

PETITIONER:
ABDULLABHAI M. BHAGAT, ETC.

Vs.

RESPONDENT:
THE INCOME-TAX OFFICER, SPECIAL CIRCLE, MADRAS

DATE OF JUDGMENT:
22/03/1961

BENCH:
KAPUR, J.L.
BENCH:
KAPUR, J.L.
AIYYAR, T.L. VENKATARAMA
DAS, S.K.
HIDAYATULLAH, M.
SHAH, J.C.

CITATION:
1961 AIR 1389 1962 SCR (1) 512

ACT:
Income Tax-Surcharge-"Federal purposes" and "for the purposes of the Central Government", Meaning of-Finance Act, 1942 (XII of 1942), s. 8(1)-Government of India Act, 1935 (25 and 26 Geo. V. Ch. 42), ss. 100, 124(1), 138(1) Proviso (b), 313, Seventh Schedule item 54, List I, General Clauses Act, 1897 (10 of 1897), ss. 3(8ab) (a), 18a.

HEADNOTE:
The petitioners as partners of a registered firm were assessed to income-tax for the relevant assessment years. Thereafter they made a disclosure of their income under a "Voluntary Disclosure Scheme" regarding profits which had escaped assessment, and on reassessment of the disclosed income income-tax, super-tax and surcharge were levied. The levy of surcharge but not income-tax and super-tax was challenged as unauthorised.
Held, that the power to legislate for levy of tax on income was conferred upon the Federal Legislature by s. 100 sub-ss. (1) and (2) of the Government of India Act, 1935, and item 54 of List I of the Seventh Schedule and the Federal Legislature was competent under that entry to legislate in regard to the levy of a surcharge on tax; s. 138(1) proviso (b) did not restrict the amplitude of that legislative power. The term "Federal purposes" in s. 138 is not defined in the Government of India Act nor in the General Clauses Act; but there is sufficient indication in the section itself that surcharges were to form part of the Revenues of the Federation and such Revenues were to be expended for the purposes therein mentioned. The concept of the words "purposes of the Central Government" under the General Clauses Act was not different from what was intended by the use of the words "Federal purposes" in s. 138(i) proviso (b) of the Government of India Act.

JUDGMENT:
ORIGINAL JURISDICTION: Petitions Nos. 140 and 177 to 191 of

1959.

Petitions under Article 32 of the Constitution of India for enforcement of Fundamental Rights.

M. R. M. Abdul Karim and K. R. Choudhury, for petitioners.

K. N. Rajagopala Sastri and D. Gupta, for respondents.

513

1961. March 22. The Judgment of the Court was delivered by KAPUR, J.-These are sixteen petitions under Art. 32 of the Constitution challenging the legality of the imposition of surcharge imposed on the income of the assessee under the Finance Acts of 1942, 1943, 1944 and 1945. The assessment relates to four assessment years 1942-43, 1943-44, 1944-45 and 1945-46.

The petitioners are four partners of a firm named Mohammedaly Sarafaly & Co., Madras, which was carrying on business in hardware, stocks, shares, etc. For the assessment years 1942-43 to 1945-46 this firm was treated as a registered firm under the Indian Income-tax Act and therefore the partners were assessed on their respective shares of the profits from the business of the firm. All assessments were completed before 1949 and total income for the purpose of assessment for those four years was about Rs. 29,00,000. In 1955 the petitioners under a 'Voluntary Disclosure Scheme' with regard to profits which had escaped assessment made a disclosure of their income and proceedings were taken under s. 34 of the Income-tax Act. In the month of April, 1959, there was a reassessment on all the four partners and the total income for the four assessment years thus came to about Rs. 35 lakhs which included Rs. 29 lakhs already assessed. On that income, income-tax, super-tax, and surcharge were levied. The surcharge, according to the petition was Rs. 3,82,791. It is this surcharge which is impugned as being, without the authority of law inasmuch as the then Federal Legislature, it is submitted, was not competent to levy the surcharge.

Provision for surcharge was made under s. 8(1) of the Finance Act, 1942 (Act XII of 1942). This section may now be quoted:-

Section 8(1) "Subject to the provisions of sub-sections (2) and (3),-

(a) income-tax for the year beginning on the 1st day of April, 1942, shall be charged at the rates specified in Part I of Schedule II increased in the cases to which subparagraph (b) of paragraph A

65

514

and paragraph B of that part apply with a surcharge for the purposes of the Central Government at the rate specified therein in respect of each such rate of income-tax, and
(b) rates of super-tax for the year beginning on the 1st day of April, 1942, shall, for the purpose of section 55 of the Indian Income-tax Act, 1922, be those specified in Part II of Schedule II increased in the cases to which paragraphs A, B and C of that Part apply by a surcharge for the purposes of the Central Government at the rate specified therein in respect of each such rate of super-tax."

