

Commissioner of Income Tax, Madras v. Kumbakonam Mutual Benefit Fund Ltd.

Civil Appeals Nos. 637 to 644 of 1963

[1964] 8 SCR 204 | 1964-05-07

Mutuality denied: shareholder-participators could receive dividends without contributing through deposits or borrowing, breaking identity between contributors and participators.

Indian Income Tax Act, 1922: section 10 | Principle of mutuality

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: See the source-scope notes; no year inferred.

Membership alone was insufficient

Participation as shareholder was not participation in the same capacity as contribution to the common fund.

Identity requirement

All contributors must be entitled to participate and all participators must be contributors in the mutual undertaking.

01 FACTS OF THE CASE

The company accepted recurring deposits from members, lent accumulated funds only to members and distributed the remaining income to shareholders according to shareholding. A shareholder could receive dividends without making a deposit or taking a loan. Revenue assessed the profits as banking-business income; the Madras High Court applied mutuality and ruled for the fund.

Source: [Case identity, facts and procedural history](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished a true common fund returned to contributors in their mutual capacity from profits earned by a company from member-customers and distributed to shareholders. Mutuality required identity between contributors and participators, including the capacity in which each acted. Because shareholders could participate in profit merely by holding shares and need not contribute to the deposit-and-loan activity, the fund resembled an ordinary bank limited to member dealings.

Source: [Court's reasoning and statutory analysis](#)

03 JUDICIAL DECISION

The Court allowed Revenue's appeals, answered that the fund was an assessable banking concern and denied mutuality. Because contrary Madras authority had stood for decades, each side bore its own costs.

Source: [Holding and operative order](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue. The mutuality exemption failed and the profits were taxable under section 10.

Source: [Operative result](#)

05 AKHB REVIEW POINT

AKHB analysis: test mutuality with a contributor-participator matrix that records legal capacity, not just membership labels. Confirm that surplus returns only to the same class that created the common fund and that no shareholder or outsider participates independently.

Source: [Primary reasoning underlying the AKHB analysis](#)

SOURCE & VERIFICATION

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

Full 13-page SCR report read and checked. The editorial headnote was distinguished from the judgment text and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 13-page count match catalogue asset 1964_8_204_216; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeals Nos. 637 to 644 of 1963, the stated bench, issues, reasoning and operative result.

No published AKHB note or archived reviewed record with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The decision applies common-law mutuality within the 1922 Act. Current entity form, section 2(24), specific exemptions and later mutuality authorities require separate review.

LATER TREATMENT

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

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