

Taparia Tools Limited v. Joint Commissioner of Income Tax, Special Range-1, Nasik

Civil Appeal Nos. 6366-6368 of 2003 / Civil Appeal Nos. 6946-6948 of 2014

[2015] 3 S.C.R. 746 | 2015-03-23

Whether genuine upfront debenture interest, contractually due and paid when holders exercised that option, had to be deducted over the five-year debenture term because the accounts amortised it, or was deductible in full in the year incurred and claimed.

36(1)(iii) | 43(2)

Two-judge bench | A.K. Sikri, J. | Rohinton Fali Nariman, J.

Assessment years: 1996-97, 1997-98, 1998-99

Payment chronology and limits of the timing holding

Paragraph 5 identifies separate payments and claims for AYs 1996-97 and 1997-98, despite a conflicting all-in-one-year sentence in paragraph 1. The holding concerns genuine upfront interest due on exercise of the debenture holders' option; it does not adjudicate the redemption-premium claim or the section 36(1)(iii) proviso.

01 FACTS OF THE CASE

Taparia Tools issued debentures redeemable at Rs. 100 after five years. Holders could choose half-yearly interest at 18% per annum over that period or a single immediate interest payment of Rs. 55 per debenture. Maliram Makharia Stock Brokers Pvt. Ltd. and Sharp Knife Company Pvt. Ltd. exercised the upfront option and were paid Rs. 2,72,25,000 and Rs. 55,00,000 respectively (paragraphs 1-4).

The company used mercantile accounting. Paragraph 5 records the actual payments in accounting years 1995-96 and 1996-97 respectively and full tax deductions claimed for AYs 1996-97 and 1997-98. The financial accounts nevertheless treated the interest as deferred revenue expenditure to be written off over five years. The separate redemption-premium deduction had been claimed on a spread-over basis and was not the upfront-interest controversy (paragraph 5).

The Assessing Officer allowed only one-fifth at a time. CIT(A), the Tribunal and the Bombay High Court sustained that treatment. The High Court relied on the matching concept and the company's accounting treatment. Six Supreme Court appeals between the same parties covered AYs 1996-97, 1997-98 and 1998-99; the reported jurisdiction line lists both appeal groups (paragraphs 1, 6 and 10; printed page 749).

Source: [reported judgment / paragraphs 1-7; 10 / PDF pages 5, 6, 7, 8, 11 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court began with the statutory conditions. The debentures represented borrowed capital for business; the genuineness of the borrowing, the upfront-interest clause and the actual expense were not disputed. Section 43(2) includes amounts incurred according to the method of accounting within paid. On mercantile accounting an incurred liability could qualify even before cash discharge; here the liability was both incurred and actually paid. The Court expressly excluded the reproduced section 36(1)(iii) proviso and Explanation from the issue before it (paragraphs 7-9).

The holders' contractual choice mattered. The upfront option created a single Rs. 55 liability in the option year and extinguished the recurring interest obligation for the remaining term. Treating that liability as if it were the alternative half-yearly payment stream rewrote the terms. The five-year availability of the borrowed capital did not itself permit Revenue to substitute one-fifth annual deductions for the crystallised upfront payment (paragraphs 10-13).

The High Court's matching analysis therefore mischaracterised the actual obligation. There is no general statutory category of deferred revenue expenditure requiring amortisation merely because accounts use that label, although express provisions such as section 35D may require it. Bharat Earth Movers reinforced that a sufficiently certain business liability is deductible when it arises; Taparia's liability had also been quantified and discharged (paragraphs 14-15).

Madras Industrial Investment Corporation was distinguished, not overruled. As characterised here, that case allowed an assessee-requested spread of a debenture discount where continuing business benefit justified it. Taparia emphasised the ordinary rule of deduction in the year revenue expenditure is incurred. An assessee's request for spreading still needs support from the matching principle; the judgment did not create a free choice to defer any expense to any preferred year (paragraphs 16-18).

Taparia had claimed the full deduction in its returns. Different amortisation in the books did not create estoppel or displace the statute. Even if the books indicated an initial preference for spreading, the return claimed the statutory deduction in the year of expenditure. The authorities therefore could not force the accounting presentation onto the legally permissible claim. The result rests on an otherwise allowable, genuine, crystallised business-interest liability; it is not a direction to accept any return claim without examination (paragraphs 19-20).

Source: [reported judgment / paragraphs 7-20 / PDF pages 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 / judgment](#)

03 JUDICIAL DECISION

All six appeals were allowed, with no order as to costs. The assessee was entitled to deduct the entire Rs. 2,72,25,000 and Rs. 55,00,000 in the respective years in which the amounts were actually paid, rather than Revenue's compulsory five-year spread. On the detailed factual account in paragraph 5, those claims relate to AYs 1996-97 and 1997-98 respectively. The Court did not remit the issue or decide the separately described redemption-premium claim (paragraphs 5 and 21).

