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Facts

A group of companies engaged in sugar cane plantation have made applications for land conversion under Section 5(7)(f) of the SIE Act 1988 (as amended).

The companies propose to subdivide and develop the lands into residential plots and sell same to the public. The lands have been owned by the company for sugar cane plantation for a considerable period of time. The companies have never in the past been engaged in property development. The sale of lands by the group of companies will be effected under the 1200 Arpents Land Conversion Scheme approved by the Government whereby 25% of land will be sold to the Government at nominal prices. The group has the obligation to plough back at least 60% of the proceeds and carry out the conversion within a specified period, failing which the authority for land conversion will be withdrawn.

Point at issue

Whether the proceeds from the sale of the lands would constitute a chargeable income for Income Tax purposes.

Ruling

The profits to be realized by the group of companies from the sale of the lands will be considered as capital profits and hence not chargeable to income tax.