

Capital Subsidy received by Assessee liable to be excluded from Computation of Book Profit: ITAT grants relief to Sunrise Biscuit

Fact of the Case

1. The assessee company, Sunrise Biscuit Co. Pvt. Ltd. filed its return of income on 29.11.2014 showing total income at Nil. The case was selected for scrutiny through CASS inter alia on the issue of deduction claimed in respect of the VAT subsidy of Rs.8,78,84,902/- under the Industrial Promotion Policy of the State of Assam in category 'B' for substantial expansion.
2. The assessee claimed that the VAT subsidy was in the nature of capital receipt and therefore not taxable. However, the AO show caused the assessee as to why the VAT Remission of Rs.8,78,84,902/- should not be treated as revenue receipt and be taxed rather than as capital receipt.
3. The AO accordingly held the assessee's claim that the VAT Remission of Rs.8,78,84,902/- was a capital receipt, is not tenable, and treated it to be a Revenue Receipt and accordingly brought it to tax.

Decision of the Case

1. The coram headed by Vice President P.M. Jagtap and Judicial Member, Aby T. Varkey allowed the grounds taken by the assessee and direct the AO to deduct the VAT subsidy of Rs. 8,78,84,902/- both while computing income under normal computational provisions and book profit under section 115JB of the Act for the relevant AY 2014-15.
1. The ITAT explained that the merit in the claim of the assessee that the VAT subsidy received by it for undertaking substantial expansion at their unit was in the nature of capital receipt not liable to tax since the object of granting of subsidies was to bring about industrial development, encourage fixed capital investment and generate employment in the State of Assam