

Ramesh Narain Saxena and Others v. Commissioner of Income Tax, New Delhi

Civil Appeal No. 5508 of 1985

[1996] Supp. 1 SCR 610 | 1996-04-22

Compensation for damaged stock-in-trade through bank-debt adjustment: trading receipt independently of section 41(1).

Income-tax Act, 1961: section 41(1) discussed; decision sustained on independent trading-receipt basis | Section 256(1) reference as printed; source misattributes this provision to the 1922 Act | Section 28 appears in editorial headnote, not an express numbered-section basis in the judicial reasoning

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

Assessment years: 1961-62

Trading compensation holding; printed amount and Act discrepancies

The result rests on compensation for damaged stock-in-trade, independently of section 41(1). The source states Rs. 1,13,092 in the referred question but Rs. 1,13,052 elsewhere, and misattributes section 256(1) to the 1922 Act. These inconsistencies are disclosed without supplying a corrected figure or statutory attribution. Do not treat this as a blanket ruling that every bank-loan waiver is taxable.

01 FACTS OF THE CASE

An exporter pledged goat skins with National Grindlays Bank against an overdraft. The goods were damaged while in the bank's custody, prompting a compensation claim and criminal proceedings against bank officers. Under a settlement, the assessee gave up the claim, the prosecution was withdrawn, and the bank waived its Rs. 1,93,159 balance. The assessee credited the adjustment to trading account and initially offered it across AYs 1957-58, 1958-59 and 1959-60. The officer later included it in AY 1961-62 and removed the earlier two additions, leaving the 1959-60 inclusion. The Tribunal restored the balance stated in the reference as Rs. 1,13,092; the High Court answered for Revenue.

Source: [SCR pp.612-614](#) / [PDF pp.3-5](#)

02 DISCUSSION BY THE HON'BLE COURT

The assessee attacked reliance on section 41(1), pointing to the High Court's initial statement that it did not apply. The Supreme Court explained that the High Court also had an independent ground: the adjustment compensated loss or damage to stock-in-trade and was therefore a trading receipt, whether or not the assessee had previously claimed the stock loss. The Tribunal's factual characterization likewise concerned compensation for trading goods. Counsel did not dispute the taxability of the receipt if it had that compensation character. Withdrawal of the criminal proceedings did not alter the character of the damaged goods or transform this into a general ruling about all loan waivers.

Source: [SCR pp.613-615 / PDF pp.4-6](#)

03 JUDICIAL DECISION

The Court declined to interfere with the High Court's answer to the referred question and dismissed the assessee's appeal without any order as to costs. The operative ruling sustained the taxability of the stock-in-trade compensation on the independent trading-receipt basis; it did not require a holding that section 41(1) applied. The Court issued no corrected numerical assessment schedule resolving the printed amount discrepancy.

Source: [SCR pp.614-615 / PDF pp.5-6](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue: the adverse reference answer and the resulting addition survived the assessee's appeal. The holding is confined to the receipt's established stock-compensation character. It is not a universal rule for capital-borrowing waivers, every settlement of litigation, or every remission under section 41(1).

Source: [SCR p.615 / PDF p.6](#)

05 AKHB REVIEW POINT

AKHB analysis: examine what a settlement actually replaces or compensates, using the damage claim, settlement correspondence, bank adjustment and trading records. A transaction structured as debt cancellation can still represent compensation for trading stock. Separately reconcile the correct receipt year and amounts already assessed to avoid duplication; the judgment's inconsistent printed balance must not be used to generate a new computation. Analyse the prerequisites of section 41(1) separately rather than assuming that failure under that provision answers every income-character question. The historical assessment year and unresolved printed statutory attribution require verification before any current-law or transitional application.

Source: [SCR pp.612-615 / PDF pp.3-6](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Six-page SCR scan. Complete judicial body runs from PDF p. 3 / SCR p. 612 to dismissal on PDF p. 6 / SCR p. 615. First two pages principally contain editorial headnote and case metadata; no numbered judicial paragraphs.

Open cited source rendition

Full six-page source read. Judicial opening, printed discrepancies and operative ending visually checked. Exact source hash matches consolidated index.

SCR p.612 attributes section 256(1) to the Indian Income Tax Act,1922; that printed combination is not adopted as an accurate statutory citation.

SCR pp.612-613 state the referred/Tribunal addition as Rs. 1,13,092; SCR p.614 prints Rs. 1,13,052 in the quoted reasoning and submissions. Both variants are disclosed; no silent correction or fresh tax computation is made.

The headnote identifies section 28, but the judicial body sustains the trading-receipt basis without expressly naming that section.

This is substantive tax litigation, not employee/service litigation despite the personal-name case title.

STATUTORY SCOPE

The source specifies AY 1961-62 but mixes a section 256(1) reference with the 1922 Act label and discusses section 41(1) of the 1961 Act. No corrected transitional/statutory attribution is inferred. The note reports the express independent trading-receipt holding, not a certified statutory crosswalk.

LATER TREATMENT

Source checked 2026-10-09. Subsequent judicial treatment has not been comprehensively verified. Targeted official-domain searching did not establish a later-treatment result; no absence-of-treatment or current-law assurance is represented.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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