

A.R. Krishnamurthy & Anr. v. Commissioner of Income Tax, Madras

Civil Appeal No. 2717 of 1985

[1989] 1 SCR 596 | 1989-02-10

Whether the cost of a ten-year clay-mining lease granted out of purchased land was ascertainable and attributable to the land's purchase price, so that the capital-gains computation provisions and section 45 could operate.

2(14) | 2(47) | 45(1) | 261

Three-judge bench | R.S. Pathak, C.J. | M.N. Venkatachaliah, J. | Kuldeep Singh, J.

Assessment years: See the source-scope notes; no year inferred.

Purchased rights had ascertainable cost; no fixed allocation formula

This was a mining lease carved out of purchased land. The Court rejected an asserted absence of acquisition cost; it did not prescribe the officer's 5/8 ratio for all cases. The Rs.17,040 allocation and Rs.4,82,960 gain are reported assessing-stage figures, and the appellate authority allowed the whole land cost. The premium must be distinguished from royalty, and the report supplies no assessment year. Comprehensive later treatment and current-law/2025 mapping remain unverified.

01 FACTS OF THE CASE

A body of individuals bought two parcels totalling 14.55 acres in 1966 for Rs.27,260. By a lease-cum-licence dated 10 September 1970, it granted an allied company, Sri Krishna Tiles and Potteries (Madras) Private Limited, a ten-year right to extract clay. The company paid a Rs.5 lakh premium in addition to royalty of Rs.12 per hundred cubic feet, subject to a Rs.60,000 annual minimum (physical page 4 / SCR 599A-B).

The Income-tax Officer assessed the whole land's market value at Rs.8 lakh and used the Rs.5 lakh premium to adopt a 5/8 ratio for acquisition cost. The report gives his allocated cost as Rs.17,040 and resulting long-term capital gain as Rs.4,82,960. The Appellate Assistant Commissioner accepted chargeability but allowed the entire Rs.27,260 purchase price as cost; the Tribunal affirmed that order. Those assessing-stage figures therefore should not be presented as the final computation upheld by the Supreme Court (physical page 4 / SCR 599C-H).

The High Court answered against the assessee both whether the lease transferred a capital asset and whether the leasehold cost could be valued. On appeal, counsel did not dispute that a lease could transfer an asset; the contentions were that no acquisition cost was conceptually attributable to the limited right and that the resulting computation failure prevented a section 45 charge (physical pages 5-6 / SCR 600A-601C).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the right to extract clay as part of the property acquired with the land. Ownership comprised a bundle of rights, and the right granted to the lessee flowed directly from that ownership. The purchase price acquired both the land and those embedded rights. A grant limited in duration could still be a transfer of a capital asset; the lessor's reversion did not sever the connection between the acquired property and the mining right later granted (physical pages 6–7 / SCR 601C–602B).

The distinction was between a cost that was difficult to value and an asset for which no acquisition cost could be conceived. Attributing part of a known land price to a limited mining right was a factual valuation exercise to be performed on evidence. The best available valuation had to be made even without mathematical certainty. The Court noted both the officer's 5/8 approach and the appellate allowance of the full purchase price, without prescribing a universal fraction or an invariable full-cost deduction (physical page 7 / SCR 602B–E).

The Court distinguished B.C. Srinivasa Setty's treatment of self-generated goodwill. Here the leasehold right had an ascertainable cost within the purchased bundle, and the date of acquisition of the right to grant the lease was the date the freehold rights were acquired. The asserted failure of the capital-gains computation mechanism therefore did not arise. The discussion of the earlier goodwill decision explains the distinction; it is not a fresh determination of the tax treatment of goodwill under later legislation (physical pages 7–8 / SCR 602E–603B).

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

03 JUDICIAL DECISION

Both acquisition-cost contentions failed. The Court held that the mining-right cost could be determined, the computation provisions applied and section 45 was attracted. It dismissed the assessee's appeal with costs, leaving the High Court's answers against the assessee undisturbed (physical pages 7–8 / SCR 602E–603B).

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; chargeability and ascertainability of leasehold acquisition cost sustained

Final reasoned determination of the acquisition-cost challenge

Purchased-land mining rights and the premium in the stated transaction; no universal apportionment ratio, no fresh royalty assessment and no reported assessment year.

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

05 AKHB REVIEW POINT

Identify the source of the limited right before invoking a no-cost argument. A separately granted lease need not be a self-generated asset merely because no separate price was originally paid for that particular component of ownership. Where a known consideration bought the land and its embedded rights, assemble evidence for a defensible allocation; difficulty of valuation alone does not make computation impossible.

Keep the figures and receipt categories separate. The 5/8 fraction was the officer's method, while the appellate authority allowed the entire land cost. The Court's principle was the existence and ascertainability of cost, not a standard valuation formula. The capital-gains issue concerned the premium; the separately stated royalty terms were background. The printed Rs.17,040 allocation is retained as reported, although 5/8 of Rs.27,260 is Rs.17,037.50; the note neither silently corrects the source nor invents a final recomputation. Later statutory valuation, cost and deeming rules require their own check; no current-law or 2025 carryover is certified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, date, bench and judicial boundary

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Cover; SCR 598E–H

Source role: reported metadata and judicial text

2.

Topic: Land purchase, lease terms and assessment/appellate computations

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: SCR 599A–H

Source role: judicial text

3.

Topic: Referred questions, High Court answers and limited appellate contentions

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 600A–601C

Source role: judicial text

4.

Topic: Purchased bundle of rights and nexus to acquisition cost

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: SCR 601C–602B

Source role: judicial text

5.

Topic: Evidence-based valuation and apportionment

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 602B–E

Source role: judicial text

6.

Topic: Goodwill distinction, acquisition date and final dismissal with costs

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: SCR 602E–603B

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Kuldip Singh, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 8 PDF pages; SHA-256

f27f5915e4a7d2435ba2e9d5b03cc3f0663470186e9d7e31c148e1eed183d925. Original bytes preserved.

Complete unnumbered judicial text from physical page 3 (SCR 598, judicial opening after appeal metadata) through physical page 8 (SCR 603, costs and dismissal). Editorial headnotes occupy physical pages 1–3 before the judicial opening; no adjacent judgment.

[Open cited source rendition](#)

The bounded report does not state an assessment year. The purchase year (1966) and lease date (10 September 1970) are stated; no assessment year is inferred from them.

Editorial headnotes occupy physical pages 1–3 before the Court's opening on page 3. The reasons are unnumbered, so SCR page/letter and physical-page pinpoints are used.; The body expressly records that counsel did not dispute the grant of a lease as a transfer; the argued issues were acquisition cost and operation of the computation provisions.; The officer's 5/8 fraction and Rs.4,82,960 gain are procedural history, not a uniform Supreme Court formula or a newly fixed final amount. The Appellate Assistant Commissioner allowed the full Rs.27,260 cost.; The source prints Rs.17,040 for a 5/8 allocation of Rs.27,260, although that multiplication is Rs.17,037.50. All printed figures are preserved with attribution.; No assessment year is stated in the report; none is inferred. The acquisition year and lease date are separately stated.; The premium and recurring royalty are distinct. No separate royalty ruling is claimed.; The report varies the cited Palshikar parallel citation between headnote and body. This note does not adopt that unverified parallel citation; only this judgment's SCR citation is used.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. The only separately verified post-judgment legislation in this batch is expressly identified in the Shubhlaxmi note.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 8](#)

SHA-256: f27f5915e4a7d2435ba2e9d5b03cc3f0663470186e9d7e31c148e1eed183d925

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