(Guard file)

BEFORE THE APPELLATE TRIBUNAL SINDH REVENUE BOARD AT KARACHI

DB-I

APPEAL NO. AT- 106 /2018

M/s Abacus Consulting (Pvt) Ltd.....Appellant

Versus

Assistant Commissioner, SRB, Karachi.....Respondent

Date of filing of Appeal: 09.11.2018

Date of hearing: 07.11.2019

Date of Order: 16.12.2019

Mr. Abubaker, Advocate for appellant along with Mr. Yawar Hussain, Deputy General Manager, Taxes.

Ms. Uzma Ghory, AC-DR and Mr. Bilal Faruqui, AC for Respondent

O R D E R

Justice ® Nadeem Azhar Siddiqi: This appeal has been filed by the appellant challenging the Order-in-Appeal (hereinafter referred to as the OIA) No.205/2018 dated 27.10.2018 passed by the Commissioner (Appeals) in Appeals No. 256/2016 and 263/2016 filed by the Appellant against the Order-in-Original (hereinafter referred to as the OIO) No. 759/2016 dated 17.08.2016 and 767/20-16 dated 25.08.2016 passed by the Assistant Commissioner (Ms. Nida Noor), SRB, Karachi.

02. In short the facts of the case as stated in the OIO are that appellant got voluntarily registration under principal activity of "Management Consultants", Tariff Heading 9815.4000 of Second Schedule to the Sindh Sales Tax on Services Act, 2011 (herein after referred to as the Act) chargeable to Sindh Sales Tax (SST) at the rate specified in the Second Schedule to the Act with effect from July 1st, 2013.

03. The allegations against the appellant in the OIO are that from the perusal of district wise breakup of the revenue earned as submitted by

the appellant for the year 2013-2014 revealed that in addition to "Management Consultant Services" it had provided or rendered taxable services of "Software or IT based System Development Consultants" Tariff Heading 9815.6000 of the Second Schedule to the Act valuing Rs.30,155,891/= from its place of business located at Sindh. However, the appellant had failed to deposit SST amounting to Rs.4,824,943/= at the statutory rate of 16% with SRB.

04. The appellant was served with a show-cause notice (SCN) dated 18.07.2016 to explain as to why the short paid Sindh Sales Tax (SST) amounting to Rs.4,824,943/= may not be assessed and recovered under section 23 and 47 (1A) (a) of the Act for the tax periods July, 2013 to June, 2014 along with default surcharge under section 44 of the Act and penalties at Serial No. 3 and 6 of the Table of section 43 of the Act.

05. The appellant filed written reply dated 23.07.2016 stating that the department had not considered the main plea of non-charging of SST prior to registration. It was further stated that the appellant wants to know the breakup of the value of services confronted by the AC. It also disputed imposition of penalty and submitted that late registration could not be termed as default and the imposition of penalty was only justified if a person had acted with malafide intention. In its letter dated 14.07.2016 the appellant had contended that SST could only be charged after registration, and not before registration.

Appellate Tribunal Sindh Revenue Board Sales Tax on Services

06. The representative of the appellant appeared before the Assessing Officer on 10.08.2016 (wrongly mentioned as 10.06.2016 in OIO) and explained that it was engaged in sales of software backed by hardware and explained the business module of the appellant. It was further contended vide letter dated 10.08.2016 that the software acquired by the appellant was shown in the books as intangible assets and was amortized thus it fell in the category of goods and was duly covered under Sales Tax Act, 1990.

07. The Assessing Officer passed the OIO assessing the value of service at Rs.4,824,943/= along with default surcharge and penalty of Rs.241,247/= under clause 3 of section 43 and Rs.4,824,943/= under clause 6 of section 43 of the Act.

08. The Appellant challenged the OIO by way of filing appeal before the Commissioner (Appeals) who maintained the OIO to the extent of tax and default surcharge and conditionally setaside the penalty imposed under clause 6 of section 43 of the Act.

09. The appellant being dissatisfied has now challenged the said OIA before this Tribunal. In written as well as oral arguments Mr. Abubaker the learned advocate for the appellant in relation to charging SST on software license/sale has submitted as under:-

i) The sale of SAP software against "License Fee" is received against the sale of already developed software by some foreign party. This sale in its nature is sale of goods and that such software is booked as intangible asset in the books of accounts and the same is also amortized. Moreover such sale of goods is not taxable under the Act considering that it is not covered under the definition of services provided in the Act.

ii) The appellant is not developing any software and simply selling already developed software "SAP" (under Agreement-Partner Edge Agreement) copy already provided to AC & Commissioner (Appeals). The agreement authorized the appellant to resale already developed software by a foreign company. The Tariff Heading could only come into play where some development was made. The appellant is not authorized to make any change or modification in the developed software code.

