

(1961) 03 SC CK 0055
In the Supreme Court Of India
Case No : C.A. No. 180 of 1959

Jadao Bahuji

APPELLANT

Vs

Municipal Committee Khandwa and Another

RESPONDENT

Date of Decision : 29-03-1961

Acts Referred:

Central Provinces Municipal Act, 1903 — Section 3
Civil Procedure Code, 1908 (CPC) — Order 45 Rule 15
Constitution of India, 1950 — Article 132(1), 133(1)(c)
Government of India Act, 1935 — Section 107(2)

Citation : (1961) 03 SC CK 0055

Hon'ble Judges : T.L. Venkataraman Ayyar, J;S.K. Das, J;M. Hidayatullah, J;J.L. Kapoor, J;J.C. Shah, J

Bench : Full Bench

Advocate : N.C. Chatterjee and B.P. Maheshwari, for the Appellant; G.C. Mathur, for the Respondent

Final Decision : Dismissed

Judgement

M. Hidayatullah, J.—This appeal, by certificate under Articles 132 (1) and 133 (1) (c) of the Constitution, has been filed against an order of the High Court at Nagpur dated June 30, 1955.

2. Though the facts necessary to decide the appeal lie within a comparatively narrow compass, the case itself has had a long and somewhat unique history. In July, 1922, the Municipal Committee, Khandwa, resolved to impose a tax on the trade of ginning and pressing cotton by means of steam or mechanical process, and after sundry procedure, a notification was published on November 25, 1922, in the Central Provinces and Berar ? Gazette, imposing the tax. Certain traders including the Appellant, affected by the tax, filed suits seeking injunction against the Municipal Committee on the ground that the tax was invalid and illegal. Meanwhile, the Municipal Committee had served notices on the present Appellant, and demanded and recovered the tax for 1923-24. The Appellant then filed a second suit for refund of the tax paid by heron the ground that the

imposition of the tax was illegal and ULTRA VIRES. The suits had varying fortunes in the Courts in India, till they reached the Privy Council. The Judicial Committee by its first decision remitted the cases for additional evidence, while the appeals were kept pending. The decision of the Judicial Committee is reported in AIR 1934 62 (Privy Council) 62, After the additional evidence was received, the Judicial Committee pronounced its decision, which is reported in Radhakishan's case 1937 LR 64 IA 118. The Judicial Committee held that the tax was not validly imposed by the Municipal Committee, and reversing the decree of the Judicial Commissioner, decreed the suits.

3. The Provincial Legislature then passed the Khandwa Ginning and Pressing Cotton Tax Validating Act, 8 of 1948, validating the tax. The Act contained only one operative section, which read as follows:

2. Notwithstanding anything contained in the Central Provinces Municipal Act, 1903, or the Central Provinces Municipalities Act, 1922, or any decree or order of a civil Court, the tax on the trade of ginning and pressing cotton by means of steam or mechanical process within the limits of the Khandwa Municipality which was imposed by Notification No. 2639-1298-VIII, dated the 21st November, 1922, shall be deemed to have been legally imposed from the date of its imposition to the date on which this Act comes into force.

Explanation.-All decrees or orders of a civil Court directing a refund of the tax already recovered by the committee of the said municipality or restraining the committee from recovering the tax shall be deemed to have no legal effect.

The Appellant had, in the meanwhile, applied for the execution of the decrees, and the Validating Act was pleaded in bar. This plea was upheld by the executing Court, but the High Court at Nagpur, on appeal, rejected it and ordered the executions to proceed. The decision of the High Court is reported in Firm Radhakishan v. Municipal Committee, Khandwa 26 MPLC 492:1940 NLJ 638. The reason given by the High Court was that the Explanation, though not the operative part of the Validating Act, conflicted with Order 45, Rule 15 of the Code of Civil Procedure, and that the assent of the Governor-General had not been obtained, as required by Section 107 (2) of the Government of India Act, 1935.

