Narain Swadeshi Weaving Mills v. Commissioner of Excess Profits Tax

Civil Appeal 145 of 1953

[1955] 1 SCR 952 | 1954-10-25

Excess Profits Tax Act 1940, sections 2(5), 5, 10A

Excess Profits Tax Act 1940, sections 2(5), 5, 10A | Income-tax Act 1922, section 66

5-judge bench | Mehr Chand Mahajan C.J. | S. R. Das | Ghulam Hasan | Bhagwati | Venkatarama Ayyar

Historical statutory scope and outcome limits

Meaning of the proviso to section 2(5) and Schedule I rule 4(4) was left undecided. Historical statutory setting; no later-treatment or current-law clearance is claimed.

01 FACTS OF THE CASE

After transferring its factory land and buildings to a company, a manufacturing firm stopped manufacturing and leased the remaining machinery for Rs. 40,000 annually. Revenue amalgamated its income with associated managing and selling agency firms under section 10A.

Source: Primary report: SCR 953–959

02 DISCUSSION BY THE HON'BLE COURT

Existence of an assessee business within section 5 was a prerequisite to section 10A, not something that could be established through the anti-avoidance conclusion itself. The machinery had ceased to be the firm's commercial asset after complete closure; this differed from temporary letting during an ongoing business. Business is assessed on the particular facts; an isolated adventure can qualify but rent does not necessarily do so.

Source: Primary report: SCR 959–963

03 JUDICIAL DECISION

The Court answered the leasing question negatively, restored the assessee's first question on validity of amalgamation and answered it negatively, and answered the second question negatively as a corollary. Appeal allowed with costs.

Source: Primary report: SCR 963–964

04 OUTCOME / IN WHOSE FAVOUR

Assessee succeeded.

Source: Primary report: SCR 963–964

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05 AKHB REVIEW POINT

Test the charging jurisdiction before applying the anti-avoidance adjustment. The conclusion concerns complete closure and disposal of the factory premises, not a general rule that machinery rental is never business.

Source: Primary report: SCR 960–964

SOURCE & VERIFICATION

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STATUTORY SCOPE

Historical predecessor legislation only; this is not a decision applying the Income-tax Act, 1961. Verify the applicable statutory text separately.

LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment and current-law applicability have not been comprehensively checked.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from an identified primary report. Independent human review is not represented.

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