

## **Subsidy received from AE for specific purpose can't be treated as income until it is spent**

**Summary – The High Court of Delhi in a recent case of Canon India (P.) Ltd., (the Assessee) held that where assessee company had received subsidy to be utilised for specific purpose, amount of unutilised subsidy could not be treated as income**

### **Facts**

- The assessee was a wholly owned subsidiary of company C and was engaged in purchase and resale of 'Canon' products of company C in India.
- While completing the assessments for the assessment years 2007-08 and 2008-09, the Assessing Officer made certain additions to the income of the assessee, which reflected unutilised subsidy received by the assessee from its holding company C. The Assessing Officer observed that the subsidies received by the assessee become its property notwithstanding that the same had not been spent for the purposes for which they were received. On the aforesaid basis, the Assessing Officer held that the subsidies received by the assessee were required to be treated as its income for the relevant previous years.
- On appeal the Tribunal held that the unspent subsidy was not income of the assessee but was held in trust by the assessee, to be spent for the specific purposes for which it had been remitted by company C.
- On appeal by the revenue:

### **Held**

- It is not disputed by the revenue that subsidies were received by the assessee from company C against specific obligation to incur expenditure on specific activities and it was not open for the assessee to divert the amount for any purpose other than for which it was remitted. It is also not disputed by the revenue that assessee is accountable to company C for the amount received. The Tribunal had examined the relevant facts and also concluded that the unspent amount is to be held in trust on behalf of company C and this was also confirmed by company C.
- In view of the aforesaid facts it would be clearly be impermissible for the assessee to appropriate and reflect the amount of unutilised subsidy as its income. Therefore, the assessee has not - rightly so - credited the subsidies received to its profit and loss account, but reflected the same as a current liability.
- In view of the assessee's obligation to utilise the same for the specific purposes, the revenue could be recognised only on the application of the subsidy for the specified purposes. In other words, the assessee could credit the profit and loss account with the quantum of subsidy only if the corresponding expenditure was also debited to the profit and loss account maintained by the assessee.

- Therefore, the revenue's contention that the unutilised subsidy is required to be recognised as income of the assessee in the year of its receipt is not acceptable. This would be contrary to the matching concept, which is the substratal principle for computing income during a relevant period. It is necessary that income be recognised along with the corresponding expenditure incurred for earning the income. Thus, where an assessee follows the accrual/mercantile system of accounting - as in the instant case - income can be recognised only when the matching expenditure is also accounted for irrespective of the cash outflows/inflows during the year. It would thus, not be correct to recognise the subsidies received for incurring specific expenditure as income without accounting for the corresponding expenditure.