

Madnani Development Corporation (P) Ltd. v. Commissioner of Income-tax, Orissa

Civil Appeal No. 1649 (NT) of 1974

[1986] 3 SCR 219 | 1986-07-16

Whether the Rs.30,045 portion of the loss on sale of land acquired to supply earth for a railway contract was a revenue deduction for AY 1966-67 or a capital loss.

Two-judge bench | R.S. Pathak, J. | Sabyasachi Mukharji, J.

Assessment years: 1966-67

Ownership-based capital loss; only AY 1966-67 decided

Madnani rejects the Rs.30,045 revenue deduction because this contractor acquired indefinite ownership of land as a capital asset. It does not adjudicate the other annual allocations or capital-loss set-off. Section 70 appears only in the headnote; accounting classification and business purpose must be read with the actual rights acquired. Comprehensive later treatment and current-law or 2025-Act mapping remain unverified.

01 FACTS OF THE CASE

The contractor entered an April 1964 contract with the South-Eastern Railway Administration for earth work, bridge work and other work on a new railway yard. To provide earth from outside railway land conveniently, it bought two pieces of land for Rs.53,196 and Rs.15,045, a total of Rs.68,241. Soon after completion it sold them for Rs.23,000, leaving Rs.45,241. It treated that difference as the value of excavated earth and allocated Rs.8,196 to AY 1965-66, Rs.30,045 to AY 1966-67 and Rs.7,000 to AY 1967-68 (physical pages 2–3; SCR 220F–221B).

The Income-tax Officer accepted the first year's claim but rejected the Rs.30,045 deduction for AY 1966-67 as capital. The first appeal failed. The Tribunal allowed it because it viewed the land as a wasting asset rendered unserviceable by continuous digging. On Revenue's reference, the High Court held the disputed loss capital. The Supreme Court appeal concerned that Rs.30,045 question, not a review of all three allocations (physical page 3; SCR 221B–D).

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

02 DISCUSSION BY THE HON'BLE COURT

It was undisputed that the company did not deal in land. The acquired land was not its stock-in-trade. The raw material required by the contract was loose earth, obtained by excavating the land. The company itself showed the land as fixed assets in its balance sheet. The Court therefore distinguished the material consumed in performance from the proprietary asset acquired to obtain it (physical page 3; SCR 221D–F).

The assessee relied on M.A. Jabbar, in which an eleven-month lease gave a limited right to enter, occupy and use land for quarrying and carrying away sand. In discussing that authority, the Court stressed the short period, the right to take sand lying on the surface, the absence of excavation operations in that setting, and especially that the assessee there had not acquired the land or a fixed capital asset of an enduring nature (physical pages 3–4; SCR 221F–222B).

Madnani's position was materially different. It became full proprietor for an indefinite period. The immediate purpose was supplying earth to the nearby works, but nothing prevented continued ownership and another use after performance of the railway contract. The land's treatment as a fixed asset reinforced those facts. In all the circumstances, the purchased land was capital and the claimed loss capital. The fact that excavation served a business contract, or that the company later sold the land, did not turn the acquisition of ownership into a purchase solely of consumable earth (physical page 4; SCR 222B–D).

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

03 JUDICIAL DECISION

The Court upheld the High Court's view that the Rs.30,045 loss claimed for AY 1966-67 was capital. The assessee's appeal was dismissed with costs (physical page 4; SCR 222D).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee's appeal dismissed with costs; High Court's capital-loss answer upheld

Final substantive characterisation of the disputed AY 1966-67 loss

No order revises the earlier allowed Rs.8,196 or separately decides the later Rs.7,000 allocation. The case does not determine availability or quantum of capital-loss set-off, despite the headnote's section 70 label.

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

05 AKHB REVIEW POINT

Identify precisely what the business acquires: ownership of land, a time-limited extraction right, or already severed material. Commercial need for earth was accepted but did not erase the indefinite proprietary rights acquired here. The balance-sheet label supported the conclusion alongside those rights and facts; it should not be isolated as a rule that accounting classification alone controls tax character.

The discussion of M.A. Jabbar is a factual distinction, not a universal rule making every short lease revenue or every extraction arrangement capital. Likewise, the earlier year's administrative allowance was background, not an adjudicated entitlement carried forward by the Supreme Court. Keep the operative year and amount separate from the three-year accounting allocation. Section 70 is an editorial headnote reference; an independent historical or current set-off claim requires separate verification.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and appeal number

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text; 219 and 220C–F

Source role: reported metadata and judicial text

2.

Topic: Land costs, loss allocation and operative year

Source url: [Open cited source](#)

Pdf pages: 2; 3

Paragraphs: Unnumbered judicial text; 220F–221D

Source role: judicial text

3.

Topic: Land versus loose earth and accounting treatment

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: Unnumbered judicial text; 221D–F

Source role: judicial text

4.

Topic: M.A. Jabbar distinguished; ownership and capital character

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Unnumbered judicial text; 221F–222D

Source role: judicial text

5.

Topic: Operative dismissal and costs

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: Unnumbered judicial text; 222D

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R.S. Pathak, J.

OTHER STATUTORY CONTEXT

Sections 1(3) and 297 of the 1961 Act independently checked only for scope corroboration; no transition issue adjudicated.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

ASSESSMENT-YEAR CONTEXT AND LIMITS

AY 1966-67 and the Rs.30,045 claim are the appeal's operative issue. AYs 1965-66 and 1967-68 appear only as the company's cost-apportionment history; the earlier deduction had been accepted by the Income-tax Officer.

EDITORIAL HEADNOTE REFERENCES, NOT JUDICIAL HOLDINGS

Income Tax Act, 1961, section 70 (editorial only)

SCOPE OF THE STATUTORY PROVISIONS ACTUALLY IDENTIFIED

The editorial headnote labels Income Tax Act, 1961, section 70. The judicial reasons do not cite or construe section 70; they decide the capital/revenue character of the loss. No independent section 70 set-off entitlement or numbered business-deduction holding is attributed.

SOURCE & VERIFICATION

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

Identified source rendition: 4 PDF pages; SHA-256

3b307430c379e3a2112ba555ccc416d27ed4cb5c91ab664320064bb49f15ba21. Original bytes preserved.

Judicial text starts on physical page 2 and ends on physical page 4. Earlier editorial headnotes, report metadata and terminal reporter summary distinguished. No neighbouring judgment included.

[Open cited source rendition](#)

Section 70 is supplied by the editorial headnote only; the judicial body decides characterisation without construing that section.; The total Rs.45,241 loss and its three annual allocations must not be confused with the sole Rs.30,045 deduction litigated for AY 1966-67.; The Tribunal's wasting-asset rationale is the rejected view, not the Supreme Court's holding.; All numerical figures and the final costs direction were visually confirmed; no material unresolved scan conflict identified.

STATUTORY SCOPE

No current-law certification or automatic mapping to the Income-tax Act, 2025. Historical provisions and narrowly identified later statutory checks only.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial treatment, appeals, reviews, stays and reversals have not been verified. Identified bounded statutory checks do not amount to a citator or current-law certificate.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 4](#)

SHA-256: 3b307430c379e3a2112ba555ccc416d27ed4cb5c91ab664320064bb49f15ba21

[official department hosted historical statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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