Interest couldn't be disallowed on mere presumption that assessee would earn tax-free dividend in future

Summary – The High Court of Calcutta in a recent case of Vikram Somany, (the Assessee) held that where Tribunal rejected assessee's claim for deduction of interest on loan taken for acquiring control over two companies on ground that it would result in earning exempt dividend income, impugned order passed by Tribunal based on imaginary income and expenditure of subsequent year, was not sustainable

Facts

- The assessee borrowed funds in order to acquire control of two companies. The interest paid on the borrowed funds was claimed as an allowable expenditure by the assessee under section 36(1)(iii) read with section 57.
- The Assessing Officer rejected the assessee's claim.
- The Commissioner (Appeals), however, allowed claim raised by assessee.
- The Tribunal ruled that interest payment by the assessee in acquiring control of the two companies would result in earning exempt dividend income and, therefore, the same was not allowable under section 14A.
- On appeal:

Held

- It was as if an imaginary income and expenditure of a subsequent assessment year was taken into account for calculating the income of a particular previous year. All that the Tribunal was required to ascertain was whether the interest paid on fund generated for the purpose of gaining control of the two companies would be allowed as an expenditure and not delve into the question whether the income which that investment would produce in the future would be dividend. In other words, at the most, it had to see whether any part of the income of the assessee for the assessment year was dividend income; and whether any part of the expenditure for acquiring control of the two companies were being applied to claim deduction from that income.
- Thus, the impugned order of the Tribunal is set aside.