

Alway Agencies vs Dy. Commissioner Of Agricultural ... on 4 May, 1988

Equivalent citations: 1988 AIR 1313, 1988 SCR (3) 879, AIR 1988 SUPREME COURT 1250, 1988 SCC (SUPP) 394, (1988) 2 JT 505 (SC), 1988 (2) KLT SN 37 (SC)

Author: M.H. Kania

Bench: M.H. Kania, R.S. Pathak

PETITIONER:

ALWAYE AGENCIES

Vs.

RESPONDENT:

DY. COMMISSIONER OF AGRICULTURAL INCOME-TAX AND SALES TAX,ER

DATE OF JUDGMENT04/05/1988

BENCH:

KANIA, M.H.

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KANIA, M.H.

PATHAK, R.S. (CJ)

CITATION:

1988 AIR 1313 1988 SCR (3) 879

1988 SCC (3) 68 JT 1988 (2) 534

1988 SCALE (1)1165

ACT:

Kerala General Sales Tax Act-Whether the assessee appointed as distributor by a manufacturing company under an agreement to effect sale of its product is an agent under the agreement or a purchaser from the company and liable to tax-Under.

HEADNOTE:

This appeal arose out of a case under the Kerala General Sales Tax Act. The assessee firm (assessee) had been appointed as distributor by the Travancore Cochin Chemicals Ltd. (the "said company") to effect sale of their product under an agreement. In the assessment of the assessee firm for the period 1967-68 under the Kerala General Sales Tax

Act, final assessment was completed and the turnover as reported by the assessee was accepted and tax, levied on that basis. Later, the assessing authority alleged that certain transactions in the aforesaid period had been wrongly excluded from the turnover reported by the assessee in the return and the turnover had escaped assessment. The contention of the assessee that the transactions did not constitute sales by the said company to the assessee was rejected by the Assessing Officer and it was held that the said turnover was liable to be included in the taxable turnover as escaped turnover. An appeal by the assessee to the Appellate Assistant Commissioner was dismissed. In second appeal to the Tribunal, the Tribunal held that the transactions in question had taken place directly between the said company and the consumers and the assessee was merely an agent of the company, and allowed the appeal. The High Court on revision held that the Tribunal was wrong in concluding that the assessee was acting only as an agent in respect of the said transactions between the said company and the consumers, and allowed the Revision Application. The assessee-firm appealed to this Court by special leave against the decision of the High Court.

Dismissing the appeal, the Court,

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HELD: Both the parties proceeded on the footing that the transactions in question were effected pursuant to the agreement, sub-clause (a) of clause 2 whereof provided that the distributor had the right of sale

880

of the product within the stipulated area. Bulk supplies were effected in waggon-load or lorry-load by the said company direct to the consumer pursuant to orders booked by the assessee firm. The distributor arranged the payment as per the agreement and also took the responsibility to bear entirely the resultant effects and risk from the said direct dispatches. It was true that the price at which the goods were to be sold to the customers was fixed by the company but that did not lead to the conclusion that the assessee acted merely as an agent of the said company. The mere fact that the manufacturer fixes the sale price by itself cannot lead to the conclusion that the distributor is merely an agent. Under the agreement, what the distributor got was described as a "rebate" and not "Commission", as is normally expected in an agreement of agency. This is a factor, by no means conclusive, but to a certain extent indicative of the relationship between the said company and the assessee. More important, the supplies were made to the distributor against payment-immediate or deferred-as provided in the agreement, and even when the goods were destined directly to the customer, the distributor had to guarantee to arrange the payment, as per clause 8. Where there was some time-lag between the sending of the goods and the payment, the goods were to be insured at the cost of the assessee. This

circumstance clearly showed that in respect of the goods dispatched under orders placed by the distributors, the distributors really acted as purchasers of the goods which they in turn sold to the customers and did not merely act as agents of the said company. In respect of the goods in question, despatched through public carriers, although the invoices were prepared in the names of the customers of the goods and the goods were consigned to the destination through public carrier booked to self, the bills were endorsed and delivered to the assessee. In the light of the agreement, these circumstances clearly showed that in respect of these transactions the property in the goods dispatched passed to the distributors on the bills being endorsed and handed over to the distributors. [884D-H;885A-D]

Although the Court had referred to the assessee being described in the agreement as "distributor" and not as "agent" and to the fact that what they got was described as "rebate" and not "commission", the Court had not treated these circumstances as decisive. But these descriptions considered in the light of the general tenor of the agreement and the circumstances surrounding the transactions between the parties showed that the assessee was not an agent but really a purchaser from the company in respect of the goods in question, and the transactions were liable to be included in the turnover of the assessee. [885G-H;886A] 881

The Bhopal Sugar Industries Ltd. v. Sales Tax Officer, Bhopal, [1977] 3 S.C.C. 147; and Pollack & Mulla's Commentary on the Sale of Goods & Partnership Acts, 4th Edition, p. 114, referred to.

