

Deduction of unrecovered advances written off disallowed as assessee couldn't substantiate his claim

Summary – The Kolkata ITAT in a recent case of Bhagwati Gases Ltd., (the Assessee) held that deduction of unrecovered advances written off should be disallowed as assessee couldn't substantiate his claim

Facts

- The assessee was in the business of manufacture and sale of industrial gas and claimed debit balance written off of Rs. 79.45 lakhs pertaining to amounts given to suppliers for purchase of raw material and written off since the material was not supplied.
- The Assessing Officer disallowed write off of since the assessee could not produce copies of bills & other related document and the claim of debit balance written off of Rs. 79.45 lakhs added to the total income of the assessee.
- On appeal, the Commissioner (Appeals) also upheld the order passed by the Assessing Officer.
- On second appeal:

Held

- The ITAT held that to allow a write off of expense, the assessee has to prove that the trade advances given to the parties were indeed given in the ordinary course of business. Thereafter, the assessee has to prove that he took all steps to recover the advanced amount and since it failed to recover the same, the advances written off would be eligible as business loss.
- In the present case since the assessee could neither prove the nature of the advances given to the third parties the view taken by the Commissioner (Appeals) is correct and the order of Commissioner (Appeals) should be confirmed.