

First Income-tax Officer, Salem v. M/s. Short Brothers (P) Ltd.

Civil Appeal No. 97 of 1965

[1966] 3 SCR 84 | 1965-12-15

Liquidation distributions: current profits could be accumulated profits, but appreciation on agricultural-income land outside taxable capital gains was not dividend merely on distribution.

Indian Income-tax Act, 1922: sections 2(4A), 2(6A)(c), 3, 4, 4(3)(viii), 12, 12B, 18(3D) and 26(2) | Constitution of India: Article 226

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.

Repealed liquidation-dividend regime

The statutory definitions and excluded capital-gain periods examined here belong to the 1922 Act as historically amended. Current company-liquidation, deemed-dividend and agricultural-land rules require separate verification.

01 FACTS OF THE CASE

Short Brothers sold its coffee estates and other assets on 24 December 1959 and resolved on 6 February 1960 to wind up voluntarily. The liquidators distributed Rs.8,50,000 to shareholders on 30 March 1960. The Income-tax Officer proposed to treat the distribution as dividend and, on 18 October 1962, demanded Rs.4,11,700 retained by the liquidators under section 18(3D). The liquidators said the amount reflected appreciation on agricultural lands and buildings and alternatively represented current-year profits outside section 2(6A)(c). The Madras High Court issued prohibition because the entire distribution could not be deemed dividend without determining the portion, if any, arising from lands yielding agricultural income, while reserving liberty to determine the correct dividend amount afresh.

Source: [Sale, liquidation, distribution, demand and writ: SCR pp.85-86 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court declined to disturb the High Court's discretionary use of Article 226 merely because the tax statute supplied an alternative remedy. On section 2(6A)(c), it rejected the company's current-profits argument: the words 'immediately before' liquidation and the 1955-56 amendment history brought profits earned after the last previous year and before liquidation into accumulated profits, even if part-year computation was needed. The Explanation also showed that accumulated profits included capital gains outside specified excluded periods. But section 12B and section 2(4A) then excluded land yielding agricultural income from 'capital assets'. Appreciation realised on transfer of such land was not taxable capital gain or commercial profit and did not become accumulated profits merely because the liquidator distributed it. *Bacha F. Guzdar*, which addressed dividend sourced from agricultural income under section 4(3)(viii), did not answer whether this receipt was dividend at all.

Source: [Article 226 discretion and competing section 2\(6A\)\(c\) positions: SCR pp.86-88 / PDF pp.3-5; Current profits, amendment history and agricultural-land appreciation: SCR pp.89-92 / PDF pp.6-9](#)

03 JUDICIAL DECISION

Current-year profits up to the commencement of liquidation could fall within accumulated profits and be dividend when distributed. However, appreciation on lands from which agricultural income was derived was outside the then capital-gains charge and was not accumulated profit; its distribution was therefore not dividend under section 12. The Court dismissed the Income-tax Officer's appeal with costs, leaving in place the High Court's restraint against the undifferentiated demand and its liberty to determine the correct amount afresh.

Source: [Agricultural-land appreciation holding and dismissal: SCR pp.91-92 / PDF pp.8-9](#)

04 OUTCOME / IN WHOSE FAVOUR

Operatively in favour of the assessee company: Revenue's appeal failed and the blanket collection demand remained restrained. The company nevertheless lost its broader current-profits argument. The judgment did not quantify the taxable part of the Rs.8,50,000 distribution or eliminate the High Court's permission for a lawful fresh determination.

Source: [Mixed issue outcome and final dismissal: SCR pp.89, 91-92 / PDF pp.6, 8-9](#)

05 AKHB REVIEW POINT

AKHB analysis: classify a liquidation distribution component by component. First identify profits accumulated up to the statutory cutoff, including a broken current-year period where the text requires it; then determine whether an apparent gain is taxable capital gain or commercial profit under the governing historical definition. Do not turn exempt or non-chargeable appreciation into dividend merely because cash was distributed, and do not carry that 1922 Act result into current law without checking today's definitions and later authorities.

Source: [AKHB analysis source: accumulated profits, capital gains and land exclusion](#)

SOURCE & VERIFICATION

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

Full nine-page SCR report read and visually checked. The editorial headnote spans PDF pp.1-2; Shah J.'s judgment begins on PDF p.2 and ends with the operative dismissal on PDF p.9.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and nine-page count match catalogue asset 1966_3_84_92; every PDF page was text-read and visually checked.

The report verifies Civil Appeal No. 97 of 1965, decision on 15 December 1965 and the three-member bench; it does not state an assessment year, so none is inferred.

No judgment record matching the Short Brothers party identity, citation, case number or source hash exists in content/supreme-court-cases.json.

STATUTORY SCOPE

The decision interprets liquidation-dividend and capital-gains provisions of the repealed Indian Income-tax Act, 1922, including amendments made in 1955 and 1956. It does not establish the treatment of a liquidation distribution, agricultural land or capital gain under current law.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and current liquidation, dividend, capital-gains and agricultural-land provisions have not been comprehensively checked; no current-law or citator clearance is represented.

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

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