

M/s Tamil Nadu Small Industries Development Corporation Ltd. v. The Income Tax Officer (OSD), Circle III(1), Chennai & Anr.

TCA No. 259 of 2012

2026:MHC:772 | 2026-01-29

Prior-period industrial estate maintenance expenditure of Rs. 1,64,47,348 (incurred in FY 2002-03 above 4% G.O. ceiling) not deductible in AY 2004-05 under mercantile system, but Revenue directed to consider the genuine expenditure for AY 2003-04 upon filing of revised computation within 4 weeks.

Income-tax Act, 1961: sections 37(1), 145, 254 and 260A

High Court of Judicature at Madras | 2-judge bench (Division Bench) | Dr. Anita Sumanth, J. | Mummineni Sudheer Kumar, J.

Assessment years: 2004-05, 2003-04

Formal dismissal of AY 2004-05 appeal coupled with affirmative direction allowing consideration in AY 2003-04

Although paragraph 17 answers the substantial questions of law in favour of the Revenue and dismisses the appeal for AY 2004-05, paragraph 16 grants substantive relief on Question 2 by directing the Revenue to consider the undisputed expenditure of Rs. 1,64,47,348 for AY 2003-04 if the assessee (a State Government PSU) furnishes a revised computation of income for AY 2003-04 within four weeks.

01 FACTS OF THE CASE

The appellant, Tamil Nadu Small Industries Development Corporation Ltd. (SIDCO, a State Government company), maintained six Government industrial estates (Ambattur, Guindy, Thuvakudi, Kappalur, Mettur and Trivellore). Under G.O.Ms.No.877 dated 01.07.1982, SIDCO could debit the State Government for staff and maintenance costs only up to 4% of capital cost. For FY 2002-03 (AY 2003-04), SIDCO incurred excess actual maintenance expenditure of Rs. 1,64,47,348 (plus Rs. 1,48,72,000 for FY 2003-04) and sought Government approval to debit actuals. After the Comptroller and Auditor General (CAG) raised an audit objection under section 619(4) of the Companies Act, 1956 and the State Government rejected SIDCO's proposal on 06.02.2004, SIDCO absorbed and claimed the Rs. 1,64,47,348 in AY 2004-05. The AO, CIT(A) and ITAT disallowed the Rs. 1,64,47,348 in AY 2004-05 as prior-period expenditure under the mercantile system, and the ITAT declined to issue a direction for AY 2003-04.

Source: [Paragraphs 1-13; PDF pp. 1-8](#)

02 DISCUSSION BY THE HON'BLE COURT

After suo motu impleading the State Government and examining the CAG audit note, Board minutes and itemized expenditure schedule (totalling Rs. 1,64,47,347.55 for FY 2002-03 across pay, EPF, electricity, water and estate maintenance), the Division Bench noted that under the mercantile system of accounting the FY 2002-03 expenditure was not deductible in AY 2004-05. However, both the Tribunal and the Revenue's Senior Standing Counsel accepted that the genuineness of the expenditure incurred by the public-sector corporation was completely beyond doubt. Having regard to the totality of the circumstances and the decisions cited on the scope of appellate directions (CIT v. Manick Sons, 74 ITR 1; Madras Fertilizers Ltd., 71 Taxman 476; Morvi Industries Ltd., 82 ITR 835; Seshasayee Bros., 82 ITR 442), the Court held that the Revenue should be directed to consider the claim of expenditure for AY 2003-04 upon the assessee filing a revised computation of income for AY 2003-04 within four weeks.

Source: [Paragraphs 10-16; PDF pp. 5-9](#)

03 JUDICIAL DECISION

Answering the substantial questions of law for AY 2004-05 in favour of the Revenue, the High Court dismissed TCA No. 259 of 2012 with explicit liberty to the assessee to furnish a revised computation of income for AY 2003-04 within four weeks and a corresponding direction to the Revenue to consider the Rs. 1,64,47,348 expenditure claim for AY 2003-04, with no order as to costs.

Source: [Paragraphs 16-17; PDF p. 9](#)

04 OUTCOME / IN WHOSE FAVOUR

Substantial questions for AY 2004-05 answered in favour of Revenue, coupled with an operative direction in favour of the assessee (SIDCO) requiring the Revenue to consider the genuine Rs. 1,64,47,348 expenditure for AY 2003-04 upon filing of a revised computation within 4 weeks.

Source: [Paragraphs 16-17; PDF p. 9](#)

05 AKHB REVIEW POINT

AKHB analysis: where a prior-period expense disallowance is upheld solely on year-of-accrual grounds under section 145 while the genuineness of the outlay (especially in CAG-audited PSUs) is undisputed, explicitly press the alternate prayer before the High Court for a direction permitting a revised computation in the year to which the expenditure relates so that genuine business expenditure is not permanently lost between two assessment years.

Source: [AKHB analysis based on paragraphs 14-17 / PDF pp. 8-9](#)

SOURCE & VERIFICATION

[Madras High Court official digital judgment PDF - AKHB Cloud Repository](#)

Ten-page official Madras High Court judgment PDF (2026:MHC:772); paragraphs 1-17 span PDF pages 1-10.

Supplied source-reviewed note retained; original bytes and identity validation checked in this release. Substantive re-review is not claimed for this record.

Open cited source rendition

Full 10-page official Madras High Court PDF read and verified. Original bytes match SHA-256
cd5130ba32375c37357c9df923350bea5abd8936c488d3b20b3b54697c2b09a4.

STATUTORY SCOPE

Applies sections 37(1), 145, 254 and 260A of the Income-tax Act, 1961 for AY 2004-05 (with consequential direction for AY 2003-04). Income-tax Act, 2025 equivalence is not verified.

LATER TREATMENT

Source checked 2026-10-17. Full judgment checked. Considers CIT v. Manick Sons, [1969] 74 ITR 1 (SC), Madras Fertilizers Ltd. v. CIT, [1993] 71 Taxman 476 (Mad), Morvi Industries Ltd. v. CIT, [1971] 82 ITR 835 (SC), and Seshasayee Bros. (Travancore) (P.) Ltd. v. CIT, [1971] 82 ITR 442 (Ker). Comprehensive subsequent judicial treatment has not been verified.

AI DISCLOSURE

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