IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH 'D', NEW DELHI

BEFORE SH. VIKAS AWASTHY, JUDICIAL MEMBER
AND
SH. NAVEEN CHANDRA, ACCOUNTANT MEMBER

ITA No. 2216/Del/2022
(Assessment Year : 2019-20)

Universal Tractor Holding LLC USA 1013, Center Road, City of Wilmington County of New Castle, Delaware, USA - 19805 PAN : AACCU 2669 J	Vs.	**DCIT** International Taxation Circle – 3(1)(1) New Delhi
(ASSESSEE)		(RESPONDENT)

Assessee by	Shri Durgesh Shankar, Adv.
Revenue by	Ms. Banita Devi Neorem, CIT-D.R.

Date of hearing:	24.06.2026
Date of Pronouncement:	15.09.2026

ORDER

PER NAVEEN CHANDRA, ACCOUNTANT MEMBER :

The above captioned appeal is preferred by the assessee against the assessment order dated 18.07.2022, passed by Income Tax Department, Circle International Taxation – 3(1)(1), Delhi (hereinafter referred to as 'ld. AO), passed u/s 143(3) r.w.s. 144C(13) of the Income Tax Act, 1961 (hereinafter 'the Act') in pursuance of directions of the ld. Dispute Resolution Panel-2, New Delhi (in short 'ld. DRP') dated 26.05.2022 pertaining to Assessment Year 2019-20.

2. The assessee has raised following grounds of appeal :

1. *"The Ld. DRP as well as Ld. ACIT International Tax Circle 3(1)(1) have committed grave error in wrongly addressing the Assessees' address as "1013 CENTRE ROAD CITY OF WILMINGTON, COUNTY OF NEW CASTLE BELAWARE, BELAWARE 999999, FOREIGN, United States" instead of correct address being "103 Centre Road, City of Wilmington, County of New Castle, Delaware, USA" and as such, the said assessment order issued under Ss 143(3) r.w.s 144C(13) as ab initio illegal and void ab initio.*
2. *The Ld. Dispute Resolution Panel has erred in fact and in law in holding that interest on the damages awarded through the Decree of an Indian Court is subject to taxation in India, within the ambit of INDIA-USA Double Taxation Avoidance Agreement and thus directing the Ld. Assessing Officer to charge tax on the interest awarded by Hon'ble Delhi High Court on decree damages @ 15% as per India-USA DTAA.*
3. *The Ld. Dispute Resolution Panel has erred in fact and in law in holding that "interest does not partake the character of the principal amount i.e Arbitration amount as the interest has its own distinct character..." placing reliance on an alleged decision of Hon'ble Delhi ITAT in the case of DCIT (OSD), Range-1, Dehradun V/s M/s Mc Dermott International Inc, allegedly reported in (2019)-TIOL-366-(ITAT-Del). In fact the above citation relates to Mackintosh Burns Ltd Vs Deputy Commissioner of Income Tax, Circle -11(2), Kolkata, of Kolkata bench of ITAT no. ITA No 2019-TIOL-366-ITAT-KOL.*
4. *The Ld. Dispute Resolution Panel has erred in fact and in law in disregarding the direct and specific orders of Hon'ble High Court of Delhi in assessee's case (Delhi High Court Execution Petition no. 372/2010 dated July 13, 2012 in Universal Tractor Holding Vrs Escorts Ltd.) wherein the Hon'ble Court has directed in para 42 that" with the objection of Escorts having been rejected, the Award is, in terms of Section 49 of the (Arbitration) Act, deemed to be a decree of the Court by the present judgement. This is also relevant for the purposes of calculation of the exchange rate of the claim in USD into INR as prayed for by DH(UTH). Therefore, in accordance with the affidavit filed on 16th August 2011 by the Petitioner, the JD (Escorts) is directed to deposit in this Court within eight weeks the following sums after converting the USD to INR by applying the rate of exchange prevalent as of today:*

   (i) USD 350,000+ interest @ 11.25% from 10th August 2007 till 25 August 2011

(ii) USD 125,000 + interest @ 11.25% from 30th May 2007 till August 2011
(1) USD 51,030.37 + USD 25,388.15 + USD 19,347.47."

