The Pr. Commissioner of Income Tax-6 v. National Textiles Corporation Ltd.

ITA 962/2018

2023:DHC:2794-DB; ITA 962/2018 | 2023-03-22

Section 271(1)(c): corrected foreign-exchange capitalisation error did not warrant penalty on the recorded facts.

Income-tax Act, 1961: 271(1)(c), 43A, 32

High Court of Delhi | Division Bench | Rajiv Shakdher, J. | Tara Vitasta Ganju, J.

Assessment years: 2009-10

01 FACTS OF THE CASE

For AY 2009-10, the PSU deducted Rs.14,25,49,948 foreign-exchange fluctuation loss on machinery. After the issue arose in scrutiny, its 15 December 2011 letter accepted capitalisation and sought Rs.3,45,93,316 depreciation before the 23 December assessment. CIT(A) later allowed depreciation while sustaining the loss disallowance. The AO imposed Rs.4,40,47,933 penalty on 31 March 2014; CIT(A) deleted it on 17 July 2015 and ITAT affirmed on 22 February 2018.

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02 DISCUSSION BY THE HON'BLE COURT

The Court accepted that section 43A precluded the expense deduction, but noted correction before assessment and an appeal confined to depreciation. Existing losses of Rs.12,218.52 crore supported its conclusion that the claim conferred no advantage in these circumstances. Applying Reliance Petroproducts and Taneja Developers, it treated the unsustainable claim as insufficient for penalty here. Counsel expressly did not press the proposed objection about failure to specify the penalty limb.

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03 JUDICIAL DECISION

No substantial question of law arose warranting interference with ITAT's order. Revenue's appeal was closed.

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04 OUTCOME / IN WHOSE FAVOUR

Penalty deletion survived. The decision did not restore the claimed revenue deduction: capitalisation and depreciation remained the relevant treatment. The penalty-notice limb objection was not the basis of relief.

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05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Correction after scrutiny was still relevant on these facts — Revenue stressed that the AO first identified the error. The Court nevertheless relied on acceptance before assessment and the taxpayer's confined depreciation challenge. The practical evidence is the dated correction letter, disclosed expense and consistent subsequent position. The judgment does not promise automatic immunity whenever an incorrect claim is withdrawn after inquiry.

Quantum treatment and penalty liability are separate questions — The Court expressly accepted that the machinery-related exchange loss could not be deducted as revenue expenditure under section 43A. Relief concerned penalty, while depreciation on enhanced cost had already been allowed in the quantum appeal. A citation describing the exchange loss itself as allowed would reverse the judgment's reasoning.

Losses and public ownership explain the context, not a categorical exemption — The substantial existing losses supported the finding of no advantage in this case, alongside disclosure and correction. Some broad assertions appear in reproduced taxpayer submissions; they are not freestanding High Court rules exempting PSUs, loss-makers or intentional omissions from penalty. The unpressed limb objection likewise supplies no notice-invalidity precedent.

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SOURCE & VERIFICATION

High Court of Delhi source judgment/order

Complete 9-page source PDF; corrected note based on this document.

All 9 original pages read and visually inspected; all five panels audited.

Open cited source rendition

All nine original pages read and visually inspected; taxpayer submissions distinguished from the Court's reasoning and a quoted amount anomaly disclosed.

STATUTORY SCOPE

Source-era sections 43A,32 and271(1)(c). The quoted appellate text contains an inconsistent Rs.124,25,49,948.21 figure; the Court's narrative consistently identifies the disputed loss as Rs.14,25,49,948.

LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment has not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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