

Commissioner of Income Tax (Central), Calcutta v. Standard Vacuum Oil Company

Civil Appeal No. 268 of 1964

[1966] 2 SCR 367 | 1965-10-26

Historical Business Profits Tax capital: non-cash share premium, capital paid-in surplus and specifically allocated earned surplus

Business Profits Tax Act, 1947: sections 2(1), 2(17), 4 and 19; Schedule II rules 2(1), Explanation to rule 2 and rule 3 | Indian Companies Act, 1913 and Companies Act, 1956: historical share-premium and reserves context

Three-judge bench; judgment delivered by J. C. Shah, J. | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Historical Business Profits Tax, not current income-tax computation

The case concerns capital and abatement under the Business Profits Tax Act, 1947. Its treatment of American accounts does not automatically establish present reserves, distributable profits, securities-premium or income-tax treatment.

01 FACTS OF THE CASE

Standard Vacuum, incorporated in Delaware, acquired two American companies' assets in return for equal blocks of shares and serial bonds to one transferor. Net asset value exceeding the par value of the issued shares and bonds was recorded as capital paid-in surplus; after adjustments it stood at about \$117.56 million. Annual retained profits were separately recorded as earned surplus. The officer excluded both accounts from capital for Business Profits Tax purposes. The Tribunal and High Court accepted them. Revenue appealed on the character of non-cash premium, capital-sourced reserves and earned surplus under American accounting practice.

Source: [SCR pp. 369-372](#) / [PDF pp. 3-6](#)

02 DISCUSSION BY THE HON'BLE COURT

Shares could, absent a statutory prohibition, be issued for property at value above par. The excess was premium; unequal agreed premiums did not cease to be premium merely because equal shares were issued for assets with different book values. The capital paid-in surplus was also a reserve: rule 2 did not restrict reserves to taxed profits, and the real assets acquired were not fictitious book assets created by revaluation. Earned surplus required a separate inquiry. Unlike unallocated profits merged into the next year's account in Century Spinning, this company's surplus retained its identity, received annual profits less appropriations, and was specifically allocated for future business use. The accounting evidence therefore satisfied the reserve requirement.

Source: [SCR pp. 372-383](#) / [PDF pp. 6-17](#)

03 JUDICIAL DECISION

The High Court correctly treated the capital paid-in surplus as premium within Schedule II rule 3 or alternatively reserves under rule 2(1). It also correctly treated earned surplus as reserves because the proved accounts disclosed specific allocation and continued business use. All three affirmative reference answers stood.

Source: [SCR pp. 376-378 and 382-383 / PDF pp. 10-12 and 16-17](#)

04 OUTCOME / IN WHOSE FAVOUR

The Revenue challenge was dismissed with costs, with one hearing fee. Both classes of surplus remained included in the historical capital computation. The judgment did not make undistributed profits automatically reserves or resolve modern tax and company-law treatment.

Source: [SCR p. 383 / PDF p. 17](#)

05 AKHB REVIEW POINT

AKHB analysis: examine the legal and accounting substance of foreign balance-sheet captions before mapping them onto Indian statutory terms. For non-cash share consideration, retain valuation and issuance agreements; for reserves, trace allocation, continuing identity, appropriations and business use. Distinguish real contributed assets from a revaluation-created book entry. The precise statutory definition and relevant accounting regime control; contemporary provisions require fresh analysis.

Source: [AKHB analysis based on SCR pp. 374-383 / PDF pp. 8-17](#)

SOURCE & VERIFICATION

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

Complete 17-page report read, including all judicial text; reporter headnote distinguished from the Court's reasoning.

[Open cited source rendition](#)

Complete seventeen-page primary report read and catalogue hash verified.

The jurisdiction heading gives the singular CA 268/1964, although the closing order uses appeals and one hearing fee; the docket is transcribed as printed.

The existing collection includes the directly related standalone First National City Bank Business Profits Tax judgment. This note follows that historical profits-tax scope, not incidental income-tax keyword inclusion.

Accounting labels were tested against the actual foreign accounting practice and retained identity of the fund; the Court did not say all accumulated profits are reserves.

STATUTORY SCOPE

The ruling applies the historical Business Profits Tax Act, 1947 and its capital/abatement rules, not a present income-tax charge or exemption.

LATER TREATMENT

Source checked 2026-10-12. Comprehensive later judicial treatment has not been checked. No current-law or citator clearance is represented.

[Related note: The First National City Bank v. The Commissioner of Income-tax, Bombay City](#)

[Related note: Commissioner of Wealth Tax \(Central\), Calcutta v. M/s. Standard Vacuum Oil Co. Ltd.](#)

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report; independent human review is not represented.

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