

Madras Industrial Investment Corporation Ltd. v. Commissioner of Income Tax, Tamil Nadu I, Madras

Civil Appeal No. 3531 of 1982

[1997] 3 SCR 593 | 1997-04-04

Whether a debenture discount was revenue expenditure and whether the full discount, rather than its proportionate part, could be deducted in the issue year.

37(1) | 256(1) (reference history)

Two-judge bench | S.C. Agrawal, J. | Sujata V. Manohar, J.

Assessment years: 1968-69

Proportionate allowance on these facts; read with Taparia Tools

The discount was revenue expenditure, but only Rs 12,500 was allowable in AY 1968-69; the Rs 2,87,500 balance was not, despite the High Court being set aside. Taparia later explained the assessee-requested spreading exception and rejected forced spreading of its different lawful upfront-interest claim. Do not turn this into a universal matching rule or an automatic discount-as-interest classification. Source typos and unverified comprehensive later treatment remain explicit.

01 FACTS OF THE CASE

The company issued Rs 1.5 crore of debentures on 10 December 1966 at a 2% discount, receiving Rs 1.47 crore while undertaking to repay the face amount after 12 years. It claimed Rs 12,500 of the Rs 3 lakh discount for the six months ending 30 June 1967. An additional Rs 10,000 claim concerned an earlier issue (physical pages 4–5).

The Tribunal permitted a further claim for the Rs 2,87,500 balance of the new discount. On reference, the High Court upheld the Tribunal's power to entertain the new contention, but held that the discount was not expenditure because nothing had been paid out. The company appealed only the reframed second question. Revenue had not challenged the Rs 12,500 allowance (physical pages 6–7).

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

02 DISCUSSION BY THE HON'BLE COURT

Expenditure can encompass a presently incurred liability discharged later; it is not limited to immediate cash payment. A merely contingent future liability differs. By receiving less than it had undertaken to repay, the company incurred a genuine business-funding expense. The Court did not need to decide whether every such discount necessarily represents deferred interest. Applying India Cements, this funding expense was revenue in character on the facts (physical pages 7–13).

Ordinarily qualifying revenue expenditure is deductible in the year incurred, irrespective of a multi-year book write-off. Here, however, the 12-year debenture funding provided a continuing benefit and the company had initially claimed proportionate amortisation. The Court upheld spreading this discount over the debenture term, allowing only the relevant proportionate amount for this year. The conclusion agreed with accounting practice because it followed the legal character and circumstances, not because book entries alone controlled (physical pages 13–14).

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

03 JUDICIAL DECISION

The Court set aside the High Court judgment and disposed of the appeal without costs, holding the discount to be revenue expenditure but allowing only Rs 12,500 in AY 1968-69. The additional Rs 2,87,500 was not deductible in that year, although the High Court's reason for excluding it was rejected. The separate earlier-issue Rs 10,000 item and the already resolved first reference question were not independently adjudicated in this appeal (physical pages 6–7 and 14).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: assessee on revenue-expenditure character; Revenue against deduction of the full balance in this year

Appeal disposed of; High Court judgment set aside; Rs 12,500 proportionate deduction upheld, Rs 2,87,500 current-year balance denied; no costs

Final for the issue-year discount deduction and its character

No compulsory multi-year spreading of every revenue expense and no universal classification of every debenture discount as interest.

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

05 AKHB REVIEW POINT

Separate three questions: has a definite liability arisen, is it capital or revenue, and in which year is the deduction allowable? A borrowing liability payable later may satisfy the first question; that does not automatically settle the timing or override specific statutory restrictions. Keep this 12-year discount and the company's proportionate return claim distinct from an ordinary prepaid expense.

Taparia Tools, 23 March 2015, later explained Madras Industrial as an exceptional spreading claim made by the assessee. In its different upfront-interest facts, the Court rejected forced spreading where the statutory conditions were satisfied and the return claimed the entire amount. The checked paragraphs 13–21 stress that book treatment alone does not deprive a lawful deduction. This later qualification is essential before treating the 1997 judgment as a general matching-rule power; no comprehensive later-law certification is made.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, discount terms, claims and narrow appealed question

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Accrued expenditure and deferred-interest reservation

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 10; 11

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Revenue character and exceptional spreading

Source url: [Open cited source](#)

Pdf pages: 11; 12; 13

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Mixed final answer, allowance and no costs

Source url: [Open cited source](#)

Pdf pages: 14

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Taparia directly limits forced spreading

Source url: [Open cited source](#)

Pdf pages: 13; 14; 15; 16; 17; 18; 19

Paragraphs: Paragraphs 13–21

Source role: bounded later judicial treatment

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sujata V. Manohar, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 14 PDF pages; SHA-256

bd132c3231d0a493c0f06ed87870c9cf3cb77374896ddd853d10fe0828abf021. Original bytes preserved.

Complete unnumbered judicial text physical pages 4–14/SCR 596–606; question 2 alone is appealed and proportionate allowance distinguished from the rejected balance.

[Open cited source rendition](#)

The company's new issue had a 12-year term. Taparia's explanatory paragraph 16 prints five years before reproducing the original 12-year passage; the primary 1997 facts control this note.; The High Court was set aside, yet the disputed additional Rs 2,87,500 deduction still failed for different reasons. An unqualified assessee-wins or full-deduction label would obscure the disposition.; The Rs 10,000 claim on an earlier issue is background and is not the subject of the final reframed question.; The source contains typographical slips in cited-case years and an old-Act year, plus a malformed Rs 3,00,00 figure on page 7. These do not replace the repeated Rs 3,00,000 discount and the actual 1961 Act question.; Although a quoted authority describes discount as deferred interest, the Supreme Court expressly left that classification dependent on the issue terms rather than deciding it universally.; The historical coupon, discount percentage and term are facts, not present-day prescribed financing or deduction rules.

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. Comprehensive later treatment remains unverified. Taparia Tools, 23 March 2015, paragraphs 13–21/physical pages 13–19, was independently read for the stated direct qualification; no broader citator assurance is given.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 14](#)

SHA-256: bd132c3231d0a493c0f06ed87870c9cf3cb77374896ddd853d10fe0828abf021

[bounded later reported judgment - PDF pages: 19](#)

SHA-256: 720994cb2941788d499e5c145b8d735f33da2330c5d7ea5313d6682b7877f2d3

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