

Commissioner of Income Tax, Madurai v. M/s. T.V. Sundaram Iyengar and Sons Ltd.

Civil Appeal Nos. 11864–11867 of 1996

[1996] Supp. 5 SCR 785 | 1996-09-11

Whether unclaimed customer credit balances arising in trading transactions, retained and transferred to the profit and loss account, were taxable despite their original treatment as capital receipts.

28 (business receipts; headnote prints 28(1)) | 41(1) (discussed in the appellate reasoning; distinguish its separate statutory conditions) | 256(2)

Three-judge bench | A.M. Ahmadi, C.J. | B.P. Jeevan Reddy, J. | Suhas C. Sen, J.

Assessment years: 1982-83, 1983-84

Trading-credit surplus, with a separate section 41(1) inquiry

This is a Revenue-favouring deemed-reference answer on unclaimed customer trading balances, not automatic taxation of every old debt or capital receipt. The printed A.V.M. summary and section/citation labels contain inconsistencies. Kesaria Tea later expressly distinguished this case; Sugauli Sugar supplies related historical section 41(1) context. The later unilateral-write-off explanation, current law and comprehensive later treatment are not carried back or certified.

01 FACTS OF THE CASE

For AY 1982-83 the company transferred Rs 17,381 to its profit and loss account; for AY 1983-84 it transferred Rs 38,975. These were unclaimed credit balances standing in customers' names and arising from trade transactions. The company nevertheless excluded them from its total income. The ITO added the sums. The CIT (Appeals) deleted the additions as excess trading advances of capital character, and the Tribunal agreed (physical page 4).

The Tribunal refused to refer the proposed question and the High Court declined the section 256(2) application by treating the issue as concluded by A.V.M. Ltd. Three other questions on different points had been directed to be referred. The Supreme Court, given the old assessment years, chose to answer the disputed credit-balance question itself rather than send it back for a reference (physical pages 3–5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court rejected the proposition that the original capital treatment permanently fixed the character of these particular receipts. They were customer advances received and adjusted in the course of trade, not sums shown to have been retained merely as performance security. The unclaimed residue had become a trade surplus which the assessee itself appropriated to its profit and loss account. The Court treated the combination of the trading origin, long-unclaimed balance, limitation and appropriation as material (physical pages 9–12).

Morley v. Tattersall was distinguished because the auctioneer held clients' sale proceeds, repayable on demand, rather than its own trading receipts; a bookkeeping transfer alone did not change that fiduciary character. The Court relied on the commercial distinction illustrated by Punjab Distilling and Jay's the Jewellers. Its conclusion was that an originally non-income trading receipt may become taxable when it becomes the trader's own money through limitation or another statutory or contractual entitlement (physical pages 6–12).

The observations that section 41(1) did not apply because the liability had not ceased are reported as the CIT (Appeals)' and Tribunal's reasoning. The Supreme Court's affirmative rationale concerns the character of the trading surplus. This is not an independent holding dispensing with section 41(1)'s requirements or a rule that all aged debts and capital receipts become income automatically.

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

03 JUDICIAL DECISION

The proposed question was treated as referred under section 256(2) and answered in the negative, in favour of Revenue: the Tribunal was not right in deleting the additions for the unclaimed balances. The appeals were disposed of without an order as to costs. The Court did not calculate the resulting tax or decide the three other referred questions (physical pages 5 and 12).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Four appeals disposed of by a deemed section 256(2) reference; question answered against deletion of the additions; no costs

Final substantive answer on the unclaimed trading-credit balances for AYs 1982-83 and 1983-84

No automatic taxation of every old liability, fiduciary receipt or loan waiver; no ruling on the other three reference questions or a fresh quantified tax demand.

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

05 AKHB REVIEW POINT

Start with what the receipt actually represented: a customer's adjustable trading advance, money held for another in a fiduciary capacity, a true performance security or another kind of liability. Then establish what legally and factually changed in the relevant year. The profit-and-loss entry mattered on this record, but is not a substitute for proving the nature of the money and the applicable charging provision.

