

M/s. Mangalore Ganesh Beedi Works v. Commissioner of Income Tax, Mysore & Anr.

Civil Appeal No. 10547 of 2011 / Civil Appeal No. 10548 of 2011

[2015] 13 SCR 1080 | 2015-10-15

Whether post-takeover legal expenses were deductible under section 37; whether acquired trademarks, copyrights and know-how qualified for historical plant depreciation; and whether the alternative sections 35A/35AB claims required decision.

37 | 32 | 43(3) | 35A | 35AB

Two-judge bench | Madan B. Lokur, J. | S. A. Bobde, J.

Assessment years: 1995-96

AY 1995-96 plant rule; alternative amortisation claims left open

Depreciation was allowed for acquired trademarks, copyrights and know-how under the historical sections 32/43(3); the judgment itself notes a later tangible/intangible amendment. Sections 35A/35AB were expressly left open. The legal-expense deduction depends on established post-takeover business-protection facts. This is not a current goodwill-depreciation certificate or a seller-side capital-gains exemption. Check applicable-year law and later treatment; no automatic Income-tax Act, 2025 mapping is supplied.

[paragraphs 17-18; assessee's cite Mangalore in their going-concern and goodwill arguments / PDF pages 15, 16 / judicial text; paragraphs 23-30; allocated assets, partner liability and unpreserved goodwill challenge / PDF pages 18, 19, 20, 21, 23, 24 / judicial text; paragraphs 26-35; prior Tribunal narration, historical buyer depreciation, sections 35A/35AB left open / PDF pages 15, 16, 17, 18, 19 / judicial text](#)

01 FACTS OF THE CASE

The old Mangalore Ganesh Beedi Works partnership dissolved in December 1987. Under clause 16 of its deed, the going concern and trademarks were to pass to the highest-bidding partner or group in a court-supervised sale. A three-partner association (AOP-3) bid Rs. 92 crore. The judgment describes business takeover from 18 November 1994 and tangible-asset handover on 7 January 1995. The purchaser's AY 1995-96 return claimed Rs. 12,24,700 in legal expenses and relief for acquired trademarks, copyrights and technical know-how; alternatively, it claimed depreciation by capitalising those assets as plant (paragraphs 3-10).

The Assessing Officer rejected the claims. The Commissioner (Appeals) allowed legal expenses but rejected intellectual-property relief. The Tribunal dismissed the Revenue's expenditure appeal and allowed the assessee's appeal. The High Court reversed the Tribunal on all three framed questions. The purchaser relied on a valuation assigning Rs. 36 crore to technical know-how, Rs. 21.6 crore to copyright and Rs. 14.4 crore to trademarks, totalling Rs. 72 crore; the Revenue maintained that only goodwill had been bought (paragraphs 11-14, 22-27).

Source: [reported judgment / paragraphs 3-14, 22-27 / PDF pages 6, 7, 8, 9, 13, 14, 15 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

On legal expenses, the Tribunal had found that the sums were honestly and reasonably incurred after the AOP-3 takeover to defend and protect the continuing business, rather than for personal ownership disputes. Even the Assessing Officer had not classified them as capital expenditure. Applying the business-purpose approach in *Dalmia Jain and Shree Meenakshi Mills*, the Court held that the litigation's eventual success or failure did not control deductibility. Nothing demonstrated perversity in the Tribunal's findings, and no substantial question challenging those findings as perverse had been framed. The High Court was therefore not justified in overturning them (paragraphs 15-20).

On intellectual property, the Court examined the deed, court sale order and separate valuation. Clause 16 expressly included trademarks; the sale confirmation covered tangible and intangible assets. The Revenue's goodwill-only characterisation could not rewrite those terms. The Court also referred to the Tribunal's treatment of a former partner in *M. Ramnath Shenoy*, as accepted by the Revenue, but this was part of the buyer-side asset-characterisation reasoning, not an independent universal seller-exemption ruling (paragraphs 21-27, 33).

Counsel accepted historical depreciation as sufficient relief, so sections 35A and 35AB were left open. Section 43(3) defined plant inclusively. Drawing on *Taj Mahal Hotel*, the Court construed the term broadly and held that the commercially essential trademarks, copyrights and know-how acquired by this purchaser fell within it. Section 32 as applicable to AY 1995-96 did not distinguish tangible from intangible assets; the Court expressly noted that the distinction came by a later amendment (paragraphs 28-32).

Source: [reported judgment / paragraphs 15-34 / PDF pages 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 / judicial text](#)

03 JUDICIAL DECISION

The Court restored the Tribunal's section 37 result and answered question 1 for the assessee. It upheld depreciation under the then-applicable sections 32 and 43(3), answering question 3 in the negative, for the assessee. Question 2 concerning sections 35A/35AB was expressly left open for an appropriate case. Both appeals were disposed of in those terms, without costs; no remand was ordered (paragraphs 20, 28, 32-35).

Source: [reported judgment / paragraphs 20, 28, 32-35 / PDF pages 12, 16, 18, 19 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on section 37 and historical plant depreciation; sections 35A/35AB undecided

Both appeals disposed of in the stated terms; Tribunal's favourable expenditure and depreciation conclusions restored/upheld; no costs

Final on questions 1 and 3; question 2 expressly left open

Depreciation rests on the AY 1995-96 text and the particular acquired intellectual property. The section 37 result rests on undisturbed business-protection findings. No sections 35A/35AB entitlement, general goodwill-depreciation rule or general seller capital-gains exemption is decided.

