

Oberoi Hotel Pvt. Ltd. v. Commissioner of Income Tax

Civil Appeal No. 7418 of 1994

[1999] 1 SCR 955 | 1999-03-10

Whether compensation for giving up rights connected with acquiring, leasing or operating a hotel was a capital receipt or ordinary trading revenue.

28(ii) (reporter classification; historical capital/revenue issue)

Three-judge bench | S.P. Bharucha, J. | M.B. Shah, J. | N. Santosh Hegde, J.

Assessment years: 1979-80

Contract-specific historical capital receipt; later charging text must be checked

The surrendered first-offer/operating rights were treated as a capital income source for AY 1979-80. This is not a current blanket exemption for termination compensation: the checked later section 28 text contains clause (ii)(e). No capital-gains calculation or costs direction was supplied. Printed contract thresholds overlap and are not repaired. Current law, commencement questions and comprehensive later treatment remain unverified.

01 FACTS OF THE CASE

The company managed hotels belonging to others for fees. Its 2 November 1970 agreement concerning Hotel Oberoi Imperial in Singapore provided a ten-year term, possible agreed renewals and an Article XVIII right of first offer if the owner wished to transfer or lease the hotel. A 14 September 1975 supplemental agreement with the receiver removed that right and freed the receiver to sell without securing a management arrangement for the company (physical pages 3–5).

After the sale the company received Rs 29,47,500. The AO treated it as revenue, CIT(A) and the Tribunal treated it as capital, and the High Court reversed them for AY 1979-80. The company appealed (physical pages 3 and 5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court rejected a single mechanical test for every compensation receipt. It distinguished compensation for an ordinary trading-contract interruption from compensation for injury to the income-producing structure or loss of a source. An agency's termination may produce revenue where it is an ordinary incident of the business and does not impair that structure; labels alone do not decide the issue (physical pages 5–7).

Here the company surrendered its contractual priority concerning purchase, lease or operation of the property, rather than merely settling an ordinary trading claim. The loss affected a source of income. The fact that it operated other hotels did not, on these rights and agreements, convert this receipt into trading revenue. The Court applied the cited capital-structure principles to the actual Article XVIII right (physical pages 6–8).

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

03 JUDICIAL DECISION

The appeal was allowed, the High Court order set aside and the referred question answered for the assessee: the receipt was capital. The order states no separate costs direction or capital-gains computation (physical page 8).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on historical receipt classification

Appeal allowed; High Court order set aside; capital receipt answer

Final capital/revenue classification for the stated transaction and year

Not a universal exemption for termination compensation, an adjudication of every possible capital-gains charge, or a current-law classification of all hotel contracts.

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

05 AKHB REVIEW POINT

Read the precise right surrendered and the compensation instrument. A first-offer right affecting continued acquisition or operation is different from an ordinary contract for earning trading profits. The existence of other business contracts alone is not a substitute for analysing the affected asset or income source.

This historical ruling needs a later-statute caution. The checked official section 28 page, expressly labelled 2024 (No. 1), contains clause (ii)(e) covering compensation connected with termination or modification of a contract relating to business. That later charging text must be considered before applying the old capital/revenue distinction to another year. This note verifies the displayed wording, not every commencement, transitional issue or later interpretation; it does not apply the later provision retrospectively to Oberoi or certify current law.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal, year and referred amount

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Principal and supplemental agreements; printed threshold anomaly

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Capital-source distinction and ordinary trading-contract exception

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Application to surrendered right and allowance

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Later business-contract compensation charging text

Source url: [Open cited source](#)

Paragraphs: Official page labelled 2024 (No. 1), section 28(ii), particularly clause (e)

Source role: bounded official statutory html

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

M.B. Shah, 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

2f1160c541d89c4d87475427a8c47fcab065e6c9bd23288ce137e0706cf7fb55. Original bytes preserved.

Complete unnumbered judicial text physical pages 3–8/SCR 957–962, including contract excerpts and attributed authorities.

[Open cited source rendition](#)

The contract schedule prints a first threshold below S\$30,000,000 and a second threshold beginning at S\$3,300,000, creating overlap. No corrected threshold, currency conversion or compensation computation is reconstructed.; The actual right was a contractual first offer if the owner proposed transfer or lease; it is not restated as an unconditional ownership right.; The judgment decides capital rather than revenue character. It does not compute a capital gain or announce that every capital receipt is outside every charging provision.; No costs order appears in the operative ending; the note does not turn silence into an express no-costs direction.; The section 28 HTML comparison is a labelled later statutory version. No precise commencement date or complete subsequent amendment history is claimed from that page.

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: 2f1160c541d89c4d87475427a8c47fcab065e6c9bd23288ce137e0706cf7fb55

[official statutory html](#)

SHA-256: a91c78cb42646d46ee38fa20a64b1344edb234ff21962587ffb98a0890098d51

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