

THE ORACLE

MANGALURU BRANCH (SIRC) E-NEWSLETTER
NOVEMBER 2025



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CHAIRMAN'S MESSAGE



CA. Prashanth Pai K.

Chairman- ICAI Mangaluru Branch

Dear Members

Warm greetings to you all!

As the year draws to a close, it is a time for reflection on our shared accomplishments and for looking forward with renewed enthusiasm. The past month of November at the Mangalore Branch was exceptionally vibrant, packed with learning and holistic development opportunities, and I extend my heartfelt gratitude to each one of you for your active participation.

We began the month on a powerful note with a special session on "Public Speaking & Time Management" by Mr. Subash Bangera on the 6th. This invaluable session equipped our members with essential skills for professional and personal excellence.

The highlight was our full-day seminar on "From Reconciliation to Resolution: Navigating GST Annual Filing and IMS" on 22nd November. We were profoundly privileged to have the erudite guidance of CA Akshay M Hiregange and CA Nitesh Nayak. The overwhelming attendance of over 90 members stands testimony to the relevance and quality of the insights shared.

In addition to our professional programs, the Branch also took a significant step towards nurturing future professionals through the Super Mega Career Counselling Programme, conducted across seven educational institutions during the month. The programme reached students of Government First Grade College, Carstreet; Chinmaya High School; MDS Pre-University College; Government Women's Pre-University College; Vani Pre-University College; MAPS College; and Government High School, Mullakad. These sessions were aimed at creating awareness about the Chartered Accountancy profession and guiding students on the diverse career opportunities available. I place on record my sincere appreciation to the managements and faculty of all the participating institutions for their warm cooperation and support. I also extend heartfelt thanks to our dedicated counsellors and the Managing Committee members whose commitment and efforts were instrumental in the successful execution of this impactful initiative.

In our continuous endeavour to promote a healthy work-life balance, we organized a unique session on Health & Wellness on 29th November. Dr. Pratheeksha Rai G provided crucial guidance on managing diabetes and heart health, followed by a refreshing and creative Clay Art workshop by Mr. P Venkataramana Kamath. This two-hour blend of health awareness and artistic

expression was a meaningful step towards holistic well-being.

The learning continues unabated in festive month December. We are excited to announce the launch of a 12-day DISA Course, a significant offering for members seeking to enhance their expertise. The course is going to commence on 11th December with 42 registration for the course so far.

We have also lined up two crucial seminars:

A One-Day Seminar on "International Taxation" on 16th December, featuring the expert perspectives of CA Srinivas Cotha and CA Sachin Kumar.

A Half-Day Seminar on the critical topic of "Cyber Security" on 22nd December, to be led by CA Vikas Kamath.

I strongly encourage all members to take full advantage of these forthcoming programs to stay ahead in this dynamic professional landscape.

None of our successes would be possible without the collective spirit of our community. I extend my deepest gratitude to all our eminent speakers for their generosity in sharing knowledge. My sincere thanks also to our dedicated members and students for their unwavering support and active engagement, which is the very cornerstone of this Branch.

As we embrace the spirit of December, I wish you and your loved ones a Christmas filled with joy, peace, and prosperity. May the New Year bring you success and happiness.

Let us continue to learn, grow, and serve the profession with distinction.

"The beautiful thing about learning is that no one can take it away from you." - B.B. King

Warm regards,

CA Prashanth Pai K
Chairman,
Mangalore Branch of SIRC of ICAI

From the Editor's Desk



Dear Esteemed Members,
Warm greetings from the Mangaluru Branch of SIRC of ICAI!

November marks a natural transition in the professional calendar , a phase where the festive celebrations settle and focus gradually returns to routine, planning, and execution. After the intensity of audit and tax filing deadlines and the vibrancy of the festive season, this month offers an opportunity to recalibrate, reflect, and prepare for the responsibilities that lie ahead in the latter half of the financial year.

From a professional perspective, November is an important period to consolidate post-filing work, address assessments and follow-ups, and assist clients in aligning their financial and compliance strategies for the remaining months of the year. With regulatory expectations continuing to evolve, our role as trusted advisors extends beyond compliance into guiding businesses with foresight, prudence, and ethical judgment.

As we move closer to the end of the calendar year, let us continue to uphold the core values of our profession — integrity, independence, and excellence — while adapting to changing professional demands with confidence and competence.

Wishing you all a productive and fulfilling November.

