

Commissioner of Income-tax, Gujarat v. Arvind Mills Ltd.

Civil Appeal No. 1207 of 1978

[1991] Supp. 3 SCR 303 | 1991-12-10

Does historical section 43A permit development rebate under section 33 on the exchange-driven increase in the cost of imported machinery where acquisition and devaluation occurred in the same previous year?

43A(1) | 43A(2) | 33 | 43(1) | 43(6) | 32

Three-judge bench | S. Ranganathan, J. | V. Ramaswami, J. | N.D. Ojha, J.

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

Historical development-rebate exception; separate 1991 Arvind Mills case

This 10 December 1991 judgment applies the historical section 43A(2) exception: the exchange-cost adjustment is excluded from development rebate, including a change in the acquisition year. Rs. 52.48 lakhs and Rs. 61 lakhs are cost bases, not rebate amounts. The exact appealed AY is not stated; illustrative AYs must not be assigned to the case. The Court leaves counterfactual general-principle questions open. This is not the 21 July 1992 betterment-charge decision. Later treatment and current law remain unverified; no automatic 2025 Act carryover is supplied.

01 FACTS OF THE CASE

Arvind Mills had acquired plant or machinery abroad for its business and paid the foreign supplier before the devaluation of the rupee on 6 June 1966. Foreign-currency borrowing used specifically to acquire the assets remained outstanding. Devaluation increased the rupee amount of the borrowing liability. Acquisition/installation and the liability increase occurred in calendar 1966; the Court accepted that both arose in the same previous year (physical pages 16, 19–20).

The assessee sought development rebate on a cost base of Rs. 61 lakhs. The Assessing Officer confined the base to Rs. 52.48 lakhs, excluding the exchange-driven increase. The Gujarat High Court accepted the assessee's claim, and the Revenue appealed. The Supreme Court report identifies the High Court reference and single appeal but does not expressly identify the appealed assessment year. The earlier dollar/rupee figures and financial years in the judgment are explanatory hypotheticals, not Arvind Mills' transaction figures (physical pages 4–5, 11, 22).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court first examined accounting guidance, the Companies Act balance-sheet amendment, and the contrast between recurring depreciation and a one-time development rebate. The historical section 43A(1) required a qualifying exchange-driven increase or reduction in outstanding foreign-currency acquisition liability to adjust actual cost, capital expenditure or acquisition cost in the previous year in which that liability changed. Section 43A(2) expressly withheld that adjustment when computing the cost for development rebate under section 33 (physical pages 6–15).

The assessee argued that section 43A dealt only with a liability increase in a later previous year. If acquisition and devaluation occurred in the same year, it said ordinary accounting principles already produced the increased actual cost; neither the non-obstante clause in subsection (1) nor the exception in subsection (2) should displace that result. The Court rejected this construction. Once the statutory conditions were satisfied, the enacted rule applied regardless of the result that might follow without it. Nothing in the phrase dealing with a change at any time after acquisition restricted it to a subsequent previous year (physical pages 16–19).

The Court also rejected the premise that section 43A merely selected the adjustment year. It specifically covered the actual situation where the supplier had already been paid but a foreign acquisition loan remained outstanding. Without the provision, both whether cost should change and when it should change could have been disputed. The Court expressly declined to decide those counterfactual general-principle questions because the statute resolved the case. Its preliminary accounting discussion therefore cannot be read as an unrestricted independent holding about all foreign-exchange liabilities (physical page 20).

The Finance Ministry clarification, notes on clauses and CBDT circular did not establish an intended additional development-rebate benefit. The statutory language distinguished development rebate from the other allowances; the Court found no textual or rational basis for allowing the exchange increase only when it occurred in the acquisition year. It considered possible policy explanations for the distinction but said it was unnecessary to attribute any particular reason where the language was clear. Once subsection (1) applied, subsection (2) excluded its adjustment for development rebate (physical pages 20–22).

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

03 JUDICIAL DECISION

The Revenue's appeal was allowed. The Court upheld the Assessing Officer's grant of development rebate on Rs. 52.48 lakhs rather than the Rs. 61 lakhs claimed. Under the historical section 43A(2), exchange-rate increases or decreases in actual cost were to be disregarded for development rebate even when the change occurred in the same previous year as acquisition. It made no order regarding costs (physical pages 21–22).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Appeal allowed; Assessing Officer's development-rebate cost base restored

Final merits ruling on the historical section 43A development-rebate exception

Qualifying imported capital assets and foreign-currency acquisition liabilities under the statutory version reproduced in the judgment. No separate depreciation amount, general loan-loss deduction, rectification/revision jurisdiction or present-law question decided.

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

05 AKHB REVIEW POINT

Keep the financing link and the allowance separate. The decisive liability was a foreign-currency loan specifically used to acquire imported machinery; the supplier's earlier payment did not remove the case from historical section 43A. The adjustment rule and the express development-rebate exception then had to be read together. A same-year exchange movement could not avoid that exception merely by being described as ordinary accounting cost.

For research, use the cost bases in the operative order, not the opening hypothetical figures. Do not convert the Court's provisional discussion of accountancy or possible policy reasons into independent holdings it expressly found unnecessary to reach. Nor should references to other allowances be presented as separate relief to this assessee.

This is a historical development-rebate decision and a distinct judgment from the 1992 Arvind Mills betterment-charge case. Before applying any exchange-loss proposition to another year or regime, check the applicable statutory version and subsequent authorities. No comprehensive later-treatment review or current-law certification accompanies this note.

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

DETAILED DISPOSITION AND CONNECTED GROUPS

Costs: No order regarding costs

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, date, bench, appeal and High Court origin

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5

Paragraphs: SCR 303, 306–307; caption, proceeding details and judicial opening

Source role: reported metadata and judicial text

2.

