Commissioner of Income Tax v. Micromax Systems (P) Ltd.

T.C.(A) 157/2003

No neutral citation stated in source | 2005-07-06

Mere provision did not satisfy the actual write-off requirement for the manufacturer's bad-debt claim.

36(1)(vii) | 36(1)(viia) | 260A

High Court of Judicature at Madras | Division Bench | Markandey Katju, Chief Justice | F.M. Ibrahim Kalifulla

Assessment years: 1997-98

Historical source review

The judgment is summarized as delivered. Subsequent appeals and current judicial treatment have not been verified.

01 FACTS OF THE CASE

The control-systems manufacturer claimed Rs.3 lakh as bad debt for assessment year 1997-98 after unsuccessful recovery efforts against Ignifluid Boilers India Ltd. The accounts described it as a provision for bad debts. The Assessing Officer disallowed the claim for want of actual write-off. CIT(A) and the Tribunal allowed it, relying on collection efforts and presentation under expenditure in the annual report; the company called the provision narration inadvertent.

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02 DISCUSSION BY THE HON'BLE COURT

The Court held that the manufacturer was outside section 36(1)(viia) and had to satisfy section 36(1)(vii). It applied the actual write-off requirement to the relevant post-1989 year and distinguished the ASEA decision relied on by counsel as concerning the earlier provision. On its finding that no actual write-off occurred, recovery difficulty, expenditure presentation and an asserted accounting mistake could not substitute for compliance.

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03 JUDICIAL DECISION

Revenue's appeal was allowed. The Tribunal and CIT(A) orders were set aside regarding the bad-debt claim and the Assessing Officer's order was restored.

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04 OUTCOME / IN WHOSE FAVOUR

The Rs.3 lakh deduction failed for assessment year 1997-98. The judgment did not decide the allowance for the subsequent year or direct a remand to alter the accounts.

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05 EXPERT COMMENTS

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

The operative finding must control the accounting narrative — Paragraph 5 loosely describes the amount as written off, but paragraph 30 expressly finds no write-off as irrecoverable. The result rests on that final finding, not on the earlier shorthand. For a comparable dispute the actual ledger treatment must be established; merely calling an item expenditure or explaining that a caption was mistaken did not succeed here.

Recovery efforts and the statutory accounting condition were separate — Letters, calls and part-recoveries supplied the commercial background. The Court nevertheless enforced the write-off condition rather than treating unsuccessful collection as an alternative. This supports checking the actual accounts alongside recovery evidence; it does not decide every method of effecting a write-off or authorize a general rule based on an entry's label alone.

Keep the taxpayer category and historical issue in view — The company manufactured equipment and did not qualify for the provision-based treatment discussed under section 36(1)(viia). The holding addresses its Rs.3 lakh claim in 1997-98, not the next year's balance. The source's wider historical description and cited authorities are reported as this Court's reasoning; they are not independent clearance of the governing law for a present claim.

Source: PDF p.2

SOURCE & VERIFICATION

High Court of Judicature at Madras official judgment PDF (20050706_HCMA011753712003.pdf)

Complete 9-page court PDF read for this correction.

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

Open cited source rendition

All nine source pages read and visually inspected, including copy endorsements. Paragraph 5 uses write-off language but paragraphs 3 and 30 expressly find no actual write-off. The printed residual Rs.2,43,250 differs by Rs.100 from Rs.5,43,350 less Rs.3 lakh. No correction to the original is assumed.

STATUTORY SCOPE

Section 36(1)(vii), assessment year 1997-98; section 36(1)(viia) was held inapplicable to this manufacturing company.

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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