

SMITH KLINE AND FRENCH (INDIA) LTD. ETC.

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v.

COMMISSIONER OF INCOME TAX

APRIL 16, 1996

[B.P. JEEVAN REDDY AND K.T. THOMAS, JJ.]

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*Companies Profits (Surtax) Act, 1964 :*

*Sections 4, 15, 40—Surtax is essentially levied on the business profits of the company computed in accordance with the provisions of the Income-tax Act—Merely because certain further deductions (adjustments) are provided by the Surtax Act from the said profits, it cannot be said that surtax is not levied upon the profits determined or computed in accordance with the provisions of the Income-tax Act.*

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*Union of India v. Bombay Tyre International, AIR (1984) S.C. 420 and Goodricke Tea Company v. State of West Bengal, [1995] 1 Suppl. S.C.C. 707, relied on.*

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*Jaipuria Samla Amalgamated Collieries Ltd. v. Commissioner of Income-Tax, West Bengal, 82 I.T.R. 580, distinguished.*

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*Molins (India) Limited v. Commissioner of Income Tax, West Bengal-III, 144 I.T.R. 317; Brooke Bond (India) Limited v. Commissioner of Income Tax, 193 I.T.R. 390, Bombay (Lubrizon (India) Limited v. Commissioner of Income Tax, 187 I.T.R. 25; Commissioner of Income Tax Karnataka v. International Instruments Private Limited, 144 I.T.R. 936; Madras Sundaram Industries Limited v. Commissioner of Income Tax, 159 I.T.R. 646; Andhra Pradesh Vazir Sultan Tobacco Company Limited v. Commissioner of Income Tax, 169 I.T.R. 35; Rajasthan Associated Stone Industries Company Limited v. Commissioner of Income Tax, 170 I.T.R. 653; Gujarat S.O.M. Maniklal Industries Limited v. Commissioner of Income Tax, 172 I.T.R. 176; Himalyan Drug Company Private Limited v. Commissioner of Income Tax, 218 I.T.R. 346 and Highway Cycle Industries Limited v. Commissioner of Income Tax, 178 I.T.R. 601, approved.*

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*Makum Tea Company (India) Limited & Anr. v. Commissioner of Income Tax, 178 I.T.R. 453 and Doom Dooma Tea Company Limited v.*

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A *Commissioner of Income Tax, 180 I.T.R. 126, disapproved.*

*Commissioner of Income-tax v. Gurupada Dutta, 14 I.T.R. 100, referred to.*

B CIVIL APPELLATE JURISDICTION : Civil Appeal Nos. 1187-88 of 1985 Etc. ETC.

From the Judgment and Order dated 21.12.84 of the Karnataka High Court in SCLAP. No. 34-35 of 1984 granted by the High Court against its Judgment and Order dated 28.10.83 and 21.10.83 in ITRC Nos. 221 and 222 of 1978.

C G.B. Pai, J. Ramamurthy Mukul Mudgal, O.C. Mathur, Ms. A.K. Verma for JBD & Co., A. Subba Rao, Anil Srivastava and S.N. Terdol for the appearing parties.

D The following Order of the Court was delivered :

E A common question arises in this batch of appeals. For the sake of convenience, we may refer to the question in Civil Appeal No. 455 of 1987 directed against a Full Bench judgment of the Kerala High Court (159 I.T.R. 431). The following question was stated by the Income-Tax Appellate Tribunal under Section 256(1) of the Income-Tax Act for the consideration of the Kerala High Court :

(1) "Whether Rs. 76,777 being the surtax liability is to be allowed as a deduction in computing the total income of the assessee for the assessment year 1976-77?"

F The claim for the said deduction was disallowed by the Income Tax Officer on the basis of and with reference to sub-clause (ii) of clause (a) of Section 40 which read thus at the relevant time :

G 40. Notwithstanding anything to the contrary in Sections 30 to 39, the following amounts shall not be deducted in computing the income chargeable under the head 'profits and gains of business or profession' -

(a) in the case of any assessee-

H (i) .....