5. The Ld. Dispute Resolution Panel has erred in fact and in law in dissecting the Decree amount awarded by Hon'ble Delhi High Court in Delhi High Court Execution Petition no. 372/2010 dated July 13, 2012 in Universal Tractor Holding Vrs Escorts Ltd. into amounts of Damages + Reimbursement of Expenses as Capital Receipt and the amount of Interest as separate and to be taxed as Revenue Receipt @ 15% as per India -USA DTAA.
6. The Ld. Dispute Resolution Panel has erred in fact and in law in not following the time honoured preposition in law viz. the amount awarded through a Decree of a Court is outside the purview of the Income Tax Act, 1961, and does not attract taxation in India.
7. The Ld. Dispute Resolution Panel has erred in fact and in law in invoking the India USA DTAA, when the amounts of damages awarded by the decree of the court are outside the purview of Income Tax Act 1961.
8. Assessee reserves the right to raise any further grounds of appeal during the proceedings.
9. Any other relief allowed by Hon'ble ITAT."

3. Brief facts of the case is that the assessee, Universal Tractor Holding LLC (hereinafter referred to as UTH) is a limited liability Company registered in Philadelphia, USA, and is a resident of USA. It has no business dealing with any person in India, does not have any presence in India and thus has no Permanent Establishment (PE) in India.

4. In 2006, UTH had entered into an agreement with another US Company, viz. M/s Escorts Agri Machinery Mart Inc, (EAMI), for the sale of its membership Interest of 49% in another US Company, viz. M/s Beavers Creek Holding LLC for USD 1.2 million, to be paid in 4

instalments. EAMI paid the first two instalments but defaulted in the payment of the balance two instalments. A suit was filed in the Wake Country Superior Court, State of North Carolina, USA, who were pleased to pass a Consent Order directing the two parties to refer the matter for arbitration. Meanwhile EAMI was taken over by an Indian company, viz M/s Escorts Ltd., an Indian Co., and it was substituted for EAMI in the Arbitration proceedings. The Arbitration Award (copy placed in Paper book filed on 8th May 2023, pp 3-12; significant page 9) decided the matter in favor of UTH, vide their orders dated August 24 2010, with the direction to pay damages, as below, to UTH:

"Vide Para 9:

1.	Damages for breach of contract	USD 475,000.00
2.	Simple Interest on $125000@11.25% From 30 May 2007 till 25.10.2011	
3.	Simple interest on $350,000 @11.25% From Aug 10 2007 till 25.10.2011	
4.	Counsel Fees	USD 1030.37
5.	For Expenses	USD 25,388.15
6.	Fees & expenses of Arbitrators	USD 13,347.48."

Interest at S.no 2 & 3 was computed at USD 550,713.87 equivalent to INR 2,47,82,124/-.

5. As M/s Escorts declined to honour the Arbitration Award in USA, the assessee filed suit for implementation through Courts in India.

The case was finally settled by the Hon'ble Delhi High Court vide their orders in EX.P 372 of 2010 dated 13th July 2012 .

6. Subsequent to above, the assessee applied to the Ld. Asst. Commissioner of Income Tax, International Tax Circle 3(1)(1) Del for the issue of a certificate for Nil deduction of tax from the amount of Decree Award; however, the said officer rejected the application and directed for levy of TDS @ 40% on Damages 1 & 2 and @ 15% on interest on damages 3 above. As the damages awarded had been deposited with the Hon'ble Delhi High Court by the Judgment Debtor, the amount determined by the Hon'ble Delhi High Court was released by the AO after deduction of TDS as directed by Ld. ACIT Int Tax Circle 3(1)(1) Del., and the amount of TDS was remitted to the Income Tax Department. Accordingly, a Return of Income for AY 2019-20 was filed by UTH, disclosing the amount so deducted as TDS and with a claim that the damages/interest was not chargeable to income tax in India, and disclosing NIL returned income. The case was picked up for scrutiny and in the Draft Assessment order, u/S 144C(1), the Ld. Assessing Officer sought to bring the entire amount to tax; On objection before the Hon'ble Disputes Resolution Panel, the claim of the assessee the decree damages were exempt from tax was accepted. The DRP however, invoking India-US DTAA, Article 11(2), held, that the

interest awarded as at 2) & 3) above, was taxable in India. Accordingly, as against NIL returned income, Assessees' income was assessed to tax under Ss 143(3) r.w.s 144C(13) at Rs. 2,47,82,124 vide orders dated 18/07/2022. Aggrieved the assessee is before us.

