

Sharp Business System v. Commissioner of Income Tax-III N.D.

Civil Appeal No. 4072 of 2014 and connected proceedings (full list below)

2025 INSC 1481 | 2025-12-19

Whether Sharp's payment to keep L&T out of a competing business was revenue expenditure; whether capital non-compete expenditure qualified for depreciation; and, separately in Piramal Glass, whether interest attributable to a subsidiary share investment and interest-free related-party advances was deductible.

37(1) | 32(1)(ii) | 36(1)(iii)

Two-judge bench | Manoj Misra, J. | Ujjal Bhuyan, J.

Assessment years: 2001-02, 2002-03

01 FACTS OF THE CASE

Sharp, AY 2001-02: the assessee, a joint venture of Sharp Corporation and L&T importing, marketing and selling electronic office products in India, paid L&T Rs 3 crore for a seven-year restriction on competing in that Indian business. Sharp claimed a revenue deduction and, alternatively on appeal, depreciation. The assessing and appellate authorities rejected the deduction; the Delhi High Court treated the payment as capital and rejected depreciation, reasoning that the contractual right was enforceable only against L&T.

Pentasoftware, AYs 2001-02 and 2002-03: three connected Revenue appeals concerned depreciation on Rs 180 crore paid to Pentamedia Graphics under an acquisition arrangement involving its software development and training division and a ten-year non-compete covenant. The Madras High Court decisions favoured the assessee on depreciation. The judgment excludes the separate intellectual-property depreciation claim from the issue it examines.

Piramal Glass, AY 2001-02: another Revenue appeal concerned depreciation on an Rs 18 crore non-compete payment made when acquiring a glass division during AY 1999-2000. That appeal also raised separate disallowances of interest under section 36(1)(iii): Rs 3,36,32,300 attributable to an investment in shares of Ceylon Glass Company Ltd., Sri Lanka, and Rs 99,49,264 attributable to interest-free loans/advances involving a sister concern and directors. The ITAT allowed the interest claims on commercial-expediency grounds. The Bombay High Court upheld the subsidiary-investment result and treated the advances question as infructuous.

Source: [official signed judgment / paragraphs 4-4.4, 7-7.7 / PDF pages 2, 3, 4, 5, 6, 7, 8, 9 / judgment](#); [official signed judgment / paragraphs 8-11.8 / PDF pages 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 / judgment](#); [official signed judgment / paragraphs 35-35.4 / PDF pages 62, 63, 64, 65 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

Non-compete expenditure: section 37(1) excludes capital expenditure even when incurred wholly for business. Drawing on the capital/revenue authorities, the Court explained that an enduring benefit or a one-time payment is not a conclusive test. The commercial nature, purpose and effect of the expenditure matter. An advantage that improves trading operations while leaving the fixed capital and profit-earning structure unchanged can be on revenue account. The Court distinguished the fixed-capital question from the mere duration of a restriction.

Applying that approach to Sharp, the Court found that the payment did not acquire a new business, create a new asset, enlarge its profit-making apparatus or confer a monopoly. The existing assets remained unchanged; keeping a potential competitor out was intended to make the existing business operate more efficiently and profitably. The anticipated commercial benefit was not certain to arise. The seven-year term therefore did not turn this payment into capital expenditure. The extensive submissions on whether non-compete rights were depreciable intangible assets were not resolved: the revenue-expenditure holding made the alternative question redundant.

Piramal interest: applying S.A. Builders, the Court treated business nexus and commercial expediency as decisive. An interest-free advance to a sister concern is not disqualified merely because the lender does not earn income from it, and the Revenue cannot substitute its judgment for a prudent businessman's commercial decision. The Court retained the express caveat that deduction is not automatic for every related-party advance; personal use by a sister concern's directors would not establish commercial expediency. On Piramal's facts, acquiring control in Ceylon Glass through shares was commercially expedient. The Court also accepted commercial expediency for the advances to the sister concern and directors. The Revenue had not advanced arguments on these interest questions before the Supreme Court, but the judgment independently analysed and decided them.

Source: [official signed judgment / paragraphs 16-24 / PDF pages 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58 / judgment](#); [official signed judgment / paragraphs 25-31 / PDF pages 58, 59, 60, 61 / judgment](#); [official signed judgment / paragraphs 36-41 / PDF pages 65, 66, 67, 68, 69, 70, 71 / judgment](#)

03 JUDICIAL DECISION

Sharp's Rs 3 crore payment to L&T was allowable revenue expenditure under section 37(1). The Delhi High Court judgment was set aside and Civil Appeal 4072/2014 allowed. The section 32(1)(ii) depreciation question was expressly left undecided as redundant.

