

Commissioner of Income-tax, Madras v. V. MR. P. Firm, Muar

Civil Appeals Nos. 55, 888 and 889 of 1962 and 518-520, 722, 724, 725, 727-729 and 732-735 of 1963

[1965] 1 SCR 815 | 1964-10-26

Malaya occupation debts: statutory revival after scaling down Japanese-currency payments restored creditor-debtor rights, and taxability or deduction depended on whether later receipts or payments represented principal or interest; estoppel could not create tax liability.

Indian Income-tax Act, 1922: taxability of receipts and deductibility of payments under the applicable charging and business-computation provisions | Malaya Debtor and Creditor (Occupation Period) Ordinance No. XLII of 1948: section 4(1), section 4(2) and Schedule

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

Assessment years: 1950-51, 1951-52, 1952-53

Principal and interest must remain separated

The Court sustained tax or deduction consequences only by the legal character of each receipt or payment. Open payments required appropriation under the governing law.

Exceptional wartime regime

The dispute arose from Japanese occupation currency, a Malayan debt-revaluation ordinance and an Indian administrative relief scheme; the result is not a general current rule for modern restructurings or foreign exchange.

01 FACTS OF THE CASE

During the Japanese occupation of Malaya from February 1942 to September 1945, Japanese currency progressively depreciated. Indian businesses suffered losses when debts were paid in that currency. India's 1947 relief scheme allowed aggregated occupation-period losses to be carried backward against 1942-43 and 1941-42 profits; Board instructions treated later debt recoveries as income for scheme purposes. Malaya's 1948 Ordinance then revalued specified occupation-currency payments, making them valid discharge only to the scaled amount and reviving the balance of the original debt. The consolidated appeals covered creditor assesseees receiving revived amounts and debtor assesseees making additional payments, principally in AYs 1950-51 to 1952-53.

Source: [Occupation history, relief scheme, Ordinance and illustrative assesseees: SCR pp.817-819 / PDF pp.3-5](#); [Tax authority, Tribunal and High Court positions: SCR p.820 / PDF p.6](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court refused a new contention that section 4(2) of the Ordinance did not apply because that issue had not been raised below. It rejected Revenue's approbate-and-reprobate argument: that doctrine was a species of estoppel and could not operate against a taxing statute; income not taxable under the Act could not become taxable through agreement or equitable doctrine. The relief scheme's direction about later recoveries therefore did not displace the statute. Reading the Ordinance, the Court held that occupation-currency payments were scaled down and the unpaid balance of the original debt revived; the State did not compensate the creditors or create a new right. Consequently later receipts and payments retained their legal character. Principal received by a creditor was not income, while interest was taxable; a debtor could deduct interest if otherwise permitted but not principal. Open payments were to be allocated under the law of appropriation.

Source: [Scheme terms and rejection of estoppel-based taxation: SCR pp.821-823 / PDF pp.7-9](#); [Ordinance revaluation, revival and principal/interest treatment: SCR pp.824-826 / PDF pp.10-12](#)

03 JUDICIAL DECISION

The Supreme Court upheld the High Court's directions. Creditor assessees were not taxable on principal recovered under the revived debts but remained taxable on interest; debtor assessees could claim only otherwise-permissible interest deductions, not principal repayments. Open payments were to be appropriated according to law. All appeals were dismissed with costs, with one hearing fee.

Source: [Principal/interest directions and final dismissal: SCR pp.825-826 / PDF pp.11-12](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed by component, with the High Court's answers affirmed. Principal recoveries were outside income and principal repayments were not deductible; interest receipts remained taxable and qualifying interest payments deductible. Both Revenue and assessee appeals failed.

Source: [Directions sustained and appeals dismissed: SCR p.826 / PDF p.12](#)

05 AKHB REVIEW POINT

AKHB analysis: tax analysis follows the statutory and legal character of each payment, not an administrative concession or estoppel theory. In a recovery or restructuring file, reconstruct the original debt, identify the instrument that altered enforceability, separate principal from interest, and document lawful appropriation of mixed payments. For a modern cross-border or foreign-currency matter, separately test current charging, deduction, remittance and exchange provisions and later authority.

Source: [AKHB analysis based on statutory taxability rather than estoppel and the revived-debt character](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full 12-page SCR report read and visually checked. The editorial headnote on PDF pp.1-2 was distinguished from Subba Rao J.'s unnumbered judgment beginning on PDF p.3 and continuing through PDF p.12; the consolidated appeals table on PDF p.5 was also inspected.

Open cited source rendition

Exact source bytes, SHA-256 and 12-page count match catalogue asset 1965_1_815_826; every page was read as extracted text and inspected as a rendered image.

The judicial text verifies the consolidated appeal numbers, the three-member bench, the affected assessment years and the mixed principal/interest directions.

No published AKHB record with this party identity, consolidated appeal set or source asset was found.

STATUTORY SCOPE

The ruling addresses the repealed Indian Income-tax Act, 1922 against the exceptional Malaya occupation-currency regime and a 1947 administrative relief scheme. It does not determine present tax treatment of debt reconstruction, foreign-currency gains, recoveries or deductions.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment of estoppel in tax law, revived debts, appropriation and current foreign-currency or recovery provisions has not been checked; no current-law or citator clearance is represented.

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