

Commissioner of Wealth Tax, Madras v. Ramaraju Surgical Cotton Mills Ltd.

Civil Appeal No. 674 of 1965

[1967] 1 SCR 761 | 1966-10-05

Wealth-tax exemption for substantial expansion: a unit is set up when ready to function, while operations for its establishment necessarily begin earlier.

Wealth-tax Act, 1957: section 5(1)(xxi) and second proviso

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

Assessment years: 1957-58 (valuation date: 30 September 1956)

Historical wealth-tax exemption

The ruling applies the then wording of section 5(1)(xxi) and its second proviso. It does not certify a current exemption or a present income-tax rule.

01 FACTS OF THE CASE

Ramaraju Surgical Cotton Mills Ltd., a public company manufacturing absorbent cotton wool, resolved in March 1955 to establish a new spinning unit, Sudarsanan Spinning Mills. It obtained the industrial licence in August 1955, placed machinery orders in January-February 1956, began factory construction in March 1956, completed the buildings by December 1957, installed machinery in stages from June 1957 and obtained the factory-working licence in June 1958. For AY 1957-58, with valuation date 30 September 1956, it claimed deduction of Rs.1,43,727 laid out on the new unit. The Wealth Tax Officer, first appellate authority and Tribunal rejected the claim on the view that the unit had been set up before the Act commenced on 1 April 1957. The Madras High Court answered the referred exemption question for the company, bringing the Commissioner to the Supreme Court.

Source: [Project chronology, claim and referred question: SCR pp.762-763 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court agreed that a unit is 'set up' when it is established in the practical sense of being ready to discharge the function for which it is created; actual commencement of production may follow. It rejected the Commissioner's attempt to equate that point with the second proviso's different expression, 'commences operations for the establishment'. Establishment operations are antecedent steps that culminate in setting up, so the two events cannot be simultaneous by definition. On the record, the unit became ready only after 1 April 1957 and therefore satisfied the principal clause. The Commissioner then sought to argue that the qualifying establishment operations began too late for the claimed year. The Court refused that new case: throughout the departmental process the accepted premise was that those operations began before 1 April 1957, and the contrary issue had neither been raised nor dealt with by the Tribunal. Because the Act created no assessment year before 1957-58, that year was the first year following pre-commencement establishment operations for purposes of the proviso.

Source: [Meaning of set up and distinction from establishment operations: SCR pp.764-765 / PDF pp.4-5; New-question bar and application to AY 1957-58: SCR pp.766-767 / PDF pp.6-7](#)

03 JUDICIAL DECISION

The company met section 5(1)(xxi)'s condition because the new unit was set up after the Wealth-tax Act commenced, and its pre-1 April 1957 establishment operations made AY 1957-58 the first available assessment year under the proviso. The High Court's answer allowing the exemption was affirmed. The Commissioner's appeal was dismissed with costs.

Source: [Exemption entitlement and operative dismissal: SCR pp.765-767 / PDF pp.5-7](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee company. Its Rs.1,43,727 exemption claim for AY 1957-58 remained allowed, and the Revenue's appeal failed with costs. The Court did not formulate a fact-free rule fixing when every project begins establishment operations.

Source: [Application and final Revenue dismissal: SCR pp.766-767 / PDF pp.6-7](#)

05 AKHB REVIEW POINT

AKHB analysis: keep three project dates separate in contemporaneous evidence—first establishment activity, readiness to perform the intended business function, and actual commercial production. The governing statute may attach different consequences to each expression. Also preserve the precise issue and factual premise accepted by the Tribunal; a party ordinarily cannot replace that premise with a new factual case at the reference or Supreme Court stage. This is a historical wealth-tax ruling, so current statutory language and later treatment must be verified independently before use.

Source: [AKHB analysis based on the distinct statutory trigger dates and procedural limit](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full 7-page SCR source file read. The editorial headnote on PDF p.1 was distinguished from the unnumbered judicial text on PDF pp.2-7; the complete operative judgment was reviewed.

Open cited source rendition

Exact source bytes, SHA-256 and seven-page count match catalogue asset 1967_1_761_767; every page was read.

The judicial text verifies Civil Appeal No. 674 of 1965, decision date 5 October 1966 and the three-member bench.

The Court did not determine an abstract universal starting point for 'operations for establishment'; it applied the Tribunal's unchallenged premise that those operations began before 1 April 1957.

No title, citation or party match for this judgment was found in the existing published case collection or reviewed archive.

STATUTORY SCOPE

This decision construes section 5(1)(xxi) and its second proviso in the historical Wealth-tax Act, 1957. The provision's later amendment/repeal history and any present-law analogue have not been checked.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment, the provision's subsequent statutory history and current applicability have not been comprehensively checked; no present-law or citator clearance is represented.

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