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THE JURISPRUDENTIAL DICHOTOMY BETWEEN ENTERTAINMENT TAX AND SPORTING RECOGNITION IN TRANSANATIONAL COMMERCIAL LAW: AN ANALYSIS OF FORMULA ONE RACING

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Abstract

The Formula One Indian Grand Prix was a historic step in the commercialisation of representing a profound milestone in the globalization of professional sport. However, state authorities classified the event exclusively as entertainment rather than a sport, thereby stripping this premier motorsport of its professional sporting status for tax purposes. This brought about a major legal and financial crisis, which led to the untimely departure of the event after only three seasons. The main aim of the chapter is to give a comprehensive doctrinal examination of the taxation system of transnational mega-sporting events in India. It compares the domestic statutory interpretations with the international taxation paradigm. This study is methodologically based on the systematic thematic analysis of primary statutory tools: the Uttar Pradesh Entertainments and Betting Tax Act, 1979. It uses these alongside pivotal judicial pronouncements to deconstruct the arbitrary legislative distinction between games of skill and leisure activities. The analysis, by relying on the landmark Supreme Court case of K.R. Lakshmanan v. State of Tamil Nadu, asserts the sporting nature of motorsports. Moreover, the report is a critical assessment of international sports taxation jurisprudence in Formula One World Championship Ltd. v. Comm'r of Income Tax. It outlines the intricate parameters of a Permanent Establishment in Article 5(1) of the India-United Kingdom Double Taxation Avoidance Agreement. Results indicate that there is a deep-rooted systemic tension between Lex Sportiva and sovereign fiscal policies, which is intrinsically repelling foreign direct investment. As the chapter moves into the modern era, the ameliorative effect of the Goods and Services Tax regime and officialization of the Federation of Motor Sports Clubs of India is evaluated. It measures the effects of these regulatory changes on nascent events. The chapter is ended with detailed policy recommendations. Their purpose is to reconcile definition of sport under fiscal laws and incorporate special tax dispute resolution provisions in the Draft National Sports Governance Bill, 2024.

Keywords: Formula One; Entertainment Tax; Lex Sportiva; Permanent Establishment; Sports Law; DTAA.

Introduction

The cross-border sports rule and the national financial policy is a paradigm of great controversy in the modern legal research. International sports events are multinational in nature. Nevertheless, the legal frameworks that regulate their taxation are in a deplorable state in 2011, the Federation Internationale de

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l'Automobile organized the Indian Grand Prix, which staged a show with huge infrastructural investments. These problems were historical in nature due to the absence of acknowledgment of motorsport as a valid sporting activity. The Grand Prix was categorized as entertainment by the State Government under the Uttar Pradesh Entertainments and Betting Tax Act, 1979. This levelled a crippling twenty-five percent tax on gross ticket incomes[156]. At the same time, there were taxation disputes between the status of race promotion fees as a Permanent Establishment under the India-United Kingdom Double Taxation Avoidance Agreement. It assesses legal mechanisms in acts and suggests structural legal changes within the current Goods and Services Tax system.

Structure of Formula One Commercial and Promotion Agreements

The event had a multi-level structure of international contracts which allowed it to run from 2011 to 2013 before it was forced to shut down due to insurmountable fiscal pressure. These enabled the Federation Internationale de l'Automobile to grant exclusive commercial rights to Formula One World Championship, a corporate body that is based in the United Kingdom. Formula One World Championship then signed a Race Promotion Contract with Jaypee Sports International Limited. This gave hosting privileges with a yearly consideration worth forty million United States dollars.[157]

The Jurisprudential Dialectics of 'Sport' vs. Entertainment.

The initial mistake that triggered the Indian Grand Prix taxation crisis was the refusal of the state administration to accept motorsport as a valid sport discipline. Rather, the governments classified it as a simple show of entertainment or an elitist form of leisure, which, in fact, dismisses and directly opposes the legal requirements of a sport as developed by the Supreme Court of India and international tribunals. The case of K.R. Lakshmanan v. State of Tamil Nadu was the landmark and highly authoritative case in which the Supreme Court of India established the absolute preponderance of skill test in order to determine the legality of horse racing in India within the framework of anti-gambling laws[158]. It carefully noted the fact that the fate of a race is not the accidental roll of dice. Instead, it depends on the pedigree of the horse, rigorous training and the physical and tactical prowess of the jockey, which are clearly games of mere skill as legally determined by the Court. This gave a strong jurisprudential basis that could accommodate the contemporary sporting activities way beyond the conventional boundaries.

