



MAD HC: Judgment In The Case Of M/S PVP Corporate Parks Pvt. Ltd.

Facts and Issue

The Assessee, a private limited company engaged in the business of leasing and renting buildings, sold two fixed assets (properties) during the Assessment Year (AY) 2010-2011.

The total capital profit from these sales was Rs. 32,11,24,002. The Assessee directly credited this profit to the "Reserves & Surplus" in its balance sheet, without routing it through the Profit & Loss Account. The Assessing Officer (AO) reworked the book profit u/s 115JB (Minimum Alternate Tax - MAT) by adding this amount to the Profit & Loss Account, resulting in a revised book profit of Rs. 34,11,86,517. The Assessee challenged this, leading to appeals before the CIT(A) and the Income Tax Appellate Tribunal (ITAT), both of which confirmed the AO's order. The core issue was whether capital profit on the sale of fixed assets must be routed through the Profit & Loss Account for computing book profit u/s 115JB, or whether it can be taken directly to Reserves & Surplus.

Contentions of the Assessee

The sale of fixed assets (land and building) does not constitute a "business transaction" or "revenue relating to the working of the company." Therefore, the profit on such sale is not required to be disclosed in the Profit & Loss Account.

As per Part II of Schedule VI of the Companies Act, 1956, only income derived from investments or business transactions needs to be routed through the Profit & Loss Account. The capital profit on sale of a fixed asset can be directly disclosed in the balance sheet under Reserves & Surplus, as it is a capital account transaction.

The deviation in accounting policy (directly crediting the profit to reserves) was disclosed in the Statutory Auditor's report and was in tune with applicable Accounting Standards.

The ITAT order lacked reasoning and failed to address the grounds of appeal.

Contentions of the Revenue

The Assessee is in the business of leasing and renting buildings; the sold properties were its fixed assets used for earning rental income. The receipt from their sale constitutes revenue relating to the business transactions of the company.

The capital gain from the sale of these assets must be routed through the Profit & Loss Account as per the mandatory provisions of Part II and III of Schedule VI of the Companies Act, 1956, read with section 115JB of the Income Tax Act.

The Statutory Auditor's report itself noted the deviation as an understatement of profit, stating that not crediting the profit to the P&L Account and not providing for the resultant tax liability of Rs. 5.29 crores led to an understatement of profit by Rs. 26.82 crores.

The Assessee cannot directly disclose the profit in Reserves & Surplus without first preparing a Profit & Loss Account to ascertain net profit, which is a prerequisite for applying MAT provisions u/s 115JB.



Reasoning and Decision of the Court

The Court held that the core issue was settled by the Supreme Court in *Dynamic Orthopaedics (P) Ltd. v. CIT* (2010). The Court quoted extensively from this judgment, which clarified that for a company falling under MAT provisions, section 115J requires the Profit & Loss Account to be prepared strictly in accordance with Parts II and III of Schedule VI of the Companies Act, 1956, without any distinction between public and private companies.

The purpose of MAT is to tax "zero-tax" companies that earn profits but do not pay taxes. To allow the direct absorption of a large capital profit into reserves would defeat this purpose.

The Court examined Part II of Schedule VI, which mandates the disclosure of all material features, including credits or receipts from non-recurring or exceptional transactions (such as the sale of a major fixed asset).

The Statutory Auditor's report was crucial, as it explicitly stated that the deviation from the accounting policy (not routing the profit through the P&L Account) resulted in an understatement of profit. The Assessee provided no justifiable reason for this deviation.

The Court distinguished the Assessee's reliance on *Apollo Tyres* and *HCL Comnet*, stating those cases were on different facts or earlier versions of the law (section 115J) and did not permit bypassing the mandatory requirements of Schedule VI.

Citation:

TS-469-HC-2026(MAD)

Conclusion

The Court held that the accounting treatment adopted by the assessee was resulting in defeating the purpose for which the section was enacted and accordingly the same could not be approved. The Audit Report was rightly qualified by the statutory auditors and sealed the fate of the assessee.