

Repair expenditure is not capital expenditure merely because it increases the life of an existing asset

Summary – The Punjab and Haryana High Court in a recent case of Vishal Paper Industries., (the Assessee) held that Increase in life of existing assets beyond their original estimated economic life by repairs and maintenance could not be taken as ground for treating such expense as capital in nature.

Facts

- The assessee claimed certain expenses on account of repairs and maintenance as revenue expenditure. However, the same were held to be capital in nature.
- On first appeal, the Commissioner (Appeals) found that the expenses had led to new identifiable assets and had increased life of assets beyond their original estimated life. Also, the profitability of the concern had substantially increased. Therefore, he dismissed assessee's appeal.
- On second appeal, the Tribunal set aside the findings of Commissioner (Appeals).
- On appeal by the revenue.

Held

- The HC held that the increase of life by repairs and maintenance of the existing assets beyond their original estimated economic life cannot be a ground to return a finding that it was not a case of repairs.
- Repairs and maintenance are in fact necessary not only for achieving the optimum utilization of machinery but also if possible to extend its economic life. Therefore, the fact that such an act has increased the life beyond their original economic life cannot be a ground to return a finding that the expenses incurred were not for repairs and maintenance.
- Similarly, the ground of increase in the profitability of concern is again totally alien to determine the nature of the repair and maintenance. Increase in profit would lead to increase in income, which would be separately taxable but could not be a ground for declining the expenses incurred by the assessee for repairs and maintenance.
- Though the finding returned is that new identifiable assets have been created the Tribunal has returned a finding that though each of the items is usable independently such items have been used for repairs and maintenance. With such finding, the expenditure was allowed.
- In view of the said fact, the findings recorded by the Tribunal are the findings of fact and no substantial question of law arises for consideration.
- The HC therefore passed the order in favour of the assessee.