

Commissioner of Income Tax, West Bengal v. Birla Cotton Spinning & Weaving Mills Ltd. & Ors.

Civil Appeals Nos. 1351 to 1353, 1897 and 1241 of 1968

[1972] 1 SCR 283 | 1971-08-17

Business protection: legal expenditure before the Investigation Commission.

Indian Income-tax Act, 1922: sections 10(1), 10(2)(xv), 66(1) and 66A(2) | Taxation of Income (Investigation Commission) Act, 1947: sections 5(1) and 5(4), discussed

2-judge bench | K. S. Hegde, J. | A. N. Grover, J.

Assessment years: 1952-53, 1953-54, 1954-55

Scope of the deduction

Legal costs incurred to safeguard the business were allowed under the historical provision. This is not a ruling allowing the underlying tax or penalty, or every kind of litigation expense.

01 FACTS OF THE CASE

The common issue in five appeals was deductibility of law charges connected with Investigation Commission proceedings. For the first batch, the company spent Rs.3,810, Rs.1,42,377 and Rs.2,42,688 in assessment years 1952-53 to 1954-55 relating to earlier assessments from 1941-42 to 1947-48. It engaged lawyers before the Commission and courts challenging the governing legislation. The tax authorities disallowed the claims, but the High Court held for the assessee.

Source: [SCR pp. 284-286](#) / [PDF pp. 2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Business purpose extended beyond immediately earning profits to preserving the business and protecting its assets. Reasonably and honestly incurred civil-litigation expenditure could qualify even if proceedings failed, subject to other statutory conditions. The Commission investigation threatened substantial tax and penalty demands against the business. The Court treated expenditure to resist that action and safeguard the business as commercially justified, distinguishing tax on ownership of assets from costs incurred to protect trading operations.

Source: [SCR pp. 286-290](#) / [PDF pp. 4-8](#)

03 JUDICIAL DECISION

All Revenue appeals failed and were dismissed. The Court upheld the High Court's conclusion that the expenditure was allowable under section 10(2)(xv). Respondent costs were allowed only in Civil Appeals 1351-1353 of 1968, with one hearing fee.

Source: [SCR p. 290 / PDF p. 8](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on the law charges at issue. The ruling concerns business-protection expenditure; it does not allow the underlying tax or penalty itself, and does not dispense with the statutory exclusions for capital or personal expenditure.

Source: [SCR pp. 286-290 / PDF pp. 4-8](#)

05 AKHB REVIEW POINT

AKHB analysis: substantiate the link between each legal fee and preservation of the business through engagement letters, proceedings, invoices and payment records. Separate professional defence costs from the tax or penalty contested and from personal or capital matters. Outcome of the litigation alone is not the deductibility test; the applicable statutory conditions still require examination.

Source: [AKHB analysis based on SCR pp. 287-290 / PDF pp. 5-8](#)

SOURCE & VERIFICATION

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

Full 8-page SCR report read, separating editorial headnote from judicial reasoning; no neighbouring case text used.

[Open cited source rendition](#)

Full source read; page pinpoints used because judgment paragraphs are unnumbered. Exact original bytes match the catalogue SHA-256.

The judgment describes assessment years 1952-53 to 1954-55 for the first batch, Civil Appeals 1351-1353/1968; it does not separately specify assessment years for the two connected appeals.

STATUTORY SCOPE

This decision applies the Indian Income-tax Act, 1922 to the stated historical assessment years. Current statutory applicability and any Income-tax Act, 1961 or 2025 crosswalk are not determined.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment has not been verified; no current citator clearance is represented.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.