JUDGMENT:

CIVIL APPELLATE JURISDICTION: Civil Appeal No. 523 (NT) of 1975.

From the Judgment and Order dated 31.1.1974 of the High Court of Kerala in Tax Reference Case No. 52 of 1971.

T.S. Krishnamurthy Iyer and P.K. Pillai for the Appellant.

G. Vishwanath Iyer and N. Sudakaran for the Respondent. The Judgment of the Court was delivered by KANIA, J. This is an appeal against a judgment of a Division Bench of the High Court of Kerala under the provisions of the Kerala General Sales Tax Act, 1963 and Tax Reference Case No. 52 of 1971 filed pursuant to special leave granted by this Court. The Appellant before us is the M/s Alwaye Agencies and the respondent is the Dy. Commissioner of Agricultural Income-tax and Sales Tax, Ernakulam.

The assessee firm was appointed as Distributor by the Travancore Cochin Chemicals Ltd. (referred to hereinafter as the "said company") to effect the sale of Sodium Hydrosulphite manufactured by the said company in the area covered by the Kerala State under an agreement entered into on 11th February, 1967. The dispute pertains to the transactions which took place between 1st September, 1967 and 20th December, 1968 since it is an undisputed that the transactions upto the former date are not taxable. It is common ground that the relations between the parties were governed throughout by the said agreement and that the parties adhered to the terms of the said agreement. In view of this it would be desirable to examine that agreement at this stage. As aforesaid, the agreement is dated 11th February, 1967. Under the agreement, the assessee firm was appointed as Distributor for the aforesaid product manufactured by the company for the area covered by the Kerala State. Clause 2 of the agreement provides that the distributorship was on an exclusive basis giving the distributor the right of sale of the product within the aforementioned area and that supplies would be made only direct to the distributor, Sub clause (a) of clause 2 further provides:

"However, when on the advice of the distributor bulk supplies are effected in waggon-load or lorry-load lots the Company may effect supplies direct to the consumer, provided that the distributor arranges the payment as per the clause hereinafter mentioned and also takes the responsibility to bear entirely the resultant effects and risks from effecting such direct despatches."

Sub-clause (b) of the said clause provides that the company reserves the right to effect the sale of Sodium Hydrosulphite to anybody and anywhere in India direct.

Under Clause 4, the price which the distributor would be entitled to charge to the consumer was fixed by the company and it was provided that the distributor will sell the materials to the clients or consumers at the said price plus certain costs incurred by the distributor. Clause 6 provides that the said company would grant the distributor a rebate of 3% on the ex-factory selling price, which the company was entitled to determine as aforesaid. This rebate was liable to be paid to the distributor only at the end of the month when the statement of the account would be settled. Under Clause 7, the distributor was liable to guarantee the minimum off take of the said product. Clause 8 of the agreement provides for mode of payment by the assessee (distributor) to the said company, and very briefly stated, it provides that the assessee would arrange for effecting payment either in cash or by Demand draft payable at par, or, alternatively, would open an irrevocable letter of credit in favour of the said company negotiable against R/R or other documents of despatch of goods. It is provided that the letter of credit would cover the value of goods as well as charges of transport for booking the goods to destination station, Sales tax and other expenses including cost of insurance, if any, effected at the distributor's request. An alternative mode of the payment is provided to the effect that the assessee as distributor must remit 10% of the full value by Demand Draft and retire the documents of despatch of goods sent to the assessee through bank for collection from the bank. Clause 8 further provides if the documents sent by the said company are not retired within the stipulated time, interest would be payable by the distributor on the amount due at the rate of 12% per annum. The clause also makes it clear that if the second mode of payment is adopted by the assessee, consignments would be insured by the said company against transit risk and the insurance charges would have to be borne by the assessee. It may be noted at this stage that the Tribunal has