4. Meantime, the Provincial Legislature had been dissolved, and the Governor had assumed all the powers of the Provincial Legislature u/s 93 of the Government of India Act, 1935. The Governor, with the assent of the Governor-General, enacted the second Validating Act entitled the Khandwa Municipality (Validation of Tax) Act, 1941 (16 of 1941), which received the assent of the Governor General on June 30, 1941 and was published in the C. P. and Berar Gazette on July 11, 1941. That Act, omitting parts not relevant here, read as follows ;

2. The tax the imposition of which purported to be sanctioned in the Notification of the Local Government (Ministry of Local Self-Government No. 2639-1298-VIII, dated the 21st November, 1922, shall be, and shall be deemed always to have

been, validly recoverable by the Municipal Committee of Khandwa in respect of the period from the 21st November, 1962(sic), to the 31st March, 1938 (both dates inclusive).

3. Where the net sum 'recovered from any person before the commencement of this Act on account of the said tax is less than the aggregate of the sum recoverable- from such person, the balance shall be payable to the said Municipal Committee on demand made at any time after the commencement of this Act and, if not paid within fifteen days from the date of the demand, shall be recoverable by any method available under the Central Provinces Municipalities Act, 1922, for the recovery of a tax imposed thereunder or by such other method as the Provincial Government may by rule prescribe.

4. For the purposes of Section 3 the net sum recovered from any person means the aggregate sum recovered from such person less any sum refunded to him and less so much of the amount of any decree or order for the payment of money executed by him against the said Municipal Committee as represents an amount previously paid by him on account of the said tax.

5. Nothing in this Act shall preclude the execution against the said Municipal Committee of any decree or order for the payment of money arising out of a payment on account of the said tax but upon the execution of such decree or order so much of the amount thereof as represents a sum previously paid on account of the said tax shall be payable to and recoverable by the said Municipal Committee in accordance with Section 3.

6. The Khandwa Ginning and Pressing Cotton Tax (Validating Act), 1938, is hereby repealed.

The provincial Government framed a rule, which, shortly stated, provided for the recovery of the amount by way of execution application made to the very Court, which executed the decree.

5. The Municipal Committee deposited the decretal amount in Court, which was withdrawn by the Appellant on furnishing security. On August 7, 1947, the unicipal Committee filed its application under the rule for execution of the decree. Objections were raised by the Appellant, but were disallowed, and the Municipal Committee realised the amount of the tax from the surety. The Appellant had raised many objections, but we are concerned with one only, viz., that the Act was Ultra vires the Provincial Legislature and consequently the Governor, being repugnant to Section 142-A. which was introduced in the Government of India Act, 1935, and which imposed a limit of Rs. 50/- on taxes on professions, trades and callings after March 31, 1939.

6. On November 16, 1949, an appeal was taken by the present Appellant to the High Court at Nagpur. This appeal was heard by Sinha, C. J., and Mudholkar, J. (as they then were). Mudholkar, J., held that by the second Validating Act which was passed after March 31, 1939, the limit of Rs. 50/- per annum imposed by

the second Sub-section of Section 142-A was exceeded, and that the Act was thus Ultra vires the Governor. Sinha, C. J., was of the contrary opinion. The case was then laid before Deo, J., who agreed with Sinha, C. J., and the appeal was dismissed. The Appellant then obtained the certificate, and filed this appeal.

7. Section 142-A of the Government of India Act, 1935, is as follows:

142-A. (1) Notwithstanding anything in section one hundred of this Act, no Provincial Law relating to taxes for the benefit of a Province or of a municipality, district board, local board or other local authority therein in respect of professions, trades callings, or employments shall be invalid on the ground that it relates to a tax on income.

(2) The total amount payable in respect of anyone person to the Province or to any one municipality, district board, local board, or other local authority in the Province by way of taxes on professions, trades, callings, and employments shall not, after the thirty-first day of March nineteen hundred and thirty-nine, exceed fifty rupees per annum ;

Provided that if in the financial year ending with that date, there was in force in the case of any Province or any such municipality, board or authority a tax on professions, trades callings, or employments the rate, or the maximum rate, of which exceeded fifty rupees per annum, the preceding provisions of this Sub-section shall, unless for the time-being provision to the contrary is made by a law of the Federal Legislature, have effect in relation to that Province, municipality, board or authority as if for the reference to fifty rupees per annum there were substituted a reference to the rate or maximum rate, or such lower rate, if any, (being a rate greater than fifty rupees per annum) as may for the time-being be fixed by a law of the Federal Legislature; and any law of the Federal Legislature made for any of the purposes of this proviso may be made either generally or in relation to any specified Provinces, municipalities, boards or authorities.