Source: [reported judgment / paragraphs 20, 28, 34-35 / PDF pages 12, 16, 19 / judicial text](#)

05 AKHB REVIEW POINT

For legal costs, document when the expense was incurred, which taxpayer incurred it and how it protected the business. Preserve a properly framed challenge if seeking to displace the Tribunal's findings; disagreement with its inference alone did not suffice here. For depreciation, preserve the acquisition instrument, court order and asset-specific valuation rather than treating goodwill and identifiable intellectual property as interchangeable labels.

The depreciation holding is expressly anchored to AY 1995-96 and the then undifferentiated plant provision. It does not resolve the sections 35A/35AB alternatives or certify relief under a later depreciation regime. In the fully read later Vatsala Shenoy judgment, sellers' reliance on this same going-concern acquisition did not prevent asset-allocated capital-gains taxation; the goodwill-valuation plea there was also unpreserved. That bounded buyer/seller comparison does not replace a wider subsequent-treatment or statutory-version check.

Source: [reported judgment / paragraphs 16-20, 23-24, 28-35 / PDF pages 10, 11, 12, 14, 16, 17, 18, 19 / judicial text](#); [reported judgment / paragraphs 17, 23-26, 30; bounded later companion-case comparison / PDF pages 15, 18, 19, 23, 24 / judicial text](#)

DETAILED DISPOSITION AND CONNECTED GROUPS**Issue results**

1.

Issue: Question 1: Rs. 12,24,700 legal expenditure under section 37

Result: Tribunal's business-purpose finding and deduction restored; no framed perversity challenge justified disturbing the facts

In whose favour: Assessee

Pinpoints

1.

Source url: [Open cited source](#)

PDF pages: 10; 11; 12

Paragraphs: 16-20

Source role: judicial text

2.

Issue: Question 2: sections 35A and 35AB

Result: Expressly left open because counsel accepted alternative depreciation as sufficient

In whose favour: Not decided

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 16; 19

Paragraphs: 28, 34

Source role: judicial text

3.

Issue: Question 3: intellectual-property assets as plant under sections 32/43(3)

Result: Historical plant depreciation upheld for the acquired trademarks, copyrights and know-how

In whose favour: Assessee

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 16; 17; 18; 19

Paragraphs: 29-35

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Madan B. Lokur, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-2015-10-15-mangalore-ganesh-beedi-works

Later case id: sc-2016-10-18-vatsala-shenoy

Relationship: same business sale buyer depreciation and seller capital gains issues distinguished

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 15; 16

Paragraphs: 17-18; assessee cites Mangalore in their going-concern and goodwill arguments

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 18; 19; 20; 21; 23; 24

Paragraphs: 23-30; allocated assets, partner liability and unpreserved goodwill challenge

Source role: judicial text

3.

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17; 18; 19

Paragraphs: 26-35; prior Tribunal narration, historical buyer depreciation, sections 35A/35AB left open

Source role: judicial text

Scope limit: Both complete judgments were read for this bounded comparison. Vatsala records reliance on Mangalore; it does not hold that buyer-side depreciation resolves seller-side slump-sale or capital-gains liability, and does not purport to overrule the buyer depreciation holding. No comprehensive later-treatment audit.

SOURCE & VERIFICATION

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

Identified source rendition: 19 PDF pages; SHA-256

7219a3223ac64b8eb84bc5fbfed90179ae8d62de2357668c852510d673af34ee. Original bytes preserved.

Judgment paragraphs 1-35 on physical pages 5-19 (SCR 1084-1098), fully read. Physical pages 1-4 and the opening of page 5 contain editorial headnote, references, jurisdiction and appearances. No adjacent judgment.

[Open cited source rendition](#)

Paragraph 3 expressly identifies AY 1995-96; paragraph 10 describes the purchaser's return period as 18 November 1994 to 31 March 1995.

Section 37 legal expenses and historical sections 32/43(3) depreciation are decided. Sections 35A and 35AB are alternative acquisition-expenditure claims expressly left open. The historical Income-tax Act, 1922 section 10(5) definition is discussed through Taj Mahal Hotel as interpretive support, not as the governing Act.

Preserved reported eSCR source; no separate signed-original verification or newly live-validated public URL claimed.; Paragraph 10 loosely describes claims under sections 35A/35AB as depreciation; this note distinguishes those alternative acquisition-expenditure claims from the sections 32/43(3) depreciation actually granted.; Paragraph 26 recounts a Tribunal decision concerning M. Ramnath Shenoy and the Revenue's acceptance of it. It is not recast here as an independently adjudicated general Supreme Court rule exempting all self-generated intangible assets from capital gains.; The formal disposition is appeals disposed of, although the two live decided questions favour the assessee. Question 2 is left open and is not counted as an additional merits victory.; The business-takeover date in this purchaser judgment is 18 November 1994; Vatsala's later seller-side narrative uses 20 November 1994 for the treated sale and assessment division. Neither source is silently corrected.

Two assessee appeals from the Karnataka High Court judgment dated 23 December 2010 in ITA Nos. 69-70/2001. All three questions set out in paragraph 2 are preserved: section 37 expenditure, sections 35A/35AB, and alternative depreciation under sections 32/43(3). Question 2 is expressly left open, not allowed or dismissed on the merits.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions and assessment years only. No automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment or present-law audit has been performed. Any source-checked comparison is expressly bounded.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 19](#)

SHA-256: 7219a3223ac64b8eb84bc5fbfed90179ae8d62de2357668c852510d673af34ee

[reported judgment - PDF pages: 25](#)

SHA-256: 7dded4b40036419ab7a4b3e8f278f50be10ff434ab7f79e2d6a3a2ce6407adf9

[Related note: Vatsala Shenoy v. Joint Commissioner of Income Tax \(Assessment\), Mysore](#)

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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