vodka	Unregistered
20	Brihans Doctor Brandy	Registered
21	Brihan’s Doctor (both word & label)	Registered
22	Brihan’s Doctor Whisky	Registered
23	Brihan’s Doctor XXX Rum	Advertised
24	Brihans No.1 Dr. Rum 50 up	Unregistered
25	Brihans Blue Bird Gin 35 up	Registered
26	Goa Dry Gin & Lime 35 up	Unregistered
27	Brihan’s Goa	Advertised
28	Brihan’s Goa Special Dry Gin	Registered
29	Brihan’s Blue Bird Gin N Lime	Unregistered
30	Golden Bell Rum	Registered
31	Golden Bell (both word & label)	Registered
32	Officer’s Club Whisky	Unregistered
33	Kohinoor Doctor Brandy	Unregistered
34	Kohinoor	Registered

35	Danny Rum Cola	Unregistered	CUT
36	Danny Whisky	Advertised	CUT
37	Brihan's Danny	Pending	CUT
38	Premium Yellow Label	Unregistered	
39	Premium Blue Label	Unregistered	

[B] NON COMPETE AGREEMENT [NCA]

2. NON COMPETITION

- 2.1** *In consideration of payment of the sum stated in Clause 3 hereof, the Company undertakes to Radico that it shall not and shall procure that none of its Affiliates shall, either on its/their own account or in association with others engage or participate directly or indirectly, whether as shareholder, director, partner, advisor, consultant, member, agent, distributor or otherwise in any business, which involves, relates to or competes with the Specified Business and shall not adopt, use or register or seek to register any trademark using the word or logo of 'BRIHANS' which is identical to the Specified Trade Marks.*

[C] TRADEMARK ASSIGNMENT DEED [TAD]

1. ASSIGNMENT OF TRADEMARKS

- 1.1** *The Assignor as the sole and exclusive proprietor and owner of the Trademarks, hereby irrevocably assigns, convey and transfers unto the Assignee, all the property, rights, title and interests in the Trademarks, including those available at common law, in perpetuity, together with all rights connected with the goodwill of the business in respect of the Trademarks, for all territories of the world, including India. This assignment shall be free and clear of any and all charges, liens, security interests, liabilities, claims and any other form of third party rights, both actual and potential.*
- 1.2** *The Assignor further transfers and assigns all rights and entitlements to extend, renew and secure extensions, renewals of the Trademarks on worldwide basis and future rights, title and interest to any modifications and, or, alteration of the Trademarks. The Assignor covenants that the Trademarks shall become the absolute and exclusive property of the Assignee and the Assignor shall thereafter have no right, title, claim or interest in or in relation to the Trademarks.*
- 1.3** *The assignment herein shall include assignment, transfer and conveyance in all the intellectual property rights, including copyright, design and patent in (i) trade-dress, the labels and variation of the Trademarks, logos/legends in the Trademarks detailed at Annexure C hereof; and (ii) bottles, caps and other packaging material that is being used with the trademarks.*
- 1.4** *The Assignor hereby also assigns to the Assignee its entire right, title and interest in the Formulation under the Trademarks.*
- 4.5** *The Assignee also hereby agrees and confirms that the ownership of the word 'BRIHANS' and the 'BRIHANS' logo shall remain with the Assignor exclusively forever as before and the Assignee shall not use the word BRIHANS and the BRIHANS logo for any other products manufactured or marketed by Assignee, without the prior written consent of Assignor.*

5. MISCELLANEOUS

- 5.1** *The term 'business' in this Deed shall mean and include business of manufacturing, marketing, distributing, promoting, selling or otherwise dealing in alcoholic beverages*

and related business with respect to the Trademarks. If any part of this Deed is at any time construed to be illegal, invalid or unenforceable, then so much of that part will be deleted from this Deed as is necessary to preserve the legality, validity or enforceability of the remainder of this Deed and such remainder will not be affected.

- 5.2 To the extent, if any, that the Assignor has or had the right to take actions against third parties for infringement of the Trademarks, the Assignor assigns, transfers and sets over to the Assignee all such rights in the Territory.
- 5.3 The Assignee shall have the unrestricted right to assign or otherwise dispose of this assignment or of any of its rights hereunder, in whole or in part.

