

Vazir Sultan Tobacco Co. Ltd. and connected assesseees v. Commissioner of Income-tax, Andhra Pradesh, Hyderabad

Civil Appeal No. 860 of 1973 and connected matters

[1982] 1 SCR 789 | 1981-09-25

How provisions for tax, gratuity and proposed dividends, and transfers to general reserve, affect capital computation under the super-profits and companies profits surtax enactments

Super Profits Tax Act, 1963: Second Schedule rule 1 | Companies (Profits) Surtax Act, 1964: Second Schedule rule 1 | Companies Act, 1956: Schedule VI

Three-judge bench; principal judgment by V. D. Tulzapurkar, J.; concurring opinion by Amarendra Nath Sen, J. | V. D. Tulzapurkar, J. | E. S. Venkataramiah, J. | Amarendra Nath Sen, J.

Historical ruling; verify current law

This judgment applies historical legislation and facts. Do not treat this note as a current-law or citator-status certificate.

01 FACTS OF THE CASE

Connected company cases disputed whether appropriations for taxation, retirement gratuity and proposed dividends counted as reserves in computing capital for special excess-profits taxes. A further reference concerned a transfer of current profits to general reserve followed by dividend payment.

Source: [Primary judgment: facts and procedural setting](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court used commercial-accounting substance and the Companies Act framework. A charge against profits for a known liability is a provision; an appropriation retained as capital is a reserve. An excess provision may qualify as reserve, but needs evidence. Proposed dividend, although not yet a legal debt, was earmarked for distribution rather than retained as capital. Gratuity classification depended on a scientific estimate and any demonstrated excess.

Source: [Primary judgment: reasoning](#)

03 JUDICIAL DECISION

Tax provisions were excluded; proposed-dividend appropriations were not reserves; gratuity issues requiring valuation were remitted; and, absent contrary evidence, current dividends were treated as paid from current profits before determining the general reserve.

Source: [Primary judgment: holdings](#)

04 OUTCOME / IN WHOSE FAVOUR

Civil Appeal No. 860 of 1973 partly allowed; Civil Appeal No. 1614 (NT) of 1978, Review Petition No. 57 of 1980 and Tax Reference Cases Nos. 2-3 of 1977 and 5 of 1978 dismissed.

Source: [Primary judgment: operative disposition](#)

05 AKHB REVIEW POINT

AKHB analysis: classify each balance-sheet appropriation by purpose, liability and evidentiary basis at the relevant date. Do not infer reserve status merely because an amount is not technically a provision, or from its label or temporary availability in the business.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATION

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

Complete 47-page SCR report read in page-preserving text and every page image inspected, from the reported opening page through the operative disposition.

[Open cited source rendition](#)

Exact catalogue SHA-256 and 47-page count verified; every page was read and visually inspected.

STATUTORY SCOPE

Historical statutory provisions are described as they appeared in the report. Verify the current enactment, amendments and later judicial treatment before reliance.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. The note reports the historical statutory text and result in this primary report only.

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.

PROFESSIONAL DISCLAIMER

General legal and tax research only; not legal or tax advice. Verify the complete judgment, governing statutory version and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.