

THE INCOME TAX APPELLATE TRIBUNAL
"SMC" Bench, Mumbai
Before Shri B.R. Baskaran (AM)

I.T.A. No. 7451/Mum/2016
(Assessment Year 2012-13)

Mr. Vipul Shah 601, Devdarshan 50 Ridge Road Walkeshwar Mumbai-400 006. (Appellant)	Vs.	DCIT CC-2(3) Mumbai (Respondent)
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PAN No.AAHPS8405J

Assessee by	Shri Suchek Anchaliya
Department by	Miss Bharti Singh
Date of Hearing	4.5.2017
Date of Pronouncement	4.5.2017

ORDER

The appeal of the assessee is directed against the order dated 14-10-2016 passed by Id CIT(A)-52, Mumbai and it relates to the assessment year 2012-13. The assessee is aggrieved by the decision of Ld CIT(A) in upholding the addition of interest income of Rs.14,40,000/- to the total income of the assessee.

2. The assessee is an individual and held debentures in two companies named M/s Rahil Impex P Ltd and M/s Shloha Trading P Ltd. Interest accrued on the debentures for the year under consideration was Rs.16,00,000/-. The above said companies had deducted tax at source of Rs.1,60,000/- from the above said interest income. In the return of income, the assessee declared interest income of Rs.1,60,000/- only instead of Rs.16,00,000/-. When questioned, the assessee submitted that he did not receive the balance amount of Rs.14,40,000/-. Since the assessee was following mercantile system of accounting, the AO assessed the balance amount of Rs.14,40,000/- in the hands

of the assessee, as actual receipt was not relevant under mercantile system of accounting. The Ld CIT(A) also confirmed the same and hence the assessee has filed this appeal before us.

3. The Ld A.R submitted that the assessee did not receive interest income, since those companies were facing financial difficulties. Since the recovery of principal itself was in doubt, the assessee chose to offer interest income on receipt basis. By placing reliance on host of case laws, the Ld A.R submitted that the "mercantile system of accounting" also contemplates accounting of real income and the Accounting Standard also prescribes accounting of real income. He submitted that the assessee wrote to those companies and they have expressed their financial difficulty. Since those parties have paid only the TDS amount of Rs.1,60,000/-, the assessee has chosen to offer the same as his income. Accordingly he submitted that the balance amount of Rs.14,40,000/- was not real income, since its receipt was in doubt. Accordingly he contended that the Ld CIT(A) was not justified in confirming the assessment of notional income of Rs.14,40,000/-.

4. On the contrary, the Ld D.R submitted that the assessee has been following mercantile system of accounting and hence the assessee is required to offer interest income on accrual basis. The above said companies have duly deducted tax at source, meaning thereby, they cannot be said to be in great problem. She further submitted that, in any case, the assessee has not substantiated his claim with supporting materials and hence the same is liable to be rejected.

5. I have heard the parties and perused the record. The various case laws cited by the assessee, no doubt, states that the real income should only be accounted under mercantile system of accounting also. But, in the instant case,

as rightly pointed out by Ld D.R, the assessee has not brought on record any material to show that the financial position of two companies, viz., M/s Rahil Impex P Ltd and M/s Shloka Trading P Ltd were not good and there is no chance of recovery of principal itself. In the absence of any material to support the contentions of the assessee, in my view, mere oral submissions will not come to the help of the assessee. There is difference between "inability to make payment at all" and "delayed payment". In the former case, the income may not be recognized, but in the later case the income is required to be recognized. The fact that the above said two companies have deducted tax at source would show that they are intending to pay interest though belatedly. Hence I am of the view that the Ld CIT(A) was justified in assessing the interest income of Rs.14,40,000/- (Rs.16.00 lakhs (-) Rs.1.60 lakh) as income of the assessee. Accordingly I uphold his order.

6. In the result, the appeal of the assessee is dismissed.

Order has been pronounced in the Court on 4.5.2017.

Sd/-
(B.R.BASKARAN)
ACCOUNTANT MEMBER

Mumbai; Dated : 4/5/2017

Copy of the Order forwarded to :

1. The Appellant
2. The Respondent
3. The CIT(A)
4. CIT
5. DR, ITAT, Mumbai
6. Guard File.

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BY ORDER,
(Dy./Asstt. Registrar)
ITAT, Mumbai