ANNEXURE A - TRADE MARKS

Sr.No.	IMFL Brands of the Company	Status of brand
1	Brihans Premium Whisky	Registered
2	Brihans No. 1 Whisky	Registered
3	Brihan's Fine Whisky	Registered
4	Brihan's No. 1	Registered
5	Brihan's Whisky	Registered
6	Brihan's Premium Blue Whisky	Unregistered
7	Brihans Grape Brandy	Registered
8	Brihans Napoleon Brandy	Pending
9	Brihan's Napoleon Genuine Grape Brandy	Unregistered
10	Brihan's Napoleon	Pending
11	Lord Nelson Rum	Unregistered
12	Nelson	Pending
13	Nelson Export Quality Malt Whisky	Pending
14	Tropicana White Rum	Unregistered
15	Tropicana (in class 33, whether word or label)	Word is registered label has expired
16	Calcutta Dry Gin	Pending
17	Red Russian Vodka	Registered
18	Brihan's Vodka	Registered
19	Red Russian Deluxe Vodka	Unregistered
20	Brihans Doctor Brandy	Registered
21	Brihan's Doctor (both word & label)	Registered
22	Brihan's Doctor Whisky	Advertised
23	Brihan's Doctor XXX Rum	Advertised
24	Brihans No.1 Dr. Rum 50 up	Unregistered
25	Brihans Blue Bird Gin 35 up	Registered
26	Goa Dry Gin & Lime 35 up	Unregistered
27	Brihan's Goa	Advertised
28	Brihan's Goa Special Dry Gin	Registered
29	Brihan's Blue Bird Gin N Lime	Unregistered
30	Golden Bell Rum	Registered
31	Golden Bell (both word & label)	Registered
32	Officer's Club Whisky	Unregistered
33	Kohinoor Doctor Brandy	Unregistered
34	Kohinoor	Registered
35	Danny Rum N Cola	Unregistered CUT
36	Danny Whisky	Advertised CUT
37	Brihan's Danny	Pending CUT

38	Premium Yellow Label	Unregistered
39	Premium Blue Label	Unregistered

ANNEXURE B - The status of registration/application for Trademarks

Sr.No.	Trademarks to be assigned	Registration Status	Registration Number	Comment
1	Brihans Premium Whisky	Registered	379837	Valid upto 2009. Original certificate only photocopy. Renewal certificate original
2	Brihans No. 1 Whisky	Registered		
3	Brihan's Fine Whisky	Registered	401103	Valid upto 2011. Original certificate available. Renewal Certificate not available.
4	Brihan's No. 1	Registered	379230	Valid upto 2009. Original certificate not available. Renewal Certificate original
5	Brihan's Whisky	Registered		
6	Brihan's Premium Blue Whisky	Unregistered	Not applicable	First use information required
7	Brihans Grape Brandy	Registered	629637	Valid upto 2004. Original certificate available. Renewal Certificate not available.
8	Brihans Napoleon Brandy	Pending		
9	Brihan's Napoleon Genuine Grape Brandy	Unregistered	Not applicable	First use information required
10	Brihan's Napoleon	Pending		
11	Lord Nelson Rum	Unregistered	Not applicable	First use information required
12	Nelson	Pending		
13	Nelson Export Quality Malt Whisky	Pending		
14	Tropicana White Rum	Unregistered	Not applicable	First use information required
15	Tropicana (in class 33, whether word or label)	Word is registered, label has expired		
16	Calcutta Dry Gin	Pending		
17	Red Russian Vodka	Registered	629640	Valid upto 2014. Original certificate available. Renewal Certificate not available.
18	Brihan's Vodka	Registered	629641	Valid upto 2004. Original certificate available. Renewal Certificate not available.
19	Red Russian Deluxe Vodka	Unregistered	Not applicable	First use information required
20	Brihans Doctor	Registered	629635	Valid upto 2004. Original

	Brandy			certificate available. Renewal Certificate not available.
21	Brihan's Doctor (both word & label)	Registered		
22	Brihan's Doctor Whisky	Registered		
23	Brihan's Doctor XXX Rum	Advertised		
24	Brihans No.1 Dr. Rum 50 up	Unregistered	Not applicable	First use information required
25	Brihans Blue Bird Gin 35 up	Registered	333381	Valid upto 2006. Original certificate not available. Renewal Certificate photocopy available.
26	Goa Dry Gin & Lime 35 up	Unregistered	Not applicable	First use information required
27	Brihan's Goa	Advertised		
28	Brihan's Goa Special Dry Gin	Registered	629645	Valid upto 2014. Original certificate available. Renewal Certificate not available.
29	Brihan's Blue Bird Gin N Lime	Registered	379836	Valid upto 2009. Original certificate not available. Renewal Certificate in original
30	Golden Bell Rum	Registered	333379	Valid up to 2006. Original certificate available. Renewal Certificate photocopy.
31	Golden Bell (both word & label)	Registered	315448	Valid upto 2014. Original certificate available. Renewal Certificate not available.
32	Officer's Club Whisky	Unregistered	Not applicable	First use information required
33	Kohinoor Doctor Brandy	Unregistered	Not applicable	First use information required
34	Kohinoor	Registered		
35	Danny Rum N Cola	Unregistered	Not applicable	First use information required CUT
36	Danny Whisky	Advertised		CUT
37	Danny Rum N Cola	Pending		CUT
38	Premium Yellow Label	Unregistered	Not applicable	First use information required
39	Premium Blue Label	Unregistered	Not applicable	First use information required

