

Assessee not required to establish irrecoverability of a debt before writing it off to claim bad debt deduction.

Summary – The Delhi HC in a recent case of Samara India (P) Ltd., (the Assessee) held that for an assessee to claim deduction in relation to bad debts it is no longer necessary to establish that debt had become irrecoverable and it is sufficient if assessee forms such an opinion and writes off debt as irrecoverable in its accounts.

Facts

- For an assessee to claim deduction in relation to bad debts it is now no longer necessary for assessee to establish that debt had become irrecoverable; and it is sufficient if assessee forms such an opinion and writes off debt as irrecoverable in its accounts.
- The Assessee's workshop was demolished by the city development authority as the land belonged to the development authority and not the lessors from whom the assessee had taken the premises on lease. The assessee, filed a suit for recovery of the sums advanced by the assessee to the lessors and the amount expended by the assessee on development and interiors of the property.
- The assessee thereafter wrote off a part of the sum as irrecoverable.
- The Assessing Officer disallowed the amount written off by the assessee in his profit and loss account.
- On appeal while the Commissioner (Appeals) upheld the decision of the Assessing Officer, the Tribunal granted relief to the assessee.

Held

- The HC held that there is no infirmity in the view expressed by the Tribunal as it is not disputed that the assessee had paid a sum as advance which was to be adjusted against lease rentals. The assessee had been carrying on business even prior to the lease agreement with respect to which advance had been made. The assessee had come to a conclusion that chances of recovery of amounts from lessors in the future were remote and therefore had written off the amount as irrecoverable. For an assessee to claim deduction in relation to the bad debts it is now no longer necessary for the assessee to establish that the debt had become irrecoverable and it is sufficient if assessee forms such an opinion and writes off the debt as irrecoverable in its accounts.