vs. — Tax Case (Appeal) Nos. 459 and 460/2009

Tax Case (Appeal) No.459 & 460 of 2009 IN THE HIGH COURT OF JUDICATURE AT MADRAS Reserved On: 01.04.2026 Delivered On: 09.04.2026 CORAM THE HONOURABLE DR JUSTICE G. JAYACHANDRAN AND THE HONOURABLE MR.JUSTICE SHAMIM AHMED Tax Case (Appeal) Nos.459 & 460 of 2009 The Commissioner of Income Tax, Coimbatore. … Appellant in both appeals vs. M/s.Super Spinning Mills Ltd., P.B.No.3888, Race Course, Coimbatore – 641 018. … Respondent in both appeals Prayer in T.C.A.No.459 of 2009: Tax Case Appeals filed under of the Income Tax Act, 1961, against the order of the Income Tax Appellate Tribunal ‘D’ Bench, Chennai dated 26th July 2005 passed in I.T.A.No.187/Mds/2001, for the Assessment Year 1997-98. Prayer in T.C.A.No.460 of 2009: Tax Case Appeals filed under of the Income Tax Act, 1961, against the order of the Income Tax Appellate Tribunal ‘D’ Bench, Chennai dated 26th July 2005 passed in I.T.A.No.1566/Mds/2000, for the Assessment Year 1996-97. For Appellant : Mr.V.Mahalingam, Senior Standing Counsel, in both Appeals & Mr.P.E.R.Mangala Suvigaran For Respondent : Mr.A.S.Sriraman in both cases Page Nos.1/16 https://www.mhc.tn.gov.in/judis Tax Case (Appeal) No.459 & 460 of 2009 COMMON JUDGMENT M/s.Super Spinning Mills, engaged in manufacture and sale of cotton/blended yarns, filed its return of income on 27.11.1996 for the Assessment Year 1996-97, declaring an income of Rs.6,03,371/-. The said return was scrutinised under of the Act. A sum of Rs.6,19,43,673/- spent for the replacement of machinery as revenue deductions. The Assessing Officer declined to accept the claim stating that the machinery claimed under replacement are independent, sophisticated and modern machinery capable of delivering higher production and quality. Therefore, the expenditure would not be an expenditure of revenue nature but it would be a capital expenditure. permits deduction where the expenditure is a revenue expenditure and not if it is a capital expenditure.

5. The subject matter of the appeals under consideration are the orders passed by the ITAT in ITA No:1566/Mds/2000 (Assessment Year 1996-97) and ITA No:187/Mds/2001 (Assessment Year 1997-98). The treatment of the expenditure incurred for replacement of machineries by new machineries as revenue expenditure Page Nos.3/16 https://www.mhc.tn.gov.in/judis Tax Case (Appeal) No.459 & 460 of 2009 instead of capital expenditure by the ITAT is the common issue in both these appeals.

6. The perusal of the impugned order of ITAT, we find that the Tribunal has held in favour of the Assessee relying the Judgement of the Madras High Court in reported in (2005) 275 ITR 403 (Mad).

