

Brooke Bond India Ltd. v. Commissioner of Income Tax, West Bengal-III

Civil Appeal No. 5771 (NT) of 1983

[1997] 2 SCR 524 | 1997-02-27

Whether expenditure directly connected with issuing fresh shares to expand the company's capital base was deductible as revenue expenditure.

37(1) | 261 (certificate appeal)

Two-judge bench | S.C. Agrawal, J. | G.B. Pattanaik, J.

Assessment years: 1969-70

Fresh equity-issue costs; no universal rule for borrowing expenses

The Rs 13,99,305 share-issue claim failed and the appeal was dismissed without costs. The working-funds assertion was not a recorded finding, and the Court independently held that direct capital-base expansion costs remain capital. Do not substitute the cited Rs 1,50,000 fee, reconstruct the ambiguous share-quantity phrase, or extend this result to every financing cost. Section 35D is a separate conditional regime; current law, later treatment and 2025 mapping remain unverified.

01 FACTS OF THE CASE

For AY 1969-70, whose accounting year ended 30 June 1968, the public limited company claimed Rs 13,99,305 spent on a fresh issue of ordinary shares at a premium to increase share capital. The ITO, Appellate Assistant Commissioner and Tribunal treated the issue costs as capital; the Calcutta High Court answered the reference for Revenue. The company appealed by certificate under section 261 (physical pages 2-3).

The company argued that the capital increase supplied working funds and should therefore produce a revenue deduction. Although the argument had been made below, the Tribunal's statement of case recorded no finding that the expansion was undertaken to meet working-fund needs (physical pages 4-5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court applied Punjab State Industrial Development Corporation, which had held that the Registrar's filing fee for enhancement of share capital was capital expenditure. The direct connection with enlarging the company's capital base controlled the character of the issue costs; an incidental benefit to business or profit-making did not change it (physical pages 3–5).

The Court first declined to assume the missing working-funds finding, then gave an alternative reason: even such a business benefit did not alter the capital character of expenditure directly related to expanding the capital base. The references to India Cements, Empire Jute and other authorities are part of that equity-issue analysis; this appeal was not an adjudication of loan-raising expenses or interest on borrowed capital (physical pages 3–5).

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

03 JUDICIAL DECISION

The appeal was dismissed with no order as to costs. The disallowance of Rs 13,99,305 as revenue expenditure remained in place. The Court did not award a section 35D amortisation deduction or decide the treatment of borrowing costs (physical page 5).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Appeal dismissed; share-issue expenditure disallowance sustained; no order as to costs

Final capital/revenue determination for the stated fresh-share-issue expenses

The ruling concerns an expansion of the company's equity capital base. It does not make all fund-raising costs capital or determine a separate statutory amortisation claim.

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

05 AKHB REVIEW POINT

Start with the financing instrument and what the expenditure procures. Calling a share issue a source of working funds does not turn expenditure directly linked to expanding equity capital into ordinary operating expenditure. Conversely, do not transfer this holding mechanically to debt-raising expenses, debenture discount or interest; those require their own facts and statutory analysis.

Capital classification under section 37 is not itself a ruling that no specific statutory relief can ever exist. The official historical section 35D text separately addresses listed public-subscription issue expenses, subject to date, taxpayer, commencement/extension/new-unit conditions and limits. It applies to specified expenditure incurred after 31 March 1970, so it is not a retrospective rescue for Brooke Bond's AY 1969-70 claim. Any claim in another year requires the applicable version and every condition to be checked; the historical amortisation period and limits are not carried forward as present law.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, reference question, year and amount

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Unnumbered judicial text; SCR 524–526

Source role: reported metadata and judicial text

2.

Topic: Controlling capital-base reasoning and cited fee distinction

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Unnumbered judicial text; SCR 526–527

Source role: judicial text

3.

Topic: Missing working-funds finding and alternative reason

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text; SCR 527–528

Source role: judicial text

4.

Topic: Dismissal and costs

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: Unnumbered judicial text; SCR 528

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Not individually attributed in this report

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

ffd736b6733c16df92ec3021c47ae5c5c5672520d26825773525c35e4e85b2d4. Original bytes preserved.

Complete judicial text physical pages 2–5/SCR 525–528. Certificate appeal from the High Court answer on Rs 13,99,305 share-issue expenditure; headnote distinguished.

Open cited source rendition

Physical page 2 prints an awkward phrase, ordinary shares of Rs 16,75,000 of Rs 10 each at a premium. This note does not silently resolve whether 16,75,000 is a number of shares or an aggregate face-value amount, nor calculate issue proceeds from it.; The company's working-funds purpose was argued, but the Court found no supporting finding in the Tribunal's statement of case. The Court also supplied an independent capital-base reason.; The Rs 1,50,000 Registrar filing fee belongs to the cited Punjab State Industrial Development Corporation decision, not Brooke Bond's Rs 13,99,305 claim.; The reported judgment does not name an individual author. Bench membership is not substituted for authorship.; Section 35D was not adjudicated in this appeal; the official 1995 reproduction is used only to bound possible statutory relief in other years, not to certify present eligibility.

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 subsequent judicial-treatment search or present-law certification has been completed. The expressly identified statutory checks are bounded qualifications, not a citator result.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 5

SHA-256: ffd736b6733c16df92ec3021c47ae5c5c5672520d26825773525c35e4e85b2d4

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