

CIT, Punjab, Haryana, J & K, H.P. and Union Territory of Chandigarh v. Panipat Woollen & General Mills Co. Ltd.

Civil Appeals Nos. 622-623 of 1971 — Connected Revenue appeals for two assessment years
[1976] 3 SCR 186 | 1976-01-21

The disputed payments were a division of already ascertained profits under a joint venture, not deductible business expenditure under section 10(2)(xv) of the Indian Income-tax Act, 1922. Substance prevailed over the agreement's agency label; the result depended on its combined financing, control and profit-and-loss provisions (SCR 192-201).

Indian Income-tax Act, 1922 | 1922 Act: 10(1) | 1922 Act: 10(2)(xv)

2-judge bench | R.S. Sarkaria, J. | S. Murtaza Fazal Ali, J.

01 FACTS OF THE CASE

Fazal Ali J. delivered the single judgment with Sarkaria J. on 21 January 1976 in Civil Appeals 622-623 of 1971, from the Punjab and Haryana High Court's 20 January 1970 decision in ITR 2 of 1965. For assessment years 1956-57 and 1957-58 the company claimed Rs.37,157 and Rs.73,787 paid to Saligram Premnath. The operative agreement was dated 20 October 1955; the earlier agreement was materially different (SCR 188-192).

Source: [SCR 186-201](#); [physical PDF pages 1-16](#)

02 DISCUSSION BY THE HON'BLE COURT

The agents financed the worsted plant's working, could withhold consent to manufacturing programmes, accessed separate accounts, received half the net profits after stipulated deductions, and shared half the losses through deductions from their remuneration. Together these features made them participants in the venture. Commercial expediency is judged from a businessperson's standpoint, but cannot convert profit distribution into expenditure. Profit-linked remuneration is not invariably disallowed: Dharamvir Dhir lacked the same control and loss-sharing terms. The High Court also relied on circumstances not found in the Tribunal's statement of case, which bound the reference court (SCR 193-200).

Source: [SCR 186-201](#); [physical PDF pages 1-16](#)

03 JUDICIAL DECISION

The disputed payments were a division of already ascertained profits under a joint venture, not deductible business expenditure under section 10(2)(xv) of the Indian Income-tax Act, 1922. Substance prevailed over the agreement's agency label; the result depended on its combined financing, control and profit-and-loss provisions (SCR 192-201).

Source: [SCR 186-201](#); [physical PDF pages 1-16](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue The appeals were allowed, the High Court's judgment set aside and the Tribunal's decision restored. Both questions were answered against the assessee and for the Revenue. Parties bore their own Supreme Court costs (SCR 201). Historical income-tax issue decided with the qualifications stated in this note No current-law or comprehensive later-treatment certification.

Source: [SCR 186-201; physical PDF pages 1-16](#)

05 AKHB REVIEW POINT

The reference concerns sections 10(1) and 10(2)(xv) of the 1922 Act. No current 1961/2025 equivalence or later treatment is established. Source: supplied SCR report, [1976] 3 SCR 186-201. The narrative's isolated reference to 50 per cent of net sales at SCR 189 yields to the reproduced net-profits clause at SCR 193-194. No separate opinion appears. Apply the combined contractual features; profit-linked remuneration alone does not establish a joint venture.

Source: [SCR 186-201; physical PDF pages 1-16](#)

ASSESSMENT YEARS AND LIMITS

Years: 1956-57; 1957-58

Qualification: Only the assessment years material to the issue described are listed.

REPORTED CITATION

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

SOURCE & VERIFICATION

[Original reported Supreme Court judgment](#)

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[Open cited source rendition](#)

SCR 189 mentions net sales in the narrative; reproduced clause 7 at SCR 193-194 uses net profits. The holding is not a general prohibition on profit-linked remuneration.

STATUTORY SCOPE

Indian Income-tax Act, 1922. The historical operative enactment is identified. Source-discussed 1961 provisions are contextual unless expressly stated; 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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