7. For convenient appreciation, the relevant portion of the Tribunal order which is impugned herein are as below:- > I.T.A.No:1566/Mds/2000: > This appeal by the revenue is directed against the order of the CIT (A) and relates to the Assessment Year 1996- 97. The solitary issue raised in this appeal relates to the allowability of expenditure towards replacement of machinery as revenue expenditure. Both the parties agreed that the issue now stands covered by the decision of the jurisdictional High Court rendered in the case of (275 ITR 403). In this case the Hon’ble High Court has held that expenditure on replacement of worn out machinery can be considered as expenditure under current repairs. As the expenditure was laid out wholly and exclusively for the purpose of business, the same is allowable under the law. Respectfully following the precedent, we decide this appeal in favour of the assessee and against the Revenue. Page Nos.4/16 > https://www.mhc.tn.gov.in/judis Case (Appeal) No.459 & 460 of 2009 I.T.A.No:187/Mds/2001: > This appeal by the assessee is directed against the order of the CIT (A) and relates to the assessment year 1997-98. Ali■ (53 ITR 165) adopted with approval the definition of the word 'machinery'given by the Privy Council in Corporation of Calcutta Vs. Chairman, Cossipore and Chitpore Municipality, namely, that 'machinery' meant some mechanical contrivances which, by themselves or in combination with one or more other mechanical contrivances, by the combined movement and inter dependent operation of their respective parts generate power, or evoke, modify; apply or direct natural forces with the object in each case of effecting so definite and specific a result, and observed that the word "machinery" used in Section. 10(2)(iv b) of the ■cite■17†I.T. Act■ was an ordinary and not a technical word. The Gujarat High Court held that spindles are clearly machinery and when installed in the ring-frames would constitute a self contained unit for spinning. Though, therefore they by themselves may not be said to be a self-contained unit, Page Nos.6/16 https://www.mhc.tn.gov.in/judis Case (Appeal) No.459 & 460 of 2009 they must be held to be "machinery". In the instant case the assessee-company has shown the replaced items of machinery as addition to assets in the balance sheet and therefore keeping in view the sound accountancy principles the installation of these machineries forms part of the addition to the assets in the balance sheet. The Possession of machinery is necessary for carrying on the manufacturing and business operation and the object of incurring expenditure on these machines was not repair of old machines but installations of new machines because some old machinery / assets were condemned or sold by the assessee- Company. > “At the time of appeal, various grounds were taken which are more or less repetition of the grounds taken in the earlier assessment years. The details of the manufacturing process has been given and the essence of the submission is that the process involved is integrated and hence replacement of machineries should not be considered as replacement of individual machines but parts of integrated machinery. Reliance was placed on 139 ITR 105, 49 ITR 188, 21 ITR 191, 11 DTC 637, 177 ITR 377, 237 ITR 902. All these arguments and the case laws have already been dealt with by me in the appellant's own case by my order in ITA No.265-C/98-99 dated 30-7-1999 and 178-C/99-2000 dated 21-7-2000 and for the detailed reasons given therein the claim of the appellant cannot be allowed. > I, therefore, agree with the A.O. that the replaced machineries are independent machineries performing to their own capacities and that the spindleage of the entire mill has got nothing to do with the determination of such capacity. It is also against common sense that the replacements involving crores of rupees will not result in improved functioning of the particular Page Nos.10/16 https://www.mhc.tn.gov.in/judis Case (Appeal) No.459 & 460 of 2009 component. It may also be noted that capital expenditure obviously cannot be allowed under . Similarly, current repairs to any plant or machinery cannot also constitute capital expenditure in terms of the decision of the Hon'ble Supreme Court which is binding on everybody concerned with the administration of the Law under of the Constitution. The Hon'ble ITAT, which is the ultimate fact finding authority had in the case of Nagammai Cotton Mills, on an inspection of a textile mill come to the conclusion that these machineries are independent machines. The Hon'ble Supreme Court has long ago laid down the proposition that even substantial replacement of a capital asset constitutes capital expenditure. In the present case, there was wholesale replacement. There is, therefore, no doubt that the expenditure constituted capital expenditure. The appellate authority is directed to decide the issue in the light of the Hon’ble Supreme Court guidelines and the High Court order in (2), Coimbatore reported in (2013) 37 Taxmann.com 290 (Mad). 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20. As a result, the Case (Appeals) Nos.459 of 2009 and 460 of 2009 stands disposed of on the above terms. There shall be no order as to costs. (Dr. G.JAYACHANDRAN, J.) & (SHAMIM AHMED, J.) 09-04-2026 Index :Yes. Neutral Citation :Yes/No.   Dr. G.JAYACHANDRAN, J. & SHAMIM AHMED, J. bsm Pre-Delivery common judgment made in Case (Appeal) Nos.459 & 460 of 2009 09-04-2026