7. The ld counsel of the assessee submitted that interest awarded by the Arbitrator, and subsequently enforced by the Delhi High Court, lost its character as "interest" and merged into a "Judgment-Debt". This is a settled principle of law as per the Hon'ble Supreme Court of India in ***Islamic Investment Co***. (2004) 265 ITR 254 wherein the Hon'ble Court held that "once interest becomes part of a decree, it must be executed strictly under the Code of Civil Procedure (CPC). There is no provision in the Income Tax Act (specifically Section 195) that permits a debtor to deduct tax from a decretal amount on the grounds that it contains an interest component."

8. The ld AR stated that the India-USA DTAA was also wrongly invoked as that Treaty provisions apply only to "Interest" whereas in Assessee's case the said receipt had lost its nomenclature and characteristic as "interest" but become part of the "Judgment-debt" which did not attract any Income Tax in India or came within the ambit of India USA DTAA.

9. It was further submitted that the interest related to a period of default occurring outside India between two foreign entities. This amount neither arose nor accrued in India; it was merely received in India through the execution of a Civil Courts' decree (under CPC & Indian Arbitration Act) to give effect to a foreign Court's order. The authorities below have not appreciated the fact that the interest awarded by the Arbitral Award related to the period between the dates of respective defaults and the date of award. It was this amount that was directed to be paid by the Hon'ble Delhi Court through the award of a decree. This amount had neither arisen nor accrued in India but had merely been received in India through the decree of the Hon'ble Delhi High Court, giving effect to an order of a foreign court.

10. The ld AR drew our attention to the term "interest" as defined in S. 2(28A) of the Income Tax Act 1961, to mean interest payable in any manner in respect of (1) any money borrowed or (2) debt incurred (including a deposit, claim or similar right or obligation) and includes any service fee or other charge in respect of moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized. It was submitted that in Assessee's case the interest arose not on account of any money borrowed, or debt incurred but instead on account of a Decree of a Civil Court under Civil Procedure

Code (CPC). Thus, though the nomenclature of "interest" has been used in the Arbitral Award, the same does not attract the definition of "interest" under S. 2(28A) of IT Act.

11. The ld AR further relied on the Hon'ble Delhi High Court in Ex. Petition no 194 dated 17/02/2010 in ***VK Dewan Vs. DDA*** (copy placed in Paper book filed on 8th May 2023, pp.25-28) and Ex. P. 75/2015 & Ex. Appl. (OS) No. in ***Glencore International AG vs. Dalmia Cement (Bharat) India Ltd***. dated 31/7/2019 (copy placed in Paper book filed on 8th May 2023 pp.29-37), in ***Sainath Rajkumar Sarode & Others vs. State of Maharashtra***, 2021 SCC Online Bom 2198, (copy placed in Paper book III filed herewith) where, relying on the Hon'ble Supreme Courts' decision in ***All India Reporter vs. Ramchandra D Datar*** (1961) 41 ITR 446, and other cases viz. (2005) 9 SCC 477 etc., the Hon'ble Bombay High Court held that

> *"where the claim of interest by way of compensation merges in a decree of court, it assumes character of judgement debt which is not liable to deduction at source."*

12. The ld AR distinguished the decision of ***DCIT (OSD) Range -1 Dehradun vs. M/s Mc Dermott International Inc***. (2019)-TIOL-336 (ITAT-Del) cited by Ld. DRP and Ld. Assessing Officer, submitting that in Mc Dermott International the issue was "whether the interest awarded by Hon'ble Bombay High Court from date of decree till

payment was made i.e interest of Rs. 1,96,72,751/- paid by Airport Authority of India on 30.7.1996 to the assessee, as there the dispute arose in India, at least one party was an Indian entity, no foreign Arbitration award was involved and the interest awarded had not merged as Judgment-debt through a Decree of the Court under Civil Procedure Code.

