

CHALLAPALLI SUGAR LTD. v. THE COMMISSIONER OF INCOME TAX, A.P. HYDERABAD

Present Supreme Court appeal: Civil Appeal No. 1353 of 1970; Present connected Supreme Court appeals: Civil Appeals Nos. 1784 & 1785 of 1970; Originating Andhra Pradesh High Court case: Case No. 64 of 1965; Originating Calcutta High Court references: I.T.R. Nos. 148 and 149 of 1961; Earlier Supreme Court proceedings discussed; not disposed here: Civil Appeals Nos. 1694 and 1730 and connected proceedings (full list below)

[1975] 2 SCR 538 | 1974-10-31

Interest incurred on borrowing to acquire and install plant before production could form part of actual cost for depreciation and development rebate. A separate, narrowly saved wealth-tax deduction survived for the connected assessee, but only for tax actually paid.

40(a)(iia) | 58(1A), identified within the 1972 saving clause

2-judge bench | H. R. Khanna, J. | A. C. Gupta, J.

01 FACTS OF THE CASE

Challapalli sought to capitalise Rs. 2,38,614 interest incurred before production began, on borrowing used to install machinery and plant. Standard Vacuum Refining sought equivalent treatment for Rs. 23,53,284 of pre-commencement debenture interest in two connected Revenue appeals. The Andhra Pradesh High Court rejected capitalisation; the Calcutta High Court allowed it.

The connected 1959-60 appeal also concerned a Rs. 5,04,000 provision for wealth-tax. The Tribunal had limited allowance to actual payment. Later Supreme Court decisions and the 1972 retrospective amendment created a separate question about preserving that deduction.

Source: [SCR 540B-542C](#)

02 DISCUSSION BY THE HON'BLE COURT

For the actual-cost enquiry under section 10(5), the Court adopted commercial accountancy principles in the absence of a contrary statutory definition or indication. Cost includes expenditure needed to bring the asset into existence and working condition. Interest incurred by a newly started company during construction and before production could therefore be capitalised. The accountancy material concerned actual borrowing costs, not notional interest on owned capital.

Section 208 of the Companies Act supplied analogous recognition for permitted interest on construction share capital. Different financing arrangements could legitimately produce different actual costs. India Cements concerned borrowing expenses of a running concern and did not answer this pre-production issue.

The 1972 amendment generally barred wealth-tax deduction. Section 5, however, saved particular assessments where the Supreme Court had already held the tax deductible before 15 July 1972. The earlier joint hearing and order meant that the March 1972 Constitution Bench decisions governed the connected assessee's wealth-tax issue, although its appeal awaited disposal on the additional interest question. That procedural effect satisfied the saving clause. The Court expressly confined the benefit to wealth-tax paid, not merely payable.

Source: [SCR 542E-552B](#)

03 JUDICIAL DECISION

Challapalli's appeal 1353 was allowed and the interest question answered in its favour. Revenue appeals 1784 and 1785 were dismissed, preserving capitalisation and the specifically qualified wealth-tax benefit.

Source: [SCR 552A-C](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee appeal allowed; connected Revenue appeals dismissed. Result: Assessee, subject to the paid-only wealth-tax condition. Costs: Assessee awarded costs; one hearing fee for appeals 1784 and 1785. Scope: Interest capitalisation upheld; specific statutory saving applied. Limit: Pre-production borrowing and the particular pre-1972 decisional history.

Source: [SCR 552B-C](#)

05 AKHB REVIEW POINT

Document the borrowing's use, construction period and production commencement, then check the governing actual-cost and interest provisions. Analyse statutory savings through the precise prior orders and assessment years. This decision neither capitalises every interest payment nor establishes a general wealth-tax deduction.

Source: [SCR 543C-D; 545F-G; 548E-G; 550D-552B](#)

APPEAL AND PROCEEDING NUMBERS

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SOURCE & VERIFICATION

Original reported Supreme Court judgment

15-page retained public-mirror SCR report. The complete report was read as text and page images. Fresh remote authentication as a signed original is not claimed.

Open cited source rendition

The printed caption is CHALLAPALLI SUGAR LTD., singular, and also covers Standard Vacuum Refining's connected proceedings. The headnote places section 10(2)(xv) under a 1961 label; the judicial body applies that provision under the 1922 Act. SCR 542G repeats "assets acquired in the previous year" in both branches of its written-down-value recital; the note does not reconstruct the statute from that apparent error. Earlier Constitution Bench and cited High Court docket numbers are separately identified, not counted as appeals decided here.

STATUTORY SCOPE

Indian Income-tax Act, 1922: 10(1), 10(2)(iii), 10(2)(vi), 10(2)(vi-a), 10(2)(vi-b), 10(2)(xv), 10(5) and Explanation, 66(1); Income-tax (Amendment) Act, 1972 sections 2, 4 and 5. Income-tax Act, 1961 sections 40(a)(iia) and 58(1A) appear in that amendment/saving discussion, not as the governing assessment provisions.

Core Health Care's checked 2008 judgment distinguishes a continuing business under the then applicable section 36(1)(iii) from Challapalli's pre-commencement facts, and separates actual-cost Explanation 8 to section 43(1). It treats the 2003 proviso as prospective from 1 April 2004 and expressly declines to decide that proviso's application. This is a bounded historical judicial comparison, not current statutory certification.

No direct 2025 successor mapping adopted. The old holding is not automatically carried into a different statutory scheme.

The checked section 536 preserves previous operation, accrued rights and liabilities, and specified earlier-tax-year and pending proceedings under the 1961 Act. Establish the governing year and savings before choosing a statutory comparison.

No automatic precedent carry-over or verified case-specific 2025 applicability is claimed.

LATER TREATMENT

Source checked 2026-10-07. Deputy Commissioner of Income Tax, Ahmedabad v. M/s. Core Health Care Ltd. (Supreme Court of India, 2008-02-08), paragraphs 6-13 and 17: Distinguishes Challapalli's borrowings before any business commenced from borrowing for an existing business. It permits the interest deduction for the pre-1 April 2004 years before it and expressly treats the 2003 proviso prospectively. It does not overrule Challapalli or decide the later proviso's application. The Revenue appeals were partly allowed on unrelated questions remitted to the High Court.

Bounded later judicial use is recorded; no comprehensive subsequent history, absence of contrary treatment or current-law certification is asserted.

IDENTIFIED SOURCE LINKS[Income-tax Act, 2025, as amended by Finance Act 2026](#)

Section 536(1) and (2)(a)–(e): physical 584–585, extracted lines 24385–24408. Selected official FA 2026 web-extracted text only; no raw-PDF, rendered-page or full-Act read claimed. No all-amendments or current-law certification.

[Deputy Commissioner of Income Tax, Ahmedabad v. M/s. Core Health Care Ltd. \(2008-02-08\), official court web-extracted PDF text](#)

Paragraphs 6–13 and 17, physical 2–6; identity and factual opening also inspected. Official Supreme Court web-extracted PDF text; no raw-PDF/image verification, and only the stated issue-specific passage is adopted.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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