

Smt. Padmavati Jaikrishna v. Additional Commissioner of Income Tax, Gujarat, Ahmedabad

Civil Appeal No. 65 of 1975

[1987] 2 SCR 1167 | 1987-04-22

Whether interest attributable to borrowings used to pay personal income-tax, wealth-tax and a compulsory annuity deposit qualified under section 57(iii), including on the asserted ground that borrowing preserved income-producing investments.

57(iii)

Three-judge bench | R.S. Pathak, C.J. | Ranganath Misra, J. | K.N. Singh, J.

Assessment years: 1966-67

Purpose-based refusal on this record; image-only page and amount defects

The disputed disallowance was Rs.10,275 from a total interest claim of Rs.26,986, verified on image-only physical page 3. The Court relied on the personal-tax/statutory-deposit purpose and refused an unsupported indirect-link argument; it did not impose a universal ban on indirect nexus. The appeal was dismissed with each party bearing its costs. Later treatment and present-law mapping remain unverified.

01 FACTS OF THE CASE

The assessee, an individual, derived interest, dividends and other income assessed under other sources. For AY 1966-67 she claimed Rs.26,986 interest paid to Barivallabhdas Kalidas Estate on loans. The Income Tax Officer found that only Rs.1,250 of the borrowed money represented investment and proportionately disallowed Rs.10,275 of interest under section 57(iii). The first appellate authority dismissed her appeal, relying on Bai Bhuriben Lallubhai (physical page 3 image; SCR 1169B-E).

Before the Tribunal, she argued that expenditure for income-tax, wealth-tax and annuity deposits should be treated as revenue expenditure, and that borrowing was commercially preferable to liquidating return-producing investments. The Tribunal rejected those arguments: the loans met personal obligations to pay taxes and make an annuity deposit. On reference, the Gujarat High Court concluded that the annuity deposit was obligatory and its interest incidental; the disputed borrowing was not wholly and exclusively directed to earning income. The assessee appealed by certificate (physical pages 3-4; SCR 1169E-1170C).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court applied section 57(iii)'s purpose requirement for non-capital expenditure claimed against other-sources income. The assessee had to establish that the borrowing whose interest she sought to deduct was incurred wholly and exclusively to make or earn that income. Calling an outlay revenue expenditure, or expressing a general preference for preserving investments, did not dispense with this statutory connection (physical page 4; SCR 1170C–G).

The Court considered Eastern Investments under section 12(2) of the 1922 Act, including its commercial-expediency and indirect-facilitation discussion and its illustration of an investment company borrowing to invest. It also relied on Rajendra Prasad Moody's explanation that the purpose of expenditure determines section 57(iii)'s application. Those authorities were applied to the findings in this case, not treated as establishing that all borrowing which leaves investments untouched is deductible (physical pages 4–5; SCR 1170G–1171G).

Payment of this individual's income-tax and wealth-tax was a personal liability, not expenditure wholly and exclusively for earning income. As to the compulsory annuity deposit, the Court agreed that its dominant purpose was meeting the statutory obligation; earning interest was incidental. It accepted the authorities' factual conclusion that the expenditure under dispute did not meet section 57(iii) (physical pages 5–6; SCR 1171H–1172D).

Counsel separately urged that an indirect link between expenditure and income could suffice. The Court did not announce a universal prohibition on an indirect nexus. It refused to entertain the argument because the necessary supporting facts had not been placed before the taxing authorities or the High Court; it could not be sustained on assumptions. Its further observation was qualified: ordinarily, a deduction would be difficult to support unless the borrowing met a liability connected with the source itself (physical page 6; SCR 1172D–F).

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

03 JUDICIAL DECISION

The Court affirmed the High Court's order and dismissed the assessee's appeal. The parties were left to bear their respective costs (physical page 6; SCR 1172F).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the disputed Rs.10,275 interest deduction

Assessee's appeal dismissed; High Court order affirmed; parties to bear their respective costs

Final substantive deduction decision on the established purpose of these borrowings

The judgment sustains the proportionate disallowance under dispute, not a disallowance of every rupee of the Rs.26,986 total interest claim. The unsupported indirect-link contention was not decided as a universal legal prohibition.

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

05 AKHB REVIEW POINT

Trace the use and purpose of the borrowed money rather than relying only on the continued existence of income-producing investments. On this record, a loan-funded personal tax payment did not acquire an income-earning purpose because the taxpayer avoided selling investments. The compulsory annuity deposit also required a separate purpose analysis: incidental interest did not overturn the finding that the borrowing met a statutory obligation.

Preserve the difference between a failed factual foundation and a rejected rule of law. The Court discussed Eastern Investments but declined the newly pressed indirect-link argument because supporting facts were absent from the record below. A practitioner relying on an indirect connection must establish those facts at the proper stage and still satisfy the applicable statutory test; this judgment should not be reduced to a categorical direct-nexus-only slogan.

The figures need careful handling. The operative dispute concerned Rs.10,275, out of a total interest claim of Rs.26,986. Physical page 3 is image-only in the supplied extraction and must be consulted; the scanned referred question on page 4 truncates the amount as Rs.10,27. Neither defect warrants enlarging the disallowance or inventing an alternative amount. This is a historical AY 1966-67 ruling; comprehensive later treatment and present-law mapping remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, bench, date and appeal number

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: reported metadata

2.

Topic: Image-only judicial opening, amounts and appellate facts

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

3.

Topic: Statutory purpose test and cited authorities

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

4.

Topic: Personal tax and compulsory-deposit findings

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

5.

Topic: Unsupported indirect-link argument and precise operative ending

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ranganath Misra, J.

OTHER STATUTORY CONTEXT

Indian Income-tax Act, 1922, section 12(2), discussed through Eastern Investments as the corresponding earlier provision

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 6 PDF pages; SHA-256

49b5495315257d6e318e361b05f96bad81a2197141f1111331afb17bfb5b8d6b. Original bytes preserved.

Judicial text starts at physical page 3 and ends at physical page 6. Editorial headnotes before the judgment, printed case metadata and the reporter's terminal summary are distinguished from the Court's reasons and order. No neighbouring judgment is included.

[Open cited source rendition](#)

Physical page 3/SCR 1169 is a substantive, legible image-only page despite having no extracted text. It contains the judicial opening, AY 1966-67, Rs.26,986 total interest claim, Rs.1,250 investment, Rs.10,275 proportionate disallowance and the Tribunal proceedings. It was read directly from the image.; The scanned referred question continuing at physical page 4 prints Rs.10,27; physical page 3 and the page 1 headnote clearly give Rs.10,275. The total Rs.26,986 is also corrupted in ingestion OCR. The note uses the visually verified full figures without changing the original source.; The phrase that no part qualified appears in the Court's discussion of the expenditure under dispute. It is not expanded into disallowance of the entire Rs.26,986 claim.; The indirect-link argument failed for want of a factual foundation before the authorities and High Court; no blanket rule against indirect connection is attributed to the Court.

STATUTORY SCOPE

No present-law certification or automatic mapping to the Income-tax Act, 2025. Apply the historical provisions for the relevant assessment year.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial treatment has not been verified. The bounded statutory commencement/savings check for Vikram Cotton Mills is separately identified and is not a later-treatment review.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 6](#)

SHA-256: 49b5495315257d6e318e361b05f96bad81a2197141f1111331afb17bfb5b8d6b

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