The applicant is of the opinion that since the above transaction of transferring running business of IMFL, as a part of the applicant's restructuring activities, would be covered by sub-section (4) of section 44 of the Maharashtra VAT Act 2002, their liability of payment of tax from the date of assignment of the running business has ceased and M/s. Radico Khaitan Ltd., who have taken over the business of IMFL are liable to pay tax from the date of acquiring the IMFL business.

In order to avoid future inter se litigations, the present application has been made.

03. CONTENTION

In the written submission dt. 13/11/2007, the applicant has stated as follows :-

1. By an agreement dated 5th October 2005, the applicants agreed to transfer specified part of their business to M/s. Radico Khaitan Ltd. having their place of business at Delhi. Alongwith the said main agreement, two ancillary agreements were also executed, one described as 'Trade Marks Assignment Deed' and the other as 'Non Compete Agreement'. The term 'specified business agreed to be transferred' was also defined as that part of the business of BMSSL, which related to manufacture, marketing and distribution of those products which were covered by the specified trade marks alongwith their goodwill and their brand registration. The agreement also defined the term 'Specified trade mark' to mean trade marks listed in Annexure-I annexed to the agreement in respect of certain products of the Applicant.
2. Pursuant to the execution of the agreement, necessary stamp duty was paid by the transferee of the part business on the valuation arrived at Rs. 17,50,00,000/- out of the total consideration for transfer of part business at Rs. 24,00,00,000/.
3. The applicant however, clarifies that except for the transferring of intellectual and intangible property including goodwill, trade mark etc., other assets and liabilities were not transferred. The staff and workers were also not transferred, so also the land and machinery installed for the transferred business was never transferred. The only consequence of the agreement in question was that after the execution of the agreement and the transfer of specified business, the business of IMFL was not carried out by the applicants and whatever process in that regard was undertaken thereafter, was done for and on behalf of the transferee i.e. M/s. Radico Khaitan Ltd., as its agent. Thus, the applicant received labour charges from the transferee for manufacturing IMFL brands transferred.
4. As is expected by an agent, the applicant has been maintaining separate accounts pertaining to the transferee's sale, purchase and expenses in their name.
5. The first question relates to the assignment of intellectual and intangible properties, whether such transactions were transactions relating to goods as defined under the Sale of Goods Act as well as the Maharashtra VAT Act, 2002. Question Nos. 2 & 3 also arise out of the same transaction, but only if it is held that the part transfer of business with incidental assignment of intellectual and intangible properties amount to sale of goods. In that connection, I may submit as under :

- 5.1 As held by the Supreme Court in the case of M/s. Gujarat Bottling Co. Ltd. vs. M/s. Coca Cola Co. (AIR 1995 SC 2372), the trade mark is an intellectual property which does not exist by itself, but in relation to goods to which it can be attached. The transactions in relation to the trade mark are therefore governed by the provisions of the Trade & Merchandise Mark Act, 1958 which was an Act of Parliament. The said Act of 1958 was replaced by Trade Mark Act,

1999. It is well laid down principle of law that the provisions of the local enactment have to be interpreted and understood subject to the similar provisions in the Central enactment. A copy of the said judgment of the Supreme Court is given alongwith the submission.