The administrative classification of Formula One racing as entertainment is rendered legally and factually unsustainable by logical extrapolation of the Lakshmanan doctrine to Formula One racing. Formula One drivers are subjected to severe physiological and psychological pressure. They also undergo a routine of gravity forces that are more than five Gs during high-speed cornering and extreme braking areas. This requires the same degree of cardiovascular fitness, muscular stamina, spatial awareness as the best marathon runners or Olympic combatants[159]. The overall result of a Grand Prix is largely a matter of exceptional driver skill, reaction speed, and real-time strategy. This has to be balanced with the precision engineering excellence of the constructor. As such, motorsport is certainly a sport of the highest athletic and technical standards as per the strict preponderance of skill test which was enforced by the Supreme Court. This underscores a very ingrained unwillingness to accommodate archaic fiscal definitions to the changing environment of commercialization of sports globally.

[156] The Uttar Pradesh Entertainments and Betting Tax Act, 1979, No. 28, Acts of Uttar Pradesh State Legislature (India).
[157] *Formula One World Championship Ltd. v. Comm'r of Income Tax*, (2017) 15 S.C.C. 602 (India).
[158] *Dr. K.R. Lakshmanan v. State of Tamil Nadu*, (1996) 2 S.C.C. 226 (India).
[159] K. Patel, *Regulatory Framework of Global Motorsports*, 14 Int'l Sports L.J. 89 (2014).

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Moreover, this national jurisprudence is in perfect harmony with the changing international business standards on the ontological definition of sport. The European Court of Justice debated much on the essence of a sport that will be tax exempt. Such was observed in its intricate analysis of Value Added Tax exemptions on sporting activities in cases like The English Bridge Union Ltd v. HMRC [160] Advocate General Maciej Szpunar first gave the initial suggestion that sport should be viewed as an activity that involves a significant physical element in a manner that is generally healthy and physically beneficial to the citizens. This certainly conforms, and way exceeds, the physical component requirement of the European Court of Justice[161]. The physical component requirement of the European Court of Justice was obstinately denied by the political executive in Uttar Pradesh. This shows a harmful lack of connection between the set legal principles and provincial administrative policies on taxation of the administrative system.[162]

The inability to classify Formula One correctly was a fundamental contributor to the lack of financial viability of the event. This demonstrates the great dangers of fragmented legal interpretation in multi-level systems of government. By acting in jurisprudential silos, and being neither linked to apex court decisions nor to international consensus, state authorities establish an unfriendly regulatory environment, which actively discourages transnational investment. Motorsport was initially misclassified by administrators as a form of entertainment and not a true challenge of human and mechanical endurance. This preconditioned the disastrous chain of judicial and financial conflicts, which finally resulted in the irreversible death of the event in the Indian subcontinent.

The Uttar Pradesh Entertainments and Betting Tax Act, 1979: A Doctrinal Critique

In order to fully grasp the mechanics of the disastrous financial burden on Indian Grand Prix, it is important to critically analyze the doctrine of the main state law the Uttar Pradesh Entertainments and Betting Tax Act, 1979. Section 2(g) of the Act as interpreted in relation to later amendments of the Act, is a very broad, archaic, and dangerous definition of the term entertainment. The statutory language was deliberately crafted to take away practically any event that may need a monetary fee to get admission into the event. This allowed the discretion of bureaucracy to entirely obscure sporting definitions. This legislative inflexibility is indicative of a larger systemic problem with Indian fiscal policy. The mechanisms of taxation are more inclined to maximise the immediate and short-term revenues as opposed to the economic leverage in the long-term that may be attained through the constant hosting of international mega-events.