iii) The Appellant was not involved in any type of development of software considering the wording of the tariff heading, i.e. "Software or IT-based system Development Consultant". License fee is charged on already developed and coded software. Licenses of such goods have not been taxed under the Act. There is no entry/ Tariff Heading in the Second Schedule to the Act to tax license fee of already developed software and it is illegal to tax

something which has not been specifically taxed by the legislature in its wisdom. Reliance was placed on case law titled M/S Pakistan Television Corporation Ltd Versus Commissioner Inland Revenue, Islamabad reported as [2019 SCMR 282], where in it was held in para 15 citation "I" as under:

> *"For FED to be levied on this amount it must further be established that it is a "service" as defined in section 2 (23) of the Federal Excise Act and is subject to the charge levied under section thereof, which, as discussed above, is clearly not the case. TV license fee not being the product of any service provided by PTV, FED cannot be levied on it".*

iv) It was further held in the above citation that before taxing any service it has to be established that it is a "taxable service" as defined in the respective provision under the Act and is subject to charging section. On this principle tax could not be levied on TV license fee since it was held that it was not any service provided by the PTV.

v) The SAP was already developed software and the Appellant only implemented installation of already developed software. It is important to point out that the Appellant has paid its due tax under its implementation services as the same is duly treated as services by the Appellant. Reliance was placed on Tata Consultancy Services v. State of A.P. [(2005) 1 SCC 132] wherein it was held as under:-

> *"We are in complete agreement with the observations made by this Court in Associated Cement Companies Ltd. (supra). A software programme may consist of various commands which enable the computer to perform a designated task. The copyright in that programme may remain with the originator of the programme. But the moment copies are made and marketed, it becomes goods, which are susceptible to sales tax. Even intellectual property, once it is put on to a media, whether it be in the form of books or canvas (in case of painting) or computer discs or cassettes, and marketed would become "goods".*

vi) The appellant had discharged tax liability in respect of Tariff Heading 9815.4000 and 9815.6000 and the department has wrongly charged tax on resale of software license which is a sale of goods not chargeable to SST.

Appellate Tribunal Sindh Revenue Board Sales Tax on Services

vii) The Tariff Heading No. 9815.6000 relating to software or IT based system development consultants was same in the Act and Punjab Sales Tax on Services Act, 2012. However an amendment was made in Punjab Sales Tax on Services Act, 2012 through Punjab Finance Act, 2015 and the scope of Tariff Heading 9815.6000 was widened. Amended relevant heading is reproduced herein under-:

"Information technology- enabled or information technology based services including software development, software customization, software maintenance, system support, software assembly, system integration, system designing and architecture, system analysis, system development, system operation, system maintenance, system up-gradation and modification". However in the Act the Tariff Heading 9815.6000 has remained same and has not been amended and the scope of the said heading is quite narrow.

10. In her written synopsis as well as oral arguments Ms. Uzma Ghory the learned AC-DR for the respondent submitted as under:-

i) The "Software and IT System Development Consultants" (Tariff Heading 9815.6000) shall have the meaning and scope as construed and understood from the description of the said term. From the description of the Tariff Heading (9815.6000) of the Second Schedule of the Act it is evident that all services provided or rendered in relation to the consultancy services of software development or IT- based system development are covered under the respective Tariff Heading 9815.6000. She relied upon the earlier decision of this Tribunal in Appeal No. AT-32/2017 of M/s Oracle System Pakistan (Private) Limited where in it was held as under:-

> *"the content, as available on the website presented by the Respondent during hearing shows that the services of Software or IT based system development consultants covers all services including the services in relation to software licensing, software up-gradation, software development, software deployments, installation or maintenance, support and training."* Thus, software licensing fully covered under the scheme of *service 'Software development or IT- based System Development Consultants'.*

ii) The business of the Appellant was based on the System Development business models. All the statements of the CFO of the company are duly recorded in his presence, which established that the activity performed by the appellant was covered by the Tariff Heading 9815.6000.

iii) The appellant has provided or rendered consultancy services in relation to system development and the SST was justified and imposed on the basis of law.

iv) The proprietary rights draw a line between goods and services. The same is referred in the judgment of this Tribunal in the case of M/s Six Sigma Plus in Appeal No. AT-29/2016 which is reproduced below for your ready reference:

"It is noted that an important ingredient in the sale of a certain goods is 'proprietary rights' which are permanently transferred to the buyer, once the deal is finalized. If the proprietary rights or ownership remains with the seller it is no sale. Any transaction where the party of the first part, the real owner, keeps the right of ownership may be in case of rental, lease, licensing, but no sale of goods."

iv) The basic thing, which distinguishes software as service or goods lies between proprietary rights. In the sales of goods, the proprietary rights are transferred to the buyer once the deal is finalized. Whereas, in supply of software by way of licensing, the proprietary rights of the software remains with the owner and does not transfer to the buyer who purchases a software license.

vi) The process narrated by appellant includes (a) Marketing the software license, (b) advising the clients to buy software as per their need, (c) implementation (configuration and installation and working). All these activities come with-in the definition of software or IT based system development consultants.

