

(2006) 10 P&H CK 0100
In the Punjab And Haryana At Chandigarh

Commissioner of Income Tax

APPELLANT

Vs

Markanda Vanaspati Mills Ltd.

RESPONDENT

Date of Decision : 30-10-2006

Acts Referred:

Income Tax Act, 1961 — Section 41(1)

Citation : (2009) 311 ITR 306

Hon'ble Judges : Rajesh Bindal, J; Adarsh Kumar Goel, J

Bench : Division Bench

Judgement

1. The following question of law has been referred for the opinion of this Court by the Income Tax Appellate Tribunal, Delhi Bench "E", New Delhi (for short, "the Tribunal"), arising out of its order dated April 25, 1989, in ITA No. 3280/Del./1986, for the assessment year 1981-82:

Whether, on the facts and in the circumstances of the case and on a correct and true interpretation of Section 41(1) of the Income Tax Act, 1961, the Appellate Tribunal erred in law in holding that the balance which remained outstanding in the sales tax account after the payment of sales tax assessed did not amount to any allowance or deduction and that they could not be validly brought to tax u/s 41(1) of the Income Tax Act, 1961, and, therefore, the order of the Assessing Officer could not be set aside by the learned Commissioner u/s 263 ?

2. The assessee was engaged in the sale of vanaspati and during the previous years relevant to the assessment years 1978-79 and 1979-80, the assessee collected sales tax and Central sales tax and credited the same to a separate account. The amounts so collected were later found to be in excess of the amounts payable towards the sales tax. The assessee transferred the said amounts to the suspense account but did not credit the same to the profit and loss account. This fact was not taken note of by the Assessing Officer. The Commissioner of Income Tax (Appeals) initiated proceedings u/s 263 of the Income Tax Act, 1961 (for short, "the Act"), on the ground that the excess amount in the sales tax account ought to be treated as income of the assessee.

After hearing the assessee, income of the assessee was accordingly enhanced.

3. The Tribunal accepted the claim of the assessee and held that Section 41(1) of the Act was attracted only for loss, expenditure or trading liability of the assessee and not for sales tax liability. No fresh income was received by the assessee and mere cessation of liability during the previous year when the same was not in respect of any allowance or deduction could not be treated as income u/s 41(1) of the Act.

4. We have heard learned Counsel for the Revenue.

5. In Chowringhee Sales Bureau (P) Ltd. Vs. Commissioner of Income Tax , West Bengal, , the matter was considered by the hon''ble Supreme Court and it was held that the amount collected as sales tax formed part of trading or business receipt and if the said amount was not returned to the owner of the goods nor deposited with the Department, the amount will be treated as deemed income of the assessee, notwithstanding the fact that the amount was not shown as trading receipt in the accounts books. The same view has also been taken by the hon''ble Supreme Court in The Chief Commissioner of Income Tax, Cochin Vs. Kesaria Tea Co. Ltd., , Polyflex (India) Pvt. Ltd. Vs. Commissioner of Income Tax, Karnataka, and Sinclair Murray and Co. (P) Ltd. Vs. The Commissioner of Income Tax, Calcutta, . This view has also been followed by the Gujarat High Court in Motilal Ambaidas v. CIT [1977] 108 ITR 136 and Commissioner of Income Tax Vs. Bharat Iron and Steel Industries, . The said decisions were also followed by the Rajasthan High Court in Wolkem (P.) Ltd. Vs. Commissioner of Income Tax, .

6. We have also dealt with the issue in ITR No. 12 of 1988 Commissioner of Income Tax Vs. Modern Farm Services, decided on October 18, 2006, wherein it was observed (pages 360 and 361):

In Commissioner of Income Tax, Madurai Vs. T.V. Sundaram Iyengar and Sons Ltd., , following question was considered by the hon''ble Supreme Court (page 347):

Whether, on the facts and in the circumstances of the case, the Appellate Tribunal is right in law in deleting the addition made by the Income Tax Officer representing unclaimed sundry credit balances written back to the profit and loss account by the assessee during the previous year relevant for the assessment year under consideration?

After referring to decisions reported in MORLEY (INSPECTOR OF TAXES) Vs. TATTERSALL., , which was explained in subsequent judgment in Jay's The Jewellers Ltd. v. IRC [1947] 29 TC 274 (KB) : [1947] 2 All ER 762 it was held that merely because the amount when received was not income, will not mean that the amount could not be treated as income later. Reference was also made to decisions dealing with different situation where the amount when received was not income but was treated as income later on principle, which has been enacted in Section 41 of the Act. It was observed (page 353):

But, where a new asset came into being automatically by operation of law, common sense demanded that the amount should be entered in the profit and loss account for the year and be treated as taxable income. In other words, the principle appears to be that if an amount is received in the course of trading transaction, even though it is not taxable in the year of receipt as being of revenue character, the amount changes its character when the amount becomes the assessee's own money because of limitation or by any other statutory or contractual right. When such a thing happens, common sense demands that the amount should be treated as income of the assessee.

A plea of the assessee in the present case that the amount had not been transferred to profit and loss account, did not make a difference on principle. If no liability accrued during the year, the amount could not be kept in suspense account. The same has to be treated as income. It is a different matter that if at any time later, any expenditure is to be incurred on that account, the same can be treated as permissible expenditure.

In Commissioner of Income Tax, Madras Vs. Thirumalaiswamy Naidu and Sons, , the hon"ble Supreme Court was concerned with the situation where the liability to sales tax was not required to be met. The Revenue received on that account was treated as income, though the amount was liable to be refunded to the purchasers. It was held that as and when the amount was required to be refunded to the purchasers, the same could be claimed by the assessee as deduction. In Polyflex (India) Pvt. Ltd. Vs. Commissioner of Income Tax, Karnataka, , similar view was taken.

7. The following view taken in the above decisions, we hold that the amount collected towards sales tax which remained unpaid and unpayable to the Department, which was also not refunded to the customers, was liable to be treated as income in the hands of the assessee u/s 41(1) of the Act. As and when the amount is refunded to the customers, the same may be claimed as deduction by the assessee in accordance with law.

8. Accordingly, the question referred is answered in the manner indicated above.

9. Reference is disposed of accordingly.