

L.B. Sugar Factory & Oil Mills (P) Ltd., Pilibhit v. Commissioner of Income Tax, U.P., Lucknow

Civil Appeal No. 298 of 1973

[1981] 1 SCR 523 | 1980-08-26

The Court allowed deduction of Rs. 50,000 contributed to roads serving the sugar factory, but upheld disallowance of a separate Rs. 22,332 donation unconnected with its business. A lasting commercial benefit is not necessarily capital expenditure where it facilitates operations without adding to the taxpayer's profit-making apparatus.

Three-judge bench | P.N. Bhagwati, J. | A.P. Sen, J. | E.S. Venkataramiah, J.

Two contributions, different results

Deduction depends on a proved business purpose and the commercial nature of the benefit; neither third-party ownership nor long duration alone decides capital versus revenue.

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

01 FACTS OF THE CASE

The Pilibhit sugar manufacturer made two contributions during the accounting year ending 30 September 1955. It paid Rs. 22,332 at the Collector's request towards the Deoni dam and Deoni Dam-Majhala road, already constructed some years earlier. It separately paid Rs. 50,000 under a Sugarcane Development Scheme for roads around its factory.

The scheme divided the cost among Central Government, State Government, and sugar factories and growers. The company claimed both payments under section 10(2)(xv) for AY 1956-57. The tax authorities and Allahabad High Court denied deduction; the Tribunal's members had differed over the business purpose and capital character of the payments.

Source: [SCR 524 E-526 B](#)

02 DISCUSSION BY THE HON'BLE COURT

Two questions had to be kept separate: was the expense wholly and exclusively for the business, and was it revenue rather than capital? The Rs. 22,332 payment failed the first. Nothing connected the completed dam and road, or that later contribution, with the company's business. The Court treated it as good citizenship, not proved business expenditure.

The Rs. 50,000 contribution was different. Roads around the factory facilitated incoming sugarcane and outgoing sugar. That direct operational benefit established business purpose. The remaining issue was whether the lasting advantage was capital.

Applying *Empire Jute* and explaining the qualification in *Atherton's* enduring-benefit test, the Court asked what the advantage was commercially. Government owned the roads. The company acquired no tangible or intangible asset and made no addition to its profit-making apparatus. Better transport facilitated the existing business while leaving its fixed capital untouched, so the expense remained revenue despite its duration.

The Court found *Lakshmiji Sugar Mills* closely analogous, treating statutory compulsion there as non-decisive. It confined *Travancore-Cochin Chemicals* to its particular facts and rejected using enduring benefit as an automatic answer. The decision does not make every contribution to another person's asset deductible.

Source: [SCR 526 C-530 H](#)

03 JUDICIAL DECISION

The appeal succeeded only for the Rs. 50,000 road contribution, which was revenue expenditure incurred wholly and exclusively for business. It failed for the Rs. 22,332 contribution because the necessary business connection was absent.

Source: [SCR 531 A-B](#)

04 OUTCOME / IN WHOSE FAVOUR

Appeal allowed in part: Rs. 50,000 deductible; Rs. 22,332 disallowance upheld. Result: Mixed: assessee on the road contribution; Revenue on the separate dam/road donation. Costs: Each party to bear its own costs throughout. Scope: Both disputed deductions finally determined. Limit: Deduction depends on a proved business purpose and the commercial nature of the benefit; neither third-party ownership nor long duration alone decides capital versus revenue.

Source: [SCR 531 A-B](#)

05 AKHB REVIEW POINT

Document the link between a contribution and the existing business, then identify what rights or assets the payment secures. Explain separately why the benefit facilitates operations rather than expanding the capital structure. Keep unrelated civic contributions separate: proving that a payment is not capital does not establish business purpose.

Source: [SCR 526 C-H;528 A-H;530 B-H](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

9-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 retained SCR report prints L.B. in the caption and running title; later Madras Auto Service cites the same road-contribution authority as L.H. Sugar Factory, 125 ITR 293. The headnote calls Lakshmiji 'distinguished' and prints 82 ITR 736, while the judgment follows its analogy and prints 82 ITR 376. This note follows the judicial reasoning.

STATUTORY SCOPE

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

Current statutory equivalence and Income-tax Act, 2025 applicability have not been verified. No automatic carry-over of this precedent is claimed.

LATER TREATMENT

Source checked 2026-10-06. CIT v. Madras Auto Service (P) Ltd., decided 12 August 1998, expressly relied on the sugar-road contribution to illustrate revenue expenditure producing a lasting business advantage without acquisition or expansion of a capital asset. This is specific subsequent Supreme Court use, not a complete history.

Verified Madras Auto Service's express discussion of L.H. Sugar Factory, 125 ITR 293, and its use of the road-contribution reasoning; comprehensive later history remains unverified.

Madras Auto Service judicial text, web lines 74-118, especially 108-109; nonofficial reproduction, no raw PDF/image verification.

IDENTIFIED SOURCE LINKS

CIT v. Madras Auto Service (P) Ltd. (1998-08-12)

Judicial text web lines 74-118, specifically L.H. Sugar discussion at 108-109 and synthesis at 115-118. Nonofficial host; no raw PDF or images read.

AI DISCLOSURE

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