

IN THE INCOME TAX APPELLATE TRIBUNAL  
Hyderabad 'B' Bench, Hyderabad

**BEFORE SHRI K. NARASIMHA CHARY, JUDICIAL MEMBER AND  
SHRI MADHUSUDAN SAWDIA, ACCOUNTANT MEMBER**

आ.अपी.सं / **ITA No.632/Hyd/2024**  
(निर्धारण वर्ष / Assessment Year: 2017-18)

Asst. Commissioner of Income Tax, Circle-2(1), Hyderabad.	<b>Vs.</b>	M/s. Teckbond Laboratories Pvt. Ltd., Ameerpet, Hyderabad. PAN : AABCT9977B
(Appellant)		(Respondent)
निर्धारिती द्वारा / Assessee by:	None.	
राजस्व द्वारा / Revenue by::	Shri Madan Mohan Meena, SR-DR	
सुनवाई की तारीख / Date of hearing:	15/10/2024	
घोषणा की तारीख / Pronouncement:	21/10/2024	

**आदेश/ORDER**

**PER SHRI MADHUSUDAN SAWDIA, A.M. :**

This appeal is filed by the revenue, feeling aggrieved by the order passed by the learned Commissioner of Income Tax (Appeals), National Faceless Appeal Centre (NFAC), Delhi ("Ld. CIT(A)"), dated 02.05.2024 for the A.Y. 2017-18.

2. The brief facts of the case are that M/s. Teckbond Laboratories Pvt. Ltd. ("the assessee") is a company engaged in the manufacture and sale of pharmaceutical intermediates. During the year under consideration, the company had no revenue receipts from its business operation. The assessee

had sold some fixed assets during the year under consideration and after claiming a total expenditure of Rs.1,97,83,495/- the assessee had declared income of Rs.1,78,08,530/- in his return of income filed on 27.02.2017 for the A.Y. 2017-18. The Learned Assessing Officer ("Ld. AO") vide his order u/s.143(3) dated 30.11.2019 disallowed all the expenses of Rs.1,97,83,495/- contending that the assessee had no business activity during the year under consideration and the assessee had not submitted any evidences in support of these expenses.

3. Aggrieved by the order of Ld. AO, the assessee filed an appeal before the Ld. CIT(A). The Ld. CIT(A) allowed the claim of the assessee as per his findings in para 7 of his order which are to the following effect :

*" 7. Findings*

*7.1. I have carefully gone through the assessment order u/s 143(3), Grounds of appeal and statement of facts, the findings of AO in the assessment order and the written submissions and case laws uploaded by the assessee in support of the Grounds of appeal.*

*Grounds of appeal are taken together as one as they are effectively directed against the disallowance of total expenditure amounting to Rs. 1,97,83,495/- on the ground that the expenditure are not allowable as business was not carried out during the year.*

*7.2. Findings on Ground of appeal:*

*I have carefully considered the facts of the case and gone through the documents uploaded. The assessee has sold its assets with land and building during the year. There was no business activity during the year. The AO has disallowed the expenditure incurred of Rs.1,97,83,495/-*

during the year on the grounds that the total revenue from operation was NIL, there was no business activity carried by the assessee company during the year, the books of accounts were un-audited & un-signed, and the assessee has not submitted any evidences in support of the expenses claimed.

7.2.1. During the present appellate proceedings the assessee submitted that to keep the company alive it sold its assets as it had to incur expenditure. It objected to the observation of the AO to disallow the expenditure since there was no business activity.

The assessee cited the case of *Hirsh Bracelet India (P.) Ltd. v. ACIT (2019) 178 ITD 601 (Bang.) (Trib.)*. The case law cited has been perused.

Relevant extract of the judgment is reproduced here as under:

"18. We have considered the rival submissions. It is an undisputed fact that though business of assessee came to a halt in the year 2010, yet the assessee was liquidating its assets. The assessee had only a leasehold rights on the land and it had to get the permission of SIPCOT for transfer of leasehold rights. That approval came to assessee only on 06.02.2014. The process of transfer could be completed only during the previous year. A look at the various expenses which were claimed as deduction would show that they were, rather, of the registered office, professional charges, audit fees and property maintenance charges. All these expenses had to be incurred since the assessee was a company and it was required to maintain its legal status till the assets of the company are liquidated. The major portion of expenses claimed is on account of sales tax demand of Rs.53.33 lakhs, property tax, audit fees, property maintenance, settlement amount paid on labour court's order. It is therefore clear that all these expenses had to be incurred for proper liquidation of assets of the company. In identical circumstances, the Hon'ble High Court of Karnataka in the case of *Lawrence D'Souza (supra)* took the view that expenditure in question had to be allowed in AY 1996-97, though business came to a halt in the year 1994. Following the aforesaid decision of Hon'ble High Court of Karnataka, we are of the view that the expenses in question have to be allowed as a deduction. This issue is accordingly decided in favour of assessee.

