

Travancore Sugars and Chemicals Ltd. v. Commissioner of Income-tax, Kerala

Civil Appeal No. 324 of 1965

[1967] 1 SCR 423 | 1966-09-20

1922 Act business expenditure: an indefinite profit-linked payment unconnected with a fixed capital sum was revenue in character, but the deduction question was remanded for unresolved issues.

Indian Income-tax Act, 1922: section 10(2)(xv) | Contractual clauses 3, 4, 5 and 7 of the 1937 and 1947 acquisition agreements

3-judge bench | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1958-59

Issue-specific remand

The Supreme Court decided only that the payment was revenue rather than capital. It did not finally hold the sum deductible; three remaining issues were sent back to the High Court.

Repealed 1922 Act

Apply the governing 1961 Act provisions and later authorities independently before using the historical section 10(2)(xv) analysis.

01 FACTS OF THE CASE

The appellant company acquired three undertakings from the Travancore Government: Travancore Sugars Ltd.'s assets, the Government Distillery at Nagercoil and the Government Tincture Factory at Trivandrum. In addition to separately stated cash consideration, clause 7 originally gave Government 20 per cent of annual net profits subject to Rs.40,000; a 1947 agreement substituted 10 per cent of assessed net profits. For AY 1958-59, corresponding to 1 May 1956 to 30 April 1957, Rs.42,480 became payable. The Tribunal treated it as expenditure incurred to earn profits, but the Kerala High Court classified it as capital expenditure and therefore did not decide Revenue's alternative division-of-profits objection.

Source: [Acquisition, clause 7 and assessment history: SCR pp.424-426](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court said no universal test separates capital from revenue expenditure: the transaction's commercial character must be gathered from the covenants and surrounding circumstances, not the parties' label. Three features were decisive. The profit percentage ran indefinitely, was tied to annual trading profits rather than asset values, and was not linked to any fixed capital sum. Unlike instalments of an identified purchase price, the recurring payment therefore had no relationship to a capital amount and was revenue in character. The Court distinguished the exceptional oil-reservation facts in Catherine Spooner and found support in 36/49 Holdings, Kolhia Hirdagarh and Jones. It did not decide whether the payment diverted profits by paramount title, constituted a joint venture, or satisfied the wholly-and-exclusively requirement of section 10(2)(xv), because the High Court had not addressed those questions.

Source: [Commercial-character test and three features: SCR pp.427-428](#); [Unresolved questions requiring rehearing: SCR pp.431-432](#)

03 JUDICIAL DECISION

The Court overruled the High Court's classification of the Rs.42,480 payment as capital expenditure and held it revenue in nature. Because the High Court had not decided the other grounds bearing on deductibility, the Court allowed the appeal, set aside the High Court judgment and remanded the reference for rehearing in accordance with its directions. Each side was to bear its own costs up to that stage.

Source: [Operative remand and costs: SCR p.432](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee only on characterisation: the annual payment was revenue, not capital. The appeal was allowed and the High Court judgment set aside, but the deduction itself was not finally granted; the reference was remanded to decide the remaining issues, with parties bearing their own costs to that stage.

Source: [Limited success and remand: SCR pp.431-432](#)

05 AKHB REVIEW POINT

AKHB analysis: for a recurring acquisition-related payment, document whether it runs for a fixed or indefinite period, whether it varies with turnover or profits, and whether it amortises an identified purchase price. Those facts matter more than contractual labels. Also separate revenue character from final deductibility: this judgment resolved the first question but expressly left diversion, joint-venture character and section 10(2)(xv)'s remaining conditions for rehearing. A present case requires independent analysis under the governing 1961 Act and later law.

Source: [Characterisation factors and unresolved issues: SCR pp.427-432](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full ten-page SCR report read. The editorial headnote on PDF page 1 and the first lines of PDF page 2 were distinguished from the unnumbered judicial opinion beginning on PDF page 2 (SCR p.424).

Open cited source rendition

Exact source bytes, SHA-256 and ten-page count match catalogue asset 1967_1_423_432. All pages were read and visually inspected.

The title, 20 September 1966 date, three-judge bench, Civil Appeal No.324 of 1965 and [1967] 1 SCR 423 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 1966INSC172 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; references to Travancore Sugars inside later notes are citations, not duplicate coverage.

STATUTORY SCOPE

The judgment applies section 10(2)(xv) of the repealed Indian Income-tax Act, 1922 to a historical acquisition agreement. It does not finally allow the deduction and does not certify present treatment under the Income-tax Act, 1961.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment, the result after remand, statutory succession and present deductibility rules have not been checked. No current-law or citator clearance is represented.

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