12. Ms. Uzma Ghory supported the OIA and OIO and submitted that the activity of selling or licensing software falls within the ambit of "software or IT based system development consultants" and submitted that in the OIO the Assessing Officer has clearly stated that the system development generally is the process of defining, designing testing and implementing a software application. She submitted that it also includes the internal development of customized system as well as the acquisition of software developed by third parties, with or without alteration.

We have heard the learned representatives of the parties and perused the record made available before us.

13. The controversy between the parties is whether the reselling or licensing of already developed software comes within the ambit of "software or IT based system development consultants".

14. The appellant's clear stand was that it was not developing any software and was merely selling software developed by third party of Malaysian Origin. Whereas the contention of the department is that sale or license of software with or without development is not sale but service.

15. The learned Assessing Officer in the OIO discussed the software or IT based system development as under:-

"16. As regard the contention of registered person in respect of definition of tariff heading 9815.6000 of the second schedule to the Act, it is stated that in absence of definition, the Software or IT-based System Development Consultant shall have the meaning and scope as construed and understood from the description of the said term. From the description of tariff heading 9815.6000 of the Second Schedule to Act, it is crystal clear that all services provided or rendered in relation to the consultancy services of software development or IT-based system development are covered under the said tariff heading 9815.6000.

17. The system development, generally, is the process of defining, designing, testing and implementing a software application. It includes the internal development of customized system as well as the acquisition of software developed by third parties, with or without

alteration. System Development is also referred to as software development, software engineering or application development. System Development includes the management of the entire process of the development of computer software. (ref. http://study.com/academy/lesson/systems-development-methods-and-tools.html). A system development includes a number of different phases, such as feasibility, analysis, requirement analysis, software design, software coding, testing and debugging, installation and maintenance etc. The System Development also ensure proper training on the system before transitioning the system to its support staff end users (ref: www.en.wikipedia .org/wiki/Systems deveopme life cycle)'.

16. The Act does not provide the definition of software or IT based system development consultants. This Tariff Heading has two parts (i) software development consultants and (ii) IT based system development consultants. The basic ingredient is that one must act as consultant or developer in relation to the development of software or IT based system development. The learned AC in para 16 of OIO has held that "*From the description of tariff heading 9815.6000 of the Second Schedule to Act, it is crystal clear that all services provided or rendered in relation to the consultancy services of software development or IT-based system development are covered under the said tariff heading 9815.6000*". However from the definition adopted by the learned AC it is clear that for invoking the Tariff Heading it is necessary to provide consultancy or development service, which is lacking in this case. Thus the simple sale of license of software without any development, alteration and modification does not fall within the ambit of the Tariff Heading 9815.6000.

Appellate Tribunal Sindh Revenue Board Sales Tax on Services

17. The settled law is that while interpreting taxing statute the authorities must look to the words of the statute and interpret it in the light of what is clearly expressed. The authorities cannot import provisions in the statute so as to support assumed deficiency. It is also settled law that tax could only be levied under a provision of law, which is unambiguous and clear. In interpreting fiscal laws there is no room for any intendment and there is also no presumption as to tax. .

18. The learned AC has stretched the meaning/definition of the phrase "Software or IT-based System Development Consultant". The general

rule is that words used in a statute must first be given their ordinary and natural meaning (PLD 1990 SC 68). It is only when such an ordinary meaning does not make sense then resort can be made to discovering other appropriate meaning. In the reported case of Government of Pakistan versus M/s Hashwani Hotels Limited, PLD 1990 Supreme Court 68 it has been held as under:-

> *"Before examining the wording of clause (a) of section 4 (3) of the Act to which reference shall be made later on, it is essential to advert to the accepted principles for the construction of statutes with special reference to the Taxing Statutes.*
>
> *The first and the foremost principle of interpretation is that words are to be taken in their literal meaning. The plain ordinary meaning of the word is to be adopted in construing a document. There have to be special circumstances where this principle is to be deviated and certain words have to be interpreted differently than their plain meanings with reference to the context.*
>
> *In the case of Pakistan Textile Mill Owners Association Karachi v/s Administrator of Karachi PLD 1963 Supreme Court 137, it was observed that:-*
>
> *"In a taxing statute, as in any other statutes, there is no reason to depart from the general rule that words used in a statute must first be given their ordinary and natural meaning. It is only when such ordinary meaning dies not make scene that resort can be made to discovering other appropriate meanings."*

