Writing off Trade Receivables/ Advances

👉 Key pointers on writing off of trade receivables/ advances (including capital advance)/ business loss:

👉1. Writing off trade receivables - Allowed u/s 36(1)(vii) (The Supreme Court in T.R.F. Ltd. Vs. CIT(2010) 323 ITR 397:190 Taxman 391 (SC), that for an assessee to claim deduction in relation to bad debts it is, now, no longer necessary to establish that debt had become irrecoverable and it is sufficient if assessee forms such an opinion and writes off debt as irrecoverable in its accounts.

👉 2. Writing of advance (including capital nature) - Allowed u/s 37 /28 (The Hon'ble Delhi High Court in the case of CIT vs New Delhi Hotels Ltd. reported in 345 ITR 1(Del) and on the judgment of Hon'ble High Court of Rajasthan in the case of CIT vs Anjani Kumar Co. Ltd. reported in 124 Taxman 429 (Raj) (it was held that even advances paid for acquiring capital asset if written off as irrecoverable, were deductible as business expense.)

👉3. Writing off loan given to sister concern - tax litigation area. Recently in the case of PCIT Vs Homi Mehta & Sons Pvt. Ltd. Bombay High Court (07/01/2020) has allowed writing off loan to subsidiary.

👉4. Business loss is allowable as per normal accounting and commercial principles (u/s 28) and to derive at true profit of business or profession.
Expenditure and business loss are two different things. The restrictions which covers section 37 are not applicable to business losses as allowable u/s 28.

The major difference between an expenditure and loss is of 'intention' In case of expenditure, there is an intention and activity involved while spending money which is required for the purpose of carrying on the business activities whereas, In case of loss there is no intention or desire to suffer loss it is not by actions of the businessman but it usually is due to certain external factors, which are beyond control of the businessman.