

**No Tax on Compensation received for loss of Trees**  
**M/s. Flower valley Agro Tech Pvt.Ltd. vs. Income Tax Officer,**  
**Mumbai**  
**Case No.- I.T.A. No.4261/Mum/2019**  
**Date- 21/12/2020**

**Fact of the Case**

- ⇔ In the present case M/s. Flower valley Agro Tech Pvt.Ltd. is the assessee
- ⇔ The assessee is a corporate resident and is engaged in the business of manufacturing and trading of essential oil, plantations & extraction of essential oils.
- ⇔ An assessment was framed under section 143(3) wherein returned loss of Rs.22.22 Lakhs was reduced to Rs.12.08 Lakhs in view of addition of Rs.10.14 Lakhs under the head Income from other sources. The sum of Rs.10.14 Lakhs was received by the assessee from Assam Electricity Grid Corporation for cutting of trees on assessee's land for heavy electric lines.
- ⇔ The Agarwood trees weighing 4100 Kgs as obtained from cutting of trees were sold for Rs.2.05 Lacs which has been claimed as well as accepted to be an agricultural income.
- ⇔ The assessee pleaded that the compensation so received shall either be capital receipt not chargeable to tax or alternatively, it would be in the nature of agricultural income exempt under section 10(1).
- ⇔ It was submitted before the CIT(A) that the trees grown, nursed and protected by the company since the last many years was a capital asset from which regular income was derived from year to year. Cutting the tree permanently was a loss of capital asset. However, the CIT(A) rejected the contention.

**Decision of the Case**

- ⇔ The coram consisting of Amarjit Singh and Manoj Kumar Aggarwal noted that the trees so cut by the assessee would form part of its trading operations since the assessee would be earning revenue by utilizing these trees. Had the trees not been cut, the assessee would have earned more revenue from the trees.
- ⇔ The Tribunal observed that any compensation received in lieu of loss thereof would form part of assessee's trading operations. The same is evident from the fact that cut trees sold by the assessee constituted its trading income and the same were accepted to be agricultural income.
- ⇔ Therefore, the ITAT held that similar treatment was to be given to the compensation received for loss of trees. It would akin to a situation where the assessee lost its trading stock and received compensation for loss of the stock. Such case no tax is applicable on compensation received for loss of trees