

J.K. Cotton Manufacturers Ltd. v. The Commissioner of Income Tax, Lucknow

Civil Appeal No. 2203 of 1970 — Assessee special-leave appeal from Allahabad High Court judgment of 26 September 1969 in Income Tax Reference No. 420 of 1963; only reference question 4 concerning termination compensation was pressed. and connected proceedings (full list below)

[1976] 1 SCR 648 | 1975-09-04

The Rs.2,50,000 payment to replace managing agents was non-deductible capital expenditure under section 10(2)(xv) of the 1922 Act on these facts. The Court also rejected the High Court's finding of wholly exclusive business purpose, while expressly declining a universal rule for agency-termination payments (SCR 660-662).

Indian Income-tax Act, 1922 | 1922 Act: 10(2)(xv)

4-judge bench | H.R. Khanna, J. | V.R. Krishna Iyer, J. | A.C. Gupta, J. | S.M. Fazal Ali, J.

01 FACTS OF THE CASE

For AY 1944-45 the company claimed compensation for ending a twenty-year managing agency after about two years. It replaced Juggilal Kamlatpat, appointed in August 1941 at 2½ per cent commission, with J.K. Commercial Corporation at two per cent in September 1943. Both firms involved the Singhania family. The Tribunal denied the deduction for extra-commercial reasons. The Allahabad High Court regarded the payment as business expenditure but capital; only that compensation question remained pressed (SCR 650-654).

Source: [SCR 648-662; physical PDF pages 1-15](#)

02 DISCUSSION BY THE HON'BLE COURT

Fazal Ali J. treated business purpose and non-capital character as separate requirements. Payment size, instalments or a profit saving alone did not decide character; the transaction's purpose and effect mattered. The outgoing agents had been praised, no inefficiency or loss was shown, and no refusal to reduce commission was established. The company merely substituted agents rather than assuming management itself. The Court inferred a purpose of benefiting both related firms and treated the recurring Rs.30,000 annual advantage as enduring in these circumstances. It applied Godrej and distinguished cases involving established commercial necessity or materially different arrangements (SCR 652-661).

Source: [SCR 648-662; physical PDF pages 1-15](#)

03 JUDICIAL DECISION

The Court sustained the capital disallowance and rejected the High Court's business-purpose finding as unsupported by the proved facts. It emphasized that its tests were illustrative and that compensation for terminating managing agencies was not invariably capital (SCR 661-662).

Source: [SCR 648-662; physical PDF pages 1-15](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue The assessee's appeal was dismissed with costs. The Rs.2,50,000 deduction remained disallowed; no remand was ordered. The unpressed goodwill and land-value questions were not decided (SCR 651, 662). Substantive historical income-tax issue decided No current-law or comprehensive later-treatment certification.

Source: [SCR 648-662; physical PDF pages 1-15](#)

05 AKHB REVIEW POINT

Examine the proven commercial purpose, family interests, management change and benefit obtained before classifying a termination payment. Use the judgment's reasons and express factual limit: the headnote reverses the capital/revenue description of its termination test. The section 37 comparison is historical context, not independent 1961 adjudication or verified current equivalence.

Source: [SCR 648-662; physical PDF pages 1-15](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 2203 of 1970 — Assessee special-leave appeal from Allahabad High Court judgment of 26 September 1969 in Income Tax Reference No. 420 of 1963; only reference question 4 concerning termination compensation was pressed.

ASSESSMENT YEARS AND LIMITS

Years: 1944-45

Qualification: Only years material to the issues described are listed; different claims may cover different years as stated in the facts.

REPORTED CITATION

Supplied SCR report citation; no machine-generated neutral citation substituted.

STATUTORY CONTEXT

Income-tax Act, 1961, section 37(1): described as corresponding in the judgment, but no independent section 37 proceeding was adjudicated.

SOURCE & VERIFICATION

Original reported Supreme Court judgment

Unchanged supplied SCR report; catalog identifies a CC-BY-4.0 public eSCR mirror. Not represented as a separately fetched official signed PDF. Headnote SCR 648-649; jurisdiction begins SCR 649; sole Fazal Ali J. judgment begins SCR 650 and ends with dismissal at SCR 662. No separate opinion or adjacent judgment included.

Open cited source rendition

The headnote at SCR 648 E-F labels an onerous-agency termination capital and a voluntary termination for substantial benefits revenue. The reasons at SCR 660-662 treat this voluntary enduring-benefit payment as capital and insist on case-specific analysis; the headnote's inversion must not be used as the holding.

Godrej is cited as 47 ITR 381 in the headnote but 37 ITR 381 in the reasons. John Smith & Sons is printed as 12 TC 266 in the headnote and 12 TC 255 in the reasons; Anglo-Persian Oil's reasons footnote prints 80 ITR 129 while the headnote prints 1 ITR 129. These citation inconsistencies are retained, not silently corrected.

STATUTORY SCOPE

Indian Income-tax Act, 1922. The historical operative enactment is identified. Other enactment references are source context only unless expressly identified as operative; no 2025 mapping is asserted.

LATER TREATMENT

Source checked 2026-10-09. Subsequent appeals, review proceedings, stays, reversals and later treatment have not been comprehensively checked. This is not a citator status certificate.

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