- (ii) any sum paid on account of any rate of tax levied on the profits or gains of any business or profession or assessed at a proportion of, or otherwise on the basis of any such profits or gains." A

On appeal, the Appellate Assistant Commissioner allowed the assessee's claim but on further appeal by the Revenue, the Tribunal upheld the Revenue's contention and disallowed the claim for deduction on the basis of Section 40(a)(ii). The High Court has affirmed the view taken by the Tribunal. The only question before us is whether the tax levied under the Companies Profits (Surtax) Act, 1964 is "a tax levied on the profits or gains of any business or profession or assessed at a proportion of or otherwise on the basis of any such profits or gains", as contemplated by the said sub-clause. B C

Section 40 opens with a non-obstante clause "notwithstanding anything to the contrary in Sections 30 to 39", which means that even if any amount is entitled to deduction under any of the provisions contained in Sections 30 to 39, it will be disallowed if it falls inter-alia within sub-clause (ii) of clause (a) of Section 40. The question, therefore, is whether the tax levied under the Companies Profits (Surtax) Act, 1964 falls within the mischief of said sub-clause. We think it does. D E

The preamble to the Surtax Act says that it is "an Act to impose a surtax on the *profits* of certain companies". Indeed, the statement of objects and reasons appended to the Bill makes the said intention clear. It says "the object of this Bill is to impose a special tax on companies (other than those which have no share capital) on their excess *profits*, namely, the amount by which the total income of a company as reduced by certain types of income and certain sums and the income-tax and super-tax payable by it exceeds a sum of ten per cent of the capital reserves and certain borrowed moneys or a sum of Rs. 2 lakhs, whichever is higher...". Section 4 is the charging Section. It says "subject to the provisions contained in this Act, there shall be charged on every company for every assessment year commencing on and from the first day of April, 1964, a tax (in this Act referred to as the surtax) in respect of so much of its (*chargeable profits*) of the previous year or previous years, as the case may be, as exceed the statutory deduction, at the rate or rates specified in the Third Schedule." The expression "chargeable profits" is defined in clause 5 of Section 2. It F G H

- A reads: "Chargeable profits" means the total income of an assessee computed under the Income-tax Act, 1961 for any previous year or years, as the case may be, and adjusted in accordance with the provisions of the first Schedule." It is thus clear beyond any doubt that the surtax is levied on the profits of a company, i.e., on the profits above the prescribed limit.
- B The mere fact that the tax is levied upon 'chargeable profits' (which means the total income of the assessee computed under the Income-tax Act, 1961 adjusted in accordance with the provisions of the First Schedule) does not mean that the tax is not levied on the profits of business. In other words, the mere fact that the First Schedule provides for certain further deductions out of the total income computed in accordance with the provisions
- C of the Income-tax Act, 1961, it cannot be said that amount on which the surtax is levied ceases to be the profits of the business. For this reason, it must be held that the surtax levied under the Surtax Act squarely falls within the mischief of sub-clause (ii) of clause (a) of Section 40 and cannot be allowed as a deduction while computing the business income of the
- D assessee under the provisions of the Income-tax Act.

- The learned counsel for the assessee sought to rely upon Section 15 of the Surtax Act in support of their contention that surtax does not fall within the four corners of Section 40(a)(ii). Section 15 of the Surtax Act reads as follows : "Notwithstanding anything contained in clause (i) of
- E Section 109 of the Income-tax Act, in computing the distributable income of a company for the purposes of Chapter XI-D of that Act, the surtax payable by the company for any assessment year shall be deductible from the total income of the company assessable for that assessment year." A reading of the above provisions makes it evident that its operation is
- F confined to the computation of the distributable income of a company for the purposes of Chapter XI-D of the Income-tax Act. It cannot be extended to any other chapter or provision in the Act.

