

## **Capital receipt covers cases where compensation is received by lessor on termination of lease due to sale of property**

**Summary – The Chennai ITAT in a recent case of Butterfly Marketing P. Ltd., (the Assessee) held that Capital receipt covers cases where compensation is received by lessor on termination of lease due to sale of property**

### **Facts**

- The assessee owned a property which was sold to the lessee for certain consideration and the assessee was also paid some compensation towards capital loss on account of termination of lease.
- In assessment, the Assessing Officer made addition of the compensation received by the assessee by holding that it was revenue receipt.
- On appeal, the Commissioner (Appeals) confirmed the action of the Assessing Officer.
- On the assessee's appeal to the Tribunal:

### **Held**

- The ITAT stated that the question to be examined is whether compensation received on account of termination of long-term lease can be treated as revenue receipts and liable to tax. Any compensation received towards loss of source of income cannot be treated as revenue receipts but capital receipts which is not liable to be taxed.
- Accordingly, the ITAT allowed the appeal.