

O. RM. M. SP. SV. Firm v. Commissioner of Income-tax, Madras

Civil Appeal No. 751 of 1965

[1967] 1 SCR 905 | 1966-10-14

Discontinuance relief for a foreign money-lending business whose profits were remitted and taxed in British India, including rental income from business property.

Indian Income-tax Act, 1918: sections 3, 5 and 9 | Indian Income-tax Act, 1922: sections 6, 25(3), 25(4) and 26A

3-judge bench | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1952-53

Obsolete transitional relief

Section 25(3) addressed historical double taxation arising when the 1922 Act replaced the 1918 Act. The decision should not be presented as a current foreign-income or property-income exemption.

01 FACTS OF THE CASE

A Hindu undivided family conducted money-lending businesses in India and the former Federated Malaya States and had been taxed under the 1918 Act. After a 2 June 1938 family partition, the members continued the business through the assessee firm. When the firm was dissolved on 2 March 1952, it claimed section 25(3) relief for AY 1952-53. The officer and first appellate authority rejected the foreign-business claim because only remittances received in British India had been taxed. The Tribunal allowed the claim except for rent from Malayan house properties; the High Court rejected both branches of relief.

Source: [Business history, dissolution, claim and reference questions: SCR pp.906-908 / PDF pp.2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 25(3) addressed the double-tax consequence of the transition from the 1918 Act's current-year basis to the 1922 Act's previous-year basis. Its reference to tax charged on a business meant tax charged on the business owner in respect of business income, and could benefit a successor in interest. The entire profits of the Malayan businesses had been remitted to and taxed in British India under the 1918 Act. Because those receipts were derived from and related to the foreign businesses, the businesses satisfied section 25(3); the High Court's narrower view was disapproved. Following Chugandas, statutory heads were classifications for computation, not exhaustive source boundaries. Rental income from properties owned by the discontinued foreign firm could therefore remain income of that business for the relief.

Source: [Purpose and conditions of section 25\(3\): SCR pp.908-911 / PDF pp.4-7](#); [Rental income as business income for relief: SCR p.912 / PDF p.8](#)

03 JUDICIAL DECISION

The Court held the assessee entitled to both parts of section 25(3) relief for the Penang, Ipoh and Kambar businesses and to corresponding relief for rental income from house properties owned by the discontinued foreign firm. It set aside the Madras High Court judgment and allowed the appeal with costs.

Source: [Relief and operative result: SCR pp.911-912 / PDF pp.7-8](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. The historical transitional relief extended to the taxed foreign-business profits and qualifying rental income; the Court did not create a free-standing present exemption for either category.

Source: [Assessee outcome: SCR pp.911-912 / PDF pp.7-8](#)

05 AKHB REVIEW POINT

AKHB analysis: classify a receipt by its underlying source and business relationship before assuming that a computational head conclusively determines every relief. For historical section 25(3) work, prove tax under the 1918 Act, continuity or succession in the same business, the date of discontinuance and the link between property income and that business. Verify the current statute separately; this transitional relief is not a modern exemption.

Source: [AKHB analysis source: SCR pp.908-912 / PDF pp.4-8](#)

SOURCE & VERIFICATION

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The report verifies Civil Appeal No. 751 of 1965, the decision date 14 October 1966 and the three-member bench.

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STATUTORY SCOPE

The decision applies transitional discontinuance relief under section 25(3) of the Indian Income-tax Act, 1922, linked to tax charged under the Indian Income-tax Act, 1918. It does not establish a present exemption for foreign-business or rental income.

LATER TREATMENT

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

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