

(1998) 06 MAD CK 0089

In the Madras High Court

Case No : Tax Case No. 1092 of 1982 (Reference No. 653 of 1982)

Commissioner of Income Tax

APPELLANT

Vs

Crompton Engineering Co. Ltd. (now Best and Crompton Engineering Ltd.)

RESPONDENT

Date of Decision : 25-06-1998

Acts Referred:

Citation : (2000) 242 ITR 317 : (2001) 117 TAXMAN 705

Hon'ble Judges : R. Jayasimha Babu, J;N.V. Balasubramanian, J

Bench : Division Bench

Advocate : C.V. Rajan, for the Appellant; S.A. Balasubramanian, for the Respondent

Judgement

R. Jayasimha Babu, J.—The question referred to us at the instance of the Revenue is as to whether, on the facts and in the circumstances of the case, the Appellate Tribunal was right in holding that the sum of Rs. 70,000 paid to A. F. Ferguson and Company, Chartered Accountants, Bombay, was an admissible deduction in computing the income of the assessee for the assessment year 1974-75 ?

2. This tax case is of the year 1982 and has been lying undisposed of on the board of this court. It is most unfortunate that the matter should have been pending in this court for such a long time.

3. The question referred to us is really as to whether the amount paid to the consultant is to be regarded as capital expenditure or revenue expenditure. The Income Tax Officer who called for the reports and perused the reports submitted by the consultants formed the opinion that far reaching and revolutionary changes for the reorganisation of the company have been suggested and, therefore, the cost of that report should be regarded as capital expenditure and should not be allowed as revenue expenditure. That view has been dissented from and overruled by the Tribunal and in our opinion, rightly so.

4. The assessee with the intention of bringing about improvements in the way it did its business had sought and obtained reports of the consultants, so that efficiency of the business could be increased by employing better methods and reorganising the business itself to the extent required. The fact that it sought such advice did not imply that it would accept all the advice that was tendered and would implement it in the manner recommended. Merely obtaining a report from a management consultant and paying fees therefor, cannot be regarded as capital expenditure, as such report was not obtained as part of documentation packages, but in a contract covering comprehensive restructuring of the business involved. No new line of business was started on the strength of the report of the consultants. That report was not regarded as essential part for any new business that the assessee commenced thereafter.

5. In the circumstances of the case, the expenditure incurred by the assessee in obtaining that report was clearly an expenditure of revenue character. It is not only permissible but is also necessary for any business to update its own knowledge and adopt better ways of organising its business if it is to survive in the market. The expenditure incurred for such purpose cannot be regarded as capital expenditure and is only a revenue expenditure. The question therefore referred to us is answered in favour of the assessee and against the Revenue. The assessee shall be entitled to costs in the sum of Rs. 1,000 (rupees one thousand only).