

MAHALAXMI SUGAR MILLS CO. LTD. v. COMMISSIONER OF INCOME-TAX, DELHI, NEW DELHI

Civil Appeal Nos. 2440-2442 of 1972; originating High Court reference: Income Tax Reference Nos. 40 & 41 of 1970

[1980] 3 SCR 421 | 1980-04-09

Automatic interest under section 3(3) of the U.P. Sugarcane Cess Act, 1956 compensated the Government for delayed cess payment. It was not the separately provided penalty and was deductible under section 10(2)(xv), business purpose and revenue character being undisputed.

3-judge bench | N. L. Untwalia, J. | R. S. Pathak, J. | E. S. Venkataramiah, J.

This ruling is specific to the cess scheme

The Court allowed compensatory interest under section 3(3) of this cess enactment. It did not allow statutory penalties, decide income-tax interest, or rule on every similarly worded levy. Later deduction provisions and prohibitions require separate examination.

Operative context: Indian Income-tax Act, 1922; historical sections 10(2)(xv), 66A(2).

01 FACTS OF THE CASE

The sugar manufacturer paid interest on arrears of sugarcane cess and claimed deductions of Rs.1,20,859, Rs.1,83,731 and Rs.2,00,439 for assessment years 1959-60, 1960-61 and 1961-62 respectively. The Income-tax Officer rejected the claims, while the Appellate Assistant Commissioner and Tribunal allowed them. The Delhi High Court answered the references against the company, treating the interest as a penalty for infringement of law.

Before the Supreme Court, the assessee did not pursue deduction as interest on borrowed capital under section 10(2)(iii). The appeals were argued under the general business-expenditure provision, section 10(2)(xv). The Court therefore examined the cess legislation to identify the nature of the liability actually paid.

Source: [SCR 422 E-423 G](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 3(3) made unpaid cess carry interest at six per cent annually from the prescribed payment date until payment. That liability accrued automatically, without a separate official order, and enlarged the cess debt. The Court viewed it as compensation for the Government's delay in receiving payment.

The surrounding provisions supplied the decisive distinction. Section 3(5) separately permitted a discretionary civil penalty in addition to cess and interest; section 4 provided criminal punishment. Section 3(6) treated interest as part of the arrears recovered through the Collector, whereas section 3(7) separately addressed recovery of a penalty. Reading the scheme as a whole, the Court rejected the High Court's characterization of the interest as penal.

The Revenue's authorities concerning actual penalties under section 3(5) dealt with a different liability. The Court also declined to decide whether interest under other tax enactments was deductible. It expressly resisted ruling on a different sugarcane purchase-tax provision merely because its wording appeared similar. The decision consequently rests on the statutory scheme before the Court, not on the label 'interest' alone. Neither business purpose nor revenue character was disputed once the penalty objection failed.

Source: [SCR 423 G-427 E; especially 425 G-426 F and 427 A-D](#)

03 JUDICIAL DECISION

The Supreme Court allowed the appeals, set aside the Delhi High Court judgment of 25 October 1971 and answered the referred questions affirmatively in favour of the assessee. Interest under the particular cess provision qualified for deduction under section 10(2)(xv); the borrowed-capital provision was left unexamined.

Source: [SCR 427 E-F](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee's appeals allowed; High Court judgment set aside; references answered affirmatively. Result: Assessee. Costs: Assessee entitled to costs of the appeals. Scope: Deductibility of the specified cess interest finally decided. Limit: Only section 3(3) cess interest was decided; section 10(2)(iii) and other statutory interest regimes were not adjudicated.

Source: [SCR 427 F](#)

05 AKHB REVIEW POINT

Start with the charging and recovery provisions, not the account description. Establish whether the amount accrues automatically as compensation, requires a discretionary penalty order, or mixes both functions. Keep the underlying levy's tax treatment and the expense's business connection separate from that classification. Later Prakash Cotton requires examination of the actual statutory scheme and separation of compensatory and penal components; it does not support treating every amount called interest as deductible.

Source: [SCR 425 G-427 E](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

7-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 primary caption spells MAHALAXMI. Section 10(2)(iii) is discussed only to record that the assessee did not press it. The reported questions, quoted cess provisions and judicial interpretation are separately identified.

STATUTORY SCOPE

Indian Income-tax Act, 1922, section 10(2)(xv), section 66A(2).

Section 37(1) is the related residual deduction provision, with its own exclusions and later Explanations. The checked official text is labelled 2025, not the operative historical text for this appeal.

Section 34(1)-(3), official version labelled 2026, is a related general-deduction framework. Its exclusions require separate application; this historical decision did not construe it.

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

LATER TREATMENT

Source checked 2026-10-06. Prakash Cotton Mills (P) Ltd. v. CIT, 6 April 1993, examined Mahalaxmi under section 37(1) of the 1961 Act and required the assessing authority to inspect the levy scheme, allowing the compensatory component and excluding the penal component of a mixed impost.

Verified the bounded judicial discussion at SCR 987-991 in the Prakash Cotton reproduction, including the express Mahalaxmi analysis and the Court's own rule. The official download failed. This is a specific subsequent application; comprehensive later history remains unverified.

IDENTIFIED SOURCE LINKS

Prakash Cotton Mills (P) Ltd. v. CIT (1993-04-06), nonofficial HTML judicial reproduction

Judicial discussion of First Question, SCR 987-991, HTML lines 64-103; excluded editorial headnote and distinguished quoted authorities from Court's conclusions. Reproduced judicial text only; official download unavailable.

1961 Act section 37(1) and Explanations 1-3, official version labelled 2025

1961 Act section 37(1) and Explanations 1-3, official version labelled 2025; web-indexed complete provision read, direct open failed.

2025 Act section 34(1)-(3), official version labelled 2026

2025 Act section 34(1)-(3), official version labelled 2026; bounded official text read.

AI DISCLOSURE

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

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