

Commissioner of Income-tax, Gujarat-I, Ahmedabad v. Ahmedabad Cotton Manufacturing Co. Ltd. and others

Civil Appeal No. 2123 of 1977 etc.; lead reasoning in Civil Appeal No. 2149 (NT) of 1977
[1993] Supp 3 SCR 392 | 1993-10-15

Section 37 deduction for payments made under statutory production and export options rather than as punishment for breach

Income-tax Act, 1961: sections 28, 37 and 256 | Cotton Textiles (Control) Order, 1948: clause 21-C(1)(b)

Two-judge bench; judgment delivered by N. Venkatachala, J. | B. P. Jeevan Reddy, J. | N. Venkatachala, J.

Scheme-specific distinction

The Court did not make every payment labelled penalty deductible; it required examination of whether the payment punished breach or implemented an option within the governing scheme.

01 FACTS OF THE CASE

Mihir Textiles paid Rs.1,70,766 instead of producing and packing the prescribed quantity of controlled cloth and Rs.5,17,781 under an option for shortfall in a bonded export obligation. Connected cases involved comparable payments by Rustam and Tarun Mills. Assessing officers disallowed deduction, while appellate authorities and the Gujarat High Court treated the sums as business expenditure.

Source: [Primary judgment: lead and connected facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 37 does not permit deduction of a punishment for breach or infraction of law or public policy. The inquiry therefore turns on the law or scheme under which payment arose. Here the Control Order and export bond gave the manufacturer an option to make the payment instead of meeting the physical production or export target, so payment complied with the scheme and was not punitive.

Source: [Primary judgment: penalty-versus-option analysis](#)

03 JUDICIAL DECISION

Because the payments were made by exercising authorised options, they were incidents of business laid out wholly and exclusively for business purposes. The High Court's answers allowing deduction did not warrant interference.

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

The lead and remaining connected Revenue appeals were dismissed. No costs were ordered.

Source: [Primary judgment: operative disposition](#)

05 AKHB REVIEW POINT

AKHB analysis: for section 37, read the source of liability before relying on the label attached to the payment. A sum paid through a lawful commercial option is analytically different from a sanction imposed for prohibited conduct; the present scheme and later case law still require separate verification.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Complete 15-page SCR report read in page-preserving text and every page image inspected through the connected-appeal dismissal.

[Open cited source rendition](#)

Exact catalogue SHA-256 and 15-page count verified; the complete report was read and every source page image inspected.

STATUTORY SCOPE

The deduction analysis depends on the precise legal scheme and whether payment was an authorised option or punishment for a breach. Current section 37 and later authorities must be checked before reliance.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. The note reports the section 37 distinction drawn on the specific Cotton Textiles Control Order and export-bond options.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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