# Expenses related with improvement in operations of existing business product line is revenue expense

# Case Law Citation-

# CIT Vs M/s Southern Petrochemicals Industries Corporation Ltd (Madras High Court), Tax case (Appeal) No.1466 of 2007, Date of decision:30-06-2015.

# Brief of the case:

Madras High Court in the case of CIT Vs M/s Southern Petrochemicals Industries Corporation Ltd held that market research expense incurred to increase the efficiency of the existing business product line, the same should be treated as revenue expense. Neither the new plant had been installed nor the new product had been launched so the market research expense should be treated as revenue expense.

# Facts of the case:

The assessee filed its return of income claiming Rs 75,91,000/- as a revenue expense under head “Market research” which AO disallowed on the basis that the above expense of market research is of capital nature. Aggrieved by the order, assessee filed an appeal with CIT(A) on the basis that it was incurred just to earn good profits by increasing the efficiency of the existing products who allowed the appeal of assessee then revenue filed an appeal with ITAT who also confirmed the order of CIT(A), then revenue filed an appeal with High Court.

# Contention of the assessee:

Assessee was of the view that as the expenses were incurred to improve the efficiency of the already running operations of the existing business so the same should be treated as revenue expense. No new product, new plant had been introduced so the above incurred expenses were for the existing business line and for the existing product which should be treated as revenue expense. The appeal of revenue should be dismissed.

# Contention of the revenue:

Revenue was of the view that the expenditure was incurred to enter into new territories so the expense is a capital expenditure and the market research expense should be capitalized.

# Held by high Court:

High Court held that as there was neither any new business nor any new plant for which the expense had been incurred, it was incurred just to improve the efficiency of the existing plant so that the currently running operations of the assessee runs more efficiently from which it can earn more profits. Moreover the product for which market research had been done was already been manufactured by assessee not for the new one so the same should not be capitalized.

# So the appeal of the revenue had been dismissed.

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