

Commissioner of Income Tax, Punjab v. Lahore Electric Supply Co.

Civil Appeals Nos. 813 and 814 of 1963

[1966] 2 SCR 720 | 1965-11-25

Business-expense deduction after acquisition of the assessee's sole electricity undertaking: whether outstanding liabilities, investment of funds and a possible future acquisition showed that business continued.

Indian Income-tax Act, 1922: sections 10 and 10(2)(xv)

3-judge bench (2:1 majority) | A. K. Sarkar, J. | J. R. Mudholkar, J. | R. S. Bachawat, J. (dissenting)

Assessment years: 1948-49, 1949-50

Historical Act and divided court

The holding applies section 10(2)(xv) of the repealed 1922 Act and was reached by a 2:1 majority. Bachawat J. would have treated the investment activity and the wider circumstances as continuing business. Current statutory language and later authorities require separate review.

01 FACTS OF THE CASE

Lahore Electric Supply Co. had acquired licences to supply electricity at several places, but by 1942 only its Lahore licence remained. The provincial government acquired that undertaking; the company delivered it on 5 September 1946, receiving part-payment while valuation and the balance remained outstanding. The company retained other assets, invested its funds in securities, shares and deposits, and dealt with consumer deposits and other liabilities. For accounting years 1947-48 and 1948-49, corresponding to AYs 1948-49 and 1949-50, it claimed expenses under section 10(2)(xv) on the basis that it continued to carry on business. The Tribunal and Punjab High Court accepted that position, relying on factors including retained assets and staff, unpaid compensation, outstanding deposits, resistance to liquidation and the directors' consideration of purchasing a manufacturing concern.

Source: [Acquisition, investments, assessment claims and referred questions: SCR pp.721-723 / PDF pp.2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Sarkar J., for the majority, treated actual business activity as absent after the sole operating undertaking was handed over. Neither failure to liquidate, retained assets and staff, an unresolved compensation balance, outstanding consumer deposits nor the directors' mere consideration of another acquisition established an intention to resume business. Payment of old liabilities could not itself be a profit-producing activity under section 10, and collecting outstandings did not deem a closed business to continue. The Tribunal had not found that investing the funds was itself a business. Bachawat J. dissented: the memorandum authorised dealing in investments, the company invested and earned returns, the record contained business income from investment sales, and retained liabilities and surrounding circumstances supplied material for the Tribunal's finding that business had not ceased. The dissent would therefore have upheld the deductions, but it did not control the formal result.

Source: [Majority's business-cessation analysis: SCR pp.723-726 / PDF pp.4-7](#); [Bachawat J.'s dissent on investment activity and the Tribunal's finding: SCR pp.726-731 / PDF pp.7-12](#)

03 JUDICIAL DECISION

The majority answered the surviving referred question against the assessee, holding that it had ceased to carry on business during the relevant accounting years. The Revenue had abandoned the second referred question concerning the admissibility of individual expenses. In accordance with the majority opinions, the Court allowed both Revenue appeals with costs in the Supreme Court and below.

Source: [Formal majority order allowing the appeals: SCR p.731 / PDF p.12](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Revenue by majority. The legal finding that the assessee carried on business was reversed and the Revenue appeals were allowed with costs. Because the individual-expense question was abandoned, the Court did not separately adjudicate each claimed deduction.

Source: [Majority conclusion that business had ceased: SCR p.726 / PDF p.7](#); [Controlling final order: SCR p.731 / PDF p.12](#)

05 AKHB REVIEW POINT

AKHB analysis: for a historical business-expense claim after an undertaking has been sold or acquired, separate residual administration of old assets and liabilities from evidence of a continuing or resumed profit-making activity. Record-specific findings on investment dealing and corporate objects can matter, as the dissent illustrates, but the majority required more than unliquidated obligations or a possible future venture. For current work, verify the governing deduction provision and later case law rather than treating this 1922 Act decision as a current-law safe harbour.

Source: [AKHB analysis based on the majority/dissent division over cessation and investment activity](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full 12-page SCR report read and visually checked. The editorial headnote spans PDF pp.1-2; the judicial opinions begin on PDF p.2. The majority opinion through PDF p.7, Bachawat J.'s dissent through PDF p.12 and the formal order on PDF p.12 were separately reviewed.

Open cited source rendition

Exact source bytes, SHA-256 and 12-page count match catalogue asset 1966_2_720_731; every page was text-reviewed and visually checked.

The report verifies Civil Appeals Nos. 813 and 814 of 1963, decision on 25 November 1965, the three-member bench, the two assessment years and the 2:1 division.

No Lahore Electric decision, matching citation, docket or source hash appears in content/supreme-court-cases.json or the prior reviewed releases; references to business cessation in other cases are not duplicates.

STATUTORY SCOPE

This decision construes the repealed Indian Income-tax Act, 1922, including the then wording of section 10(2)(xv), on records for accounting years 1947-48 and 1948-49. No present-law analogue, later amendment or current precedential treatment has been independently checked.

LATER TREATMENT

Source checked 2026-10-10. The complete reported judgment was checked, including the dissent and formal majority order. Later treatment and the relationship of this historical business-cessation test to current deduction provisions have not been comprehensively checked; no citator or current-law clearance is represented.

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