

State of Madras v. C. J. Coelho

Civil Appeal No. 701 of 1963

[1964] 8 SCR 60 | 1964-04-30

Agricultural income tax: interest on borrowing to purchase and work a plantation was revenue expenditure incurred wholly and exclusively for the plantation.

Madras Plantations Agricultural Income Tax Act, 1955: sections 5(e), 5(k) and 54(1) | Indian Income Tax Act, 1922: section 10(2)(xv), analogous language discussed

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1955-56

State agricultural income tax

The decision's direct holding is under section 5(e) of the Madras statute.

Integrated purchase and operation

The plantation was bought to be worked as a plantation; the result is not an unconditional rule for interest before business commencement.

01 FACTS OF THE CASE

Coelho purchased Silver Cloud Estate, with tea, coffee and rubber plantations, in 1950 for Rs. 3,10,000, borrowing Rs. 2,90,000. For assessment year 1955-56 he claimed interest of Rs. 22,628-9-8. The officer allowed only Rs. 1,570-10-7 by applying section 5(k)'s restricted formula. The Tribunal rejected the broader claim as discharge of a personal borrowing obligation, but the High Court allowed the full interest under section 5(e). The State appealed (SCR pp.62-64; PDF pp.3-5).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 5(e) excluded capital and personal expenditure while allowing spending wholly and exclusively for the plantation. The Court held that the interest itself acquired no new asset or enduring advantage and was revenue expenditure; a personal legal obligation does not automatically make an expense personal consumption (SCR pp.65–69; PDF pp.6–10). Viewed together, purchase and operation of this plantation were inseparable business activities. Interest on its acquisition borrowing was closely connected with working it, and the agricultural-income charge required deduction of the appropriate expenses in arriving at true net income, absent a statutory prohibition (SCR pp.70–72; PDF pp.11–13).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The State's appeal was dismissed with costs. The Court affirmed that the whole Rs. 22,628-9-8, rather than only the limited amount allowed by the officer, should be deducted under section 5(e) (SCR p.72; PDF p.13).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee/respondent. The acquisition interest was allowable as plantation expenditure on the established facts (SCR p.72; PDF p.13).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: trace borrowed funds to the income-producing operation and distinguish the capital cost of the acquired asset from the character of the interest charge. Document when the asset was acquired and worked, the borrowing terms and applicable statutory restrictions. Do not label a business expense personal merely because the proprietor incurred the debt, and do not transfer this historical State-law deduction automatically into current central tax law (based on SCR pp.66–72; PDF pp.7–13).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 13-page SCR report read and checked. The editorial headnote was distinguished from the judgment text and operative order.

[Open cited source rendition](#)

The source report contains 13 pages. Reporter headnotes and adjacent-case text are distinguished from the target judgment and operative order.

The primary source identifies Civil Appeal No. 701 of 1963, the stated bench, issues, reasoning and operative result.

STATUTORY SCOPE

The operative statute was the Madras Plantations Agricultural Income Tax Act, 1955, not a central income-tax assessment. The Court used analogous 1922 Act expenditure principles; current borrowing-cost and capitalisation provisions require independent application.

LATER TREATMENT

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

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