Tenet Tax & Legal
Private Limited

Tenet Tax Daily
July 22, 2019

Allow ability of expense is not dependent on Method of accounting provided for valuation of inventory:HC

Summary – The High Court of Madras in a recent case of Mahindra World City Developers Ltd., (the Assessee) held that allow ability of expense is not dependent on Method of accounting provided for valuation of inventory

Facts

- The assessee acquired loan for purchase of a land for its project and the cost of land and related development expenditure was disclosed as work-in-progress. The assessee capitalised the interest expenditure on the loan it in its books of account since from inception of loan till the year of scrutiny, it had not received any income from these projects.
- The Assessing officer as well as Commissioner (Appeals) rejected the assessee's claim.
- On appeal, the tribunal held after examination of the entire facts and circumstances of the case that the impugned expenditure incurred by the assessee was capital in nature.
- In instant appeal, the assessee contended that since the assessee was engaged in the business of real estate, even though interest paid on the borrowed capital to purchase the land in question was capitalised in the books of account and was shown as work-in-progress in the balance sheet, after insertion of section 145A with effect from 1-4-2017 by the Finance Act, 2018 provided for specific method of valuation of inventory (the land in question) by the assessee and the interest paid on capital borrowed, irrespective of it being capitalised or not, was required to be allowed as deduction while computing the income for the assessment years in question.

Held

- The HC held that the proviso to section 36(1)(iii) incorporated in Part D of Chapter IV of the Act providing for the 'Method of Computation of Total Income', will override provisions of section 145A, which is incorporated in Chapter IV of Act relating to 'procedure for assessment'. The assessee has capitalised the interest paid on the borrowed capital however, the assessee has not claimed that the land in question was put to use in the assessment years in question. Mere purchase of the land in the years in question out of the borrowed capital does not entitle the assessee to claim such interest paid on borrowed capital as a deductible expenditure basis the method of accounting prescribed under section 145A.
- Method of accounting provided for valuation of inventory under section 145A does not determine the allowability of the expenditure. The proviso to section 36(1)(iii), which says that such claim of deduction will be allowed in the assessment years, when it was put to use, will override the provisions contained in section 145A. Since the position of law and the inter play of the above provisions are very clear, there is no any substantial question of law to be arising in the present case for our consideration.