

Commissioner of Income Tax, U.P., Lucknow v. Maheshwari Devi Jute Mills Ltd., Kanpur

Civil Appeals Nos. 66 and 67 of 1964

[1965] 3 SCR 765 | 1965-04-15

Capital versus revenue receipt: sale of transferable surplus loom-hours was treated as disposal of a fixed-capital asset rather than exploitation by temporary use.

Indian Income Tax Act, 1922: sections 4(3)(vii), 12B and 66A(2)

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

Assessment years: 1949-50, 1950-51

Accepted asset premise

The Supreme Court declined to reopen the premise, maintained throughout the earlier proceedings, that loom-hours were a transferable asset of the assessee.

Seller-side receipt ruling

The case classifies the seller's receipt; it does not itself determine the tax character of a buyer's expenditure for loom-hours.

01 FACTS OF THE CASE

Maheshwari Devi Jute Mills belonged to an association whose working-time agreement limited each member's operating hours and permitted sanctioned transfers of surplus loom-hours. Because its preparatory section could not support all allotted hours, the assessee sold 220 x 24 loom-hours to Naskarpara Jute Mills for Rs. 53,460 in the account year for AY 1949-50. It received Rs. 1,85,230 from Birla Jute Mills and Hanuman Jute Mills for surplus loom-hours in the account year for AY 1950-51. The tax authorities and Tribunal treated both receipts as revenue, but the Allahabad High Court answered the reference for the assessee.

Source: [Working-time agreement and transferable loom-hours: SCR pp.766-767 / PDF pp.2-3](#); [Sales, receipt amounts, assessment years and reference: SCR p.767 / PDF p.3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court rejected the casual-and-non-recurring exemption route because a business receipt was not exempt merely on that description. The litigation had consistently proceeded on the basis that loom-hours were an asset transferable with association approval, so Revenue could not newly argue they were only a privilege. Letting another person temporarily use a retained commercial asset ordinarily produces income, but loom-hours could not be temporarily let while ownership remained with the transferor. Their transfer left no interest with the assessee and was therefore a sale. On the accepted facts they were not circulating capital: disposing of that capital produced a capital receipt. The Court distinguished temporary letting of a dyeing plant and disagreed with a separate Allahabad decision that had characterised sale of loom-hours as exploitation of a commercial asset.

Source: [Exemption argument and accepted asset premise: SCR pp.767-768 / PDF pp.3-4](#); [Temporary use distinguished from sale of capital: SCR p.769 / PDF p.5](#); [No retained interest and capital-receipt conclusion: SCR p.770 / PDF p.6](#)

03 JUDICIAL DECISION

The Court held that the surplus loom-hours had been sold, not temporarily exploited while ownership was retained. On the accepted footing that they were a capital asset rather than circulating capital, the sale proceeds were capital receipts and not taxable income. Revenue's appeals were dismissed with costs.

Source: [Capital-receipt holding and dismissal: SCR p.770 / PDF p.6](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. The two loom-hour sale receipts were treated as capital, and the High Court's non-taxable answer stood. The ruling did not decide a purchaser's deduction or current statutory consequences.

Source: [Revenue appeals dismissed with costs: SCR p.770 / PDF p.6](#)

05 AKHB REVIEW POINT

AKHB analysis: for a transferable business right, separately establish whether the taxpayer retained ownership and merely permitted use, whether the right was fixed or circulating capital, and whether the disputed payment concerns the seller or buyer. Do not transpose a seller-side capital-receipt result into the buyer's deduction analysis. Preserve the procedural premise on which the asset characterization rested, and independently review later treatment and current capital-gains and intangible-asset provisions before advising.

Source: [AKHB analysis based on the retained-use versus outright-sale distinction](#)

SOURCE & VERIFICATION

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

Full 6-page SCR report read and visually checked. The editorial headnote on PDF p.1 was distinguished from Shah J.'s judgment beginning on PDF p.2 and continuing through PDF p.6.

Open cited source rendition

Exact source bytes, SHA-256 and 6-page count match catalogue asset 1965_3_765_770; every page was read as extracted text and inspected as a rendered image.

The judicial text verifies Civil Appeals Nos. 66 and 67 of 1964, the three-member bench, both assessment years, the two receipt amounts and dismissal of Revenue's appeals.

No published AKHB record or archived reviewed release with this party identity, citation, case numbers or source asset was found; the existing Empire Jute note discusses this precedent but is not a duplicate judgment.

STATUTORY SCOPE

The decision classifies receipts under the repealed Indian Income Tax Act, 1922 and proceeds on the case-specific accepted premise that loom-hours were the assessee's transferable asset. It does not determine the current treatment of similar rights, capital gains, depreciation or intangible assets.

LATER TREATMENT

Source checked 2026-10-10. The published AKHB corpus records that Empire Jute later distinguished this seller-side ruling and described its asset premise as accepted without examination. Comprehensive later treatment and current statutory consequences have not been checked; no current-law or citator clearance is represented.

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