This court in the case of Messrs Hirjina and Co. (Pakistan) Ltd., Karachi v. Commissioner of Sales Tax Central, Karachi 1971 SCMR 128 made it quite clear by making the following observation:-

> *"We may here observe that interpreting the taxing statute the Courts must look to the words of the statute and interpret it in the light of what is clearly expressed. It cannot import provisions in the statute so as to support assumed deficiency."*

Appellate Tribunal Sindh Revenue Board Sales Tax & Services

19. It is a well-recognized principle of interpretation of statutes that a fiscal enactment should be construed strictly as it is and whenever there is an ambiguity the benefit of doubt should be given to the taxpayer. Again if two equally reasonable constructions are possible then construction favorable to taxpayer should be preferred.

20. The Assessing Officer (AO) has also enlarged the meaning of phrase "software or IT based system development consultants". AO while concluding in para 17 of OIO has held that *"It includes the internal development of customized system as well as the acquisition of software developed by third parties, with or without alteration"*. The AO has no legal authority to enlarge the definition of the above phrase and this power is only vested with the Sindh legislature.

21. The Commissioner (Appeals) while agreeing to tax the sale or license of software has given his own reasoning. The Commissioner (Appeals) had framed five points in para 6 of OIA and discussed those till para 7.6 of OIA and concluded as under:-

"7.6 The Above display of facts as are concluded in the para 7.4 will show that it will not be correct to say that in the event of alleged sale or resale of the software the Appellant works on an already developed system. May it be a case already the SAP system is installed, but still the whole process above mentioned is followed for improvements in the system by mean of software support or its customization, which still is a system development in its nature and not a work on already developed system. It is also required to be seen that the process of alleged sale is necessarily connected to the implementation phase, by which the existing system of a client is to be developed. These two phases can be separated in order to understand and study but cannot be said to be the separate economic activities factually. In view of the above discussion it cannot be said and construed as separate transactions by any stretch of imagination or the interpretation. In any humble opinion in this regard the submissions of the Appellant are false, fabricated, manipulated, evasive and misleading".

Sindh Appellate Tribunal Sindh Revenue Board

22. The Commissioner (Appeals) tried his best to treat the sale of already developed software in the ambit of software development. He has held in para 7.4 of OIA as under:-

> *"And by such reading it will becomes clear in a mind that it is not merely the allege sale but it includes the complete process of marketing, demonstration, proposal, lead identification, diagnostic, negotiation, lead generation initial meeting, contract signing and training thereof".* However Commissioner (Appeals) could not point out any development, alteration and modification in the already developed software by the appellant which is a necessary ingredient to bring the activity in the ambit of the Tariff Heading 9815.6000.

23. The word "develop and development" as per simple dictionary meaning is "grow, bigger, advance, better stronger and new idea". The simple meaning of the phrase "Software or IT-based system development consultants" appears to be persons engaged in development or consultancy of software or IT-based systems. If a person simply deals in purchase and sale of IT-based software without any development, amendment, alteration, modification and without element of service the same could not be covered by the phrase "software or IT-based system development consultants".

24. The Learned AC cited the Order of Tribunal in the case of ORACLE. The facts in this case are distinguishable. It was established from the documents available on record that the Oracle was not simply selling/licensing the software, but it could do any modification to the programs and Documentations created by or for ORASUB and was considered a work available for hire. Under another clause ORSAUB has the right to develop its own technology and it shall be considered as "work available for hire" and shall be owned exclusively by OCAPAC. It was held in the order in the case of ORACLE that *"what is seen, is that the appellant stands fully involved in development/modification of the software and develops its own technology known as ORASUB Technology on 'work for hire basis' for implementation of the Agreement. This evidently shows that the appellant has the expertise in its field*

and is liable not only to compatibly implement the agreement but is licensed to develop its own technology and also authorized to sub-license the same." No such facts and material is available in this case and the department has failed to establish that the appellant was providing any development, alteration and modification in the soft-ware sold or licensed.

25. In view of the above discussion both OIO and OIA are setaside. The appeal is allowed. The copy of the order may be provided to the authorized representatives of the parties.

(Imtiaz Ahmed Barakzai)
TECHNICAL MEMBER

(Justice ® Nadeem Azhar Siddiqi)
CHAIRMAN

Karachi. Dated: 16.12.2019

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APPELLATE TRIBUNAL
SINDH REVENUE BOARD

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1. The Taxpayer through authorized Representative.
2. The Assistant Commissioner (Unit-), SRB, Karachi.

Copy for information to:-

3) The Commissioner (Appeals-I), SRB, Karachi.
4) Office copy
5) Guard file.

Order issued on 31/12/19

Registrar

Order Dispatched on 31/12/19

Registrar