Warm regards,
CA. B Krishnananda Pai
Editor – E-Bulletin
Mangaluru Branch of SIRC of ICAI

SECTION 37 OF THE INCOME-TAX ACT BUSINESS EXPENDITURE

Executive Overview

Section 37(1) of the Income-tax Act, 1961 is the residuary or "catch-all" provision for allowability of business expenditure. It permits deduction of revenue expenses which are not specifically covered under Sections 30 to 36, provided they are not capital in nature or personal and are incurred wholly and exclusively for the purposes of the business or profession. This article examines the statutory language, legislative intent, the Explanations and judicial interpretation of the phrase "wholly and exclusively for the purposes of business" offers a comprehensive survey of case law that has shaped the meaning of "business expenditure", and lists illustrative items that courts have held to be non-business or disallowable. The discussion draws upon corporate examples, numerical illustrations and practical observations to assist tax practitioners and accounting professionals in India.



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Chartered Accountant & Banker

1. The statutory text and basic conditions

Section 37(1) reads (in substance) that any expenditure (not being of the nature of Sections 30–36 and not being capital or personal expenditure) laid out or expended wholly and exclusively for the purposes of business or profession shall be allowed in computing income chargeable under the head "Profits and gains of business or profession".

1. The expenditure must not be of the nature specified in Sections 30–36 (these sections deal with specific heads such as salary, interest, repairs, rent, depreciation etc.). Section 37 operates residually.
2. The expenditure must be revenue in nature — not capital.
3. The expenditure must be wholly and exclusively for the purpose of business (not personal). The words "wholly and exclusively" have attracted the greatest judicial scrutiny.

Further, statutory explanations and judicially-developed exceptions refine these conditions (for instance, the concept of "business expediency" and that commercial expediency need not be identical with strict profit motive).

Key interpretative principles from judicial precedents

Over decades, Indian courts have articulated interpretative principles that practitioners must apply when testing a claim under Section 37:

- (i) Residual nature: Section 37 is invoked when the expenditure claimed does not fall within Sections 30–36. If it does, Section 37 is not the route.
- (ii) Business purpose vs. personal: Courts ask whether the expenditure was incurred for carrying on the business. If an expenditure primarily benefits the business even if it yields incidental personal benefit to an individual (e.g., director) that is not decisive.
- (iii) Wholly and exclusively: The classical test — stemming from UK jurisprudence and adopted in India — requires the expenditure to be "wholly and exclusively" for business; however, Indian courts have recognized that an expenditure made for commercial expediency (which may benefit others as well) can qualify as wholly and exclusively for business.
- (iv) Capital–revenue dichotomy: Characterisation of an expense as capital or revenue is fact-specific. Courts look at nature, enduring benefit, recurrence, and whether the expense brings an enduring advantage (capital) or is for a recurring operational purpose (revenue).
- (v) Illegality and public policy: Expenditure incurred for an illegal purpose, or as penalty/fine for violation of law, or expended in breach of public policy may be non-deductible — though courts have nuanced approaches depending on facts (e.g., where statutory fines are compensatory vs. punitive).

Landmark cases and judicial definitions

This section enumerates several landmark judgments that have shaped the scope of Section 37. Each case is summarized with the legal principle derived and practical implication.

A. Gannon Dunkerley & Co. Ltd. v. CIT (Supreme Court and Tribunal references)

In several pronouncements, courts considered whether secret commissions or bribes paid to secure contracts were deductible as business expenditure. While older decisions allowed certain payments in limited fact patterns, modern judicial trend and public policy stance have curtailed allowability where expenditure is illegal or against public policy. Courts have been cautious and fact-sensitive: if a payment is essentially a bribe, it will ordinarily be disallowed; on the other hand payments for legitimate commercial incentives properly documented may be allowable.

Practical implication: Maintain clear contracts, demonstrate legitimate business purpose and where a payment might be susceptible to being labelled illegal, avoid claiming it as business expenditure.

B. Madras Auto Service (P) Ltd. (Tribunal decisions)

The Tribunal has often explored whether specific items characterized as capital by revenue are in fact revenue. For instance expenditures on certain repairs and replacements were held to be revenue by considering the nature and scale of the work.

Practical implication: Maintain detailed breakups and technical assessments to show whether an expenditure is recurring and revenue in nature.

C. ESOP and Employee-related expenses – Recent Tribunal rulings

Tribunals in recent years have allowed certain ESOP expenses and employee benefit costs as deductible under Section 37 where substantiated as genuine business expenditure. The trend recognizes human capital and incentive costs as revenue expenses if established on commercial grounds.

Practical implication: Meticulous documentation of ESOP programmes, valuation, and accounting support bolsters claims under Section 37.