found as a fact that in respect of the said transactions from 1st September, 1967 to 20th December, 1968, the invoices were prepared by the said company in the names of the consumers of goods and the goods were consigned to the destinations through public carriers booked "self". The transport bills were endorsed and handed over by the said company to the assessee. From 20th December, 1968, goods were consigned to the destination showing the assessee as consignor. But we are not concerned with the period from 20th December, 1968. In the assessment of the assessee for the period 1967-68 under the Kerala General Sales Tax Act, 1963, the final assessment was initially completed on 27th September, 1968 and a turnover of Rs.70,952.61 as reported by the assessee was accepted and tax levied on that basis. Thereafter, it was alleged by the Assessing Authority that the transactions in the aforesaid period, which had taken place in the manner set out earlier, had been wrongly excluded from the turnover reported by the assessee in the return and hence that turnover has escaped assessment. The contention of the assessee that these transactions did not constitute sales by the said company to the assessee was not accepted and hence it was held by the Assessing Officer that the said turnover was liable to be included in the taxable turnover of the assessee, as escaped turnover. An appeal preferred by the assessee to the Appellant Assistant Commissioner was dismissed. In a Second Appeal to the Tribunal, the Tribunal took the view, by majority, that the aforesaid transactions had taken place directly between the said company and the consumers and the assessee was merely an agent of the company in respect thereof. The Tribunal allowed the appeal and directed the aforesaid transactions to be excluded from the taxable turnover of the assessee. On a revision to the High Court under Section 41 of the said Act, the Division Bench of the High Court took the view that the Tribunal was wrong in coming to the conclusion that the assessee was acting only as an Agent in respect of the aforesaid transactions between the said company and the consumers and allowed the Revision Application.

The Division Bench of the High Court considered several cases which were cited before the Division Bench and held that the test to determine whether there is a sale or not is to find out whether there is transfer of property. It further pointed out that the question whether there has been transfer of property must necessarily depend upon an appreciation of the rights and obligations of the parties under the contract. If the property is transferred, unless there is a specific stipulation to the contrary, any risk of loss or injury to the goods would, thereafter, be not in the seller but in the buyer. They further pointed out that the delivery may be either to the distributor himself or to his nominee; the nominee could be the person whose orders are booked by the distributor. They pointed out that in the present case even when the goods were despatched by the said company to the address of the customers, whose orders were booked by the distributor, namely, the assessee, the documents of title were not delivered to the customers, but handed over to the distributor on receipt of price, or the documents of title were endorsed in favour of the distributor and sent through the banks to be honoured by the distributor by payment. In such cases, where there was some time-lag between the despatch of goods and the entrustment of documents of title on receiving payment through the bank, care was taken to stipulate that the risk would be covered by insurance which would be at the cost of the distributor. The Division Bench further pointed out that in the said agreement, the distributor had not been referred to as "Agent" but as "Distributor" and that this was also significant although not conclusive. It was on the basis of these conclusions that the High Court reversed the decision of the Tribunal and allowed the Revision Application.

In our opinion, since both the parties have proceeded on the footing that the transactions in question were effected pursuant to the said agreement, the primary task to which we must address ourselves is to examine whether under the agreement the assessee firm was an agent of the said company, or whether the assessee firm was really a purchaser of the goods which were booked by it. In this connections, it must be noticed that under sub-clause (a) of Clause 2 provides that the distributor has the right of the sale of the product within the stipulated area. Bulk supplies were effected in waggon-load or lorry-load by the said company direct to the consumer, but only provided that the distributor arranged the payment as per the agreement and also took the responsibility to bear entirely the resultant effects and risk from said direct despatches. It is true that the price at which the goods were to be sold to the customers was fixed by the company but that itself does not necessarily lead to the conclusion that the assessee acted merely as an agent of the said company. In fact, it is well settled that the mere fact that the manufacturer fixes the sale price, by itself, cannot lead to the conclusion that the distributor is merely an agent. It is significant that under the agreement what the distributor got is described as a "rebate" and not as "commission", as one would normally expect in an agreement of agency. This is a factor which is by no means conclusive, but to a certain extent indicative of the relationship between the said company and the assessee. What is most important is, however, that the supplies were made to the distributor against payment either immediate or deferred as provided in the agreement, and even when the goods were destined directly to the customer, it was the distributor who had to guarantee to arrange the payment. Clause 8 makes it quite clear that the arrangement for effecting payment had to be made by the distributor either in case of by demand draft or by irrevocable letter of credit in the company's favour negotiable against R/R or other documents of despatch of goods. It is also significant that where there was some time lag between the sending of the goods and the payment, the goods were to be insured at the cost of the assessee. This circumstance, in our opinion, clearly shows that in respect of the goods dispatched under orders placed by the distributors, the distributors really acted as purchasers of the goods which they in turn sold to the customers and did not merely act as agents of the said company. In respect of the goods in question which were despatched through public carriers, although the invoices were prepared in the names of the consumers of the goods, and the goods were consigned to the destination through public carrier booked to self, as pointed by the Tribunal and the bills were endorsed and handed over to the assessee. When considered in the light of the agreement, these circumstances clearly shows that in respect of these transactions the property in the goods dispatched passed to the distributor on the bills being endorsed and handed over to the distributors.

