

Prakash Cotton Mills Pvt. Ltd. v. Commissioner of Income Tax (Central), Bombay

Civil Appeal No. 1279 (NT) of 1977

[1993] 2 SCR 983 | 1993-04-06

Whether Rs 19,635 paid for delayed sales-tax and statutory-contribution payments was deductible under section 37(1), and whether the balance Rs 2,500 of the directors' claimed entertainment expenditure was deductible under the historical section 37(2).

37(1), historical general business-expenditure provision | 37(2), historical entertainment-expenditure provision | 256(1) | 256(2)

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

Assessment years: 1966-67

Mixed imposts require examination; deduction claim remitted, entertainment challenge rejected

The Court did not allow the full Rs 19,635: it remitted classification and deduction to the Tribunal, while sustaining the Rs 2,500 entertainment disallowance. The source inconsistently describes the contribution payment as ESI and Provident Fund. This is a historical AY 1966-67 ruling; later treatment, current-law application and 2025 mapping remain unverified.

01 FACTS OF THE CASE

The assessee manufactured textile goods. For AY 1966-67, with the accounting year running from 1 July 1964 to 30 June 1965, it claimed Rs 19,635 in aggregate as interest for delayed payment of sales tax and damages for delayed statutory contributions. The opening judicial passage identifies the statutes as the Bombay Sales Tax Act, 1951 and the Employees' State Insurance Act, printed there as "1947". The report does not split the Rs 19,635 between the two imposts. The ITO treated the whole sum as penal interest and disallowed it (physical page 3 / SCR 985 D-H).

The company also claimed Rs 3,865 for expenditure at the Diners Club and C.C.I. The ITO allowed Rs 1,365 and disallowed Rs 2,500 as personal expenditure of its directors. The AAC and Tribunal did not disturb the disallowances. The Tribunal refused the section 256(1) application, and the Bombay High Court rejected the ensuing section 256(2) application by its order dated 17 June 1976 in I.T. Application No. 63 of 1976. The assessee appealed by special leave (physical pages 3-4 and 9 / SCR 985-986 and 991).

There is an internal source inconsistency concerning the contribution payment: the opening facts call it an ESI payment, whereas the application/remand discussion refers to the Provident Fund Act. The note preserves that discrepancy rather than replacing one statute with another or inventing a charging provision (physical pages 3 and 9 / SCR 985 and 991).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court consolidated the four proposed reference questions into two issues. Because the litigation concerned a long-past assessment year and the Tribunal's found facts enabled the questions to be considered, it chose to answer them itself rather than merely send the questions to the High Court. It expressly contemplated a further Tribunal decision on the first issue (physical pages 4–5 / SCR 986–987).

On section 37(1), the Court drew on Mahalakshmi Sugar Mills, a 1922-Act decision about interest on delayed sugarcane cess, and expressly agreed with the Andhra Pradesh High Court's analysis in Hyderabad Allwyn Metal Works. The latter analysis, including its discussion of Organo Chemical Industries, distinguished compensation for delayed payment from punishment for statutory breach. A levy described as damages, interest or penalty may contain both elements. Its name, and even the use of a fixed rate, does not settle its character. The applicable statutory scheme, the circumstances of imposition and the reasons in the quantifying order must be examined (physical pages 5–8 / SCR 987–990).

The Court's own rule was that a purely compensatory impost is deductible under the historical section 37(1) analysis; where an impost is composite, the authority must separate its compensatory and penal components, allow the former and refuse the latter. This required investigation of the actual impost. The authorities below had refused the present claim without examining the relevant statutory schemes, so the Court did not itself classify the entire Rs 19,635 as compensatory or determine an allowable fraction (physical pages 8–9 / SCR 990 F–H and 991 A–E).

The entertainment issue was different. The concurrent findings, based on the relevant material, treated Rs 2,500 as personal expenditure and found that the whole claim had not been laid out wholly and exclusively for business. On those findings the allocation was a matter for the fact-finding authorities, and no question of law arose. The historical statutory ceiling did not itself establish that all expenditure below it was business expenditure (physical pages 9–10 / SCR 991 F–H and 992 A–B).

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

03 JUDICIAL DECISION

The appeal was allowed only in part. The section 37(1) deduction claim was expressly remitted to the Income-tax Appellate Tribunal, Bombay, for decision in light of the compensatory/penal classification rule. The entertainment question was answered against the assessee, leaving the Rs 2,500 disallowance undisturbed. No costs were ordered (physical pages 9–10 / SCR 991 C–E and 992 A–C).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: assessee obtains a fresh Tribunal determination on the statutory-impot claim; Revenue succeeds on the entertainment issue

Appeal partly allowed; section 37(1) claim remitted to ITAT Bombay; section 37(2) challenge rejected; no costs

Legal test settled, but character and allowable amount of the Rs 19,635 claim left for the Tribunal; entertainment issue finally rejected

AY 1966-67 and the historical statutory provisions. No blanket deduction for every levy labelled interest or damages, no final classification of these payments, and no present-law or 2025 mapping.

