

## **Interest paid on loan to acquire shares couldn't treated as its cost of acquisition if interest wasn't capitalized**

**Summary – The Mumbai ITAT in a recent case of Mrs. Deepi Singh Arora, (the Assessee) held that where interest expenditure on loan taken for making investment in shares was not capitalized, said interest was not to be deductible against short-term capital gain on shares.**

### **Facts**

- The assessee was engaged in the business of sale of electricity generated by wind mills. In the return of income, the assessee claimed interest expenditure of Rs. 5.81 lakh as deduction against the short-term capital gain on the reasoning that the bank interest on the loan taken for making investments in purchase of shares should be considered as part of 'Cost of acquisition of shares'.
- The Assessing Officer did not accept the same and held that the provisions of section 48 do not provide for deduction of interest expenses against the capital gains. Accordingly, the Assessing Officer disallowed the claim of interest expenditure.
- On appeal, the Commissioner (Appeals) confirmed the same.
- On second appeal:

### **Held**

- Under accountancy principles, all the expenses incurred up to the date of installing the plant and machinery and also expenses incurred to make it operational are considered as forming part of the cost of the plant and machinery. Thus, it can be seen that the interest expenditure up to the period when an asset is first put to use is required to be capitalized and the interest pertaining to the subsequent period is allowable as revenue expenditure.
- In the instant case, it is not the case of the assessee that she has applied for shares under Initial Public Offering. The question of deduction of interest against the sale value of shares would arise only if the interest expenditure is capitalized under the principles discussed in the preceding paragraphs. In the instant case, it is not shown that the assessee has capitalized the interest expenditure in accordance with the principles discussed above. Accordingly, the Commissioner (Appeals) was justified in holding that the interest expenditure is not deductible against short-term capital gains.