

V. D. Talwar (Dead), by His Heirs v. Commissioner of Income-tax, Bihar

Civil Appeal No. 673 of 1962

[1964] 2 SCR 519 | 1963-03-26

Whether twelve months' salary paid under a service contract in lieu of termination notice was taxable salary or exempt compensation for loss of employment

Indian Income-tax Act, 1922: section 7 and Explanation 2

Three-judge bench; judgment delivered by S. K. Das, J. | S. K. Das, J. | A. K. Sarkar, J. | M. Hidayatullah, J.

Historical ruling; verify current law

The Court applied the historical section 7 text to a particular contract. Current salary, profits-in-lieu and termination-payment provisions require separate verification.

01 FACTS OF THE CASE

The general manager's five-year contract allowed the employer to terminate on twelve months' notice or salary in lieu. The company ended employment without misconduct and paid the net amount after tax deduction, representing gross salary of Rs.25,200 for twelve months. The taxpayer claimed compensation for loss of employment.

Source: [Primary judgment: facts and procedural setting](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court focused on the contract's substance. The employee surrendered no independent right and received exactly the remuneration promised if notice was not worked. Deferral until termination and a compensation label did not alter the payment's character as contractual salary.

Source: [Primary judgment: reasoning](#)

03 JUDICIAL DECISION

The Rs.25,200 was taxable salary under section 7 and did not fall within the historical exclusion for compensation for loss of employment.

Source: [Primary judgment: holdings](#)

04 OUTCOME / IN WHOSE FAVOUR

Appeal dismissed with costs; the Patna High Court's answer against the assessee was affirmed.

Source: [Primary judgment: operative disposition](#)

05 AKHB REVIEW POINT

AKHB analysis: classify a termination payment from the operative contractual right and statutory definition, not its label. Separate accrued or substituted salary from consideration for surrender of an office or other independent rights.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATION

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

Complete 12-page SCR report read in page-preserving text and every page image inspected, from the reported opening page through the operative disposition.

[Open cited source rendition](#)

Exact catalogue SHA-256 and 12-page count verified; every page was read and visually inspected.

STATUTORY SCOPE

Historical statutory provisions are described as they appeared in the report. Verify the current enactment, amendments and later judicial treatment before reliance.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. The note reports the historical statutory text and result in this primary report only.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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