

HC upheld disallowance as no nexus existed between expenditure and business purpose

Summary – The Rajasthan of High Court in a recent case of Rajasthan Patrika (P.) Ltd., (the Assessee) held that where assessee failed to establish nexus between debited expense with business purpose, same was to be disallowed

- Facts in brief are that the appellant assessee is a daily newspaper who had filed a returns declaring a loss of Rs. 10,93,31,292/- on 30.11.1998 for the assessment year 1.4.1997 to 31.3.1998, wherein it claimed expenses under the heads - (i) sales promotion expenses, (ii) advertisement & publicity expenses, (iii) meeting & seminar expenses, (iv) staff welfare expenses, and (v) business expenses, amounting to Rs. 14,10,764/-, 51,93,836/-, 1,30,240/-, 8,37,347/- and 83,310/- respectively, which were disallowed by Assessing Officer on the ground that assessee could not establish that the same had been incurred wholly and exclusively for the purpose of business.
- According to the Assessing Officer besides establishing that they have been incurred for business purpose, it is also to be within permissible limits and in case of absence of any of the two factors, the expenses could be disallowed and in the facts & circumstances of the case and the material placed before it, the nexus could not be established.
- On appeal by assessee before Commissioner of Income Tax (A) 20% of these expenses were disallowed and the Income Tax Appellate Tribunal reduced the disallowance from 20% to 10%, and allowed expenses to the extent of 90%.
- After having gone through the entire material placed on record, the HC held that no substantial question of law arises in this case. The facts have been discussed by the competent authority as also by the appellate authority. Even the Tribunal has gone into the factual matrix and reasons for disallowing the expenses have been elaborately discussed holding that there was no business nexus of each and every expense debited in sales promotion head, because on one hand company was returning heavy losses and on the other hand it was claiming heavy expenses under various heads like travelling, printing, advertising etc. separately.
- Hence the HC was of the view that the appeal deserves to be dismissed.