

Machinery found defective during trial run—but depreciation still allowed

CIT vs. Sri Chamundeshwari Sugar Ltd. (Karnataka High Court) {21 DTR 175}

Case Summary

The assessee company (respondent), which was running a sugar factory, installed pollution control machinery but the **machinery becomes defective & non-functional during trial runs.**

Assessee claims depreciation on the machinery. But the AO held that as the machinery becomes defective & non-functional it can not be said that it had been used for the purpose of business & therefore rejected the assessee's claim of depreciation.

CIT (A) & Tribunal held that the assessee is entitled to depreciation because the machinery was **actually put to use** & the fact that it becomes defective & non-functional during trial runs is a non-tenable ground to reject the claim of depreciation.

Karnataka HC held that when the assessee bona fide instals any machinery & to his misfortune it becomes defective & non-functional, it can not be said that it is not put into use for the purpose of business. DCIT vs. **Yellamma Dasappa Hospital** (2007) 207 CTR (Kar) 523 **distinguished.**

Karnataka HC dismissed the appeal of department & upheld the view of Tribunal.

Conclusion:

If a machinery is actually put to use but later on it becomes defective & non-functional then it can not be said that the machinery was not used for the purpose of business & claim of depreciation will be allowed in such a case.

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