

M/s. Bhor Industries Ltd. v. Commissioner of Income-tax, Bombay City I

Civil Appeals Nos. 158 to 164 of 1960

[1961] 3 SCR 409 | 1961-01-12

Merged-State income and deemed dividends: historical section 23A reached British Indian income, but not protected Bhor State income; section 18A(8) interest was not deductible as tax.

Indian Income-tax Act, 1922: sections 2(5A), 4(1)(a), 4(1)(b)(i)-(ii), 14(2)(c), 18A(8), 23A(1), 29, 60A and 66A | Merged States (Taxation Concessions) Order, 1949: paragraphs 4 to 6 and 12 | Taxation Laws (Extension to Merged States and Amendment) Act, 1949 | States Merger (Governors' Provinces) Order, 1949

3-judge bench; unanimous judgment delivered by M. Hidayatullah, J. | J. L. Kapur, J. | M. Hidayatullah, J. | J. C. Shah, J.

Assessment years: 1947-48, 1948-49, 1949-50 (shareholders' deemed-dividend assessment)

Historical statutory setting

Historical 1922 Act deemed-dividend and merged-State transitional provisions; no current dividend-taxation, interest-deduction, territorial-source or successor-law clearance.

Source and scope caution

The catalogue date is 12 January 1960 and its case-number field lists only Civil Appeal No.158 of 1960; the reported judgment states 12 January 1961 and Civil Appeals Nos.158 to 164 of 1960. The primary report controls.

Additional scope caution

PDF p.1 includes the preceding Mahanth Ramswaroop Das disposition, and PDF p.15 begins the unrelated Babulal Parate report; neither is part of this tax decision.

Additional scope caution

The appeals were not an unqualified Revenue victory: the operative answer excluded Bhor State income from section 23A while sustaining the treatment of British Indian income.

Additional scope caution

The Court expressed no opinion on the correctness of the Income-tax Officer's apportionment method because no question on that method was referred.

No current-law clearance

Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

01 FACTS OF THE CASE

Bhor Industries, incorporated in the former Bhor State, earned income both in British India and Bhor during account years 1946 and 1947 but declared only Rs.2,580 and Rs.1,140 as dividends. The Income-tax Officers invoked section 23A to deem available profits distributed among its British-India-resident shareholders. The company and shareholders relied on paragraph 12 of the Merged States (Taxation Concessions) Order, sought deduction of section 18A(8) interest before computing the fictional distribution, and claimed section 14(2)(c) protection for the deemed dividend (SCR pp.411-415; PDF pp.3-7).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court read paragraph 12 against the Act's extension from 1 April 1949 and the State's merger on 1 August 1949. 'Any previous year' meant the one previous year relevant to assessment year 1949-50 and ending before 1 August 1949, not every earlier year. Thus Bhor State income for the protected period remained outside section 23A, but British Indian assessable income did not. Interest under section 18A(8) retained its character as interest, despite recovery with tax, and section 23A permitted deduction only of income-tax and super-tax. For resident shareholders, the deemed-distribution fiction carried accrual and receipt with it; section 14(2)(c) protected only Bhor State income, not dividends referable to British Indian income. The Court did not examine the unreferenced calculation method (SCR pp.416-422; PDF pp.8-14).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

Question 1 was answered against the appellants, subject to the modification that section 23A applied only to income earned in British India and not Bhore State. Question 2 was answered in the negative, so section 18A(8) interest was not deductible in the section 23A computation. Question 3 was answered in the affirmative, sustaining the shareholder assessment; the additional High Court question was set aside as unnecessary. The appeals otherwise failed, were dismissed with costs, and carried one hearing fee (SCR pp.419-423; PDF pp.11-15).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

Substantially in favour of Revenue: deemed dividends attributable to British Indian assessable income remained taxable to the resident shareholders, and section 18A(8) interest was not deducted. The company and shareholders secured only the territorial modification excluding income earned in Bhore State; all seven appeals were otherwise dismissed with costs (SCR pp.419-423; PDF pp.11-15).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: for historical deemed-dividend or transitional-merger disputes, segregate each territorial income stream and match the relevant previous year to the precise concession period before applying a statutory fiction. Carry the fiction far enough to make the deemed distribution effective, but preserve express territorial exclusions. Treat interest as tax only where the governing provision actually says so, and do not transplant this ruling to present dividend-taxation or interest regimes without separate statutory and later-treatment review.

Source: [Primary judgment: review point](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 15-page SCR asset read in page-preserving text and rendered/viewed. PDF p.1 opens with the conclusion of Mahanth Ramswaroop Das v. State of Bihar before the Bhore Industries headnote; the Bhore headnote spans PDF pp.1-3, and the judicial opinion spans PDF pp.3-15 / SCR pp.411-423. The unrelated Babulal Parate headnote begins on PDF p.15 and was excluded. Identity, signed report date, seven connected appeal numbers, three-judge bench, author and operative relief were verified. Exact source-hash, asset-ID, SCR-citation, docket, party and date searches found no standalone match in current publication records.

[Open cited source rendition](#)

Catalogue source 1961_3_409_423: SHA-256

13b0bc23f61b7d71046451967d9a9e5c9330d70ab9eb090efd35ea41672088c5, 15 pages, read and visually inspected in full.

The published original preserves the exact catalogue bytes and verified hash.

The source verifies identity, bench, provisions, opinion structure and operative order.

No exact source-hash, asset-ID, SCR-citation, docket or same-judgment publication match was found.

STATUTORY SCOPE

Historical 1922 Act deemed-dividend and merged-State transitional provisions; no current dividend-taxation, interest-deduction, territorial-source or successor-law clearance.

LATER TREATMENT

Source checked 2026-10-11. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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General legal and tax research only; not legal or tax advice. Verify the original judgment, the governing historical statute and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.