

Karamchand Premchand Pvt. Ltd. v. Commissioner of Income Tax, Gujarat

Civil Appeal No. 2230 (NT) of 1977

[1993] 2 SCR 109 | 1993-02-25

Super-profits tax: anticipated taxation liability is a provision rather than a reserve.

Super Profits Tax Act, 1963: Second Schedule, rule 1 | Income-tax Act, 1922: section 23A

2-judge bench | B. P. Jeevan Reddy, J. | N. Venkatachala, J.

Assessment years: 1963-64

Ancillary direct-tax coverage

Historical Super Profits Tax Act capital computation. The note does not determine present accounting-standard recognition or modern income-tax deductibility.

Only one referred item decided

The appeal concerned Rs. 4,50,000 set apart for anticipated tax liability. Proposed dividend, excess depreciation reserve and other excess provisions listed in the reference were not decided in this appeal.

01 FACTS OF THE CASE

After a section 23A notice in 1955-56, the company set aside Rs. 6,52,000 in its books for the year ending 31 March 1956. Following a transfer of Rs. 2,02,000 to profit and loss in 1958-59, Rs. 4,50,000 remained for the anticipated tax liability. It sought to include that balance as a reserve in the AY 1963-64 capital computation. Its underlying section 23A challenge succeeded on 24 May 1965.

Source: [SCR pp. 111-112 / PDF pp. 3-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Applying Metal Box and Vazir Sultan Tobacco, the Court distinguished a provision against anticipated losses or liabilities, charged against profits, from a reserve appropriated out of profits and retained as business capital. The absence of an additional-tax levy by the relevant date did not make this sum a reserve. The company's own description supported its purpose, but book labels were expressly not treated as conclusive.

Source: [SCR pp. 112-113 / PDF pp. 4-5](#)

03 JUDICIAL DECISION

The Court upheld classification of Rs. 4,50,000 as a provision, rather than a reserve eligible for capital inclusion. The assessee's appeal was dismissed without costs.

Source: [SCR p. 113 / PDF p. 5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue on the single taxation-provision item before the Court. No Supreme Court determination of the three other listed reference items is represented by this note.

Source: [SCR pp. 111 and 113 / PDF pp. 3 and 5](#)

05 AKHB REVIEW POINT

AKHB analysis: establish why a balance was created and its position at the relevant assessment date. A contingent or disputed tax exposure may still explain a provision; later success in the underlying tax litigation does not by itself establish that the earlier balance was a reserve. Use the substantive purpose rather than the ledger title alone, and keep the historical capital-base issue distinct from current financial-reporting standards.

Source: [AKHB analysis based on SCR pp. 111-113 / PDF pp. 3-5](#)

SOURCE & VERIFICATION

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

Complete five-page SCR report; substantive judgment starts on PDF p. 2. Only the first of four items in the referred question was before the Supreme Court.

[Open cited source rendition](#)

Full source PDF read. Page references used because the judgment has no numbered paragraphs.

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Scope classification: ancillary direct-tax statute; not an Income-tax Act, 1961 merits ruling. No 1961/2025 statutory mapping inferred.

STATUTORY SCOPE

Historical Super Profits Tax Act capital computation. The note does not determine present accounting-standard recognition or modern income-tax deductibility.

LATER TREATMENT

Source checked 2026-10-09. Subsequent treatment has not been comprehensively verified. No current-law or citator clearance is represented.

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