D. Payments of taxes abroad — Tata Sons and related cases

Courts have considered whether taxes paid outside India are deductible under Section 37. Generally, income tax paid (domestic or foreign) is not allowed as a deduction under Section 37 since taxes are not revenue expenditure for the purpose of business profits (and specific statutory provisions determine tax treatment). Decisions vary on context and timing; consult specific rulings.

Practical implication: Income taxes paid are ordinarily non-deductible; careful tax accounting and reliance on specific judicial precedents is required.

E. Commercial expediency and ancillary benefit principles

Indian courts have repeatedly held that expenditure voluntarily incurred for commercial expediency (on business grounds) may be allowed even if others benefit. For instance, expenditure on collective advertising, product design or trade promotion that benefits the entire trade may still be wholly for business.

Practical implication: Where the expenditure advances the commercial interests of the assessee and is necessary or expedient to run the business, it may qualify under Section 37.

Illustrative expenses held non-business expenditure in case law

Judicial decisions have held several items to be non-allowable or non-business in nature. The following list is illustrative (not exhaustive):

1. Personal expenses of directors or proprietor when they are not incurred wholly for business (e.g., personal travel, residential club subscriptions where personal use predominates).
2. Capital expenditure: acquisition of fixed assets, improvements that create enduring benefits (e.g., purchase of land, plant and machinery additions held capital).
3. Income-tax (domestic and foreign) and similar mandatory statutory taxes (generally not deductible as business expense under Section 37, though certain taxes/levies may be allowed under other sections).
4. Penalties and fines imposed for breach of law — typically disallowed where punitive, though compensatory payments (to compensate a third party for loss) may sometimes be allowed if they are revenue in nature and incurred for business purposes.
5. Bribes and illegal payments: payments made in contravention of law are generally not allowed.
6. Private family expenses and non-business entertainment where a substantial personal element exists.
7. Donations and charitable contributions not covered by specific provisions; unless deductible under Section 80G or otherwise allowed, they may be disallowed as business expenditure.

Each of the above categories has numerous case-law refinements. For instance, club subscriptions if incurred wholly and exclusively for business (e.g., for genuine business networking where evidence exists) — have in some facts been allowed, while in others disallowed where personal use predominated.

Corporate case studies and practical illustrations

To illustrate how Section 37 is applied in practice, consider the following hypothetical but realistic case studies based on common corporate scenarios.

Case study 1: Marketing co-sponsored event expenses

Facts: A medium-sized software company ("SoftTech Pvt. Ltd.") sponsors a public conference costing Rs. 30 lakh to promote its flagship product. The expenditure includes event management fees, publicity, hospitality to prospective clients and travel for key staff.

Analysis: The expense is revenue in nature (marketing & promotion), not capital; it is incurred wholly and exclusively for business promotion. **Documentation:** invoices, event brochure, client attendee lists, staff travel orders. **Conclusion:** Deductible under Section 37.

Numerical illustration: If SoftTech has total profits before expenditure of Rs. 2 crore and claims Rs. 30 lakh as the conference expense, net taxable business income = Rs. 1.7 crore (ignoring other adjustments).

Case study 2: One-time corporate hospitality and director family accompanying travel

Facts: A manufacturing company hosts international clients and pays for accommodation and spouse attendance at certain events. Travel expenses for spouses are mixed-purpose.

Analysis: The portion attributable to spouse personal enjoyment is personal expense and not deductible; expenses for genuine business meetings are deductible. Prorate and document.

Numerical illustration: Total hospitality Rs. 50 lakh; spouse-related portion Rs. 6 lakh. Allowable deduction Rs. 44 lakh under Section 37; disallow Rs. 6 lakh as personal.

Case study 3: Payment characterised as commission but essentially a bribe

Facts: A construction company pays an intermediary Rs. 1 crore to secure a municipal contract. The payment lacks proper contractual basis and appears to be a bribe.

Analysis: If it is shown to be a bribe, it will be disallowed as against public policy. If instead it were a genuine commission with documented services, it might be allowable. Burden to substantiate lies with assessee.

Numerical illustration: Profit before disallowance Rs. 10 crore. Disallowance Rs. 1 crore. Taxable income increases accordingly and attracts additional interest/penalty risk on reassessment.

