

Landmark Judgments

Atiabari Tea Co. vs the State of Assam (1961)

Facts

In this case of *Atiabari Tea Co.Ltd. v/s the State of Assam*, Assam Taxation Act levies a tax on goods transmitted through Inland Waterways and road. The petitioner in the present case carried on the business of transporting tea to Calcutta (now Kolkata) via Assam. Now while passing through Assam for the purpose of transportation to Calcutta, the tea was liable to tax under the said Act.

Issues

The rationality of The Assam Taxation Act of 1954 was questioned on the grounds that:

- **whether it is violative of Article 301 or not?**
- **whether it could be protected by making it fall under the ambit of Article 304 (b) or not?**

Judgment

The Supreme Court said that the disputed law undeniably levied a tax that directly and immediately infringed the movement of goods and therefore it comes under the purview of Article 301. The Supreme Court further clarified that these taxes can only be

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purview of Article 301. The Supreme Court further clarified that these taxes can only be levied after fulfilling the conditions of Article 304(b) which states that the sanction by the President is required before any State enacts such a law. In this case, the requirements of Article 304(b) were also not fulfilled. Freedom assured under Article 301 would become non-existent or imaginary if transmission of goods is obstructed without meeting the criteria set out by Article 302 to Article 304 of the Constitution.

G.K.Krishna vs State of Tamil Nadu (1975)

Facts

In the case of *G.K Krishna v/s State of Tamil Nadu*, a govt notification under Madras Motor Vehicles Act was issued, increasing the motor vehicle tax on omnibuses from Rs 30 to Rs 100. The government's argument while imposing this tax was that this was done to stop the unhealthy competition between omnibuses and regular stage carriage buses and to reduce the misuse of omnibuses.

Issues

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The petitioner in his argument questioned:

- **whether the tax was compensatory or regulatory?**
- **whether it was a barrier to the freedom of trade, commerce, and intercourse or not?**

Judgment

The Supreme Court held that the tax on carriage charges was of compensatory or regulatory nature and was not therefore violative of the freedom guaranteed under Article 301. The Courts while explaining its rationale behind the judgment said that these taxes are not barriers but a medium that facilitates trade. A tax to become a prohibited tax must be first a direct tax. A

prohibited tax must be first a direct tax. A direct tax is a tax that infringes the transmission of goods or services in a trade or business. The Court, however, presented its view in this regard that no citizen has the right to engage in any service without reimbursing the State for the special service. Here, in this case, safe and efficient roads are required for the smooth running of vehicles. The maintenance of such roads will cost the money of the Government and the use of public motor vehicles stands in direct relation to it. Therefore the imposing of tax should not seem unreasonable i.e. making of a special contribution over and above the contribution generally provided by the taxpayers to the state. The increase in tax was thus held correct and valid in the eyes of