

Commissioner of Income-tax, West Bengal, Calcutta v. Calcutta Hospital and Nursing Home Benefits Association Ltd.

Civil Appeals Nos. 206 to 210 of 1964

[1965] 3 SCR 632 | 1965-04-02

Mutual insurance taxation: the statutory balance of profits was income, but a reserve for income-tax could not be added back under rule 6 because it was not expenditure.

Indian Income-tax Act, 1922: sections 2(6C), 3, 10 and 66A(2) | Indian Income-tax Act, 1922: rules 6 and 9 of the Schedule | Insurance Act, 1938: annual-account and regulatory valuation framework

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1949-50, 1950-51, 1951-52, 1952-53, 1953-54

Split result on two questions

The Court held the mutual insurance balance of profits taxable, but also held that the income-tax reserve could not be added back under rule 6. The partial allowance must not be presented as an unqualified victory for either party.

Historical insurance-tax regime

The ruling applies the repealed 1922 Act and its former Schedule; it is not current mutual-insurance or reserve-deductibility advice.

01 FACTS OF THE CASE

The assessee was a mutual concern carrying on miscellaneous insurance business to assist members and their dependants with hospital, nursing-home and related medical expenses. For AYs 1949-50 to 1953-54 its accounts included member subscriptions and premiums, claims, management expenses and reserves. For AY 1949-50, the officer added a Rs.1,000 reserve for taxation to the profit and loss balance and assessed Rs.2,651 after depreciation. The appellate authorities upheld both the taxability of the mutual insurance profit and the add-back of the reserve. The Calcutta High Court held the mutual surplus not assessable and, in any event, the reserve deductible; Revenue appealed on both questions.

Source: [Referred questions, mutual-insurance objects, assessment years and reserve treatment: SCR pp.633-635 / PDF pp.2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

On the first question, the Court distinguished the UK deeming provision considered in *Ayrshire*. Section 2(6C) directly included profits of insurance business carried on by a mutual association, with the Schedule supplying the computation rule. Rule 6 used the balance of profits disclosed in the accounts submitted to the insurance regulator; it did not mean only profits already taxable under ordinary concepts and could not be dissected into mutual and non-mutual components. On the second question, rule 6 bound the officer to the balance accepted by the Superintendent of Insurance, subject to adjustment only by excluding expenditure not permissible under section 10. Because the parties agreed that the taxation reserves were not expenditure, their addition was outside the permitted adjustment. The Insurance Act's valuation and accounting controls supported treating the accepted balance as binding.

Source: [Statutory inclusion of mutual insurance profits and rejection of narrow construction: SCR pp.636-639 / PDF pp.5-8](#); [Rule 6 adjustment power and reserve analysis: SCR pp.639-640 / PDF pp.8-9](#)

03 JUDICIAL DECISION

The Court answered the first question in the affirmative for Revenue: the rule 6 balance of profits of the mutual insurance business was taxable income. It also answered the second question in the affirmative for the assessee: the officer could not add the reserve for income-tax because the reserve was not expenditure and therefore was not within rule 6's specified adjustment. The appeals were accepted in part, with each party bearing its own Supreme Court costs.

Source: [Answers to both questions and partial allowance: SCR pp.639-640 / PDF pp.8-9](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed result. Revenue established that the balance of profits of the mutual insurance business was taxable, but the assessee preserved the exclusion of the taxation reserve from the officer's add-back. The appeals were only partly allowed and carried no inter-party costs in the Supreme Court.

Source: [Second answer and final mixed disposition: SCR p.640 / PDF p.9](#)

05 AKHB REVIEW POINT

AKHB analysis: keep chargeability and computation separate. Even where a historical deeming or inclusive definition brings a mutual concern's balance into income, the officer's permitted adjustments still depend on the exact computation rule. Record each referred question and its beneficiary independently so a partly allowed appeal is not converted into a false all-or-nothing result. For present files, identify the current insurance-tax provisions and later authorities before applying either limb.

Source: [AKHB analysis based on the separate chargeability and computation holdings](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full 9-page SCR report read and visually checked. The editorial headnote on PDF pp.1-2 was distinguished from Sikri J.'s unnumbered judgment beginning on PDF p.2 and continuing through PDF p.9.

Open cited source rendition

Exact source bytes, SHA-256 and 9-page count match catalogue asset 1965_3_632_640; every page was read as extracted text and inspected as a rendered image.

The judicial text verifies Civil Appeals Nos. 206 to 210 of 1964, the three-member bench, five assessment years, both answers and the partial allowance without a costs award.

No published AKHB record or prior reviewed-release record with this party identity, case numbers, citation or source asset was found.

STATUTORY SCOPE

The decision construes the historical definition of income and insurance-business computation rules in the repealed Indian Income-tax Act, 1922. It does not establish the current tax treatment of mutual insurance concerns, reserves or insurance-business profits.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment and current insurance-business computation rules have not been checked; no current-law or citator clearance is represented.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

PROFESSIONAL DISCLAIMER

AI-assisted legal research note for general information and professional research. It is not legal or tax advice. Verify the original judgment, applicable statutory version and subsequent judicial treatment before relying on it. The AKHB Review Point is editorial analysis, not part of the Court's judgment.