

M/s. Veecumsees, Madras v. Commissioner of Income Tax, Madras

Civil Appeal Nos. 7660–7662 of 1996

[1996] Supp. 2 SCR 60 | 1996-04-26

Whether interest on borrowing originally incurred for the assessee's cinema business remained deductible after the theatre was sold, and whether the Tribunal's finding of a composite jewellery/cinema business could stand.

36(1)(iii)

Two-judge bench | S.P. Bharucha, J. | G.B. Pattanaik, J.

Assessment years: 1967-68, 1968-69, 1969-70

Established business-loan interest after one activity was sold

The Court allowed the disputed interest on these original business borrowings and separately upheld the composite-business finding. It did not award a loss carry-forward, allow loan principal or approve every post-closure expense. The report supplies no interest sum or use of sale proceeds. The later pre-use-interest proviso is a separate historical check; current wording, later judicial treatment and 2025 Act mapping remain unverified.

01 FACTS OF THE CASE

The assessee carried on jewellery business and expanded into film exhibition. It borrowed in 1961 to build Safire Theatre, completed in 1962, and operated it until 31 July 1965, when the theatre complex was transferred as a going concern to another firm. Interest on those loans had been allowed during the years when the assessee operated the theatre. The disputed deductions concerned interest paid on those loans, in assessments for AYs 1967-68, 1968-69 and 1969-70; no loan principal, interest sum or sale consideration is specified (physical pages 1–3).

The ITO disallowed the later interest because the cinema business had ceased. The Appellate Assistant Commissioner allowed it and the Tribunal agreed, finding both the original business purpose of the loans and a composite business in jewellery, cinema, restaurant and associated activities. The High Court answered both referred questions against the assessee, reasoning that the jewellery business was unaffected by cinema closure and applying tests used for carry-forward losses/depreciation (physical pages 2–4).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the original business purpose of these loans as established, supported by Revenue's earlier allowance and the Tribunal's findings. It was interest on those same business borrowings that remained payable in the years in question. Transfer or closure of that particular part of the business did not alter the business purpose for which the loans had been obtained. The Court held the section 36(1)(iii) deduction allowable and said that the same-business test used for set-off of carried-forward losses was not appropriate to this interest issue (physical pages 3–5).

Separately, the Tribunal had found the activities to form a composite business, which also supported the deduction. The Court's discussion of B.R. Ltd. and Produce Exchange noted unity of control and rejected the idea that the ability to continue one activity after another closed was decisive by itself. The Court did not decide a carry-forward-loss or depreciation claim in this case, and did not announce that every post-closure expense or borrowing qualifies (physical pages 4–5).

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

03 JUDICIAL DECISION

The Court allowed the appeal in its operative wording, set aside the High Court's judgment and order, and answered both reproduced questions in the affirmative, in favour of the assessee. The caption comprises Civil Appeal Nos. 7660–7662 of 1996, concerning the three stated assessment years. There was no order as to costs and no fresh computation of interest or tax (physical pages 1–2 and 5).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

High Court judgment set aside; both reference questions answered affirmatively for assessee across the three captioned appeals; no costs

Final allowance of the disputed historical business-loan interest deductions and acceptance of the composite-business finding

No deduction of loan principal, general rule for every closed business, carry-forward-loss award, factual ruling on use of sale proceeds, or current pre-use-interest determination.

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

05 AKHB REVIEW POINT

Trace the borrowing and the interest claimed to the established business purpose, and verify that the liability remains that of the claimant. Distinguish disposal of one business activity while others continue from a case whose facts do not establish continuing business or the same borrowing. The judgment does not supply the sale proceeds' use, a debt-repayment arrangement, amounts or any diversion of borrowed money; none should be assumed.

Keep the Court's two reasons separate: the original business purpose of the continuing borrowing, and the additional Tribunal finding of a composite business. Do not convert its rejection of the High Court's carry-forward test into a ruling on carry-forward entitlement itself.

The checked 2011 statutory compilation records a later section 36(1)(iii) proviso, inserted from 1 April 2004, concerning interest on capital borrowed to acquire an asset for extension of an existing business or profession, for the borrowing-to-first-use period. That later pre-use question was not decided for these 1960s assessment years. The comparison is bounded to the 2011 text and does not certify today's proviso, later amendments or any automatic 2025 Act equivalent.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, all appeal numbers, questions, three years and sale chronology

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Tribunal findings and High Court's carry-forward-based approach

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Business-loan purpose, separate composite-business reason and operative answer

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Later pre-use-interest proviso and insertion footnote

Source url: [Open cited source](#)

Pdf pages: 280

Paragraphs: Section 36(1)(iii), proviso, Explanation and footnote 26

Source role: bounded historical statutory text

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 5 PDF pages; SHA-256

fb4932680b6cdfaa381c9a84f359d533d9fdb6c99d0097f951e32151205bc37a. Original bytes preserved.

Complete reasoned Court order on physical pages 1–5/SCR 60–64, including both referred questions, three assessment years, origin of borrowing, independent composite-business finding and no-costs disposition.

[Open cited source rendition](#)

The machine title renders M/s. as MIS; the inspected source heading reads M/s. Veecumsees. The note normalises typography without changing the party identity.; The jurisdiction heading covers Civil Appeal Nos. 7660–7662 of 1996; the closing order uses singular appeal. Both reference questions and all three expressly stated years are preserved without inventing individual appeal-year allocation.; The judgment is introduced as the Court's order without an individually named author. No author is inferred from the order of the judges' names.; The borrowings were obtained in 1961, the theatre was built in 1962 and the transfer was on 31 July 1965. These are distinct events; no accounting-year or interest-amount reconstruction is supplied.; The relief concerns interest paid on the loans, not deductibility of the borrowed principal or allowance of carry-forward loss/depreciation. Those other provisions appear only as comparative reasoning.; The composite-business finding is an additional express reason. The case does not establish that the evidential connection between debt, business purpose, claimant and interest is irrelevant.; The 2004 commencement footnote and 2011 proviso text were checked only as later historical context. No current-law conclusion or comprehensive later-treatment verification is claimed.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. Any actually checked later judgment or statutory passage is separately identified and bounded in this note.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 5](#)

SHA-256: fb4932680b6cdfaa381c9a84f359d533d9fdb6c99d0097f951e32151205bc37a

[official department hosted historical statutory compilation - PDF pages: 1251](#)

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