- The learned counsel for the appellants placed strong reliance upon the decision of this Court in *Jaipuria Samla Amalgamated Collieries Ltd. v. Commissioner of Income-Tax, West Bengal*, 82 I.T.R. 580 to contend that a
- G tax has to be computed in accordance with the provisions of Income-tax Act to fall within the mischief of Section 40(a)(ii). Inasmuch as the surtax is computed on a basis different from the basis prescribed in the Income-tax Act, it is contended, it cannot fall within the four corners of Section
- H 40(a)(ii). It is not possible to agree with this contention either. The said

decision was rendered with reference to sub-section (4) of Section 10 of the Indian Income-tax Act, 1922 which corresponds to sub-clause (ii) of clause (a) of Section 40 of the present Act. The question therein was whether the amount payable as (i) road and public works cess levied under the Bengal Cess Act, 1880 and (ii) the education cess levied under the Bengal (Rural) Primary Education Act, 1930 fall within the mischief of Section 10(4). This court held that they do not. A perusal of the decision shows that the road and public works cess was *levied on immovable property* to provide for construction and maintenance of roads and other works of public utility. Under Section 5 of the Act (Bengal Cess Act, 1880) all immovable property, with certain exceptions, was subjected to payment of road cess and public works cess. Section 6 provided that the said cesses shall be assessed on the annual value of lands and, until provision to the contrary was made by Parliament, on the annual net profits from mines, quarries, tramways, railways and other immovable property at such rates as were to be determined in the manner prescribed. Similarly the education cess was also *levied* under Section 29 of the Bengal (Rural) Primary Education Act, 1930, *on immovable property* on which the road and public works cesses were assessed. The rate at which the education cess was to be levied depended upon the character of the property; in respect of mines and quarries, it was leviable at the rate of three and a half pice on each rupee of annual net profits. It is thus abundantly clear that the levy of aforesaid cesses was upon the immovable properties and not on profits. It is no doubt true that the tax was *measured* with reference to the net profits of business but it is well-settled by a series of decisions of this Court that the measure by which a tax is computed does not determine the character of the tax vide *Union of India v. Bombay Tyre International*, A.I.R. (1984) S.C. 420 and *Goodricke Tea Company v. State of West Bengal*, [1995] 1 Suppl. S.C.C. 707. It is, therefore, idle to contend that the said decision helps the assessee's case in any manner. The cesses considered in the said decision were not taxes "levied on the profits or gains of any business or profession or assessed at a proportion of or otherwise on the basis of any such profits or gains" within the meaning of Section 40(a)(ii) as explained hereinabove. The learned counsel, however, relied upon the following observations in the said decision: "the words "profits and gains of any business, profession or vacation" which are employed in section 10(4) can, in the context, have reference only to profits or gains as determined under section 10 and cannot cover the net profits or gains arrived at or deter-

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A mined in a manner other than that provided by section 10. The whole purpose of enacting sub-section (4) of section 10 appears to be to exclude from the permissible deductions under clause (ix) and (xv) of sub-section (2) such cess, rate or tax which is levied on the profits or gains of any business, profession or vocation or is assessed at a proportion or on the

B basis of such profits or gains. In other words, sub-section (4) was meant to exclude a tax or a cess or rate the assessment of which would follow the determination or assessment of profits or gains of any business, profession or vocation in accordance with the provisions of section 10 of the Act.....

C These profits arrived at according to the provisions of the two Cess Acts can by no stretch of reasoning be equated to the profits which are determined under section 10 of the Act. It is not possible to see, therefore, how section 10(4) could be applicable at all in the present case." The learned counsel pointed out that this Court has in the said decision approved the decision of the Privy Council in *Commissioner of Income-tax v. Gurupada Dutta*, 14 I.T.R. 100 and has further observed that the Parliament must be

D deemed to have accepted the view taken by the Privy Council by not changing the language of the relevant provision in the 1961 Act (Section 40(a)(ii).

