

Commissioner of Income Tax, Gujarat v. Jyoti Ltd.

Civil Appeals Nos. 471-472 (NT) of 1978

[1996] 2 SCR 713 | 1996-02-15

Surtax capital: doubtful-debt reserve upheld; gratuity provision requires valuation and remand.

Companies (Profits) Surtax Act, 1964: section 18 and Second Schedule | Income-tax Act, 1961: section 256(1) | Companies Act, 1956: Schedule VI, Part III, clause 7

2-judge bench | B. P. Jeevan Reddy, J. | S. B. Majmudar, J.

Assessment years: 1967-68, 1968-69

Gratuity issue remanded

Failure to obtain actuarial valuation does not convert the whole gratuity appropriation into a reserve. Only any excess over the required provision can qualify, to be determined on remand.

01 FACTS OF THE CASE

For AY 1967-68 and 1968-69, Jyoti Ltd. sought inclusion of Rs.85,000 for doubtful debts and Rs.5,60,000 for gratuity in its surtax capital base. The Surtax Officer excluded them, but the appellate authorities and High Court accepted inclusion. The High Court's reframed question also included rehabilitation reserve; at the Supreme Court hearing Revenue pressed only doubtful debts and gratuity.

Source: [SCR pp.716-717](#) / [PDF pp.4-5](#)

02 DISCUSSION BY THE HON'BLE COURT

The Tribunal had found that the doubtful-debt amount came from profits without reference to outstanding debtors or an anticipated liability. On those facts, the Court upheld its character as a reserve, applying *Saran Engineering*. Gratuity was different: an ad hoc appropriation intended to meet a known contingent liability remains a provision, and merely omitting actuarial valuation cannot make it a reserve. Applying *Metal Box* and *Vazir Sultan Tobacco*, the Court required identification of the discounted estimated gratuity liability and any excess. The Officer could estimate the requisite provision or require actuarial material. Neither side had performed the necessary exercise.

Source: [SCR pp.718-725](#) / [PDF pp.6-13](#)

03 JUDICIAL DECISION

The appeals were partly allowed. The reframed question remained answered for the assessee concerning doubtful-debt and rehabilitation reserves. The High Court's gratuity answer was set aside and that issue remanded through the Tribunal to the Surtax Officer for fresh decision under the stated principles, allowing the company to produce additional relevant material. There was no order as to costs because the respondent had not appeared.

Source: [SCR pp.725-726 / PDF pp.13-14](#)

04 OUTCOME / IN WHOSE FAVOUR

This was a mixed outcome. The assessee retained inclusion of the doubtful-debt and rehabilitation reserves; Revenue secured a fresh examination of gratuity. No final amount of gratuity reserve eligible for the capital base was fixed by the Supreme Court.

Source: [SCR pp.725-726 / PDF pp.13-14](#)

05 AKHB REVIEW POINT

AKHB analysis: test the substance of each appropriation against the liability it actually addresses. For gratuity, obtain contemporaneous valuation or evidence supporting a reliable estimate and quantify any excess separately. Keep the final allowance of the other reserves distinct from the unresolved gratuity computation. The case should not be presented as holding that every doubtful-debt entry is a reserve or that actuarial valuation itself creates an includible reserve.

Source: [AKHB analysis based on SCR pp.718-726 / PDF pp.6-14](#)

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STATUTORY SCOPE

This decision concerns historical capital-base computation under the Companies (Profits) Surtax Act, 1964. It does not determine deductibility under current income-tax or accounting rules.

LATER TREATMENT

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