- 5.2 Trade Mark is a beneficial negative or protective interest in movable property not in possession either actual or constructive. It is not a physical article, but only an intellectual property that was passed on to the transferee as part and incidental to the transfer of part business.
- 5.3 The term 'goods' as defined in section 2(12) of the Maharashtra VAT Act, 2002, though is widely termed to cover every kind of movable property, it expressly excludes 'actionable claims' from its scope. The Constitution bench of the Supreme Court in its latest judgment in the case of M/s. Sunrise Associates (145 STC 576) had to deal with the difference between actionable claim and the definition of the term 'goods' under the Sale of Goods Act, 1930 as well as the sales tax laws. That aspect of the matter has been dealt with in paras 39 & 40 of the said judgment at page 593 & 594. Following the said ratio, it can now safely be stated that an actionable claim can also be assigned for a value similar to negotiable instruments which are transferable under the Negotiable Instruments Act, 1881. The conclusion in para 39 is that if a claim to the beneficial interest in movable property was not in vendee's possession when transferred, it was not a sale of goods for the purposes of sales tax law. The Constitution bench also held in para 40 that a lottery ticket sale was nothing but a transfer of actionable claim and did not involve any sale of goods. In the case before your Honour, as incidental to the part transfer of business, actionable claim in the form of 'Trade Mark' have been transferred, therefore there was no transaction of sale of goods at all.
- 5.4 As has been held by the Supreme Court in yet another case of M/s. Godfrey Phillips (139 STC 537), while dealing with the question of levying luxury tax on sale of tobacco etc., that the legislative power under Article 246 vested with parliament and the State legislatures are mutually exclusive. Considering that aspect of the matter, especially when the term 'goods' as defined in Maharashtra VAT Act, 2002 expressly exclude the 'actionable claim', by no process of reasoning could the transaction placed before you for determination be held to be that relating to goods.
- 5.5 The applicant further submits that the trade mark is a representational right exercisable only on any infringement by any person in future. Therefore, from that point of view also, the impugned transaction may be held to be outside the purview of the MVAT Act, 2002 and hence not exigible to any tax.
- 5.6 While concluding, without prejudice to what is stated hereinabove, the applicant seeks to bring to notice the fact that Annexure-1 appended to the main agreement, namely 'specified business transfer agreement' contains the list of trademarks agreed to be transferred. It also includes the

technical know-how possessed by the applicant and secret techniques, formulas, recipes, processes, standards, specifications and requirements as also other secret technical and confidential information and data relating to the blending and bottling of IMFL. Secondly, the specified trade marks also contain as many as 11(eleven) unregistered trade marks out of 36(thirty six) trademarks mentioned therein. Since the law relating to levy of tax consider only the registered trademarks, no VAT could be levied on the value relating to the unregistered trademarks, which can be arrived at by adopting proportion method.

04. HEARING

The case was kept for hearing on dt. 16/10/2007. Shri P.C. Joshi, Advocate attended the hearing on dt. 16/10/2007. The applicant was partly heard on the said date. The applicant submitted that there is part transfer of business for a sum of Rs. 24 crore. For the purpose of accounting, the said Rs. 24,00,00,000/- have been divided into separate amounts such as for

1. transfer of IMFL business
2. non-compete agreement compensation
3. transferring intellectual and intangible assets/property including goodwill, trade mark, etc.

It is contended that on the date of transfer, transferee becomes liable. They i.e the transferor, have made the present application by way of abundant caution. It is submitted that when whole business is transferred lock, stock and barrel, other incidental and ancillary things get transferred and not sold. They have placed reliance on the judgments in the cases of M/s. Premier Automobile and M/s. Lohia Machines (110 STC 305). The applicant further informed that he is a manufacturer of sugar, spirits and molasses. He informed that only the liquor business has been stopped and transferred. The amount of Rs. 24 Crores received on account of the transfer is debited to the account. The business is a going concern. They were asked to explain whether assets & liabilities/facilities were also transferred to M/s. Radico Khaitan Ltd. Hence, the hearing was adjourned as the applicant requested time to ascertain certain facts relating to the transaction involved in the present determination application. Shri P.C. Joshi, Advocate agreed to submit a write-up in the matter.

The case was again kept for hearing on dt. 20/11/2007. Shri P. C. Joshi, Advocate and Shri S. D. Shah, Advocate attended the hearing. It was submitted that the applicant is carrying on his business and only part of his business was transferred. There is no transfer of physical assets (plant & machinery) & liabilities. But there is transfer of business pertaining to specified trademarks. The trademarks/know how/formulae have also been transferred. It was further informed that the applicant will be doing job work for those products which are transferred to Radico Khaitan.

It was argued that this transaction of transfer of specified trademarks is sale of business. In the alternative, it was argued that it is sale of Intellectual Property and actionable claim and therefore not taxable.

05. OBSERVATIONS

I have gone through the facts of the case as well as all the details which are brought on record by the applicant. The issue before me as put forth by the applicant is whether the transaction between the applicant and M/s Radico Khaitan, contained in the agreement executed between them amounts to a transaction of sale of goods under the provisions of the Maharashtra Value Added Tax Act, 2002. If the transaction is a sale under the aforementioned Act, the applicant desires to know the "sale price" which would attract a levy of tax and also the rate at which tax is leviable on the said "sale price". The applicant further desires to know whether he is eligible to claim set-off on the purchases forming part of the transaction in question, and if so the conditions and restrictions subject to which it can be claimed.

