Sum incurred mainly on advertisement to promote sales is an allowable revenue expenditure

Summary – The Karnataka High Court in a recent case of Indo Nissin Foods Ltd., (the Assessee) held that Advertisement expenditure to promote sales is allowable as revenue expenditure and is not an expenditure where benefit is of enduring nature.

Facts

- The assessee claimed deduction for the amount as revenue expenditure, incurred for television advertisement.
- The Assessing Officer had allowed the deduction in previous year but disallowed for the year 1998-99 on the ground that expenditure amounts to enduring benefit and constitute capital expenditure.
- The Commissioner (Appeals) confirmed the order whereas Tribunal set aside the order and allowed deduction.
- On appeal.

Held

- The HC held that the test of enduring benefit enunciated by the Supreme Court in the case *Assam Bengal Cement Co. Ltd.* v. *CIT* [1955] 27 ITR 34, has no application to the facts of the case in hand. The expenditure incurred is dominantly for advertisement to promote the sales.
- If the contention of the revenue is upheld, any expenditure incurred for marketing and promoting sales should have to be held as 'capital expenditure' and in no case, the deduction can be allowed. Such a contention is illogical and untenable.
- In the instant case, it is to be held that expenditure incurred in TV advertisement and in film production being expenditure incurred dominantly for advertisement to promote sales are revenue in nature and not a capital expenditure.

Comments

This is a very welcome judgment since the deductibility of advertisement expenditure in full in the year in which incurred has been a matter of litigation before the Revenue authorities and the assessee's have in many cases faced the issue of the expenditure having been treated as capital expenditure.