For the connected non-compete disputes, the matters were remanded to the respective ITATs. The appeals/cross-appeals before those Tribunals were revived for fresh hearing in light of the judgment, with liberty to raise additional grounds based on it. This remand is not a final award of a revenue deduction or depreciation to Pentasoft or Piramal.

On Piramal's separate interest questions, the ITAT's allowance was affirmed and the Revenue's appeal on that issue dismissed. The final disposal expressly combines the non-compete directions in paragraphs 29-34 with the interest conclusions in paragraphs 39-41; Piramal's interest result must not be merged into the remand.

Source: [official signed judgment / paragraphs 29-34 / PDF pages 60, 61 / judgment](#); [official signed judgment / paragraphs 39-42 / PDF pages 70, 71 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on the merits issues decided; connected non-compete disputes remanded

Sharp appeal allowed; connected non-compete matters remanded to the respective ITATs with appeals/cross-appeals revived; Revenue appeal in Piramal dismissed on the interest issue

Final merits determination of Sharp's section 37(1) claim and Piramal's section 36(1)(iii) claims; no merits ruling on the alternative depreciation issue; fresh ITAT adjudication required for the connected non-compete claims

Do not classify every appeal as allowed or dismissed for the assessee. The operative result is issue-specific. The common judgment does not certify that all non-compete payments are deductible regardless of what business or capital rights are acquired, and does not decide that non-compete rights qualify for depreciation.

Source: [official signed judgment / paragraphs 29-34 / PDF pages 60, 61 / judgment](#); [official signed judgment / paragraphs 39-42 / PDF pages 70, 71 / judgment](#)

05 AKHB REVIEW POINT

Review the commercial substance of a non-compete payment before choosing its tax treatment. Keep the agreement, acquisition documents and allocation of consideration together; identify whether the covenant protects existing trading operations or accompanies the acquisition of a business or additional profit-earning structure. A specified restraint period alone does not settle the capital/revenue question. Sharp supplies a section 37(1) holding on its facts, not a depreciation ruling. In the remanded matters, distinguish the opportunity to raise fresh grounds from an already allowed deduction.

For related-party funding, record the commercial purpose of acquiring control or making an advance and trace how the recipient used the money. This judgment does not excuse unexplained personal benefits for directors. Preserve the distinct subsidiary-investment and advance-interest claims, because Piramal succeeds on both through fact-based commercial-expediency findings. Apply the statutory version governing the assessment year; no automatic equivalent provision or precedent transfer to the Income-tax Act, 2025 is asserted here.

Source: [official signed judgment / paragraphs 25-34 / PDF pages 58, 59, 60, 61 / judgment](#); [official signed judgment / paragraphs 37-41 / PDF pages 67, 68, 69, 70, 71 / judgment](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 4072 of 2014 / Civil Appeal No. 15048 of 2025 (arising out of SLP(C) No. 16277 of 2014) / Civil Appeal No. 15049 of 2025 (arising out of SLP(C) No. 719 of 2020) / Civil Appeal No. 15050 of 2025 (arising out of SLP(C) No. 38046 of 2025; Diary No. 22308 of 2022) / Civil Appeal No. 15051 of 2025 (arising out of SLP(C) No. 24756 of 2014)

DETAILED DISPOSITION AND CONNECTED GROUPS

Per appeal

1.

Case number: Civil Appeal No. 4072 of 2014

Assessee: Sharp Business System

Appellant role: Assessee

Assessment year: 2001-02

Issues: Section 37(1) non-compete deduction; Alternative section 32(1)(ii) depreciation claim

In whose favour: Assessee on section 37(1)

Disposition: Appeal allowed; Delhi High Court judgment dated 5 November 2012 in ITA 492/2012 set aside; alternative depreciation question redundant and not decided

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 4, 7-7.7

Pdf pages: 2; 4; 5; 6; 7; 8; 9

Source role: judgment

2.

Source url: [Open cited source](#)

Paragraphs: 28-31

Pdf pages: 59; 60; 61

Source role: judgment

2.

Case number: Civil Appeal No. 15048 of 2025

Origin: SLP(C) No. 16277 of 2014

Assessee: Pentasoft Technologies Ltd.

Appellant role: Revenue

Assessment year: 2001-02

Issues: Non-compete expenditure/depreciation

In whose favour: No final merits winner; remand

Disposition: Matter remanded to ITAT, Chennai; appeals/cross-appeals revived and liberty given to raise additional grounds based on this judgment

High court order: Madras High Court, 20 November 2013, TCA 1134/2008

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 4.1, 8-8.7

Pdf pages: 2; 9; 10; 11; 12

Source role: judgment

2.