The applicant has maintained that the transaction is a "transfer of business" and not a sale. I have to decide whether such is the case. The term 'transfer of business' is not defined under the Act and therefore the principles or more precisely speaking, the criteria defining a transfer of business have to be culled from the various judgments which have dealt with the subject. I have gone through these judgments and it has been observed that the judgments have followed a common and a well defined path- *transfer of business is construed and interpreted as an extensive and complete 'transfer'*. When a company hives off a division and sells it off to some other company it is a complete secession of that business from the selling company- the business is transferred *lock, stock and barrel to use the expression frequently used by Courts in defining it. The selling company, as it were, transfers everything -the assets, liabilities, the employees, the goodwill, the trademarks etc. A transfer of business cannot be half-hearted and unenthusiastic- it has to be complete with no holds barred.* Normally, in a transfer of business there is transfer of functional assets, properties, liabilities, permits, tenancies, leasehold improvements, technical information, know-how, patents, licenses, confidential and proprietary information, inventories, benefits of all agreed or entered agreements or contracts, rights, computer software and programmes, the employees etc. When only assets are transferred without a transfer of the other constituents, the Courts have consistently refused to accept such a transaction as transfer of business.

Let me quote a few judgements in this regard. In the case of IBP Company Limited v/s. Asstt. Commissioner, Commercial Taxes (118 STC 33) it had been categorically held that the sale of lubricants, grease and related manufacturing products and blending plant by the selling company is not a sale of entire business. The High Court held that it was not sale of the entire business because it was not a sale of the entire unit -lock, stock and barrel, because stock, stores and other assets of the blending plant were not sold to the other Company. In the case of State of Tamilnadu v/s. TMT Drill Pvt. Ltd, it was held therein that sale of fixed assets of a business is not transfer of a business as a whole when the transaction was of only a transfer of certain specific assets i.e. plant and machinery and car -it can not be considered as a transfer of business as a whole. The Kerala High Court in the case of Zacharia v/s. State of Kerala observed that so long as there is nothing to suggest that any part of the assets was retained by the sale or any amount standing to the credit of the business were taken over by a sale, it cannot be suggested that the business as a whole was not transferred. **Thus, the sale of assets as a whole along with the going concern only can amount to sale of business.**

The judgement of the Bombay High Court reported in 13 STC 703 in the case of Bhiharilal Maniklal Kothari, is squarely applicable to the present case. As the facts are very much similar it is dealt with in some detail :

A partnership firm carrying a Bidi manufacturing business sold to the applicant in exchange of the loan advanced by the applicant to the partnership firm, the goodwill of the business and the right to use ten bidi label marks. The partners agreed that they would not in future use the ten bidi label marks in their business. The partners contended that it was a sale of business. However, it was held that both these things taken together cannot amount to the entire business of a trader. There was no evidence to show that there was any transfer of assets. It was held that the mere fact that the person doing business has sold the goodwill of their business and right to in trade marks by itself is not sufficient to hold that the entire business of the trader has been transferred.

The Gujarat High Court judgement in the case of M/s. Kalaria Oil Mills (22 STC 477) U/s. 19 (4) of the Bombay Sales Tax Act stated that what is required in order to constitute succession in business is a transfer of the business or a part thereof as such and not merely some of the assets of the business. What is contemplated by the sub section is that it must be transfer/disposal or change of business and not merely of the assets of the business. When the assets of business are sold or disposed off, it cannot be said that a part of the business has been transferred or disposed off. This judgement referred to the observations of the Supreme Court in the case of M/s. ACAI Society v/s. Workmen Air 1963 SC 1489. The SC observed that in a transfer of business the questions to be asked are- Did the purchaser purchase the whole of the business? Was the business purchased as 'a going concern' at the time of the sale? Is the business purchase carried out at the same place as before? Is the business carried on without break in time? Has goodwill been purchased? Is the purchase of only some parts?

Turning to the facts of the present case, it is seen that though it has sold out one of its divisions, viz., liquor manufacturing unit, but the sale of the liquor unit is not lock, stock and barrel. The applicant himself has submitted, there is no physical transfer of assets and liabilities. There is only transfer of specified trademarks. The applicant claims that there is transfer of "*Specified Business*". For ascertaining the nature of the transaction, we may look into some of the important clauses of the agreement.

