

Vibhuti Glass Works v. Commissioner of Income Tax, Lucknow

Civil Appeal No. 1442(NT) of 1975

[1989] 2 SCR 797 | 1989-04-28

Whether factory profits accrued to the owner-company despite a 20-year State management arrangement, and whether any half-share could be excluded when the deed's conditions for dividing residual profits had not been met.

28

Two-judge bench | R.S. Pathak, C.J. | Ranganath Misra, J.

Assessment years: 1962-63

Management and debt payment; conditional profit share

The State managed the company's factory and applied income after it accrued; the deed's residual-profit sharing conditions were not met in AY 1962-63. This is no blanket rule for leases, overriding titles or future profit distributions. Section 28 is the report's editorial classification; the printed set-off figures do not reconcile. Comprehensive later treatment and current-law/2025 mapping remain unverified.

01 FACTS OF THE CASE

Vibhuti Glass Works, a public limited company, owned a glass factory and carried on other business. The factory had sustained losses and accumulated debts. Stocks and stores secured borrowing from Banaras State Bank; its land, buildings and machinery were mortgaged for Uttar Pradesh Government loans. To obtain equipment, working capital and funds to repay other creditors, it approached finance institutions. The Industrial Finance Corporation agreed to lend Rs.20 lakhs if the State guaranteed repayment and postponed its existing mortgage charge so that the Corporation had the first charge (physical page 3, SCR 799 C-F).

The State agreed on conditions including management of the factory for 20 years and a possible share of profits. The company executed the deed on 22 August 1960. Although labelled a lease, the arrangement conferred management and running of the business. Paragraph 7(c), reproduced by the Court, contemplated equal division of the balance profits on expiry or earlier termination only after the company's entire liabilities had been met and all State charges and expenses accounted for. It did not grant an unconditional half-share of each year's factory profit (physical pages 3-4, SCR 799 F-G and 800 E-G).

For AY 1962-63 the factory reported a profit of Rs.92,960 and the company's separate profit-and-loss account showed a loss of Rs.3,47,656. The company argued that the factory profit belonged wholly to the State or, alternatively, that half alone accrued to it. The Income-tax Officer rejected both claims, set the factory profit against the separate loss and reported a net loss of Rs.2,54,785. Those three printed figures do not arithmetically reconcile; this note preserves them as reported rather than supplying an inferred correction. Both departmental appeals failed. The Allahabad High Court answered the accrual and full-versus-half questions for the Revenue (physical pages 3-4).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the substance of the deed as decisive. The State had possession so that it could manage and run the company's factory; describing the document as a lease and using a demise formula did not, on the terms considered, transfer the business income away from the company. The Court accepted the High Court's reasons for that interpretation (physical page 4, SCR 800 E-F).

Applying Commissioner of Income-tax, Bombay City II v. Sitaldas Tirathdas, the Court distinguished diversion before accrual from an application of income after it had accrued. Here the income accrued directly to the assessee. The managing State then used it to pay the assessee's debts. Discharge of that obligation did not establish an overriding title to the income in the State's favour (physical page 5, SCR 801 A-C).

The alternative claim failed independently on the deed's conditions and the facts of the year. The profits were insufficient to give the State a share under the arrangement, and no part was actually taken by it. Therefore no question arose of treating part of that year's profit as assessable in the State's hands. The Court did not decide the tax treatment of a future distribution after the residual-profit conditions were satisfied (physical page 5, SCR 801 C-D).

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

03 JUDICIAL DECISION

The Court dismissed the assessee's appeal, sustaining the High Court's answers: the factory profits accrued to the company, and the entire amount, rather than only one half, accrued to it for the relevant year. There was no order as to costs (physical page 5, SCR 801 C-E; reference questions at physical pages 2-3).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee's appeal dismissed; entire factory profit attributable to the assessee for the year; no order as to costs

Final reasoned determination of income attribution under the particular deed

AY 1962-63 management arrangement and unmet residual-profit condition; no ruling that every lease is management, every debt-payment arrangement lacks an overriding title, or a later State entitlement would have the same tax treatment.

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

05 AKHB REVIEW POINT

Separate ownership of the earning source, contractual management powers, application of receipts and the actual trigger for another person's entitlement. A creditor or manager receiving or spending income need not be the person to whom that income first accrues. Here the State operated the owner's business and used its income to meet the owner's debts; that was application after accrual.

Do not shorten paragraph 7(c) to a free-standing 50:50 profit entitlement. Timing, full discharge of liabilities and accounting for State costs were part of the clause. Nor does the decision determine a year in which a distributable residual profit actually arises. The section 28 label comes from the report's headnote; the judicial reasoning decides the income-attribution questions without citing a section number. The printed set-off figures contain a small unreconciled discrepancy, which is not material to the attribution holding. Applicable statutory text, later judicial treatment and any current-law or 2025 mapping must be checked separately.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal number and reference questions

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Cover; SCR 798 D-H and 799 A-B

Source role: reported metadata and judicial text

2.

Topic: Financial rescue, loan conditions, period and reported profit figures

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: SCR 799 C–H and 800 A–D

Source role: judicial text

3.

Topic: Substance of management arrangement and conditional residual-profit clause

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: SCR 800 E–H; paragraph 7(c) of the deed reproduced

Source role: judicial text

4.

Topic: Application after accrual, unmet sharing condition and disposition

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 801 A–E

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R.S. Pathak, C.J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 5 PDF pages; SHA-256

d227506621e1cd70b65516d8a465b5d73fddbef263c5ccf69e20d1a974c644f0. Original bytes preserved.

Complete unnumbered judicial text from physical page 2, SCR 798 G, through physical page 5, SCR 801 E. Cover/headnotes and appeal metadata on physical pages 1–2 separately identified; no adjacent judgment.

[Open cited source rendition](#)

The editorial headnote identifies section 28; the judicial body does not expressly cite section 28. The body confirms AY 1962-63 and decides business-income attribution.; Paragraph 7(c) is a conditional division of residual profits at expiry or earlier determination after all liabilities, State charges and expenses; it is not an unconditional annual half-share.; Physical pages 3–4 print Rs.92,960 profit, Rs.3,47,656 separate loss and Rs.2,54,785 net loss. Direct subtraction gives Rs.2,54,696, a difference of Rs.89. The source is not corrected and no explanation is invented.; The Court applies an earlier Sitaldas Tirathdas test to this 1961-era assessment; that embedded authority is not a separate primary judgment reviewed in this batch.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. Any actually checked later judgment or statute is expressly identified in this note.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 5](#)

SHA-256: d227506621e1cd70b65516d8a465b5d73fddbef263c5ccf69e20d1a974c644f0

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