

Bombay HC allows Deduction on Interest Paid on amount borrowed for purpose of machinery even if machinery is not actually used in Business

Fact of the Case

- In the present case M/s. Maharashtra Hybrid Seeds Co. Ltd is the assessee.
- The assessee failed the tests of interlacing and entering dependencies unity of control and management – conditions necessary for deduction u/s. 36(1) (iii).
- The Revenue's stand was that deduction for interest under Section 36(1)(iii) of the Act was allowable only if the assets acquired out of the borrowed capital had been put to use.

Decision of the Case

- The Apex Court has held that interest on monies borrowed for the purposes of business is a necessary item of expenditure in a business.
- For allowance of a claim for deduction of interest under the said section, all that is necessary is that firstly, the money, i.e., capital, must have been borrowed by the assessee; secondly, it must have been borrowed for the purpose of business; and, thirdly, the assessee must have paid interest on the borrowed amount.
- The Apex Court in Deputy Commissioner of Income Tax V/s. Core Health Care Ltd. squarely covers this question and the Apex Court has held that such interest is allowable under Section 36(1)(iii).
- The Bombay High Court allowed the deduction on interest paid on the amount borrowed for the purpose of machinery even if machinery is not actually used in business.