

Rajapalayam Mills Ltd. v. Commissioner of Income Tax, Madras

Civil Appeal No. 1989 (1972 in judicial body; 1977 in caption and official index) / Civil Appeal No. 2418 of 1977
[1979] 1 SCR 1138 | 1978-10-06

Whether depreciation and development rebate of a new industrial undertaking, already absorbed against the assessee's total income in earlier years, could be notionally carried forward and deducted again in computing the undertaking's profits for the historical section 15C/section 84 exemption.

84 (historical industrial-undertaking exemption, actually applied for AY 1962–63)

Three-judge bench | P.N. Bhagwati, J. | V.D. Tulzapurkar, J. | R.S. Pathak, J.

Assessment years: 1961-62, 1962-63

Historical section 84/section 15C; allowances already absorbed

This mixed-period judgment applies historical section 84 to AY 1962–63 and section 15C of the 1922 Act to AY 1961–62. It prevents a second notional deduction of previously absorbed allowances; genuine unabsorbed amounts are treated differently. The report contains a first-appeal docket conflict and incidental numerical/statutory-label inconsistencies, disclosed below. No later-treatment, present-law or 2025-mapping certification is given.

01 FACTS OF THE CASE

The assessee manufactured and sold yarn. In the financial year ended 31 March 1959 it established a new industrial undertaking, admittedly satisfying section 15C(2). The new unit's profits for AYs 1959–60 and 1960–61 were Rs.33,118 and Rs.3,64,672. Its depreciation was Rs.1,44,361 and Rs.3,19,591, and development rebate Rs.5,07,336 and Rs.1,17,205. The two years' unit profits totalled Rs.3,97,790 against combined depreciation and development rebate of Rs.10,88,493 (physical pages 5–6/SCR 1142 H–1143 B).

There was an actual carry-forward from 1959–60: the report records Rs.24,183 unabsorbed depreciation and the new unit's entire Rs.5,07,336 development rebate. In AY 1960–61, however, overall old-and-new-unit profits of Rs.14,13,604 absorbed the carried-forward and current allowances, leaving taxable income of Rs.3,25,176. Nothing in respect of those allowances remained unabsorbed for AY 1961–62. For that year net business income was Rs.12,69,403, including Rs.1,36,822 from the new unit (physical page 6/SCR 1143 C–G; pages 17–18/SCR 1154 D–1155 B).

The Income-tax Officer treated the new unit retrospectively as the assessee's only income source. On that basis he calculated a notional prior-years shortfall of Rs.6,90,703 and deducted it from the new unit's Rs.1,36,822 profit, eliminating the profit required for section 15C relief. The Appellate Assistant Commissioner allowed the claim, but the Tribunal restored the Officer's approach and the Madras High Court agreed. The same issue arose for AY 1962–63 under section 84 of the 1961 Act and again reached the Court after an adverse reference answer. The judgment expressly treats the two sections as materially identical for this issue (physical pages 7–9/SCR 1144 F–1146 H).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court began with the actual exemption: relief was confined to profits or gains derived from the qualifying undertaking, up to six per cent per annum of the capital employed. There had to be profits in the relevant assessment year. The capital-computation rules were expressly outside these appeals. Section 15C(3) directed computation under section 10, so ordinary statutory allowances and their actual carry-forward conditions governed that computation (physical page 10/SCR 1147 A–H).

For depreciation, the Court distinguished computing each business's profits from charging tax on the aggregate of all businesses. A depreciation shortfall could be absorbed by profits of another business and then, under the stated historical scheme, other heads of income. Only the amount still unabsorbed after those adjustments could be carried forward under the proviso to section 10(2)(vi), where it became part of the following year's depreciation allowance. Past depreciation was therefore deductible in a later year only to the extent it genuinely remained unabsorbed, not merely because the particular new unit had previously insufficient profits (physical pages 11–13/SCR 1148 A–1150 B).

The Court reached the parallel result for development rebate through section 10(2)(vi-b) and Explanation 1. The historical provision set the rebate against total income and allowed only the unabsorbed balance to be carried forward, subject to its stated eight-year limit. Once the rebate had been wholly absorbed, there was no remaining prior-year amount to deduct again (physical pages 13–15/SCR 1150 C–1152 E).

Section 15C(3) created no fiction treating the new undertaking as the assessee's sole business from inception or undoing earlier set-offs against other income. Its purpose was to prescribe the normal statutory computation of the undertaking's profits. Reconstructing already absorbed allowances would give them effect twice and produce two incompatible measures of the same business profit without statutory support. Because the allowances here had been exhausted against total income by AY 1960–61, the new unit's AY 1961–62 profit remained Rs.1,36,822 for the exemption calculation. The Court expressly applied the same reasoning to the section 84 claim for AY 1962–63 (physical pages 15–18/SCR 1152 F–1155 D).

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

03 JUDICIAL DECISION

Both assessee appeals were allowed. The High Court judgments were set aside and the questions referred in both appeals were answered in favour of the assessee and against the Revenue. The assessee was entitled to the historical exemption on the Court's stated computation; the Revenue was ordered to pay the assessee's costs in both appeals (physical page 18/SCR 1155 B–D).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Both appeals allowed; adverse High Court reference answers set aside and questions answered for assessee; Revenue to pay costs in both appeals

Final decision of the disputed prior-allowance computation issue under historical section 15C and section 84

The decision excludes a second, notional deduction of allowances already absorbed. It does not exclude genuine unabsorbed allowances, decide the capital-employed rules, or establish entitlement under every later incentive provision.