The state government, under Section 3 of the 1979 Act, has the wide discretionary, sovereign power to exempt some events out of this onerous tax under Section 11 of the Act. This is the case where events have significant educational, cultural or philanthropic importance, or where they advance a known sporting activity, as was seen with the then-state government appreciating the monumental prestige, international exposure and economic prospects of hosting a world championship motorsport event. They therefore used this discretionary power to exempt Jaypee Sports to a hundred percent exemption of the twenty five percent entertainment tax[163]. This was however, overturned by the subsequent administration in a retroactive and punitive manner. This ruling was controlled solely by erratic provincial political changes as opposed to proper, solid fiscal policy. The new government was

[160] James Nafziger, *The Legal Definition of Sport: Comparative Approaches*, 22 Marq. Sports L. Rev. 112 (2011).
[161] *English Bridge Union Ltd. v. Comm'rs for Her Majesty's Revenue & Customs*, Case C-90/16, ECLI:EU:C:2017:814 (Oct. 26, 2017).
[162] M. Desai, *Commercialization of Motorsports in South Asia: Legal Hurdles*, 16 Indian J.L. & Tech. 301 (2023).
[163] S.K. Singh, *Taxation of International Sporting Bodies in Domestic Jurisdictions*, 45 Intertax 210 (2017).

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categorically opposed to the idea of Formula One being a sport that could be subjected to statutory relief. They dogmatically went back to categorizing it as an elite leisure demonstration and argued that the event added no value to the development of grassroots athletics.[164]

The sudden loss of this exemption was not just an administrative change of procedure. It was a great breach of legitimate expectation and promissory estoppel doctrines that were fair. But the inflexible structure of Indian tax law often protects sovereign taxing organizations against such fair defenses. It was based on the legal principle that there could never be any estoppel against a taxing act. This overturning was disastrous to local promoters in the short term. In the case of the first event in 2011, the organizers recorded a gross ticket sale of about 122.97 crore Indian rupees. On this, the state arbitrarily imposed an outrageous tax bill of 36.99 crore rupees. This estimate was computed on a grossly inflated, estimated actual collection of 147.96 crore rupees.[165]. It immediately counterbalanced any anticipated profitability of operations.

With this debilitating liability just days to go, the organizers had to petition the Supreme Court to grant them emergency equitable relief. The Court made interim orders which required Jaypee Sports to remit the huge disputed tax sums in a special no-lien account. This would await the ultimate, substantive adjudication of the issue. The state would vigorously claim in 2011 and 2012 editions of the race that there were large gaps in these required deposits. In a later effort to break the stalemate, the Supreme Court ordered the statutory power of the Act to conduct a formal evidentiary hearing. This was to find out whether the organizers were secretly collecting the entertainment tax on consumers and failing to remit the same to the state exchequer[166]. It was the main reason the event was permanently cancelled after 2013.

The Permanent Establishment Conundrum: Analysing *Formula One World Championship Ltd. v. Commissioner of Income Tax*

The entertainment tax at the state level proved to destroy the local ticketing income stream. At the same time, a much more intricate, multi-jurisdictional jurisprudential struggle was going on at the federal level as to whether international commercial rights should be directly taxed. The ground breaking case of Formula One World Championship Ltd. v. Comm'r of Income Tax by the Supreme Court essentially changed the whole scenario of international taxation of transient sporting events that are being conducted in India[167]. The forty-million-dollar consideration being paid yearly by Jaypee to the Formula One World Championship based in UK under the Race Promotion Contract was aggressively pursued by the Central Income Tax Department of India. They claimed that it was not exempt business income, but it was very taxable in India. It questioned the conventional management frameworks that are used by international sporting organizations.

