

SUPREME COURT OF INDIA

Aditanar Educational Institution

Vs.

Additional Commissioner Of income-Tax

(B.P. Jeevan Reddy and K.S. Paripoornan JJ.)

05.02.1997

JUDGMENT

PARIPOORNAN, J.

1. Leave granted in Special Leave Petition Nos. 2357-59 of 1988, 3122 of 1987 and 6281 of 1986.
2. In this batch of 18 cases, a common question of law -- the scope of Section 10(22) of the Income-tax Act, 1961 -- arises for consideration. The main case is the decision rendered by the Madras High Court in Tax Case No. 114 of 1975 (Additional Commissioner of Income-tax, Madras vs. Aditanar Educational Institution, Madras). The said decision is reported in 118 ITR 235. The assessee as well as the Revenue have filed appeals from the said decision, which covered a period of three years, 1965-66, 1966-67 and 1967-68. The appeals filed by the assessee are Civil Appeal Nos. 2578-80 of 1979 and the appeals filed by the Revenue are Civil Appeal Nos. 356, 356A and 356B of 1980. Civil Appeal Nos. 41 and 42 of 1988 as also the appeals relating to Special Leave Petition Nos. 2357-59 of 1988 and 3122 of 1987 relate to the same assessee. The assessees in the other cases are different. In Civil Appeal Nos. 3881-82 of 1984 and 379-80 of 1985, the assessee is Sri Paramakalyani Education Society, Madras. In Civil Appeal Nos. 8789 of 1995, the assessee is one Sattur Hindu Nadar's Edward School Committee. In the appeal relating to Special Leave Petition No. 6281 of 1986, the assessee is one Rajagopal Educational Trust. As stated, the common question involved in this batch of 18 cases is the interpretation to be placed on Section 10(22) of the Income-

tax Act, 1961 (hereinafter referred to as "the Act"). The decision of the Madras High Court rendered in T.C. No. 114 of 1975 (Additional Commissioner of Income-tax, Madras vs. Aditanar Educational Institution, Madras) (118 ITR 235) was followed in all the other cases. The following table would show the parties and the relevant appeals and the assessment years:

-----	Case No.	Parties	Year concerned
-----	1	2	3
-----	CA 2578-80/79	Aditanar Educational Institution 1965-66	
		vs. 1966-67	
		Additional Commissioner 1967-68	
		of Income Tax	
		CA 356, 356A, Additional Commissioner	
		& 356B/80 of Income Tax, Madras 1965-66 vs. 1966-67	
		Aditanar Educational 1967-68	
		Institution, Madras	
		CA 3881-82/84 CIT, Madras	
		vs.	
		Sri Paramakalyani Education 1972-72	
		Society, Madras 1972-73	
		CA 379-80/85 CIT, Madras	
		vs.	
		Sri Paramakalyani Education 1973-74	
		Society, Madras 1974-75	
		CA 41-42/88 CIT, Madras	

vs.

Aditanar Educational 1963-64

Institution, Madras 1964-65

CA 8789/95 CIT, Madurai

vs.

Sattur Hindu Nadar's Edward 1980-81

School Committee, Sattur

SLP 2357-59/88 CIT, Madras

vs. 1977-78

Aditanar Educational 1978-79

Institution, Madras 1979-80

----- 1 2 3

----- SLP 3122/87 CIT, Madras

vs.

Aditanar Educational 1980-81

Institution, Madras

SLP 6281/86 CIT, Madras

vs. 1979-80

Rajagopal Educational Trust

----- It should be mentioned that in the appeal relating to
Special

Leave petition No. 6281 of 1986 (CIT vs. Rajagopal Educational Trust), the Madras High Court dismissed the

application filed by the Revenue under Section 256(2) of the Act. By this judgment, we withdraw the said

application to the file of this Court and finally dispose of the same on merits along with the other appeals.

3. We heard counsel. It is agreed before us that the decision rendered in the main appeals will govern the entire batch of cases.

4. The question of law that arises for consideration in this batch of cases is to the following effect: "Whether, on the facts and in the circumstances of the case, the

Tribunal was right in holding that the income of the assessee is entitled for exemption under Section 10(22) of the Income-tax Act, 1961?"

5. It is sufficient to state the minimal facts in the main case, T.C. No. 114 of 1975 (Civil Appeal Nos. 2578-80 of 1979 and 356, 356A and 356B of 1980; the decision reported in 118 ITR 235). The assessee is a society registered under the Societies Registration Act, 1960. Its objects are to establish, run, manage or assist colleges, schools and other educational organisations existing solely for educational purposes. The assessee received donations from a Trust called 'Thanthi Trust' a sum of Rs. 15,71,370/- during the previous year relevant for the assessment year 1956-66, a sum of Rs.5,62,432.25 during the previous year relevant for the assessment year 1966-67 and a sum of Rs.4,78,899.67 during the previous year relevant for the assessment year 1967-68. The assessee filed 'nil' returns for all these years. According to the assessee, its taxable income was 'nil' as it was an educational institution existing solely for educational purposes. The Income Tax Officer closed the assessments stating that there is no taxable income. There was no question of granting exemption under Section 10(22) of the Act since, according to the assessee, it incurred loss for all the three years. The Commissioner of Income-tax initiated suo motu proceedings under Section 263 of the Act as, in his opinion, the assessments made by the Income-tax officer were erroneous and prejudicial to the Revenue. He opined that the income-tax officer failed to consider the question whether the assessee was entitled to exemption in respect of the receipts of voluntary contributions. According to him, the assessee was not entitled to any exemption. An order was passed on 30.3.1972 directing the Income-tax officer to make fresh assessments taking into consideration the voluntary contributions received from Thanthi Trust. The order so passed for the assessment year 1965-66 is dated 30.3.1972. For the other two years, the orders were passed on 2.3.1973. It was stated in the order dated 2.3.1973 that Section 10(22) of the Act will apply only to exempt the income for a college, academy or school. In other words, the exemption under Section 10(22) would apply to educational institutions as such and not to anyone who might be financing the running of such an institution. In the appeals filed by the assessee for all the three years, by a common order dated 22.4.1974, the Appellate Tribunal held that the assessee was an institution existing for educational purposes and not for purposes of earning any profit and the assessee itself could be termed as an educational institution within the ambit of Section 10(22) of the Act. It is thereafter, at the instance of the Revenue, the question of law mentioned hereinabove was referred to the Madras High Court for its decision.

