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 06.02.2026) | 2026-02-06

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: section 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

01 FACTS OF THE CASE

The assessee executed a canal contract for Krishna Bhagya Jala Nigam Limited (KBJNL) under agreement dated 13 December 1999. An arbitral award of 24 January 2003 was partly confirmed by the District Court. In KBJNL's appeal, the Karnataka High Court's interim order of 21 December 2005 stayed that order and directed a Rs.3 crore deposit to the assessee. KBJNL deposited the amount, excluding TDS, into the assessee's account. For AY 2006-07, the AO taxed it by order of 31 December 2008. CIT(A) deleted the addition on 29 April 2009 pending finality of entitlement; ITAT reversed that decision on 11 April 2012 in ITA813/Hyd/2009.

Source: PDF p.2

02 DISCUSSION BY THE HON'BLE COURT

The Court held that the interim deposit did not establish a finally crystallised right to income. Applying Hindustan Housing and Land Development Trust and the authorities discussed in paragraphs 14–17, it found that the very right to receive the amount remained disputed and had not been conclusively determined. Receipt into the bank account therefore did not make it taxable in the receipt year. The AO remained free to tax it in the assessment year in which the dispute was finally resolved in the assessee's favour and the right crystallised.

Source: PDF p.6

03 JUDICIAL DECISION

The appeal was allowed and the substantial question answered for the assessee. The ITAT order of 11 April 2012 was set aside and the assessment order of 31 December 2008 quashed. The AO was directed to pass appropriate orders after final determination of the arbitral dispute, following due process. No costs were ordered.

Source: PDF p.9

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: PDF p.10

05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Receipt did not settle entitlement — The key distinction is between money entering the account and an enforceable entitlement finally crystallising. The deposit arose from an interim judicial arrangement while the underlying claim remained contested. On those facts, the Court rejected receipt alone as the basis for tax in AY 2006-07.

Relief concerns timing, not permanent exemption — The judgment removes the assessment founded on premature recognition, while expressly preserving taxation when the dispute is resolved favourably and the right crystallises. Its direction to pass appropriate orders after final determination is therefore material to the outcome. It does not adjudicate the arbitral merits or establish that the contractor can retain the entire deposit irrespective of the eventual result.

TDS and the limits of the record — The source describes the deposit as excluding TDS, but does not separately decide a TDS-credit or refund issue. No eventual resolution date or later taxable amount is supplied by this order.

Source: PDF p.3

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).

All 11 original pages read and visually inspected; all five panels audited.

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 2026-10-21. Subsequent treatment has not been independently 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.

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