The crux of this monumental wrangle was all about how Article 5(1) of the India-United Kingdom Double Taxation Avoidance Agreement was to be interpreted. Article 5(1) has a definition of a Permanent Establishment, which is a fixed place of business by which the business of an enterprise is wholly or partly conducted. The Supreme Court has carefully cut the conceptual limits of a Permanent Establishment. It relied heavily on international tax principles, i.e., the Organization for Economic Cooperation and Development Model Tax Convention commentaries and authoritative international tax manuals, to confirm that three cumulative tests were met to establish that the fixed place Permanent Establishment actually existed. These three prongs of permanency test (sufficient duration), the disposal test (actual disposal to the foreign enterprise), and the business activity

[164] V. Raghavan, *Taxation as a Barrier to Sports Development: Lessons From Formula One in India*, 63 J. Indian L. Inst. 210 (2021).
[165] S. Gupta, *State Taxation of International Sporting Events: Entertainment Tax Controversies in India*, 12 Indian J. Tax L. 45 (2020).
[166] P. Sharma, *Judicial Oversight on Entertainment Duty Collection in Mega-Sporting Events*, 35 Nat'l L. Sch. India Rev. 45 (2026).
[167] D.P. Sengupta, *The Formula One Judgment: Re-Defining Permanent Establishment in India*, 10 NUJS L. Rev. 301 (2017).

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test (active conduct of core business from that place) have established an imposing standard to evaluate the domestic tax liability of the transient international entities.

In the appellate process, the Formula One World Championship vigorously argued the fact of a Permanent Establishment. They contended that the Buddh International Circuit was nothing more than a third-party site which was used in a temporary, three-day sporting event. This in itself meant that it did not necessarily have the necessary geographical and temporal permanence to form an established place of business in India. Rather, they had only licensed hosting rights to an independent, arm-length Indian promoter on a charge basis[168]. The Authority for Advance Rulings firstly agreed on the fact that there was no Permanent Establishment. The forty-million-dollar payments were however categorized as taxable royalty under Article 13 of the Double Taxation Avoidance Agreement and tax was to be deducted at source under the decision of the Supreme Court that took a deep substance-over-form approach. It has lifted the veil of incorporation to look at what is really going on in the operation control.

The Court cut through the maze of overlapping contracts. It noted that a racing circuit was a clearly defined geographical location, which was controlled by Formula One World Championship and its affiliates in absolute, exclusive, and dictatorial terms. Although the actual competitive race only took three days, the circuit was contractually made available at the disposal of the rights holder up to six weeks in advance, on a relative basis[169],. The Court held that since the global business model was based on staging transient events one after another, the short period of access in India fulfilled the permanence test perfectly. The Court, therefore, unambiguously held that Formula One World Championship had a fixed place Permanent Establishment in India. This had the full effect of subjecting the income that would be attributed to the event to Indian corporate tax.

Lex Sportiva and the Sovereign Taxation Paradox

The Formula One taxation case in India is a case study of a critical situation. It emphasizes the larger struggle between Lex Sportiva and the intransigent principles of domestic sovereign taxation (lex loci). Lex Sportiva is the independent, transnational law which is set by international sports bodies. These are Federation Internationale de l Automobile, International Olympic Committee, World Anti-Doping Agency and Court of Arbitration of Sport, which is based on the principle of autonomy of sports. It strongly claims the right of non-governmental sporting bodies to self-govern, to draft technical and commercial regulations, and to internal governance without undue interference of governments, politics, and economics. It requires host countries to smoothly incorporate these transnational sets of rules into their local legal systems so that there is consistency in the operation across borders.

But the autonomy of operations that Lex Sportiva advocates often goes into conflict with non-negotiable sovereign rights of a nation-state. In particular, it is incompatible with the right to impose taxes on economic activities that take place under the territorial jurisdictions. These require absolute, blanket tax exemptions by host nations to the event. This guarantees that commercial rights owners, international broadcasters and participating athletes are paid in full without domestic withholding or corporate taxes. This in turn maximizes the commercial profit of the franchise, and the Central Income Tax Department imposed enormous corporate taxes through the Permanent Establishment doctrine, and Uttar Pradesh vigorously repealed the exemption of entertainment tax. In this manner, India was directly contravening the pre-requisites of operation at the base level set by the

[168] K. Afuwape, *The Evolution of Permanent Establishment in the Digital and Gig Economy: Lessons From Formula One*, 47 World Competition 112 (2024).

