

The Vellore Electric Corporation Ltd. Etc. v. The Commissioner of Income Tax, Madras

Civil Appeal Nos. 3333–3334 of 1981 / Civil Appeal Nos. 2613–2614 of 1984

[1997] Supp. 1 SCR 586 | 1997-07-08

Whether appropriations to the three electricity-industry reserves reduced taxable profits, and whether interest on the statutorily required investment of the Contingencies Reserve qualified for relief under the then section 80-I.

80-I (historical priority-industry provision using attributable to) | 261

Two-judge bench | S.C. Agrawal, J. | D.P. Wadhwa, J.

Assessment years: 1967-68, 1968-69, 1969-70, 1970-71

Split result under an obsolete section 80-I version

Reserve appropriations were not deductible; only the statutory-investment interest issue succeeded under the historical attributable-to provision. The 1984 appeals were partly, not wholly, allowed. The source conflicts on the AY 1970-71 Development Reserve amount and the later-year High Court date. The old section 80-I was later replaced; comprehensive later treatment and present-law carryover remain unverified.

01 FACTS OF THE CASE

The company held a licence to distribute power in the Vellore and Ranipet areas. Section 57 and the Sixth Schedule to the Electricity (Supply) Act required specified reserves and investment of the Contingencies Reserve in authorised securities. For AYs 1967-68 and 1968-69, the questions before the Supreme Court concerned Development Reserve appropriations of Rs 47,055 and Rs 89,324; the larger Rs 91,715 and Rs 1,39,781 figures in the narrative were combined reserve claims, not the Development Reserve figures alone (physical pages 5–7).

For AYs 1969-70 and 1970-71, the litigation covered Contingencies Reserve amounts of Rs 55,703 and Rs 30,104; Development Reserve amounts; and a Tariffs and Dividend Control Reserve appropriation of Rs 18,735 for AY 1969-70. The AY 1969-70 Development Reserve was Rs 98,676. The report conflicts on the AY 1970-71 figure: Rs 68,228 in the referred question and Rs 62,288 in the narrative, so no definitive amount is selected. The company also claimed the then 8% section 80-I deduction on statutory-investment interest of Rs 17,791 and Rs 14,741 for the two later years (physical pages 6–7).

The Tribunal allowed the Contingencies Reserve and interest-relief claims but disallowed the other reserve deductions. The High Court answered the appealed questions against the company. The first appeal pair arose from its 28 November 1978 judgment; the second pair is introduced as arising from its 6 February 1978 judgment, although a later passage gives 2 February (physical pages 5–8 and 17).

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

02 DISCUSSION BY THE HON'BLE COURT

On Contingencies Reserve, the Court followed Associated Power Co. Ltd. The money reached and remained the company's money; earmarking it ensured resources to meet its expenses and maintain supply. This differed from consumer-benefit/rebate amounts obliged to be returned to consumers. The appropriation was therefore not a deduction from real business profits (physical pages 8–10).

Development Reserve likewise remained available for the company's electricity-supply business. The different provisions for transferring or deducting reserves on purchase of the undertaking did not remove those amounts from the company's real profits. The Court applied the same reasoning to the Tariffs and Dividend Control Reserve. Its comparison concerns deductibility and ownership/use of funds, not an assertion that all reserve provisions have identical operation (physical pages 10–15).

The interest question turned on the historical section 80-I phrase attributable to. Following Cambay Electric, that phrase was wider than derived from, but still required a direct and proximate connection with the priority industry. The cases involving disconnected surplus deposits did not establish a universal exclusion of interest. Here creating the reserve and investing it in authorised securities were statutory licence conditions incidental to carrying on the electricity business; the resulting interest had the necessary connection (physical pages 15–22).

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

03 JUDICIAL DECISION

Civil Appeal Nos. 3333–3334 of 1981 were dismissed. Civil Appeal Nos. 2613–2614 of 1984 were partly allowed only on question 3: the statutory-investment interest qualified for the historical section 80-I relief. The adverse reserve-deduction answers remained intact. There was no order as to costs and no fresh numerical tax computation (physical page 22).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: Revenue on all appealed reserve deductions; assessee on the statutory-investment interest issue

1981 appeal pair dismissed; 1984 appeal pair partly allowed on question 3 only; no costs

Final answers on the reserve and interest questions for the stated assessment years

The interest receipts were eligible profits for the then percentage deduction, not wholly exempt receipts; not every investment-interest receipt or later section 80-I claim qualifies.

