

Now you can claim income-tax deductions for fines paid to RTO

Now you can claim income-tax deduction for fines paid to the RTO that are compensatory in nature. In a recent order, Income-tax Appellate Tribunal, (ITAT) has held that fines paid to RTO is an allowable expenditure under the Income-tax Act.

According to the provisions of the Income-tax Act, if a person is penalized for violating a law, the penalty paid for the offence is not allowable as expenditure for the purpose of computing his income under the Income-Tax Act. The rationale behind this principle is that the income-tax law should not be seen supporting or encouraging people to violate the laws of the land.

However, in the past, the courts have drawn a distinction between fines that are compensatory in nature and those that are penal in nature. They have also held that the former can be allowed as deduction but not the latter. The ITAT, in a recent order, underlined this difference further in a case involving Bharat C Gandhi, proprietor of Darshan Road lines.

The taxpayer was transporting consignment in excess of the permitted dimension as well as the weight limits. Since the firm carried out 230 such trips, it had to pay over 73 lakh to the RTO check posts as compounding fees.

The income-tax officer disallowed the expenditure on the ground that the payment is same as penalty for violation of the Motor Vehicles Act. The aggrieved taxpayer moved the ITAT with the counsel Jignesh R Shah, arguing that the compounding fees paid by a transporter for violation of dimension and weight limits under the Motor Vehicles Act cannot be construed as a penalty.

He said that expenses are incurred out of commercial expediency. The cargo was indivisible and there was no other alternative except by exceeding the limits under the Motor Vehicles Act. The RTO always knew that the taxpayer was carrying cargo exceeding the limits and therefore levied a fee. According to Shah, the fee paid is not in violation of law but an option given to the taxpayer to transport the goods by paying overloading charges.

Therefore, Shah argued, such fees should be allowed as expenditure. Accepting this argument, the ITAT held that the compounding fees paid were not in the nature of penalty, but were allowable as expenditure incurred out of commercial expediency.