

Expenditure incurred allowable to Company on Lands purchased from its Directors as substantial profits were earned by company

Fact of the Case

1. The respondent-assessee, M/s. Adityaram Properties (P) Ltd. is a company engaged in Real Estate Development and they filed a return of income for the Assessment Year under consideration, i.e., AY 2007-08, on 14.11.2007, declaring 'NIL' income.
2. Subsequently, the case was selected for scrutiny, and notice under Section 143(2) was issued. The Assessing Officer found that the assessee had purchased land to the cost of Rs.19.51 Crores and the total cost of the land sold during the year and debited to the profit and loss account was Rs.8,01,61,275/-.
3. The assessee was directed to furnish details of the land purchased by them. On details being furnished, the Assessing Officer came to know that the assessee company had purchased a larger extent of land from its two Directors/shareholders at the rate of Rs.3 Lakhs percent. Ultimately, these lands, which were purchased, were sold to third-party buyers as many as 41 of them.
4. The Assessing Officer held that the assessee company has incurred expenditure in respect of the payment which has been made to the Directors and the expenditure is excessive and unreasonable and therefore, invoked the provisions of Section 40A(2)(b) of the Act and completed the assessment vide order dated 30.10.2009.

Decisions of the Case

1. The division bench of Justice T.S. Sivagnanam and Justice Sathi Kumar Sukumara Kurup ruled that the assessee company benefited out of the said decision and substantial profits were earned by the assessee company. Thus, the Tribunal was right in setting aside the portion of the order passed by the CIT(A) disallowing the sum of Rs.25,000/- percent.
2. The Madras High Court held that expenditure incurred is allowable to the company on lands purchased from its Directors as substantial profits were earned by the company.