The clause pertaining to ***Transfer of Specified Business*** of the SBTA describes the transaction as ... "*The Company hereby agrees to sell to Radico and Radico hereby agrees to purchase from the Company, from the Closing Date, the Specified Business as a going concern with respect to only the Specified Trade Marks, in the manner and subject to the terms and conditions of this Agreement*". It is further mentioned that the Company as the beneficial owner, agrees to assign, transfer and convey to Radico all its rights, title, and interests to the ***Specified Business including other intangible benefits and, or, rights related to the Specified Business to the end and intent that Radico shall be the full and undisputed owner of the Specified Business effective as at the close of the business hours on the Closing Date and entitled as such to carry on the Specified Business.***

Specified Business as per the Specified Business Transfer Agreement [SBTA] in turn means that part of the business of the transferor which relates to manufacture, marketing, distribution of only those Products which are under the Specified Trade Marks along with their goodwill and their brand registrations with CSD. This definition of *Specified Business* itself shows that the transaction effected between BMSSL and Radico revolves around the Specified Trade Marks only.

The aforesaid clause shows that the *transfer is only with relation to the specified business and the specified business is only with respect to the specified trade marks*. There is no transfer of the business as a going concern. There is only transfer of trademarks. There is no transfer of functional assets, properties, liabilities, permits, tenancies, leasehold improvements, technical information, know-how, patents, licenses, confidential and proprietary information, inventories, benefits of all agreed or entered agreements or contracts, rights, computer software and programmes, the employees etc. which are some of the accompaniments of a transfer of business.

The clause of the agreement relating to liabilities is crucial. This aspect is contained in clause 7.3 of the Agreement.

7.3 LIABILITIES

Radico shall not accept, take over or assume any liability of the Company. The Company expressly acknowledges that all or any liability, known or unknown, asserted or unasserted, including one limited to liabilities in contract or tort or pursuant to any alleged act of environmental accident or emission, industrial accident, statutory breaches or default or any other act of commission or omission in any manner relating to the Specified Business, that exists or may exist as on closing, shall remain the sole and exclusive liability of the Company and the Company shall at all times keep Radico fully indemnified and hold Radico harmless against all such liabilities and claims including but not limited to marketplace issues.

The **LIABILITIES** clause of the SBTA is drafted such that Radico shall not accept, take over or assume any liability of BMSSL and thus an important factor of a 'transfer of business' is missing. The liabilities of the applicant remain with the applicant and, as is important in a transfer of business, the liabilities are not transferred and therefore this is not a transfer of business but a sale of trademarks under the garb of transfer of business.

In the clause of the SBTA pertaining to **Cessation of Specified Business** by BMSSL, it is mentioned that Radico shall have the **right to manufacture and sell the products** whose trademarks have been transferred to them and all rights thereto shall vest solely with Radico. This confirms that the agreement entered into with Radico is for transfer of the right to manufacture and sell the products whose trademarks have been transferred and not transfer of a business in entirety as such.

The clause of the SBTA pertaining to **EMPLOYEES** in clause 7.4 mentions that BMSSL shall be solely responsible for all persons employed or engaged by BMSSL in connection with the Specified Business (including all casual and contract labour). All costs in respect of such persons, including termination costs and benefits shall continue to be the sole responsibility and liability of BMSSL. If BMSSL had intended to transfer the business, why would it incur recurring cost of labour in respect of the trademarks which have been transferred?

The clause of the SBTA pertaining to **ENTIRE AGREEMENT** in clause 15 mentions that the SBTA along with the Ancillary Agreements sets forth the entire agreement and understanding between Radico and the Company in connection with the **sale and purchase** of the Specified Business. We have seen earlier that **Specified Business** means that part of the business of the transferor which relates to manufacture, marketing, distribution of only those Products which are under the Specified Trade Marks along with their goodwill and their brand registrations with CSD. From the above, it can be said that all the three agreements entered into by

BMSSL with Radico are in respect of a single event of sale of the specified trademarks. The applicant has for accounting purposes preferred to bifurcate the consideration received in respect of a single transaction under three different heads such as transfer of IMFL business, transfer of intellectual and intangible assets/property including goodwill, trade mark, etc. and non compete agreement.

Herein we could have a look at the Trademark Assignment Deed [TAD]. The TAD mentions that the Assignor ie BMSSL has agreed to **sell, transfer and assign to Radico its right, interest and title in the Trademarks and the Formulation**. Thus, the event is the sale and transfer of the specified trademarks. As per the TAD, all rights and interests in respect of the specified trademarks only are transferred. This would further make it clear that there is only transfer or sale of trademarks in respect of the liquor business and not the entire business of liquor.

