

Bombay Steam Navigation Co. (1953) Private Ltd. v. Commissioner of Income Tax, Bombay

Civil Appeals Nos. 1023 and 1024 of 1963

[1965] 1 SCR 770 | 1964-10-21

Interest on unpaid asset-purchase price: the balance was not “capital borrowed”, but the interest was deductible as business expenditure.

Indian Income Tax Act, 1922: sections 10(1), 10(2)(iii) and 10(2)(xv)

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1955-56, 1956-57

Debt is not necessarily a loan

The majority rejected the section 10(2)(iii) borrowed-capital route even though interest was payable.

Business-period finding mattered

The source liability and payments arose while the assessee was carrying on business.

01 FACTS OF THE CASE

The assessee was incorporated to take over Konkan passenger and ferry services. It acquired steamers and other business assets from Scindia Steam Navigation, partly against shares and partly against an unpaid balance carrying six per cent interest and secured by hypothecation. The tax authorities and Bombay High Court disallowed interest of Rs. 2,74,610 and Rs. 2,86,823 for the two assessment years.

Source: [Case identity, facts and procedural history](#)

02 DISCUSSION BY THE HON'BLE COURT

Shah and Sikri JJ. held that a contractual debt for unpaid purchase consideration did not become a loan merely because it carried interest and security; every loan creates a debt, but every debt is not a loan. The expenditure nevertheless had an immediate and integral connection with commencing and carrying on the acquired business. Interest paid while the business operated was revenue expenditure laid out wholly and exclusively for that business. Subba Rao J. agreed with the result while reserving his view on section 10(2)(iii).

Source: [Court's reasoning and statutory analysis](#)

03 JUDICIAL DECISION

The Court allowed both appeals with costs and held the interest deductible under section 10(2)(xv). It did not find it necessary to decide the alternative section 10(1) basis.

Source: [Holding and operative order](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. The deduction succeeded as business expenditure, not as interest on capital actually borrowed.

Source: [Operative result](#)

05 AKHB REVIEW POINT

AKHB analysis: characterise the underlying funding obligation before selecting the deduction provision. For deferred purchase consideration, document the acquisition agreement, commencement of business, purpose and period of interest, and separately test whether tax law requires capitalisation or permits a revenue deduction.

Source: [Primary reasoning underlying the AKHB analysis](#)

SOURCE & VERIFICATION

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

Full 10-page SCR report read and checked. The editorial headnote was distinguished from the judgment text and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 10-page count match catalogue asset 1965_1_770_779; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeals Nos. 1023 and 1024 of 1963, the stated bench, issues, reasoning and operative result.

No published AKHB note or archived reviewed record with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The ruling concerns section 10 of the 1922 Act and distinguishes a debt from borrowed capital. Current deductibility requires independent application of the Income-tax Act, 1961 and any capitalisation rules.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

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