

AB v The Commissioner of Income Tax, 23 October R No. 44263

Expenditure incurred in the production of exempt income

Background/ Facts

AB derived income from various sources including cultivation of sugar cane. He alleged that he made a net loss in producing 22 tonnes of sugar calculated on income of Rs.218k and expenses of Rs.748k. In computing his chargeable income for income tax purposes, he claimed the total loss of Rs.530k as a deduction from his income from other sources.

The Law

The net income derived from a sugar growing unit in respect of the first 40 tonnes of sugar shall be exempt from income tax.

Appeal

The contention was that the alleged expenditure of Rs.743k in the production of 22 tonnes of sugar was not an allowable expenditure in the determination of AB's tax liability. AB stated that he made a loss as against any net income, as referred to in the law, from his cultivation of sugar cane and hence the assertion of unauthorised deductions became inoperative. He could therefore deduct his net loss derived from the cultivation of sugar cane from his income derived from other sources.

The Court interpreted that revenue or income derived from a sugar growing unit in respect of the first 40 tonnes of sugar is exempt from income tax since all deductions in the nature of expenditure or loss incurred in the production of that exempt income are not authorised by law. In the present case, any profit AB might have made on his sugar transaction would not have been taxable just as any expenditure or loss that he did make on that transaction would not be allowable as a deduction.

It was expressed that expenditure or loss incurred in the production of exempt income cannot be deducted from income from one source, i.e. the cultivation of sugar cane or from various other sources, as in the instant case.

The appeal was dismissed.