How to document and defend a Section 37 claim — practical checklist

1. Maintain contemporaneous invoices and contracts describing business purpose.
2. Obtain board minutes or authorised approvals for significant or unusual expenditures.
3. Keep cost-benefit analyses that show commercial expediency (e.g., ROI estimates for marketing campaigns).
4. Separate personal from business costs; adopt policies for directors' hospitality and reimbursement.
5. For cross-border payments, obtain legal opinions on local law compliance to avoid characterisation as illegal.
6. Retain proof of recurring nature vs. one-off to aid capital-revenue characterisation.
7. Advanced topics: Commercial expediency and third-party benefit

Courts have repeatedly emphasised that an expenditure voluntarily incurred for commercial expediency — even where others benefit — is allowable. This includes collective trade promotion, industry-level advertising subscriptions, or contributions to trade associations if the primary purpose is to promote the assessee's business. The test remains whether the expenditure was made with a bona fide business purpose and whether it can be shown to be necessary or expedient in commercial terms.

Interaction with other sections and anti-avoidance considerations

Section 37 is residual; therefore if there is a specific statutory provision elsewhere, that provision controls. For example, Section 40A disallows certain related-party payments or payments without adequate documentation; Section 43B governs timing of deduction for certain items like taxes, employer's contribution to provident fund etc. Practitioners should ensure cross-section compliance.

Numerical case: Illustration of tax effect and assessment risk

Assessee: Alpha Manufacturing Ltd.

Profit before claimed expenditure: Rs. 5,00,00,000

Claimed expenditure (Section 37): Rs. 50,00,000 (consultancy fees for product redesign)

Taxable income (claimed): Rs. 4,50,00,000

If AO disallows Rs. 50,00,000 as capital or personal, taxable income increases to Rs. 5,00,00,000; additional tax at corporate rate (say 25%) = Rs. 12,50,000 plus interest and potential penalties. The company must produce invoices, MOU with consultants, deliverables and expert technical assessment to support revenue character.

Recent trends and practical takeaways

The jurisprudence shows a pragmatic balance: courts permit genuine business expenses that satisfy the conditions, are well-documented, and commercially expedient. However, where an expense is tainted by illegality, punitive fines, or lacks documentary support, courts will deny the deduction. Tribunal decisions allowing modern forms of employee costs (ESOP-related) indicate adaptability to new forms of business expenditure.

Conclusion

Section 37 remains a vital, flexible tool for recognizing the commercial realities of business expenses. For practitioners and corporate finance teams the message is clear: maintain meticulous documentation, ensure that the expenditure is substantiated as revenue in nature and demonstrably for business purposes, and be cautious with payments that could be misconstrued as illegal or personal. The line between capital and revenue, and between business and personal, will always be fact-sensitive — but reasoned factual records and commercial rationale go a long way in securing allowability under Section 37.

Notes: This article is written for professional guidance. For application to specific facts, the reader should consult primary statutes and the latest case law and seek legal advice.

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THE MONTH GONE BY NOVEMBER 2025

SESSION ON PUBLIC SPEAKING & TIME MANAGEMENT BY MR. SUBASH BANGERA



THE MONTH GONE BY NOVEMBER 2025

FROM RECONCILIATION TO RESOLUTION

NAVIGATING GST ANNUAL FILING AND IMS

BY CA AKSHAY M HIREGANGE & CA NITESH NAYAK



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THE MONTH GONE BY NOVEMBER 2025

SUPER MEGA CAREER COUNSELLING GOVT. FIRST GRADE COLLEGE, CARSTREET BY CA. SUMANTH BHAT & CA. POORNIMA NAYAK



**SUPER MEGA CAREER COUNSELLING
CHINMAYA HIGH SCHOOL BY
CA. VRINDA KONNAR**



**SUPER MEGA CAREER COUNSELLING
MDS PRE UNIVERSITY COLLEGE
BY CA. PRASANNA PURANIK**



THE MONTH GONE BY NOVEMBER 2025

SUPER MEGA CAREER COUNSELLING GOVERNMENT WOMEN'S PRE UNIVERSITY COLLEGE BY CA. HASTHA N



THE MONTH GONE BY NOVEMBER 2025

SUPER MEGA CAREER COUNSELLING

VANI PRE UNIVERSITY COLLEGE

BY CA. AKASHDEEP PAI



SUPER MEGA CAREER COUNSELLING

MAPS COLLEGE

BY CA. UPENDRA SHENOY



SUPER MEGA CAREER COUNSELLING
GOVT HIGH SCHOOL MULLAKAD
BY CA. VINAYAK PAI



THE MONTH GONE BY NOVEMBER 2025

SESSION ON HEALTH & WELLNESS BY DR. PRATHEEKSHA RAI G



**CLAY ART WORKSHOP
BY MR. P VENKATARAMANA KAMATH**



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CA. Prashanth Pai K



CA. B Krishnananda Pai

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