

Kantilal Manilal and Others v. The Commissioner of Income-tax, Bombay

Civil Appeal No. 364 of 1957 — Single Supreme Court civil appeal disposed of by the target judgment.

[1961] 2 SCR 584 | 1960-11-22

A company's distribution to its shareholders of valuable rights to acquire another company's shares was dividend in kind, despite the resolution's form and absence of a cash payment.

1922 Act: 2(6A) | 1922 Act: 12 | 1922 Act: 34(1)(a) (reassessment background) | 1922 Act: 66(1)

3 Judges | J. L. Kapur | M. Hidayatullah | J. C. Shah

01 FACTS OF THE CASE

Navjivan Mills held 5,000 Bank of India shares and became entitled to subscribe for further shares at Rs. 100 each, including premium. The bank shares traded above Rs. 200. The Mills took 66 shares itself and distributed the rights to the remaining 1,600 among its shareholders at two bank-share rights for each Mills share. The seven appellants held 570 Mills shares and accepted 1,140 bank shares. Their assessments were reopened on the footing that the transferred rights were dividend. The Tribunal and High Court upheld taxation, and the shareholders appealed.

Source: [SCR 585-587; facts and procedural record](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 2(6A) was an inclusive definition: it supplemented, rather than displaced, the ordinary meaning of dividend. The High Court could therefore consider that ordinary meaning when answering whether the distribution fell within the statutory expression. The Mills could accept the bank's offer, renounce it or nominate others. Choosing the shareholders as nominees transferred a right with monetary value; it was not an empty permission to subscribe. The Court explained that the Mills could have sold the rights and distributed their proceeds as dividend. Direct distribution of the rights instead preserved the same substantive character. The company's resolution did not need to call the distribution a dividend or adopt the conventional form of a dividend resolution.

Source: [SCR 587-589; judicial reasoning; opinion boundaries preserved](#)

03 JUDICIAL DECISION

The transferred subscription rights were a distributive benefit to shareholders, not a distribution of the Mills' capital. Dividend could be delivered as property or a monetarily valuable right. The High Court was correct that rights to acquire two bank shares at approximately half market value for each Mills share amounted to dividend. Its reformulation did not improperly enlarge the reference because the original statutory question encompassed both ordinary and extended meanings.

Source: [SCR 588-589; holding and expressed limits](#)

04 OUTCOME / IN WHOSE FAVOUR

Shareholders' appeal dismissed. Taxation of the distributed rights as dividend remained effective. Appeal dismissed with costs.

Source: [SCR 589-589; operative disposition and costs](#)

05 AKHB REVIEW POINT

Distinguish an issuer offering its own rights shares from a corporate shareholder distributing its valuable rights in another company to its members. The latter transfer was the transaction decided here. Trace the asset and benefit actually distributed before relying on a resolution's label. The case settles dividend character under the historical law; it does not decide every later valuation rule, shareholder exemption, distribution-tax regime or reassessment objection.

Source: [SCR 586-589; editorial analysis based on the indicated reasoning](#)

ORIGINATING PROCEEDINGS

1.

Case numbers: I.T.R. No. 31 of 1955

Relationship: Bombay High Court originating reference; judgment 22 February 1956

SOURCE & VERIFICATION

[Original reported Supreme Court judgment](#)

6-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified. All 6 pages/SCR584-589. Prior Hingir-Rampur dissent/By Court order above dividing rule p 1 excluded; target caption below rule. Shah J opinion p 2-6 ends in dismissal/costs. Seven appellants in one appeal, not seven invented dockets.

[Open cited source rendition](#)

The preceding Hingir-Rampur opinion and operative order at the top of p 1 are unrelated to this target.

The report gives fractional entitlement but focuses on the 66 shares accepted and 1,600 rights distributed; the note does not reconstruct the fractional residue.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 2(6A), 12, 34(1)(a) (reassessment background), 66(1)

The Finance Act 2011 definition remains inclusive and expressly addresses distributions of accumulated profits entailing release of company assets. This verifies only the later definition's structure, not the tax incidence, valuation or exemption treatment of a new rights distribution.

No corresponding 2025 provision was verified for the dividend definition and charging provisions; no renumbering or present-law equivalence is asserted.

The operative historical law is identified separately. Only the stated later statutory versions and passages were checked; comprehensive subsequent history and applicability to a particular later tax year remain unverified.

LATER TREATMENT

Source checked 2026-10-08. No specific later judicial treatment is adopted except where expressly stated.

No later primary decision on this specific distribution of third-company subscription rights has yet been verified; no later dividend-tax exemption or valuation rule is inferred.

Earlier authorities discussed within the target judgment are not treated as later-use evidence.

IDENTIFIED SOURCE LINKS

[Income-tax Act, 1961: Section 2\(22\)](#)

DOR-hosted Taxmann compilation, as amended by Finance Act 2011. Only identified statutory limbs on these pages, plus version page 42. Not a current consolidated text, Gazette-original authentication, whole-Act or image review. Only the named 2011 provisions are compared. Text pages read: 54-56.

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