

Foreign exchange loss arising out of foreign currency fluctuations is revenue expenditure and not capital expenditure

Summary – The Cochin ITAT in a recent case of Baby Memorial Hospital Ltd., (the Assessee) held that foreign exchange loss arising out of foreign currency fluctuations is revenue expenditure and not capital expenditure

Facts

- The CIT found that the assessee had claimed an amount being foreign exchange loss which was allowed by the Assessing Officer but as per CIT the loss on devaluation of rupees on account of loan utilized for fixed capital was not deductible under section 37(1) since the expenditure was capital in nature. Therefore, it was held that the foreign exchange loss claimed as revenue expenditure was to be disallowed in the assessment.
- The assessee submitted that the Assessing Officer had applied his mind to the facts of the case and, therefore, his order was not erroneous or prejudicial to the interest of the revenue.

Held

- The ITAT held that the main contention of the assessee is that loss arising on account of fluctuation of exchange rate with regard to loan availed for acquisition of fixed assets is a revenue loss and not a capital loss. As per the provisions of section 43(1), actual cost means actual cost of the capital assets as reduced by that portion of the cost of the capital assets as has been met directly or indirectly by any other person or authority.
- Further, as per AS-11 the treatment of foreign exchange loss arising out of foreign currency fluctuations in respect of fixed assets acquired through loan in foreign currency shall be required to be given in profit and loss account.
- Hence, the foreign exchange loss arising in the present case should be allowed as revenue expenditure by charging the same into the profit and loss account and not as capital expenditure by deducting the same from the cost of the respective fixed assets. Accordingly, this ground of appeal of the assessee is allowed.