

**IN THE INCOME TAX APPELLATE TRIBUNAL  
HYDERABAD BENCHES "A" : HYDERABAD**

**BEFORE SMT. P. MADHAVI DEVI, JUDICIAL MEMBER  
AND  
SHRI A. MOHAN ALANKAMONY, ACCOUNTANT MEMBER**

**I.T.A. No. 2068/HYD/2018**  
Assessment Year: 2009-10

Dy. Commissioner of Income-tax,  
Circle – 1(2), Hyderabad. Vs Andhra Pradesh State  
Financial Corporation,  
Hyderabad.

(Appellant) PAN – AABCA 9106B  
(Respondent)

For Revenue : Shri Ravi Babu  
For Assessee : Shri E.S. Ranganath

Date of Hearing : 29-09-2020  
Date of Pronouncement : 06-10-2020

**ORDER**

**PER Smt. P. MADHAVI DEVI, J.M. :**

This is revenue's appeal for the AY 2009-10 against the order of the Commissioner of Income Tax (Appeals) - 8, Hyderabad, dated 27/09/2017. The grounds of appeal raised by the revenue are as under:

2. Brief facts of the case are that the assessee company filed its original return of income for the AY 2009-10 on 23/09/2009 admitting total income at Rs. 30,62,57,624/- and book profit at Rs.

44,43,59,576/-. The return was initially processed u/s 143(1) of the I.T. Act and subsequently selected for scrutiny and assessment u/s 143(3) was completed on 02/12/2011 assessing the income at Rs. 32,43,84,622/-. Thereafter, from the financials submitted by the assessee, the AO noticed that an amount of Rs. 1337.79 was stated to be credited to P&L Account towards excess provision of bad debts, but, only Rs. 966.33 lakhs was the actual credit offered to tax resulting in understatement of income by Rs. 371.46 lakhs and an amount of Rs. 2854.89 lakhs was written off as bad debts, but, in the P&L account an amount of Rs. 2946.83 lakhs was debited as bad debts written off, which resulted in excess allowance of Rs. 91.94 lakhs. Therefore, believing that there was an escapement of income chargeable to tax, he reopened the assessment by issuance of notice u/s 148 of the Act on 07/02/2014. The assessee filed the required information and after perusal of the same, the AO observed that the details with regard to bad debts written off at Rs. 2946.83 lakhs was not furnished and, therefore, there was an excess allowance of Rs. 91.94 lakhs, which has to be disallowed and he accordingly brought the said amount to tax.

3. Aggrieved, the assessee preferred an appeal before the CIT(A) stating that during the course of recovery of loans, the assessee had to incur expenses like travelling expenses,

advertisement expenses, towards security service etc., which were recovered along with principal and interest at the time of recovery of loan. However, where recovery could not be effected either in part or in full, the principal amount as well as interest accrued is accounted together with expenses for recovery and the entire amount is written off as bad debts. The details of the said expenses were stated to be furnished before the AO, and was also furnished before the CIT(A).

4. The CIT(A) perused the same and observed that as per the accounting policy of the assessee, expenses incurred for recovery of loans are not debited straightway to the P&L Account, but, they are carried to a separate account and in the case of loans recovery, the expenses are also recovered and credited to this account and only in the case of bad debts, such expenses are written off along with the loan amount and debited to the P&L Account. He, therefore, accepted the assessee's claim as allowable and accordingly, deleted the disallowance made by the AO.

5. Aggrieved by the relief given by the CIT(A), the revenue is in appeal before us raising the following grounds of appeal:

*"1. The order of the Ld. CIT (A) is erroneous on facts as well as in law.*

*ii. The Ld. CIT(A) erred in allowing the excess claim of bad debts of Rs. 91.94 lakhs without appreciating the action of the AO as the same are not allowable expenses under the head bad debts written off.*

*iii. The Ld. CIT(A) erred in accepting the contention of the assessee that the excess claim of bad debts relate to the expenses incurred for recovery of the loans which have become bad as the same does not constitute bad debts.*

*iv. Any other ground that may be urged at the time of hearing of appeal.”*

6. The Id. DR supported the order of AO, while the Id. Counsel for the assessee supported the order of CIT(A).

7. Having regard to the rival contentions and perusing the material on record, we find that the assessee is a Financial Corporation and advancing the loans and recovery thereof are its regular business activities. As contended by the assessee, it had to incur certain expenses towards recovery of loans and wherever the loans could not be recovered, the expenses in relation to such loans are also written off as bad debts along with loans. The CIT(A) has verified the details furnished by the assessee and has accepted that these expenses are allowable as business expenses. The Id. DR has not been able to rebut this finding of the CIT(A) with any evidence to the contrary. In view of the same, we do not find any reason to interfere with the order of the CIT(A) and accordingly, the grounds raised by the revenue on this count are dismissed.

8. In the result, appeal of the revenue is dismissed.

*Order pronounced in the open court on 6<sup>th</sup> October, 2020.*

**Sd/-**  
**( A. MOHAN ALANKAMONY )**  
**ACCOUNTANT MEMBER**

**Sd/-**  
**( P. MADHAVI DEVI )**  
**JUDICIAL MEMBER**

Hyderabad, Dated: 6<sup>th</sup> October, 2020.  
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001.
3. CIT(Appeals) - 8, Hyderabad.
4. The Pr.CIT - 1, Hyderabad.
5. D.R. ITAT, Hyderabad.
6. Guard File.