

Commissioner of Income Tax, Karnataka (Central), Bangalore and Others v. Chowgule and Co. Ltd.

Civil Appeal No. 1650 of 1996

[1996] 1 SCR 367 | 1996-01-11

Whether rule 115 required year-end retranslation of export receipts already converted and credited in rupees during the year, and whether the High Court rightly struck down the rule.

263

Two-judge bench | Dr. A.S. Anand, J. | Suhas C. Sen, J.

Assessment years: 1984-85

Revision relief and rule validity had different outcomes

The taxpayer's revision stayed quashed, but rule 115 was upheld. Completed rupee conversions were distinguished from outstanding foreign-currency receivables; no universal rate or fresh computation was prescribed. The printed assessment-year/period pairing and High Court date wording are retained. Later rules, accounting law and comprehensive treatment remain unverified.

01 FACTS OF THE CASE

The exporter sold iron ore to foreign buyers and presented shipping documents through Indian banks under letter-of-credit arrangements. Banks converted payments and credited rupees during the accounting period. The receipts were offered for assessment, while amounts still outstanding at the year-end were translated at that date's exchange rate (physical pages 3–5).

On 30 March 1989 the Commissioner invoked section 263, directing the officer to compare actual conversion rates with the year-end telegraphic-transfer buying rate and add a difference if favourable to Revenue. The Bombay High Court quashed the revision and also held clause (c) of rule 115 ultra vires. Revenue appealed both aspects (physical pages 3–4).

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

02 DISCUSSION BY THE HON'BLE COURT

The historical rule fixed the telegraphic-transfer buying rate for converting foreign-currency income at the specified date. Its quoted Explanation used the last day of the preceding month for salaries due or paid in advance or arrears, and for interest on securities becoming due. For the clause (c) categories, including business income other than clause (d) income, it used the last day of the previous year. The report omits the contents of clauses (d)–(f), so it does not supply a complete rule text (physical page 6).

The rule did not require amounts already converted into rupees during the accounting period to be translated again. If no foreign currency remained or was receivable in respect of those receipts at year-end, there was nothing to convert under that provision. The parties did not dispute year-end conversion of the foreign-currency amounts still outstanding (physical pages 7–8).

The Court treated the sub-rule introduced from 1 April 1990 as clarificatory. As quoted, it covered clause (c) income received in or brought into India by or for the assessee before the specified date in accordance with the Foreign Exchange Regulation Act, 1973. That later sub-rule (2) was distinct from the original Explanation (2) defining the specified date (physical pages 6–7).

Accordingly, the taxpayer's completed rupee receipts did not support the section 263 revision. But the rule itself was valid: the High Court's contrary construction and striking down were erroneous. Relief against the particular revision and validity of the rule were different questions (physical pages 7–8).

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

03 JUDICIAL DECISION

The appeal was disposed of without costs. Quashing of the section 263 order was sustained, while the High Court's invalidation of rule 115 was rejected. The Court made no new exchange-rate calculation or tax-demand computation; the undisputed outstanding amounts remained subject to the stated year-end conversion (physical page 8).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: assessee retains relief from revision; Revenue succeeds on rule validity

Revision remains quashed; striking down of rule 115 reversed; appeal disposed of, no costs

Final historical rule construction and validity ruling

Not a rule for every income head, foreign-currency asset or subsequent accounting/recognition regime; no new computation awarded.

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

05 AKHB REVIEW POINT

Separate receipts already converted into rupees from balances still denominated in foreign currency. Preserve bank-credit dates, actual conversions and year-end receivables before applying an exchange-rate rule. The Commissioner's proposed higher-of-two-rates approach did not follow from the provision on these facts.

A taxpayer victory against a revision does not imply invalidity of the underlying rule. This judgment preserves the rule while rejecting its application to completed rupee conversions. The quoted historical version includes different specified dates for different income categories, so its business-income discussion is not a universal year-end rule.

The Court's clarificatory treatment of the 1990 sub-rule is a holding about that amendment. It does not verify every later change to rule 115, exchange-control law, ICDS, income recognition or the 2025 Act. No comprehensive subsequent treatment is certified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, stated year/period and separate issues

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Banking facts and Commissioner's proposed revision

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Historical rule and clarificatory sub-rule distinction

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Completed rupee receipts, outstanding balances and split result

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

ASSESSMENT-YEAR SCOPE AND LIMITS OF THE OPERATIVE DIRECTION

The judicial text expressly gives AY 1984-85 and the accounting period 1 July 1982–30 June 1983. Both are retained as printed, without an inferred year correction.

RULES ACTUALLY CONSIDERED

Income-tax Rules, 1962, historical rule 115 and later sub-rule (2)

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 8 PDF pages; SHA-256

c58c4253d34750c8c1ad5b8387f52288bdd824f62744baecea42fbe1a3dbe77e. Original bytes preserved.

Complete judicial text physical pages 3–8/SCR 369–374, preserving separate statutory-validity and taxpayer-revision outcomes.

Open cited source rendition

The report expressly pairs AY 1984-85 with 1 July 1982–30 June 1983; no alternate assessment year is silently substituted.; The High Court origin line is printed 3/4.3.92. The note does not turn that wording into a single independently verified calendar date.; The section 263 direction quoted in the source proposed year-end retranslation only if favourable to Revenue. That was the Commissioner's approach, not a Supreme Court-approved calculation.; Rule 115's original Explanation (2) defining specified date is distinct from the later sub-rule (2) effective 1 April 1990. The later provision, as quoted, applies to clause (c) income received in or brought into India before the specified date in accordance with the Foreign Exchange Regulation Act, 1973; its conditions are not a universal exception for every income head.; The historical quoted rule omits the contents of some clauses. The note does not reconstruct those omitted categories or certify a complete current rule.; The amounts actually credited in rupees and the foreign-currency receivables at year-end are distinct; the judgment supplies no final rupee addition.

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

SHA-256: c58c4253d34750c8c1ad5b8387f52288bdd824f62744baecea42fbe1a3dbe77e

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.