

(2003) 04 KL CK 0076

High Court Of Kerala

Case No: IT Reference No. 250 of 1999 10 April 2003

Commissioner of
Income Tax

APPELLANT

Vs

Kerala State
Co-operative
Marketing Federation
Ltd.

RESPONDENT

Date of Decision: April 10, 2003

Acts Referred:

- Income Tax Act, 1961 - Section 256, 36

Citation: (2003) 131 TAXMAN 344

Hon'ble Judges: J.M. James, J; G. Sivarajan, J

Bench: Full Bench

Judgement

G. Sivarajan, J.

The following question of law is referred to this court u/s 256(1) of the Income Tax Act, 1961, at the instance of the revenue :

"Whether, on the facts and in the circumstances of the case and in the absence of the Tribunal bringing on record any facts or evidence to conclude that the three conditions as provided in section 36(1)(ii) have been fulfilled by the company, the Tribunal is right in law and fact in allowing the deduction of the sum of Rs. 1,96,070 ?"

2. The respondent-assessee had paid bonus to its employees in excess of what is provided under the Bonus Act. Under the said Act, the maximum bonus that is payable is only 8.33 per cent. The assessing authority has disallowed bonus debited in the accounts in excess of 8.33 per cent. In appeal by the assessee, the first appellate authority confirmed the same. In further appeal by the assessee, the Income Tax Appellate Tribunal allowed the entire claim by holding that in several

cases, they have taken a view that wherever a bonus does not exceed 20 per cent of the total wages paid to the employees, such payment has to be allowed taking into consideration the prevailing custom, and that for consistency, they hold that the assessee is entitled to deduction of the sum of Rs. 1,96,070.

3. The learned Central Government Standing counsel for taxes appearing for the applicant submits that the Tribunal had not independently considered the question as to whether it is customary for the assessee to pay 20 per cent bonus and that the Tribunal had only made a general observation with regard to the custom and its allowability. He also relied on the decision of this court in [Sree Bhagavathi Textiles Ltd. Vs. Commissioner of Income Tax](#), , and submitted that the Tribunal must be directed to consider the assessee's case in the light of the observations made in the said judgment. We have also heard the learned counsel appearing for the respondent-assessee. He submits that the Tribunal has found that it was customary in the Trade to pay bonus to its employees in excess of the statutory amount, but not exceeding 20 per cent, and therefore, there is no illegality in the order of the Tribunal.

4. As we have already noted, the Tribunal did not independently consider the case of the assessee as to whether it is customary in the business conducted by the assessee that bonus is paid in excess of statutorily permissible amount, and as to what is the customary bonus, if any, which was being paid. The Tribunal has only stated that if the bonus does not exceed 20 percent, that can be allowed.

5. We are of the view that the Tribunal is obliged to consider the matter independently on the facts and circumstances of each case, and particularly with reference to the decision of this court and Supreme Court, if any, in that regard. The counsel for the revenue has brought to our notice the decision of this court mentioned supra which also lays down the principles to be applied in the matter of grant of customary bonus.

6. In these circumstances, we set aside the order of the Tribunal on this issue, and direct the Tribunal to consider the matter in accordance with law, and in the light of the observations made hereinabove.

In that view of the matter, we decline to answer the question referred.