

Eastern Investments Ltd. v Commissioner of Income-tax, West Bengal

Civil Appeal No. 89 of 1950

[1951] SCR 594 | 1951-05-04

Whether the debenture interest was expenditure incurred solely for making or earning the company's income, and whether commercial expediency could be rejected because the arrangement also benefited the shareholder or because another financing method was possible.

Indian Income-tax Act, 1922, section 12(2), before the 1939 amendment

4-judge bench | Harilal Kania CJI | Patanjali Sastri J. | S. R. Das J. | Vivian Bose J.

Scope and outcome limits

Document the commercial purpose of financing and its connection to earning income. This decision concerns the historical version of section 12(2), with capital character not disputed. It is not a blanket exemption for interest on capital restructurings and does not decide modern anti-avoidance or statutory restrictions.

01 FACTS OF THE CASE

An investment company reduced its share capital by taking over 50,000 ordinary shares and issuing Rs. 50 lakh of 5% debentures to the shareholder's estate. The arrangement was sanctioned by the court. The company claimed the resulting interest as expenditure deductible under the pre-amendment section 12(2) of the Indian Income-tax Act, 1922. The Tribunal and High Court rejected the deduction, viewing the arrangement as benefiting the shareholder and reducing the company's taxable income.

Source: [Primary report: SCR 595-598](#)

02 DISCUSSION BY THE HON'BLE COURT

The legal test did not require the expenditure to produce an actual profit. Voluntary expenditure incurred on grounds of commercial expediency to facilitate the business could qualify. The company could legitimately retain its investment portfolio rather than realise investments to meet the capital reduction. Absent fraud, the reduction in taxable income or benefit to another party did not itself defeat deduction. The court would not substitute its preferred method of financing for a genuine commercial arrangement; borrowing through debentures and the lender's status as a shareholder did not alter that conclusion on these facts.

Source: [Primary report: SCR 598-602](#)

03 JUDICIAL DECISION

The assessee's appeal was allowed. The reference question was answered in the affirmative, allowing the interest deduction; the respondent was ordered to pay costs in the Supreme Court and High Court.

Source: [Primary report: SCR 602](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee; historical interest deduction allowed.

Source: [Primary report: SCR 602](#)

05 AKHB REVIEW POINT

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Source: [Primary report: SCR 598-602](#)

SOURCE & VERIFICATION

[Supreme Court Reports primary scan — public eSCR mirror](#)

PDF pages 1-9 / SCR 594-602; opinion begins SCR 595. Opening of SCR 594 contains the conclusion of Kumar Pashupatinath Malia v Deba Prosanna Mukherjee; exclude that passage from this note.

[Open cited source rendition](#)

STATUTORY SCOPE

Historical statutory and constitutional text only; current statutory equivalence and subsequent treatment are not cleared.

LATER TREATMENT

Source checked 2026-10-18. Subsequent treatment and current-law applicability have not been comprehensively checked.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from an identified primary report. Independent human review is not represented.

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