

Bengal Enamel Works Ltd. v. Commissioner of Income-tax, West Bengal

Civil Appeal Nos. 2143-2145 of 1968

[1970] 3 SCR 314 | 1969-12-09

Historical business-expenditure deduction: employee remuneration influenced by extra-commercial considerations could be partly disallowed without Revenue managing the business.

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

2-judge bench | J. C. Shah, Acting C.J. | K. S. Hegde, J.

Assessment years: 1951-52, 1952-53, 1953-54

Business judgment remains protected

The Court did not authorise Revenue to substitute its preferred salary merely because another employee might have cost less. Disallowance rested on the evidentiary finding that extra-commercial considerations affected the payment.

Partial disallowance on these facts

Control of the board, lack of technical training, missing candidate applications and the remuneration comparison formed the combined record. No single factor is declared conclusive.

Historical deduction provision

The ruling applies section 10(2)(xv) of the 1922 Act. Current deductibility and related-party restrictions require separate analysis.

01 FACTS OF THE CASE

Bengal Enamel manufactured enamelled ware. After a director serving as technical adviser resigned, his son-in-law Dr. Ganguly, a medical practitioner without enamel-technology training, obtained the role at 15% of gross annual profits before depreciation. For AYs 1951-52 to 1953-54 the company claimed remuneration of Rs. 52,947, Rs. 64,356 and Rs. 79,227. The officer allowed Rs. 42,000 for each year and disallowed the balance. Dr. Ganguly and his father-in-law together held 49% of the shares while other directors held 1%; requested applications of two asserted candidates were not produced. The AAC and Tribunal agreed that extra-commercial considerations influenced the remuneration. The High Court upheld partial disallowance under section 10(2)(xv), and the company appealed.

Source: [SCR pp. 315-317 / PDF pp. 2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Whether expenditure is wholly and exclusively for business depends on the whole factual setting, and the inference from established facts is a question of law. A board resolution, payment vouchers and some service do not foreclose examination of business purpose. At the same time, Revenue ordinarily cannot replace the employer's commercial judgment about remuneration, duties, aptitude or future business prospects with its own preferred amount. The distinction is between questioning business wisdom and finding the statutory condition absent. Here the authorities did not disallow merely because a cheaper adviser might exist: they found that the controlling share position, immediate family succession, absence of relevant technical qualifications, non-production of candidate materials and remuneration far above benchmarks showed extra-commercial influence. On that evidentiary record, partial payment was not laid out wholly and exclusively for business.

Source: [SCR pp. 316-318 / PDF pp. 3-5](#)

03 JUDICIAL DECISION

The Supreme Court held that the factual finding of extra-commercial considerations was supported by evidence and that the tax authorities had jurisdiction to disallow the affected part as not wholly and exclusively incurred for business. It dismissed all three company appeals with costs and one hearing fee.

Source: [SCR p. 318 / PDF p. 5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue. The annual deduction remained limited to Rs. 42,000 for each of the three years through dismissal of the appeals. The Court did not prescribe that figure as a general reasonable salary or invalidate the employment agreement for non-tax purposes.

Source: [SCR p. 318 / PDF p. 5](#)

05 AKHB REVIEW POINT

AKHB analysis: separate commercial judgment from business-purpose evidence. Preserve the appointment process, board and shareholding relationships, qualifications, actual duties, alternative-candidate records and the basis for percentage remuneration. Revenue cannot simply select a cheaper salary, but contemporaneous evidence may show that all or part of a payment served extra-commercial considerations. Apply current deduction, related-party and transfer-pricing provisions independently rather than treating this historical section 10(2)(xv) result as automatic.

Source: [AKHB analysis based on SCR pp. 316-318 / PDF pp. 3-5](#)

SOURCE & VERIFICATION

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

Full 5-page SCR report read; editorial headnote on PDF page 1 distinguished from the judicial opinion on PDF pages 2-5.

[Open cited source rendition](#)

All five source pages were read; exact PDF bytes, SHA-256 hash and page count match catalogue asset 1970_3_314_318.

The report verifies Civil Appeal Nos. 2143-2145 of 1968, the two-judge bench and the opinion by J. C. Shah, Acting C.J.

The report year is 1970 while the printed decision date is 9 December 1969.

The Court treats the inference whether expenditure was wholly and exclusively for business as a question of law open on reference, while accepting the underlying factual findings.

No current published case or disposition matches the exact date, parties, citation or source hash.

STATUTORY SCOPE

The decision applies section 10(2)(xv) of the Indian Income-tax Act, 1922 to remuneration for AYs 1951-52 through 1953-54. It is not a current section 37, related-party, transfer-pricing or excessive-payment clearance; present application requires separate statutory and treatment review.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later treatment and present statutory equivalence have not been verified; no current-law or citator clearance is represented.

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