

Sutlej Cotton Mills Ltd. v. Commr. of Income Tax, West Bengal, Calcutta

Civil Appeals Nos. 1847-1848 of 1972 — Two assessee appeals, one for AY 1957-58 and one for AY 1959-60, from Calcutta High Court judgment of 30 April 1970 in Income Tax Reference No. 128 of 1966. Only reference question 1 survived. and connected proceedings (full list below)

[1979] 1 SCR 976 | 1978-09-27

An exchange loss takes its revenue or capital character from the purpose for which the foreign currency was held. The company had suffered the stated losses, but their deductibility was remanded because the Tribunal had not found whether the funds were circulating business capital or fixed capital (SCR 981-983, 991-992).

Indian Income-tax Act, 1922 | 1922 Act: 10(1) | 1922 Act: 10(2)

2-judge bench | P.N. Bhagwati, J. | V.D. Tulzapurkar, J.

01 FACTS OF THE CASE

Pakistani mill profits had been assessed in Indian rupees for AY 1954-55 when 100 Pakistani rupees equalled 144 Indian rupees. After the Pakistani rupee was devalued to parity, remittances of 25 lakh and 12.5 lakh Pakistani rupees produced exchange shortfalls of Rs.11 lakh and Rs.5.5 lakh for AYs 1957-58 and 1959-60. The authorities and Calcutta High Court rejected the deductions, relying partly on the absence of recorded losses and on devaluation being an act of State. Only the exchange-loss question remained in these appeals (SCR 979-981).

Source: [SCR 976-992; physical PDF pages 1-17](#)

02 DISCUSSION BY THE HON'BLE COURT

Bhagwati J. held that accounting entries could not displace the actual conversion loss. Nor did a sovereign act preclude a trading loss: the connection with the business asset mattered. Currency held on revenue account, as a trading asset or as circulating capital ordinarily gives rise to trading gain or loss; currency held as fixed capital gives a capital result. The cited cases illustrated that an original trading receipt may later be set apart for capital purposes, so its initial source alone is insufficient. There was no finding on the use or purpose of these particular funds in Pakistan (SCR 982-991).

Source: [SCR 976-992; physical PDF pages 1-17](#)

03 JUDICIAL DECISION

The Court rejected the propositions that there had been no loss or that devaluation necessarily made it non-trading. It did not decide whether either claimed loss was deductible: that depended on further factual findings under the stated test (SCR 991-992).

Source: [SCR 976-992; physical PDF pages 1-17](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee obtained remand; ultimate deduction unresolved The High Court's order was set aside and the matter returned to the Tribunal. It was to take additional evidence itself, or obtain it through the Income-tax Officer, and determine the character of the funds and losses. There was no order as to costs (SCR 991-992). Legal test and existence of loss decided; revenue/capital classification and deduction remanded No current-law or comprehensive later-treatment certification.

Source: [SCR 976-992; physical PDF pages 1-17](#)

05 AKHB REVIEW POINT

Trace how the currency was held and used when the exchange change occurred. Neither prior taxation of the original profits nor a book entry alone establishes deductibility. This remand should not be presented as an allowance of Rs.16.5 lakh. Later treatment and modern statutory or accounting-rule mapping remain unverified.

Source: [SCR 976-992; physical PDF pages 1-17](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeals Nos. 1847-1848 of 1972 — Two assessee appeals, one for AY 1957-58 and one for AY 1959-60, from Calcutta High Court judgment of 30 April 1970 in Income Tax Reference No. 128 of 1966. Only reference question 1 survived.

ASSESSMENT YEARS AND LIMITS

Years: 1954-55; 1957-58; 1959-60

Qualification: Only years material to the issues described are listed; different claims may cover different years as stated in the facts.

REPORTED CITATION

Supplied SCR report citation; no machine-generated neutral citation substituted.

SOURCE & VERIFICATION

Original reported Supreme Court judgment

Unchanged supplied SCR report; catalog identifies a CC-BY-4.0 public eSCR mirror. Not represented as a separately fetched official signed PDF. Headnote SCR 976-978; jurisdiction starts SCR 978; counsel and sole Bhagwati J. judgment start SCR 979; reasons and remand end SCR 992. No adjacent judgment included.

Open cited source rendition

The opening reasons describe special-leave appeals, while SCR 981 mentions a High Court certificate of fitness. Both descriptions are retained without selecting an appellate route.

The reasons at SCR 979 print actual basis, whereas the headnote says accrual basis; both describe Pakistani profits already assessed for AY 1954-55.

The headnote miscites Tata Locomotive once as 34 ITR 10, whereas the reasons cite 60 ITR 405; Canara Bank is given as 63 ITR 308 in the headnote and 328 in the reasons. These citation discrepancies are retained.

STATUTORY SCOPE

Indian Income-tax Act, 1922. The historical operative enactment is identified. Other enactment references are source context only unless expressly identified as operative; no 2025 mapping is asserted.

LATER TREATMENT

Source checked 2026-10-09. Subsequent appeals, review proceedings, stays, reversals and later treatment have not been comprehensively checked. This is not a citator status certificate.

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