

Vijaya Laxmi Sugar Mills Ltd. v. Commissioner of Income Tax, Kanpur

Civil Appeal Nos. 1103–1104 of 1979

[1991] 3 SCR 383 | 1991-08-06

Whether bank-deposit interest on realised liquidation assets was business income, and whether the liquidator's general expenses were deductible from that interest under section 57(iii).

28 | 56 | 57(iii)

Three-judge bench | K. Jagannatha Shetty, J. | V. Ramaswami, J. | Yogeshwar Dayal, J.

Assessment years: 1966-67, 1967-68

Fact-specific liquidation interest and expense nexus

The company showed no continuing business or nexus between general liquidation costs and earning interest. The Court preserved possible business activity in other liquidations, indirect nexus and genuine collection expenses. Both appeals were dismissed with unquantified costs. The reported figures cover only AY 1966–67, and the source's 1949/1950 chronology differs. This is not a universal no-deduction rule; comprehensive later treatment and current-law/2025 mapping remain unverified.

01 FACTS OF THE CASE

The sugar-manufacturing company was in liquidation. The opening account identifies a winding-up order of 8 November 1949. The liquidator sold assets and placed proceeds in bank fixed deposits. For AY 1966–67, interest was Rs 32,237.60 and the claimed expenses totalled Rs 12,379.45, comprising salaries, legal fees, liquidation expenses, travel allowances, postage and stationery. The ITO taxed the interest under section 56 and refused the deduction; the AAC and Tribunal agreed (physical pages 3–4).

AY 1967–68 involved the same issue with different amounts, which the report does not specify. The High Court followed its earlier decision for AY 1962–63 and answered both present references against the company. That earlier year and its Rs 13,023 expense claim are background, not a third Supreme Court appeal (physical pages 4–5).

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

02 DISCUSSION BY THE HON'BLE COURT

The memorandum's authority to invest did not establish that these liquidation activities constituted business. The company had manufactured sugar, and the record showed neither continued manufacture nor trading to facilitate winding up. Merely realising assets and depositing proceeds was insufficient to make the interest business income under section 28. The Court expressly allowed that a liquidator might carry on business in other circumstances; it found no evidence of that activity here (physical pages 5–7).

For section 57(iii), the expense must be incurred wholly and exclusively for making or earning the relevant income. The necessary connection may be indirect, but some nexus must exist. The record did not show that the claimed general liquidation expenses earned or protected the interest, acquired or preserved the asset, or maintained its source. The bank paid interest without a separate establishment or collection effort on these facts (physical page 7).

That reasoning did not prohibit all expense deductions against deposit interest. The Court expressly contemplated collection commission or comparable expenditure incurred solely to earn the income as potentially different. No such proved expenditure was present in this case. The expenses therefore failed the required purpose/nexus test, rather than an absolute rule tied simply to liquidation status (physical pages 7–8).

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

03 JUDICIAL DECISION

The Court upheld the reference answers for Revenue and dismissed both appeals with costs. No amount of costs was specified. The interest remained other-sources income, and the claimed general liquidation expenses were not deductible under section 57. No remand or fresh computation was ordered (physical pages 7–8).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Both assessee appeals dismissed with costs, amount unspecified

Final income-head and expenditure-nexus determination on the stated liquidation facts

No general ban on a liquidator carrying on business or deducting a proved income-earning expense; no additional ruling for the earlier AY 1962–63 reference.

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

05 AKHB REVIEW POINT

Separate corporate capacity from the activity actually undertaken, and then test each expense against the statutory head under which the receipt falls. A liquidator's obligation to administer the estate does not itself make all administration costs expenses incurred to earn bank interest. Evidence of the purpose and connection matters.

Retain the Court's two qualifications: real trading during liquidation can require a different analysis, and an indirect nexus or a genuine collection expense may qualify. Do not turn the statement that bank interest accrues without an establishment into a universal no-deduction rule. The earlier-year reference, unreported second-year amounts, source chronology and unquantified costs should remain distinct. Comprehensive later treatment and current-law/2025 mapping are unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, two appeals, author and first-year amounts

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: reported metadata and judicial text

2.

Topic: Second year and distinct earlier-year reference

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

3.

Topic: Actual liquidation activity and preserved business possibility

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

4.

Topic: Section 57 purpose, indirect nexus and collection-expense qualification

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

5.

Topic: Final dismissal with unquantified costs**Source url:** [Open cited source](#)**Pdf pages:** 8**Paragraphs:** Unnumbered judicial text; physical PDF pages one-based**Source role:** judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

V. Ramaswami, 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

ab834f530c067769cae60389728e2734407efe2bb7330d2fe8fd095d94af877b. Original bytes preserved.

Complete V. Ramaswami J. judicial reasons from the middle of physical page 3 through page 8 / SCR 385–390. Caption and editorial material, including the synopsis continuing on page 3, separately identified; no neighbouring judgment.

[Open cited source rendition](#)

The opening dates the winding-up order 8 November 1949; later passages refer to winding up or appointment as early as 1950. The scan confirms these references. No second order or corrected chronology is invented.; Physical page 4 prints section 56(2) for the High Court's direction to refer the question, alongside section 256(1). This procedural-reference slip is not converted into a separate section 56(2) holding.; The reported Rs 32,237.60 interest and Rs 12,379.45 expenses belong to AY 1966–67 only. AY 1967–68 amounts are not stated; the Rs 13,023 figure belongs to the earlier AY 1962–63 case.; The section 57(iii) nexus may be indirect; possible collection expenses are expressly distinguished. The decision is not a blanket bar on every cost incurred by a company in liquidation.; The Court dismissed two appeals with costs; no amount or per-appeal sum is printed.

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. Any actually checked later judgment or statute is expressly identified in this note.

IDENTIFIED SOURCE LINKS

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

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