

आयकर अपीलीय अधिकरण, 'सी' न्यायपीठ, चेन्नई  
IN THE INCOME-TAX APPELLATE TRIBUNAL 'C' BENCH, CHENNAI  
श्री वी दुर्गा राव न्यायिक सदस्य एवं श्री जी. मंजुनाथा, लेखा सदस्य के समक्ष  
Before Shri V. Durga Rao, Judicial Member &  
Shri G. Manjunatha, Accountant Member

आयकर अपील सं./I.T.A. No. 2848/Chny/2019  
निर्धारण वर्ष/**Assessment Year:2016-17**

M/s. Pallipalayam Spinners Pvt. Ltd.,  
14-A, Sankari By-pass Road,  
Pallipalayam, Namakkal,  
Tamil Nadu 638 006.

**[PAN:AABCP2474R]**

The Assistant Commissioner of  
Income Tax,  
Circle 1, Namakkal.

(अपीलार्थी/Appellant)

(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से / Appellant by : Shri S. Sridhar, Advocate  
प्रत्यर्थी की ओर से/Respondent by : Shri P. Sajit Kumar, JCIT  
सुनवाई की तारीख/ Date of hearing : 12.07.2022  
घोषणा की तारीख /Date of Pronouncement : 29.07.2022

**आदेश /O R D E R**

**PER V. DURGA RAO, JUDICIAL MEMBER:**

This appeal filed by the assessee is directed against the order of the Id. Commissioner of Income Tax (Appeals), Salem, dated 30.08.2019 relevant to the assessment year 2016-17 challenging confirmation of addition made under the head profit from business of ₹.14,25,000/-.

2. Brief facts of the case are that the scrutiny assessment in the case of the assessee was completed under section 143(3) of the Income Tax Act, 1961 ["Act" in short] dated 26.12.2018. While completing the

assessment, the Assessing Officer made addition of ₹.14,25,000/- being subsidy as the assessee had not followed the accounting standards while treating the subsidy received. On appeal, the Id. CIT(A) confirmed the addition made by the Assessing Officer.

3. On being aggrieved, the assessee is in appeal before the Tribunal. The Id. Counsel for the assessee has submitted that the subsidy had been received by the company 20 years back and to prove the same supporting evidence has been filed before the Assessing Officer. It was further submission that being capital subsidy, it was not offered to tax and prayed for deleting the addition.

4. On the other hand, the Id. DR supported the orders of authorities below.

5. We have heard both the sides, perused the materials available on record and gone through the orders of authorities below. In the assessment order, the Assessing Officer has observed that the assessee has received subsidy to the extent of ₹.14,25,000/- 20 years back and being capital subsidy, it was not offered to tax. As per the Accounting Standard 12, the grant for specific fixed asset can be accounted for in the following two ways:

Method 1: The amount of rant is reduced from the gross amount of the asset to calculate the book value. This signifies that the grant is being recognized in P&L account as a reduced charge of depreciation over the life of the asset.

Method 2: The grant is treated as deferred income in the financial statements. This income is recognized gradually in the P&L account over the useful life of the asset or say in proportion of depreciation on such asset.

6. The Assessing Officer was of the opinion that the assessee has not followed the prescribed accounting standard and therefore, this income has escaped taxation. Such subsidy amount was being shown as part of reserves of the assessee and moreover, in the assessment year 2016-17 the assessee had disposed off the asset to which this reserve corresponded to. Therefore, the assessee was show-caused as to why the amount should not be treated as income. In reply to the above show-cause notice, the submissions of the assessee are reproduced as under:

*“The generator subsidy and wind-mill subsidy both represents subsidy received by the company even 20 years back. To prove the same, we are enclosing the balance sheet of the company for the YE 31.03.2000 wherein the generator subsidy and wind-mill subsidy for the above amount were reflected.*

*The subsidy amount was credited to capital reserve account in the year of receipt as shown in the Balance sheet and the treatment for the same was given as per the then prevailing Accounting Standards and Companies Act, 1956. Moreover, the taxability of subsidy can be considered only in the year of receipt but not in the year of any subsequent sale.”*

7. After considering the submissions of the assessee, the Assessing

Officer treated the subsidy as income and brought to tax. On appeal, the Id. CIT(A) confirmed the addition.

8. It is an admitted fact the assessee has received the subsidy 20 years back and the subsidy amount has been credited to capital account and it was not treated as revenue receipt. Since the subsidy received by the assessee is capital subsidy, it was not offered to tax. Once the subsidy was not accounted as revenue receipt, it cannot be taxed. In view of the above facts and circumstances, we delete the addition of ₹.14,25,000/- made by the Assessing Officer.

9. In the result, the appeal filed by the assessee is allowed.

Order pronounced on the 29<sup>th</sup> July, 2022 in Chennai.

Sd/-  
(G. MANJUNATHA)  
ACCOUNTANT MEMBER

Sd/-  
(V. DURGA RAO)  
JUDICIAL MEMBER

Chennai, Dated, 29.07.2022

Vm/-

आदेश की प्रतिलिपि अग्रेषित/Copy to: 1. अपीलार्थी/Appellant, 2. प्रत्यर्थी/  
Respondent, 3. आयकर आयुक्त (अपील)/CIT(A), 4. आयकर आयुक्त/CIT, 5.  
विभागीय प्रतिनिधि/DR & 6. गार्ड फाईल/GF.