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

05 AKHB REVIEW POINT

Obtain the actual demand/order and the statutory text for the relevant period before labelling an impost deductible. Identify separately the reasons for the levy, the method of quantification, any compensatory component and any sanction for default. A description in the ledger or statute is not a substitute for that exercise. Where the payment is mixed, a supported allocation is needed; the judgment does not authorise either all-or-nothing treatment merely because the impost has one label.

The practical result is a remand, not a Supreme Court allowance of Rs 19,635. Preserve that distinction in a client memo, search extract or generated note. The opening ESI description and later Provident Fund wording also mean the report alone should not be used to certify the precise contribution statute or charging section. The cited section 14B and sales-tax section 36 passages concern the earlier Hyderabad Allwyn analysis.

For the separate entertainment issue, retain the actual-purpose finding and the historical section 37(2) setting. The decision does not turn the then ceiling into an automatic deduction and should not be presented as a ruling on current entertainment treatment. Any modern application needs the applicable statutory version and later authorities to be checked independently.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Title, date, bench, appeal number and author

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: reported metadata and judicial text

2.

Topic: AY, accounting period, two payment categories, aggregate claim and failed references

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: judicial text

3.

Topic: Choice to decide questions and historical 1922-Act analogy

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: judicial text

4.

Topic: Earlier authorities, statutory character and mixed-impost analysis

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7; 8

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: judicial text

5.

Topic: Court's operative classification rule and express remand

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: judicial text

6.

Topic: Separate entertainment findings and rejected challenge

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: judicial text

7.

Topic: Partly allowed disposition and no costs

Source url: [Open cited source](#)

Pdf pages: 10

Paragraphs: Physical PDF pages are one-based. SCR pagination and, where material, lettered margin locations are stated in the note. Judicial paragraphs are unnumbered.

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

N. Venkatachala, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SCOPE OF THE INCOME-TAX ACT ISSUE

Eligibility: included substantive 1961 act

Operative basis: Sections 37(1) and 37(2) expressly frame and dispose of the actual claims; sections 256(1)–(2) explain the reference history.

Physical pages: 3; 4; 8; 9; 10

Purely 1922 or incidental 1961: False

Prior 1922 material: Mahalakshmi Sugar Mills and section 10(2)(xv) are cited precedent/background only; they do not displace the present substantive 1961-Act issues.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 10 PDF pages; SHA-256

e1db09ba19175b8513c71dc2415536e85f5007873f690a83e8336715c6a0f489. Original bytes preserved.

Complete judicial text from the author introduction on physical page 3 through the operative ending on physical page 10 / SCR 985–992. Editorial headnote on physical pages 1–3 separated. No neighbouring judgment text. Quoted earlier authorities distinguished from the present statutory-impost remand and final entertainment issue.

Open cited source rendition

The judicial facts identify ESI contributions and print the ESI statute's year as 1947; the judicial remand passage instead refers to the Provident Fund Act. This is an original-source inconsistency, not resolved by the OCR or by this note.; Rs 19,635 is an aggregate claim. The report gives no allocation between the sales-tax and contribution imposts and no compensatory/penal percentage.; The sections 14B and 36(3)/(5) discussion is inside the account of Hyderabad Allwyn. It must not be silently substituted for identified charging provisions governing the present remitted payments.; The Rs 2,500 entertainment disallowance survived; only the section 37(1) issue was remitted.; The first-page bench line prints Jeeven Reddy; the judge is standardised as B.P. Jeevan Reddy in the note, consistently with corpus metadata and the other primary report in this batch.; Earlier 1922-Act reasoning is used as an analogy; the present case itself expressly decides 1961-Act issues for AY 1966-67.; No subsequent treatment, present-law application or 2025 statutory crosswalk has been verified.

AY 1966-67; the previous accounting year is expressly stated as 1 July 1964 to 30 June 1965 (physical page 3 / SCR 985).

Sections 37(1) and 37(2) are the two issues actually decided; sections 256(1)–(2) explain the failed reference applications. Section 10(2)(xv) of the 1922 Act appears only as the predecessor provision and in the discussion of Mahalakshmi Sugar Mills. EPF Act section 14B and Bombay Sales Tax Act section 36(3)/(5) appear in the quoted Hyderabad Allwyn discussion, not as independently identified and applied charging provisions for the present assessee's remitted imposts. No present-day section 37 explanation is applied by this 1993 judgment.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no present-law certification. This note concerns the historical statutory version addressed by the Court.

LATER TREATMENT

Source checked 2026-10-04. No subsequent-treatment search completed and no later authority independently checked for this note. Discussion of authorities cited within the judgment is limited to how this judgment describes them.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 10](#)

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