The complete later Sugauli Sugar order, dated 4 February 1999, was checked as a related historical section 41(1) authority, not as direct treatment of this case. For the historical trading-liability limb, an earlier allowed deduction and a benefit obtained by remission or cessation were required. Sugauli held that expiry of limitation did not itself extinguish the debt and that the debtor's unilateral transfer entry did not itself establish the necessary benefit. The complete Kesaria Tea judgment, dated 19 March 2002, was also checked: it expressly distinguished T.V. Sundaram because the facts and legal provision were different, and sustained deletion concerning a previously deducted, still-disputed statutory purchase-tax liability. Kesaria expressly identified its period as preceding Explanation 1. These are bounded later-source checks, not a complete citator conclusion.

The checked 2011 compilation records the unilateral-write-off Explanation 1 to section 41(1) as inserted with effect from 1 April 1997. It therefore must not be silently read into the 1982-83 and 1983-84 controversy. Independently verify the relevant year's law and any later provision before applying the reasoning to a new receipt, liability or waiver.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, four appeals, amounts, two years and reference posture

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4; 5

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Cited fiduciary/trading distinction and internal A.V.M. inconsistency

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8; 9; 10

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Commercial transformation, question answered for Revenue and no costs

Source url: [Open cited source](#)

Pdf pages: 11; 12

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Related historical unilateral-entry and limitation ruling

Source url: [Open cited source](#)

Pdf pages: 4; 6; 7; 8

Paragraphs: Paragraphs 3, 6–11

Source role: later related judicial context

5.

Topic: Direct distinction of T.V. Sundaram and express pre-Explanation 1 limit

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text

Source role: later judicial treatment

6.

Topic: Later section 41(1) structure and Explanation 1 commencement

Source url: [Open cited source](#)

Pdf pages: 305; 306

Paragraphs: Section 41(1), explanations 1–2 and footnotes 62, 65–67

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 12 PDF pages; SHA-256

d76c2fe3c92083ccb5dc42eff65eb7e9c1b07def63c91ed668063e43238a7289. Original bytes preserved.

Complete judicial text on physical pages 3–12/SCR 787–796, plus all editorial pages; four appeals, two stated assessment years, and the deemed-reference answer distinguished from other questions.

[Open cited source rendition](#)

The source's jurisdiction heading gives Civil Appeal Nos. 11864–11867 of 1996, not merely the single lead number in machine metadata. Only two assessment years are narrated; no individual appeal-to-year mapping is supplied.; The headnote describes the appeal as allowed, while the judicial ending disposes of the appeals by treating the question as referred and answering it for Revenue. The operative judicial form is preserved.; An internal A.V.M. inconsistency is printed in the source: pages 4–5 report reliance on it for the assessee-favouring refusal of reference, while page 8 describes its balance as chargeable. No independent A.V.M. report was checked and its holding is not reconstructed here.; The report headnote prints section 28(1). The note identifies the section 28 business-receipt issue without silently treating that label as a verified modern subsection citation.; The discussion of earlier cases contains inconsistent citation/name forms, including Punjab Distilling 35 ITR 510 on page 6 versus 519 elsewhere and Sandersons/Morgans variants. Those reports were not independently checked; this note relies on the Court's own trading/fiduciary distinction rather than certifying their bibliographic details.; The isolated page 12 phrase describing the originally non-taxable receipt is awkwardly printed as being of revenue character. The surrounding judicial reasoning repeatedly identifies its initial capital/non-income treatment; the original text remains unchanged.; Later Sugauli Sugar and Kesaria Tea address historical section 41(1); they are not stated to overrule this trading-receipt judgment. Explanation 1's later commencement, current law and comprehensive subsequent treatment must remain distinct.

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. Comprehensive later treatment remains not_verified. The complete 1999 Sugauli Sugar order was checked as related historical section 41(1) context, not direct treatment; the complete 2002 Kesaria Tea judgment directly distinguishes this case. The 2011 statutory check is confined to physical pages 305–306.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 12](#)

SHA-256: d76c2fe3c92083ccb5dc42eff65eb7e9c1b07def63c91ed668063e43238a7289

[later reported order related historical provision - PDF pages: 8](#)

SHA-256: 2eaafe049746ed00125548062a60a9af951ab9d07dfc7157de4c639cf6c6e3f

[later reported judgment direct treatment - PDF pages: 5](#)

SHA-256: 850bb6e265b195d5e7e442e0cd5888e5d38d1acbfd69fa059e33d0899beaa2f

[official department hosted historical statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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