

Commissioner of Income-tax, Madras v. Chari and Chari Ltd.

Civil Appeal No. 215 of 1964

[1965] 3 SCR 692 | 1965-04-09

Business deduction and agency compensation: Revenue could not reduce bona fide special-service remuneration without addressing relevant evidence, and failed to prove that forced termination compensation was revenue.

Indian Income-tax Act, 1922: sections 10(2)(xv) and 66(2) | Madras Electrical Undertakings Acquisition Act, 1949: section 15

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

Assessment years: 1952-53

No blanket 30% safe harbour

The Court did not hold that any chosen commission rate binds Revenue. Its ruling rested on bona fides, the contract's demands and failure to consider the relevant evidence.

Capital treatment was evidence-dependent

Agency-termination compensation may be revenue when cancellation leaves the profit-making structure unimpaired. Capital treatment prevailed here because Revenue did not establish the facts required for that exception.

01 FACTS OF THE CASE

Chari and Chari Ltd. traded in several commodities and held three managing agencies. After it obtained a substantial Central Government tobacco-purchase contract, it placed director T. M. Ayyadurai in special charge and agreed to pay him 30% of the contract's net profit. For AY 1952-53 it claimed Rs.29,094; the officer allowed only 10%, disallowing Rs.19,796.

Separately, State acquisition of Nellore Power and Light Co.'s undertaking prematurely ended the assessee's managing agency, producing Rs.17,346 compensation under section 15 of the acquisition statute. Tax authorities disallowed part of the commission and taxed the compensation; the Madras High Court answered both referred questions against Revenue.

Source: [Tobacco contract, commission, agency compensation and referred questions: SCR pp.693-695 / PDF pp.2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

For section 10(2)(xv), the officer had to examine the service's nature, trade practice, employee qualifications, comparable payments and any abnormal circumstances. The Government contract demanded expert, continuous supervision, financing and responsibility for purchase, grading, storage, transport and shipment. Kinship between two directors and Ayyadurai's directorship did not, without evidence about ordinary duties or improper motive, justify substituting 10% for the bona fide 30% rate. On compensation, the Court restated that cancellation money is capital when it replaces a source or enduring asset, but revenue when termination of one among many agencies is an ordinary business incident and does not impair the trading structure. Revenue showed only that two other agencies remained, not their nature, relative importance or the termination's effect; it therefore failed to bring the receipt within the revenue exception.

Source: [Deduction factors and special-service evidence: SCR pp.695-697 / PDF pp.4-6](#); [Agency-cancellation capital/revenue test and evidentiary failure: SCR pp.697-699 / PDF pp.7-8](#)

03 JUDICIAL DECISION

The Court agreed that the 30% commission could not be reduced on the reasoning used by the tax authorities. It also upheld capital treatment of the Rs.17,346 because the record did not establish that termination left the assessee's trading structure unimpaired within the stated exception. Revenue's appeal was dismissed with costs.

Source: [Conclusions on remuneration and termination compensation: SCR pp.697-699 / PDF pp.6-8](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on both issues. The full special-service commission remained deductible on the record, and the agency-termination compensation was not shown to be a taxable revenue receipt.

Source: [Revenue's appeal dismissed: SCR p.699 / PDF p.8](#)

05 AKHB REVIEW POINT

AKHB analysis: support special remuneration with contemporaneous board authority, a defined scope beyond ordinary duties, evidence of expertise and workload, comparable practice and a rational rate. For termination receipts, document what profit-making asset ended and whether the business structure was actually impaired; the number of surviving contracts alone is not decisive. Re-test both issues under current provisions and later case law before applying them now.

Source: [AKHB analysis based on the evidence and trading-structure tests](#)

SOURCE & VERIFICATION

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

Full 8-page SCR report read and visually checked. The editorial headnote on PDF pp.1-2 was distinguished from Shah J.'s unnumbered judgment beginning on PDF p.2 and continuing through PDF p.8.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 8-page count match catalogue asset 1965_3_692_699; every page was read as extracted text and inspected as a rendered image.

The judicial text verifies Civil Appeal No. 215 of 1964, the three-member bench, AY 1952-53, both referred questions and dismissal of Revenue's appeal with costs.

No published AKHB record with this party identity, case number or source asset was found.

STATUTORY SCOPE

The deduction issue arises under section 10(2)(xv) of the repealed Indian Income-tax Act, 1922, and the capital-receipt issue turned on the specific managing-agency evidence then produced. The decision is not current-law clearance for related-party remuneration or termination receipts.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment of commercial-expediency review, related-party remuneration and agency-termination compensation has not been checked; no current-law or citator clearance is represented.

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