7.2.2. On perusal of the case, I am of the opinion that the facts of the case of the present assessee is similar with the case dealt by the Hon'ble ITAT, Bangalore(*supra*). Though the decisions delivered by other non jurisdictional Tribunals are not necessarily binding on the assessee, the

*judgment delivered in this case has followed the decision taken by the Hon'ble High Court of Karnataka in the case of Lawrence D'Souza (supra) which took the view that expenditure in question had to be allowed in AY 1996-97, though business came to a halt in the year 1994.*

*Similarly, it was held in the case of Sai Fragrance & Flavours (P) Ltd. Vs. ACIT (2018) 169 ITD 235 (Mum-Trib).*

*7.2.3. Hon'ble Calcutta High Court in the case of CIT vs Ganga Properties Ltd (supra) observed that a limited company, even if it does not carry on its business, but it derives income from other sources has to maintain its establishment for complying with statutory obligations so long as it is in operation and its name is not struck off from the register of Registrar of Companies or unless the company is dissolved which means cessation of corporate activities of the company for all practical purpose. So long as it is in operation, it has to maintain its status as a company and it has to discharge certain legal obligations and for that purpose it is necessary to maintain clerical staff and secretary or accountant and incur incidental expenses.*

*7.2.4. Respectfully following the judgment of the various courts as discussed above and considering the facts of the case, I am of the view that general administrative and other expenses are necessary to keep the corporate status of the assessee whether or not the business activity is carried out during the year under consideration. The AO has disallowed expenditure only on the ground that the assessee has not carried out any business activity and the assessee has not furnished any evidences of expenses claimed. In this case, on perusal of the details of expenditure I find that the assessee has incurred the following expenses, namely, Any other Tax paid/payable, Power and Fuel, Rents, Repairs to Building, Repairs to Machinery, Professional fee paid, Travelling Expenses, Telephone Expenses, Audit Fee, Other Expenses and Interest Expenses which are mainly incurred to keep the corporate status of the assessee. Therefore, I am of the considered view that the AO has erred in disallowing expenditure incurred by the assessee. The disallowance made by the AO is deleted. Ground of appeal is allowed.”*

4. Aggrieved by the order of Ld. CIT(A), the revenue is in appeal before us. Nobody appeared on behalf of the assessee. The Learned Department Representative (“Ld. DR”) submitted that the Ld. CIT(A) has deleted the total

addition of Rs.1,97,83,495/- disallowed by the Ld. AO contending that these expenses are mainly incurred to keep the corporate status of the assessee. The Ld. DR further submitted that out of the total expenses of Rs.1,97,83,495/-; Rs.19,21,500/- is towards raw-material and Rs.82,78,300/- is towards finished goods. Therefore he submitted that these two expenses cannot be treated as expenses incurred to keep the corporate status of the assessee. As there is no corresponding revenue receipt on account of any raw-material / finished goods sales, these two expenses are liable to be disallowed.

5. We have heard the Ld. DR and also gone through the record in the light of the submissions made. We are in agreement with the submission of Ld. DR made before us and hold that in the absence of any sale on account of raw-material / finished goods, no corresponding expenses can be allowed in respect of the same. Therefore the expenses on account of raw-material of Rs.19,21,500/- and finished goods of Rs.82,78,300/- are not to be allowed. Hence we disallow the expenses claimed by the assessee on account of raw-material of Rs.19,21,500/- and finished goods of Rs.82,78,300/- . Accordingly, the appeal of the revenue is partly allowed.

6. In the result, the appeal filed by the revenue is allowed in part.

**Order pronounced in the open Court on 21st Oct., 2024.**

Sd/-

**(K. NARASIMHA CHARY)**  
JUDICIAL MEMBER

Sd/-

**(MADHUSUDAN SAWDIA)**  
ACCOUNTANT MEMBER

Hyderabad.

Dated: 21.10.2024.

\* Reddy gp

**Copy of the Order forwarded to :**

1. M/s.Teckbond Laboratories Pvt. Ltd., Flat No.110, Vijaya Towers, Nagarjuna Nagar, Ameerpet, Hyderabad-50003
2. ACIT, Circle 2(1), Hyderabad.
  
3. Pr.CIT, Hyderabad.
4. DR, ITAT, Hyderabad.
5. Guard file.

BY ORDER,