HC-KAR

NC: 2026:KHC:63820-DB
ITA No. 200 of 2026

CNR: KAHC010723422026

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 18TH DAY OF NOVEMBER, 2026

PRESENT

THE HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE

AND

THE HON'BLE MRS. JUSTICE K.S. HEMALEKHA

INCOME TAX APPEAL NO. 200 OF 2026

BETWEEN:

1. THE PR. COMMISSIONER OF INCOME TAX
   5TH FLOOR, BMTC BUILDING
   80 FEET ROAD, KORMANGALA
   BENGALURU - 560 095

2. JURISDICTIONAL ASSESSING OFFICER
   THE DEPUTY COMMISSIONER OF INCOME-TAX,
   CIRCLE-6(1)(1)
   2ND FLOOR, BMTC BUILDING
   80 FEET ROAD, KORMANGALA
   BENGALURU - 560 095
   KARNATAKA

...APPELLANTS

(BY SRI E.I. SANMATHI, ADVOCATE)

Digitally signed by AMBIKA H B
Location: High Court of Karnataka

AND:

1. SAP INDIA PRIVATE LIMITED
   6TH FLOOR, RMZ ECOWORLD
   PLOT C1 8A CAMPUS
   SARJAPUR, MARATHAHALLI
   OUTER RING ROAD
   DEVERABEESANAHALLI
   BENGALURU - 560 103
   KARNATAKA

...RESPONDENT

(BY SRI M. DILIP, ADVOCATE)

THIS ITA IS FILED UNDER SECTION 260A OF THE INCOME TAX ACT, PRAYING TO ALLOW THE APPEAL AND SET ASIDE THE ORDERS PASSED BY THE INCOME-TAX APPELLATE TRIBUNAL , BENGALURU M.A.23/Bang/2026 IN ITA NO.1519/Bang/2024 DATED 06.07.2026 FOR ASSESSMENT YEAR 2020-2021 ANNEXURE-A AND CONFIRM THE ORDER OF THE DRP CONFIRMING THE ORDER PASSED BY THE JURISDICTIONAL ASSESSING OFFICER-THE DEPUTY COMMISSIONER OF INCOME TAX, CIRCLE-6(1)(1), BENGALURU & ETC.

THIS APPEAL, COMING ON FOR ADMISSION, THIS DAY, JUDGMENT WAS DELIVERED THEREIN AS UNDER:

CORAM: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE
and
HON'BLE MRS. JUSTICE K.S. HEMALEKHA

ORAL JUDGMENT

(PER: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE)

1. The Revenue has filed the present appeal under Section 260A of the Income Tax Act, 1961 [**the Act**] impugning an order dated 06.07.2026 passed by the learned Income Tax Appellate Tribunal [**ITAT**] in MA No.23/Bang/2026 (in ITA No.1519/Bang/2024) for the Assessment Year [**AY**] 2020-21.

2. The respondent [**Assessee**] filed the said application, stating that ground No.3.7 raised in the appeal was not addressed in the

order dated 17.11.2025 passed by the learned ITAT while disposing of the appeal (ITA No.1519/Bang/2024). The Assessee had filed the said appeal before the learned ITAT impugning an order dated 18.06.2024 passed by the Assessing Officer [**AO**] under Section 143(3) read with Sections 144C (13) and 144B of the Act. The said assessment order was passed pursuant to the directions issued by the Dispute Resolution Panel [**DRP**] under Section 144C(5) of the Act on 14.05.2024.

3. The Assessee had preferred objections against the draft assessment order dated 29.08.2023 before the learned DRP, which also included the Transfer Pricing Adjustment as directed by the learned Transfer Pricing Officer [**TPO**] vide order dated 28.07.2023. As noted above, the learned DRP disposed of the said objections by an order dated 14.05.2024

4. It is not necessary to examine the other questions as raised by the Assessee as the present appeal is confined to the learned ITAT's decision in allowing the miscellaneous application and deciding ground No.3.7 as raised by the Assessee. The said ground relates to the Assessee's challenge to the exclusion of ₹229

million generated from customers' events from the total operating segmental revenue from distribution activities.

5. The present appeal is confined to the question whether the learned ITAT was correct in finding that revenue from customers' events must be included in total operating revenue for determining the Profit Level Indicator [**PLI**].

6. The Assessee is a subsidiary of SAP AE, Germany and SAP India Holding Pte. Ltd., Singapore. It is engaged in the sub-licensing, distribution and after-sales support for SAP products. Additionally, it is also involved in rendering consultancy services to its affiliated enterprises [**AE**]. The Assessee had filed its return of income disclosing the international transactions with its AE. It had reported that its total segmental revenues from its distribution activities are at ₹37,258 million and from its consultancy segment at ₹13,853 million. The Assessee had adopted the Transactional Net Margin Method [**TNMM**] as the most appropriate method for determining the Arm's Length Price [**ALP**]. It had adopted the operating profit to sale ratio (OP/OR) in distribution segment as its PLI for comparative studies with other transfer pricing studies.

7. The AO referred to the question of determination of the learned TPO for determining the ALP. The learned TPO had noted that under the TP studies furnished by the Assessee, the total operating revenue of the distribution activities was disclosed at ₹37,258 million, which comprised revenue from operations and other operating revenues at ₹37,029 million and revenue from customer events at ₹229 million. However, while computing the PLI, the learned TPO confined the revenue from operations to ₹37,029 million and disregarded the revenue from customer events, which was declared as ₹229 million. It is material to note that the learned TPO did not set out any reason for excluding revenue from customer events, although it was disclosed as part of the revenues generated from the distribution activity and pertaining to the said segment.