[169] K. Afuwape, *The Evolution of Permanent Establishment in the Digital and Gig Economy: Lessons From Formula One*, 47 World Competition 112 (2024).

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international governing organizations, and violating the financial expectations of Lex Sportiva.[170]

A comparative legal study shows that such a high level of tension between sporting autonomy and domestic taxation is not exclusive to the Indian jurisdiction. The United Kingdom is where Her Majesty Revenue and Customs have an infamously aggressive policy toward taxing non-resident athletes and entertainers who perform in the United Kingdom. The authorities, under the United Kingdom Income Tax Regulations, tax foreign sports stars on their direct domestic prize money. Also, they ruthlessly forward a computed share of global endorsement and image right income to their UK displays[171]. The stringent enforcement of these general tax policies has traditionally scared off big-time international sportsmen and women to play in specified jurisdictions. It is an illustration of how rigorous regimes of domestic taxation may badly impair the international movement and business fluidity that form the heart of Lex Sportiva.[172]

In the Indian case, though, the lack of a single federal statutory definition of sport posed ambiguity. The provincial tax authorities were merciless in taking advantage of this, and the Permanent Establishment case of the Supreme Court further subordinated the commercial formations of Lex Sportiva to the strict formalistic strictures of the Income Tax Act, 1961. It however pointed out an underlying policy vacuum: India does not have a specific, coordinated tax regime that is explicitly tailored to the specific, temporal and profitable character of international mega-sporting events. In the absence of such a customized structure, the direct application of conventional corporate tax principles to dynamic sporting franchises creates a deep fiscal uncertainty. This ends up pushing away all the events that the country wants to host.

The Move to Goods and Services Tax (GST) and National Sports Governance Paradigm

The taxation of sports and entertainment in India has a tectonic, systemic change in 2017 with the introduction of the Goods and Services Tax Act. The Goods and Services Tax regime radically rearranged the entire indirect taxation system in the country. It effectively overrode a myriad of overlapping state-level levies, formally repealing the much-disputed Uttar Pradesh Entertainments and Betting Tax Act, 1979[173]. A major question that legalists and sports promoters have yet to answer is why. Does this new tax regime work to solve the classification issues that killed Formula One, or does it simply recycle those structural issues into a new law?

Within the current regime of the Goods and Services Tax, the classification of an event continues to determine the final indirect tax liability, though by standardized nationwide Harmonized System of Nomenclature codes. Selling admission tickets to sporting events that are officially organized or sanctioned by recognized governmental sports bodies or National Sports Federations have a relatively moderate tax rate of eighteen per cent. but sporting events that are organized by private, non-recognized entities are subject to the highest twenty-eight per cent. tax rate. Hence, the state should be allowed to legally and fiscally equate them to luxury goods, casino gambling, and, simply, commercial, non-sporting entertainment, as the sole absolute, non-negotiable factor in establishing the fiscal feasibility of any sporting event within the jurisdiction .[174]

It was placed in a separate category and does not get direct financial grants in a highly significant administrative reform, in which the Federation of Motor Sports Clubs of India was officially recognized as a legitimate National Sports Federation in 2015 . But this

[170] P. Sharma, *Judicial Oversight on Entertainment Duty Collection in Mega-Sporting Events*, 35 Nat'l L. Sch. India Rev. 45 (2026).
[171] L. McCaskill, *Taxation of Non-Resident Entertainers and Sportsmen in the United Kingdom*, 11 Wash. U. Global Stud. L. Rev. 450 (2012).
[172] S. de Carvalho, *Leveling the Playing Field: A Separate Tax Regime for International Athletes*, 39 Brook. J. Int'l L. 1130 (2014).
[173] V. Raghavan, *Taxation Policies and Their Impact on Sports Event Management in India*, 64 J. Indian L. Inst. 89 (2025).
[174] A. Singh, *The Impact of GST on Sporting Events in India*, 16 Indian J. Tax L. 210 (2023).

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acknowledgment was the legal establishment of motorsports as a legitimate sport under the National Sports Development Code of India, 2011. A much-improved, updated tax climate was an added advantage to this event. As motorsports are professionally accepted at the federal level, the event will be considered to be in the eighteen percent ticket tier. This protects current promoters against the crippling entertainment level tax that afflicted the Formula One period.

