

If advancing of loans was not part of assessee's business, interest income taxable as 'other sources'

Summary – The Bangalore ITAT in a recent case of Global Entropolis (Vizag) (P.) Ltd., (the Assessee) held that If advancing of loans was not part of assessee's business, interest income taxable as 'other sources'

Facts

- The assessee was engaged in the business of developing residential township and also providing infrastructure services. During the year under consideration, the assessee had received interest income of Rs. 69.78 lakhs and it had set off the same against the interest expenditure and, accordingly, the net interest expenditure was included in the work-in-progress. The Assessing Officer concluded that the interest income was earned on parking of funds with banks and, hence, the same was taxable as income from other sources under section 56.
- On appeal, the Commissioner (Appeals) upheld the view taken by the Assessing Officer.

Held

- The ITAT held that it is well settled proposition of law that the assessee should demonstrate that there was business compulsion to make the deposits or advance loans to support its claim that the interest income forms part of its business profits.
- In the instant case, the assessee is engaged in the business of constructing residential complexes and the assessee has failed to demonstrate any business compulsion nor did it show that the advancing of loans or depositing of money in fixed deposits are integral part of its business activities. Hence, that the Commissioner (Appeals) was justified in confirming the assessment of interest income as income of the assessee from income from other sources.