

ITAT allowed deduction of warranty on actual as well as provisional basis as same wasn't case of double deduction

Summary – The Mumbai ITAT in a recent case of Anchor Electricals (P.) Ltd., (the Assessee) held that Assessee's claim for deduction of provision for warranty based on change in method of accounting deserved to be allowed

Provision for warranty cannot be treated as provision for diminution in value of any assets so as to be covered by Explanation 1(i) to section 115JB(2) and, thus, no additions to book profit can be made in respect of said amount.

Assessee eligible for deduction under section 80-IC on account of sale of scrap.

Facts

- The assessee was in the business of manufacturing and trading of various electrical goods for which warranties were issued by it to its customers. The assessee had been claiming warranty on actual basis in earlier years and the same had been allowed.
- During relevant year, the assessee changed its method of accounting and claimed deduction in respect of provision for warranty.
- The Assessing Officer opined that there was no scientific basis of estimating the amount of provision for warranty.
- He further noted that during relevant year the assessee had also made claim on actual basis, thus, double claim was made by the assessee. Under such circumstances, the Assessing Officer disallowed the amount of provision for warranty. The DRP confirmed said disallowance.
- On second appeal:

Held

- It is noted that in this year assessee changed its method of accounting, as a result of which the amount of provision on account of warranty has been made. It is further noted that in all subsequent years assessee has consistently followed the new method of accounting whereby claim has been made by way of 'provision for warranty' and not on actual basis. Thus, assessee's approach cannot be said to be non *bona fide* nor can it be said that assessee had any ulterior motive to evade tax or to distort the profits of the year. The claim has been made on actual basis as well as on account of provision because in the year of transition, there was no other option before the assessee but to make the claim as per both the methods.

- Further, there is force in the reasoning given by the assessee that no double deduction would be made in this manner because claim made by the assessee on actual basis was on account of sales effected in earlier years whereas the amount of provision created in year was on account of sales pertaining to the impugned year, *i.e.* the year under consideration. This reasoning has not been rebutted on facts or logic by the revenue.
- Further, there is no allegation that the change in the method of accounting of making the claim by way of provision as against on actual basis was not *bona fide* or it was due to some ulterior motive of evasion of tax.
- Thus, taking into account the facts and circumstances of the case, it is held that assessee's claim on account of provision for warranty expenses was to be allowed.