

M/s. G.H. Reddy and Associates (Construction) Pvt. Ltd., Hyderabad v. The Income Tax Officer, Ward 2(2), Hyderabad

ITTA No. 464 of 2012

ITTA No. 464 of 2012 (Telangana HC, decided 05.02.2026 / 06.02.2026) | 2026-02-05

Interim deposit of Rs. 3 crore received by an engineering contractor pursuant to an interim stay order of the Karnataka High Court in a pending arbitration appeal does not crystallize into taxable income in the year of receipt until final resolution of the dispute.

Income-tax Act, 1961: sections 4, 5, 145 and 260A

High Court for the State of Telangana | 2-judge bench (Division Bench) | P. Sam Koshy, J. | Suddala Chalapathi Rao, J.

Assessment years: 2006-07

Decree sheet dated 06.02.2026; body of order and docket dated 05.02.2026

Page 1 (the formal decree header) is dated Friday, 06.02.2026, while page 2 (the body of the judgment) and page 11 bear the date 05.02.2026.

01 FACTS OF THE CASE

M/s. G.H. Reddy & Associates (Construction) Pvt. Ltd. executed a canal construction contract for M/s Krishna Bhagya Jala Nigam Limited (KBJNL) under agreement dated 13.12.1994 and obtained an arbitral award dated 24.01.2003, which was partly confirmed by the District Court. In KBJNL's further appeal, the Karnataka High Court by interim order dated 21.12.2005 stayed the District Court's order subject to KBJNL depositing Rs. 3 crore to the assessee as an interim measure pending disposal of the appeal. For AY 2006-07, the Assessing Officer passed an order dated 31.12.2008 taxing the Rs. 3 crore deposit as revenue receipt in the year of receipt. The CIT(A) deleted the addition on 29.04.2009 holding it taxable only when the dispute attains finality, but the ITAT Hyderabad Bench 'A' reversed the CIT(A) on 11.04.2012 in ITA No. 813/Hyd/2009.

Source: [Pages 1-5 of 11 \(Paragraphs 1-6\) \(20260206_HBHC010321902012.pdf\)](#)

02 DISCUSSION BY THE HON'BLE COURT

Applying the Supreme Court decision in CIT v. Hindustan Housing & Land Development Trust Ltd., (1986) 161 ITR 524 (SC), Gujarat High Court in Topandas Kundanmal v. CIT, Bombay High Court in SGP Ltd. v. CIT, (2010) 226 CTR 444, and coordinate Division Bench rulings in CIT-II v. Sri Indra Power Energies Ltd. (ITTA No. 327/2012 dated 02.08.2013) and M/s R.S. Rangadas v. ACIT (ITTA Nos. 68, 97 & 168/2003 dated 02.09.2014), the Telangana High Court held that an amount released pursuant to an interim judicial arrangement while the underlying arbitral claim remains sub judice is in a fluid state and has not crystallized into an enforceable right to receive income. Consequently, the interim deposit of Rs. 3 crore cannot be taxed in AY 2006-07 and will become exigible to tax only in the assessment year in which the litigation is finally resolved in the assessee's favour.

Source: [Pages 6-10 of 11 \(Paragraphs 11-18\) \(20260206_HBHC010321902012.pdf\)](#)

03 JUDICIAL DECISION

Allowing ITTA No. 464 of 2012, the Telangana High Court set aside the ITAT's order dated 11.04.2012 in ITA No. 813/Hyd/2009 and quashed the assessment order dated 31.12.2008, directing the Assessing Officer to pass appropriate orders after final determination of the arbitral dispute.

Source: [Page 10 of 11 \(Paragraph 19\) \(20260206_HBHC010321902012.pdf\)](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee (M/s. G.H. Reddy & Associates (Construction) Pvt. Ltd.); ITAT order set aside and assessment order dated 31.12.2008 quashed.

Source: [Page 10 of 11 \(Paragraph 19\) \(20260206_HBHC010321902012.pdf\)](#)

05 AKHB REVIEW POINT

AKHB analysis: Following CIT v. Hindustan Housing & Land Development Trust Ltd. ((1986) 161 ITR 524 (SC)), conditional or interim deposits received under High Court stay orders during the pendency of arbitration appeals do not accrue as taxable income in the year of receipt, even if TDS was deducted at the time of deposit.

Source: [Full judgment PDF \(11 pp.\)](#)

SOURCE & VERIFICATION

[Original judgment PDF \(20260206_HBHC010321902012.pdf\)](#)

Reviewed from the complete 11-page official High Court judgment PDF (20260206_HBHC010321902012.pdf, SHA-256: df5a302bd0977ec2b703c2695f1c2a1ab1713485f5b11366a8bd210a3340722a).

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

Primary source verified page-by-page (11 physical pages, 407,804 bytes, SHA-256: df5a302bd0977ec2b703c2695f1c2a1ab1713485f5b11366a8bd210a3340722a). Cloud Google Drive File ID: 1Q8eqoX5a3dp53HomyM1FUNp9KnzzbDAP (<https://drive.google.com/file/d/1Q8eqoX5a3dp53HomyM1FUNp9KnzzbDAP/view>).

STATUTORY SCOPE

Refers to the Income-tax Act, 1961 and allied statutory rules/circulars as applicable to the relevant assessment years.

LATER TREATMENT

Source checked 2026-10-18. No subsequent Supreme Court reversal or stay is recorded in the source judgment text.

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