Source: [reported judgment / paragraphs 5; 21 / PDF pages 7, 19 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Six appeals allowed; full upfront-interest deduction in the respective payment years; no costs

Final determination of deduction timing for the two stated payments

Genuine business-interest liabilities crystallised on exercise of the holders' option and actually paid. Separate redemption premium and the section 36(1)(iii) proviso/Explanation were outside the determination; no unrestricted timing election or double deduction is authorised.

Source: [reported judgment / paragraphs 1; 5; 21 / PDF pages 5, 7, 19 / judgment](#)

05 AKHB REVIEW POINT

Keep the two choices separate. The debenture holder's option fixed the borrower's contractual liability and its timing; the assessee's tax-return claim determined whether it sought the full otherwise allowable deduction or a justified spread. Support the claim with issue terms, acceptance letters, the exercise date, ledger/payment evidence and a reconciliation of book amortisation to the tax computation. Remove later-year amortisation from tax deductions if the full amount has already been claimed, so the expenditure is not deducted twice.

Do not use the case to override an express amortisation provision, the asset-related interest proviso, a genuine dispute about business purpose, or another applicable restriction. The Court expressly set aside the proviso question and distinguished, rather than erased, the exceptional debenture-discount treatment in Madras Industrial Investment Corporation.

For publication, use the detailed payment chronology in paragraph 5 and flag paragraph 1's inconsistent all-in-one-year statement. The verified cover identifies a two-judge bench, correcting the catalogue's one-judge metadata. Confirm later legislation and treatment before applying the reasoning to another year; no automatic Income-tax Act, 2025 mapping is made.

Source: [reported judgment / paragraphs 3-21 / PDF pages 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 / judgment](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

28; 2(28A); 35D

PROVISION-SPECIFIC SCOPE

1.

Act: Income-tax Act, 1961

Section: 36(1)(iii)

Role: Substantive deduction and timing provision

Basis: Genuine business borrowing and crystallised upfront interest entitlement, paragraphs 8-15 and 19-21.

2.

Act: Income-tax Act, 1961

Section: 43(2)

Role: Definition of paid

Basis: Quoted in paragraph 9: actual payment or incurring according to the accounting method. Narrative references rendered 43(ii) correspond to the quoted subsection (2).

3.

Act: Income-tax Act, 1961

Section: 36(1)(iii) proviso and Explanation

Role: Reproduced but expressly outside the controversy

Basis: Paragraph 9 excludes the proviso and Explanation from its analysis; no ruling on their application is made.

4.

Act: Income-tax Act, 1961

Section: 35D

Role: Illustration of express statutory amortisation

Basis: Paragraph 14 notes statutory exceptions; no section 35D claim is decided.

5.

Act: Income-tax Act, 1961

Section: 2(28A); 28

Role: Quoted/computation context

Basis: Section 2(28A) appears in the High Court passage reproduced in paragraph 13; section 28 in the deduction text reproduced in paragraph 8.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

A.K. Sikri, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 19 PDF pages; SHA-256

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Complete judgment paragraphs 1-21 are on physical PDF pages 5-19, printed SCR pages 750-764. Pages 1-4 and the opening of page 5 contain the editorial headnote, references, jurisdiction and appearances. Six appeals between the same parties are disposed of by one judgment.

[Open cited source rendition](#)

The catalogue incorrectly lists a one-judge bench; the source cover names A.K. Sikri and Rohinton Fali Nariman, JJ.

One judgment disposes of six appeals, with both civil-appeal groups printed; do not create duplicate case notes by appeal number.

Paragraph 1 has an internally inconsistent statement that the entire payment was made in AY 1996-97; paragraph 5 clearly provides two accounting years and two corresponding AY claims.

Narrative references to section 43(ii) are indexed as section 43(2) because the judicially reproduced statutory text expressly labels subsection (2).

The section 36(1)(iii) proviso and Explanation are expressly not in issue; the reproduced version is not certified as the governing current or historical version for another case.

Paragraph 16 describes the earlier Madras Industrial Investment Corporation spread as five years, but its quotation immediately refers to twelve years. This note does not adopt the five-year description of that earlier case; no independent full review of it is claimed.

The separate redemption-premium spread mentioned in paragraph 5 is not treated as part of the relief on upfront interest.

Reported citation verified on cover. Catalogue neutral citation 2015INSC243 is not independently verified and is not adopted.

Paragraph 1 states the six appeals span AYs 1996-97, 1997-98 and 1998-99. Paragraph 5 specifically places the two upfront payments in accounting years 1995-96 and 1996-97, claimed in AYs 1996-97 and 1997-98 respectively. The concluding sentence of paragraph 1 instead says the entire payment was made in AY 1996-97; that inconsistency is disclosed, not adopted in preference to the detailed account.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions as discussed in this judgment and applied to its proceedings. No independent statutory-version audit.

No automatic Income-tax Act, 2025 crosswalk, comprehensive later-treatment audit or present-law certification.

LATER TREATMENT

Source checked 2026-10-04. Subsequent judicial treatment and later statutory changes have not been comprehensively verified. Any separately identified authority is a bounded check, not a citator or current-law certificate.

IDENTIFIED SOURCE LINKS

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

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