

Lakshmirattan Cotton Mills Co. Ltd. v. Commissioner of Income-tax, U.P.

Civil Appeal No. 2139 of 1966

[1969] 1 SCR 951 | 1968-09-03

Historical business-expenditure proof and income-tax reference jurisdiction: managing-agency termination compensation was not deductible where no service or business necessity was proved, and section 66(4) could not introduce questions absent from the section 66(1) and 66(2) applications.

Indian Income-tax Act, 1922: sections 10(2)(xv), 66(1), 66(2) and 66(4)

3-judge bench; unanimous judgment delivered by J. C. Shah, J. | J. C. Shah, J. | V. Ramaswami, J. | A. N. Grover, J.

Assessment years: 1945-46

Evidence, not contractual recital

The managing-agency agreement's list of powers did not prove that services were actually rendered. The taxpayer bore the burden to establish the claimed expenditure's business purpose.

Narrow no-material reference

The operative referred question was whether material supported the Tribunal's conclusion; the Court did not independently recharacterise every aspect of the compensation arrangement.

Promotion and service were distinct

The agreement's consideration covered both promotion and ongoing service. With no service proved, the payment could not be justified as compensation for deductible revenue services.

Section 66(4) is historical procedure

The Court limited section 66(4) to supplementing facts for a referred question; it could not generate new questions omitted from the section 66(1) and 66(2) process. Current appellate procedure must be checked separately.

No separate arbitration-cost argument

The Rs.13,300 arbitration-expense claim was not separately argued before the Supreme Court and had apparently not been supported separately in the High Court.

01 FACTS OF THE CASE

Lakshmirattan Cotton Mills' shares were equally held by the Singhanian and Gupta families, whose members formed Beharilal Kailashpat and received a 99-year managing agency in 1935. Family disputes led to awards, a civil suit and the agency's termination from 30 September 1944. Arbitrator K. M. Munshi later held the termination wrongful and awarded Rs.18,90,000 compensation; the company also spent Rs.13,300 on arbitration. For assessment year 1945-46 it claimed the total Rs.19,03,300 under section 10(2)(xv). The tax authorities found no proven agency service or business necessity and disallowed it. After the Tribunal refused a section 66(1) reference, the High Court directed one question under section 66(2), but later called for additional questions under section 66(4) and ultimately declined to answer them formally (SCR pp.953-962; PDF pp.3-12).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 66(4) could supplement an inadequate statement of facts only to decide a question already referred; it could not introduce questions omitted from the section 66(1) and 66(2) applications. The High Court therefore correctly refused formal answers to the additional questions (SCR pp.962-965; PDF pp.12-15). On deductibility, the company bore the burden of proving a wholly and exclusively business expenditure. The Gupta directors managed the company before and after termination, the Singhanian representatives had no effective management role, no evidence showed specific services by the firm, and contractual authorisation was not evidence of performance. No evidence showed that inter-family quarrels threatened daily business; a threatened receivership of company management was legally implausible on the facts. Because remuneration covered both company promotion and services, and no service was proved, the payment could not be established as deductible revenue expenditure. The Tribunal had ample material for its finding, regardless of whether its separate 'device' observation was correct (SCR pp.965-968; PDF pp.15-18).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court upheld the High Court's answer that material supported the Tribunal's disallowance and its refusal to answer the improperly introduced additional questions. The Rs.18,90,000 compensation and Rs.13,300 arbitration-expense claim remained disallowed. The appeal was dismissed with costs (SCR pp.968-969; PDF pp.18-19).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Commissioner of Income-tax/respondent. The company obtained neither the claimed deduction nor answers on the additional section 66(4) questions (SCR pp.965, 968-969; PDF pp.15, 18-19).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: a termination-payment file should contain evidence of services actually performed, the business threat avoided, the commercial decision record and an allocation among promotion, capital and ongoing-service elements. For tax appeals or references, preserve every intended legal question at the first prescribed stage; a power to supplement the record is not necessarily a power to add a new issue (based on SCR pp.962-969; PDF pp.12-19).

Source: [Primary judgment: reviewPoint](#)

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Full 19-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

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Exact source bytes, SHA-256 and 19-page count match catalogue asset 1969_1_951_969; every page was reviewed.

The source verifies Civil Appeal No. 2139 of 1966, 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 section 10(2)(xv) and the reference procedure in section 66 of the repealed Indian Income-tax Act, 1922 for assessment year 1945-46. It does not itself determine current business-deduction or appellate-question procedure under later legislation. No current-law or later-treatment clearance was undertaken.

LATER TREATMENT

Source checked 2026-10-11. 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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