

Mewar Sugar Mills Ltd., Bhopal Sagar v. Commissioner of Income-tax, Rajasthan, Jaipur

Civil Appeal Nos. 1596 to 1598 of 1969 — Supreme Court appeal or expressly printed appeal group decided in this judgment and connected proceedings (full list below)

[1973] 2 SCR 429 | 1972-09-26

The 2% royalty tied to sugar manufactured was revenue expenditure; the separate monopoly-right payments remained capital, their disallowance not having been pressed.

1922 Act: 10(1) | 1922 Act: 10(2)(xv) | 1922 Act: 66(1)

4 Judges | K. S. Hegde | P. Jaganmohan Reddy | I. D. Dua | H. R. Khanna

01 FACTS OF THE CASE

A 1932 Udaipur State grant gave a 32-year sugar-manufacturing monopoly, associated facilities and a royalty on manufactured goods. Following transfers, Mewar Sugar Mills assumed obligations both to the State and to the transferor and his nominee. It paid a 2% sugar royalty to the State and separate profit-based sums for monopoly rights. For assessment years 1950-51 to 1952-53, the authorities rejected the deductions. On a section 66(1) reference under the Indian Income-tax Act, 1922, the Rajasthan High Court allowed oil royalties but disallowed sugar royalties and the monopoly payments. Only the sugar-royalty challenge was ultimately pressed in the Supreme Court.

Source: [SCR 430D-433B](#)

02 DISCUSSION BY THE HON'BLE COURT

Jaganmohan Reddy J rejected the High Court's conflation of all benefits under the grant. The royalty clause allowed revision after five years if the rate proved excessive for running the factory and stated that no other tax would be charged on sugar. Those features did not make the payment consideration for the monopoly. Drawing on Moolchand, the Court explained that capital/revenue tests are not universally decisive; the agreement, asset, trade and purpose of payment matter. Assam Bengal Cement concerned payments to obtain an enduring right and had been misapplied. Gotan Lime and Associated Stone Industries supported the different treatment of royalties directly related to production or materials extracted. Here the payment tracked the sugar manufactured, rather than securing a further enduring advantage.

Source: [SCR 433B-436A](#)

03 JUDICIAL DECISION

The 2% sugar royalty for all three years was revenue expenditure deductible under section 10(2)(xv). The two monopoly-right payments for 1950-51 and 1952-53 remained capital. The latter result must be read with the express statement that counsel had not pressed that part of the challenge; it was not the subject of a fresh contested merits analysis.

Source: [SCR 433A-B and 436B-C](#)

04 OUTCOME / IN WHOSE FAVOUR

The appeals were partly allowed with costs, with the reference answered to permit the sugar-royalty deductions. The company won on production-related sugar royalties; the separate monopoly-payment disallowances remained.

Source: [SCR 436B-C](#)

05 AKHB REVIEW POINT

Disaggregate payments under a composite commercial arrangement and identify what each payment buys. A royalty measured by output is relevant evidence, not an automatic deduction rule; inspect whether any part secures the capital right itself. When relying on this judgment, preserve both the abandoned monopoly issue and the High Court's already favourable oil-royalty conclusion. Apply the current deduction legislation separately. The bounded modern general-deduction comparison is 1961 section 37 to 2025 section 34, subject to each version's exclusions.

Source: [SCR 432G-433C and 434B-436C](#); [editorial separation of payment and issue roles](#); [Whole displayed section 37, main \(1\), Explanations 1-3, \(2B\), omitted slots and footnote 17](#); [HTML 38-95](#); [Whole section 34\(1\)-\(3\)](#); [HTML 38-73](#).

APPEAL AND PROCEEDING NUMBERS

Civil Appeal Nos. 1596 to 1598 of 1969 — Supreme Court appeal or expressly printed appeal group decided in this judgment / Income-tax Reference No. 29 of 1962 — Originating High Court appeal/reference docket; not an additional Supreme Court appeal

SOURCE & VERIFICATION

Original reported Supreme Court judgment

8-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified.

Open cited source rendition

The jurisdiction line repeats "High" in "Rajasthan High High Court"; no second court is implied.

The report groups three Supreme Court appeals but does not assign each number to a particular assessment year.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 10(1), 10(2)(xv), 66(1)

Section 37(1), official displayed 2025 text, excludes capital/personal expenditure and applies the wholly-and-exclusively business test, subject to specified provisions and express exclusions. It supplies a general comparison, not a decision on this historical payment under the later Act.

Section 34(1)-(3), displayed 2026, supplies the general expenditure test with its own enumerated exclusions. This is a bounded 37→34 comparison; special allowances and the applicable tax year require separate analysis.

Legacy 1922 holding. Exact compared versions and bounded read scopes are recorded in sources; no automatic present-law carryover or exhaustive tax-year/repeal/savings determination.

LATER TREATMENT

Source checked 2026-10-07. No specific later judicial use has been adopted for this note in this bounded review. This is a verification limit, not an assertion that none exists.

Comprehensive subsequent history and present-law applicability are not certified.

IDENTIFIED SOURCE LINKS

[Income-tax Act, 1961: section 37](#)

Official HTML displayed 2025; not verified as a complete 2026 consolidation Whole displayed section 37, main (1), Explanations 1-3, (2B), omitted slots and footnote 17; HTML 38-95. New personal bounded read of retained coordinator official web text. No fresh author acquisition, original PDF/HTML hash, page-image inspection or complete current-applicability/savings certification.

[Income-tax Act, 2025: section 34](#)

Official 2025 Act as amended by Finance Act 2026; section 34 HTML displays 2026 Whole section 34(1)-(3); HTML 38-73. New personal bounded read of retained coordinator official web text. No fresh author acquisition, original PDF/HTML hash, page-image inspection or complete current-applicability/savings certification.

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