

Taxhelpline Case No. 109 of 2001

Supreme Court of India

C. As. Nos. 2438 and 2439 of 1999, decided on 23rd April, 1999

(Appeals by Special Leave from the judgment and order, dated July 31, 1997 of the Punjab and Haryana High Court in I.T.R. Nos. 73 and 74 of 1982).

Present: Mrs. Sujata V. Manohar and R. P. Sethi, JJ

R. N. Trivedi, Additional Solicitor General. (Rajiv Nanda, S.D. Sharma and S.K. Dwivedi, Advocates with him) for Appellant. Sunil K. Mukhi, P.C. Jain. and M. S. Dahiya, Advocates for Respondents.

COMMISSIONER OF INCOME TAX

Vs.

KARNAL COOPERATIVE SUGAR MILLS LTD.

Income-tax-----Income or capital---Amounts deposited to open letter of credit for purchase of machinery required for setting up plant---Interest on such amount is directly connected and incidental to construction of plant---Interest was a capital receipt---Indian Income Tax Act, 1961.

Held, that, in the present case, the assessee had deposited money to open a letter of credit for the purchase of the machinery required for setting up its plant in terms of the assessee's agreement with the supplier. It was on the money so deposited that some interest had been earned. This was, therefore, not a case where any surplus share capital money which was lying idle had been deposited in the bank for the purpose of earning interest. The deposit of money in the present case was directly linked with the purchase of plant and machinery. Hence, any income earned on such deposit' was incidental to- the acquisition of assets for the setting up of the plant and machinery. The interest was a capital receipt, which would go to reduce the cost of asset.

Karnal Cooperative Sugar Mills Ltd. v. C.I.T. (1998) 233 ITR 531 affirmed.

C.I.T. v. Bokaro Steel Ltd. (1999) 236 ITR 315 (SC) applied.

Tuticorin Alkali Chemicals and Fertilizers Ltd. v. C.I.T. (1997) 227 ITR 172 (SC) ref.

R. N. Trivedi, Additional Solicitor-General. (Rajiv Nanda, S.D. Sharma and S.K. Dwivedi, Advocates with him) for Appellant.

Sunil K. Mukhi, P.C. Jain. and M. S. Dahiya, Advocates for Respondents.

THIS JUDGMENT DELIVERED BY

In the present case, the assessee had deposited money to open a letter of credit for the purchase of the machinery required for setting up its plant in terms of the assessee's agreement with the supplier. It was on the money so deposited that some interest has been earned. This is, therefore, not a case where any surplus share capital money which is lying idle has been deposited in the bank for the purpose of earning interest. The deposit of money in the present case is directly linked with the purchase of plant and machinery. Hence, any income earned on such deposit is incidental to the acquisition of assets for the setting up of the plant and machinery. In this view of the matter the ratio laid down by this Court in Tuticorin Alkali Chemicals and Fertilizers Limited v. C.I.T. (1997) 227 ITR. 172, will not be attracted. The more appropriate decision in the factual situation in the present case is in CIT v. Bokaro Steel Ltd. (1999), 236 ITR 315 (SC). The appeal is dismissed. There will be no order as to costs.

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