# Commissioner of Income Tax v. Winsome Dyeing & Processing Ltd.

ITA 3/2000

No neutral citation stated in source | 2008-05-28

## Interest on temporarily deposited project borrowing taxable under section 56; fresh expenditure verification request rejected.

56 | 260A

High Court of Himachal Pradesh | Division Bench | R.B. Misra | Sanjay Karol

Assessment years: 1989-90

### 01 FACTS OF THE CASE

For assessment year 1989-90 the company was constructing its project and installing machinery, with expenses capitalized and no business activity claimed. From an IFCI loan of Rs.49 lakh, funds not immediately needed were deposited with Jutex International Ltd., earning Rs.3,09,586. The company sought to reduce capital-asset cost by that interest. The Assessing Officer taxed it under section 56; the first appellate authority and Tribunal granted the company relief.

Source: PDF p.1

## 02 DISCUSSION BY THE HON'BLE COURT

The Court applied Tuticorin Alkali Chemicals and Autokast to interest on borrowed funds held in short-term deposits pending plant and machinery expenditure. Such interest was income from other sources rather than an adjustment against asset cost. The taxpayer also sought fresh verification of expenditure claims, but the Court found its submissions unacceptable.

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## 03 JUDICIAL DECISION

Revenue's appeal was allowed. The substantial question was answered by holding the Rs.3,09,586 interest liable to tax under section 56 for assessment year 1989-90.

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## 04 OUTCOME / IN WHOSE FAVOUR

The company lost the favourable interest-adjustment result. No remand for fresh expenditure verification or allowance of an additional deduction was ordered. The taxable amount identified is the interest, not the Rs.49 lakh borrowing.

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## 05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Temporary investment remained a separate source of income — The money was borrowed for capital investment, but the unused balance was placed with Jutex to earn interest. The intended reduction of project cost did not determine its tax character. A comparison should therefore identify the actual deposit transaction and its earnings, rather than rely only on the purpose of the original loan or the absence of operating revenue.

Capitalization did not itself authorize interest netting — The Court adopted the cited Supreme Court treatment of this temporary deployment. It did not calculate a separate borrowing-cost deduction or establish that every receipt during construction has the same character. The practical consequence is to analyse the Rs.3,09,586 interest separately from capital expenditure and avoid importing an unadjudicated deduction into the result.

The request for another assessment opportunity failed — Counsel's proposal to identify expenditure from the records was an argument, not relief granted. Paragraph 11 rejects the respondent's submissions and allows the appeal without remand. The note should therefore not suggest that this judgment leaves a fresh deduction exercise open by its own direction. The inconsistent assessment dates in the narrative should also not be used to reconstruct an additional proceeding.

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## SOURCE & VERIFICATION

20080528_HPHC010016752000.pdf

Complete source PDF reviewed: 5 physical pages.

All 5 original pages read and visually inspected; all five panels audited.

Open cited source rendition

All five source pages read and visually inspected. Assessment date differs: paragraph 3 says 24 August 1999, paragraph 5 says 24 August 1990. The caption names Commissioner of Income Tax as appellant although the narrative also uses Commissioner (Appeals). Neither inconsistency changes the stated outcome.

## STATUTORY SCOPE

Sections 56 and 260A; assessment year 1989-90.

## LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment has not been independently verified.

### AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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