

Commissioner of Income Tax, Kerala v. Associated Fibre and Rubber Industries (P) Ltd.

Civil Appeal No. 3428 of 1991

[1999] 1 SCR 375 | 1999-02-03

Whether the interest deduction could be refused merely because business machinery bought with borrowed funds had not actually been used at the time of assessment.

256(2) | 37 and 48 (reporter classification only; not analysed in the order) | 36(1)(iii) (bounded later statutory comparison only; not cited by the Court here)

Two-judge bench | M. Srinivasan, J. | U.C. Banerjee, J.

Assessment years: 1972-73, 1973-74, 1974-75

Historical business-asset finding; later pre-use restriction separately checked

Deduction was sustained because business purpose and business-asset character were accepted for AYs 1972-73 to 1974-75. The Court did not decide depreciation, reopening validity or a section 48 issue. The separately checked 2011 compilation shows a section 36(1)(iii) pre-use-interest proviso effective from 1 April 2004. This order therefore supplies no blanket present deduction entitlement. The proviso's later amendments, comprehensive subsequent treatment and 2025 mapping remain unverified.

01 FACTS OF THE CASE

The private company's original AY 1972-73 assessment allowed Rs 78,500 interest on borrowing used to buy machinery and determined a loss of Rs 78,823. Similar interest was allowed for AY 1973-74. While assessing AY 1974-75, the officer noted that the fixed-asset schedule disclosed no depreciation for unused rubberised machinery valued at Rs 4,80,000, and then disallowed interest for all three years through the subsequent assessments described in the order (physical pages 1-2/SCR 375G-376B).

The Appellate Assistant Commissioner agreed with the officer, but the Tribunal treated the machinery as a business asset and allowed the interest. The High Court rejected Revenue's section 256(2) applications through two orders: one concerned AYs 1972-73 and 1973-74 and the other AY 1974-75. Both orders were challenged in this single civil appeal (physical page 2/SCR 376B-F, paragraph 2).

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

02 DISCUSSION BY THE HON'BLE COURT

The Supreme Court approved the Tribunal's reasoning. Although the machinery had not actually been used when assessment was made, it was treated as a business asset and had been purchased only for the business. On those circumstances the interest on the borrowing used to purchase it was deductible (physical page 2/SCR 376F-G, paragraph 3).

The order does not analyse the substantive deduction section, invalidate the reopening, or determine depreciation on the machinery. Sections 37 and 48 appear in the reporter's classification, not in the judicial reasoning. Nor does the quoted question's wording that machinery was "never used" establish a finding about all future use; the Court's own reasoning is tied to non-use at assessment.

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

03 JUDICIAL DECISION

The single Revenue appeal challenging both High Court orders was dismissed, with no order as to costs. The deduction result for all three assessment years was sustained on the business-asset facts; no interest figure for AY 1973-74 or AY 1974-75 is supplied (physical page 2, paragraphs 2-4/SCR 376C-G).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Revenue appeal against both High Court orders dismissed; no order as to costs

Reasoned final order sustaining historical interest deduction for the three identified years

Business purpose and business-asset character were accepted; no blanket present entitlement for pre-use interest, depreciation award, or reopening-invalidity ruling.

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

05 AKHB REVIEW POINT

Separate the purpose of borrowing from the actual-use requirements of another allowance. The facts accepted here were that the machinery belonged to the business and was acquired only for it. A depreciation note was not enough, on this record, to defeat the borrowing-interest claim. Do not turn that narrow conclusion into a finding on depreciation eligibility or reopening jurisdiction.

The bounded 2011 compilation check shows a later section 36(1)(iii) proviso, inserted from 1 April 2004, restricting specified pre-use asset-acquisition interest for extension of an existing business or profession (physical page 280/printed 1.239, including footnote 26). That historical proviso check is a warning against present-law extrapolation; it is not the statutory basis stated in this 1999 order or a verification of later amendments.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, reporter section labels and original assessment figures

Source url: [Open cited source](#)

Pdf pages: 1

Paragraphs: SCR 375B-H

Source role: reported metadata and judicial text

2.

Topic: Unused machinery and Tribunal's factual basis

Source url: [Open cited source](#)

Pdf pages: 2

Paragraphs: Opening unnumbered passage; SCR 376A-C

Source role: judicial text

3.

Topic: Two High Court orders and all three assessment years

Source url: [Open cited source](#)

Pdf pages: 2

Paragraphs: Paragraph 2; SCR 376C-F

Source role: judicial text

4.

Topic: Accepted business purpose and final dismissal

Source url: [Open cited source](#)

Pdf pages: 2

Paragraphs: Paragraphs 3-4; SCR 376F-G and ending

Source role: judicial text

5.

Topic: Bounded later-law caution: original section 36(1)(iii) proviso**Source url:** [Open cited source](#)**Pdf pages:** 280**Paragraphs:** Printed 1.239; complete clause (iii), proviso, Explanation and footnote 26 only**Source role:** bounded historical statutory compilation check

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Not individually attributed; order of the Court

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER PRIMARY-SOURCE CHECKS AND THEIR LIMITS

1.

Source url: [Open cited source](#)**Pages:** 280**Finding:** The government-hosted 2011 compilation contains the original section 36(1)(iii) asset-acquisition proviso and footnote 26 identifying insertion from 1 April 2004.**Limit:** Complete clause (iii), proviso, Explanation and footnote 26 only; no subsequent amendment or later case survey.

SOURCE & VERIFICATION

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

Identified source rendition: 2 PDF pages; SHA-256

1842c070a05ed59d860aba53416e7bf898bf3de0f327649bd28fd6fd7fd8f4d2. Original bytes preserved.

Complete order on physical pages 1-2/SCR 375-376, comprising the unnumbered opening facts and numbered paragraphs 2-4. Reporter classification under sections 37 and 48 is distinguished from the judicial text, which identifies section 256(2) only.

[Open cited source rendition](#)

The substantive sections 37 and 48 appear only in the headnote; the Court does not select or discuss either provision. The note does not transform that reporter classification into a reasoned section 48 holding.; The question quoted in paragraph 2 says "never used"; paragraph 3 refers to non-use at the time of assessment. No future-use history is supplied.; One civil appeal covers two High Court orders and all three assessment years. This must not be reduced to a single-year result.; Rs 78,500 is the interest claim for AY 1972-73 only. Other years' interest figures and any eventual use or disposal of machinery are unknown.; The order narrates reopened assessments but does not hold the reopening unlawful or decide depreciation eligibility.; The section 36(1)(iii) comparison is confined to the original proviso displayed in the 2011 compilation and its insertion footnote; later changes and comprehensive subsequent treatment are unverified.

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 subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 2](#)

SHA-256: 1842c070a05ed59d860aba53416e7bf898bf3de0f327649bd28fd6fd7fd8f4d2

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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