

Income Tax Officer "A" Ward, Indore v. Gwalior Rayon Silk Manufacturing (Weaving) Co. Ltd., Birlagram, Nagda

Civil Appeals Nos.76-80 of 1971

[1976] 1 SCR 855 | 1975-09-18

Whether an instalment order under section 220(3), based on the assessee's offer to pay 5% interest, bound the Officer despite section 220(2) prescribing 4% and then 6% from 1 April 1965.

220(1), (2) and (3), especially the historical interest rate and instalment power | 156 (demand) | 154, 155, 250, 254, 260, 262 and 264 (listed only in the quoted interest-reduction proviso)

2-judge bench | V.R. Krishna Iyer, J. | S. Murtaza Fazal Ali, J.

Assessment years: 1959-60, 1960-61, 1961-62, 1962-63, 1963-64, 1964-65

Historical interest rates and period-specific relief

The actual order applies 4% only for January–March 1965 and restores 6% from 1 April 1965. The quoted Orissa authority's later 9% rate is not imposed here. The instalment power did not authorise either a permanent 5% bargain or charging 5% while the statute required 4%. The judicial payment figures differ from the headnote's half-and-half shorthand, and the listed instalments do not equal the rounded narrative balance; no reconstruction is made. These are historical rates and provisions. Original PDF unchanged. Comprehensive later treatment, current law and 2025 mapping are not verified.

01 FACTS OF THE CASE

The respondent textile manufacturer had claimed an exemption originating in a 1947 grant by the Maharaja of Gwalior. Under the Part B States (Taxation Concessions) Order, 1950 the Commissioner approved a limited weaving-division exemption but later refused the claim for the staple-fibre division. The High Court initially upheld the respondent, but the Supreme Court's 28 April 1964 decision restored the Commissioner's refusal. The ensuing provisional assessments for AYs 1959-60 to 1964-65 produced tax demands exceeding Rs.6.60 crores. That exemption dispute was background, not the question reconsidered in these appeals (physical pages 2-3/SCR 856 F-857 B).

On 26 December 1964 the respondent paid Rs.3 crores and asked to pay the balance, described as Rs.3.60 crores, in instalments. It offered 5% interest although section 220(2) then prescribed 4%. The Officer accepted on 16 January 1965. The report lists instalments of Rs.1 crore by 15 March 1966, Rs.1.20 crores by 15 March 1967 and Rs.1,34,76,000 by 15 March 1968. Those listed figures total Rs.3,54,76,000 rather than the rounded narrative balance; no missing adjustment is invented (physical page 3/SCR 857 C-E).

The Finance Act, 1965 increased the statutory rate to 6%. On 10 January 1966 the Officer informed the respondent that 6% applied to unpaid tax from 1 April 1965 and issued a section 156 demand. The respondent argued that the accepted 5% term created an unalterable settlement or vested right. The Madhya Pradesh High Court allowed the writ petitions, relying instead on the expiry of the demand's thirty-five-day period before the amendment. These five Revenue appeals arose from its 17 October 1968 orders in Miscellaneous Petitions Nos.277 and 279-282 of 1966 (physical page 2/SCR 856 D-E; physical pages 3-4/SCR 857 F-858 E).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the tax arrears and fulfilment of section 220(2)'s conditions as admitted. The actual dispute was the interest rate. It therefore did not examine in detail the High Court's reasoning about the ordinary demand period, which it regarded as irrelevant to this instalment case. Its criticism that the High Court had entertained an unpleaded basis without a Revenue response was contextual, not an independent general ruling on every notice's accrual date (physical pages 4–5/SCR 858 A–859 D).

The respondent's counsel fairly conceded that section 220(3) authorised no agreement or settlement binding the Revenue. The Court independently agreed. The provision allowed an extension of time or instalments subject to conditions, but its opening words made that power subject to subsection (2). An order could not be inconsistent with the statutory interest rate. Although the subsections addressed different matters, they were inter-connected; the rate-setting power could not be derived from the power to grant instalments (physical pages 5–6/SCR 859 E–860 C).

The rate prescribed by legislation governed. *Esthuri Aswathaiah* was used for the general point that an Officer cannot vary a Finance Act rate; that authority's income-assessment context was not a second dispute decided here. The section 220(3) order could confer no indefeasible right to a fixed negotiated interest rate. A legislative alteration entered subsection (2) from its effective date and governed the instalment order accordingly (physical page 6/SCR 860 C–H).

Requiring 6% only from 1 April 1965 was prospective operation on continuing arrears, not retrospective deprivation of a vested contractual right. The Court went further: accepting 5% when the statute required 4% had itself been legally invalid, even though the assessee had offered it. Consent could not authorise contracting out of the statute. The respondent was therefore entitled to 4%, rather than 5%, for January–March 1965, while 6% applied from 1 April (physical page 7/SCR 861 A–E).

