

Payment of consultancy fees to carry on business more efficiently and profitably is a revenue expenditure

Summary – The Chennai HC in a recent case of EL Forge Ltd., (the Assessee) held that expenditure incurred on consultancy charges to carry on business more efficiently is to be treated as revenue expenditure and not as capital expenditure.

Facts

- The assessee company engaged in the manufacture of forgings claimed that expenditure in respect of R&D expenses being consultancy charges was revenue in nature. Therefore, it should be allowed as deduction.
- The Assessing Officer rejected the claim holding that said expenditure was capital in nature and not entitled for deduction.
- On appeal, the first appellate authority also rejected the claim of the assessee for deduction of expenses on consultancy charges. Subsequently, the Tribunal remitted the matter to the first appellate authority with a direction to decide the issue afresh.

Held

- The HC held that a perusal of the areas, which the assessee is required to cover by the study only show that expenditure made on such areas could be only a revenue expenditure and not a capital expenditure. The Tribunal remitted the matter only for the purpose of seeing as to whether the assessee had derived any enduring benefit by incurring such expenditure. The very nature of the expenditure for the purpose of considering the study of those areas would only show that the assessee has made the said expenditure only to carry on the business more efficiently or more profitably. Hence, the intention of bringing the same under the head 'business' is justified and, therefore, it has to be treated as business expenditure and not as capital expenditure.
- The items of expenditure said to be covered under the consultancy charges are not disputed by the Revenue and that the Assessing Authority had also made a note of those areas of study. Therefore, in the absence of any dispute with regard to those areas of study for which the said expenses have been met with by the assessee, there is no reason to hold that this case would call for a remand.
- Consequently, the HC set aside the order of the Tribunal and the substantial questions of law raised by the assessee are answered in favour of the assessee and against the revenue.