

The Travancore Rubber and Tea Co. Ltd. v. Commissioner of Income Tax, Trivandrum

Civil Appeal Nos. 385–386 of 1999

[2000] 2 SCR 290 | 2000-03-14

Whether earnest money and advances forfeited on failed sales of old rubber trees were revenue receipts under the historical law.

51 (historical) | 263 | 256(1)

Two-judge bench | D.P. Wadhwa, J. | Ruma Pal, J.

Assessment years: 1977-78

Historical capital-receipt result; later forfeiture tax provision

The original ruling concerns AY 1977-78. Circular 1/2015 records section 56(2)(ix) and the linked section 51 amendment from AY 2015-16; this case is not a present blanket exemption for forfeited advances. Historical section 51 reduced cost, despite the report's loose added-to-value phrase. The report also contains unreconciled amounts and a High Court date conflict. No later-sale loss was awarded; comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

The plantation company was not in the business of selling trees. In 1975 it agreed with three purchasers to sell old unyielding rubber trees, receiving Rs 75,000 as earnest money and Rs 3,56,300 as advances. Purchasers defaulted, the agreements were terminated, and the company forfeited the receipts; civil proceedings confirmed its right to retain them. A later sale to a third party in 1979 was described as occurring at a loss (physical page 4).

For AY 1977-78 the AO treated the receipts as non-revenue, but the Commissioner revised that view. After successive Tribunal and High Court proceedings, the Tribunal distinguished capital advances from earnest money taxable under other sources. The High Court ultimately treated both as taxable revenue receipts (physical pages 4–6).

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

02 DISCUSSION BY THE HON'BLE COURT

The receipts related directly to capital assets. Cancellation of these sales did not by itself transform capital consideration into trading receipts. The Court acknowledged that later events can sometimes alter a receipt's character, distinguishing that possibility from the effect of termination here (physical pages 6–7).

Historical section 51 covered both an advance and other money retained in earlier negotiations, so the Tribunal's distinction between earnest money and advances was unsustainable. The quoted provision reduced acquisition cost, written-down value or fair market value as applicable; it did not direct addition to the deductible cost base. The Court also treated contractual forfeiture compensation according to the character of the failed capital receipt, and rejected the High Court's approach to the sale agreements (physical pages 7–9).

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

03 JUDICIAL DECISION

Both appeals were allowed without costs. The High Court order was set aside and the referred question answered in the negative for the assessee. The Court did not quantify a later capital gain or allow a separate loss for the 1979 sale (physical page 9).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee under the historical law

Two appeals allowed; no costs

Final classification ruling for AY 1977-78

Not a present exemption for forfeited capital-asset advances; later section 56(2)(ix) and corresponding section 51 changes must be considered.

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

05 AKHB REVIEW POINT

Identify whether the asset is capital or trading stock, the actual contractual right to retain the sum, and the governing assessment year. An earnest-money label alone did not create a different income character under the historical section 51 considered here. Never use the report's loose phrase about adding to value as an instruction to increase acquisition cost: the reproduced statutory text says deduction from that cost.

The later-law qualification is material. CBDT Circular 1/2015, paragraphs 22.1–22.6, explains that the 2014 amendment introduced section 56(2)(ix) for forfeited money received in capital-asset transfer negotiations that do not result in transfer, with effect from AY 2015-16. Its section 51 consequence avoids a second cost reduction where the amount was already included under that clause. This bounded historical amendment check is not a complete current-law or later-case review.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, year, sales and amount/date conflicts

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Procedural history and capital-asset premise

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Receipt character and actual section 51 mechanism

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Compensation analysis and final two-appeal result

Source url: [Open cited source](#)

Pdf pages: 9

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: 2014 amendment and AY 2015-16 commencement

Source url: [Open cited source](#)

Pdf pages: 32; 33

Paragraphs: Paragraphs 22.1–22.6

Source role: bounded official explanatory circular

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ruma Pal, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 9 PDF pages; SHA-256

26a8d36dea6a89d561c2a3452061abe666a2cec4f49a0e012dc07909adc35393. Original bytes preserved.

Complete unnumbered judicial text physical pages 3–9/SCR 292–298; headnote and quoted authorities distinguished.

[Open cited source rendition](#)

Rs 75,000 plus Rs 3,56,300 totals Rs 4,31,300, whereas the quoted referred questions use Rs 3,95,229. The report supplies no reconciliation and no corrected disputed amount is invented.; The jurisdictional recital gives the High Court date as 9 April 1996, while the narrative prints 9 April 1995. The Supreme Court decision date is unambiguous.; The headnote describes the assessee's claim as revenue receipts not exigible, whereas the judicial reasoning classifies the forfeited amounts as capital.; Page 8 says the retained money is in effect added to the value of the asset; the actual section 51 quotation on page 7 requires deduction from cost/WDV/FMV. The note follows the statutory mechanism and does not create an inverted computation.; The later sale and stated loss are background facts, not a separate loss deduction allowed in these appeals.

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: 9](#)

SHA-256: 26a8d36dea6a89d561c2a3452061abe666a2cec4f49a0e012dc07909adc35393

[official explanatory circular - PDF pages: 59](#)

SHA-256: 9a25f5d5e2de567434ad43676c620e6047c6a72d6655ac9a3776e59782e3ccf3

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