

Commissioner of Income-Tax v. Patel Brothers and Co. Ltd. Etc. Etc.

Civil Appeal Nos. 1455–1457 of 1976 / Civil Appeal No. 1850 of 1975 / Connected appeals, special leave petitions and tax references not fully numbered in the report

[1995] Supp.1 SCR 235 | 1995-05-09

Before 1 April 1976, whether ordinary meals and refreshments provided as necessary customary business hospitality to outstation customers were entertainment expenditure restricted by historical section 37(2A), and whether the enlarged Explanation 2 inserted in 1983 could be carried back before its expressly specified date.

37(1) | 37(2), historical company entertainment limit | 37(2A), historical text before Explanation 2 became applicable on 1 April 1976 | 37(2A), Explanation 2 inserted in 1983 with effect from 1 April 1976; temporal limit expressly decided | 37(2B), historical provision discussed | 261

Three-judge bench | J.S. Verma, J. | N.P. Singh, J. | M.K. Mukherjee, J.

Assessment years: 1969-70, 1970-71, 1971-72

Pre-1 April 1976 meals ruling; expressly bounded amendment date

This decision concerns necessary ordinary business hospitality before 1 April 1976. Explanation 2 was enacted in 1983 with retrospective effect only from 1 April 1976 and enlarged the definition; the earlier meals holding cannot be carried forward automatically. The Gujarat result was affirmed without its wider guidelines. Assessee appeals were allowed and Revenue appeals, SLPs and references dismissed, with no costs; the report does not number every connected matter. The selected Sedco Forex passage is checked, but comprehensive later treatment, current law and 2025 mapping remain unverified.

01 FACTS OF THE CASE

Patel Brothers claimed kitchen expenses for meals provided to employees and customers in the ordinary course of business according to established trade usage. The AY 1969-70, 1970-71 and 1971-72 claims were Rs 22,301, Rs 25,979 and Rs 28,620. The ITO disallowed the customer-meal portions of Rs 10,101, Rs 12,979 and Rs 17,305, respectively, despite the finding that the meals were ordinary and not lavish. The corresponding previous years ended on 30 September 1968, 1969 and 1970 (physical page 5 / SCR 239).

The AAC found the meals were a bare business necessity and directed allowance; the Tribunal confirmed. Outstation constituents came to Ahmedabad for business and required ordinary meals while there. The Gujarat High Court answered both questions against Revenue: the expenditure was not entertainment expenditure, and the claimed restriction to Rs 5,000 did not apply. Revenue appealed by certificate under section 261 (physical pages 5-6 / SCR 239-240).

The report also covers assessee appeals, Revenue appeals, SLPs and tax references arising from conflicting High Court views. It prints lead Civil Appeals 1455-57/1976 and expressly identifies Civil Appeal 1850/1975 concerning Brij Raman Dass & Sons, but does not list every connected docket or assessment year. All were said to relate to the period before 1 April 1976. The lead figures are not attributed to every connected assessee (physical pages 4-6, 12 and 15 / SCR 238-240, 246 and 249).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court began with section 37(1)'s allowance for expenditure wholly and exclusively incurred for business, subject to the statutory exclusions, and the historical entertainment limits in subsections (2) and (2A). Commercial expediency and trade usage did not make entertainment unrestricted; the question was whether these particular ordinary meals were entertainment at all under the applicable text. In this disallowance context, the term was construed strictly. Necessary ordinary meals offered as customary hospitality did not, without an enlarged statutory definition, become entertainment merely because someone else provided them (physical pages 7–8 and 9–11 / SCR 241–242 and 243–245).

The conclusion rested on the findings that the expenditure was essential business hospitality, ordinary rather than lavish, and a bare necessity for the outstation customers. The Court did not prescribe an unlimited exemption for every customer meal or all hospitality. It upheld the Gujarat result on those facts but expressly declined to affirm that High Court's wider observations and elaborate guidelines beyond the Supreme Court's broad test (physical pages 10–11 and 13–14 / SCR 244–245 and 247–248).

The amendment's date was decisive. Section 37(2A) had been inserted with effect from 1 October 1967. The Finance Act, 1983 inserted Explanation 2 retrospectively only from 1 April 1976, enlarging entertainment expenditure to cover hospitality of every kind, irrespective of contractual or trade-usage origin, with its specified workplace employee-food exception. The report also identifies the historical subsection (2B), inserted from 1 April 1970. The Court held that Explanation 2 enlarged the tax net and could not be imported into earlier periods merely because it used language about removal of doubts. Its expressly limited retrospective commencement excluded an earlier application (physical pages 7–9 and 11–12 / SCR 241–243 and 245–246).

The Court approved the Delhi High Court's explanation in Rajasthan Mercantile that the enlarged definition could not extend to periods when it was not operative. It rejected Brij Raman Dass & Sons and overruled the other High Court decisions taking the same contrary view. This treatment resolves the historical conflict on the specified facts and statutory version, not the current deductibility of hospitality expenses (physical pages 12–15 / SCR 246–249).

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

03 JUDICIAL DECISION

All matters were decided for the assessee and against Revenue. Assessee appeals were allowed, while Revenue appeals, SLPs and tax references were dismissed. Ordinary necessary meals provided to outstation customers according to established business practice were deductible for the relevant pre-1 April 1976 period, without the asserted entertainment-expenditure restriction. No costs were ordered. The reporter's final shorthand "Appeals dismissed" does not capture the group's mixed procedural dispositions (physical pages 12 and 15 / SCR 246 and 249).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Assessee appeals allowed; Revenue appeals, SLPs and tax references dismissed; no costs

Final historical construction and assessee-favourable resolution of all connected matters

Necessary ordinary customary business hospitality in periods before 1 April 1976; Explanation 2's enlarged definition applies only from its stated retrospective date. No affirmation of all Gujarat guidelines, no exhaustive connected docket list, and no current-law meals deduction ruling.

