

Shree Meenakshi Mills Ltd., Madurai v. Commissioner of Income-tax, Madras

Civil Appeals Nos. 557 and 558 of 1965

[1967] 1 SCR 392 | 1966-09-19

1922 Act business expenditure: civil litigation expense incurred to resist an executive restriction on business was not disqualified merely because the proceeding failed.

Indian Income-tax Act, 1922: section 10(2)(xv) | Specific Relief Act, 1877: section 45 | Cotton Cloth and Yarn (Control) Order, 1945: clauses 18-A and 18-B

2-judge bench | J. C. Shah, J. | V. Bhargava, J.

Assessment years: 1949-50, 1950-51

Civil business-protection litigation

The result turned on the Tribunal's finding that post-20 February 1946 contravention had ceased. The Court did not allow defence expense for criminal wrongdoing and distinguished that setting.

01 FACTS OF THE CASE

The assessee cotton mill used its own 80 handlooms and also sent yarn to outside weavers. Orders under clause 18-B of the Cotton Cloth and Yarn (Control) Order restricted delivery, and yarn sent between 7 and 20 February 1946 was seized. After the Provincial Textile Commissioner's 20 February order, the Tribunal found that the company made no further outside deliveries. The company unsuccessfully sought mandamus under section 45 of the Specific Relief Act to restrain seizure, restore yarn and prevent interference, ultimately losing before the Privy Council on the breadth of 'deliver' and territorial jurisdiction. It claimed Rs.20,035 litigation expense for AY 1949-50 and Rs.5,912 awarded costs for AY 1950-51; the authorities, Tribunal and High Court disallowed both.

Source: [Control orders, mandamus proceedings and claimed sums: SCR pp.392-395](#)

02 DISCUSSION BY THE HON'BLE COURT

Deductibility depended on the proceeding's nature and purpose in relation to the business, not its ultimate success. The company sought to protect its existing mode of business and recover seized goods. Even ill-advised or overconfident litigation can qualify if honestly and reasonably incurred wholly and exclusively for business. Section 10(2)(xv) did not require a direct income-earning object; protecting a business against legislative or executive restriction could be commercially expedient. The Court rejected Revenue's criminal-protection characterisation because the Tribunal's binding factual statement was that the company stopped outside delivery after the 20 February order. The High Court had wrongly preferred observations from the earlier control litigation over the Tribunal's facts. H. Hirjee was therefore distinguishable, while Malayalam Plantations supported the wider business-purpose test.

Source: [Failed litigation and business-purpose test: SCR pp.395-396](#); [Tribunal facts, criminal distinction and wider purpose: SCR pp.397-399](#)

03 JUDICIAL DECISION

Expenditure incurred in the civil proceeding to resist an executive measure restricting the company's business was admissible under section 10(2)(xv) on the governing findings; neither failure nor repeated appeals defeated the claim. The Court allowed both appeals, answered the reference affirmatively and awarded the company costs in the Supreme Court and High Court, with one hearing fee.

Source: [Holding and final result: SCR p.399](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee company. Its litigation expenditure and adverse costs were held business-purpose deductions on the facts; both appeals succeeded, the question was answered affirmatively and costs were awarded in both courts with one hearing fee.

Source: [Operative allowance: SCR p.399](#)

05 AKHB REVIEW POINT

AKHB analysis: for litigation-cost deductions, retain the initiating order, pleadings, relief sought, factual findings and invoices so the file shows a genuine link to protecting the operating business. A failed case is not automatically non-business, but the purpose must be honest, reasonable and business-directed. Carefully separate civil resistance to an allegedly invalid restriction from expenditure defending criminal or prohibited conduct. Current section 37 doctrine, statutory exclusions and later authorities require independent review.

Source: [Purpose, factual foundation and civil-proceeding distinction: SCR pp.395-399](#)

SOURCE & VERIFICATION

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

Full eight-page SCR report read. The editorial headnote on PDF page 1 was distinguished from the unnumbered judicial opinion beginning later on the same page (SCR p.392).

Open cited source rendition

Exact source bytes, SHA-256 and eight-page count match catalogue asset 1967_1_392_399. All pages were read and visually inspected.

The title, 19 September 1966 date, two-judge bench, Civil Appeals Nos.557 and 558 of 1965 and [1967] 1 SCR 392 citation were verified from the report.

The judicial text has no numbered paragraphs; SCR and physical PDF page pinpoints are used.

The source catalogue's retrospective identifier 1966INSC170 is not printed in the report and is not used as the verified citation.

No published AKHB record matches this judgment by title, citation, asset ID, source URL or SHA-256; later notes citing Shree Meenakshi Mills are not duplicate coverage.

STATUTORY SCOPE

The ruling applies section 10(2)(xv) of the repealed Indian Income-tax Act, 1922 in a historical wartime-control and section 45 Specific Relief Act setting. It does not certify current deductibility under the Income-tax Act, 1961.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment, the effect of statutory changes and present rules for civil or regulatory litigation expenditure have not been checked. No current-law or citator clearance is represented.

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