

Commissioner of Income-Tax, Orissa v. M/s. Kalinga Tubes Ltd.

Civil Appeal No. 1396 of 1996

[1996] 1 SCR 197 | 1996-01-08

Whether a later appellate reduction and fresh demand caused an earlier accrued sales-tax liability to become deductible in AY 1971-72 under mercantile accounting.

37 | 256(1)

Two-judge bench | B.P. Jeevan Reddy, J. | S.B. Majumdar, J.

Assessment years: 1971-72

Historical accrual ruling before section 43B

The later appeal and fresh demand did not shift this earlier sales-tax liability into AY 1971-72. The later section 43B payment regime must be checked independently and was not decided here. The headnote misprints the assessment date and reduced amount; the judicial body gives 31 March 1966 and Rs 2,22,161. No new add-back computation, reopening order or comprehensive later-treatment certification is supplied.

01 FACTS OF THE CASE

The steel-tube manufacturer followed mercantile accounting. Its Central Sales Tax liability arose from sales in the previous year relevant to AY 1962-63. The Sales Tax Officer completed the assessment on 31 March 1966 with an additional demand of Rs 11,02,698. On 28 May 1970 the Sales Tax Tribunal reduced that demand to Rs 2,22,161. The company claimed the reduced sum as business expenditure in AY 1971-72 (physical page 4).

The ITO refused the deduction in that year; the Appellate Commissioner allowed it as a then-determinate liability; the Income Tax Tribunal reversed. The High Court reasoned that the liability continued to accrue and that the fresh demand following the appeal justified deduction in AY 1971-72. Revenue challenged that reference answer (physical pages 3-5).

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

02 DISCUSSION BY THE HON'BLE COURT

Applying *Kedarnath Jute*, the Court held that a mercantile taxpayer's sales-tax liability arises when the taxable sales occur. Later assessment quantifies the liability, and an appeal seeking reduction does not move its initial accrual into the appeal year. A fresh demand after appellate reduction likewise did not create the relevant new liability in AY 1971-72 (physical pages 6–8).

Even assuming the Sales Tax Officer's order merged into the appellate order, that procedural merger did not decide the tax-accrual year. The real-income reasoning invoked from *State Bank of Travancore* concerned a different issue. If a larger amount had been deducted and allowed earlier, a subsequent reduction could be addressed in the later assessment; that observation was not a new quantified addition or an order reopening an earlier year in this appeal (physical pages 7–8).

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

03 JUDICIAL DECISION

Revenue's appeal was allowed without costs. The High Court answer was set aside and the referred question answered in the negative: this earlier sales-tax liability was not deductible in AY 1971-72 merely because the appellate reduction and consequent demand occurred then. The Court did not determine a new sales-tax demand or make an independent quantified recovery order (physical page 8).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Appeal allowed; reference answered against the claimed AY 1971-72 deduction; no costs

Final historical accrual-year ruling under mercantile accounting

Determines timing of this deduction, not a present-year rule overriding actual-payment provisions or an unrestricted licence to reopen earlier assessments.

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

05 AKHB REVIEW POINT

Separate the event creating a statutory liability from the proceedings that quantify, challenge or reduce it. An appellate demand date does not automatically become the deduction year. Keep evidence of the underlying taxable transactions and earlier deductions, and analyse any later reduction separately.

This dispute concerns years before section 43B. The checked Department-hosted 2011 compilation records section 43B's insertion from 1 April 1984 and an actual-payment rule for covered deductions, with a return-due-date proviso and safeguards against a second deduction. Those later conditions mean this accrual-only ruling cannot be used without checking the applicable statutory version. The judgment did not decide section 43B, modern indirect-tax legislation or a 2025 Act mapping.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, judicial dates and amounts, reference question

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Competing accrual arguments and adopted Kedarnath reasoning

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Merger distinction, conditional adjustment observation and final order

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Later section 43B payment rule and commencement

Source url: [Open cited source](#)

Pdf pages: 322; 323; 324; 325

Paragraphs: Section 43B and footnotes 44,56

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.B. Majmudar, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

ASSESSMENT-YEAR SCOPE AND LIMITS OF THE OPERATIVE DIRECTION

AY 1971-72 is the income-tax deduction year under appeal. The underlying sales-tax liability relates to the previous year relevant to AY 1962-63.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 8 PDF pages; SHA-256

cd4acb6bba940e5ec35996a0104842350fa1efddfc74229130500631f41e6a. Original bytes preserved.

Complete judicial text physical pages 3–8/SCR 199–204; section 37 deduction timing of an earlier sales-tax liability, with old tax year distinguished from current appeal year.

Open cited source rendition

The first-page headnote prints the assessment date as 31 March 1996 and the reduced sum as Rs 2,21,161; the judicial text gives 31 March 1966 and Rs 2,22,161, which govern this note.; The original image of judicial page 4 clearly reads previous year 1970-71 where the OCR renders 1910-71. The image, not the OCR error, controls.; AY 1962-63 describes the underlying earlier liability, while AY 1971-72 is the deduction claim actually under appeal. No separate appeal for the earlier year is invented.; The add-back discussion is conditional on a larger earlier deduction having been claimed and allowed; the Court fixes no new amount or reopening procedure here.; The judgment invokes section 37 and contains no section 43B decision. The later payment-rule comparison is a separate bounded statutory check, not part of the Court's historical holding.

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: 8

SHA-256: cd4acb6bba940e5ec35996a0104842350fa1efddfc74229130500631f41e6a

official department hosted historical statutory compilation - PDF pages: 1251

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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