

Commissioner of Income Tax, Tamil Nadu-II, Madras v. Madras Auto Service (P) Ltd.

Civil Appeal No. 6068 (NT) of 1983 (the narrative and operative order refer to appeals in the plural; no additional number supplied)

[1998] 3 SCR 1121 | 1998-08-12

Whether expenditure constructing premises that belonged to the lessor from inception was revenue expenditure where it secured substantially reduced rent for the business.

37(1) | 256(1)

Two-judge bench | Sujata V. Manohar, J. | S. Rajendra Babu, J.

Assessment years: 1968-69, 1969-70

Lease-specific revenue benefit; later depreciation rule distinct

The result depends on ownership from inception and the proven concessional-rent arrangement. It does not make every leasehold construction expense revenue or bar all lessee depreciation. The checked later Explanation 1 to section 32 addresses qualifying capital work on leased premises. The source has one numbered appeal but plural disposal and an awkward negative reference question. Costs are unquantified; later treatment remains unverified.

01 FACTS OF THE CASE

The motor-parts company leased Bangalore premises for 39 years from January 1966. The agreement allowed demolition and rebuilding, but the new building belonged to the lessors from the commencement of construction and the company had no compensation right for it. Rent ranged from Rs 1,000 to Rs 2,000 per month under the stipulated stages (physical pages 2–3).

The company spent Rs 1,62,835 for AY 1968-69 and Rs 50,937 for AY 1969-70. It advanced alternative claims including business expenditure. The Tribunal accepted revenue treatment, finding the rent extremely low compared with the area's rental level; the High Court upheld that conclusion. Revenue appealed (physical pages 3–4).

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

02 DISCUSSION BY THE HON'BLE COURT

The expenditure had to be viewed commercially and in the actual arrangement. The company acquired no ownership in the building and secured suitable premises at greatly reduced rent. The advantage, on these findings, substituted for revenue rental expenditure rather than adding a capital asset to its business (physical pages 4–6).

An enduring benefit was not a conclusive test detached from special circumstances. The Court compared expenditure on others' roads, municipal facilities and employee housing, distinguishing the capital setting of Assam Bengal Cement. Those comparisons supported this transaction's revenue character; they did not establish that every expenditure on another person's asset is necessarily revenue (physical pages 5–8).

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

03 JUDICIAL DECISION

Revenue's appeals were dismissed with costs, sustaining deduction of the two construction amounts as revenue expenditure for the stated years. The source supplies no costs figure or additional numbered appeal. The alternative depreciation or capital-loss claims were not granted (physical page 8).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Revenue challenge dismissed with costs; both stated years' revenue treatment sustained

Final classification on the lease and concessional-rent facts

Not a universal revenue deduction for leasehold improvements, nor a present rule that a non-owner can never claim depreciation.

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

05 AKHB REVIEW POINT

Examine ownership from inception, compensation rights, lease terms, the actual business advantage and evidence of rent saving. Duration alone did not decide the result, but neither does lack of legal title alone decide every case. The finding was tied to this whole commercial arrangement.

Keep the later depreciation deeming rule separate. The checked 2011 compilation's section 32 Explanation 1 applies where the assessee carries on business or profession in a building it does not own but holds under a lease or other occupancy right, and incurs capital expenditure for that business or profession on construction of a structure or renovation, extension or improvement of the building. For the relevant depreciation clause, the qualifying structure or work is treated as a building owned by the assessee; the Explanation's insertion is recorded from 1 April 1988. That provision does not automatically make every such expense capital, but it prevents reading this older case's no-depreciation observation as a timeless ownership rule. No current-year entitlement is certified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, sole numbered appeal, lease and year-wise expenditure

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Reference wording and actual rent-saving findings

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Commercial advantage and limits of enduring-benefit test

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Final revenue classification and costs

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Later depreciation deeming rule and recorded insertion date

Source url: [Open cited source](#)

Pdf pages: 209

Paragraphs: Section 32 Explanation 1 and footnote 7

Source role: bounded historical statutory 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: 8 PDF pages; SHA-256

b43547320810ca87ccbeac7e295c9a3f415703a0001ead3ed40d0949e1975d68. Original bytes preserved.

Complete unnumbered judicial text physical pages 2–8/SCR 1122–1128, including lease terms, alternative claims and final plural disposition.

[Open cited source rendition](#)

The report captions one appeal, CA 6068 (NT)/1983, but calls the departmental challenges and final dismissal appeals in the plural. Both assessment years are express; another docket number is not invented.; The referred question on physical page 4 contains a negative formulation about deductible expenditure inconsistent with the immediately following narrative and result. The clear judicial conclusion allowing revenue deduction controls.; The unusually low rent is an express Tribunal finding adopted in the reasoning, not a general rental benchmark.; The Court's ownership and depreciation discussion concerns these old years and this transaction. Later deemed-ownership rules must not be ignored or applied retrospectively without analysis.; Costs are unquantified, and the original alternative capital-loss/depreciation claims are not additional relief awarded.

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: 8](#)

SHA-256: b43547320810ca87ccbeac7e295c9a3f415703a0001ead3ed40d0949e1975d68

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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