13. The ld AR further prayed that a direction may be given that the refund of taxes may kindly be released payable to the Assessee's Bank account in USA in USD$. [Account No. 000683091122 in Bank of America, 2441 Crabtree Blvd., Raleigh, USA].

14. Per contra, the ld DR relied on the orders of AO and DRP. The ld DR stated that there are two components of the interest-one which has been given as award and the other which has been earned on the said deposit lying in the bank which is taxable in India.

15. We have heard the rival submission and have carefully perused the materials on record. In the instant case, we find that the dispute arose between the assessee UTH and M/s Escorts Agri Machinery Mart Inc, (EAMI) over the payment for the sale of its membership Interest of 49% in another US Company, viz. M/s Beavers Creek Holding LLC for USD 1.2 million. EAMI paid the first two instalments but defaulted in the payment of the balance two

instalments. A suit was filed in a court in USA, which referred the matter for arbitration. Meanwhile EAMI was taken over by an Indian company, viz M/s Escorts Ltd., an Indian Co., and it was substituted for EAMI in the Arbitration proceedings. The Arbitration Award dated 24.08.2010 was decided in favour of assessee which directed M/s Escorts Ltd to pay damages, including interest equivalent to INR 2,47,82,124/-.

16. As M/s Escorts declined to honour the Arbitration Award in USA, the assessee filed suit for implementation in the Hon'ble Delhi High Court which vide their orders in EX.P 372 of 2010 dated 13.07.2012 held as below:

"...it is declared that the said reward (Foreign Award dated 24/26th August 2010) is enforceable as such under Section 49 of the Act)",
(where the Act refers to the Indian Arbitration Act).
At para 42 of the order, the Hon'ble Delhi High Court directed that *"..the Award is in terms of section 49 of the Act deemed to be a decree of the Court by the present judgment*".

17. We find therefore that the Hon'ble Delhi High Court, has explicitly held that the damages awarded, including interest, constitute a "decree" of the Court under section 49 of the Indian Arbitration Act. We next find the mandate of the Hon'ble Supreme Court of India in ***Islamic Investment Company*** (supra) wherein, they

have stated that where the amount paid is interest, it becomes 'judgement debt' as follows:

> *"such amounts become part of judgment debt they lose their original character and assume the character of judgment debt. Once such an amount assumes the character of judgment debt, the decree passed by the civil court must be executed subject to only the deductions and adjustments permissible under the Code of Civil Procedure. There is no provision in the Income Tax Act or under Section 195 of the Act in particular or under the Code of Civil Procedure where the amount of interest payable under a decree is deductible from the decretal amount on the ground that it is an interest component on which tax is liable to be deducted at source."*

18. We are further inclined to agree with the assessee that though the nomenclature of "interest" has been used in the Arbitral Award, the same does not attract the definition of "interest" under section 2(28A) of IT Act. To our mind therefore, the damages, including the interest has assumed the character of a "judgement debt" and is beyond the purview of Indian Income Tax Act. In view of the above discussions and judicial precedents, we are of the considered view that that the amount of Interest received, as part of the decree of the court, is not exigible to tax and accordingly the same is deleted. The grounds are disposed off in the aforesaid terms.

19. With regard to the prayer that the amount be released in US dollars payable in a bank in USA, we are of the view that the assessee

may take up the matter with the Income Tax Department for necessary directions.

20. In the result, the appeal of the assessee in ITA 2216/Del/2022 is allowed.

Order pronounced in the open court on 15.09.2026

Sd/-	**Sd/-**
(VIKAS AWASTHY)	**(NAVEEN CHANDRA)**
JUDICIAL MEMBER	**ACCOUNTANT MEMBER**

Date:- 15.09.2026
*Priti Yadav, Sr. Ps**
Copy forwarded to:
1. Assessee
2. Respondent
3. CIT
4. CIT(Appeals)
5. DR: ITAT

ASSISTANT REGISTRAR
ITAT NEW DELHI