The Court approved *Biswanath Ghosh*, where the Orissa High Court rejected freezing an interest rate at the initial default date during continuing default after amendment. The quoted authority involved a different 6%-to-9% change under the 1967 legislation; that 9% rate was not imposed in this case. The quotation also uses the word penalty, but this judgment and its operative direction concern section 220(2) interest (physical pages 7–8/SCR 861 F–862 C).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Revenue appeals were allowed and the High Court order set aside with the stated modification: interest on the entire arrears was 4% per annum only for January–March 1965; for the rest of the period the Officer's 6% order was restored, meaning from 1 April 1965 in the judgment's reasoning. Each side bore its own costs throughout. No numerical interest calculation or refund amount was decreed (physical page 8/SCR 862 D–E).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the post-amendment rate, with limited earlier-period relief to the assessee

Five appeals allowed; 6% order restored from 1 April 1965; 4% for January–March 1965; parties bear own costs throughout

Final ruling on statutory interest rate and limits of section 220(3) instalment power

No 9% rate imposed, no retrospective 6% levy for January–March and no fresh adjudication of the earlier exemption dispute.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

A payment extension changes when the taxpayer may pay; it does not by itself confer power to contract for a different statutory interest rate. Check the rate applicable to each period and the amendment's effective date rather than assuming that the original default or instalment letter permanently fixes the rate. The same limit that prevented the assessee insisting on 5% after April 1965 also prevented the Revenue retaining the offered 5% for January–March when the law prescribed 4%. These are historical rates; the note does not certify any rate or relief power for a later period.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Date and bench

Source url: [Open cited source](#)

Pdf pages: 1

Paragraphs: SCR 855 heading

Source role: reported metadata

2.

Topic: Full dockets, author and exemption background

Source url: [Open cited source](#)

Pdf pages: 2; 3

Paragraphs: SCR 856 D–857 B

Source role: reported metadata and judicial text

3.

Topic: Actual payments, instalments, amendment and notice

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: SCR 857 B–H

Source role: judicial text

4.

Topic: High Court approach and admitted arrears

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 858 A–859 D

Source role: judicial text

5.

Topic: Concession and statutory limits on instalments

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 859 E–860 H

Source role: judicial text

6.

Topic: Prospective 6% and invalid earlier 5% term

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 861 A–E

Source role: judicial text

7.

Topic: Quoted Orissa 9% case distinguished from actual relief

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: SCR 861 F–862 C

Source role: judicial text

8.

Topic: Operative rates and own costs throughout

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: SCR 862 D–E

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S. Murtaza Fazal Ali, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961: historical sections 220(2)–(3) and 156; Finance Act, 1965

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Finance Act, 1965 (interest rate increased from 4% to 6%, effective 1 April 1965); Part B States (Taxation Concessions) Order, 1950 (exemption background); Taxation Laws (Amendment) Act, 1967/Central Act 27 of 1967 (different later rate change discussed within the quoted Orissa authority only)

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 8 PDF pages; SHA-256

9198a05b572804bc94941d3091ecb035fd89e1b1d6f8811db97c5736aca1b86b. Original bytes preserved.

Judicial body begins physical page 2/SCR 856 F (Fazal Ali, J.) and ends physical page 8/SCR 862 D-E with the period-specific interest order and own costs throughout. Page 1 and upper page 2 contain reporter material and appellate metadata. No adjacent judgment.

Open cited source rendition

The author is Fazal Ali, J., not the first/starred catalogue judge Krishna Iyer, J. The full group is Civil Appeals Nos.76–80 of 1971.; The caption identifies a company while the body often says firm; no partnership status is inferred.; The headnote describes half paid and half remaining, but the judicial figures are Rs.3 crores paid against demands over Rs.6.60 crores, with the balance described as Rs.3.60 crores.; The printed three-instalment total is Rs.3,54,76,000, not the rounded Rs.3.60-crore narrative balance. The source supplies no reconciliation.; The operative statutory words are without prejudice, despite the report elsewhere calling them a non obstante clause.; The quoted Orissa decision's 9% rate and penalty terminology are not the operative rate or character of relief in this case.

AYs 1959–60 through 1964–65 are expressly identified as the provisional assessments underlying the arrears. The judgment does not assign a separate AY to each of the five appeals.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law carryover certification. Verify the applicable statutory version separately.

LATER TREATMENT

Source checked 2026-10-05. not_verified. No independent later judicial-treatment or successful external statutory-version check is relied on. The judgment's own approval of Biswanath Ghosh is contemporary authority discussion, not later treatment of this decision.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 8

SHA-256: 9198a05b572804bc94941d3091ecb035fd89e1b1d6f8811db97c5736aca1b86b

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