

Commissioner of Income Tax-IV, Ahmedabad v. M/s. Shree Rama Multi Tech Ltd.

Civil Appeal No. 6391 of 2013 / Civil Appeal No. 8336 of 2013

[2018] 3 SCR 927 | 2018-04-24

Whether interest earned on share-application money mandatorily kept separately pending allotment could be adjusted against public-issue expenses.

Two-judge bench | R.K. Agrawal, J. | Abhay Manohar Sapre, J.

Assessment years: 1999-2000, 2000-01, 2001-02

Statutory-deposit nexus and capital-cost adjustment

The result concerns share-application money mandatorily kept separately pending allotment and its link to public-issue costs. It does not exempt every incidental receipt or bank interest, nor allow all share-issue expenditure as a revenue deduction. Later treatment and the applicable statutory version remain unverified.

01 FACTS OF THE CASE

The packaging-products manufacturer raised share capital through a public issue. Its share-application funds were kept in bank deposits, and the resulting interest was initially returned as income from other sources. It later raised an additional ground before the Tribunal seeking adjustment against the public-issue expenses. The tax proceedings included an earlier remand and re-examination of the interest claim (paragraphs 2 and 8).

The Assessing Officer had objected that the material did not identify the pre- and post-allotment deposit periods. The Tribunal ultimately allowed the disputed adjustment in its 21 October 2011 order, and the High Court upheld the interest conclusion. Revenue appealed. The source identifies three assessment years but gives the detailed account for AY 2000-01 (paragraphs 1-2 and 8).

Source: [reported judgment](#) / [paragraphs 1-2 and 8](#) / [PDF pages 3, 4, 5, 6](#) / [judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court relied on the statutory requirement to hold share-application money separately until allotment. The deposit's purpose was to comply with that requirement and raise share capital, not independently to invest idle surplus for interest. On those facts, the interest was inextricably linked to the share issue and adjustable against its cost. The possible return of part of the application money to unsuccessful applicants did not alter the conclusion (paragraph 9).

The Court applied the capital-project nexus explained in Bokaro Steel and Karnal Co-operative Sugar Mills as discussed in the judgment. It distinguished ordinary idle surplus deposited to earn income from funds necessarily placed as part of the capital transaction. Public-issue expenses belonged to the company's capital structure, and the incidental interest reduced those costs. The result is a capital-cost adjustment, not an independent holding allowing all share-issue expenses as current business expenditure (paragraphs 10–12).

The reasoning remains tied to the statutory ring-fencing and pre-allotment purpose. Paragraph 12's broad incidental-income language is read in that context; it should not be converted into a universal rule that every incidental receipt or every temporary bank deposit is outside income tax. The Court upheld the adjustment rather than ordering another determination of this interest issue (paragraphs 12–13).

Source: [reported judgment / paragraphs 9–13 / PDF pages 6, 7 / judicial text](#)

03 JUDICIAL DECISION

Both Revenue appeals were dismissed and the favourable interest-adjustment conclusion was left in place. The separate treatment/remand of other issues was not disturbed. Each side was to bear its own costs. No further remand on the interest question or quantified fresh refund was ordered (paragraphs 13–14).

Source: [reported judgment / paragraphs 13–14 / PDF pages 7, 8 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on interest adjustment

Revenue appeals dismissed; interest adjustment upheld; other-issue remand left undisturbed; parties bear own costs

Final approval of adjustment of the identified statutory-deposit interest against public-issue expenses

Not a general exemption for all interest, surplus funds or incidental receipts, and not a ruling that capital share-issue costs are deductible as ordinary business expenses. No independent section 240 refund-floor or section 147 validity holding is extracted from the background.

Source: [reported judgment / paragraphs 13–14 / PDF pages 7, 8 / judicial text](#)

05 AKHB REVIEW POINT

Retain the mandatory deposit terms, bank account and allotment records, the period-wise interest working and the public-issue expense reconciliation. Demonstrate the connection between the deposit and capital raising; an interest label or a general intention to expand business is insufficient. Distinguish free surplus invested for return from money held because the capital transaction required it.

Read the remedy and scope accurately: the interest issue was finally upheld, while unrelated issues remained subject to their separate procedural course. The Court did not formulate a general rule for all post-allotment interest, override every statutory restriction on set-off, or decide the original return/reassessment questions merely because they occur in the history.

Source: [reported judgment / paragraphs 8–14; editorial application / PDF pages 5, 6, 7, 8 / judicial text](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

44AB; 147; 240(b)

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R.K. Agrawal, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 8 PDF pages; SHA-256

1e719fbfa34c8ed782e37e3ddf1fb2c69966e820fd57a9f5acf55f452569b1cc. Original bytes preserved.

Judicial text paragraphs 1–14 on physical pages 3–8 (SCR 929–934); cover/headnote/jurisdiction on pages 1–2 separated. No adjacent judgment.

[Open cited source rendition](#)

Paragraph2 identifies these three years but narrates AY 2000-01 in detail; no separate appeal-to-year mapping is inferred.

The numbered provisions appear in procedural/audit background. The decided issue is the capital-raising nexus and adjustment of statutory-deposit interest; no separately cited charging section is invented for the judgment's own reasoning.

The disputed interest is printed as Rs.1,71,30,212 in paragraph 2(c)-(d) but Rs.1,71,30,202 in paragraph 8. The note does not silently select one as a freshly verified quantum.; Paragraph2(d) describes the Tribunal remanding other issues to the Assessing Officer; paragraph 13 refers to a High Court remand to the Tribunal on other issues. The note preserves only the clear conclusion that the other-issue remand was not disturbed, without silently reconciling the forum discrepancy.; Paragraph8 recounts the officer's inability to separate pre- and post-allotment periods. That objection is not recast as a Supreme Court finding exempting all interest after allotment.; Paragraph6 is Revenue's contention that interest is normally revenue; it is not the Court's operative conclusion.; The original judgment's numbered provisions concern the background. A universal present set-off or taxation rule is not assigned to an invented statutory pinpoint.

STATUTORY SCOPE

Historical assessment-year and statutory setting only; no automatic Income-tax Act, 2025 mapping.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent-treatment or current-law audit. Any actually checked later passage is separately described.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 8](#)

SHA-256: 1e719fbfa34c8ed782e37e3ddf1fb2c69966e820fd57a9f5acf55f452569b1cc

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.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.