

## **Kerala Road Lines v. Commissioner of Income Tax, Cochin**

Civil Appeal No. 5308 of 2002 / Civil Appeal No. 5309 of 2002

[2008] 5 SCR 42 | 2008-03-12

**Where the Revenue had assessed the demolished structures' scrap proceeds as business income, was the contractual interest paid for delayed payment of the purchase consideration deductible under section 37(1), and what was the separate outcome of the reference-rectification appeal?**

37(1) | 256(1)

Two judges | Ashok Bhan, J. | J.M. Panchal, J.

Assessment years: See the source-scope notes; no year inferred.

### **Mixed appeal outcomes and three material source anomalies**

Appeal 5309 was allowed on the Rs. 4 lakh interest deduction; Appeal 5308 was dismissed on the separate reference-rectification issue. No assessment year or express costs direction is stated. The agreement is dated 1993 in the quoted question but 1983 in the facts; the footer prints 5208 instead of 5308; paragraph 12's income/expenditure wording does not create a separate receipt. The in-limine SLP history is not treated as a general endorsement rule. Taparia is comparison only. Comprehensive later treatment, current law and 2025 mapping are not verified.

## 01 FACTS OF THE CASE

The assessee agreed to buy 466 cents of land with buildings at Calicut from Peirce Leslie (India) Ltd., with conveyance to itself or its nominees. Delay in payment attracted 18% annual interest. The structures were demolished and scrap sold for Rs. 5,88,001, which was offered and assessed as business income. The assessee paid Rs. 4 lakh as contractual interest on the delayed purchase consideration and claimed it as revenue expenditure. Paragraph 5 dates the agreement 27 September 1983; the reference question quoted in paragraph 2 instead prints 27 September 1993. The judgment gives no assessment year (physical 3-4/SCR 44 D-45 H).

The Assessing Officer treated the interest as capital expenditure. CIT(Appeals) granted only partial relief referable to the 65.57 cents retained by the assessee, regarding it as an intermediary for the remaining land purchased in small pieces by sister concerns. The Tribunal allowed the entire interest claim: the assessee had contracted for the whole property, the scrap realization had been treated as its business income, and the interest was its contractual obligation (physical 5/SCR 46 A-H, paragraphs 5-6).

Two distinct sets of reference questions reached the High Court. The Revenue's ITR 234/1997 concerned deductibility and the contractual obligation. The assessee's ITR 310/1999 concerned the Tribunal's rectification of an order under section 256(1), including its asserted inherent power. The High Court ruled against the assessee on the latter questions by following its earlier decision, against which SLPs had been dismissed in limine. On the deduction issue, the High Court reversed the Tribunal because the assessee's ordinary business was transport rather than real estate, without answering whether the interest was capital or revenue in character. The two Supreme Court appeals challenged these different parts of the common judgment (physical 3-4 and 6/SCR 44-45 and 47, paragraphs 1-4,7-9).

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

## 02 DISCUSSION BY THE HON'BLE COURT

The Court dealt separately with the two appeals. On the reference-rectification branch, it noted that SLPs against the High Court's relied-on earlier judgment had already been dismissed in limine and declined to interfere with the present High Court decision. It dismissed Civil Appeal 5308. This short, case-specific disposition does not supply a reasoned general rule that every refusal of special leave endorses all reasoning below, nor does the present judgment independently analyse the full reach of an inherent rectification power (physical 4/SCR 45 B-D, paragraph 4; physical 6/SCR 47 B-C, paragraph 8).

On the substantive deduction, the decisive factual premise was the Tribunal's categorical finding that the Rs. 5,88,001 scrap-sale realization had been treated as business income. In that setting the Court agreed that the Rs. 4 lakh interest, owed under the same purchase arrangement, was business expenditure. Having accepted those receipts as business income, the Revenue could not sustain the contrary deduction result merely because transport was the assessee's stated line of business. The High Court's approach therefore failed on the facts the Tribunal had found and the corresponding contractual interest obligation (physical 6/SCR 47 D-H, paragraphs 9-11).

The Court restored the Tribunal's result and answered both Revenue reference questions in favour of the assessee. The question referring to possible forfeiture and civil/criminal exposure was answered in that disposition; the Court did not find that a criminal offence had occurred or that an unlawful payment was deductible. Its holding concerns this accepted business transaction and liability, not a universal proposition that all interest connected with land acquisition or every contractual outgoing falls under section 37. The final paragraph's phrase treating the income of Rs. 4 lakh as revenue expenditure describes the restored interest deduction in context; it is not a separate finding of an income receipt (physical 7/SCR 48 A-B, paragraphs 12-13).

