

Interest on loans taken for acquiring controlling interest in a company is an allowable expenditure

Summary – The High Court of Bombay in a recent case of Concentrix Services (I) (P.) Ltd., (the Assessee) held that interest on loans taken for acquiring controlling interest in a company would be an allowable expenditure

Facts

- The assessee had claimed expenses on account of interest and finance expenses under section 36(1)(iii), which was in connection with loans taken for the acquisition of a Canadian company.
- The Assessing Officer disallowed the same on the ground that it was not related to the business of the assessee.
- On appeal, the Commissioner (Appeals) upheld the order of Assessing Officer.
- On appeal to the Tribunal, it held interest paid on borrowed funds and finance expenses was allowed as a deduction under section 36(1)(iii).
- On revenue's appeal to the High Court:

Held

- The HC held that in the present case it was the business decision of the assessee to expand its activities and presence in the world and for that purpose it had acquired controlling interest in the business of a Canadian company which was in the same line of business as the assessee.
- For this purpose a loan was taken. Therefore, the interest expenditure incurred on loans taken for investment in acquiring controlling interest in a company would be allowable expenditure under section 36(1)(iii).