

Commissioner of Income Tax, Karnataka, Bangalore v. M/s Shaan Finance (P) Ltd., Bangalore etc.

Civil Appeal Nos. 7077–7078 of 1993 / Civil Appeal Nos. 1692–1693 of 1998 (identified in appearances block)
[1998] 2 SCR 367 | 1998-03-20

Whether machinery owned by finance companies and hired to eligible manufacturers could satisfy historical section 32A, although the owners did not themselves manufacture.

32A | 33 (analogy) | 2(47) (distinguished transfer cases)

Two-judge bench | Sujata V. Manohar, J. | D.P. Wadhwa, J.

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

Historical machinery hiring rule; ownership and end use still matter

The owners' hiring business satisfied business use, and the hirers used eligible machinery. The decision does not cover every financing or hire-purchase arrangement, and it preserves the different ship/aircraft condition. Assessment years and allowance figures are unstated; the quoted 25% is historical. Costs are unquantified; comprehensive later treatment and current eligibility remain unverified.

01 FACTS OF THE CASE

The assessees bought machinery and hired it to manufacturers as their financing/leasing business. They remained owners; the hirers used the machinery for the specified manufacturing purposes, and hire receipts were business income. Karnataka and Madras High Courts accepted the section 32A claims. Revenue contended that the owner must also personally perform the manufacturing use (physical pages 3–6).

The report identifies two numbered appeal groups but gives no assessment years, machinery values or individual allowance amounts. The transactions were treated as simple hire without an element of sale; the facts of hire-purchase and disposal in the discussed precedents were different (physical pages 8–10).

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

02 DISCUSSION BY THE HON'BLE COURT

Section 32A(1) required ownership, use for the owner's business and machinery within the specified categories. Hiring machinery was the assessee's business, so that business-use requirement was satisfied. Section 32A(2)(b) described the machinery's eligible use without requiring the owner personally to manufacture. The Court contrasted the express own-operation condition for ships and aircraft in subsection (2)(a), which could not be ignored or mechanically extended to the machinery clause (physical pages 4–7).

The development-rebate authorities supported treating genuine hiring as business use. Narang Dairy and Blue Bay were distinguished because of their different business and sale/transfer features. Simple hire was bailment, leaving ownership rights intact; an arrangement involving an eventual sale or purchase option required separate analysis. The Court applied the statutory language without adding a manufacturer-only restriction to these machinery claims (physical pages 7–10).

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

03 JUDICIAL DECISION

Revenue's appeals were dismissed with costs, sustaining investment allowance for the machinery transactions found to satisfy section 32A. No allowance amount, costs amount, depreciation calculation or assessment-year allocation was supplied (physical page 10).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee finance/hiring companies

Revenue appeals dismissed with costs

Final historical section 32A interpretation on accepted simple-hire facts

No automatic allowance for every finance arrangement, every asset class or every year; hire-purchase, ownership and eligible end use remain distinct questions.

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

05 AKHB REVIEW POINT

Establish legal ownership, the owner's genuine hiring business and the lessee's qualifying end use. Physical operation by the owner was not an additional requirement for this machinery clause. But the express ship/aircraft language and all other statutory conditions remain important.

Analyse the agreement's substance: a purchase option or sale commitment may put it outside the simple-hire facts accepted here. The historical 25% investment-allowance quotation and general depreciation discussion are not a current rate schedule or quantified relief to either party. Later provisions and leasing-case developments require separate verification.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, numbered groups and common issue

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Three conditions and explicit machinery/ship distinction

Source url: [Open cited source](#)

Pdf pages: 4; 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Business hiring and distinguished sale-option cases

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Simple hire, statutory construction and dismissal with costs

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sujata V. Manohar, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 10 PDF pages; SHA-256

f8f7962b6cc398c6d07515d6a92fc0384da496eb5c69ce88e60861068d1be03d. Original bytes preserved.

Complete unnumbered judicial text physical pages 3–10/SCR 369–376; statutory extracts, earlier-case facts and circular descriptions distinguished.

Open cited source rendition

The main caption numbers CA 7077–7078/1993; the appearances block also identifies CA 1692–1693/1998. The Court grants leave and disposes of appeals in the plural, but no individual taxpayer/year mapping is supplied.; No assessment years or monetary allowance figures are stated. Dates in the statutory extract and earlier cases are not assigned as the assessee's years.; The case is about investment allowance under section 32A. Depreciation and hirer-expense observations explain the hire distinction; they are not separate quantified awards.; The ship/aircraft owner-operation requirement is expressly contrasted with machinery. The result must not be extended indiscriminately across both clauses.; The departmental circulars are read as described in the judgment; separate originals and comprehensive later treatment were not verified.

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 subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 10

SHA-256: f8f7962b6cc398c6d07515d6a92fc0384da496eb5c69ce88e60861068d1be03d

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