

No Deduction can be claimed if Bad Debt not written off: Madras High Court

Allu Arvind Babu Vs ACIT (Madras High Court)

I.T.A. No. 521 of 2017

Date - 04.12.2020

Fact of the Case

- In the present case Allu Arvind Babu is the assessee who made the security deposit or advance of Rs. 30 lakhs to the landowner in A.Y 2006-07 and made a provision for this expenditure of Rs. 30 lakhs in the books of accounts
- The assessee claimed the same amount as an expenditure or deduction and the amount shown as receivable in the balance sheet for the A,Y 2006-07
- The assessing officer disallowed the same since it was not written off in the books of accounts
- The Assessee reiterated his submissions and stated that to claim a deduction in relation to bad debts under Section 36(1)(vii) of the Act it was not for the Assessee to establish that the debt in fact had become irrecoverable and deduction should have been allowed in the hands of the Assessee
- The Revenue argued that mere creating of a provision for the said advance of security deposit made by the Assessee in favor of the landowner will not entitle the Assessee to claim the deduction, as the Assessee, by his own conduct, has shown it as outstanding receivable in the Balance Sheet of the Assessee for the relevant previous year.
- The revenue further added that the Assessee has not written off the said claim against the landowner and has not actually paid the said amount to the landowner during this year, mere creating of a provision for the same does not entitle the Assessee to claim it as an expenditure and defer taxation to that extent.

Decision of the Case

The division judge bench of Justice Vineet Kothari and Justice M.S. Ramesh while dismissing the appeal of the assessee held that merely by making a book entry for creating a provision for future expenditure or compensation, the Assessee cannot be permitted to claim deduction under Section 36 or 37 of the Act.