

L.K. Trust v. Commissioner of Income Tax & Anr.

Civil Appeal No. 527 of 2012

2026 INSC 474 | 2026-05-07

Interest deduction and commercial expediency

36(1)(iii) | 2(28A) | 28 | 37(1) | 57(iii) | 143(1)(a) | 143(2)

Two-Judge Bench | J.B. Pardiwala | Ujjal Bhuyan

Assessment years: 1989-90

01 FACTS OF THE CASE

For the return year 1989-90, the assessee trust claimed deduction of Rs.21,74,234 as interest on a Rs.3.80 crore Corporation Bank borrowing associated with the purchase of Shaw Wallace and Company Limited shares. The borrowed amount passed through acquisition of shares in the group company Gayatri Holdings Private Limited, which transferred the funds to G. Venkateshwaran for the Shaw Wallace share purchase. The Assessing Officer and CIT(A) rejected the disputed interest claim. [Official order, paras 2-6, PDF pp. 1-2](#)

The ITAT allowed the claim after finding that the trust conducted a composite business of money-lending, speculation, film distribution and share investment, with common books, trustee management and interlocking funds. These are Tribunal findings reproduced by the Supreme Court. The Karnataka High Court allowed the Revenue's appeal, treating the interest attributable to money remaining with the group company as disallowable. The assessee challenged that reversal. [Official order, para 6 reproducing ITAT paras 14-18, PDF pp. 3-4](#) [Official order, paras 7-10, PDF pp. 4-5](#)

Source: See the proposition-specific paragraph and PDF-page links in the text.

02 DISCUSSION BY THE HON'BLE COURT

The Hon'ble Supreme Court explained that section 36(1)(iii) concerns interest on money borrowed for business or professional purposes; every debt does not constitute a borrowing of capital within that provision. It also noted, by reference to Madhav Prasad Jatia, that the business-purpose expression in section 36(1)(iii) is wider than the income-earning expression in section 57(iii). These explanatory observations support the statutory framework; the controversy was the business nexus of the deployment through the group company. [Official order, paras 12-17, PDF pp. 6-7](#)

The Court rejected the High Court's approach that utilisation for the subsidiary's benefit defeated the deduction in these circumstances. Referring to Sharp Business System v. CIT, 2025 SCC OnLine SC 2892, and its reliance on S.A. Builders, it reiterated that a transfer of borrowed funds is to be examined from the standpoint of commercial expediency, rather than solely whether the advance itself earns profits. The Court expressly agreed with the ITAT's reasoning on section 36(1)(iii). Its reference to acquisition of a controlling interest in paragraph 21 describes the facts of Sharp Business System, not a new finding about this assessee. [Official order, paras 17-22, PDF pp. 7-8](#)

Source: See the proposition-specific paragraph and PDF-page links in the text.

03 JUDICIAL DECISION

The appeal was allowed and the Karnataka High Court's judgment and order dated 1 March 2010 was set aside. The Court declared that the assessee was entitled to deduction of the interest paid on the Rs.3.80 crore borrowing for business purposes; the disputed interest amount identified in the appeal was Rs.21,74,234. Pending applications were disposed of. [Official order, paras 23-26, PDF pp. 8-9](#) [Official order, paras 1-2, PDF p. 1](#)

Source: See the proposition-specific paragraph and PDF-page links in the text.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee, L.K. Trust

Assessee's appeal allowed; High Court reversal set aside; disputed business-borrowing interest deduction allowed.

See decision and scope limits

Source: See the proposition-specific paragraph and PDF-page links in the text.

05 AKHB REVIEW POINT

Editorial analysis: The decision is useful where interest is disallowed merely because borrowed funds are deployed through a group entity. The decisive inquiry remains the commercial connection with the assessee's business, supported here by the Tribunal's findings of integrated activities, management and funds. It does not establish that every loan or investment benefiting a related company automatically qualifies. A case comparison should identify the borrowing, actual utilisation and evidence of commercial expediency, while keeping the interest deduction distinct from the Rs.3.80 crore principal. [Official order, para 6 reproducing ITAT paras 14-18, PDF pp. 3-4](#) [Official order, paras 17-25, PDF pp. 7-8](#)

Source: See the proposition-specific paragraph and PDF-page links in the text.

SOURCE & VERIFICATION

[Original Hon'ble Supreme Court PDF](#)

Canonical official order: source PDF pages 1-9

[Open cited source rendition](#)

The return year is identified as 1989-90 in paragraph 4.

STATUTORY SCOPE

This is a historical Income-tax Act, 1961 case review for return/assessment year 1989-90. Paragraph 12 reproduces statutory text including a proviso, but this review does not certify that quotation as the operative text for that year or today. Independently verify the applicable version, amendments and temporal operation before relying on it. No mapping to or automatic carryover under the Income-tax Act, 2025 is asserted.

LATER TREATMENT

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

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