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

05 AKHB REVIEW POINT

Keep the reserve appropriation and the income earned from investing it separate. The same statutory arrangement can leave the principal appropriation inside taxable profits while giving its interest a sufficient business connection for a particular deduction. Identify who owns and can use the reserve, why the investment was made, and the precise language of the deduction provision.

For the interest holding, the compulsory licence-linked investment was critical. Do not replace attributable to with derived from, treat the headnote's allowable-as-deduction shorthand as exemption of the whole receipt, or extend the result automatically to voluntary surplus investments. No verified later court treatment is claimed here.

The Department-hosted 2011 compilation's section 80-I footnote records omission of the earlier priority-industry provision from 1 April 1973 and insertion of a different provision from 1 April 1981. The later text uses derived from. This bounded comparison is a warning against relying on the section number alone; it is not verification of present eligibility, electricity regulation, or 2025-Act mapping.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal-year mapping and referred sums

Source url: [Open cited source](#)

Pdf pages: 1; 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Contingencies Reserve and consumer-reserve distinction

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Development and Tariffs/Dividend Control Reserve reasoning

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12; 13; 14; 15

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Historical section 80-I wording and case comparison

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17; 18; 19; 20; 21

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Compulsory-investment nexus and precise mixed disposition

Source url: [Open cited source](#)

Pdf pages: 21; 22

Paragraphs: Unnumbered judicial text

Source role: judicial text

6.

Topic: Amount and High Court-date conflicts

Source url: [Open cited source](#)

Pdf pages: 6; 7; 17

Paragraphs: Unnumbered judicial text

Source role: judicial text

7.

Topic: Different later wording and legislative history

Source url: [Open cited source](#)

Pdf pages: 487

Paragraphs: Section 80-I(1), (1A) and footnote 13

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.C. Agrawal, J.

OTHER STATUTORY CONTEXT

Electricity (Supply) Act, 1948, section 57 and Sixth Schedule paragraphs II, III, IV, V and VA; Indian Trusts Act, 1882 (authorised investment securities)

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

APPEAL GROUPS AND THEIR DISTINCT ASSESSMENT YEARS

1.

Appeals: 3333–3334 of 1981

Assessment years: 1967-68; 1968-69

Issue scope: Development Reserve deduction only

2.

Appeals: 2613–2614 of 1984

Assessment years: 1969-70; 1970-71

Issue scope: Reserve deductions and section 80-I relief on statutory-investment interest

SOURCE & VERIFICATION

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

Identified source rendition: 22 PDF pages; SHA-256

c15798a1bd75d11c8b7d9f5cb6c2f9132a2188991436678f2cc08c4618aaf89b. Original bytes preserved.

Judicial text begins at physical page 5/SCR 590 with S.C. Agrawal J. and ends at physical page 22/SCR 607. Editorial headnote pages 1–5 and footer summaries are separate from the operative order.

[Open cited source rendition](#)

The judicial order says the 1984 appeals were partly allowed only on question 3. The reporter's final footer abbreviates them as allowed; it must not be used as an unqualified assessee win.; The AY 1970-71 Development Reserve is printed as Rs 68,228 in the question at physical page 6 but Rs 62,288 in the narrative at physical page 7. Both images were checked and the conflict is preserved.; The later-year High Court judgment is dated 6 February 1978 in the opening procedural account and again at page 7, but 2 February 1978 at page 17. The Supreme Court decision date, 8 July 1997, is not in conflict.; The heading and facts describe a licence to distribute power; portions of the reasoning use generation and distribution. No separate factual finding about plant ownership or generation capacity is inferred.; The quoted paragraph VA refers to investment allowance under section 32A, while the discussion explains Development Reserve by reference to development rebate. No independent allowance under section 32A is decided in this case.; The consumer-reserve discussion is a contrast based on cited precedent, not a new allowance of a Consumer Rebate Reserve claim in these appeals.; The report prints the Poona Electric ITR citation differently in headnote and body (57 ITR 521 and 57 ITR 512). The note relies on Vellore's stated distinction and does not certify either bibliographic rendition.

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 unverified. Any actual bounded later-judgment or official-hosted historical statutory check is expressly identified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 22](#)

SHA-256: c15798a1bd75d11c8b7d9f5cb6c2f9132a2188991436678f2cc08c4618aaf89b

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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