

## **Lachmandas Mathuradas vs Commissioner Of Income-Tax on 16 January, 1997**

**Equivalent citations: [2002]254ITR799(SC), AIRONLINE 1997 SC 334, AIRONLINE 1997 SC 353**

**Bench: S.C. Agrawal, G.T. Nanavati**

### **ORDER**

1. This appeal arises out of the Income-tax Reference No. 54 of 1978 , wherein the Income-tax Appellate Tribunal, Delhi Bench, had referred the following questions to the Allahabad High Court for opinion (page 413) :

"1. Whether, the Tribunal was in law justified in allowing the assessee's claim in respect of interest on the arrears of sales tax in computing the asses-see's income for the year under consideration ?

2. Whether, the interest on the outstanding balance of sales tax was an allowable deduction under the Income-tax Act ?

3. Whether there was material on record justifying the Tribunal's finding that the liability of Rs. 69,383 for damages had crystallised in the accounting period relevant to the assessment year under consideration ?

4. Whether the claim of the assessee for damages could be held to be an allowable deduction computing the assessee's income liable to assessment for the year under consideration ?"

2. The Allahabad High Court by its impugned judgment dated January 28, 1980, has answered the said questions against the assessee and in favour of the Revenue. Hence, this appeal.

3. While granting special leave to appeal the appeal has been confined to questions Nos. 1 and 2 only. The High Court has proceeded on the basis that the interest on arrears of sales tax is penal in nature and has rejected the contention of the assessee that it is compensatory in nature. In taking the said view, the High Court has placed reliance on its Full Bench decision in Saraya Sugar Mills P. Ltd. v. CIT [1979] 116 ITR 387 (All). Learned counsel appearing for the appellant-assessee states that the said judgment of the Full Bench has been reversed by the larger Bench of the High Court in Triveni Engineering Works Ltd. v. CIT , wherein it has been held that interest on arrears of tax is compensatory in nature and not penal. This question has also been considered by this court in Civil Appeal No. 830 of 1979 titled Saraya Sugar Mills Pvt. Ltd. v. CIT, decided on February 29, 1996. In that view of the matter, the appeal is allowed and questions Nos. 1 and 2 are answered in favour of the assessee and against the Revenue. No order as to costs.