
(2006) 02 MAD CK 0132

In the Madras High Court

Case No : Tax Case (Appeal) No. 86 of 2006

Commissioner of Income Tax

APPELLANT

Vs

Sakthi Soyas Ltd.

RESPONDENT

Date of Decision : 07-02-2006

Acts Referred:

Income Tax Act, 1961 — Section 143(1), 143(2), 143(3), 260A

Citation : (2006) 283 ITR 194

Hon'ble Judges : P.P.S. Janarthana Raja, J;P.D. Dinakaran, J

Bench : Division Bench

Advocate : N. Muralikumaran, for the Appellant;

Final Decision : Dismissed

Judgement

P.P.S. Janarthana Raja, J.—The appeal is filed by the Revenue u/s 260A of the Income Tax Act, 1961 against the order of the Income Tax Appellate Tribunal in I. T. A. No. 2031 (Mds) of 1996 dated September 30, 2003, raising the following substantial question of law:

Whether, on the facts and in the circumstances of the case, the Income Tax Appellate Tribunal was right in holding that crop development expenditure of Rs. 20,36,157 and project launching expenses of Rs. 16,41,125 incurred by the assessee for the assessment year 1992-93 were allowable as revenue expenditure?

2. The relevant assessment year is 1992-93 and the corresponding accounting year ended on March 31, 1992. The assessee-company filed a return of income on March 31, 1992, admitting a total loss of Rs. 8,58,41,145. The return of income was processed u/s 143(1) on March 27, 1995 and accepted after making a prima facie adjustment of Rs. 18,952. Later, after notice u/s 143(2), the assessment was completed u/s 143(3). While completing the assessment, the Assessing Officer disallowed the claim of expenditure to the extent of Rs. 20,36,157 towards crop development expenses on the ground that the same was

not considered as revenue expenditure by the assessee in its accounts. However, the assessee claimed it as revenue in the statement of computation of total income and also further disallowed the expenses incurred amounting to Rs. 16,41,125 towards advertisement in respect of soya products and sales promotional expenses. Against the order of assessment, an appeal to the Commissioner of Income Tax (Appeals) was filed by the assessee. The Commissioner of Income Tax (Appeals) allowed the claim of the assessee and directed the Assessing Officer to allow the same as a deduction. Aggrieved by that order, the Revenue filed an appeal to the Income Tax Appellate Tribunal. The Income Tax Appellate Tribunal dismissed the appeal and allowed both the issues in favour of the assessee.

3. Heard learned Counsel appearing for the Revenue. The assessee had incurred expenditure to an extent of Rs. 20,36,157 towards crop development during the relevant period. Therefore, it had to ensure continuous availability of raw materials. Keeping that objective in mind, the assessee-company propagated a new crop among the local farmers for which it had incurred various expenses totalling to Rs. 20,36,157. All these expenses were by and large educative and advertisement in nature and that the participation of the farmers was ensured in developing the said crop. The assessee had incurred expenditure in making publicity through visual media as well as print media, distribution of seeds and fertilizers, for maintaining demonstrative plots, for conducting seminars for the local population, prize distribution to farmers, etc. These expenses were necessary and usually expendable in the event of launching a new project. All these expenses incurred by the assessee-company under this head were intimately connected with the activities carried on by the assessee in its business operations and therefore it had necessarily to be held as business expenditure and the expenditure could not have resulted in enduring benefit to the assessee-company. Therefore, we do not find any justification in the argument of the Revenue that crop development expenses needed to be treated as capital expenditure ineligible for deduction.

4. In respect of the project launching expenses amounting to Rs. 16,41,125 also, we find that the assessee had spent the money mainly for advertisement through visual and print media and also for designing and printing leaflets, brochures, etc., and hence these expenses were also in the nature of business expenditure entitled for deduction in computing the assessee's income.

5. The other contention pointed out by learned Counsel was that these items were accounted by the assessee as capital items, but were treated as revenue items, only for the purpose of Income Tax. The assessee might have treated those two amounts as capital expenditure in its regular books of account under the provisions of the Companies Act and for fairly disclosing the financial status of the company, as required by law. Capitalisation of those expenditure in the books of account alone was not the decisive factor in examining an expenditure for the purpose of Income Tax. The name given to an expenditure or a

nomenclature given to an expenditure in the books of account of the assessee is not the litmus test to decide the exact nature of expenditure for the purpose of Income Tax. The purpose of the Companies Act is different from the purpose of the Income Tax Act. Therefore, the classification of those expenses as capital in nature for the purpose of the Companies Act, does not ipso facto make that expenditure a capital expenditure for the purpose of the Income Tax Act. So, we are of the view that the crop development expenses and new project launching expenses were rightly held by the authorities as revenue expenditure.

6. In the foregoing conclusions, we find no error or infirmity in the order of the Tribunal. Hence, no substantial question of law arises for consideration of this Court. Accordingly, the above tax case is dismissed. No costs.