

## Commissioner of Income Tax, Madurai v. M/s. Sri Mangayarkarasi Mills (P) Ltd.

Civil Appeal No. 4579 of 2009

[2009] 10 SCR 1187 | 2009-07-21

**Whether the AY 1995-96 expenditure on replacement of textile-mill machinery was deductible as current repairs under section 31 or revenue expenditure under section 37.**

31 | 37 | 32 | 43(6)(c) | 260A

Two-judge bench | Tarun Chatterjee, J. | Aftab Alam, J.

Assessment years: 1995-96

### Final disallowance for independent replacement assets; no remand here

This appeal restores the AO's disallowance under sections 31 and 37 for the recorded machinery replacements. It does not decide every component repair, apply an automatic 50–60-year exception, or quantify depreciation. The remand mentioned in paragraph 18 concerns Ramaraju, not this assessee; assets/block-of-assets and depreciation discussion was expressly declined. The report has a mistaken headnote page pin and an OCR citation error. Current law and comprehensive later treatment remain unverified.

### 01 FACTS OF THE CASE

The cotton-yarn manufacturer claimed Rs. 61,28,150 for AY 1995-96 as revenue expenditure on machinery replacement, describing the replacements as spare parts of the overall spinning-mill system. The AO treated the machines as separate assets with distinct functions, rejected deduction under sections 31 and 37, and said that depreciation could be claimed under the income-tax rules. The machinery additions had been capitalised in the books (paragraphs 3–4).

The CIT(A), following its earlier AY 1991-92 order, allowed the claim. The Tribunal sustained the allowance and the Madras High Court dismissed the Revenue's section 260A appeal, relying on Janakiram Mills and Loyal Textile Mills. Before the Supreme Court the assessee sought to confine the case to section 37, saying it had not claimed current repairs; the Court rejected that limitation because the dispute over whether independent machines or parts of one asset had been replaced necessarily raised the repair issue (paragraphs 5–10).

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

## 02 DISCUSSION BY THE HON'BLE COURT

Applying Saravana Spinning Mills, the Court held that machinery can be connected within an integrated yarn-production process while retaining a distinct identity and function. The relevant asset is not automatically the whole mill. Replacement of an independent old machine with a new one created a new asset rather than preserving and maintaining the old machine. The section 31 inquiry is whether the work is current repair, not simply whether expenditure is labelled capital or revenue (paragraphs 14–15).

The Court acknowledged Saravana's exceptional replacement situations, including unavailable old parts and parts used for 50–60 years, and noted that the assessee had claimed neither. On the facts, acquisition of replacement assets giving better and more efficient production over time was not current repair. These references do not amount to an automatic age-based or unavailable-part exemption for every replacement (paragraph 15).

Section 37 required a distinct inquiry. The Court treated the other identified conditions as satisfied but found this expenditure capital because it brought a new asset and an enduring benefit. It rejected reliance on Janakiram Mills, explaining that Saravana addressed section 31 and that the separately discussed Ramaraju litigation had been remitted for section 37 consideration. That historical remand did not become a remand in the present appeal (paragraphs 16–18).

The Court expressly declined to discuss the definitions of assets and block of assets and the depreciation concept, as unnecessary to this deduction decision. It also treated capitalisation in the accounts as indicative on these facts while recognising that accounting practice is not the best guide. The deduction conclusion rested on the statutory and asset analysis, not on a universal rule that the books determine tax character (paragraphs 19–20).

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

## 03 JUDICIAL DECISION

The Revenue's appeal was allowed without costs. The High Court judgment was set aside and the AO's decision disallowing the deduction restored. This is a final disallowance in the present appeal, not an order remitting this assessee's claim for reconsideration. No depreciation computation or separate block-of-assets ruling was made (paragraphs 19 and 21–22).

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

**04 OUTCOME / IN WHOSE FAVOUR**

In whose favour: Revenue

Appeal allowed; High Court judgment set aside and AO's deduction disallowance restored; no order as to costs

Final on rejection of the present replacement expenditure under both sections 31 and 37

Concerns replacement of independently functioning textile-mill assets on the recorded facts, not every repair or replacement of a component. The exceptional situations mentioned were not claimed. The Ramaraju remand is precedent history; this appeal contains no remand. Assets/block-of-assets and depreciation questions were expressly not discussed, and no quantified depreciation allowance was decided.

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

**05 AKHB REVIEW POINT**

Identify the physical asset and what was replaced before characterising the expenditure. An integrated manufacturing process does not by itself turn every machine into a spare part of one enormous asset. Keep evidence of function, retained components, unavailable parts, age and the actual change in the asset; no new capacity figure is supplied in this judgment.

Analyse sections 31 and 37 separately. The independently checked Saravana paragraphs 9–16 explain component-repair examples and expressly reserve its section 37 cases, whereas Mangayarkarasi decides both deduction routes on its own record. Do not import that earlier reservation or the Ramaraju remand into this final disposition. Nor should this note be used to decide depreciation or a later statutory block-of-assets question that the Court left undiscussed.

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

**PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES**

1.

**Topic:** Identity, current claim and lower proceedings

**Source url:** [Open cited source](#)

**Pdf pages:** 1; 4; 5; 6; 7

**Paragraphs:** Cover; reported jurisdiction; 1–8

**Source role:** reported metadata and judicial text

2.

