

Commissioner of Income-tax, Kerala v. Alagappa Textile (Cochin) Ltd.

Civil Appeal No. 2001 of 1978 / Civil Appeal No. 2002 of 1978

[1980] 1 SCR 723 | 1979-09-19

The remuneration was deductible because Kamala Mills was not a statutory “manager” under the Companies Act provisions invoked to allege illegality. The whole agreement showed a financing arrangement with independent management powers, rather than management under the board’s control. Revenue’s two appeals were dismissed with costs.

2-judge bench | V.D. Tulzapurkar, J. | R.S. Pathak, J.

Contract-specific legacy deduction

Deduction followed the finding that no statutory prohibition applied; section 41(1) recovery was hypothetical, and the judicial Rs 18,294 figure differs from the headnote.

Operative context: Indian Income-tax Act, 1922; historical sections 10(2)(xv).

01 FACTS OF THE CASE

Alagappa manufactured and sold yarn. Financial difficulties led it to enter a five-year agreement with Kamala Mills on 10 November 1955 for finance and operation of its mill. Remuneration was 1% of purchases and 0.5% of sales. The disputed payments were Rs 1,03,547 and Rs 18,294 for calendar years 1957 and 1958, relevant to AYs 1958-59 and 1959-60.

The tax authorities refused deduction under section 10(2)(xv), reasoning that section 384 of the Companies Act, 1956 prohibited a body corporate from continuing as manager beyond the transitional six months. They also relied on Alagappa’s suit and decree to recover the remuneration. The Kerala High Court rejected the disallowance after construing the agreement; Revenue appealed.

Source: [SCR 726 D-H](#); [SCR 727](#); [SCR 728 C-H](#)

02 DISCUSSION BY THE HON'BLE COURT

The statutory test, rather than the agreement's "Managers" label, controlled. Section 2(24) required management of the whole or substantially the whole affairs subject to the board's superintendence, control and direction. The Court accepted that Kamala Mills had extensive management powers; the missing element was subjection to the board in exercising them.

The recitals and financing clauses explained the arrangement's dominant purpose. Kamala Mills undertook to provide funds, held security and operated the relevant accounts. Its substantial operational powers protected the financial role it had assumed. Clause 16 described an agency coupled with interest and imposed notice and compensation conditions on early revocation. These features had to be read together, not isolated from the payment clause.

Clause 13 was decisive on control: the board could give general supervision and advice but could not exercise the delegated powers or interfere with Kamala Mills' discretion. The Court therefore found that the statutory manager definition was not satisfied and section 384's prohibition did not apply. It did not accept a general proposition that unlawful expenditure is deductible merely because it serves business purposes.

The earlier recovery proceedings did not defeat the deduction on this conclusion. The Court recorded information that the decree had been reversed in appeal. It added that, even if a further appeal restored it and the money was actually recovered, taxation under section 41(1) of the 1961 Act could follow. That was a conditional later-recovery observation.

Source: [SCR 729 C-H](#); [SCR 730 A-G](#); [SCR 733 E-H](#); [SCR 734](#); [SCR 735 A-E](#)

03 JUDICIAL DECISION

The remuneration was not paid in violation of section 384 and was deductible business expenditure under section 10(2)(xv). The High Court had correctly answered the referred question against disallowance. Both Revenue appeals were dismissed with costs.

Source: [SCR 735 B-F](#)

04 OUTCOME / IN WHOSE FAVOUR

Civil Appeal Nos. 2001-2002 of 1978 dismissed with costs; deduction upheld. Result: Assessee. Costs: Costs awarded on dismissal. Scope: Contractual status and the alleged Companies Act prohibition decided; no actual section 41(1) recovery assessment determined. Limit: The tax result follows the particular agreement and historical statutory definition; no general allowance for illegal expenditure was established.

Source: [SCR 735 B-F](#)

05 AKHB REVIEW POINT

When a deduction is challenged as prohibited remuneration, first identify the exact prohibition and test the real contractual rights against each statutory element. Read financing, security, discretion, board-control and termination clauses together. A management label or broad operational powers alone may not establish the statutory office. Keep the deduction in the year of payment separate from tax consequences of an actual later recovery, and verify the law applicable to each year.

Source: [SCR 733 E-H](#); [SCR 734](#); [SCR 735 D-E](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

13-page retained public-mirror SCR report. The complete report was read as text and page images. Fresh remote authentication as a signed original is not claimed.

Open cited source rendition

The 1979 judgment appears in the 1980 SCR volume. The caption uses Textile and the body Textiles. Judicial text and the referred question state Rs 18,294, rather than the headnote's Rs 18,249; judicial section 2(24) controls over the headnote's isolated 2(14).

STATUTORY SCOPE

Indian Income-tax Act, 1922; historical sections 10(2)(xv).

Separately identified 1961 Act provisions and their limited roles: Section 41(1): Court's conditional observation about taxation if remuneration were later recovered; no actual recapture assessment decided..

Other statutes discussed: Companies Act, 1956, section 2(24), 2(25), 384; Indian Companies Act, 1913, section 2(9).

Current statutory equivalence and Income-tax Act, 2025 applicability have not been verified. No automatic carry-over of this precedent is claimed.

LATER TREATMENT

Source checked 2026-10-06. MCX Stock Exchange Ltd. v. SEBI, W.P. No. 213 of 2011 (Bombay High Court, 14 March 2012), paragraph 97 and conclusion 104(x), expressly applied Alagappa's statutory-manager test when reviewing a common-management finding. This verifies later use of the company-law reasoning, not a later tax deduction holding or comprehensive subsequent history.

IDENTIFIED SOURCE LINKS

MCX Stock Exchange Ltd. v. SEBI (2012-03-14), nonofficial judicial-text reproduction

Paragraph 97, conclusion 104(x), and remand in paragraph 105. Bounded HTML judicial-text review; no complete judgment, raw PDF or physical-image reading claimed.

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