

Commissioner of Income Tax v. Vikram Cotton Mills Ltd.

Civil Appeal Nos. 689–692 (NT) of 1975 / Special Leave Petition Nos. 5324 and 5325 of 1978 (companion disposal)
[1988] 2 SCR 389 | 1987-12-15

Whether lease rent from the temporarily let textile-business assets was business income or income from other sources for the four expressly referred assessment years, given the reconstruction arrangement and the Tribunal's finding of continued commercial exploitation.

Two-judge bench | Sabyasachi Mukharji, J. | S. Ranganathan, J.

Assessment years: 1960-61, 1961-62, 1962-63, 1963-64

Mixed-period case using the older statutory framework

The judgment expressly covers AYs 1960-61 to 1963-64 but reasons through old sections 10, 12 and 24. A bounded commencement/savings check supports mixed-period coverage; no unexpressed 1961-Act equivalents or year-specific set-off rules are supplied. The fact-bound holding preserves commercial exploitation, and the scan conflicts on chronology and renewal duration. Civil appeals were dismissed with costs; the companion SLPs had no costs order. Later treatment remains unverified.

01 FACTS OF THE CASE

The company manufactured textiles but suffered losses from 1949 and stopped manufacturing in December 1953. Its liabilities had reached Rs.26 lakh against capital of Rs.11 lakh. Creditors pursued winding-up and enforcement, and the High Court approved a reconstruction scheme under section 153 of the Indian Companies Act, 1913. The assets and business were let to General Fibres Dealers (Pvt.) Ltd. at Rs.2,50,000 annually. The stated lease terms were ten years with an option for a further ten; management passed to court-appointed trustees and the company retained a skeleton staff (physical pages 3–4 and 10–11; SCR 391–392 and 398–399).

The lease receipts for AYs 1957-58 to 1959-60 had been treated as business income. The Income Tax Officer treated the subsequent receipts as other-sources income, a view upheld on first appeal. The Tribunal instead inferred continued exploitation of commercial assets. It relied on the financial-rescue purpose, avoidance of a distress sale, retention rather than disposal of the assets, liquidation of liabilities and regained possession; maintenance of the assets supported an intention to resume manufacturing. The Allahabad High Court agreed (physical pages 3–5).

The Supreme Court's opening expressly states that the reference concerned AYs 1960-61, 1961-62, 1962-63 and 1963-64, corresponding to the four calendar years ending 31 December 1959 through 1962. The classification mattered to the claimed adjustment of earlier losses. The judgment discusses that consequence through sections 10, 12 and 24 of the older framework; it does not allocate a separate statutory provision to each assessment year (physical pages 3–5; SCR 391B–D and 393A–D).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the manner and purpose of asset exploitation as decisive, to be inferred from the particular facts. It discussed Shri Lakshmi Silk Mills, where temporary letting of idle machinery did not make it cease to be a commercial business asset. But it did not convert the description commercial asset into an automatic rule that all rental receipts are business income. Its discussion of Broadway Car, Narain Swadeshi Weaving Mills and New Savan Sugar addressed circumstances indicating withdrawal from the relevant business or an intention to earn rent from the assets as such (physical pages 6–10; SCR 394–398).

The Court considered Calcutta National Bank's rental-income reasoning in its own business setting and distinguished the setting in New Savan Sugar, where the cumulative effect of the lease clauses indicated an intention to part with the undertaking to earn rental income. The governing inquiry remained what this assessee's conduct and arrangement showed. The differing factual examples mattered to the inference of intention, rather than providing a lease-duration rule (physical pages 7–10).

Here a temporary suspension to reconstruct the company and overcome its financial crisis was a permissible inference. The assets reverted to the company at the lease's end, the company had not disposed of the machinery, and the Tribunal had assessed the relevant facts from the standpoint of an ordinary prudent businessperson. Applying the correct principle, its conclusion that the letting was continuing commercial exploitation was plausible, neither perverse nor unsustainable. The Court therefore upheld the business-income classification. This was substantive classification reasoning applied to the established facts, not merely a procedural refusal to examine them (physical pages 11–12; SCR 399E–400B).

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

03 JUDICIAL DECISION

The Court upheld the High Court's view and dismissed Revenue's Civil Appeals Nos. 689–692 (NT) of 1975 with costs. In light of that decision, it also dismissed Special Leave Petition Nos. 5324 and 5325 of 1978, but made no order as to costs in those petitions (physical page 12; SCR 400B–C).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on business-income classification

Revenue's four civil appeals dismissed with costs; companion SLPs 5324 and 5325 of 1978 dismissed without an order as to costs

Final, reasoned classification holding in the civil appeals; companion SLPs disposed of by reference to that result

The conclusion rests on the Tribunal's sustainable inference of temporary suspension and continuing commercial exploitation. No quantified loss adjustment, universal rental-income rule, or separate merits narrative for the companion SLPs is supplied.

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

05 AKHB REVIEW POINT

Document the commercial purpose of a shutdown and lease before drawing a tax-head conclusion. The reconstruction scheme, retained assets and staff, intended debt repayment, lease terms and evidence of resumed possession gave the Tribunal a concrete basis for its inference. A long lease did not alone prove abandonment here, but neither does this case guarantee business-income treatment for every retained factory or every fixed-term letting.