Our attention was drawn by Shri Krishnamurthy Iyer, learned counsel for the assessee (appellant) to the decision of this Court in *The Bhopal Sugar Industries Ltd. v. Sales Tax Officer, Bhopal*, [1977] 3 S.C.C. p. 147 where the question was whether the contract was one of agency or sale. This Court held that the question will have to be determined having regard to the terms and recitals of the agreement, the intention of the parties as may be spelt out from the terms of the document and the surrounding circumstances and having regard to the course of dealings between the parties. While interpreting the terms of the agreement, the Court has to look to the substance rather than the form of it. The mere fact that the word 'agent' or 'agency' is used or the words 'buyer' and 'seller' are used to describe the status of the parties concerned is not sufficient to lead to the irresistible inference that the parties did in fact intend that the said status would be conferred. We are in complete

agreement with the principles laid down in this decision. We may point out that although we have referred to the assessee being described in the agreement as "distributor" and not as "agent" and to the fact that what they got was described as "rebate" and not "commission", we have not treated these circumstances as in any manner decisive. In our view, however, these descriptions considered in the light of the general tenor of the agreement and the circumstances surrounding the transactions between the parties show that the assessee was not agent, but really a purchaser from the company in respect of the goods in question.

Learned counsel for the appellant also drew our attention to a passage in Pollack & Mulla's Commentary on the Sale of Goods and Partnership Acts, (4th Edition at page

114) where the learned authors have cited with approval the statement of Lord Justice Cotton to the effect that when the vendor on shipment takes the bill of lading to his own order, he has the power of absolutely disposing of the cargo, and may prevent the purchaser from ever asserting any right of property therein. Lord Justice Cotton observed that in such cases the purchaser had no property in the goods, though he had offered to accept bills or had paid the price. These observations, however, in our view, have no application to the case before us, because in the case before us, although the goods were consigned to the self, the documents relating to the despatch of goods, namely R/R or other documents of title were endorsed in favour of the assessee and handed over to them on payment or were sent to the assessee through the bank for collection.

We may mention that it was urged by learned counsel for the respondent, in the alternative, that, although sub-section 21 of Section 2 of the Kerala General Sales Tax Act defines sale in a manner similar to the definition of the said term under the Sale of Goods Act, Explanation 5 to sub-section 21 of Section 2 provides that two independent sales or purchases shall, for the purposes of that Act, be deemed to have taken place in the circumstances set out in that explanation. A perusal of the said explanation shows that such independent sales or purchases take place, inter-alia, where the goods are transferred from a principal to his selling agent and from the selling agent to the purchaser. It was submitted by him that in view of this explanation, even if the appellant firm was merely the agent of the said company in respect of the transactions in question, there were two sales which must be deemed to have taken place in respect of each of the transactions for the purposes of the said Act; one from the said company to the appellant and the other from the appellant to the respective consumer; and that the sale from the said company to the appellant was liable to be included in the taxable turnover of the assessee. In our view, it is not necessary to consider this submission, because, according to us, in view of the said agreement, considered in the light of the surrounding circumstances, the assessee as distributor was not an agent of the said company in respect of the transaction in question, but was the pur-

chaser and hence the transactions were liable to be included in the turnover of the assessee.

In the result, we find that there is no merit in the appeal and the appeal must stand dismissed with costs. There will be an order accordingly.

S.L.

Appeal dismissed.

