

Interest on unutilised funds treated as capital receipt not chargeable to tax

Summary – The Mumbai ITAT in a recent case of Karanja Terminal & Logistics (P.) Ltd., (the Assessee) held that Interest on unutilised funds would be treated as capital receipt not chargeable to tax

Facts

- The assessee-company raised share capital as foreign inward remittance from its holding company with specific purpose of developing multipurpose port terminal facility and logistics facility. However, the port terminal could not be developed as planned and was delayed for various reasons beyond the control of the assessee and therefore the unutilized funds received were put in fixed deposits with banks till the resumption of work.
- The assessee, treated the interest received on deposits as capital in nature and did not file any return of income for the instant year.
- The Assessing Officer rejected assessee's explanation and assessed interest income as income from other sources.
- The Commissioner (Appeals) confirmed the order passed by Assessing Officer.
- On second appeal:

Held

- The ITAT held that the delay in the construction of port terminal was due to the reasons of delayed issuance of clearances and due to local protests by the public which was beyond the control of assessee.
- Based on above facts and judicial precedents on the matter the ITAT held that the interest income received by the assessee from the FDRs made out of funds are inextricably linked to the development of port terminal. However, the funds could not be used for the development work due to delays beyond assessee's control. Therefore, the interest income is a capital receipt and is not taxable at all both under the normal provisions of the Act as well as under section 115JB of the Act. The appeal of the assessee is allowed.