Topic: Historical statutory text and development-rebate exception

Source url: [Open cited source](#)

Pdf pages: 8; 9

Paragraphs: SCR 310–311; unnumbered judicial text quoting section 43A

Source role: judicial text

3.

Topic: Accounting illustration and distinct recurring/one-time allowances

Source url: [Open cited source](#)

Pdf pages: 5; 10; 11; 12

Paragraphs: SCR 307, 312–314; hypothetical, not party-specific cost or AY evidence

Source role: judicial text

4.

Topic: Legislative/administrative context and actual calendar-year premise

Source url: [Open cited source](#)

Pdf pages: 13; 14; 15; 16

Paragraphs: SCR 315–318; quotations and counsel's factual premise

Source role: judicial text

5.

Topic: Mandatory operation and rejection of same-year exclusion

Source url: [Open cited source](#)

Pdf pages: 18; 19

Paragraphs: SCR 320 F–H; 321 A–G

Source role: judicial text

6.

Topic: Foreign acquisition loan, reserved general-principle questions and subsection interaction

Source url: [Open cited source](#)

Pdf pages: 20; 21

Paragraphs: SCR 322 B–H; 323 A–H

Source role: judicial text

7.

Topic: Exact cost bases, final relief and costs

Source url: [Open cited source](#)

Pdf pages: 22

Paragraphs: SCR 324; concluding unnumbered paragraph

Source role: judicial text

OTHER GOVERNING STATUTES

1.

Act: Finance (No. 2) Act, 1967

Sections:

Role: Judgment describes insertion of section 43A with effect from 1 April 1967; the notes on clauses are quoted as historical context, not separately retrieved legislative text.

2.

Act: Companies Act, 1956

Sections: Schedule VI

Role: Balance-sheet amendment by notification dated 3 January 1968 is quoted as accounting context; no Companies Act compliance dispute decided.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S. Ranganathan, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

APPEAL GROUPING AND SOURCE LIMITS

One common judgment: False

Lead appeal: Civil Appeal No. 1207 of 1978

Origin: Gujarat High Court judgment and order dated 14/15 July 1977 in Income Tax Reference No. 30 of 1975.

Completeness note: Single appeal caption. Plural references to assessee and several High Court decisions in the reasons do not establish additional Supreme Court dockets.

ROLE AND SCOPE OF EACH IDENTIFIED PROVISION

1.

Section: Historical 43A(1)–(2); 33

Role: Principal statutory construction: exchange-rate adjustment to cost and the express development-rebate exception. Relevant enacted text reproduced on physical pages 8–9; applied on pages 18–22.

2.

Section: 32; 43(1); 43(6)

Role: Depreciation, actual-cost and written-down-value context used to contrast recurrent depreciation with one-time development rebate; no separate quantified depreciation relief granted in the operative order.

3.

Section: 35(1)(iv); 35A; 36(1)(ix); 48; 50

Role: Other capital-expenditure/capital-gains provisions appearing in the quoted historical section 43A(1). No scientific-research, patent, family-planning or capital-gains claim decided for this assessee.

4.

Section: 154; 263

Role: Mentioned in counsel's hypothetical account-reworking argument on page 17. No rectification or revision jurisdiction ruling.

OPERATIVE 1961 ACT PROVISIONS

43A(1); 43A(2); 33

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 22 PDF pages; SHA-256

0e59b74816f3d298fec4692839956e1017a2c70de03df22a87ad92618829b949. Original bytes preserved.

Unnumbered opinion of S. Ranganathan J. from physical page 5/SCR 307 through the appeal-allowed/no-costs order at physical page 22/SCR 324. Editorial headnotes and proceeding details on pages 1–4 separately read. No adjacent judgment.

Open cited source rendition

SCR report citation and date verified from the source. Repository identifier 1991INSC332 is not promoted to a source-printed neutral citation. This is not Arvind Mills Ltd. v. CIT decided on 21 July 1992 concerning betterment charges.

The appealed assessment year is not expressly identified in this Supreme Court report. The actual acquisition/installation and exchange-liability increase occurred in calendar 1966 (page 16, with the Court accepting the same-year premise on page 19). References to AY 1966-67 and 1967-68 on page 11 belong to the opening hypothetical; AY 1967-68 and subsequent years on pages 13–15 describe legislative/circular commencement. None is silently promoted to a verified appeal-year label.

Judicial text begins at physical page 5/SCR 307. Physical pages 1–4 are editorial headnotes and proceeding details; their treatment labels are not substituted for the Court's actual reasons and order.; The exact appealed assessment year is not stated. Calendar 1966 is an actual factual period, while AY labels in the opening illustration and quoted enactment materials have different functions.; The Rs. 52.48 lakhs and Rs. 61 lakhs amounts are cost bases for development rebate, not the amount of the rebate or tax demand.; The Court leaves the counterfactual general-principle questions open at physical page 20. Possible policy explanations on page 22 are expressly speculative, not adjudicated legislative facts.; Statutory text, accounting recommendations, circular extracts and ministry correspondence are read as quoted in the judgment; no separate current statutory or administrative-source validation is claimed.; The report has unnumbered judicial paragraphs. Pins use physical PDF pages and printed SCR pages. No adjacent judgment appears in the source.

STATUTORY SCOPE

Historical 1961 Act context only. No automatic mapping to the Income-tax Act, 2025, comprehensive amendment audit or present compliance certification.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive later treatment is not verified. No later-citation, review, stay, reversal or current-law audit has been undertaken for this note.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 22

SHA-256: 0e59b74816f3d298fec4692839956e1017a2c70de03df22a87ad92618829b949

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