

Maddi Venkataraman v. Commissioner of Income Tax

Civil Appeal No. 4205 of 1985

[1997] Supp 6 SCR 67 | 1997-12-02

Whether an unlawful remittance and related service payment could reduce taxable tobacco-export profits as expenditure, business loss or a real-income adjustment.

28 | 37 | 40A(3) (alternative claim in reference) | 256(1)

Two-judge bench | Suhas C. Sen, J. | S. Saghir Ahmad, J.

Assessment years: 1970-71

Illegal remittance in a lawful business; historical illegal-trade discussion is not a current-law safe harbour

The Rs 2,95,000 claim failed and the appeal was dismissed without costs. The separate Rs 35,000 penalty, unanalysed guest-expense question, inconsistent Rule 6DD labels and unreconciled percentage/receipt figures must not be conflated. The ruling rests on the unlawful FERA arrangement, not all business payments. The later retrospective section 37 Explanation requires separate application; comprehensive later treatment and 2025 mapping remain unverified.

01 FACTS OF THE CASE

The assessee, described in the judgment as a tobacco-exporting company converted from a partnership in 1965, claimed Rs 2,95,000 in AY 1970-71. It said that 329.2 tonnes of inferior tobacco could not be sold at the government floor price, so it arranged a stated 20% discount to a Singapore buyer while receiving the full invoiced floor price. Through Shamsuddin it paid Rs 2,88,000 for remittance back to the buyer; the total Rs 2,95,000 included his services. Enforcement proceedings for violations of the Foreign Exchange Regulation Act, 1947 resulted in a separately stated Rs 35,000 penalty (physical pages 4–5).

The ITO rejected the payment as not genuine and as offending section 40A(3). The Tribunal found the payment made and the FERA violation knowing, but treated the receipt as reduced real income and alternatively invoked a cash-payment exception. The High Court rejected the real-income, expenditure and loss routes because the arrangement and remittance were unlawful. The reproduced reference also lists Rs 19,695 of guest expenses, but the Supreme Court gives no separate analysis of that item (physical pages 3–6).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished the commercial costs of earning taxable profits from expenditure incurred to evade the law in an otherwise lawful business. Avoiding a trading loss did not justify contravening FERA, and allowing the illegal remittance or a penal payment as a deduction would frustrate the other statute. The real-income label could not validate the unlawful arrangement. Merely arising in the course of trade was insufficient: the expenditure had to serve a lawful business purpose (physical pages 6–7 and 13–14).

The judgment discussed older authorities on fines, confiscation and legal expenses, and described a distinction where the whole trade itself was illegal. That discussion is not a freestanding permission for every payment or loss in illegal activity. Its discussion of H. Hirjee also makes the purpose and nature of legal proceedings important, rather than treating the eventual acquittal as conclusive. Here the operative facts were a lawful tobacco business, a knowingly unlawful remittance channel and an evasion-driven claim (physical pages 7–13).

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

03 JUDICIAL DECISION

The Court agreed with the High Court and dismissed the appeal with no order as to costs. The Rs 2,95,000 expenditure/loss/real-income claim therefore failed. The reasons also reject deduction of a penalty for the evasion; the Rs 35,000 penalty is a separate fact and is not added to the Rs 2,95,000 referred claim. No new penalty or separate adjudication of the guest-expense item is stated (physical pages 3–4 and 13–14).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Appeal dismissed; High Court view upheld; no order as to costs

Final rejection of the illegal-remittance expenditure/loss claim on the stated facts

Not a denial of every business payment associated with a regulatory dispute, not a general ruling on compensatory statutory charges, and not an unrestricted current-law allowance for an entirely illegal business.

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

05 AKHB REVIEW POINT

Identify the actual payment, legal prohibition and commercial purpose before using this judgment. A genuine business objective or desire to minimise loss did not cure this deliberately unlawful remittance. Keep the underlying payment, intermediary remuneration and separately imposed penalty distinct; do not classify every statutory charge as penal merely by its label, or treat the older cited legal-expense cases as a blanket rule for all defence costs.

A material later statutory qualification is the Explanation to section 37(1), inserted by the Finance (No. 2) Act, 1998 with retrospective effect from 1 April 1962. The official 1998 reproduction expressly excludes expenditure for an offence or a purpose prohibited by law. That enactment postdates this judgment, despite its retrospective operation, and must not be attributed to the Court's 1997 reasoning. Its effect and applicable later law must be checked before relying on the judgment's whole-illegal-business discussion. This limited statutory check does not certify current law.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, reference questions and company facts

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4; 5

Paragraphs: Unnumbered judicial text; SCR 67–71

Source role: reported metadata and judicial text

2.

Topic: High Court reasoning and lawful-business distinction

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: Unnumbered judicial text; SCR 72–73

Source role: judicial text

3.

Topic: Quoted precedents, illegal-trade discussion and legal-expense qualification

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 10; 11; 12; 13

Paragraphs: Unnumbered judicial text; SCR 73–79

Source role: judicial text

4.

Topic: Application to FERA evasion, final dismissal and costs

Source url: [Open cited source](#)

Pdf pages: 13; 14

Paragraphs: Unnumbered judicial text; SCR 79–80

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 14 PDF pages; SHA-256

3679f014f47b74ae08844bd04b25e827673b1dfd13c05f49486776c430f59823. Original bytes preserved.

Complete judicial text physical pages 3–14/SCR 69–80, beginning with Sen J. after the editorial headnote. The opening reference includes a guest-expense question and a Rule 6DD alternative, but the reasoned judgment concerns the illegal-remittance expenditure/loss claim.

Open cited source rendition

The report's cover shortens the appellant to Maddi Venkataraman; the facts describe a company. The note retains the reported caption and does not infer an individual-taxpayer status from the short name.; The stated 20% rebate, Rs 2,88,000 remittance and Rs 8,86,702.89 invoiced receipt do not arithmetically reconcile as a simple single-sale percentage. The note preserves the reported amounts without reconstructing a corrected sale price or net receipt.; The Rs 35,000 FERA penalty is distinct from the Rs 2,95,000 referred payment; the note does not turn the latter into a combined Rs 3,30,000 claim.; Physical page 4 prints Rule 6DD sub-rule (1), while page 5 prints (i). The historical clause is not silently corrected or equated with any current Rule 6DD exception.; The opening Rs 19,695 guest-expense question receives no separate reasoned answer in the reproduced judgment. The overall appeal dismissal is retained without inventing a guest-house holding.; The Court's discussion of an entirely illegal trade is reported as historical reasoning, not endorsed as an unqualified current deduction rule. Statutory changes and comprehensive subsequent treatment remain open.

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 judicial-treatment search or present-law certification has been completed. The expressly identified statutory checks are bounded qualifications, not a citator result.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 14

SHA-256: 3679f014f47b74ae08844bd04b25e827673b1dfd13c05f49486776c430f59823

bounded statutory source

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.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.