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

05 AKHB REVIEW POINT

The decisive evidence is the assessment history showing what was actually absorbed, not a standalone loss account reconstructed for the new unit. The first year did produce a real carry-forward; it disappeared only when the next year's total income absorbed both past and current allowances. A summary that says there was never any unabsorbed depreciation, or that earlier depreciation is always ignored, misses the factual and statutory distinction.

For the corresponding 1961 Act issue, use the Court's express AY 1962–63 application of historical section 84. The extensive section 10 and section 15C discussion belongs to the 1922 computation scheme that the Court held materially applicable to that claim. Do not replace the judgment's actual provisions with a later section number or assume that every later undertaking-based deduction uses the same computation fiction. The source also does not supply a separate rupee quantification of the exemption for AY 1962–63.

The reported appeal number is inconsistent: the reasons repeatedly call the first appeal 1989 of 1972, while the jurisdiction heading and the official SCR index identify 1989 of 1977. Both readings are retained rather than silently choosing a year. The relief, two-year allocation, second appeal number and decision date are clear.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Date and three-judge bench

Source url: [Open cited source](#)

Pdf pages: 1

Paragraphs: SCR 1138 heading

Source role: reported metadata

2.

Topic: Dockets, judicial opening and new undertaking

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 1142 B–H

Source role: reported metadata and judicial text

3.

Topic: Actual prior-year absorption and amounts

Source url: [Open cited source](#)

Pdf pages: 6; 17; 18

Paragraphs: SCR 1143 A–G and 1154 D–1155 B

Source role: judicial text

4.

Topic: Officer's notional isolated-unit loss and appellate history

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: SCR 1144 F–1146 D

Source role: judicial text

5.

Topic: Express 1961 section 84 and two assessment-year allocation

Source url: [Open cited source](#)

Pdf pages: 9; 18

Paragraphs: SCR 1146 E–H and 1155 B–D

Source role: judicial text

6.

Topic: Depreciation and development-rebate statutory computation

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12; 13; 14; 15

Paragraphs: SCR 1147 A–1152 E

Source role: judicial text

7.

Topic: No retrospective sole-business fiction; no second deduction

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17

Paragraphs: SCR 1152 F–1154 C

Source role: judicial text

8.

Topic: Both appeals, reference answers and costs

Source url: [Open cited source](#)

PDF pages: 18

Paragraphs: SCR 1155 B–D

Source role: judicial text

9.

Topic: Official index corroborates 1977 alternative, not an undisputed correction

Source url: [Open cited source](#)

PDF pages: 411

Paragraphs: Printed page 409, entry 6735

Source role: official case metadata corroboration

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

P.N. Bhagwati, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Indian Income-tax Act, 1922 (section 15C, AY 1961–62) and Income-tax Act, 1961 (historical section 84, AY 1962–63)

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Indian Income-tax Act, 1922: sections 15C(1)–(3), 10(2)(vi) and proviso (b), 10(2)(vi-b) and Explanation 1, 24(1)

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 18 PDF pages; SHA-256

ba320d34f8e0635447ff0e05d5aeb0e8f61eb3c27aca2450ee617fbd9f25cb16. Original bytes preserved.

Judicial body begins physical page 5/SCR 1142 F (Bhagwati J.) and ends physical page 18/SCR 1155 D. Physical pages 1–4 and upper page 5 are reporter material. No neighbouring judgment. Docket/procedural-mode and incidental printed-number inconsistencies are separately disclosed.

[Open cited source rendition](#)

The decision is dated 6 October 1978; 1979 is the SCR volume year.; The first appeal is repeatedly 1989/1972 in judicial reasons (physical pages 5 and 9), but 1989 and 2418/77 in the caption. Official index entry 6735 independently prints 1989/1977. This conflict remains disclosed.; The opening calls the appeals special-leave appeals, while SCR 1146 D and G says each followed a High Court certificate of fitness. The note does not resolve that internal procedural-mode conflict.; The report's first-year aggregate figures, Rs.2,66,651 depreciation minus Rs.2,42,432 profits, do not arithmetically yield its stated Rs.24,183 carry-forward. The latter is repeated at SCR 1154 and is preserved as reported, without invented correction. The dispositive finding of full absorption by AY 1960–61 is express.; SCR 1155 first identifies section 84 as governing AY 1962–63 but a later sentence calls the relief section 15C(1). The note follows the explicit old/new Act allocation at SCR 1146 E–H and 1155 C; it does not apply the repealed section directly to that year.; The referred question at SCR 1146 B mentions section 15C(2); the exemption computation actually adjudicated is under section 15C(1) read with (3). Qualification under (2) was admitted.

These are the two assessment years under appeal. AYs 1959–60 and 1960–61 are the earlier allowance/absorption years. The judicial body expressly identifies section 84 of the 1961 Act for 1962–63; the statutory framework is not inferred from dates.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-05. not_verified. No later judicial treatment, complete amendment chain, present incentive-deduction requirements or 2025 crosswalk has been verified. The official list is only an identity cross-check, not a later-treatment source.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 18](#)

SHA-256: ba320d34f8e0635447ff0e05d5aeb0e8f61eb3c27aca2450ee617fbd9f25cb16

[official case metadata index - PDF pages: 1738](#)

SHA-256: 70ec8d62e1d6e7cd26cab7295fc4310b9aa55c61fcda8bb5f3ff5e97f7b29030

AI DISCLOSURE

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