**Topic:** Why both deduction routes were considered

**Source url:** [Open cited source](#)

**Pdf pages:** 7; 8

**Paragraphs:** 9–10

**Source role:** judicial text

3.

**Topic:** Party submissions distinguished from holdings

**Source url:** [Open cited source](#)

**Pdf pages:** 8; 9; 10

**Paragraphs:** 11–13

**Source role:** party submissions and transition

4.

**Topic:** Independent machines and current-repair limits

**Source url:** [Open cited source](#)

**Pdf pages:** 10; 11; 12

**Paragraphs:** 14–15

**Source role:** judicial text

5.

**Topic:** Separate section 37 conclusion and historical remand

**Source url:** [Open cited source](#)

**Pdf pages:** 12; 13; 14

**Paragraphs:** 16–18

**Source role:** judicial text

6.

**Topic:** Undecided concepts, accounting and final relief

**Source url:** [Open cited source](#)

**Pdf pages:** 14

**Paragraphs:** 19–22

**Source role:** judicial text

7.

**Topic:** Bounded earlier comparison: component repairs, exceptions and section 37 reservation

**Source url:** [Open cited source](#)

**Pdf pages:** 9; 10; 11; 12; 13; 14; 15

**Paragraphs:** 9–16

**Source role:** bounded earlier judicial comparison

#### **ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS**

**31:** Current repairs, applied distinctly from the capital/revenue test.

**37:** Separate revenue-deduction question decided against the assessee on the facts.

**32 / 43(6)(c):** Depreciation, assets and block-of-assets arguments recorded; paragraph 19 expressly declines their discussion. No depreciation rate or computation decided.

**260a:** Procedural route of the Department's High Court appeal.

## JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Tarun Chatterjee, J.

## ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

## SPECIFIED EARLIER COMPARISONS AND THEIR LIMITS

1.

**Case:** Commissioner of Income Tax v. Saravana Spinning Mills (P) Ltd.

**Relationship:** Earlier judgment, independently checked only within the stated bounds

**Asset id:** 2007\_8\_944\_958

**Source url:** [Open cited source](#)

**Actually read:** Physical pages 7–15, including complete judicial paragraphs 5–16; analytical comparison confined to paragraphs 9–16 on pages 9–15. Cover and relevant page images checked.

**Finding:** Saravana distinguishes component repairs from substitution of independent machines, discusses limited replacement exceptions, and expressly refrains from deciding section 37(1) applicability in its batch. Mangayarkarasi makes its own final section 37 decision.

**Scope limit:** This bounded comparison is not a full Saravana case note and is not later-treatment verification. No independently reviewed Ramaraju source or ultimate post-remand outcome is claimed.

## SOURCE & VERIFICATION

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

Identified source rendition: 14 PDF pages; SHA-256

59d0f97cafea4fb4b99e62383c0a8e1f8a995eb9be697de43c4a5c888535b054. Original bytes preserved.

Judicial paragraphs 1–22 on physical pages 4–14 (SCR 1190–1200). Pages 1–3 and page 4 above the author line are reporter/editorial material. No adjacent judgment.

[Open cited source rendition](#)

AY 1995-96 is the present claim in paragraph 3. AY 1991-92 appears only as an earlier CIT(A) order followed below; it is not an additional assessment year disposed of by this appeal.

The present year is AY 1995-96 and the amount is Rs. 61,28,150. The earlier AY 1991-92 allowance is procedural background only.; The primary judgment describes machinery replacement but does not provide an item-by-item inventory or a new production-capacity computation. Ring-frame discussion includes the Tribunal's precedent and the reasoning in Saravana; it must not be expanded into an invented inventory for this assessee.; Paragraphs 11–12 are opposing counsel's submissions, including the tube-light circular, block-of-assets arguments and assertions about earlier cases; they are not themselves holdings.; The headnote on physical page 1 gives SCR 1106–1107 for paragraph 14, whereas the actual judicial text is on SCR 1196–1197 (physical pages 10–11). Physical-page pinpoints are used.; The OCR misreads the Saravana citation in the case-law table as (2001) 1 SCC 298; visual inspection shows (2007) 7 SCC 298. The embedded Travancore citation is retained only as source discussion, without separately certifying its reported citation.; The remand described in paragraph 18 belongs to Ramaraju litigation. Paragraphs 21–22 restore the AO's disallowance here; paragraph 19 leaves assets/block-of-assets and depreciation discussion aside.; The Saravana comparison was independently read only within the stated bounded portion. Ramaraju, Janakiram, Mahalakshmi and other cited originals were not independently reviewed for this note.

## STATUTORY SCOPE

Current statutory equivalence and 2025 Act applicability have not been verified.

**LATER TREATMENT**

Source checked 2026-10-04. No comprehensive subsequent judicial or statutory audit. Any actually checked comparison is separately identified and bounded; no current-law or 2025-Act certification.

**IDENTIFIED SOURCE LINKS**

[reported judgment - PDF pages: 14](#)

SHA-256: 59d0f97cafea4fb4b99e62383c0a8e1f8a995eb9be697de43c4a5c888535b054

[bounded comparison judgment - PDF pages: 15](#)

SHA-256: 38162fd7809554974874228b9338659b300bded114431fac3b3cca205ceed978

**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.

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