E We are unable to see as to how these observations help and assessee herein. Firstly, it may be mentioned, Section 10(4) of the 1922 Act or Section 40(a)(ii) of the present Act do not contain any words indicating that the profits and gains spoken of by them should be determined in accordance with the provisions of the Income Tax Act. All they say is that it must be a rate or tax levied in the profits and gains of business or

F profession. The observations relied upon must be read in the said context and not literally or as the provisions in a statute. But so far as the issue herein is concerned, even this literal reading of the said observations does not help the assessee. As we have pointed out hereinabove the surtax is essentially levied on the business profits of the company computed in

G accordance with the provisions of the Income-tax Act. Merely because certain further deductions (adjustments) are provided by the Surtax Act from the said profits, it cannot be said that the surtax is not levied upon the profits determined or computed in accordance with the provisions of the Income-tax Act. Section 4 of the Surtax Act read with the definition of

H "chargeable profits" and the First Schedule made the position abundantly clear.

We may mention that all the High Courts in the country except the Gauhati High Court have taken the view which we have taken herein. Only the Gauhati High Court has taken a contrary view in the decisions in *Makum Tea Company (India) Limited & Anr. v. Commissioner of Income Tax*, 178 I.T.R. 453 and *Doom Dooma Tea Company Limited v. Commissioner of Income Tax*, 180 I.T.R. 126. The decision of the Gauhati High Court in *Makum Tea Company (India) Limited*, is under appeal before us in Civil Appeal Nos. 3976-77 of 1995. Similarly Civil Appeal No 3246 of 1995 is preferred against the decision of the Gauhati High Court following the decision in *Doom Dooma Tea Company Limited*. (On enquiry, the office has informed that no Special Leave Petition/Civil Appeal has been filed against the decision in *Doom Dooma Tea Company Limited*.) For the aforesaid reasons, we can not agree with the view taken by the Gauhati High Court in the aforesaid decisions.

We agree with the view taken by the High Courts of (Calcutta) *Molins (India) Limited v. Commissioner of Income Tax, West Bengal-III*, 144 I.T.R. 317 and *Brooke Bond (India) Limited v. Commissioner of Income Tax*, 193 I.T.R. 390, (Bombay) *Lubrizol (India) Limited v. Commissioner of Income Tax*, 187 I.T.R. 25 followed in several other decisions of that Court, (Karnataka) *Commissioner of Income Tax, Karnataka v. International Instruments Private Limited*, 144 I.T.R. 936, (Madras) *Sundaram Industries Limited v. Commissioner of Income Tax*, 159 I.T.R. 646, (Andhra Pradesh) *Vazir Sultan Tobacco Company Limited v. Commissioner of Income Tax*, 169 I.T.R. 35, (Rajasthan) *Association Stone Industries Company Limited v. Commissioner of Income Tax*, 170 I.T.R. 653, (Gujarat) *S. M. Maniklal Industries Limited v. Commissioner of Income Tax*, 172 I.T.R. 176 followed in several cases thereafter (Allahabad) *Himalyan Drug Company Private Limited v. Commissioner of Income Tax*, 218 I.T.R. 346 and (Punjab Haryana High Court) *Highway Cycle Industries Limited v. Commissioner of Income Tax*, 178 I.T.R. 601.

Accordingly the appeals preferred by the assesseees are dismissed with costs assessed at Rupees two thousand in each appeal, while the two appeals preferred by the Revenue are allowed with costs of Rupees two thousand in each appeal.

Before parting with this case, it may be mentioned that when this batch of appeals was posted before us, it included an appeal preferred

- A against a judgment of the Andhra Pradesh High Court rendered by a Bench comprising one of us (B.P. Jeevan Reddy, J.). The said decision merely followed an early decision of that Court. Accordingly with the Consent of the counsel for the parties, the said appeal was deleted from the batch and the remaining appeals in the batch taken up for hearing.
- B G.N. Appeal Preferred by assessee dismissed and appeal preferred by the Revenue allowed.