

Lessor allowed to claim depreciation as there was no doubt on purchase and letting out of machinery

Summary – The High Court of Punjab & Haryana in a recent case of Ranbir Chemicals Industries (P.) Ltd., (the Assessee) held that where purchase of machinery and letting out same was not in doubt, depreciation could not be disallowed.

Facts

- The Assessing Officer framed assessment under section 143(3) by disallowing the claim of depreciation on plant and machinery.
- On appeal, the Commissioner (Appeals) allowed the assessee's claim of depreciation on the plant and machinery.
- On second appeal, the Tribunal upheld the order of the Commissioner (Appeals).
- In present appeal before High Court the revenue contended that:
The assessee had let out the machinery without there being any commercial expediency and the amount of lease was not increased in spite of providing additional machinery.
The Assessing Officer had disallowed the claim on depreciation and the said action was justified.
- The assessee contended that:—
The purchase of machinery and letting out the same was not doubted.
Moreover, such an order of the Assessing Officer for the preceding assessment year 1994-95 was also set aside by the Commissioner (Appeals) wherein it was observed that the assessee did replace machinery during the year under appeal which had not been denied at all and which was supported by bills and vouchers and were produced before the Assessing Officer.
In that year, the Commissioner (Appeals) observed that like claims was made in earlier years also and was allowed as such. Therefore, the Commissioner (Appeals) allowed the claim of the assessee.
Once the genuineness of the purchase of machinery was not doubted, the depreciation for the subsequent years could not be disallowed.

Held

- The revenue was unable to demonstrate that the finding as recorded by the Commissioner (Appeals) for the assessment year 1994-95 had not attained finality. Once it was held that the purchase of the machinery and letting out the same was not in doubt, the depreciation could not be disallowed for the years subsequent to the assessment year 1994-95.
- The Tribunal observed that since depreciation on plant and machinery has been allowed in the earlier assessment year and these assets were used for the purpose of assessee's business, for the assessment year under reference, the Commissioner (Appeals) was justified in directing the Assessing Officer to allow depreciation on the WDV of plant and machinery.
- Thus, the revenue was justified in allowing depreciation.