

Badal Ram Laxmi Narain v. Commissioner of Income-tax, Lucknow

Civil Appeal Nos. 657 of 1979 and 2117-2121 of 1977

[1991] 2 SCR 920 | 1991-07-12

Borrowing interest on a debit balance assumed for business goodwill; reasonable Tribunal inference on reference.

Section 36(1)(iii), as expressly discussed in the judgment; printed Act-year discrepancy disclosed

K. Jagannatha Shetty and Yogeshwar Dayal JJ. | K. Jagannatha Shetty J. | Yogeshwar Dayal J.

Printed statutory-label discrepancy

The report prints the year 1922 alongside section 36(1)(iii). That discrepancy remains uncorrected here. The case identity and operative interest-deduction reasoning are clear; this note does not assert a verified assessment-year or Act-year mapping.

01 FACTS OF THE CASE

A Hindu undivided family carried on a longstanding business at Varanasi entirely with borrowed capital. Following a partial partition on 20 October 1951, its members formed a partnership and continued the business. A debit balance of Rs. 1,75,310 was transferred equally to the three partners' personal accounts, and the firm assumed the business assets and liabilities. It claimed deduction of the interest on that balance, contending that the liability had been assumed for the business goodwill. The Appellate Assistant Commissioner rejected the goodwill claim. The Tribunal inferred from the longstanding, flourishing business that assumption of the liability represented consideration for goodwill. On reference, the Hon'ble High Court rejected that inference, relying on the absence of corresponding accounting entries and the partners' personal responsibility for family debt.

Source: [Facts and question referred: SCR 922](#)

02 DISCUSSION BY THE HON'BLE COURT

The Hon'ble Supreme Court expressly discussed section 36(1)(iii), explaining that the borrowing must be for business or professional purposes and that interest on capital borrowed to acquire goodwill is deductible in that setting. The Tribunal had linked the assumed debit balance to goodwill of the running business. The Hon'ble High Court's contrary conclusion was itself an inference from the same material. Because this was only a partial partition and the family retained other property, the firm was not obliged to assume the balance merely because its partners were family members. The Tribunal's inference was reasonable and warranted; the existence of another possible inference did not justify interference on reference. Personal liability of individual family members did not defeat the firm's own deduction claim.

Source: [Interest nexus and Tribunal inference: SCR 923](#)

03 JUDICIAL DECISION

The Hon'ble Supreme Court allowed the appeals and set aside the Hon'ble High Court's decision. It answered the referred question in each case in favour of the assessee and against the Revenue. The assessee was entitled to one set of costs in the Hon'ble Supreme Court. The decision sustained the Tribunal's fact-based conclusion that assumption of the debit balance represented consideration for goodwill and that the interest was deductible.

Source: [Appeals allowed and reference answered](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee succeeded on the referred interest-deduction question. The result rests on the reasonable inference drawn from this running business and its partial-partition facts. It does not establish that every family liability taken over by a partnership becomes a business borrowing, or that an accounting entry alone proves a goodwill acquisition.

Source: [Scope of the assessee's success](#)

05 AKHB REVIEW POINT

AKHB analysis: Establish the business purpose of the assumed liability with evidence of the transferred business, its goodwill and the consideration arrangement. Distinguish the firm's claim from the personal obligations of the former family members. When relying on the Tribunal's findings, identify the supporting material and whether its inference is unreasonable or unwarranted; a merely competing inference is insufficient in the reference setting considered here. Preserve the report's printed Act-year discrepancy in citations and separately verify the applicable enactment, assessment year, later treatment and present statutory requirements before using the case in a live matter.

Source: [Factual nexus and limits of inference](#)

SOURCE & VERIFICATION

[Supreme Court Reports — court-hosted report and preserved original](#)

Complete four-page report, SCR 920-923, read, including headnote, facts, reasoning and final order. The printed Act-year discrepancy is expressly retained; no assessment year is supplied by inference.

[Open cited source rendition](#)

The Orissa and Allahabad High Court-hosted copies repeat the printed Act-year label. Neither is treated as a corrigendum.

The 1951 partial partition is a factual event, not a finding of the assessment years before the Hon'ble Court.

The final order awards one set of costs and allows the appeals; it is not a remand.

STATUTORY SCOPE

SCR 920-921 pairs section 36(1)(iii) with the printed year 1922. The operative reasoning at SCR 923 expressly discusses section 36(1)(iii). This note reports that reasoning without silently replacing the printed year or representing that an authoritative correction has been obtained. The report does not state the assessment years.

LATER TREATMENT

Source checked 2026-10-18. Historical judgment as delivered on 12 July 1991. Subsequent precedent treatment and present statutory application have not been cleared.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 4](#)

SHA-256: aaaa5353ea514e449d43864360ea95ebde830bf6f764a80dbccd5630241383f3

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