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

## 03 JUDICIAL DECISION

Civil Appeal 5309 of 2002 was allowed: the High Court's deduction ruling was set aside, the Tribunal's allowance of Rs. 4 lakh interest restored, and both questions in the Revenue's reference answered in the assessee's favour. Civil Appeal 5308 of 2002 was dismissed, leaving the High Court's reference-rectification result undisturbed. No express costs direction appears in either the judicial body or the ending (physical 4,6-7/SCR 45 B-D,47 B-C,48 A-B, paragraphs 4,8,12-13).

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

#### 04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: assessee on the section 37 interest merits in Appeal 5309; Revenue/non-interference result on the separate reference-rectification appeal 5308

Appeal 5309 allowed and Tribunal's Rs. 4 lakh interest deduction restored; Appeal 5308 dismissed

Substantive section 37(1) holding on the stated business facts, plus separately reported case-specific procedural non-interference

The Rs. 4 lakh deduction follows the accepted scrap-business facts and contractual liability; no universal capitalization rule, no separate Rs. 4 lakh receipt, and no general precedent-effect ruling on SLP dismissal

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

#### 05 AKHB REVIEW POINT

Keep the two appeals and the factual basis of deductibility separate. The assessee won the section 37 dispute because the assessed business receipts and its own contractual interest obligation belonged to the transaction examined by the Tribunal. That is a stronger and narrower proposition than treating a business label or the existence of a contract as sufficient for every deduction. It also avoids converting the assessee's separate procedural defeat into a loss on the interest merits.

Taparia Tools (23 March 2015) provides only a bounded later comparison. It allowed the incurred upfront debenture interest under section 36(1)(iii) for its own assessment years despite a spread-over presentation in the accounts, applying the relevant statutory conditions rather than treating book entries as conclusive. The judgment expressly put the quoted acquisition-of-asset proviso outside the issue before it. It does not cite Kerala Road Lines and is not direct treatment of its section 37 land-purchase facts (physical 8-9,14,18-19/SCR 753-754,759,763-764, paragraphs 8-9,13-14,18-21).

The retained 2011 section 37 text preserves the exclusion for capital/personal expenditure and expenditure falling within sections 30-36, together with the wholly-and-exclusively business requirement. The separately opened departmental page labelled 2024 (No. 1) also displays later CSR and prohibited-law explanations, including the 2022 Explanation 3. Thus the allowance in this 2008 judgment should not be generalized beyond the applicable deduction provision and statutory restrictions. The 2011 compilation and selected later CMS page are bounded version evidence, not current law or a complete amendment audit. Comprehensive later treatment, present applicability and the Income-tax Act 2025 crosswalk remain not\_verified.

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

## DETAILED DISPOSITION AND CONNECTED GROUPS

### Proceeding outcomes

1.

**Case number:** Civil Appeal No. 5309 of 2002

**Outcome:** Allowed; High Court merits ruling set aside and Tribunal deduction restored; both Revenue reference questions answered for the assessee

2.

**Case number:** Civil Appeal No. 5308 of 2002

**Outcome:** Dismissed; no interference with High Court result in ITR 310/1999

**Costs:** No express costs direction in the source

## PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

**Topic:** Identity, two references, agreement-date conflict and purchase facts

**Source url:** [Open cited source](#)

**Pdf pages:** 1; 2; 3; 4

**Paragraphs:** Heading, appellate recital, paragraphs 1-5; SCR 42-45

2.

**Topic:** Partial first appeal relief, Tribunal findings and deduction

**Source url:** [Open cited source](#)

**Pdf pages:** 5

**Paragraphs:** Paragraphs 5-6; SCR 46 A-H

3.

**Topic:** Separate dismissal of 5308 and limits of its reasoning

**Source url:** [Open cited source](#)

**Pdf pages:** 4; 6

**Paragraphs:** Paragraphs 4 and 8; SCR 45 B-D and 47 B-C

4.

**Topic:** Business-receipt premise, restored interest deduction and both answered questions

**Source url:** [Open cited source](#)

**Pdf pages:** 6; 7

**Paragraphs:** Paragraphs 9-13; SCR 47 D-48 B

5.

**Topic:** Income/expenditure wording, 5208 footer error and no express costs direction

**Source url:** [Open cited source](#)

**Pdf pages:** 7

**Paragraphs:** Paragraphs 12-13 and printer footer; SCR 48

6.

**Topic:** Later section 36 interest comparison and its express proviso limit

**Source url:** [Open cited source](#)

**Pdf pages:** 8; 9; 14; 18; 19

**Paragraphs:** Paragraphs 8-9,13-14,18-21; SCR 753-754,759,763-764

7.

**Topic:** Historical statutory deduction boundaries

**Source url:** [Open cited source](#)

**Pdf pages:** 291; 292

**Paragraphs:** Printed 1.250-1.251; section 37(1) and Explanation

8.

