

Commissioner of Wealth-tax, Kanpur v. J.K. Cotton Manufacturers Ltd. and connected appeal

Civil Appeals Nos. 1179-1180 (NT) of 1973

[1984] 3 SCR 37 | 1984-02-28

Historical wealth-tax: unpaid future instalments under tax settlements were deductible debts and were not yet outstanding for over twelve months.

Wealth-tax Act, 1957: sections 2(m), 3, 4(3), 5 and 6 | Taxation on Income (Investigation Commission) Act, 1947: settlement liabilities | Indian Evidence Act, 1872: sections 106 and 114 discussed in the concurring reasons

2-judge bench | V. D. Tulzapurkar, J. | Sabyasachi Mukharji, J.

Assessment years: 1957-58

Settlement-specific historical holding

The twelve-month analysis turned on instalment due dates in 1952 settlement orders under a historical statute. It is not a general rule that every unpaid tax amount is deductible.

01 FACTS OF THE CASE

Under settlements made in 1952 pursuant to the Taxation on Income (Investigation Commission) Act, J.K. Cotton and J.K. Jute owed tax on secreted profits, payable by instalments. For AY 1957-58, Rs.5,49,041 remained unpaid by J.K. Cotton on 30 September 1956 and Rs.21,61,788 remained unpaid by J.K. Jute on 31 December 1956. The Wealth-tax Officer and appellate authorities disallowed deduction, reasoning in substance that liabilities tied to secret profits were not deductible when the corresponding assets were absent from the balance sheets. The Allahabad High Court allowed the deductions, and Revenue appealed.

Source: [Facts and proceedings: SCR pp. 39-41 / PDF pp. 3-5](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court read section 3 with the section 2(m) definition: all debts owed on the valuation date were deductible unless they fell within an express exclusion. The statute did not impose a general requirement that every debt be connected to an asset reflected in the books. The special provisions for deemed, exempt or foreign assets could not create that wider restriction. Nor could Revenue presume, after the long interval, that secret profits continued as assets on the valuation dates. For section 2(m)(iii), a tax amount had to be payable under an order and remain unpaid after the obligation to pay arose. Because the settlement orders fixed instalment dates and the disputed amounts had not become due before the valuation dates, they were not tax liabilities outstanding for more than twelve months. Mukharji J. agreed on the result while noting that a different evidentiary record about retained assets might have allowed a purposive argument to be examined.

Source: [Debt nexus, presumption and instalment reasoning: SCR pp. 44-50 / PDF pp. 8-14](#)

03 JUDICIAL DECISION

The Court confirmed the High Court's view and dismissed Revenue's appeals without costs. The liabilities were deductible debts and, under the settlement instalment schedules, the disputed amounts had not become due before the valuation dates and therefore did not fall within section 2(m)(iii)'s exclusion.

Source: [Operative reasoning and dismissal: SCR pp. 48-50 / PDF pp. 12-14](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee companies. Revenue's appeals failed, leaving the deductions intact. The result depended both on the historical net-wealth definition and on the specific instalment due dates in the settlement orders.

Source: [Outcome and concurrence: SCR pp. 49-50 / PDF pp. 13-14](#)

05 AKHB REVIEW POINT

AKHB analysis: when applying an exclusion keyed to an amount being payable or outstanding, build a date-wise schedule from the controlling assessment, settlement or instalment order rather than from the period to which the underlying tax relates. Separately test whether the governing statute expressly requires a nexus between the liability and an included asset. This historical Wealth-tax Act construction should not be treated as authority for a present deduction without checking the current provision and later cases.

Source: [AKHB analysis based on the debt and due-date reasoning: SCR pp. 44-50 / PDF pp. 8-14](#)

SOURCE & VERIFICATION

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

Full 14-page SCR report read. Editorial headnote on PDF pp. 1-3 was separated from Tulzapurkar J.'s judicial reasons and Mukharji J.'s concurrence beginning on PDF p. 13; the report has no numbered paragraphs.

[Open cited source rendition](#)

Exact source bytes and the 14-page count match catalogue asset 1984_3_37_50.

The single PDF decides connected appeals concerning J.K. Cotton Manufacturers Ltd. and J.K. Jute Mills Co. Ltd.; the note discloses the connected matter instead of treating the asset as two source judgments.

The judicial text uses valuation dates 30 September 1956 for J.K. Cotton and 31 December 1956 for J.K. Jute. A later headnote/concurrence line appears to print 30 June 1956 for the first company; the note adopts the date in the Court's detailed facts and does not rely on the discrepant line.

The catalogue's retrospective 1984INSC49 identifier is not printed in the report and is not independently certified here.

STATUTORY SCOPE

This decision applies the historical Wealth-tax Act, 1957 and 1952 settlements under the Taxation on Income (Investigation Commission) Act, 1947 for AY 1957-58. It is not a current rule for deduction of income-tax liabilities.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment and present statutory applicability have not been checked; no current citator clearance is represented.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

PROFESSIONAL DISCLAIMER

AI-assisted legal research note for general information and professional research. It is not legal or tax advice. Verify the original judgment, applicable statutory version and subsequent judicial treatment before relying on it. The AKHB Review Point is editorial analysis, not part of the Court's judgment.