

Commissioner of Income Tax-LTU, Chennai v. M/s. Mahindra Holidays and Resorts (India) Ltd.

Tax Case (Appeal) No. 1419 of 2010

Tax Case (Appeal) No. 1419 of 2010 (Mad HC, decided 28.04.2026) | 2026-04-28

Timeshare membership fees: 40% 'Advance Payment towards Facilities' deferred over 25/33-year membership tenure is not accrued income in the year of receipt under sections 4, 5 & 145 and AS-9 where contract imposes continuing obligation and 100% liquidated damages.

Income-tax Act, 1961: sections 4, 5, 28, 37(1), 145 and 260A | Accounting Standard 9 (AS-9: Revenue Recognition)

High Court of Judicature at Madras | 2-judge bench (Division Bench) | Dr. G. Jayachandran, J. | Shamim Ahmed, J.

Assessment years: 2003-04

Fact-and-contract-specific ruling for AY 2003-04 (60:40 split under Clause 5.1 and 100% liquidated damages under Clause 7.1); post-ICDS / Ind AS 115 regimes not adjudicated

This judgment affirms the ITAT Chennai Special Bench order for AY 2003-04 based on the specific Club Mahindra Membership Rules (where Clause 5.1 bifurcated the lump-sum price into 60% non-refundable Membership Fee offered upfront and 40% 'Advance Payment towards Facilities' recognised pro rata over 25/33 years, and Clause 7.1 bound the company to provide alternative accommodation or pay 100% liquidated damages for default). Do not transpose this decision to post-2016 ICDS or Ind AS 115 assessment years without independent statutory analysis.

01 FACTS OF THE CASE

The assessee, Mahindra Holidays and Resorts (India) Ltd., sold timeshare holiday memberships ('Club Mahindra Holiday Membership') entitling members to one week's accommodation every year for 33 years (earlier 25 years). Under Clause 5.1 of the Membership Rules, the upfront payment comprised two components: (a) 60% towards non-refundable 'Membership Fee' (recognised entirely as revenue in the year of enrollment) and (b) 40% towards 'Advance Payment towards Facilities' (recognised equally over the 25/33-year membership tenure). In addition, members paid Annual Maintenance Charges (AMC) and resort-level utility charges. For AY 2003-04, the assessee returned a loss of Rs. 2,34,15,436 under section 143(3). The Assessing Officer added the deferred 40% portion amounting to Rs. 21,95,88,465 as income of AY 2003-04 on the ground that the entire lump-sum receipt was non-refundable after the 10-day rescission window and annual resort maintenance was separately funded by AMC. The CIT(A) affirmed the addition, but a 5-Member ITAT Chennai Special Bench (order dated 26.05.2010 in ITA No. 2412/Mds/2006) deleted the addition.

Source: [Paragraphs 1-10; PDF pp. 1-14](#)

02 DISCUSSION BY THE HON'BLE COURT

In an exhaustive 43-page judgment examining the membership contract and accounting jurisprudence, the Division Bench upheld the Special Bench decision: (1) Under sections 4 and 5, not every receipt is taxable income at the moment of collection; under the mercantile system and AS-9, when revenue is received for services to be rendered over multiple future years, recognition must match the performance of the underlying obligation; (2) Under Clause 3 and Clause 7.1 of the Membership Rules, the assessee undertook an onerous, continuing obligation for 25/33 years to provide one week of holiday accommodation annually across its resort network and Exchange Programme, failing which it was contractually liable to provide equivalent alternative accommodation at its own cost or pay liquidated damages equal to 100% of the accommodation value; (3) Collection of separate Annual Maintenance Charges (AMC) did not exhaust the company's future obligations toward resort expansion, refurbishment, exchange-network affiliation and reservation infrastructure covered by the 40% 'Facilities' component; and (4) Following *Calcutta Co. Ltd. v. CIT*, [1959] 37 ITR 1 (SC), *Rotork Controls India (P) Ltd. v. CIT*, [2009] 314 ITR 62 (SC), *CIT v. Bilahari Investment (P) Ltd.*, [2008] 299 ITR 1 (SC), *CIT v. Treasure Island Resorts (P) Ltd.*, [2024] 165 taxmann.com 742 (Telangana), and *CIT v. Shyam Telelink Ltd.*, (2019) 410 ITR 31 (Del), taxing 100% of the multi-decade receipt in year one while future performance costs remained unincurred would distort real income.

Source: [Paragraphs 18-41; PDF pp. 18-42](#)

03 JUDICIAL DECISION

Answering the substantial question of law in the negative, in favour of the assessee and against the Revenue, the High Court dismissed Tax Case (Appeal) No. 1419 of 2010 and affirmed the ITAT Special Bench order dated 26.05.2010, with no order as to costs.

Source: [Paragraphs 41-42; PDF pp. 42-43](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee (Mahindra Holidays and Resorts (India) Ltd.). The Revenue's appeal was dismissed and the deletion of the Rs. 21,95,88,465 deferred timeshare revenue addition for AY 2003-04 stood affirmed.

Source: [Paragraphs 41-42; PDF pp. 42-43](#)

05 AKHB REVIEW POINT

AKHB analysis: for multi-year subscription, timeshare or club membership models, contractual drafting and accounting policies must clearly segregate the upfront admission/enrollment fee from the advance consideration for future service delivery, and back the deferred portion with enforceable continuing performance covenants (such as guaranteed service availability or liquidated-damages remedies) and consistent pro-rata recognition across the contract term.

Source: [AKHB analysis based on paragraphs 18-41 / PDF pp. 18-42](#)

SOURCE & VERIFICATION

[Madras High Court official judgment PDF - AKHB Cloud Repository](#)

Forty-three-page official Madras High Court judgment PDF in TCA No. 1419 of 2010; paragraphs 1-42 span PDF pages 1-43.

Supplied source-reviewed note retained; original bytes and identity validation checked in this release. Substantive re-review is not claimed for this record.

[Open cited source rendition](#)

Full 43-page official Madras High Court PDF read and verified. Original bytes match SHA-256 f47fd7df71bc7e74acde19a4e30a82a1e01c2b042ba5cb60bf1cb0797de88450.

STATUTORY SCOPE

Applies sections 4, 5, 28, 37(1) and 145 of the Income-tax Act, 1961 read with ICAI Accounting Standard 9 (AS-9) for AY 2003-04. Income-tax Act, 2025 equivalence is not verified.

LATER TREATMENT

Source checked 2026-10-16. Full judgment checked. Applies Calcutta Co. Ltd. v. CIT, [1959] 37 ITR 1 (SC), Metal Box Co. of India Ltd. v. Their Workmen, [1969] 73 ITR 53 (SC), Rotork Controls India (P) Ltd. v. CIT, [2009] 314 ITR 62 (SC), CIT v. Bilahari Investment (P) Ltd., [2008] 299 ITR 1 (SC), and coordinate-bench decisions in CIT v. Treasure Island Resorts (P) Ltd., [2024] 165 taxmann.com 742 (Telangana), CIT v. Shyam Telelink Ltd., (2019) 410 ITR 31 (Del), and CIT v. Winner Business Link (P) Ltd. (Mad HC). Comprehensive subsequent judicial treatment has not been verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.