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

05 AKHB REVIEW POINT

Begin with the assessment period and exact statutory version. This case gives an express warning against using the pre-amendment ordinary-hospitality conclusion after the enlarged definition became operative. Conversely, "for removal of doubts" does not by itself erase a legislature's expressly specified commencement date. Separate the date an amendment was enacted in 1983 from the date it was made effective, 1 April 1976.

For the historical merits, preserve evidence of trade usage, the visitors' business purpose, the need for meals, the ordinary character of the food and the expense split between customers and employees. These were factual foundations, not ornamental background. The Court's rejection of the entertainment restriction is not a substitute for proving the ordinary business-deduction conditions. The reported Rs 5,000 question is tied to this historical dispute and must not be advertised as a current hospitality limit.

Bounded later check: Sedco Forex International Drill. Inc. v. CIT, decided 17 November 2005, cited Patel Brothers in footnote 2 at physical page 10 / SCR 311 of S_2005_5_302_313 when construing an expressly dated amendment to section 9(1)(ii). Its ensuing discussion distinguishes genuinely clarificatory explanations from provisions that widen or change the law (physical pages 10–12 / SCR 311–313). That is later use of the amendment-interpretation principle, not a later adjudication of meals under section 37. Comprehensive subsequent treatment, later statutory repeal or replacement, and any 2025 crosswalk remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Date, bench, author and lead caption

Source url: [Open cited source](#)

Pdf pages: 1; 4

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: reported metadata and judicial text

2.

Topic: Lead assessment years, previous years, claim and disallowance amounts

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: judicial text

3.

Topic: Ordinary-meal findings, procedural history and connected-case scope

Source url: [Open cited source](#)

Pdf pages: 5; 6; 12

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: judicial text

4.

Topic: Historical section 37 text, workplace exception and amendment dates

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: judicial text

5.

Topic: Ordinary hospitality construction and pre-1976 limit

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: judicial text

6.

Topic: Limited affirmation of Gujarat, Delhi approval and contrary cases overruled

Source url: [Open cited source](#)

Pdf pages: 12; 13; 14; 15

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: judicial text

7.

Topic: All group dispositions and no costs

Source url: [Open cited source](#)

Pdf pages: 15

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: judicial text

8.

Topic: Bounded later citation and clarificatory-versus-enlarging amendment discussion

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12

Paragraphs: Exact physical PDF pages; SCR pagination supplied in the note. The relied-on source passages are unnumbered in these reports.

Source role: bounded later judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

J.S. Verma, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 15 PDF pages; SHA-256

54a56bbda5c060ec077783ab1d06fb317d53f1c0e675059c3c3e07efa46c07a1. Original bytes preserved.

Complete judicial text physical pages 4–15 / SCR 238–249; editorial headnote physical pages 1–4 separated. Lead assessment years and amounts, pre-1 April 1976 temporal limit, 1983 retrospective enlargement, incomplete connected-case caption and actual group outcome distinguished.

[Open cited source rendition](#)

The primary decision date is 9 May 1995. The three-judge bench and author are verified from the printed source.; The report prints Civil Appeals 1455–57/1976 and mentions No. 1850/1975; it does not give a complete inventory of the connected appeals, SLPs and tax references.; Lead claim totals and customer-meal disallowances are distinct amounts, respectively matched to AYs 1969-70, 1970-71 and 1971-72.; The Court repeatedly confines the result to pre-1 April 1976 periods. Explanation 2 was enacted in 1983 and applied retrospectively only from 1 April 1976; those two dates must not be conflated.; The Court quotes historical subsection (2B), the enlarged hospitality definition and its workplace employee-food exception, but this is not a certification of those provisions as current law.; The Gujarat conclusion was affirmed without adopting its unnecessary wide observations and detailed guidelines.; The final shorthand “Appeals dismissed” is incomplete: assessee appeals were allowed and Revenue appeals, SLPs and tax references dismissed, all without costs.; The Sedco Forex check concerns later use of a commencement-date interpretation principle. It does not verify current section 37 treatment or comprehensive subsequent authority.

These are the expressly stated Patel Brothers lead assessment years, with previous years ending 30 September 1968, 1969 and 1970, respectively. The report says every connected matter concerns the period before 1 April 1976 but does not enumerate all connected assessment years or docket numbers.

The operative construction concerns historical section 37(2A) for pre-1 April 1976 periods, read with the section 37(1) business-expenditure rule. The report quotes sections 37(2) and 37(2B), and Explanation 2's later enlarged definition, to identify the applicable boundary. Section 261 supplies the lead certificate route. General references to sections 28–36 and 43D are contextual, not separate holdings; no current-law status or 2025 equivalent is certified.

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 subsequent-treatment search has been completed. The specifically identified later primary passages are separately bounded; they do not certify present law.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 15](#)

SHA-256: 54a56bbda5c060ec077783ab1d06fb317d53f1c0e675059c3c3e07efa46c07a1

[bounded later judgment - PDF pages: 12](#)

SHA-256: 16b1251237a717316a86223ab8f876b364baa44e61a6fd284bf5bb9f873ec1a2

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