Commissioner of Income Tax v. H.P. Financial Corporation

Income Tax Appeal No.21 of 2004

Supplied court judgment; no neutral citation stated | 2009-09-01

Write-off question answered for the assessee, but the historical financial-corporation deduction limit required reconsideration; assessment orders set aside and matter remanded to the AO.

36(1)(vii) | 36(1)(viia)(c) | 41

Division Bench | Deepak Gupta | V.K. Ahuja

01 FACTS OF THE CASE

For AY 1994-95, HPFC claimed Rs.26.47 lakh for bad and written-off debts. The AO disallowed Rs.19.04 lakh because corresponding individual loan-account entries had not been made. CIT(A) and ITAT accepted the claim; Revenue raised separate questions on write-off and the financial-corporation provision effective from 1 April 1992.

Source: PDF pp.1–2

02 DISCUSSION BY THE HON'BLE COURT

The Court accepted the finding that HPFC followed the cash system and had written off debts in accordance with its accounting system. It separately held that the authorities had overlooked the provision for a public financial institution/State financial corporation and its historical 5% total-income limit.

Source: PDF pp.2–4

03 JUDICIAL DECISION

Question 1 was answered for the assessee and against Revenue; question 2 was answered for Revenue. The assessment orders were set aside and the case remanded to the Assessing Officer for reconsideration under the provision discussed in the judgment.

Source: PDF p.4

04 OUTCOME / IN WHOSE FAVOUR

Mixed outcome: the assessee succeeded on the recorded write-off question, while Revenue obtained reconsideration of the statutory restriction. The Court did not quantify the final allowable deduction.

Source: PDF pp.3–4

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05 EXPERT COMMENTS

Two questions required separate answers — The absence of individual loanee-account entries did not persuade the Court to disturb the accepted write-off on this record. That answer did not dispose of the separate question about the financial-corporation provision. The practical significance is that the Court distinguished the recorded accounting treatment from the statutory measure of deduction; a favourable finding on the first did not secure the entire claim. (Source: PDF pp.1–4).

Historical statutory application drove the remand — The Court treated the provision effective from 1 April 1992 as applicable to AY 1994-95 and reproduced a 5% limit computed before the stated deductions. It found that the AO, CIT(A) and ITAT had not considered it. The remand therefore addressed an omitted statutory inquiry, rather than a judicial computation of the disallowance. The supplied judgment's treatment is reported as a historical holding; it should not be converted into a current general ceiling on every actual bad-debt write-off. (Source: PDF pp.3–4).

Records needed for the reassessment exercise — The relevant distinction for a comparable record is between the debts actually written off, a provision for bad and doubtful debts, the institution's statutory category and the income base used in the applicable year. The earlier appellate discussion also records an undertaking to credit recoveries under Section 41. That undertaking forms part of the factual history; this judgment does not establish that any later recovery occurred or finally determine its taxation. (Source: PDF pp.2–4).

Limits of the outcome — The source does not state the amount ultimately allowed after remand. It would overstate the result to say either that the full Rs.26.47 lakh was finally allowed or that the Rs.19.04 lakh was finally disallowed. Both questions and the remand direction must remain visible when citing this case. Later authorities and amendments have not been researched for this note. (Source: PDF pp.1–4).

Source: PDF pp.1–4

SOURCE & VERIFICATION

Original court judgment / order

Full original read; every original page visually inspected.

STATUTORY SCOPE

Provisions and historical figures are recorded only as addressed in this judgment. No current statutory position or subsequent-treatment clearance is represented.

LATER TREATMENT

Appeal, review, recall and stay status has not been independently confirmed.

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