The applicant i.e the assignor has executed an agreement with the assignee such that the assignee will be allowed to deal in the specified trademarks owned by the assignor. It will be the assignee who will sell, manufacture and distribute products bearing the trademarks owned by the assignor and for this act of the assignor, the assignee has agreed to pay consideration to the assignor. If the assignee is going to use the trademarks, it goes without saying that the assignor should not use them simultaneously as there would be confusion in the Trade in respect of the owner of the trademarks. A trademark symbolizes the reputation and goodwill of the holder and is accordingly recognized by the Trade. A non-compete agreement is inevitable in such circumstances. This explains why the applicant has entered into a Non-compete agreement with Radico. Further, the term '**business**' as per the TAD **means and includes business of manufacturing, marketing, distributing, promoting, selling or otherwise dealing in alcoholic beverages and related business with respect to the Trademarks**. Thus, it becomes clear that the entire agreement is in respect of specified trademarks only. The applicant is a manufacturer of liquor as well as fertilizers. As per the TAD agreement, the applicant is free to manufacture/bottle its own products under other brands/trademarks (other than those covered by the TAD) as well as products of other manufacturers under the brand names of such manufacturers. Thus, it can be inferred that the impugned transaction is in respect of the Specified Trade Marks which have been transferred to Radico and not in terms of an entire business in liquor transferred with all the rights and liabilities attached thereto.

A transfer under the provisions of the Companies Act essentially involves a transfer of shares of the company to the extent of transfer. Such are not the facts of the present case. The transaction in essence is a sale and not a transfer of business. In fact, the applicant has submitted that he would be carrying on jobwork in the trademarks which are transferred. Thus, there would be no manufacturing or trading activity **but** only jobwork. We have seen earlier that **transfer of property in goods is an integral part of the agreement of transfer of business and it involves sale of the business as a whole i.e. alongwith the entire movable property including plant, machinery, equipment and other capital assets together with immovable and intangible assets**. The applicant will be continuing with the jobwork and hence, it cannot be said that he has discontinued the entire business. He has discontinued only the sale of the Specified Trade Marks and has thus modified the way he is doing business. Further, a *transfer of business* being governed by the provisions of the Companies Act, 1956 would

require an order by a Court in the matter of the Appointed Date for the event of transfer of business. The applicant has not submitted any evidence in that regard.

In view of all the above deliberations, I have no doubt in concluding that the transaction posed by the applicant for determination falls within the scope of the definition of “sale” under the Maharashtra Value Added Tax Act, 2002. Now, the applicant has argued that “Trade Marks” are not “goods” and hence, tax cannot be levied on them. To support his contention, he has placed reliance on the judgments in the following cases:-

1. M/s. Gujarat Bottling Co. Ltd. vs. M/s. Coca Cola Co. (cited supra)
2. M/s. Sunrise Associates (cited supra)
3. M/s. Godfrey Phillips (cited supra)

The question as to what are “goods” for the purposes of the Maharashtra Value Added Tax Act, 2002 has been discussed and settled in the case of M/s. Tata Consultancy Services (137 STC 620). The Supreme Court has categorically concluded that ‘goods’ would include both tangible as well as intangible movable properties. The Apex Court has cited with approval the SC judgement in the case of M/s H. Anraj (1 SCC 414) wherein it was held that incorporeal rights fall within the definition of goods. Thus, the issue whether incorporeal rights are tangible goods has been settled for some time now and the applicant has a non-issue here. Further, the Schedule ‘C’ appended to the Maharashtra Value Added Tax Act, 2002 itself recognizes “Trademarks” as “**Goods of intangible or incorporeal nature**” attracting tax @ 4% by virtue of being included in the notification issued for the purposes of the entry 39 of the said schedule.

I would now move on to the next question posed by the applicant. The applicant desires to know the “sale price” in respect of the impugned transaction. We have seen earlier that SBTA along with the Ancillary Agreements sets forth the entire agreement and understanding between Radico and the Company in connection with the **sale and purchase** of the Specified Business. Now *Specified Business* means that part of the business of the transferor which relates to manufacture, marketing, distribution of only those Products which are under the Specified Trade Marks along with their goodwill and their brand registrations with CSD. The transaction between the applicant and M/s Radico Khaitan is essentially that of sale of trademarks. All the three agreements pertain to the single contingency of assignment of trademarks and the entire consideration of Rs 24,00,00,000 is for the sale of trademarks. The three separate agreements only deal with the different aspects of the sale and as such the bifurcation is a misnomer. Thus, “sale price” in respect of the impugned transaction would be as follows :-

1.	For transfer of Indian Made Foreign Liquor business	3,50,00,000/
2.	For agreeing not to compete with the said business	3,00,00,000/
3.	For transferring intellectual and intangible assets/property including goodwill, trade mark etc.	17,50,00,000/
		24,00,00,000/

The applicant also desires to know the rate of tax to be charged, if the impugned transaction is held as a “sale” under the Maharashtra Value Added Tax

Act,2002. We have schedule entry C-39 under the Maharashtra Value Added Tax Act,2002 which reads thus :

Goods of intangible or incorporeal nature as may be notified from time to time by the State Government in the Official Gazette.