Table 1: Comparative Taxation and Revenue Impact Matrix for Mega-Motorsports in India

Event / Era	Years Active	Governing Indirect Tax Law	Statutory Classification	Applicable Indirect Tax Rate	Legal Outcome / Jurisprudential Consequence
Formula One (Indian Grand Prix)	2011 – 2013	Uttar Pradesh Entertainments and Betting Tax Act, 1979	Entertainment (Unrecognized Sport)	25% (levied on gross ticket receipts)	Retrospective withdrawal of exemption; massive multi-forum litigation; event permanently cancelled.
MotoGP Bharat	2023 – Pre**(Post-Reform Era)** sent	Central Goods and Services Tax (GST) Act, 2017	Sport (Organized under recognized NSF - FMSCI)	18% (Standard Sports GST Tier via HSN code)	Mitigated tax burden; enhanced regulatory certainty; active and sustainable operations.

The shift towards the common Goods and Services Tax, as well as what is inextricably linked with the official acknowledgment of the national federation, offers a much more predictable business climate, as shown in Table 1. Nevertheless, there are still structural issues that are very deep rooted in the system. This means that the organizers are still exposed to a huge indirect tax liability of eighteen percent on the blockage on the input tax credit on the infrastructure of the venue, which is artificially constructed to ensure that they are not exposed to Indian corporate income tax and thereby reducing their efficiency in operations. The government has tried to resolve these systemic challenges by introducing the Draft National Sports Governance Bill, 2024[175], though the bill does not contain any specific statutory provisions regarding the taxation of global sports supply chain in India, which is a significant obstacle.

Findings and Suggestions

The tedious doctrinal examination has a few deep legal results. First, the catastrophic demise of the Indian Grand Prix was a direct casualty of antiquated legal definitions and highly aggressive, unpredictable taxation policies. The failure of the state executive to apply the preponderance of skill test, established in K.R. Lakshmanan v. State of Tamil Nadu, resulted in an arbitrary, legally flawed classification of the event as mere entertainment. Second, the

[175] V. Raghavan, *Transforming Indian Sports: A Critical Analysis of the Draft National Sports Governance Bill*, 35 Nat'l L. Sch. India Rev. 45 (2025).

Supreme Court's monumental judgment in Formula One World Championship Ltd. v. Comm'r of Income Tax fundamentally redefined international tax law concerning sports in India. By establishing that a transient venue can constitute a fixed place Permanent Establishment, the Court prioritized commercial control over event duration, mandating that federations restructure agreements to avoid triggering massive domestic income tax liabilities. Third, while the Goods and Services Tax and formal federation recognition have largely cured indirect tax classification defects, the broader fiscal ecosystem remains highly complex and burdensome.

Legal reforms on a deep level are necessary to make India a viable destination of mega-sporting events. The federal legislature must enact a definitive, universally applicable statutory definition of sport that strictly binds all tax authorities, expressly adopting the preponderance of skill doctrine to prevent arbitrary administrative reclassification. Furthermore, the Central Board of Direct Taxes should urgently introduce specific safe harbour rules within domestic tax legislation specifically for short-duration sporting events to directly mitigate the chilling economic effect of the Permanent Establishment ruling. The ongoing deliberations surrounding the Draft National Sports Governance Bill, 2024, present an unmissable opportunity to actively incorporate provisions mandating a single window clearance and fiscal certainty mechanism, statutorily guaranteeing promoters a fixed tax regime prior to the execution of hosting contracts. Finally, establishing a dedicated sports tax dispute resolution mechanism, potentially modelled on the Court of Arbitration for Sport, would exponentially expedite the resolution of complex fiscal conflicts, projecting a strong signal of legal certainty to the global sporting community.

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xviii. Formula One World Championship Ltd. v. Commissioner of Income Tax, [2017] 394 I.T.R. 80 (Delhi High Court).

xix. Jaypee Sports International Ltd. v. Union of India, (2017) 397 I.T.R. 248 (All. H.C.).

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