6. Section 10(22) of the Act runs as follows:

"10. Incomes not included in total income. -- In computing the total income of a previous year of

any person, any income falling within any of the following clauses shall not be included ❖

XXX XXX XXX

(22) any income of a University or other educational institution existing solely for educational purposes and not for purposes of profit.

XXX XXX XXX

(Emphasis supplied)

The sole question that arises for consideration is whether the assessee will be taken in by the words 'other educational institution'. On this aspect, the High Court held thus :

".... 'Any educational institution' would fall within the scope of Section 10(22) even though it may have or may not have anything to do with the University. The categories are so different, that the University cannot be the genus, and the 'other educational institutions' the Species thereof. Thus, the college here could come under the 'other educational institutions'."

Proceeding further, the High Court held that the assessee came into existence for the purpose of establishing, running, managing or assisting colleges, schools and other educational organisations and in pursuance to its objects, the assessee has established a college. It was further held that the medium through which the assessee could effectuate its objects is the college and by employing this medium, the assessee imparts education. The High Court opined that it is not possible to accept the contention of the Revenue that the assessee is only a financing body and does not, on the facts, come within the scope of 'other educational institution' occurring in Section 10(22). It was found that the sole purpose for which the assessee has come into existence is education at the levels of college and school and that an educational society could be regarded as an educational institution if the society was running an educational institution not for the purpose of profit, but its existence was solely for the purpose of education. On the basis of the above findings, the High Court answered the question referred to it in the affirmative and in favour of the assessee. It is this judgment which is objected to by the assessee as also by the Revenue in the main appeals -- Civil Appeal Nos. 2578-80 of 1979 and 356, 356A and 356B of 1980.

7. Counsel for the Revenue mainly stressed the plea that the exemption under Section 10(2) of the Act would apply only to educational institutions as such. According to him, in this case, the assessee might be financing for running an educational institution, but it is not itself an educational institution. As noted earlier, the Tribunal held that the assessee was an institution existing for educational purposes and not for the purposes of earning any profit and the assessee itself could be termed as an 'educational institution' coming within Section 10(22) of the Act. The High Court has concurred with this view. The High Court has further held that the medium through which the assessee could effectuate its objects is the college and by employing this medium, the assessee imparts education and it cannot be stated that the assessee is only a financing body and does not, on facts, come within the scope of 'other educational institution' occurring in Section 10(22) of the Act. Reliance was placed on the decision of the Allahabad High court in *Katra Education Society vs. Income Tax Officer* (111 ITR 420), to hold that an educational society could be regarded as an educational institution if the society was running an educational institution. We are of the view that an educational society or a Trust or other similar body running an educational institution solely for educational purposes and not for the purpose of profit could be regarded as 'other educational institution' coming within Section 10(22) of the Act. (See *CIT vs. Do on Foundation* - 154 ITR 208-Cal. - and *Agarwal Shiksha Samiti Trust vs. CIT* - 168 ITR 751-Raj.) It will be rather unreal and hyper-technical to hold that the assessee-society is only a financing body and will not come within the scope of 'other educational institution' of the judgment, which may prejudicially affect the assessee in future. We are of the view that this apprehension has no basis. All that the High Court has stated in the penultimate paragraph of the judgment is that counsel for the assessee gave a right answer to a hypothetical question put forward by the Court to the effect that the applicability of Section 10(22) should be evaluated or investigated ever year and only if it is found that the 'institution' exists for educational purposes in the relevant year and even if any profit results, which is only incidental to the purpose of education, the income would be exempt. The High Court has made an observation that any income which has a direct relation or incidental to the running of the institution as such would qualify for exemption. We may state that the language of Section 10(22) of the Act is plain and clear and the availability of the exemption should be evaluated each year to find out whether the institution existed during the relevant year solely for educational purposes and not for the purposes of profit. After meeting the expenditure, if any surplus results incidentally from the activity lawfully carried on by the educational institution, it will not cease to be one existing solely for educational purposes since the object is not one to make profit. The decisive or acid test is whether on an overall view of the matter, the object is to make profit. In evaluating or appraising the above, one should also bear in mind the distinction/difference between the corpus, the objects and the powers of the concerned entity. The following decisions are relevant in this context : *Governing Body of Rangaraya Medical College vs. ITO* (117 ITR 284-AP) and *Secondary Board of Education vs. ITO* (86 ITR 408 - Orissa). We make this position clear in order to allay the apprehensions expressed by counsel.

9. Subject to these observations, the appeals filed by the assessee also fail and they are dismissed, but with no order as to costs.