Shri V. Madhusudhan Reddy (since deceased, by LRs Smt. V. Soumini Reddy and Shri V. Nachiketh Reddy) v. Assistant Commissioner of Income-tax, Circle-7(2), Bengaluru

ITA No. 45 of 2019

2025:KHC:9414-DB | ITA No. 45 of 2019 (Karnataka High Court, decided 5 March 2025) | 2025-03-05

Interest computation under section 28: deduction of Rs.61,20,000 allowed; Tribunal order set aside to that extent.

Income-tax Act, 1961: sections 28 and 260A

High Court of Karnataka | 2-judge bench (Division Bench) | Hon'ble Mr. Justice Krishna S. Dixit | Hon'ble Mr. Justice Ramachandra D. Huddar

Assessment years: 2009-10

01 FACTS OF THE CASE

For AY 2009-10, the assessee challenged ITAT's order dated 14 September 2018 in ITA 192/Bang/2014. The Tribunal had refused to reduce interest income of Rs.61.20 lakh from B.V. Reddy and Sons (Finance) from interest expenditure for computing disallowance. Its limited remand concerned whether 12.75% or 9% applied to net interest-free advances of Rs.7,05,98,612. The assessee sought broader relief.

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02 DISCUSSION BY THE HON'BLE COURT

The Court accepted that, when interest income is taxable, interest incurred on borrowed money must be deducted in arriving at the taxable component. It expressly connected that reasoning to section 28. Revenue's objection that the issue was factual did not prevail. The Bench reproduced the Tribunal's contrary reasoning, including its insistence on a direct nexus, and expressly disagreed with it.

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03 JUDICIAL DECISION

The substantial questions were answered for the assessee. The appeal was allowed, the Tribunal's order was set aside to that extent, and entitlement to deduction of Rs.61,20,000 was expressly declared.

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04 OUTCOME / IN WHOSE FAVOUR

The relief is a quantified deduction of Rs.61,20,000. The operative order does not grant the entire Rs.1,23,07,353 interest claim mentioned in a proposed question or expressly eliminate every other disallowance.

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05 EXPERT COMMENTS

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

Keep the quantified relief distinct from the wider questions — The proposed questions canvassed the common fund pool and the entire interest expenditure. The Court nevertheless ended with a specific Rs.61,20,000 deduction and set aside the Tribunal order only to that extent. Implementation should follow that quantified relief rather than assume every issue in the proposed questions was independently resolved in unlimited terms.

The Tribunal quotation is not the Court's factual endorsement — The long passage about direct nexus, own funds of about Rs.56.98 crore and the Rs.5.10 crore advance is reproduced as reasoning with which the Court disagreed. It should not be presented as a fresh High Court finding that cash-flow evidence proved nexus. The Court's own concise rationale is the computation of taxable interest under section 28.

A section 28 holding has its stated context — The amount Rs.61.20 lakh first appears as interest income sought to be reduced from expenditure in the disallowance calculation, and then as the expressly granted deduction. The judgment does not separately examine sections 36(1)(iii) or 57(iii), nor does it describe an earlier High Court remand. For another financing arrangement, identify the actual income head, fund use and disputed computation before extending this reasoning.

Source: PDF p.3

SOURCE & VERIFICATION

High Court of Karnataka official judgment PDF — AKHB Repository (20250305_KAHC010324992019.pdf)

7-page official High Court of Karnataka order/judgment PDF (20250305_KAHC010324992019.pdf, 83,742 bytes).

All 7 original pages read and visually inspected; all five panels audited.

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STATUTORY SCOPE

The Court expressly refers to section 28. Sections 36(1)(iii), 37(1) and 57(iii) are not analysed in this judgment.

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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