(3) The fact that the Provincial Legislature has power to make laws as aforesaid with respect to taxes on professions, trades callings and employments shall not be construed as limiting, in relation to professions, trades, callings and employments, the generality of the entry in the Federal Legislative List relating to taxes on income.

Simultaneously with the introduction of Section 142-A, Entry No. 46 in the Provincial Legislative List, which had till then stood as "Taxes on professions, trades, callings and employments" was amended by the addition of the words "subject however, to the provisions of Section 142-A of this Act."

8. The impugned Act was passed by the Governor u/s 90 of the Government of India Act, 1935. Under Sub-section (3) of that section, it had the same force and effect and was subject to disallowance in the same manner as an Act of the Provincial Legislature assented to by the Governor. The impugned Act was enacted with the concurrence and assent of the Governor-General and thus

complied with all the formalities required for such enactment.

9. The powers of the Provincial Legislatures under the Legislative Lists have been the subject of numerous decisions by the Federal Court and also by this Court. It has been pointed out that these powers are as large and plenary as those of Parliament itself. These powers, it has been held, include within themselves the power to make retrospective laws, and as pointed out by Gwyer, C. J., in AIR 1941 16 (Federal Court) , the burden of proving that Indian Legislatures " were subject to a strange and unusual prohibition against retrospective legislation lay upon those who asserted it". This has not been asserted in this case, as, indeed, it could not be, after the decision of the case cited by us. In the case before the Allahabad High Court, out of which the appeal before the Federal Court had arisen. *Mt. Atiqa Begam and Another Vs. Abdul Maghni Khan and Others*, , it was held that retrospective legislation was not possible in view of the provisions of Section 292 of the Government of India Act, 1935, which continued all law in force in British India immediately before the commencement of Part III of the Act, until altered or repealed or amended by a competent legislature or other competent authority. This view was not accepted by the Federal Court, which held that Section 292 of the Act did not prevent Legislatures in India from giving retrospective effect to measures passed by them. There have been numerous occasions on which retrospective laws were passed, which were upheld by the Federal Court and also by this Court. It is not necessary to cite instances, but we refer only to the decision in *M. P. V. Sundararamier and Co. v. The State of Andhra Pradesh* 1955 SCR 1422, where this Court approved the dictum of the Federal Court.

10. Retrospective legislation being thus open to the Provincial Legislatures, the Act of the Governor had the same force. Retrospective laws, it has been held, can validate an Act, which contains some defect in its enactment. Examples of Validating Acts which rendered inoperative, decrees, or orders of the Court or alternatively made them valid and effective, are many. In *Atiqa Begum's Case*, the power of validating defective laws was held to be ancillary and subsidiary to the powers conferred by the Entries and to be included in those powers. Later, the Federal Court in *Piare Dusadh v. King Emperor* 1943 FLJ 187: AIR 1934 FC 1 considered the matter fully, and held that the powers of the Governor-General which were conterminous with those of the Central Legislature included the power of validation. The same can be said of the Provincial Legislatures and also of the Governor acting as a Legislature.

11. The only question thus is whether the power to pass a retrospective and validating law was taken away by the enactment of Section 142-A and the amendment of the Entry in the Government of India Act. It is on this point that the difference in the High Court arose. The amendment of the Entry is of no special significance, because it only subjects the otherwise plenary powers to the provisions of Section 142-A. Apart from the implications arising from that section, the supremacy of the Legislature to pass retrospective and validating

laws was unaffected- We have thus to see what Section 142-A enacted and to what extent it trenchd upon the powers of the Provincial Legislature and the Governor.

12. Mr. N. C. Chatterjee, in arguing the case, adopted the line of reasoning of the minority view in the High Court. He pointed out that Section 142-A was enacted to achieve three purposes. The first was that it removed doubts whether the charge of tax on professions, etc., would be regarded as income tax. The second was that it put a limit upon the powers of the Provincial Legislature to enact a law imposing a tax in excess of rupees fifty after March 31, 1939; and thirdly it preserved only existing Valid laws already in force, which imposed a tax in excess of the amount indicated. He contended that the second Sub-section and the proviso covered the entire field, and a law passed after March 31, 1939, could not freshly impose a tax in excess of the limit and this was such a law.