The notification issued for the purposes of this entry specifies the goods of intangible or incorporeal nature for the purposes of the said entry. So far two notifications have been issued for the purposes of this entry. "Trademarks" is mentioned a sr. no. 2 of the aforementioned notifications. Thus, the rate of tax on the sale of "Trademarks" would be 4% being covered by the aforementioned schedule entry.

The applicant has alternatively argued that the law relating to levy of tax considers only the registered trademarks and hence, no VAT could be levied on the value relating to the unregistered trademarks. He further mentions that the 36 trademarks which have been transferred contain as many as 11(eleven) unregistered trade marks. No VAT could be levied on the value relating to the unregistered trademarks, which can be arrived at by adopting proportion method. Under the Maharashtra Value Added Tax Act,2002, there is no such stipulation as regards tax being levied on registered trademarks only. The event of tax is on "Trademarks" and not "Registered Trademarks". Hence, this argument of the applicant is not acceptable.

The applicant further desires to know whether he is eligible to claim set-off on the purchases forming part of the transaction in question, and if so what are the conditions and restrictions subject to which it can be claimed. The taxable event in the present proceedings is on a transaction which involves a sale of "trademarks". Now, "trademarks" are "*Goods of intangible or incorporeal nature*". Rule 54 of the Maharashtra Value Added Tax Rules, 2005 pertains to non-admissibility of set-off. Clause (f) of rule 54 could be seen :

RULE 54 *No set-off under any rule shall be admissible in respect of,-*

(a)

.....

(f) *any purchase of goods of incorporeal or intangible nature other than, -*

- (i) *import licence, export permit or licence or quota, credit of duty entitlement pass book, SIM cards;*
- (ii) *software in the hands of a dealer who is trading in software;*
- (iii) *Copyright which is resold within twelve months of the date of purchase.*

Thus, from the above it can be seen that set-off under any rule shall not be admissible in respect of purchases of "trademarks". The applicant has not provided any information as regards the other purchases in respect of which he desires to claim set-off. Hence in the absence of details, it is not possible to quantify the set-off in the present proceedings. Purchases in respect of which set-off is admissible, the applicant may avail the same subject to the conditions and restrictions provided in the Maharashtra Value Added Tax Act,2002 and the rules i.e Maharashtra Value Added Tax Rules,2005 made therefor.

The information being inadequate, I am not in a position to determine the quantification of set-off.

06. In view of the deliberations in the preceeding paras, I pass an order as follows :-

ORDER

(Under section 56 (1) (d) & (e) of the Maharashtra Value Added Tax Act, 2002)

No.DDQ-11-06/ Adm-5/18/B- 5

Mumbai, dt.31.3.08

The questions posed for determination are determined as follows :-

Q.1 Whether the part transfer of our running business along with incidental assignment of trade marks and other related intellectual and intangible properties, amounts to a transaction of sale of goods as understood under the Act and if so, the sale price thereof.

REPLY The sale of trade marks and other related intellectual and intangible properties, amounts to a transaction of sale of goods as understood under the Maharashtra Value Added Tax Act, 2002 Act. The sale price in respect of the impugned transaction of sale of trade marks is Rs. 24,00,00,000/.

Q.2 Whether any VAT is payable by us in respect of the said transaction of part transfer of business and if so, the rate thereof.

REPLY Yes, VAT is payable in respect of the impugned transaction of sale of trade marks and the rate thereon is 4% being covered by the notification issued for the purposes of the schedule entry C-39 of the Maharashtra Value Added Tax Act, 2002.

Q.3 Whether we are eligible to claim set-off on the purchases forming part of the transaction in question, and if so what are the conditions and restrictions subject to which it can be claimed.

REPLY Set-off shall not be admissible in respect of purchases of "trademarks". In respect of other purchases which are eligible for set-off, the applicant may avail the same subject to the conditions and restrictions provided in the Maharashtra Value Added Tax Act, 2002 read with the Maharashtra Value Added Tax Rules, 2005.

(SANJAY BHATIA)
Commissioner of Sales Tax,
Maharashtra State, Mumbai.