

Commissioner of Income Tax, Delhi v. Delhi Safe Deposit Co. Ltd.

Civil Appeal No.1235 of 1974

[1982] 3 SCR 1 | 1982-01-12

Whether the assessee-company's Rs.9,500 payment to preserve its profitable managing-agency connection and business reputation was deductible under section 37, and whether the firm's failure to claim the expenditure barred the assessee-partner's own deduction.

37 (business expenditure and commercial expediency) | 187 and 67 (Revenue's firm-first objection rejected on these facts) | 256(1) and 256(2) (reference route)

Two-judge bench | R.S. Pathak, J. | E.S. Venkataramiah, J.

Assessment years: 1962-63

Fact-specific payment preserving the assessee's own business

The deduction upheld was the assessee's Rs.9,500 payment for AY 1962-63, supported by its own existing profitable agency, unchanged partnership interest and concrete business risks. The judgment does not automatically make every reputation-protection, settlement or asset-preservation payment deductible, or permit a partner to claim every firm loss. Applicable statutory exclusions and the relevant version still require checking. Comprehensive later treatment, current-law status and 2025 mapping are not verified.

01 FACTS OF THE CASE

The assessee, a public limited company with other businesses, held a 25% share in Morari Lal Batra & Co., a firm managing Bharat Carbon & Ribbon Manufacturing Co. Ltd. V.K. Batra held 50% and Lal Balwant Roy 25%. At V.K. Batra's instance the managed company advanced money to H.K. Sinha & Sons. The borrower repudiated liability except for Rs.11,409, and the managed company ultimately lost Rs.1,90,092. To make good that loss, the assessee and Lal Balwant Roy undertook Rs.95,092 between them, the assessee's share being Rs.47,500; R.K. Batra, V.K. Batra's brother, undertook the balance. The agency firm was reconstituted with R.K. Batra replacing his brother (physical pages 2-3).

In the previous year relevant to AY 1962-63, the assessee paid Rs.9,500 in partial discharge of its Rs.47,500 commitment and claimed that payment as a deduction. The Income-tax Officer rejected it for want of a legal obligation; the Appellate Assistant Commissioner also relied on alleged personal considerations and the firm's failure to claim the loss. The Tribunal found business reasons for the payment and allowed the claim. Following a section 256(2) direction, the Delhi High Court answered the reference for the assessee on 22 March 1973 in Income-tax Reference No.65 of 1968. The Revenue appealed by special leave (physical pages 2-4).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The Court examined section 37 through ordinary commercial trading and commercial expediency. The agency was an established profitable source of the assessee's income. One partner's negligence created a dispute that threatened prolonged litigation, the assessee's reputation, pecuniary exposure associated with joint and several partnership liability, and continuation of the agency. Settlement avoided those hazards and preserved the business connection. The arrangement was voluntary, but it was not shown to be gratuitous or designed exclusively to benefit the defaulting partner (physical pages 4–5).

Drawing on the authorities discussed at physical pages 5–7, the Court explained that a voluntary payment, indirect business benefit or incidental third-party benefit does not by itself defeat a business-expense claim. The controlling purpose must still be that of the assessee's own business, and the expenditure must be incurred in its capacity as a trader. The quotation from Malayalam Plantations expressly preserves that boundary; it is not enough that some business somewhere benefits.

On the found facts, the payment protected the assessee's reputation and existing income-earning agency and retained that agency in the reconstituted firm, where its interest remained unchanged. The expense was not gratuitous or outside its trading activities. Deductibility under section 37 followed from that combination, rather than from a universal rule that every cost described as protecting reputation or an asset is revenue expenditure (physical pages 6–7).

The Court separately rejected the Revenue's reliance on sections 187 and 67 to insist that the firm must first claim a loss. This expenditure was incurred by the assessee, not out of the firm's funds. If routed through the firm, matching receipt and payment entries would cancel without changing its capital structure; if paid directly, which the Court considered more probable, it was plainly the assessee's expenditure. The judgment does not resolve which payment route occurred. In either event, on these peculiar facts no statutory bar to the assessee's own claim had been shown (physical pages 7–8).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Revenue's appeal was dismissed with costs. The High Court's favourable reference answer and the deduction for the Rs.9,500 payment in AY 1962-63 stood (physical page 8/SCR 8 A–B).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Revenue appeal dismissed with costs; section 37 deduction of the Rs.9,500 payment upheld