Preserve the statutory transition explicitly. The primary judgment itself includes AYs 1962-63 and 1963-64, rather than mentioning them in another case's quotation. The bounded Department-hosted historical check confirms commencement on 1 April 1962 under section 1(3), with section 297 preserving specified old-Act proceedings and other consequences. That supports mixed-period coverage, not a conclusion that assessment year alone identifies every governing procedural or loss provision. The judgment's old sections 10, 12 and 24 are retained; no unexpressed 1961-Act section equivalents or year-by-year set-off allocation are inserted.

The report is also inconsistent about chronology and lease duration. Its opening places the winding-up petition on 21 May 1956; the later quoted statement places it in February 1954 and identifies 21 May 1956 as the scheme order. The repeated lease terms are ten years plus a ten-year renewal option, while the concluding discussion prints 10 or 19 years. These are disclosed source conflicts, not grounds to invent corrected dates or a rule based on nineteen years. Comprehensive later treatment and present-law mapping remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Decision date, bench, appeal numbers and expressly covered assessment years

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: reported metadata and judicial text

2.

Topic: Scheme, Tribunal findings and old-Act loss context

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

3.

Topic: Commercial-exploitation test and factually distinct authorities

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8; 9; 10

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

4.

Topic: Statement of case and conflicting chronology/duration

Source url: [Open cited source](#)

Pdf pages: 10; 11

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

5.

Topic: Plausible-intention inference and substantive business-income result

Source url: [Open cited source](#)

Pdf pages: 11; 12

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

6.

Topic: Different costs orders for appeals and companion SLPs

Source url: [Open cited source](#)

Pdf pages: 12

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

7.

Topic: Bounded historical commencement and repeal/savings provisions

Source url: [Open cited source](#)

Pdf pages: 42; 1004; 1005; 1006

Paragraphs: Complete sections 1 and 297 with relevant footnotes

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sabyasachi Mukharji, J.

OTHER STATUTORY CONTEXT

Indian Companies Act, 1913, section 153 (court-approved reconstruction scheme); Constitution of India, Article 136 (appeal by special leave); Income-tax Act, 1961, sections 1(3) and 297 (independently checked only for editorial transition/scope assessment, not analysed by this judgment)

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax legislation: mixed-period business-income classification; judgment uses the Indian Income-tax Act, 1922 framework

SCOPE OF THE TAX-RECOVERY AND CROSS-LAW ISSUE

MIXED PERIOD 1922 FRAMEWORK WITH EXPRESS POST COMMENCEMENT AYS

ASSESSMENT-YEAR CONTEXT AND LIMITS

The judicial opening expressly associates the referred lease-income question with all four listed assessment years and calendar accounting years ended 31 December 1959, 1960, 1961 and 1962. Earlier AYs 1957-58 to 1959-60 are assessment background. The companion SLPs' assessment years are not separately identified.

HISTORICAL 1922 ACT PROVISIONS

10 (business-income treatment stated in the report); 12 (other-sources treatment stated in the report); 24(1) and 24(2) (historical loss set-off/carry-forward discussion)

SOURCE & VERIFICATION

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

Identified source rendition: 12 PDF pages; SHA-256

97eb9177a51eb492d1b40fb0ad556d0225e3a854df71c58f96380f254cee3c41. Original bytes preserved.

Judicial text starts at physical page 3 and ends at physical page 12. Editorial headnotes before the judgment, printed case metadata and the reporter's terminal summary are distinguished from the Court's reasons and order. No neighbouring judgment is included.

[Open cited source rendition](#)

The decision is dated 15 December 1987 although the SCR volume and mirror URL year are 1988. The catalogue lead appeal 689 does not capture all four appeals 689–692 or the separately disposed SLPs.; The primary source expressly decides AYs 1960-61 through 1963-64, while its legal discussion uses old sections 10, 12 and 24. Inclusion is mixed-period; the note does not recast those as 1961-Act provisions. The independent section 1/297 check does not verify the return-filing chronology or year-specific loss mechanics, which the judgment does not supply.; The source opening at page 3 gives 21 May 1956 for the winding-up petition, whereas the statement of case quoted at pages 10–11 gives February 1954 for that petition, 12 July 1954 for possession and 21 May 1956 for scheme approval. The note does not silently reconcile these accounts.; The stated terms at physical pages 3 and 11 are an initial ten years with an option for another ten. The reasoning at page 11 and headnote at page 2 print 10 or 19 years on renewal. Both readings were visually checked; no alternative duration is manufactured.; The scanned headnote at physical page 2 and the judicial discussion at physical page 10 both give New Savan Sugar as 74 ITR 7. The extracted page 2 text misreads 74 as 14; the source scan controls.; The source's short restatement of Shri Lakshmi Silk Mills on physical page 8 is awkwardly worded; the fuller account on pages 6–7 clearly treats the temporary letting as business income. The note relies on the full discussion rather than treating the isolated wording as a contrary holding.

STATUTORY SCOPE

No present-law certification or automatic mapping to the Income-tax Act, 2025. Apply the historical provisions for the relevant assessment year.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial treatment has not been verified. The bounded statutory commencement/savings check for Vikram Cotton Mills is separately identified and is not a later-treatment review.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 12](#)

SHA-256: 97eb9177a51eb492d1b40fb0ad556d0225e3a854df71c58f96380f254cee3c41

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

AI DISCLOSURE

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