

Exp. incurred to improve quality of existing products was allowable as revenue exp.: Gujarat HC

Summary – The High Court of Gujarat in a recent case of Arvind Products Ltd., (the Assessee) held that where assessee incurred expenditure on product development and claimed deduction for same under section 37(1), in view of fact that expenditure so incurred did not involve development of a new product or even a new technique or technology to manufacture existing product more efficiently rather it was aimed at improving quality of existing products of assessee, assessee's claim for deduction was to be allowed

Facts

- The assessee-company was engaged in the business of manufacturing of textiles. The assessee had expended a sum of Rs. 2.70 crores (rounded off) for project development and claimed it as revenue expenditure.
- The assessee's case was that product development was in the nature of improvement of different types of fabrics produced by the assessee. The expenditure was in relation to improvement of existing products of assessee and not for development of new product. The expenditure was therefore revenue in nature.
- The Assessing Officer was of the opinion that the benefit of newly developed or improved product would be available to the assessee for long duration. Such expenditure therefore would be resulting into enduring benefits. He therefore disallowed such expenditure by treating it as capital expenditure.
- The Commissioner (Appeals) upheld the order of Assessing Officer.
- The Tribunal, however, allowed the assessee's claim.
- On revenue's appeal:

Held

- The assessee who was engaged in manufacturing textile products, had expended the amount in question for product development undertaken by a sister concern of the assessee on its behalf. The research work did not involve development of a new product or even a new technique or technology to manufacture existing product more efficiently rather it was aimed at improving quality of existing product of the assessee. Essentially thus, the expenditure was for the assessee's existing business and was for the purpose of improving the quality of the existing products.
- In view of above, the order passed by Tribunal allowing assessee's claim did not require any interference.