OBC Creamy Layer Income Test & SC Verdict

Mains: GS Paper II *– Governance*

Why in News?

The Supreme Court of India agreed to constitute a special bench regarding whether the Other Backward Classes (OBC) creamy layer criteria apply retrospectively to the Civil Services Examination (CSE) 2025.

What is the OBC Creamy Layer?

- **Creamy Layer –** It refers to the ***socially, educationally, and economically*** advanced members among the OBCs who are excluded from government reservation benefits in jobs and admissions.
- **Origin -** Introduced following the landmark **Indra Sawhney case (1992)**.
- In this case, the Supreme Court upheld ***27% OBC reservation*** but mandated the exclusion of the "creamy layer" to ensure benefits reach the truly disadvantaged.
- **1993 Office Memorandum (OM) -** The Department of Personnel and Training (DoPT) issued a structured framework for identification
  - **Status-Based Test -** Exclusion based on high-ranking constitutional or government posts (e.g., Group A/Class I and certain Group B officers).
  - **Income/Wealth Test -** Applied to individuals outside government service.
  - Crucially, the 1993 OM ***explicitly excluded income from salary and agricultural sources*** when computing the income limit.

What was the problem with the 1993 OM and 2004 letter?

Parameter	1993 DoPT Office Memorandum	2004 DoPT Clarificatory Letter
Treatment of Salary Income	Excluded salary and agricultural income from the income/wealth test.	Treated salary income of PSU and private-sector employees as part of the income test.
Equivalence Principle	Mandated evaluating posts in PSUs/private sectors for equivalence with Group A/B government posts.	Permitted pure income-based exclusion where formal post-equivalence was not determined.
Impact on Candidates	Protected wards of non-Group A/B employees from being excluded solely on gross salary.	Led to the rejection of ~100 successful CSE candidates' OBC certificates since CSE 2015.

How did the Supreme Court interpret the income test?

- The division bench comprising Justices P.S. Narasimha and R. Mahadevan ruled in *Union of*

India v. Rohith Nathan.

- Salary income ***cannot be the single determining factor*** for creamy layer exclusion without evaluating the status and nature of the post (Group A, B, C, or D equivalent).
- Treating wards of PSU/private employees differently from government employees solely based on salary violates **Article 14** (Right to Equality).
- It will lead to arbitrary distinctions within the same social class.
- The exclusion framework must primarily remain **status-based**, with income acting only as a supplementary factor when equivalence cannot be established.
- The court held that an executive clarification (2004 letter) cannot override or distort the foundational scheme laid out in the 1993 policy.

Why is the centre seeking clarification?

- The Centre has approached the Supreme Court seeking prospective application of the March 11 verdict, citing several administrative and legal complexities.
- The Supreme Court delivered its verdict on March 11, 2026, 5 days after UPSC declared the final results of CSE 2025 (March 6, 2026) recommending 958 candidates.
- Applying the ruling to CSE 2025 at the terminal stage of service allocation would delay academy training schedules, cadre allocations (IAS/IPS), and seniority lists.
- Candidates who opted out of claiming OBC NCL benefits under the pre-March 2026 interpretation (and applied under General Category) could face discrimination relative to candidates who claimed it.
- The Centre expressed concern that retrospective implementation could trigger re-evaluations across completed university admissions, awarded degrees, and historical recruitment cycles since 2015.

What are the key legal principles involved?

- **"Rules of the Game Cannot Be Changed Mid-Way" -** Established in *Tej Prakash Pathak v. Rajasthan High Court (2024)*, this doctrine mandates that selection criteria cannot be altered once the recruitment process has commenced or concluded.
- **Doctrine of Prospective Overruling-** Allows courts to lay down a new legal interpretation while clarifying that past actions, selection processes, or settled rights conducted under the old interpretation remain valid.

What are the challenges?

- **Administrative Vaccum -** Successive governments have failed to formally determine equivalent posts between government services and PSUs/Banks/Private sector entities, leaving an administrative vacuum.
- **Inflationary Pressures -** The current income threshold of Rs. 8 lakh per annum (last revised in 2017) has not kept pace with inflation, creating friction for salaried middle-class candidates.
- **Arbitrary Interpretations-** Inconsistent application of DoPT circulars across states and competent authorities has caused widespread litigation for civil service aspirants.

What is the way forward?

- The Ministry of Personnel, Public Grievances and Pensions must establish a comprehensive post-equivalence matrix for PSUs, public sector banks, and private corporations relative to central government cadres.
- Execute periodic indexation of the OBC non-creamy layer income threshold to reflect prevailing economic conditions and inflation rates.
- Establish a clear transition window for ongoing recruitment cycles to prevent administrative stalemate while upholding judicial directions for future selections.

Reference

[The Hindu | OBC creamy-layer income test]