

Standard Mills Co. Ltd. v. Commissioner of Wealth-tax, Bombay City

Civil Appeal No. 1129 of 1965

[1967] 1 SCR 768 | 1966-10-06

Wealth-tax deductions: estimated income-tax was a present debt, but gratuity dependent on later termination events was contingent and could not be deducted through asset-valuation machinery.

Wealth-tax Act, 1957: sections 2(m), 3, 7(1), 7(2)(a) and 27(1)

3-judge bench | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1957-58

Mixed outcome

Estimated income-tax was deductible, but gratuity contingent on future termination events was not. The judgment should not be presented as an unqualified assessee or Revenue victory.

Repealed wealth-tax regime

The holding concerns the Wealth-tax Act, 1957 and does not determine current income-tax deductibility or accounting recognition of employee benefits.

01 FACTS OF THE CASE

For AY 1957-58 Standard Mills claimed, among other items, deductions in computing net wealth for Rs.29,44,421 estimated income-tax and Rs.25,02,675 stated as accrued gratuity under industrial awards. The assessing officer rejected the claims; later appellate stages produced different answers. The Bombay High Court denied the estimated-income-tax component and the gratuity deduction. In the Supreme Court the company challenged those two conclusions; the proposed-dividend item was not in issue.

Source: [Claims, appellate history and questions before the Court: SCR pp.769-770 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

Following Kesoram Industries, estimated income-tax was a present liability—although payable after quantification—and therefore a 'debt owed' on the valuation date under section 2(m). Gratuity was different: under the awards, liability arose only when employment ended by death, incapacity, retirement, resignation or qualifying termination, so it was contingent and not a present debt. Section 7(2)(a) did not independently permit its deduction. Section 7 supplied machinery to value business assets as a whole; it did not compute net wealth or enlarge the debts deductible under section 2(m). Income-tax profit-computation authority concerning estimated retirement payments did not control the wealth-tax question.

Source: [Present income-tax debt and contingent gratuity: SCR pp.770-773 / PDF pp.3-6; Section 7 asset valuation distinguished from net-wealth computation: SCR pp.774-776 / PDF pp.7-9](#)

03 JUDICIAL DECISION

The appeal was allowed in part. The estimated income-tax deduction was answered for the company, while the gratuity deduction was answered against it. No order as to costs was made.

Source: [Two-part answer and partial allowance: SCR p.776 / PDF p.9](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed. The assessee succeeded on estimated income-tax but failed on contingent gratuity; the Court partly allowed the appeal and made no costs order.

Source: [Mixed operative result: SCR p.776 / PDF p.9](#)

05 AKHB REVIEW POINT

AKHB analysis: classify each claimed liability at the valuation date before considering quantum—an existing obligation awaiting quantification differs from an obligation triggered only by a future contingency. Keep the charging/net-wealth computation provisions separate from asset-valuation machinery. For current work, do not import this repealed wealth-tax holding into income-tax or employee-benefit accounting without checking the applicable statute, accounting framework and later decisions.

Source: [AKHB analysis based on present-debt, contingency and valuation distinctions](#)

SOURCE & VERIFICATION

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

Full 9-page SCR report read; the editorial headnote on PDF p.1 was distinguished from Shah J.'s unnumbered opinion beginning on PDF p.2.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and nine-page count match catalogue asset 1967_1_768_776; all pages were read and visually checked.

The report verifies Civil Appeal No. 1129 of 1965, the 6 October 1966 decision date and the three-member bench.

The appeal concerned only the estimated-income-tax part of referred question 2 and the gratuity question; the proposed-dividend question was not pressed below.

STATUTORY SCOPE

The decision applies the since-repealed Wealth-tax Act, 1957 for AY 1957-58. Current accounting treatment of gratuity and any remaining tax analogue have not been checked.

LATER TREATMENT

Source checked 2026-10-10. Later tax, employment-benefit and accounting treatment has not been comprehensively checked; no current citator clearance is represented.

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