**Topic:** Selected later statutory limits, not current-law certification

**Source url:** [Open cited source](#)

**Pdf pages:**

**Paragraphs:** Year 2024 (No. 1); section 37(1), Explanations 1-3 and footnote 44

## ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

Section 37 contractual-interest merits holding in Appeal 5309, with a separately dismissed section 256(1) reference-rectification appeal 5308. The latter contains case-specific non-interference, not an independently reasoned general doctrine about in-limine SLP dismissals.

## JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ashok Bhan, J.

## ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act,1961, sections 37(1) and 256(1)

## SPECIFIED LATER DECISION AND LIMITS OF THE CHECK

1.

**Classification:** Later judicial comparison; no direct citation found

**Source url:** [Open cited source](#)

**Pdf pages:** 8; 9; 14; 18; 19

**Holding limit:** Upfront debenture interest under section 36(1)(iii), not Kerala Road Lines section 37 facts; expressly no adjudication of quoted asset-acquisition proviso

**Bounded check:** verified only within explicit read bounds

## DATED OFFICIAL STATUTORY HTML COMPARISONS AND READING LIMITS

1.

**Kind:** official statutory html bounded

**Title:** Departmental section 37 presentation

**Url:** [Open cited source](#)

**Selected version:** Year 2024 (No. 1)

**Full relevant section text read:** True

**Full document text read:** False

**Read bounds:** Full displayed section 37, version heading and footnotes 43-44 read. Selected comparison concerns section 37(1) exclusions, Explanation 2 CSR and Explanation 3 offences/prohibited-law expenditure. Footnote 44 dates Explanation 3 to Finance Act 2022 effective 1 April 2022. Not a 2026 current-law certificate.

**Provenance:** Relevant complete provision and page version heading successfully opened with web tool on 5 October 2026. Official departmental CMS reproduction, not authenticated original Gazette or comprehensive current-law review. No PDF pagination/hash invented.

**Filename:** Not stated in the reviewed record

**Sha256:** Not stated in the reviewed record

**File bytes:** Not stated in the reviewed record

**Pdf pages:** Not stated in the reviewed record

**Physical text pages read:**

**Physical image pages read:**

## SOURCE & VERIFICATION

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

Identified source rendition: 7 PDF pages; SHA-256

4deaa6aade4fd97489e76d0afe2f5e1996afa65f68ea789a13e36a8c61f681e5. Original bytes preserved.

[Open cited source rendition](#)

full primary text read: True; all primary page images reviewed: True; source integrity verified: True; actual statutory scope verified: True; later treatment comprehensive: not\_verified; current law status: not\_verified; statutory mapping 2025: not\_verified

Decision date, bench and SCR citation checked on the first-page image. Catalogue INSC identifier is not independently authenticated in this rendition.

The source's quoted question 2 dates the agreement 27 September 1993; paragraph 5 says 27 September 1983. Both are preserved as a source conflict, not silently reconciled.; No assessment year is stated.; Appeal 5308 is independently identified in the heading, recital and paragraphs 4/8; the physical 7 printer footer's 5208 is an apparent typographical error.; Paragraph 12 says income of Rs. 4 lacs as revenue expenditure. Context and paragraph 11 establish the interest outgoing; no separate receipt is invented.; Appeal 5308 is dismissed and Appeal 5309 allowed. The prior in-limine SLP dismissals are described only as the Court's stated case-specific reason for non-interference, not as a universal precedent-endorsement rule.; No express costs order is stated; do not substitute a positive each-side-bears-own-costs direction.; Taparia Tools is later comparison only, not a direct citation. Section 37 statutory restrictions and later explanations require version checking; comprehensive later treatment, current law and 2025 mapping are unverified.

No assessment year is stated in this seven-page judgment. The agreement date itself conflicts between the quoted reference question and factual narrative; neither date is used to invent an assessment year.

Two appeals from the Kerala High Court common judgment 13 November 2001 in ITR 234/1997 and ITR 310/1999. Appeal 5308 concerns ITR 310/1999; Appeal 5309 concerns the deduction merits in ITR 234/1997. Source heading, recital and paragraphs 4/8 identify 5308; the final printer footer incorrectly prints 5208.

### **STATUTORY SCOPE**

No automatic Income-tax Act, 2025 crosswalk. Complete amendments, commencement, savings and case-specific present applicability have not been verified.

### **LATER TREATMENT**

Source checked 2026-10-05. Bounded exact-name web discovery and retained primary comparison performed. Taparia is comparison only. No comprehensive adverse-treatment or later-proceeding search was completed; current-law and 2025 mapping status remain not\_verified.

### **IDENTIFIED SOURCE LINKS**

[reported judgment - PDF pages: 7](#)

SHA-256: 4deaa6aade4fd97489e76d0afe2f5e1996afa65f68ea789a13e36a8c61f681e5

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

SHA-256: 720994cb2941788d499e5c145b8d735f33da2330c5d7ea5313d6682b7877f2d3

[official government hosted historical compilation bounded - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

[Departmental section 37 presentation](#)

### **AI DISCLOSURE**

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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