

Commissioner of Income-tax, West Bengal III, Calcutta v. Rajendra Prasad Moody, Calcutta etc.

Tax Reference No. 1 of 1971 / Tax Reference No. 2 of 1971

[1979] 1 SCR 1047 | 1978-10-04

Whether interest paid on money borrowed to invest in shares was deductible under the then section 57(iii) when the shares yielded no dividend during AY 1965-66.

57(iii) | 56 | 257 | 37(1) (comparison)

Three-judge bench | P.N. Bhagwati, J. | V.D. Tulzapurkar, J. | R.S. Pathak, J.

Assessment years: 1965-66

Historical purpose test; later dividend-specific restrictions

For AY 1965-66, the Court held that otherwise qualifying section 57(iii) expenditure did not require actual dividend receipt. Income-earning purpose and the other statutory conditions still matter. Finance Act 2020 later inserted a capped interest-only rule from 1 April 2021, and the 2024 (No.2) consolidation has further restrictions; neither later text is certified as current 2026 law here. Both direct references were answered for the assesseees with Revenue paying costs. Comprehensive later treatment and 2025 mapping are not verified.

01 FACTS OF THE CASE

Two brother-assesseees borrowed money to invest in shares of certain companies. In AY 1965-66, for the accounting year ending 10 April 1965, each paid interest on those borrowings but received no dividend. The Income-tax Officer and Appellate Assistant Commissioner rejected the deductions because no dividend had been earned; the Tribunal allowed the claims. Because High Court decisions conflicted, the Tribunal referred the identical legal question directly to the Supreme Court under section 257 in Tax References Nos. 1 and 2 of 1971 (physical pages 2-3/SCR 1048 G-H and 1049 A-H).

The Court treated the issue as one of statutory interpretation and did not supply the borrowing amounts, interest totals, companies' identities or the other brother's name. These details are not reconstructed from the single cause-title entry. The judgment date is 4 October 1978, although the report is in the 1979 volume.

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

Under the then section 56, the dividends in question fell under income from other sources. Section 57(iii) allowed non-capital expenditure incurred wholly and exclusively for making or earning such income. The essential inquiry was the expenditure's income-earning purpose; the statutory text did not additionally require that purpose to succeed or generate a receipt in the relevant year (physical pages 4–5/SCR 1050 A–1051 E).

The Court applied Eastern Investments' interpretation of the materially identical earlier section 12(2). It rejected the anomaly under which an otherwise proper expenditure would be deductible when income was merely Re.1 but not when income was nil. Proper statutory outgoings do not lose their character simply because the source has no receipt; the accounting outcome can be a loss (physical pages 5–6/SCR 1051 E–1052 D).

Section 37(1)'s business-purpose language is somewhat wider, but that did not justify reading an actual-receipt requirement into section 57(iii). The Court endorsed the line of High Court decisions permitting the deduction despite no dividend and held the contrary Patna and Calcutta views incorrect (physical pages 6–7/SCR 1052 E–1053 B). This ruling does not dispense with the non-capital and wholly-and-exclusively income-earning-purpose requirements.

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Court answered the question in each of the two direct references in favour of the assessee and against the Revenue. Interest was admissible under the provision then applicable notwithstanding that the purchased shares produced no dividend in the relevant year. The Revenue was directed to pay the costs of both references to the assessee (physical page 7/SCR 1053 C).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assesseees in both references

Both section 257 reference questions answered in the assesseees' favour; Revenue to pay costs of both references

Final substantive interpretation of the then section 57(iii), on the stated borrowing and no-dividend facts

Purpose, rather than successful receipt, controls under the text adjudicated. This is not a universal deduction for every share-related borrowing or a present-law dividend-interest entitlement.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Separate the purpose test from the outcome test. The Court removed an actual-receipt condition that the statute did not contain; it did not remove the need to prove the borrowing's relevant income-earning purpose or the other statutory conditions. A failed income-producing investment and an expenditure incurred for a different purpose are not interchangeable.

Keep the two direct references, their AY 1965-66 context and costs order intact. Before using this reasoning for a later dividend-interest claim, independently check the later year's specific rules and overrides. The bounded statutory comparison below illustrates why the 1978 result must not be advertised as an unrestricted modern deduction.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Complete reference group and direct section 257 route

Source url: [Open cited source](#)

Pdf pages: 2; 3

Paragraphs: SCR 1048 G–H; SCR 1049 A–H

Source role: reported preface and judicial text

2.

