

M/s Tuticorin Alkali Chemicals and Fertilizers Ltd., Madras v. Commissioner of Income Tax, Madras

Tax Reference Case Nos. 1-2 of 1992

[1997] Supp 1 SCR 528 | 1997-07-08

Whether interest on temporarily invested borrowed funds before commencement of business was taxable as other-source income or could simply reduce capitalised borrowing costs.

4 | 14 (historical heads) | 56 | 57 | 70 | 71

Three-judge bench | S.P. Bharucha, J. | Suhas C. Sen, J. | M. Jagannadha Rao, J.

Assessment years: 1982-83, 1983-84

Independent deposit interest; construction-linked receipts require separate analysis

Two tax references were answered for Revenue without costs. The decision concerns independently invested funds and the deductions actually asserted; it does not tax every pre-production receipt or reject every section 57 deduction. Bokaro Steel later distinguished intrinsically construction-linked receipts. Historical heads, source arithmetic and cited-case figure discrepancies are preserved; current-law and comprehensive later-treatment checks remain open.

01 FACTS OF THE CASE

The company borrowed to establish heavy-chemical factories and temporarily invested funds not immediately required in bank deposits. Its memorandum and articles permitted the investments. The narrative also records electricity-board deposits and employee vehicle loans. Trial production began on 30 June 1982 (physical page 4).

For AY 1982-83 it received interest of Rs 2,92,440 and ultimately claimed that it should reduce pre-production expenditure, including borrowing and finance charges of Rs 1,13,06,068. It made the same capital-adjustment claim for interest of Rs 1,08,336 in AY 1983-84. The ITO, appellate Commissioner and Tribunal rejected the claim. Because High Courts had expressed conflicting views, the Tribunal referred the two-part legal question directly to the Supreme Court (physical pages 4-6).

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

02 DISCUSSION BY THE HON'BLE COURT

A company can earn taxable income under a head other than business even before its business begins. Investing surplus borrowed money to earn interest produces a revenue receipt; the borrowed origin of the fund and intended later use of the receipt do not turn that interest into capital. The separate heads and deductions have to be applied under the Act. Here the company asserted no allowable section 57 deduction, and its business had not begun so that the proposed sections 70/71 business-loss set-off was unavailable on the stated facts (physical pages 6–9).

The company was free to use the interest and no overriding title diverted it to lenders. An accounting practice of reducing capitalised finance costs could not displace the statutory charge. Challapalli Sugars concerned the meaning of actual cost and capitalisation of interest paid on construction borrowing, rather than exemption of independent interest income. The Court approved Seshasayee Paper and rejected the contrary approaches in Nagarjuna Steels, Electrochem Orissa and Maharashtra Electros melt (physical pages 10–15).

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

03 JUDICIAL DECISION

The first part of the referred question, taxability under income from other sources, was answered affirmatively for Revenue. The second part, reducing the capitalised term-loan interest instead, was answered negatively for Revenue. Both references were disposed of without costs. No separate tax computation, penalty or general denial of every possible interest deduction was ordered (physical page 15).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Both parts of the question answered for Revenue; two references disposed of without costs

Final ruling on the specified pre-commencement deposit-interest claim

No blanket rule for every construction-linked receipt, no adjudication of a properly established section 57 claim, and no general capital/revenue ruling for all compensation interest.

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

05 AKHB REVIEW POINT

Identify the source and purpose of the receipt rather than relying on its destination in the accounts. Investment income and expenditure on constructing the undertaking require their own statutory treatment. The judgment does not permit a capital-cost adjustment merely because interest was earned from the same borrowed pool. Nor should its factual acceptance that business had not begun substitute for analysing the relevant business-commencement or setting-up evidence in another case.

The later Bokaro Steel judgment expressly distinguished independently invested bank interest from receipts intrinsically connected with construction arrangements. Its physical pages 9–12 were checked: contractor-linked receipts could reduce construction cost, while its adverse bank-interest finding was unappealed and described as covered by Tuticorin. This bounded check limits overstatement; it does not establish that every pre-production receipt is taxable or that every construction-labelled receipt is capital.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, two references, years and investment claim

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4; 5; 6

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Separate income heads and unavailable asserted deductions

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8; 9

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Use of income, accounting and actual-cost distinction

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12; 13; 14

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Two-part answer and no costs

Source url: [Open cited source](#)

Pdf pages: 15

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Later construction-linked receipt distinction

Source url: [Open cited source](#)

Pdf pages: 9; 10; 11; 12

Paragraphs: Unnumbered judicial text, SCR 688–691

Source role: bounded later judicial treatment

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 15 PDF pages; SHA-256

f30bc3759f2b2a29e32d4a98c689e77d7152f12334edb0005acb77eb94606688. Original bytes preserved.

Complete unnumbered judicial text physical pages 4–15/SCR 531–542. Two direct tax references, not two civil appeals; editorial headnote distinguished.

[Open cited source rendition](#)

The source identifies Tax Reference Cases 1–2/1992; these are not recast as dismissed civil appeals.; The original-return narrative prints Rs 3,21,802 loss less Rs 2,92,440 interest as Rs 29,360 carry-forward, a Rs 2 arithmetic discrepancy. The note does not adopt that subtraction as a recomputation.; The six-head description is expressly the historical statutory framework; it is not a current list of income heads.; The concluding general remark about damages or compensation interest is not a decision that all such receipts are capital or exempt.; The separate Maharashtra Electros melt discussion prints its interest as Rs 3,14,356 and Rs 3,14,366. Those are cited-case figures, not Tuticorin receipts.; No section 57 deduction was asserted on these facts. Other deduction restrictions and later statutory changes have not been comprehensively researched.

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. A bounded primary-source comparison with Bokaro Steel, 18 December 1998, physical pages 9–12, was completed and is stated in the review point; no claim of a complete subsequent-law search.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 15](#)

SHA-256: f30bc3759f2b2a29e32d4a98c689e77d7152f12334edb0005acb77eb94606688

[bounded later reported judgment - PDF pages: 13](#)

SHA-256: 2d78eccdde2b758a9f200dad93778dc967c25a10f69ac55a34f271f6453689f0

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