It was contended that the Federal Legislature had no power under the Government of India Act, 1935, (25 and 26 Geo V, Ch. 42), to impose a surcharge "for the purposes of the Central Government". The legislative power of the Federal Legislature was given in s. 100 of the Government of India

Act, 1935, and the power to tax income was contained in item 4 of List I of the Seventh Schedule which was as follows:

"Taxes on income other than agricultural income."

Part VII of the Government of India Act, 1935, deals with Finance, Property and Suits and the first chapter deals with Finance. The relevant section which has been relied upon by the petitioners, i.e., s. 138(1) of that Act, is in that Part which deals with Distribution of Revenues between the Federation and the Federal Units. That section reads:-

Section 138(1) "Taxes on income other than agricultural income shall be levied and collected by the Federation.....
Provided that-

(a).....

.....

(b) the Federal Legislature may at any time increase the said taxes by a surcharge for Federal purposes and the whole proceeds of any such surcharge shall form part of the revenues of the Federation."

It was submitted that according to this section the power of the Federal Legislature to impose a surcharge was only for Federal purposes; that by s. 8(1) of the Finance Act, 1942, and similar provisions in

515

the other Finance Acts of three following years, the surcharge had been levied "for the purposes of the Central Government" and that the terms "the purposes of the Central Government" and "for Federal purposes" were not the same but were two different concepts. Section 311 of the Government of India Act, 1935, deals with Interpretation but "Federal purposes" is not defined in that section. In subsection (3) of s. 313 which is in Part XIII, dealing with Transitional Provisions, it is provided:-

Section 313(3) "References' in the provisions of this Act for the time being in force to the Governor-General and the Federal Government shall, except as respects matters with respect to which the Governor-General is required by the said provisions to act in his discretion be construed as references to the Governor-General in council, and any reference to the Federation, except where the reference is to the establishment of the Federation, shall be construed as a reference to British India, the Governor-General in Council, or the Governor-General, as the circumstances and the context may require."

On the basis of this section it was urged that the term "Federal purposes" in s. 138(1)(b) of the Government of India Act, 1935, means the purposes of the Federal Government, i.e., of the Governor-General in Council or the Governor-General as the case may be and that in the context it is a term of lesser amplitude than the term "purposes of the Central Government". "Central Government" in s. 3(8ab)(a) of the General Clauses Act, 1897, was defined as follows:-

Section 3 (8ab) "Central Government' shall-

(a) in relation to anything done or to be done after the commencement of Part III of the Government of India Act, 1935, mean the Federal Government;".

"Federal Government" was defined in the General Clauses Act in s. 18 a as follows:-

Section 18 a "'Federal Government' shall-

(a) in relation to anything done or to be done after the commencement of Part III of the Government of India Act, 1935, but before the establishment of the Federation, mean, as respects matters

516

with respect to which the Governor-General is by and under the provisions of the said Act for the time being in force required to act in his discretion, the Governor-General and as respects other matters, the Governor-General in Council; and shall include-

(i) in relation to functions entrusted under section 124(1) of the said Act to the Government of a Province, the Provincial Government acting within the scope of the authority given to it under that subsection; and

(ii) in relation to the administration of a Chief Commissioner's Province, the Chief Commissioner acting within the scope of the authority given to him under section 94(3) of the said Act;".

From these sections it was argued that the term "Federal Government" in the Government of India Act 1935, only meant the Governor-General or the Governor-General in Council as the case may be but under the definition in the General Clauses Act the term "Central Government" did not only denote the Governor-General or the Governor-General in Council as the case may be but also included for certain purposes the Provincial Governments acting within the scope of the authority given to them under a. 124(1) of the Government of India Act, 1935. This argument, in our opinion, is wholly fallacious.

The power of the Federal Legislature to legislate was conferred by s. 100, sub-ss. (1) and (2). The first subsection deals with the power of the Federal Legislature to legislate in regard to items contained in the First List which was exclusively within the power of the Federal Legislature. The Federal Legislature therefore had the power to legislate in regard to any subject contained in List I and item 54 relating to taxes on income was in that List. It has been held that the items have to be given the widest possible amplitude. But it was submitted that the power under item 54 howsoever wide it may be is subject to the limitation contained in s. 138(1), proviso (b). Now "Federal purposes" is not defined in the Government of India Act, 1935, nor is it defined in the General

517

Clauses Act. But there is sufficient indication in s. 138 itself that the amounts recovered as surcharge were to form part of the Revenues of the Federation and such Revenues were to be expended for the purposes there indicated. Under s. 124(4) of the Government of India Act, 1935, where powers and duties are conferred by s. 124 upon a Province or a Federated State there shall be paid by the Federation to the Province or the Federated State such sum as may be agreed. Hence by the definitions given in Hence by the given in the General Clauses Act no different concept of the words "purposes of the Central Government" was intended from what was intended by the use of the words "Federal purposes" in s. 138(1)(b) of the Government of India Act, 1935.

These petitions therefore fail and are dismissed with costs. One hearing fee.

Petitions dismissed.

JUDIS