

Commissioner of Excess Profits Tax, Madras v N. M. Rayaloo Iyer & Sons

Civil Appeals 494 and 495 of 1958

[1961] 3 SCR 60 | 1960-12-08

Whether excess profits tax must first be deducted when computing contractual net profits for the general manager's commission; and whether the High Court could replace tax authorities' factual assessment of reasonable and necessary employee commissions in its advisory reference jurisdiction.

Indian Income-tax Act 1922, sections 10(2)(x), 10(2)(xv), 66 | Excess Profits Tax Act 1940, section 21 and Schedule I rule 12 | Business Profits Tax Act 1947, section 19 and Schedule I clause 3

Three-judge bench | J.L. Kapur | M. Hidayatullah | J.C. Shah

Scope and outcome limits

Read remuneration contracts precisely and preserve evidence of services and commercial need. Do not portray this as a blanket rejection of all employee commission deductions: the unchallenged income-tax branch and historical excess-profits-tax inquiry were expressly distinguished.

01 FACTS OF THE CASE

The firm distributed ICI dyes and chemicals through branches. Its general manager's agreement provided salary plus 12½% of net profits after salaries, wages and other outgoings. It also claimed substantial employee commissions from emergency commissions received from ICI. Tax authorities limited or disallowed deductions; the High Court accepted the firm's positions. The appeals covered income-tax, excess-profits-tax and business-profits-tax proceedings.

Source: [Primary report: SCR 62-69](#)

02 DISCUSSION BY THE HON'BLE COURT

On this agreement, outgoings included excess profits tax; commission was calculated after that deduction. For the branch commissions, Revenue did not challenge the income-tax deduction ruling; the surviving challenge concerned excess-profits-tax treatment. Schedule I rule 12 required objective assessment of business needs and actual services. The Tribunal had ample evidence supporting disallowance. A reference court could correct legal error but could not substitute its own factual appraisal of reasonable expenditure. Commercial expediency had to be tied to actual business requirements.

Source: [Primary report: SCR 69-76](#)

03 JUDICIAL DECISION

The question concerning branch-manager commission disallowance under rule 12 should have been answered affirmatively. Appeal 494/1958 was allowed without costs; appeal 495/1958 was allowed with costs.

Source: [Primary report: SCR 77](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue; income-tax branch not challenged must remain distinguished.

Source: [Primary report: SCR 77](#)

05 AKHB REVIEW POINT

Read remuneration contracts precisely and preserve evidence of services and commercial need. Do not portray this as a blanket rejection of all employee commission deductions: the unchallenged income-tax branch and historical excess-profits-tax inquiry were expressly distinguished.

Source: [Primary report: SCR 70-77](#)

SOURCE & VERIFICATION

[Supreme Court Reports primary scan — public eSCR mirror](#)

SCR 60-77, PDF 1-18;judgment beginsSCR 62 PDF 18/SCR 77 begins Moopil Nair state land-tax case; target ends before that caption.

[Open cited source rendition](#)

STATUTORY SCOPE

Historical statutory text and transaction only; no current Income-tax Act or 2025 Act equivalence asserted.

LATER TREATMENT

Source checked 2026-10-18. Subsequent treatment and current-law applicability have not been comprehensively checked.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from an identified primary report. Independent human review is not represented.

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