

Exp. on replacement of moulds & dies subject to heavy wear & tear was allowable as revenue expenditure

Summary – The High Court of Delhi in a recent case of Sunbeam Auto Ltd., (the Assessee) held that Expenditure on replacement of moulds and dies subject to heavy wear and tear is allowable as revenue expenditure

Facts

- The assessee was engaged in the manufacture of die-casted components for automotive manufactures. For manufacturing these components specific moulds were required according to the design and physical properties. Due to constant use of the dies and moulds, they were subject to heavy wear and tear. It was the practice of the assessee to debit the expenditure incurred on account of replacement of the moulds and dies to the profit and loss account as revenue expenditure.
- According to the Assessing Officer expenditure was claimed in addition to the heavy repair expenditure and depreciation relating to the plant and machinery. He observed that the claim for deduction of the expenditure on account of replacement and moulds and dies was not guided by any commercial expediency. In this view of the matter he held that the expenditure brought an enduring advantage to the assessee and, therefore, disallowed the same as capital in nature.
- The Commissioner (Appeals) noted that the assessee was manufacturing the automotive parts since 1986 and since then it was consistently following the practice of debiting the cost of replacement of moulds and dies as revenue expenditure. Following the order of the Tribunal in the assessment year 2001-02, he held that dies and tools were allowable as revenue expenditure.
- On the second appeal, the Tribunal held that the moulds and dies do not have any longevity and, therefore, they have to be replaced frequently. Such replacement only ensured production of the same quality of parts. They have to be made by the assessee in-house on the basis of specific orders by car and motorcycle manufacturers and when their life is exhausted they have to be destroyed in order to prevent misuse or fakes. The Tribunal felt that in these circumstances the assessee had not obtained any enduring advantage. The expenditure was, therefore, directed to be allowed as revenue expenditure.
- On appeal to the High Court:

Held

- It has been factually found and that too concurrently by the Commissioner (Appeals) and the Tribunal that the purchase of dies and moulds did not bring into existence any permanent or enduring advantage to the assessee. It has been found that due to continuous use they wear out fast and further any minor defect in the mould on account of continuous use such as chipping or cracking would render them useless. In any case the longevity of the moulds and dies is not substantial as held by the Tribunal and they have to be replaced frequently to ensure quality of the

product. Moreover, the moulds have to be produced to suit the requirements of the particular customer and after the order is met, they become useless and ultimately have to be destroyed to prevent misuse or manufacture of fakes. It has also been found by the appellate authorities that the expenditure on replacement of dies and moulds was earlier allowed by the income tax authorities as revenue expenditure. These are factual findings recorded by the Tribunal which are not disputed by the revenue on the basis of any evidence or material. It is well settled that any expenditure on replacement or repairs to plant and machinery which does not bring into existence any enduring or permanent advantage in the capital field is allowable as revenue expenditure. The Tribunal has only applied this settled legal position to the undisputed facts found. Therefore, no substantial question of law arises for consideration. The appeals on this point are accordingly dismissed.