

Commissioner of Income Tax, Gujarat-I v. Navnit Lal Sakar Lal etc.

Civil Appeal No. 7723 of 1997 / Civil Appeal Nos. 7724–7726 of 1997

[2000] Supp. 4 SCR 652 | 2000-11-15

Whether commission payable to managing directors had already accrued as salary when the company resolved to use it to buy deferred annuity policies, despite restrictions on present rights under those policies.

17 (reporter classification; salary-accrual issue in judicial text)

Two-judge bench | S.P. Bharucha, J. | D.P. Mohapatra, J.

Assessment years: 1973-74, 1974-75

Accrued commission applied to annuities; printed chronology conflict

The holding rests on resolutions spending commission already payable, not a rule taxing every deferred benefit. The source prints a financial year 1972 ending on 31 December 1992 and varies the employer's name between narrative and resolution. Rs 26,221 is the illustrative amount, not a verified total for all appeals. All four Revenue appeals were allowed with unquantified costs. Comprehensive later treatment and current-law mapping remain unverified.

01 FACTS OF THE CASE

The combined appeals concern AYs 1973-74 and 1974-75. Managing directors of Sarangpur Mills Limited were entitled to remuneration under their agreements. Clause 6(e) gave the directors power to resolve that specified remuneration or benefits would not be paid, or would be reduced, for a year. The Board instead resolved on 12 April 1973 that commission payable for financial year 1972 should be spent on single-premium deferred annuity policies. The resolutions postponed benefits or rights under the policies until the first annuity payment. The Court recorded similar proceedings for the subsequent assessment years and the assessee's acquiescence (physical pages 2–5).

The Court used Nandkishore's case as the illustration. The referred question identified Rs 26,221, one-third of Rs 78,663 paid to LIC. The ITO included the amount in salary and the first appellate authority agreed. The Tribunal and High Court treated the arrangement as preventing accrual by diverting remuneration into the policies; Revenue appealed. The amounts in the illustrative question are not an aggregate tax computation for all four appeals (physical pages 2 and 5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Supreme Court concentrated on the actual wording of the resolutions. They did not invoke clause 6(e), state that remuneration was not payable, or reduce the managing directors' entitlement. They instead directed that commission already described as payable be spent on the annuity policies. The Court held that the commission had accrued at the end of the relevant financial years and was thereafter applied to the policies with the assessee's concurrence (physical page 6).

The absence of an immediate right in the annuity policies did not establish that the underlying commission had failed to accrue. The Court rejected the proposed construction that the Board had used clause 6(e) to extinguish the remuneration obligation. Its conclusion turns on these resolutions and agreements, rather than a general rule governing every employer-funded deferred benefit (physical pages 3–6).

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

03 JUDICIAL DECISION

The Court set aside the challenged judgment and order. It answered the first question, whether the stated amount was includible as salary, in the affirmative for Revenue; it answered the second question, whether the Tribunal was right to exclude the amount from remuneration, in the negative for Revenue. All four civil appeals, Nos. 7723 and 7724–7726 of 1997, were allowed with costs; no costs amount or appeal-by-appeal tax computation was stated (physical pages 2 and 6).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on both referred questions

Four Revenue appeals allowed with costs; challenged judgment and order set aside

Final determination of salary accrual on the agreements and resolutions before the Court

The case concerns application of already-accrued commission to annuities; it does not decide the tax treatment of all deferred-benefit arrangements or quantify liabilities for each appeal.

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

05 AKHB REVIEW POINT

Keep the remuneration entitlement separate from the date when the annuity becomes accessible. Examine the agreement, the precise resolution, its timing and whether it actually withdraws or reduces the entitlement. A direction to spend commission described as payable may be an application of accrued salary even when the replacement policy gives no present benefit (physical pages 3–6).

Do not treat the illustrative premium figure as a total for every respondent or silently repair the report's chronology. The historical salary issue is decided; later policy payouts, deductions, subsequent amendments and treatment under the Income-tax Act, 2025 are outside this review.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, bench, all four appeals, assessment years and referred amounts

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Remuneration clause, annuity resolutions, policy restrictions and printed chronology/name conflict

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Acquiescence, illustrative Nandkishore facts and lower-court treatment

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Accrual construction, rejection of diversion argument, both answers and all appeals allowed with costs

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.P. Bharucha, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 6 PDF pages; SHA-256

ab55c11556961b1c7f3a547fb7743d1ca716be389fb5d55f7bbde48bce6c20f3. Original bytes preserved.

Complete unnumbered judicial text from physical page 2/SCR 653 (Bharucha, J.) through physical page 6/SCR 657; preceding editorial headnote and the lower courts' reasoning are distinguished from the Supreme Court's holding.

Open cited source rendition

Physical page 3 expressly describes financial year 1972 but prints its ending date as 31 December 1992. The resolution is dated 12 April 1973 and repeatedly refers to financial year 1972. This printed chronology conflict is retained, not silently corrected.; The narrative calls the employer Sarangpur Mills Limited, while the reproduced resolution heading names The Sarangpur Cotton Mfg. Co. Ltd.; no independent corporate-name reconciliation was performed (physical page 3).; Nandkishore's Rs 26,221 illustration and the question's Rs 78,663 premium total are not stated as an aggregate for every respondent or both assessment years. The report does not allocate each appeal to a particular respondent and assessment year (physical pages 2 and 5).; Section 17 appears in the reporter's classification, while the judicial reasoning decides accrual by construing the remuneration agreements and resolutions; no particular subsection analysis is supplied.; The judicial text allows all four appeals with costs, despite ingestion metadata listing only Civil Appeal No. 7723 of 1997. Costs are unquantified (physical pages 2 and 6).

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. Comprehensive subsequent judicial and statutory treatment has not been verified. No separate later-treatment comparison was performed for this note. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 6

SHA-256: ab55c11556961b1c7f3a547fb7743d1ca716be389fb5d55f7bbde48bce6c20f3

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