

T. N. K. Govindarajulu Chetty v. Commissioner of Income-tax, Madras

Civil Appeals Nos. 1425 and 1426 of 1966

[1967] 3 SCR 653 | 1967-04-17

Interest awarded on delayed compulsory-acquisition compensation was taxable revenue where the payment implemented a substantive right arising from the acquisition framework and an implied agreement, rather than merely measuring damages awarded in arbitral discretion.

Indian Income-tax Act, 1922: income chargeability provisions | Requisitioned Land (Continuance of Powers) Act, 1947: sections 5 and 6 | Defence of India Act, 1939: section 19(1), including clauses (e) and (g) | Land Acquisition Act, 1894: sections 23(1), 28 and 34

3-judge bench; unanimous judgment delivered by J. C. Shah, J. | J. C. Shah, J. | S. M. Sikri, J. | V. Ramaswami, J.

Assessment years: 1955-56, 1956-57

Character depended on the source of the right

The decisive distinction was between interest payable under statute or agreement for being kept out of money and a sum called interest that merely formed part of discretionary damages. The label alone was not controlling.

Compensation principal was not recharacterised

The Court decided the tax character of Rs.1,28,716 awarded as interest on compensation. It did not hold that the Rs.5,00,000 compensation principal was taxable income.

Year-wise allocation remained outside the holding

The High Court had declined to answer the Tribunal's second question about assessment-year apportionment, and the Supreme Court's reasons and operative order resolved taxability without supplying its own year-wise allocation.

Arbitration exclusion was narrowly read

Section 19(1)(g) excluded other law from the arbitration code, but the Court held that substantive law governing interest was not part of the arbitration machinery and therefore was not excluded.

Catalogue docket is incomplete

The source catalogue labels only Civil Appeal No.1425 of 1966, whereas the report's jurisdiction line and operative order cover Civil Appeals Nos.1425 and 1426 of 1966. This note follows the complete report and records both appeals.

01 FACTS OF THE CASE

The Madras Collector requisitioned the assessee's Lutterals Gardens property in 1944 under rule 75A of the Defence of India Rules and acquired it in 1949 under section 5 of the Requisitioned Land (Continuance of Powers) Act. The assessee rejected an offer of Rs.2,40,000 plus 6 per cent interest; the Madras High Court ultimately fixed compensation at Rs.5,00,000 and awarded 6 per cent interest from the acquisition notification. During the previous years relevant to assessment years 1955-56 and 1956-57, they received Rs.6,28,716, including Rs.1,28,716 interest. The officer taxed year-of-receipt amounts, the first appellate authority treated the interest as revenue accruing year by year, and the Tribunal held it capital. On reference, the High Court held it taxable but declined to answer the separate apportionment question (SCR pp.653-655; PDF pp.1-3).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Following Dr. Shamlal Narula, the Court distinguished interest paid for delayed compensation from the capital compensation itself: statutory or contractual interest represents the return or loss associated with being kept out of money (SCR pp.655-656; PDF pp.3-4). The English damages decisions did not control because their so-called interest arose only in discretionary awards as a measure of compensation. Here Satinder Singh supplied the governing acquisition principle: dispossession implied an agreement to pay interest until compensation was made available. The Requisitioned Land scheme incorporated section 23(1) principles, and section 19(1)(g) did not exclude substantive rules concerning interest merely because it excluded other law from the arbitration procedure. Sections 28 and 34 therefore supported the right that the arbitrator and High Court implemented (SCR pp.656-660; PDF pp.4-8).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Supreme Court held that the interest received by the assessee was taxable, dismissed Civil Appeals Nos.1425 and 1426 of 1966 with costs and allowed one hearing fee (SCR p.660; PDF p.8).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue on the character of the receipt: the Rs.1,28,716 awarded as interest was taxable revenue. The judgment did not itself resolve the separate year-wise apportionment question that the High Court had declined to answer (SCR pp.654, 660; PDF pp.2, 8).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: when classifying an amount described as interest, identify the legal source of the payment, the period it compensates, whether it is additional to principal compensation, and whether the adjudicator merely enforced an existing statutory or contractual right or instead used an interest calculation only to measure damages. Keep character and year-of-taxability questions separate; this report decides the former, not the latter (based on SCR pp.655-660; PDF pp.3-8).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 8-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 8-page count match catalogue asset 1967_3_653_660; every page was reviewed.

The source verifies Civil Appeals Nos. 1425 and 1426 of 1966, the stated bench, issues, reasoning and operative result.

No published or archived standalone AKHB note with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The decision concerns interest on compensation under wartime requisition and acquisition enactments and the repealed Indian Income-tax Act, 1922. It does not itself determine current taxation of compulsory-acquisition compensation or interest, nor the effect of later statutory classifications, exemptions or timing provisions. No current-law or later-treatment clearance was undertaken.

LATER TREATMENT

Source checked 2026-10-11. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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General legal and tax research only; not legal or tax advice. Verify the original judgment, the governing historical statute and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.