

Commissioner of Income Tax, Ernakulam (Kerala) v. Official Liquidator, Palai Central Bank Ltd. (in liquidation)

Civil Appeal No. 2090 of 1980

[1985] 1 SCR 971 | 1984-10-16

Historical super profits tax: the capital-based standard deduction could not be computed for a company already in liquidation, so the integrated charging mechanism did not apply.

Super Profits Tax Act, 1963: sections 2(5), 2(9), 4 and Second Schedule, rule 1; section 27 was an alternative Tribunal ground

3-judge bench | V. D. Tulzapurkar, J. | V. Balakrishna Eradi, J. | D. P. Madon, J.

Assessment years: 1963-64

Historical super profits tax only

The Court decided the operation of the 1963 Act's integrated charge and computation provisions for a bank already in liquidation. It did not exempt all liquidation income from every tax.

Computation impossibility requires statutory analysis

The decision rests on the inapplicability of the statutory capital formula, not merely on difficult valuation, absent records or an insufficient tax computation.

01 FACTS OF THE CASE

Palai Central Bank entered liquidation on 8 August 1960. The liquidator took over its assets and liabilities and thereafter prepared annual income-and-expenditure statements. For AY 1963-64 the Income Tax Officer also sought super profits tax. The bank returned nil chargeable profits, arguing that after liquidation it lacked separately identifiable paid-up share capital for the Second Schedule formula. The officer rejected that objection, used the Rs. 50,000 minimum standard deduction and determined chargeable profits of Rs. 2,04,740. The first appeal failed, but the Tribunal accepted the bank's position both under the no-share-capital exemption in section 27 and, independently, because the standard deduction could not be ascertained. The Kerala High Court upheld the latter reasoning.

Source: [SCR pp. 973-975](#) / [PDF pp. 3-5](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 4 charged only profits exceeding the standard deduction. Section 2(9) defined that deduction by reference to six per cent of statutory capital or Rs. 50,000, whichever was greater. Rule 1 of the Second Schedule required the company's paid-up share capital and specified reserves as at the first day of the relevant previous year. After winding up, the Court held, the distinction between capital, reserves and accumulated profits disappeared into an integrated fund held by the liquidator; the capital formula therefore could not operate. Drawing on Girdhardas and the integrated-code reasoning in B.C. Srinivasa Setty, the Court treated charge and computation as connected parts of the statutory scheme. Because the deduction was incapable of ascertainment under that scheme, the section 4 charge was not attracted. The Supreme Court's reasoning rested on this computation ground, rather than separately establishing the Tribunal's alternative section 27 exemption.

Source: [SCR pp. 975-979 / PDF pp. 5-9](#)

03 JUDICIAL DECISION

The Court held that the super profits tax charge did not apply where the Act's capital and reserve computation could not operate for the company in liquidation and the standard deduction was consequently unascertainable. It declined to interfere with the High Court and dismissed Revenue's appeal with costs.

Source: [SCR pp. 978-979 / PDF pp. 8-9](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee bank through its Official Liquidator, on the super profits tax assessment for AY 1963-64. Revenue's appeal failed with costs. The decision does not cancel the separate income-tax assessment or establish a general liquidation exemption from all taxes.

Source: [SCR pp. 978-979 / PDF pp. 8-9](#)

05 AKHB REVIEW POINT

AKHB analysis: identify the precise charge, computation formula and legally necessary inputs before invoking the integrated-code principle. Record the winding-up date and the relevant first day of the previous year. Distinguish a formula that cannot apply to the legal character of the fund from a calculation that is merely inconvenient or poorly evidenced. Check the applicable statute and later treatment independently before using this historical super profits tax ruling in an income-tax or insolvency dispute.

Source: [AKHB analysis based on SCR pp. 975-979 / PDF pp. 5-9](#)

SOURCE & VERIFICATION

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

Full nine-page SCR report read; reporter headnote on PDF pages 1-2 distinguished from the judicial text on pages 3-9.

[Open cited source rendition](#)

Exact catalogue URL, SHA-256, title, decision date and nine-page count match the original. The 1985 reporter/mirror year is distinct from the verified judgment date, 16 October 1984.

The source's headnote and judicial text differ in the stated income figure, and some reproduced text misprints the Act's year as 1961. This note omits that immaterial disputed income amount and follows the judicial identification of the Super Profits Tax Act, 1963 (Act XIV of 1963).

The report has no numbered judicial paragraphs, so SCR and physical PDF page pinpoints are used.

STATUTORY SCOPE

The ruling concerns the Super Profits Tax Act, 1963 and AY 1963-64, after this bank entered liquidation in 1960. It is not a general immunity from income tax or other statutory liabilities for companies in liquidation, nor a determination of current insolvency or tax law.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive later judicial treatment and current statutory equivalence have not been verified. This historical source review is not current-law clearance.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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