

C.I.T., Central Bombay v. Jalan Trading Co. (P) Ltd.

Civil Appeal No. 1733 of 1973 — Revenue appeal by special leave from Bombay High Court judgment of 26 July 1971 in Income Tax Reference No. 112 of 1963.

[1985] Supp 2 SCR 517 | 1985-08-09

The payment of 75 per cent of profits for assignment of an enduring sole-selling agency was capital expenditure. It was deductible neither under section 10(2)(xv) nor by invoking real income under section 10(1) of the 1922 Act (SCR 528-531).

Indian Income-tax Act, 1922 | 1922 Act: 10(1) | 1922 Act: 10(2)(xv) | 1922 Act: 66

3-judge bench | V.D. Tulzapurkar, J. | Sabyasachi Mukharji, J. | Ranganath Misra, J.

01 FACTS OF THE CASE

A firm assigned its sole-selling agency for Bharat Barrel's products to the newly incorporated assessee company, which had no other business. In return the company promised 75 per cent of the relevant profits and receipts, including under renewals. For AY 1954-55 it claimed about Rs.7.94 lakh. The authorities and Tribunal rejected the deduction. The Bombay High Court agreed that an enduring asset was acquired, but allowed the recurring payment as revenue expenditure on its reading of Travancore Sugars (SCR 519-523).

Source: [SCR 517-531; physical PDF pages 1-15](#)

02 DISCUSSION BY THE HON'BLE COURT

Ranganath Misra J., for the three-judge Bench, applied the commercial-object test: the company's initial acquisition of the means of carrying on its business was capital, despite the profit-linked recurring price. The finding that it acquired a capital asset was not disputed before the Court. Travancore Sugars involved a substantial fixed cash price plus a separate indefinite annual payment; its fact-specific reasoning could not be transferred mechanically. The Court also heard the alternative real-income contention to avoid another remand in this old assessment. Payment for acquiring capital did not become deductible merely because the money had left the company's hands (SCR 523-531).

Source: [SCR 517-531; physical PDF pages 1-15](#)

03 JUDICIAL DECISION

Both alternative bases for deduction failed. The capital nature of the acquisition controlled section 10(2)(xv), and section 10(1) did not require every capital outgoing to be subtracted in determining taxable business income (SCR 528, 531).

Source: [SCR 517-531; physical PDF pages 1-15](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue The Revenue's appeal was allowed, the High Court judgment vacated, and the Tribunal's decision directed to be given effect. The parties were to bear their own costs in the High Court and Supreme Court. No remand was ordered (SCR 531). Substantive historical income-tax issue decided No current-law or comprehensive later-treatment certification.

Source: [SCR 517-531; physical PDF pages 1-15](#)

05 AKHB REVIEW POINT

A recurring or profit-based payment can be the price of a capital asset. Identify what the agreement acquired before comparing payment formulas with other cases. The Court did not determine whether the company and firm were in fact independent entities. Later treatment and modern statutory mapping remain unverified.

Source: [SCR 517-531; physical PDF pages 1-15](#)

ASSESSMENT YEARS AND LIMITS

Years: 1954-55

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.

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 517-519; jurisdiction/counsel and sole Ranganath Misra J. judgment begin SCR 519; reasons and disposition end SCR 531. No adjacent judgment included.

[Open cited source rendition](#)

The headnote prints section 10(1)(xv); the reasons distinguish section 10(1) and section 10(2)(xv).

The opening reasons and quoted Tribunal question give Rs.7,93,837, while the narrative at SCR 521 prints Rs.7,93,887. The amount is described approximately rather than silently reconciled.

The report's Assam Bengal Cement citation differs between the headnote (SCR 1972) and reasons (SCR 972); the quoted Travancore Sugars citation at SCR 527 prints [1977] 2 SCR 738. These citations are not independently certified.

The quotation at SCR 528 has visibly defective wording concerning ascertainment of the expenditure obligation; the note does not reconstruct missing text.

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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