

Surplus with deficit as per Shareholders' Account should be aggregated with Policyholders' Account for determining Profit or Loss: Karnataka HC grants Relief to PNB Metlife

Fact of the Case

1. In the present case the assessee Company is engaged in the business of life insurance and filed a return of income declaring loss which was computed by aggregating its reporting under shareholders account and policyholders account as prescribed under Insurance Regulatory and Development Authority (IRDA).
2. The Assessing Officer completed the assessment under Section 143(3) of the Act, treating the surplus under shareholders' account as income from business and taxed at normal rates.
3. Being aggrieved, the assessee preferred an appeal before the Commissioner of Income Tax (Appeals). The first appellate authority dismissed the appeal. As such the assessee preferred an appeal before the Tribunal which came to be allowed by following the earlier order in ITA No.756/B/2016 and in so far as the deficit in the policyholder's accounts to be sought for against the surplus as per the shareholders account under Section 70 of the Act as both constitute a similar business.
4. The counsel Sri. E.I.Sanmathi appearing for the appellants-Revenue submitted that the Tribunal grossly erred in deciding that the assessee Company has correctly computed the profits of life insurance business albeit the assessee-company not complied with the provisions of Section 44 read with First Schedule of the Act and Section 115B of the Act.
5. It was further submitted that the appellate Tribunal failed to appreciate the special provision under Section 44 of the Act in the right perspective while granting unintended benefits to the assesseees.

Decision of the Case

1. The division bench of Justice S. Sujatha and Justice Ravi V. Hoswani found no fault with the Tribunal in following this ruling in the case of ICICI Prudential Insurance Company Ltd. identical question having considered, the High Court of Bombay has held that shareholders' amount has to be considered as arising out of Life Insurance Business which is squarely applicable to the case on hand.
2. It is not the case of the revenue that the assessee is carrying on any other business other than the life insurance business. Thus, Section 44 read with Rule 2 to Part-A of First Schedule to the Act is applicable to the facts of the present case, not Rule 5 of Part – B as canvassed by the Revenue.
3. In a major relief to the PNB Metlife, the Karnataka High Court held that Surplus with the deficit as per shareholders' account should be aggregated with policyholders' account for determining profit or loss.