13. Under the scheme of the Government of India Act, 1935, income tax, though a Central levy, was u/s 138 (1), distributable among the Provinces and for which an elaborate scheme prepared by Sir Otto Niemeyer was accepted and embodied in the Government of India (Distribution of Revenues) Order in Council, 1936. The Centre could levy a surcharge for federal purposes. Taxes on trades, professions and callings, which were taxes already leviable by the Provinces under Schedule 11 of the Rules made by the Governor-General in Council u/s 80-A (3) (a) of the Government of India Act, were also included in the Provincial Legislative List as a source of revenue for the Provinces. It was, however, felt that these taxes might come into clash with tax on income in the Federal List, and also if unlimited in amount, might become a second tax on income to be levied by the Provinces. It was to remove these contingencies that Section 142-A was enacted,. Sub-section (1) provided that a tax on professions, etc., would not be invalid on the ground that it related to a tax on income. Sub-section (3) was a counterpart of Sub-section (1), and provided that the generality of the Entry in the Federal Legislative List relating to taxes on income would not be construed as in any way limited by the power of the Provincial Legislature to levy a tax on professions etc. The fields of the two taxes were thus demarcated. No other implication arises from these two Sub-sections,

14. It was also apprehended that under the guise of taxes on professions, etc. the Provincial Legislatures might start their own scheme of a tax on income, thus subjecting incomes from professions, etc., to an additional tax of the nature of income tax. A limit was therefore placed upon the amount which could be collected by way of tax on professions, etc., and that limit was Rs. 50/- per annum per person. The second Sub-section achieved this result, It was, however, realised that the tax being an old tax, there were laws under which the limit of Rs. 50/- was already exceeded in relation to a province, municipality, board or like authority, and the imposition of such a limit might displace their budgets after March 31, 1939. A proviso as, therefore, added to the second Sub-section that if in the financial year ending with thirty-first day of March nineteen

hundred and thirty-nine there was in force in the case of any Province, etc., a tax on professions, trades, callings or employments the rate or the maximum rate of which exceeded Rs. 50/- per annum, the provisions of the second Sub-section shall have effect, (unless for the time-being provision to the contrary was made by a law of the Federal Legislature) as if instead of Rs. 50/- per annum there was substituted a reference to the rate or maximum rate exceeding Rs. 50/- Where no such law was passed by the Federal Legislature the tax even in excess of Rs. 50/- continued to be valid.

15. There can be no doubt that if a law was passed after the amendment and sought to impose taxes on professions, etc., for any period After March 31, 1939, it had to conform to the limit prescribed by Section 142-A (2), The prohibition in the second Sub-section operated to circumscribe the legislative power by putting a date-line after which a tax in excess of Rs. 50/- per annum per person for a period after the date line could not be collected unless it came within the proviso. But neither Sub-section (2) nor the proviso speaks of a period prior to March 31, 1939. The Sub-section speaks only of "the total amount payable.....after the thirty-first day of March, nineteen hundred and thirty-nine". These words are important They create a limit on the amount leviable as tax for a period after that date. But if a law was passed validating another which imposed a tax for a period prior to the date indicated, it would be taxing professions, etc., in excess of Rs. 50/- not AFTER March, 1939, but BEFORE it. Neither the Entry nor the section either directly or indirectly prohibited this, nor did they create any limit for the prior period. The Validating Act, though passed in 1941, can be read only as affecting a period for which there was no limit. If the Sub-section said that tax shall not be payable in excess of Rs. 50/- without indicating the period or date, the argument would have some support, but it puts in a date, and the operation of the prohibition is confined to a period after that date.

16. The Validating Act, being thus completely within the powers of the Governor, could remove retrospectively the defect in the earlier Act. Though it re-imposed the tax from the date of the earlier Act, it took care to impose the tax for a period ending with March 31, 1938. The impugned Act did not need the support of the proviso, because it did not fall within the ban of the second Sub-section. In our opinion, the Validating Act 46(sic) 1941 was within the powers of the Governor, and was a valid piece (sic) legislation.

17. The appeal fails, and is dismissed with costs.