

The National Steel Works Ltd. v. Commissioner of Income-tax, Bombay

Civil Appeal No. 544 of 1961

[1963] 2 SCR 937 | 1962-05-03

Capital versus revenue receipt: a lump sum substituted for recurring profit on steel supplied under the assessee's quota remained a taxable revenue receipt.

Indian Income-tax Act, 1922: section 66A(2)

5-judge bench | S. K. Das, J. | J. L. Kapur, J. | A. K. Sarkar, J. | M. Hidayatullah, J. | Raghubar Dayal, J.

Assessment years: See the source-scope notes; no year inferred.

Historical quota agreement and 1922 Act

The result turns on the actual contractual rights and substitution of a lump sum for recurring per-ton profit; it does not make every payment labelled royalty or goodwill taxable revenue.

01 FACTS OF THE CASE

After Partition, National Steel Works had no rolling mill factory in Bombay but continued to receive steel and coal quota. It partnered with K. P. Irani, who had a factory but no quota. Under the 1948 partnership agreement the assessee bought quota materials in its own name, supplied them to the partnership at cost and received Rs.50 per ton in addition to its share of net profit. A 1954 modification reduced royalty on earlier materials and provided for Irani to pay Rs.60,000, described as goodwill, in consideration of waiving royalty on re-rollable scrap received after 30 June 1954. The tax authorities, Tribunal and Bombay High Court treated the Rs.60,000 as taxable revenue.

Source: [Quota business, partnership terms, modification and assessment: SCR pp.938-941 / PDF pp.2-5](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court identified substance over the agreement's label. The assessee, not the partnership, purchased quota steel and delivered it at cost; the original Rs.50 per-ton amount was therefore its profit on those supplies. The later Rs.60,000 was the capitalised value of the recurring profits forgone after 30 June 1954. No right in the steel quota itself was transferred to Irani or the partnership, so the amount could not be consideration for transferring a capital quota right. Calling it goodwill for waiving royalty did not change its real character, and the Court observed that goodwill had no role in waiving this royalty.

Source: [Substance of receipt and absence of quota-right transfer: SCR pp.941-942 / PDF pp.5-6](#)

03 JUDICIAL DECISION

The Court affirmed the Bombay High Court, held that the Rs.60,000 was a revenue receipt liable to tax and dismissed the assessee's appeal with costs.

Source: [Revenue-receipt holding and dismissal: SCR p.942 / PDF p.6](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue. The lump sum remained taxable revenue because it replaced profits on future supplies and did not purchase or transfer the quota right itself. The decision is confined to the contractual structure and historical tax statute before the Court.

Source: [Receipt character and final outcome: SCR pp.941-942 / PDF pp.5-6](#)

05 AKHB REVIEW POINT

AKHB analysis: for a capital-versus-revenue receipt dispute, map exactly what commercial stream ended and whether any enduring asset or right actually changed hands. Reconcile contract labels with purchase invoices, title to quota or licence rights, supply pricing and the method used to compute the lump sum. A payment calculated as the present substitute for recurring trading profit is vulnerable to revenue treatment even when described as goodwill.

Source: [AKHB analysis based on the substituted-profit and retained-right reasoning](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 6-page SCR source file read and visually inspected; the preceding decision ending on PDF p.1 and the editorial headnote on PDF pp.1-2 were separated from Raghubar Dayal J.'s unnumbered opinion beginning on PDF p.2.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and six-page count match catalogue asset 1963_2_937_942; all pages were read and visually inspected.

The report verifies Civil Appeal No. 544 of 1961, the 3 May 1962 decision date and the five-member bench.

No assessment year is printed in the report and none is inferred.

The source itself says the amended agreement was entered in 1954 while quoting clause 12 as reducing royalty from 1 October 1953; the chronology is reported without reconstruction.

STATUTORY SCOPE

This decision classifies a receipt under the Indian Income-tax Act, 1922 and arose through section 66A(2). The report does not state the assessment year, and current statutory treatment has not been checked.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and present statutory applicability have not been comprehensively checked; no current citator clearance is represented.

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