

SUTLEJ COTTON MILLS LTD. v. COMMISSIONER OF INCOME TAX, WEST BENGAL III, CALCUTTA

Civil Appeal Nos. 1467-69 of 1976; Originating High Court proceedings: Income Tax Reference No. 28 of 1954

[1990] Supp. 2 SCR 293 | 1990-10-23

A single mixed profit fund did not justify treating all remittances as first drawn from its already-taxed component. Proportionate exclusion of one-third of each remittance was upheld; attribution presumptions depend on the statute and proved facts.

2-judge bench | T. K. Thommen, J. | S. C. Agrawal, J.

Attribution depends on law and facts

The Court upheld a proportionate allocation for one mixed fund under the historical territorial regime. It did not create an unrestricted taxpayer right to choose a remittance's source.

Operative context: Indian Income-tax Act, 1922; 14(2)(c), 42(3), 66(1).

01 FACTS OF THE CASE

Sutlej manufactured cloth in British India and sold it both there and in the Indian States. For 1945-46, 1946-47 and 1947-48, one-third of the profits on State sales was deemed under section 42(3) to arise from manufacturing in British India. Sums later remitted into British India also fell for assessment under section 14(2)(c).

The company first argued that taxation of the manufacturing share barred any remittance charge. It alternatively claimed that remittances should exhaust the taxed profits before touching the exempt balance. The Tribunal rejected both approaches but excluded one-third of each remittance to reflect the taxed proportion. After obtaining a supplementary statement, the Calcutta High Court upheld that treatment.

Source: [SCR 295 C-H;296 A-H;297 A-E](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court accepted that favourable attribution may sometimes arise where two funds exist, one already taxed and another still liable, and there is no contrary evidence. That conditional possibility did not answer this case. The accepted finding was one fund containing taxed and untaxed amounts, with one-third of the overall profits already assessed.

The Tribunal's proportional division therefore matched the fund's composition and prevented a second charge on the corresponding taxed part of each remittance. It did not follow that every remittance, up to the entire amount previously assessed, had to be identified exclusively with that part.

The Court considered the taxpayer's reliance on Paton and the principle of attributing neutral payments favourably. It stressed that such an abstract principle applies only where consistent with the particular facts and statutory provisions. It is not an independent equitable power to reduce tax. The reported reference amounts were Rs. 50,195, Rs. 76,155 and Rs. 6,00,909 for the three years; the Court did not substitute a different allocation or recalculate them.

Source: [SCR 297 F-H;298 A-H;299 A-B](#)

03 JUDICIAL DECISION

The assessee's appeals were dismissed with costs throughout. The one-third relief already allowed by the Tribunal stood, and no further exclusion from the remittance assessments was granted.

Source: [SCR 299 B-C](#)

04 OUTCOME / IN WHOSE FAVOUR

Appeals dismissed; existing proportional relief retained. Result: Revenue on the additional relief sought. Costs: With costs throughout. Scope: One-third exclusion upheld, further attribution claim rejected. Limit: Historical British India/Indian States provisions and the found single-fund facts.

Source: [SCR 299 B-C](#)

05 AKHB REVIEW POINT

Trace the actual source and composition of a payment before invoking a presumption. Distinguish separate funds from a single proportionately taxed fund, and identify the provision causing each charge. This 1990 remittance case should not be confused with the same company's foreign-exchange precedent or treated as a universal ordering rule for modern bank accounts.

Source: [SCR 297 F-G;298 E-H](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

7-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 judgment is dated 23 October 1990 and concerns pre-independence remittances under 14(2)(c)/42(3). The cited figures are amounts in the referred question, not a newly computed total remittance. Printed title confirmed visually despite OCR distortions.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 14(2)(c), 42(3), 66(1).

The 2011 version of section 5 addresses receipt/accrual and prevents duplicate inclusion; section 9(1)(i), Explanation 1(a), attributes income to Indian operations. These are distinct from the old British India/Indian States remittance structure.

Sections 5 and 9(9)(f)(i) distinguish income scope from reasonable attribution to Indian operations. They do not import the old remittance presumption or establish a universal mixed-fund ordering rule.

The 2025 Act commenced 1 April 2026. Section 536 preserves 1961 proceedings/procedure for tax years beginning before that date and pending proceedings; compare the actually applicable law.

Related-section tags are research cross-references, not provisions decided in this judgment or verified mappings beyond the specific comparisons and source bounds below.

No automatic precedent carry-over or verified case-specific 2025 applicability is claimed.

LATER TREATMENT

Source checked 2026-10-07. No separate later judicial use is verified in this bounded review. No inference of absence of later treatment is made.

Comprehensive subsequent history and present-law applicability are not certified.

IDENTIFIED SOURCE LINKS

[Income-tax Act, 1961, as amended by Finance Act 2011; supplied DOR compilation](#)

Sections 5 and 9(1)(i), Explanation 1(a); physical 72–73 and 76, printed 1.31–1.32 and 1.35. Selected text only; not current 1961 consolidation or image verification.

[Income-tax Act, 2025, as amended by Finance Act 2026](#)

Section 5 physical 27, lines 1057–1082; 9(9)(f)(i) physical 36, lines 1403–1407; 9(9) header checked at 1337. Selected web-extracted text; no raw-PDF/image verification or all-amendments certificate.

[Statutory comparison pinpoint](#)

Section 5 physical 27, lines 1057–1082; 9(9)(f)(i) physical 36, lines 1403–1407; 9(9) header checked at 1337.

[Statutory comparison pinpoint](#)

Section 1(3), physical 1; section 536(2)(c),(e), physical 584–585, extracted lines 24385–24408.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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