

The First National City Bank v. The Commissioner of Income-tax, Bombay City

Civil Appeal No. 315 of 1958 — One Supreme Court civil appeal by special leave; the two shared-page neighboring cases are not connected proceedings.

[1961] 3 SCR 371 | 1961-01-06

The US bank's undivided profits, retained under the proved statutory accounting system as capital funds for continued business use, were reserves for Business Profits Tax capital computation.

Business Profits Tax Act, 1947

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

01 FACTS OF THE CASE

The bank's undivided profits qualified as reserves for the historical abatement calculation. First National City Bank, incorporated in the United States and operating Indian branches, was assessed for four chargeable periods spanning April 1946 to March 1949. For illustration, its December 1946 balance sheet showed capital of \$77.5 million, surplus of \$152.5 million and undivided profits of \$29,534,614.21. Revenue authorities treated the last category as merely an unallocated profit-and-loss balance. The High Court agreed because the directors had not separately transferred it to a reserve, although it accepted that the funds supported the bank's business. The appeal concerned their inclusion under Schedule II rule 2(1) of the Business Profits Tax Act.

Source: [SCR 372-375; target passages only; shared-page exclusions recorded in read_bounds.](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court examined the substance of the account through the directors' report, US Treasury instructions, a Deputy Controller of Currency letter and other banks' balance sheets. Under that system, capital, surplus and undivided profits together formed capital funds. Undivided profits represented accumulated residual profits retained after provisions for expenses, taxes, dividends and reserves, available for continuing business and absorption of losses. Their creation and maintenance followed statutory reporting requirements; it was therefore incorrect to assume that there had been no effective allocation merely because no Indian-style reserve designation appeared. The Court distinguished the ordinary Indian carry-forward of an unallocated profit-and-loss balance. Century Spinning required inquiry into a fund's true nature and evidence of retention for future use. Its rejection of a sum still available for dividend distribution did not defeat this bank's differently constituted capital fund.

Source: [SCR 375-379; target passages only; shared-page exclusions recorded in read_bounds.](#)

03 JUDICIAL DECISION

The proved undivided-profits account formed part of reserves under rule 2(1). The referred question should have been answered affirmatively for the bank, and the amounts included in capital for the chargeable accounting periods when computing abatement.

Source: [SCR 379-380; target passages only; shared-page exclusions recorded in read_bounds.](#)

04 OUTCOME / IN WHOSE FAVOUR

Bank's appeal allowed; reference answered in its favour. The exclusion of the undivided-profits amounts from the historical capital computation was reversed. Bank awarded costs in the Supreme Court and High Court.

Source: [SCR 380-380; target passages only; shared-page exclusions recorded in read_bounds.](#)

05 AKHB REVIEW POINT

A foreign accounting label needs evidence of its legal requirements, actual allocation and economic function. Retention and permitted use mattered here; the mere existence of undistributed profits was insufficient. This is a Business Profits Tax reserve-and-capital case, not a direct ruling on modern income-tax deductions, book-profit adjustments or prudential capital. Similar terminology in another statute requires independent textual and factual analysis. Neighboring judgments at both ends of the scan are excluded.

Source: [SCR 376-380; target passages only; shared-page exclusions recorded in read_bounds.](#)

ORIGINATING PROCEEDINGS

1.

Case numbers: I.T.R. No. 34 of 1956

Relationship: Bombay High Court judgment and order dated 5 February 1957.

SOURCE & VERIFICATION

Original reported Supreme Court judgment

10-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 ten physical text and image pages, SCR371-380. Target begins below Dharamvir Dhir concluding order on p1; caption/date/coram/docket and Bombay ITR34/1956 at p1. Single Kapur J judgment pp2-10 ends above K.A.Ramachar caption on p10. Both neighboring fragments excluded. Page3 image shows USD29,534,614.21 in final paragraph where extraction misreads20,534,614.21; image controls. Degraded but legible p7 visually checked in full. Operative Act is Business Profits Tax Act1947, not Income-tax Act1961.

Open cited source rendition

Top of p1 finishes Dharamvir Dhir; lower p10 begins K. A. Ramachar. Neither is part of this judgment.

Page3 image confirms \$29,534,614.21 where extracted text once reads \$20,534,614.21; the image value is used.

Page7 is degraded but legible and was visually read; Treasury-letter quotation describes profits retained after provisions, while one judicial sentence says set up for expenses, taxes, dividends and reserves. The combined reasoning is retained without treating that phrase as a separate liability reserve holding.

STATUTORY SCOPE

Business Profits Tax Act, 1947; Business Profits Tax Act, 1947, Schedule II rule 2(1), with Schedule I rule 3, United States Revised Statutes, section 5211 (Title 12, U.S.C. 161), and Treasury reporting instructions as proved in the case; Indian Income-tax Act, 1922 profit-computation exclusion referenced by the quoted BPT rule; no separate 1922 charging issue decided

No 1961 provision equivalent to the Business Profits Tax abatement calculation was verified. A reserve's classification under this historical rule does not establish its treatment under any 1961 deduction or book-profit provision.

No equivalent 2025 abatement or reserve provision was verified. No section mapping or present capital-computation result is asserted.

Historical operative law is separate from the stated bounded later versions. Tax-year applicability, unexamined conditions, complete transition provisions and comprehensive subsequent judicial treatment remain unverified.

Other provisions addressed: Business Profits Tax Act, 1947, Schedule II rule 2(1), with Schedule I rule 3; United States Revised Statutes, section 5211 (Title 12, U.S.C. 161), and Treasury reporting instructions as proved in the case; Indian Income-tax Act, 1922 profit-computation exclusion referenced by the quoted BPT rule; no separate 1922 charging issue decided

LATER TREATMENT

Source checked 2026-10-08. No specific subsequent judicial treatment independently verified for this note.

Century Spinning and the US authority are antecedent authorities discussed by this Court, not subsequent treatment; no later case-specific judicial use verified.

Earlier authorities in the target are not later treatment. No exhaustive citator or current precedential-status conclusion.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

PROFESSIONAL DISCLAIMER

AI-assisted legal research note for general information and professional research. It is not legal or tax advice. Verify the original judgment, applicable statutory version and subsequent judicial treatment before relying on it. The AKHB Review Point is editorial analysis, not part of the Court's judgment.