Source url: [Open cited source](#)

Paragraphs: 31-34, 42

Pdf pages: 61; 71

Source role: judgment

3.

Case number: Civil Appeal No. 15049 of 2025

Origin: SLP(C) No. 719 of 2020

Assessee: Piramal Glass Ltd. (described at paragraph 13 as now Piramal Glass Private Ltd.)

Appellant role: Revenue

Assessment year: 2001-02

Issues: Non-compete expenditure/depreciation; Section 36(1)(iii) subsidiary-investment interest; Section 36(1)(iii) interest-free advance interest

In whose favour: Assessee on interest; no final merits winner on remanded non-compete issue

Disposition: Non-compete matter remanded to ITAT, Mumbai, with appeals/cross-appeals revived; interest allowance affirmed and Revenue appeal dismissed on that issue

High court order: Bombay High Court, 11 June 2019, ITA 556/2017

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 4.3, 10-10.7

Pdf pages: 3; 15; 16; 17; 18

Source role: judgment

2.

Source url: [Open cited source](#)

Paragraphs: 31-34

Pdf pages: 61

Source role: judgment

3.

Source url: [Open cited source](#)

Paragraphs: 35-41, 42

Pdf pages: 62; 63; 64; 65; 66; 67; 68; 69; 70; 71

Source role: judgment

4.

Case number: Civil Appeal No. 15050 of 2025

Origin: SLP(C) No. 38046 of 2025; Diary No. 22308 of 2022

Assessee: Pentasoft Technologies Ltd.

Appellant role: Revenue

Assessment year: 2001-02

Issues: Non-compete expenditure/depreciation

In whose favour: No final merits winner; remand

Disposition: Matter remanded to ITAT, Chennai; appeals/cross-appeals revived and liberty given to raise additional grounds based on this judgment

High court order: Madras High Court, 11 January 2022, TCA 600/2010

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 4.4, 11-11.8

Pdf pages: 3; 18; 19; 20; 21

Source role: judgment

2.

Source url: [Open cited source](#)

Paragraphs: 31-34, 42

Pdf pages: 61; 71

Source role: judgment

5.

Case number: Civil Appeal No. 15051 of 2025

Origin: SLP(C) No. 24756 of 2014

Assessee: Pentasoft Technologies Ltd.

Appellant role: Revenue

Assessment year: 2002-03

Issues: Non-compete expenditure/depreciation

In whose favour: No final merits winner; remand

Disposition: Matter remanded to ITAT, Chennai; appeals/cross-appeals revived and liberty given to raise additional grounds based on this judgment

High court order: Madras High Court, 29 October 2013, TCA 1195/2008

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 4.2, 9-9.5

Pdf pages: 2; 3; 12; 13; 14; 15

Source role: judgment

2.

Source url: [Open cited source](#)

Paragraphs: 31-34, 42

Pdf pages: 61; 71

Source role: judgment

SOURCE-RENDITION BOUNDARIES

1.

Type: single_common_judgment

Author: Ujjal Bhuyan, J.

Pdf page range: 1; 71

Paragraphs: 1-42 (opening delay-condonation paragraph unnumbered in print)

Note: One common judgment covering five civil appeals; no separate concurrence or second decision in the PDF

2.

Type: non_compete_part

Pdf page range: 1; 61

Paragraphs: 1-34

Note: Includes common preliminary matters, appeal-specific facts, counsel submissions, reasoning and non-compete disposition

3.

Type: interest_part

Pdf page range: 62; 71

Paragraphs: 35-41

Case number: Civil Appeal No. 15049 of 2025

Note: Separate Piramal Glass interest issues only

4.

Type: combined_disposition

Pdf page range: 71; 71

Paragraphs: 42

Note: Disposal expressly incorporates paragraphs 29-34 and 39-41

PROVISION-SPECIFIC SCOPE

1.

Section: 37(1)

Role: Core merits provision: Sharp non-compete payment held deductible as revenue expenditure

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 16-17, 25-30

Pdf pages: 42; 43; 44; 58; 59; 60; 61

Source role: judgment

2.

Section: 32(1)(ii), Explanation 3

Role: Alternative depreciation question framed and argued; expressly rendered redundant and not decided on its merits

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 5.1, 12.9-14.13, 31

Pdf pages: 4; 26; 27; 28; 29; 30; 31; 32; 33; 34; 35; 36; 37; 38; 39; 40; 41; 42; 61

Source role: judgment

3.

