

EMPIRE JUTE CO. LTD. v. COMMISSIONER OF INCOME TAX

Civil Appeal No. 1197 (NT) of 1974; originating High Court reference: Income Tax Reference No. 109 of 1968

[1980] 3 SCR 1370 | 1980-05-09

The Rs. 2,03,255 paid to buy loom hours was deductible revenue expenditure: it allowed the existing looms to run longer without adding to the profit-making apparatus. An enduring benefit is not by itself decisive; the commercial character of the advantage matters.

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

Classify the commercial advantage

This is a 1922 Act deduction ruling on relaxing a restriction on existing loom operations. It does not make every productivity-enhancing or enduring payment revenue expenditure; later claims under section 37(1) of the 1961 Act or section 34 of the 2025 Act require their own statutory and factual analysis.

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

01 FACTS OF THE CASE

Empire Jute manufactured jute in West Bengal and belonged to the Indian Jute Mills Association. Its members limited weekly loom-working hours to match production to demand. Under the fourth working-time agreement, approved transfers of hours allowed one mill to use hours surrendered by another. Empire paid four mills Rs. 2,03,255 during 1 August 1958 to 31 July 1959 and claimed the amount for AY 1960-61.

The Income-tax Officer disallowed it. The Appellate Assistant Commissioner and Tribunal allowed the deduction, but the Calcutta High Court treated the payment as capital after reading Maheshwari Devi Jute Mills as controlling.

Source: [SCR 1375 E-1378 D](#)

02 DISCUSSION BY THE HON'BLE COURT

Business purpose was conceded; the dispute was whether the expenditure was capital or revenue. The Court held that the agreement imposed a voluntary restriction on use of existing looms. Buying hours relaxed that restriction and paid for additional operation of the same income-earning apparatus. It created no new asset and enlarged no fixed-capital structure.

The Court distinguished *Maheshwari Devi Jute Mills*: a capital receipt for the seller does not necessarily make the payment capital for the buyer, and that earlier case had proceeded on an accepted, unexamined premise that loom hours were an asset. It was not overruled.

Neither enduring benefit nor the fixed/circulating-capital distinction supplies a universal test. An advantage facilitating trading operations may be revenue even if it lasts, where fixed capital remains untouched. Here the Court also noted the six-month duration and expiry of unused hours each week. The practical purpose and effect of the outlay within the whole business operation controlled.

Source: [SCR 1378 E-1385 E; especially 1379 B-1380 F and 1382 B-G](#)

03 JUDICIAL DECISION

The payment represented an operating cost, allowable under section 10(2)(xv) of the 1922 Act. The Court allowed the appeal and answered the referred question for the assessee and against Revenue.

Source: [SCR 1387 C-D](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee's appeal allowed; reference answered in its favour. Result: Assessee. Costs: Revenue to pay the assessee's costs throughout. Scope: Deductibility of the Rs. 2,03,255 payment finally decided.

Source: [SCR 1387 D](#)

05 AKHB REVIEW POINT

Start with what the payment actually changes: the income-earning structure, or the way existing assets are operated. Put the agreement, duration, transfer conditions and effect on fixed capital in evidence. Address the payer's commercial position separately from the recipient's tax treatment; a long-lasting advantage alone does not settle the classification.

Source: [SCR 1381 F-1385 E](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

18-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 title is LTD.; LID. in the frozen catalogue is an OCR error. The judgment is dated 9 May 1980. The complete judicial reasons begin at SCR 1375; the preceding pages are the reporter's headnote and case details.

STATUTORY SCOPE

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

Section 37(1) uses the business-purpose test and excludes capital and personal expenditure, subject to its own text and other applicable provisions. This is a later statutory comparison, not the section decided in *Empire Jute*.

Section 34(1) of the Income-tax Act, 2025 likewise excludes capital/personal expenditure and requires business or professional purpose. Its specified exclusions and subsections (2)-(3) must be applied independently.

These are limited textual or related-framework comparisons. No automatic precedent carry-over or verified case-specific 2025 applicability is claimed.

LATER TREATMENT

Source checked 2026-10-06. In *Alembic Chemical Works Co. Ltd. v. CIT*, decided 31 March 1989, paragraph 14 reproduced *Empire Jute*'s commercial-character and enduring-benefit reasoning through *Associated Cement*. Paragraphs 12-15 applied a practical business analysis to technical know-how improving an existing penicillin business and held the outlay revenue under section 37 of the 1961 Act.

Verified the bounded judicial text of *Alembic*, paragraph 7 and paragraphs 12-15, in an HTML reproduction. This establishes that particular later use, not comprehensive subsequent history.

IDENTIFIED SOURCE LINKS

[*Alembic Chemical Works Co. Ltd. v. Commissioner of Income Tax, Gujarat* \(1989-03-31\), nonofficial HTML judicial reproduction](#)

Judicial paragraph 7 (SCR 310-311) on section 37, and paragraphs 12-15 (SCR 315-320), including passage quoting *Empire* through *Associated Cement* and final result; HTML reproduction only.

[1961 Act section 37\(1\), official 2014 text](#)

1961 Act section 37(1), official 2014 text; limited comparison of core test only

[2025 Act section 34\(1\)-\(3\), official 2026 text](#)

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

AI DISCLOSURE

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