

Commissioner of Income-tax, Madras v. M/s. Ashok Leyland Ltd.

Civil Appeal No. 1989 of 1969 — Supreme Court appeal or expressly printed appeal group decided in this judgment and connected proceedings (full list below)

[1973] 2 SCR 516 | 1972-10-03

Compensation for ending a commercially redundant managing agency was revenue expenditure: saving future recurring expenses did not itself create a capital asset or enduring capital advantage.

1922 Act: 66(2)

3 Judges | K. S. Hegde | P. Jaganmohan Reddy | I. D. Dua

01 FACTS OF THE CASE

Ashok Leyland, formerly Ashok Motors, initially assembled Austin cars and Leyland trucks. Its 1948 managing-agency agreement promised monthly office allowance and annual commission for fourteen years. Government policy led it to stop assembling Austin cars and manufacture Leyland commercial vehicles. The directors had already taken steps to end the agency when government financial support was discussed on that condition. The company paid Rs. 2,50,000 under a termination agreement dated 29 January 1955 and claimed deduction for assessment year 1956-57. The ITO and AAC rejected the claim; the Tribunal and Madras High Court allowed it in proceedings under the Indian Income-tax Act, 1922.

Source: [SCR 517B-519B](#)

02 DISCUSSION BY THE HON'BLE COURT

Hegde J treated the Tribunal's findings that the agency had become superfluous and was terminated for business reasons as binding. The Revenue argued that the payment facilitated reorientation, collaboration and possible government finance, thereby procuring an enduring benefit. The Court distinguished those surrounding circumstances from what the expenditure actually obtained: relief from unnecessary allowance and commission. Savings extending over several years did not by themselves amount to acquisition of an income-yielding asset. English and Indian authorities supported payments made on commercial-expediency grounds to remove recurring trading disadvantages. The judgment also warned that the character of a receipt in the recipient's hands does not necessarily determine whether the payer incurs capital expenditure.

Source: [SCR 519C-523C](#)

03 JUDICIAL DECISION

The compensation was paid to save business expenditure in the relevant accounting year and the following years, not to acquire an enduring capital benefit or income-yielding asset. The Court upheld the Tribunal's classification as revenue expenditure and the High Court's affirmative answer allowing deduction. Its conclusion depended on the found business purpose and the nature of the obligations extinguished, rather than the lump-sum form of the payment.

Source: [SCR 520A-F and 523C-D](#)

04 OUTCOME / IN WHOSE FAVOUR

The Commissioner's appeal was dismissed with costs. The company retained the deduction of Rs. 2,50,000 for assessment year 1956-57.

Source: [SCR 523D-E](#)

05 AKHB REVIEW POINT

Examine the terminated contract and identify the expenditure displaced. Paying once to end future revenue obligations may remain revenue expenditure even when savings continue. A payment that actually purchases a business, capital right or replacement asset needs a different analysis. Preserve the Tribunal's factual findings and test modern statutory exclusions separately; the historical managing-agency result does not decide every termination payment. The bounded modern general-deduction comparison is 1961 section 37 to 2025 section 34, subject to each version's exclusions.

Source: [SCR 519E-520F and 522C-523D](#); editorial distinctions: [Whole displayed section 37, main \(1\), Explanations 1-3, \(2B\), omitted slots and footnote 17; HTML 38-95.](#); [Whole section 34\(1\)-\(3\); HTML 38-73.](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 1989 of 1969 — Supreme Court appeal or expressly printed appeal group decided in this judgment / Tax Case No. 93 of 1964 — Originating High Court appeal/reference docket; not an additional Supreme Court appeal

SOURCE & VERIFICATION

Original reported Supreme Court judgment

8-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified.

Open cited source rendition

The judgment expressly identifies section 66(2) of the 1922 Act but does not print a numbered substantive deduction provision; none is represented here as an express statutory citation.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 66(2)

Section 37(1), official displayed 2025 text, excludes capital/personal expenditure and applies the wholly-and-exclusively business test, subject to specified provisions and express exclusions. It supplies a general comparison, not a decision on this historical payment under the later Act.

Section 34(1)-(3), displayed 2026, supplies the general expenditure test with its own enumerated exclusions. This is a bounded 37→34 comparison; special allowances and the applicable tax year require separate analysis.

Legacy 1922 holding. Exact compared versions and bounded read scopes are recorded in sources; no automatic present-law carryover or exhaustive tax-year/repeal/savings determination.

LATER TREATMENT

Source checked 2026-10-07. No specific later judicial use has been adopted for this note in this bounded review. This is a verification limit, not an assertion that none exists.

Comprehensive subsequent history and present-law applicability are not certified.

IDENTIFIED SOURCE LINKS[Income-tax Act, 1961: section 37](#)

Official HTML displayed 2025; not verified as a complete 2026 consolidation Whole displayed section 37, main (1), Explanations 1-3, (2B), omitted slots and footnote 17; HTML 38-95. New personal bounded read of retained coordinator official web text. No fresh author acquisition, original PDF/HTML hash, page-image inspection or complete current-applicability/savings certification.

[Income-tax Act, 2025: section 34](#)

Official 2025 Act as amended by Finance Act 2026; section 34 HTML displays 2026 Whole section 34(1)-(3); HTML 38-73. New personal bounded read of retained coordinator official web text. No fresh author acquisition, original PDF/HTML hash, page-image inspection or complete current-applicability/savings certification.

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