Sri B. Dhanunjayarao & Smt. B. Seetharatnam v. Deputy Commissioner of Income Tax, Circle 1(3), Hyderabad

I.T.T.A. Nos. 354, 355, 469 & 476 of 2013 (in ITAT ITA Nos. 443 to 446/Hyd/2012)

I.T.T.A. Nos. 354, 355, 469 & 476 of 2013 (Telangana HC, decided 04.12.2025) | 2025-12-04

Shareholder advances treated as deemed dividend where claimed mortgage benefit to company was not established.

Income-tax Act,1961: sections 2(22)(e), 143(3), 147, 148, 260A

High Court for the State of Telangana | 2-judge bench (Division Bench) | Justice P. Sam Koshy | Justice Narsing Rao Nandikonda

Assessment years: 2002-03, 2003-04, 2006-07

01 FACTS OF THE CASE

B. Dhanunjayarao and B. Seetharatnam, directors of BDR Projects, challenged the common Tribunal order of 14 December 2012. ITTA 354/2013 concerns Dhanunjayarao, AY 2002-03; 476/2013 his AY 2006-07; 355/2013 Seetharatnam, AY 2003-04; and 469/2013 her AY 2006-07. The judgment records advances totalling Rs.28.59 lakh and Rs.50 lakh respectively.

Source: PDF pp.1–2, 11

02 DISCUSSION BY THE HON'BLE COURT

They claimed the advances enabled construction on property provided as collateral for company borrowing and were therefore a return for commercial benefit, relying on Pradip Kumar Malhotra. The CIT(A) accepted their explanation; the Tribunal restored the additions. The High Court focused on missing documentary proof that the property secured company borrowing and the absence of correspondence seeking its release.

Source: PDF pp.5–9, 13–17

03 JUDICIAL DECISION

The Court found no fault with the Tribunal's rejection of the unproved explanation and restoration of deemed-dividend treatment under section 2(22)(e). The substantial question was answered for Revenue.

Source: PDF pp.16–18, paras 15–18

04 OUTCOME / IN WHOSE FAVOUR

All four appeals dismissed without costs; pending miscellaneous petitions closed.

Source: PDF p.18, para 19

05 EXPERT COMMENTS

AKHB Expert Comments — editorial analysis, distinct from the Court's findings.

Commercial reciprocity required proof: The claim was that the advance compensated directors for property committed to company financing. The Court considered that explanation and the cited Malhotra reasoning but found its factual foundation unproved. Bank security documents, identification of the property and borrowing, and contemporaneous company correspondence would connect the advance to the alleged business benefit; a bare assertion of mutual benefit was insufficient here. (PDF pp.13, 16–17, paras 10, 15–17)

Read paragraph 14 with the operative reasoning: Paragraph 14 describes the assessee's case that company benefit would take the payment outside the provision. It cannot be isolated as a finding that this benefit was actually established: paragraphs 15–19 reject the evidence and dismiss the appeals. Equally, Revenue's argument that purpose was immaterial should not replace the Court's more specific evidentiary basis. (PDF pp.15–18, paras 14–19)

Retain the individual years and source qualifications: A common judgment does not turn the two shareholders and four appeals into one assessment. The source varies Seetharatnam's shareholding description between 10% and 18.69%, and gives differing dates for bank letters. Those details are not silently resolved. The secure conclusion is that the claimed mortgage arrangement was not proved to the Court's satisfaction, not a fresh determination of those inconsistent particulars. (PDF pp.1–2, 9–12, 16–18)

Source: PDF pp.13, 16–17, paras10, 15–17

SOURCE & VERIFICATION

Original High Court judgment PDF — AKHB source repository

Complete 19-page original reviewed; source bytes verified.

Full original and all five panels re-reviewed on 21 October 2026.

Open cited source rendition

Complete original source and all five note panels checked; original docket identities preserved.

STATUTORY SCOPE

Current law and subsequent treatment not independently verified.

LATER TREATMENT

Source checked 2026-10-21. Subsequent proceedings and current judicial treatment have not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.