

Debit note raised by foreign buyer for carrying out repairs on goods exported by assessee was allowable deduction

Summary – The Chennai ITAT in a recent case of Magan Electro Castings Ltd., (the Assessee) held that where foreign buyer carried out minor repairs on products exported by assessee and raised debit notes against it which were debited by assessee as expenditure in books of account, such expenditure was to be allowed while computing profits of assessee

Facts

- The assessee was engaged in the business of manufacturing of iron castings and generation of power.
- It exported certain goods to USA.
- The foreign buyer carried out minor repairs on the products exported by the assessee and raised debit notes against it.
- Though the assessee disputed the debit notes raised, foreign buyer agreed to pay the sale proceeds only after deducting the same.
- The assessee, therefore, had to debit the expenditure account by amount of debit notes.
- The Assessing Officer disallowed the expenditure incurred towards debit notes as unexplained and not genuine.
- On appeal, the Commissioner (Appeals) upheld the order of the Assessing Officer.
- On second appeal:

Held

- On perusal of the facts it is crystal clear that foreign buyer had raised the debit notes against the assessee for whatever reasons it may be and it has become extremely difficult for the assessee to recover its entire sales proceeds. In order to keep good business relationships, the assessee had conceded to the debit notes raised by foreign buyer and preferred to accept a lesser amount than what was invoiced. In these circumstances, the debit notes raised by the foreign buyer will either relate to the expenses reimbursable by the assessee to its client or the debt that has become bad which the assessee has written off in its books of account. From these facts, it is crystal clear that the assessee is forced to incur the expenditure or accept the same as bad debt. Apparently, the assessee has also debited the expenditure account and credited foreign buyer account, thereby satisfying the conditions laid by the Apex Court in the case *TRF Ltd. v. CIT* [\[2010\] 323 ITR 397/190 Taxman 391](#). Therefore, the addition of expenditure towards debit notes made by the Assessing Officer which was further sustained by the Commissioner (Appeals) is deleted.