8. The learned TPO determined the median PLI of comparable study of entities at 11.08% and, on the said basis, determined the shortfall in revenue at ₹1814 million. Accordingly, it directed transfer pricing adjustment of ₹181,38,13,200/- under Section 92CA of the Act in respect of distribution of software segment.

9. The Assessee raised an objection before the learned DRP, *inter alia,* objecting to the exclusion of revenue from customer events from its operating revenues. It states that it organises events and collects revenue from the participants. The said events are part of its exercise to spread awareness of the SAP products and to render support to customers. The learned DRP rejected the said contention. It held that the entry fee collected by the Assessee from participants is miscellaneous income and, therefore, not directly linked to its core business operations. The Assessee appealed the said finding. However, the learned ITAT did not consider the same. This led the Assessee to file the miscellaneous application, which was allowed by the impugned order. The learned ITAT held that the amount of ₹229 million ought to be treated as operating revenue of the distribution segment as the sale of the SAP products and the customer events were closely related. The learned ITAT also observed that the primary purpose of the events was to create product awareness and engage stakeholders and thereby support the sale of SAP products.

10. The relevant extract of the impugned order is set out below:

> "We find that, in Ground of Objection No.4 before the learned DRP, the Assessee contended that revenue from customer events amounting to ₹229 million should be treated as operating revenue of the software distribution segment. The Assessee explained that it regularly organizes such events to enable companies to interact with SAP experts, partners, and other stakeholders, spread awareness of its products, and provide training. The revenue earned from entry fees for these events was therefore claimed to be operating revenue. The learned TPO and learned DRP, however, held that the Assessee's core business was the sale of SAP products and that the entry fees constituted miscellaneous income, nor operating revenue. We find that the sale of SAP products and the customer events are closely connected. The primary purpose of the events is to create product awareness, engage stakeholders, and thereby support the sale of SAP products. Accordingly, we hold that revenue from customer events forms part of the Assessee's operating revenue for the software distribution segment, and the learned AO is directed to include it while computing the Assessee's margin. This direction rectifies the error pointed out."

11. In the aforesaid context, the Revenue has projected the following questions for consideration of this court:

> "1. Whether, on the facts and in the circumstances of the case and in law, the Tribunal is right in treating the entry fees collected by the assessee from customer events as operating revenue for the purpose of determining the Profit Level Indicator (PLI), without appreciating that such income was not derived from the core business activity of the assessee, i.e., sale/distribution of SAP products?
>
> 2. Whether, on the facts and in the circumstances of the case and in law, the Tribunal is right in holding that the income earned from customer events was operating in nature, without appreciating that the

events were primarily undertaken as a marketing/promotional strategy for the assessee's products and were not an independent business activity undertaken in the ordinary course of the assessee's business?

3. Whether, on the facts and in the circumstances of the case and in law, the Tribunal is right in treating the entry fees received from participants of customer events as operating income for transfer pricing purposes, without appreciating that such receipts were not directly linked to the international transaction under consideration, namely, the distribution/sale of SAP products, and therefore ought not to have been included in the operating revenue for determining the arm's length margin?

12. In addition, the learned counsel for the Revenue has also handed over a memo framing two further questions of law:

4. "Whether on the facts and in the circumstances of the case, the Tribunal's order can be said as perverse in nature in holding that entry fees collected by the assessee from customer events as operating Revenue contrary to parameters of Section 92C of the Act read with Rule 10B of I.T.Rules"?

5. "Whether on the facts and in the circumstances of the case, the Tribunal's order can be said as perverse in holding that Revenue derived from organizing events is operating Revenue ignoring that same is not from core business activity related to International Transaction and is only a marketing strategy which cannot become part of operating Revenue?"

13. Although the Revenue has projected five questions, the essential controversy is in a narrow compass. The principal

question is whether the ITAT's finding that the customary events are closely related to the activity of sale of SAP products is perverse.

14. The said finding is essentially a finding of fact, however the Revenue contends that the said finding is perverse.

15. The learned TPO had accepted TNMM as the most appropriate method. It is well settled that the said method was applied in reference to the international transaction relating to distribution of SAP products. It is thus necessary to apply the TNMM method in reference to the segment of distribution of SAP products. It is well settled that TNMM has a higher tolerance level by virtue of entailing a comparison with the PLIs of the tested entity as well as comparable entities. Since the PLI adopted was the ratio of operating profit to the Revenue, it would be necessary to take into account profits and revenues of the entire segment, and there would be little scope for excluding any activity that is an integral part of the segment.

16. In the present case, there is no finding rendered by the learned TPO to the effect that the activities of conducting customary events was not a part of the distribution segment. As noted above, the TPO had, without assigning any reasons, excluded the revenues from the customary events.

17. It is the Assessee's claim that the customary events are essential for spreading awareness of its product and distribution and sale of SAP products.

18. The questions framed by the Revenue also suggest that customary events were a part of the marketing strategy. Indisputably, expenditure and marketing strategy would be a part of the transactions covered in the segment. There is also material to indicate that the other comparable entities did not include any revenue or expenditure relating to marketing of the products or that the same is excluded from the PLI of the comparable entities.

19. In view of the above, we find no merit in the contention that the finding of the ITAT is perverse. Thus, no substantial questions

of law arise for consideration in the present appeal and the same is dismissed.

Sd/-
(VIBHU BAKHRU)
CHIEF JUSTICE

Sd/-
(K.S. HEMALEKHA)
JUDGE

AHB,KPS
List No.: 2 Sl No.: 3