

Universal Plast Ltd. v. Commissioner of Income Tax, Calcutta; with Guntur Merchants Cotton Press Co. Ltd.

Civil Appeal No. 207 of 1995 / Civil Appeal Nos. 1685–1687 and 1700 of 1999, arising from SLP CC Nos. 10912–10914 and 10984 of 1986

[1999] 2 SCR 131 | 1999-03-23

When receipts from letting business assets remain business income, and whether the two assessee's arrangements represented continued commercial exploitation or an exit from their businesses.

2(13) (reporter classification) | 28 | 56 | 256(1) | 256(2)

Three-judge bench | S.P. Bharucha, J. | Syed Shah Mohammed Quadri, J. | R.C. Lahoti, J.

Assessment years: 1977-78 (UPL only; Guntur years not stated)

Fact-specific exit from business; preserve both taxpayer groups

The five appeals failed because the actual arrangements and findings showed cessation/exit, not merely temporary exploitation of continuing business assets. This is not a universal rule against business-income treatment of rentals. UPL's printed 20%/25% profit term and accounting chronology conflict; Guntur's years and lease terms are not supplied. The opening answer-polarity shorthand is inconsistent with the differently framed questions. Costs are unquantified; later treatment remains unverified.

01 FACTS OF THE CASE

UPL's PVC-sheet factory had suffered losses. Under a seven-year leave-and-licence agreement dated 13 March 1977, renewable at the licensee's option for three more years, it let the factory for a fee and a profit-linked component. The source identifies Rs 6 lakh received for the first three months as the AY 1977-78 dispute. The AO treated it as other-source income; the Tribunal accepted business income, but the High Court reversed that conclusion after examining the arrangement, including the licensee's purchase option (physical pages 3–5 and 9–10).

Guntur Merchants had stopped cotton ginning in 1964 and had not restarted by 1977. Its godowns and pressing factory were let to different businesses, with machinery separated and idle for a long period. Its lease was not produced before the Supreme Court and there was no challenge that a vital contractual clause had been ignored. The findings indicated a dismantled business with no intention to resume (physical pages 11–12).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court synthesised a fact-sensitive inquiry rather than a universal test. True contractual terms, the business perspective, whether all or only some assets were let, the duration and the intention to resume matter. Temporary use of spare commercial assets during a continuing business differs from exploiting property after the business has ceased without an intention to return (physical pages 5–9).

UPL's default-termination and repossession protections did not neutralise the purchase option and the High Court's finding of an intended exit through a lease-cum-sale. In Guntur's case the long cessation and unchallenged findings similarly defeated the claim. Earlier temporary-letting cases were distinguished on their facts. The Court did not hold that every long lease, every rental receipt or every company formed to let property necessarily falls outside business income (physical pages 9–12).

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

03 JUDICIAL DECISION

All five assessee appeals were dismissed with costs. Both High Courts' answers for Revenue were upheld: the disputed receipts did not qualify as business income on these facts. No remand, costs figure or separate Guntur assessment-year computation was supplied (physical pages 3 and 12).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue in both taxpayer groups

Five assessee appeals dismissed with costs

Final classification on the two sets of findings

No blanket rule that rental or licence receipts cannot be business income; quoted earlier cases' years and facts are not extra appeals here.

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

05 AKHB REVIEW POINT

Distinguish a temporary pause in the same business from a decision to exit it. Retain the whole lease, purchase options, asset-use evidence, resumption plans and actual later conduct. A clause permitting re-entry on default is not by itself proof of an intention to restart manufacturing.

Keep the two taxpayers' facts separate. UPL's rejected temporary-exploitation premise and Guntur's unchallenged dismantling finding were reached differently. The judgment does not supply a universal head-of-income result for all property businesses, present residential letting, or every composite lease. Later law and authorities need their own assessment-year and factual review.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, all five appeals, separate questions and UPL facts

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4; 5

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Earlier-case distinctions and four-part fact-sensitive approach

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7; 8; 9

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: UPL agreement, profit-percentage conflict and rejected temporary-exploitation argument

Source url: [Open cited source](#)

Pdf pages: 9; 10; 11

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Guntur findings and final dismissal with costs

Source url: [Open cited source](#)

Pdf pages: 11; 12

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Syed Shah Mohammed Quadri, 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

ba748c6eea1cee7849867a4857917857530ce2ac166d5ee4a5a6d511835f7d79. Original bytes preserved.

Complete unnumbered common judgment physical pages 3–12/SCR 133–142, with separate UPL/Guntur facts and quoted earlier cases distinguished.

Open cited source rendition

The opening facts state a 20% profit component, while reproduced clause 2(ii)(c) says 25%. The conflict is preserved and no fee calculation is made.; The source links an agreement dated 13 March 1977 and commencement from 1 April 1977 with three months in AY 1977-78. The report does not reconcile that accounting chronology, and the stated year is not silently changed.; The opening says both High Courts answered negatively for Revenue, although the reproduced Guntur question is framed as whether the Tribunal was justified in saying letting did not constitute business. The substantive discussion and final result clearly favour Revenue; the polarity is not mechanically repeated as a consistent answer to both differently framed questions.; The Guntur lease was absent and its individual assessment years are not specified. No missing terms or years are invented.; The Tribunal's temporary-exploitation view in UPL is recited before the High Court's contrary construction. It is not the factual conclusion ultimately accepted by the Supreme Court.

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: 12

SHA-256: ba748c6eea1cee7849867a4857917857530ce2ac166d5ee4a5a6d511835f7d79

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.