Topic: AY, accounting period, borrowings and absence of dividend

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: SCR 1049 C–G

Source role: judicial text

3.

Topic: Historical statutory requirements and income-earning purpose

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 1050 A–1051 E

Source role: judicial text

4.

Topic: No actual-receipt requirement; comparison with section 37(1)

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: SCR 1051 F–1053 B

Source role: judicial text

5.

Topic: Answers in both references and express costs order

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 1053 C

Source role: judicial text

6.

Topic: Official identity and actual 1978 date corroboration

Source url: [Open cited source](#)

Pdf pages: 410

Paragraphs: Entry 6727, printed page 408; 1978 INSC 193

Source role: official case metadata corroboration

7.

Topic: Bounded statutory comparison: Finance Act, 2020, section 30

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Version 2020; Entire enacted section 30 and commencement words; clause (b) inserts section 57 dividend/specified-unit interest-only cap effective 1 April 2021.

Source role: official enacted amendment

8.

Topic: Bounded statutory comparison: Income-tax Act, 1961, section 57

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Version 2024 (No. 2); Full section 57 and footnotes 82–83; first proviso and further section 2(22)(f) proviso; footnotes date 2024 changes to 1 October 2024.

Source role: official hosted statutory consolidation

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

P.N. Bhagwati, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961 (sections 57(iii) and 257; historical dividend-income computation)

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Indian Income-tax Act, 1922, section 12(2), considered through Eastern Investments as corresponding precedent; not the governing assessment provision

SPECIFIED LATER JUDICIAL OR STATUTORY CHECKS AND THEIR LIMITS

1.

Kind: later statutory restriction

Status: bounded verified

Source urls: <https://www.incometaxindia.gov.in/w/section-30-117>; <https://www.incometaxindia.gov.in/w/section-57-63>

Finding: The 2020 enacted amendment and 2024 (No. 2) consolidation impose specific dividend/unit-income limits absent from the 1978 facts. They prevent a universal present dividend-interest deduction claim.

Limit: No comprehensive citator, full amendment chain, 2026 current-law verification or Income-tax Act, 2025 mapping.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 7 PDF pages; SHA-256

4a0c433e1b9abecc39c5ae6dd8c0282b93257e2d6569cb7deacc9bc7402c17c2. Original bytes preserved.

Unnumbered judicial body begins physical page 3/SCR 1049 A and ends physical page 7/SCR 1053 C. Pages 1–2 are reporter summary and reference preface; no neighbouring judgment.

Open cited source rendition

Actual decision date is 4 October 1978, not the 1979 report year. Both Tax References Nos. 1 and 2 of 1971 are decided; metadata lists only No.1.; No borrowing or interest amounts, company identities, or second brother's name are supplied by the Supreme Court body.; The purpose and non-capital limits survive; section 37(1) is compared, not substituted for section 57(iii).; The older section 12(2) precedent is supporting authority; the governing assessment and reference provisions are those of the 1961 Act.

The judgment expressly gives AY 1965-66 and the accounting year ending 10 April 1965 for both brother-assessees (SCR 1049 C–D).

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no present-law certification. Verify the applicable statutory version separately.

LATER TREATMENT

Source checked 2026-10-05. not_verified. No comprehensive subsequent-judgment citator check. Bounded statutory comparison only: Finance Act, 2020, section 30 inserted a dividend/specified-unit interest-only deduction capped at twenty percent of the relevant income before section 57 deduction, effective 1 April 2021. The CBDT section 57 version labelled 2024 (No. 2) additionally records no deduction for section 2(22)(f) dividend income from 1 October 2024. These are version-specific limits on later application, not a finding that Moody was judicially overruled or a certification of law currently applicable in 2026; no 2025 Act mapping is made.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 7

SHA-256: 4a0c433e1b9abecc39c5ae6dd8c0282b93257e2d6569cb7deacc9bc7402c17c2

official case metadata index - PDF pages: 1738

SHA-256: 70ec8d62e1d6e7cd26cab7295fc4310b9aa55c61fcda8bb5f3ff5e97f7b29030

official enacted amendment

SHA-256: dd21ea993f1fada7671bfa23253468711a543ed99fd64db0c0d32dc4a211ba35

official hosted statutory consolidation

SHA-256: b511791c76e7b6a049b48346a51c6eb82b867e85b0b7ac9a9370170abc4aa877

AI DISCLOSURE

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