Section: 36(1)(iii)

Role: Core merits provision confined to Piramal Glass: interest on subsidiary share investment and interest-free advances allowed on the commercial-expediency findings

Pinpoints**1.****Source url:** [Open cited source](#)**Paragraphs:** 35-41**Pdf pages:** 62; 63; 64; 65; 66; 67; 68; 69; 70; 71**Source role:** judgment**4.****Section:** 2(11), 2(14), 28(va)**Role:** Provisions invoked in counsel submissions on intangible assets/non-compete consideration; not separately adjudicated**Pinpoints****1.****Source url:** [Open cited source](#)**Paragraphs:** 13.1-13.2, 13.8, 13.10**Pdf pages:** 29; 30; 33; 34**Source role:** judgment**5.****Section:** 10(33)**Role:** Foreign dividend non-exemption mentioned in assessee counsel submission; no independent section 10(33) holding**Pinpoints****1.****Source url:** [Open cited source](#)**Paragraphs:** 36**Pdf pages:** 65; 66**Source role:** judgment**6.****Section:** 115JA, 143, 234B, 271(1)(c)**Role:** Return/assessment/interest/penalty procedural background, not independent issues decided**Pinpoints****1.****Source url:** [Open cited source](#)**Paragraphs:** 7.1, 8.2, 9.1-9.2, 10.2-10.4, 11.2-11.3, 35**Pdf pages:** 5; 10; 12; 13; 16; 17; 19; 62**Source role:** judgment**7.****Section:** 28**Role:** Business-income computation context for the section 36(1)(iii) analysis

Pinpoints**1.****Source url:** [Open cited source](#)**Paragraphs:** 37**Pdf pages:** 67**Source role:** judgment**SOURCE & VERIFICATION**[Hon'ble Supreme Court source PDF \(official signed judgment\)](#)

Identified source rendition: 71 PDF pages; SHA-256

219fda722179242127b177f953d3eae89484c01d49ec8bca194df99bae4cfe4e. Original bytes preserved.

[Open cited source rendition](#)

Paragraph 31 expressly leaves the section 32(1)(ii) depreciation question undecided; counsel submissions and the earlier High Court outcomes must not be presented as Supreme Court holdings.

The Piramal appeal has a split outcome. Paragraphs 32-34 must be read with paragraphs 39-42, which finally affirm its interest deductions and dismiss the Revenue appeal on that issue.

The official cover supplies civil appeal numbers left blank in internal headings; the cover-to-SLP mapping is used without inventing a number.

Paragraph 9.1 records AY 2002-03 but prints a return-filing date of 31 October 2001; the year expressly stated in paragraphs 4.2 and 9.1 is retained, and the anomalous filing date is not silently corrected or used to infer a different AY.

The procedural summaries in paragraphs 8.6 and 11.7 attribute opposite depreciation conclusions to ITAT orders dated 14 March 2008. This note reports the separate High Court appeals and the Supreme Court remand, without reconciling or silently correcting the source narrative.

Piramal assessment-order dates differ in the source: paragraph 10.4 prints 19 February 2004, while paragraph 35 prints 9 February 2004. Neither date is needed for the holding and neither is normalized here.

Paragraph 35 prints interest-bearing borrowings as Rs 3267.41 crores. The aggregate is not essential to the holding and is not adopted or silently converted; the separately stated disputed-interest amounts are retained.

The judgment discusses 1922 Act authorities in the capital/revenue analysis; that does not convert these 1961 Act appeals into 1922-only decisions.

The holding on director-related advances is fact-specific; the Court also reproduces the S.A. Builders caveat against treating personal benefits as commercial expediency.

Pinpoints use physical PDF pages, counted from the official cover. No full current-law or citator verification is claimed.

Neutral citation and all five civil appeal numbers verified from the official original cover; judgment date and judges verified from the signature page. No separate reported citation has been added.

AY 2001-02 applies to Sharp, Piramal Glass and the two Pentasoft appeals arising from SLP(C) 16277/2014 and Diary 22308/2022. AY 2002-03 applies only to Pentasoft in the appeal arising from SLP(C) 24756/2014. Piramal paid its non-compete fee during AY 1999-2000, but the appealed assessment in this judgment is AY 2001-02. Years from cited precedents are not treated as years under appeal.

STATUTORY SCOPE

Review is confined to the 1961 Act issues and historical assessment years in this judgment. No provision-by-provision mapping to the Income-tax Act, 2025 or verification of subsequent statutory changes is represented.

LATER TREATMENT

Source checked 2026-10-04. Subsequent review proceedings, stays, correction orders, remand decisions and later judicial treatment have not been comprehensively checked. This note is not a citator status certificate.

IDENTIFIED SOURCE LINKS

[official signed judgment - Physical PDF p. 1 - PDF pages: 71](#)

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