

Royal Star Jewellery Private Limited – HC – Mumbai

Outcome: **Against** taxpayer

Category: Capacity adjustment

Hon'ble High Court rejects taxpayer's claim for adjustment to its operating profit due to lower capacity utilisation.

Accordingly, taxpayer claimed an adjustment for abnormal expenses, in order to increase the operating profits of its manufacturing business. Hon'ble High Court accepts Tax Court's observations, that adjustment can be made only when capacity utilisation figures of comparable companies to the taxpayer are known. Further, accepting that it is difficult to standardise capacity in case of taxpayer's business amidst several time and labour variances, the consumption by the taxpayer itself could not be accepted as a standard practice to claim adjustment.

RAK Ceramics India Private Limited – HC – Andhra Pradesh

Outcome: **In favour of** taxpayer

Category: Royalty

Hon'ble High Court rules in favour of taxpayer, regarding computation of arm's length price of royalty payable to its associated enterprise.

Accordingly, it is observed that tax officer obviated normal proceedings, by rejecting taxpayer's transfer pricing analysis due to an increase in sale and profit attributable to marketing efforts, which failed to justify any benefit derived from the royalty payment in the first place. Thus, failing to meet 'benefit test', tax officer accordingly reduced royalty rate of taxpayer from 3% to 2% without conducting an appropriate transfer pricing analysis. Tax Court rejected the benefit test as it is not a method prescribed in Indian Income-tax Rules.

Hon'ble High Court holds that tax officer acted in an unreasonable manner by neither conducting a proper transfer pricing analysis nor find any alternate comparables. It is observed that it was not the tax officer's place to determine the reasons for an increase in sales and profits of the taxpayer,

once taxpayer has claimed royalty benefit from increase in sales without any apparent increase in production.

Further, dismissing the above contentions of the Revenue, Hon'ble High Court upheld taxpayer's views and confirmed deletion of transfer pricing adjustment to royalty.

AXA Business Services Private Limited – ITAT – Bangalore

Outcome: **Against** taxpayer

Category: Reimbursement

Tax Court rules with respect to reimbursement expenses included in operating cost and operating revenue of the taxpayer.

Accordingly, taxpayer paid certain reimbursement expenses to its AE without charging any mark-up. Tax Court pointed out that the expenditure incurred is directly in nexus with main business activity, and non-charge of mark-up does not merit for its exclusion from operating expenditure and operating revenue. Further, Tax Court rejects taxpayer's contention to classify reimbursement as operating even if expense was directly taken to balance sheet. Thus, holding that internal arrangement between taxpayer and AE does not change nature or purpose of expenditure.

Tata Global Beverages Limited – ITAT – Kolkata

Outcome: **In favour of** taxpayer

Category: Combined benchmarking

Tax Court rules in favour of taxpayer by rejecting combined benchmarking of 2 business segments i.e. private sales and auction sales that are functionally dissimilar segments.

In private sale segment, taxpayer being a facilitator bears limited risk while in auction sales, taxpayer undertakes significant functions and bears all related risks, thereby observed by Tax Court as 2 functionally dissimilar segments. Tax Court proceeds to delete adjustment as auction sales could not be compared with private sales.