Final fact-sensitive business-expense holding, including rejection of the firm-first objection

The allowed payment is Rs.9,500, not an adjudication allowing the entire Rs.47,500 undertaking or Rs.1,90,092 managed-company loss. The assessee's own trading purpose and expenditure remain essential.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Identify whose business, whose funds and which payment are being assessed. The strongest link here was preservation of the assessee's existing profitable agency connection, with the same partnership interest after reconstitution, against concrete litigation and reputational risks. Voluntariness and incidental benefit to another partner did not erase that commercial purpose. Conversely, the label "reputation protection" cannot replace proof of the assessee's own business nexus or decide capital-versus-revenue treatment in a different transaction.

A bounded comparison with the government-hosted 2011 compilation shows section 37(1)'s exclusions and a later Explanation for offence/prohibited-purpose expenditure (physical pages 291–292). That provision was not the issue adjudicated here and is not applied retrospectively in this note to change the result. The comparison simply prevents the business-expediency language from being presented as an exemption from statutory disallowances. No comprehensive later judicial history or current-law validation has been undertaken.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, date, appeal and 1961 reference route

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: SCR 1 heading; 2 D–H

Source role: reported metadata and judicial text

2.

Topic: Partnership shares, underlying loss, precise undertaking and AY payment

Source url: [Open cited source](#)

Pdf pages: 2; 3; 4

Paragraphs: SCR 2 H–4 C

Source role: judicial text

3.

Topic: Reference question and commercial risks settled

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 4 C–5 D

Source role: judicial text

4.

Topic: Voluntary/third-party benefits and trader-capacity boundary

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: SCR 5 D–7 B

Source role: judicial text

5.

Topic: Own-business preservation holding and firm-first objection

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: SCR 7 B–8 A

Source role: judicial text

6.

Topic: Dismissal and costs

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: SCR 8 B

Source role: judicial text

7.

Topic: Later section 37(1) restrictions and then Explanation

Source url: [Open cited source](#)

Pdf pages: 291; 292

Paragraphs: Printed pages 1.250–1.251; section 37(1) and Explanation; separate editorial footnote 1

Source role: bounded later statutory comparison

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

E.S. Venkataramiah, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

General partnership-law joint and several liability, discussed without an identified statutory section

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 8 PDF pages; SHA-256

b8c4e3fcf2aa2f884ed2bd9849c29770db250c3473968e2fbc222391d547492a. Original bytes preserved.

Unnumbered judicial body begins physical page 2/SCR 2 G and ends page 8/SCR 8 B. Page 1 and opening page 2 contain reporter headnotes, followed by appellate metadata and appearances. No neighbouring judgment.

Open cited source rendition

The original report and judicial body establish a 1961 Act section 37 determination for AY 1962-63; it is not a 1922-law judgment merely because the commercial background is old.; The claimed and allowed amount for the assessed year is Rs.9,500. The Rs.47,500 undertaking and Rs.1,90,092 overall loss are background amounts, not additional deductions allowed by the Supreme Court.; The direct-payment route was described as more probable, not conclusively found; the reasoning deals with both routes.; The firm-first objection was rejected because the assessee bore its own expenditure on these facts, not because every partnership loss can bypass the firm's assessment.; The broad statement about preservation of a profit-earning asset must be read with the particular commercial facts and the trader-capacity restriction; it does not decide every capital/revenue dispute.; The later statutory comparison is from a 2011 compilation, not a complete or current version check. Its offence/prohibited-purpose Explanation is not an additional issue decided in this judgment.

AY 1962-63 is expressly identified in the judicial body at physical page 3. The judgment is dated 12 January 1982; neither an earlier expense year nor 1922-law coverage is inferred.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no present-law certification. Identify the applicable statutory version and procedural route separately.

LATER TREATMENT

Source checked 2026-10-04. not_verified. No direct later citing judgment is certified. Bounded statutory comparison only: government-hosted 2011 compilation, physical pages 291–292, section 37(1) and its then Explanation, with editorial amendment history separately identified. No comprehensive citation history, present-law verification or 2025 mapping.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 8

SHA-256: b8c4e3fcf2aa2f884ed2bd9849c29770db250c3473968e2fbc222391d547492a

official hosted statutory compilation - PDF pages: 1251

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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