

Life Insurance Corporation Ltd. v. Commissioner of Income-tax, Delhi & Rajasthan

Civil Appeals Nos. 678–680 of 1962

[1964] 5 SCR 880 | 1963-12-09

Historical taxation of life-insurance profits: under section 10(7) and Schedule rules 2(b) and 3(b), the Income-tax Officer could not revalue securities or alter the actuarial surplus through an unstated general power; any qualifying discrepancy had to be addressed within the proviso's defined conditions.

Indian Income-tax Act, 1922: section 10(7), Schedule rule 2(b), Schedule rule 3(b) and proviso, sections 66(2) and 66A | Insurance Act, 1938

3-judge bench; opinion by A. K. Sarkar, J. for himself and J. C. Shah, J.; separate concurring opinion by M. Hidayatullah, J. | A. K. Sarkar, J. | M. Hidayatullah, J. | J. C. Shah, J.

Assessment years: 1952–53, 1953–54, 1954–55

Historic computation regime

The holding turns on the exact wording of former section 10(7), Schedule rules 2(b) and 3(b), and the Controller of Insurance's statutory role. It must not be transplanted mechanically to a later enactment.

No free-standing correction power

The Court rejected an independent general power to correct perceived undervaluation. The separate concurrence explained that a qualifying discrepancy had to satisfy the proviso, including consultation and its material-inconsistency conditions.

Three appeals and years

The decision covers assessment years 1952–53, 1953–54 and 1954–55, with calendar years 1951–1953 stated as the corresponding account years; it should not be reduced to a single-year ruling.

Source-boundary overlap

PDF page 1 starts with the preceding Sri Rama Vilas Service disposition before this headnote; PDF page 26 ends with the opening Bhusawal Borough Municipality headnote. Neither adjacent passage belongs to this tax judgment.

01 FACTS OF THE CASE

Bharat Insurance Co. Ltd., later merged into Life Insurance Corporation Ltd., was assessed for 1952-53 to 1954-55 under the special rules for life-insurance business. It transferred Rs.18,75,000 from its consolidated revenue account to its investment reserve fund, reducing the actuarial surplus. On comparing book and market values, the Income-tax Officer treated the reserve as excessive and reduced the transfer by Rs.1,75,000; the Appellate Assistant Commissioner reduced the adjustment to Rs.1,45,000. The Tribunal cancelled the adjustment because the proviso to rule 3(b), including consultation with the Controller of Insurance, had not been followed. The High Court nevertheless found a general corrective power and answered the reference for Revenue (SCR pp.881-885, 888-891; PDF pp.2-6, 9-12).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Sarkar J.'s opinion held that section 10(7) made the Schedule a complete code for computing insurance profits. Rule 2(b) required use of the actuarial surplus subject to its stated adjustments; the main part of rule 3(b) required specified book-entry deductions and inclusions. Neither authorised the Income-tax Officer's independent revaluation. The proviso addressed only an artificial reduction caused by material inconsistency between the interest rate or other liability factor and asset valuation, after consultation with the Controller. The impugned undervaluation adjustment did not fit it, and there was no residual general power outside the Schedule (SCR pp.886-888; PDF pp.7-9). Hidayatullah J. concurred after examining the insurance-accounting scheme and record. He reasoned that the main rule was mandatory and non-discretionary; if the officer doubted the accounts, the proviso defined the only route, including consultation, reasonable provision for bonuses and contingencies, and the specified material inconsistency. The proviso's conditions were not followed, so the adjustment was beyond jurisdiction (SCR pp.888-905; PDF pp.9-26).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court disagreed with the High Court, answered the referred jurisdiction question in the negative and allowed all three appeals with costs. Both opinions agreed that the disputed adjustment could not stand (SCR pp.888, 905; PDF pp.9, 26).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Life Insurance Corporation/the assessee. The Revenue's adjustment of the actuarial surplus was held unauthorised under the governing historical rules (SCR p.905; PDF p.26).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: for a regulated-sector computation, begin with the statute's special calculation code rather than ordinary business-income assumptions. Identify what the main rule makes mandatory, what the proviso permits, every procedural condition such as consultation, and whether the officer's stated reason actually matches the proviso's trigger. Do not convert this historical complete-code ruling into advice under a later insurance-tax regime (based on SCR pp.886-905; PDF pp.7-26).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 26-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 26-page count match catalogue asset 1964_5_880_905; every page was reviewed.

The source verifies Civil Appeals Nos. 678-680 of 1962, the stated bench, issues, reasoning and operative result.

No published or archived standalone AKHB note with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The judgment applies the former special insurance-business computation rules appended to the Indian Income-tax Act, 1922 and the Insurance Act framework then in force. It is not a construction of later life-insurance taxation provisions and supplies no current-law or later-treatment clearance.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

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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