

ITAT allows deduction of license fee of goodwill; rejects revenue's stand that transaction was colourable device

Summary – The Delhi ITAT in a recent case of Remfry & Sagar, (the Assessee) held that License fee paid by assessee law firm to RSCPL for use of goodwill in law firm being incurred wholly and exclusively for purpose of business / profession was an allowable deduction under section 37

Facts

- Assessee a partnership firm was formed to continue the law practice of Dr. V. Sagar. In order to institutionalize the goodwill in perpetuity, a deed of gift was executed in 2001, whereby the goodwill in the law firm viz. 'Remfry & Sagar' developed over 175 years was gifted to a newly incorporated juridical/legal entity RSCPL and thereafter assessee entered into a license agreement with RSCPL for use of goodwill subject to payment of a license fee.
- Assessing Officer disallowed the deduction of license fee paid by assessee to RSCPL.
- On appeal to the Tribunal:

Held

- The assessee firm could not have carried on the profession of Attorneys-at-law in the name of Remfry and Sagar and use its goodwill and all its associated rights without the impugned agreement with RSCPL. The revenue's stand that the entire transaction was a colourable device adopted to transfer profits of assessee law firm to children/family members of Dr. V. Sagar, who held majority shares in newly set up company (RSCPL) and to evade tax was to be rejected. Dr. V. Sagar had the sole and exclusive rights to the said goodwill and without legal authorization from him, assessee firm could not use the name and style of Remfry & Sagar. Hence, the expenditure incurred had to be held as incurred wholly and exclusively for the purpose of business/profession.