

Commissioner of Income-tax, Madras v. Sri Meenakshi Mills Ltd. & Ors.

Civil Appeals Nos. 1084 to 1097 of 1965

[1967] 1 SCR 934 | 1966-10-25

Constructive remittance from a former non-taxable territory, finality of Tribunal fact findings on reference, and lifting the corporate veil in a tax-avoidance arrangement.

Indian Income-tax Act, 1922: sections 4, 42(1) and 66(1)

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

Assessment years: 1946-47 to 1950-51 (as applicable across the three respondent companies)

Fact-bound historical anti-avoidance ruling

The result rests on Tribunal findings of a basic arrangement, inter-company control and knowledge under section 42(1) of the 1922 Act. It is not authority for disregarding corporate personality whenever companies share directors or shareholders.

01 FACTS OF THE CASE

Three Madurai textile companies operated branches at Pudukottai, then outside the taxable territory, and deposited their branch sale proceeds in the Pudukottai branch of Madurai Bank. They borrowed much larger sums from the bank's Madurai head office against those fixed deposits. The bank and the companies were overwhelmingly held or controlled by Thyagaraja Chettiar, his sons and the companies. The tax authorities and Tribunal treated the fund movements as a scheme by which money associated with the Pudukottai deposits was brought into British India with the companies' knowledge, and taxed the fixed-deposit interest. The High Court instead treated the transactions as ordinary banking and answered the reference for the assesseees.

Source: [Companies, deposits, overdrafts, Tribunal findings and reference: SCR pp.935-938 / PDF pp.2-5](#)

02 DISCUSSION BY THE HON'BLE COURT

A High Court deciding a section 66 reference had to accept the Tribunal's fact findings unless their validity had itself been properly raised through section 66(1). On those unchallenged findings, section 42(1) required money lent at interest outside the taxable territory, income arising directly or indirectly from that money, and its being brought into the taxable territory. Knowledge of the lender and borrower had to be integral to the transaction. The Tribunal's findings about control, absence of meaningful local deployment, inter-branch transmission and common management supported a basic arrangement satisfying that test. In this setting, the tax authorities could examine economic reality and pierce the corporate veil where legal personality was used for tax evasion or circumvention. The Court distinguished the ordinary proposition that a common director's knowledge is not automatically imputed between companies.

Source: [Reference limits and section 42\(1\) test: SCR pp.938-940 / PDF pp.5-7](#); [Corporate veil reasoning: SCR pp.941-942 / PDF pp.8-9](#)

03 JUDICIAL DECISION

The Court answered the referred question in favour of the Income-tax Department and against the assessee-companies. It held the entire interest on the fixed deposits taxable, allowed Revenue's appeals and awarded costs.

Source: [Operative result: SCR p.942 / PDF p.9](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue. The fixed-deposit interest remained taxable and the High Court's contrary answer was displaced. The result is confined to the historical provision and the Tribunal's fact findings about the integrated arrangement.

Source: [Application and final Revenue outcome: SCR pp.940-942 / PDF pp.7-9](#)

05 AKHB REVIEW POINT

AKHB analysis: preserve the reference question and any separate challenge to Tribunal fact findings; a legal reference cannot silently reopen unchallenged facts. For cross-border or inter-company funding, map the source and movement of money, security, decision-makers and contemporaneous knowledge. Treat veil piercing as exceptional and fact-specific, and verify the governing modern statutory and anti-avoidance provisions before relying on this historical section 42 ruling.

Source: [AKHB analysis source: SCR pp.938-942 / PDF pp.5-9](#)

SOURCE & VERIFICATION

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

Full nine-page SCR source file read. The editorial headnote on PDF pp.1-2 was distinguished from the unnumbered judicial text beginning on PDF p.2; there is no neighbouring judgment text in the file.

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The report verifies Civil Appeals Nos. 1084 to 1097 of 1965, the decision date 25 October 1966 and the three-member bench.

No duplicate judgment record was found in content/supreme-court-cases.json by title, citation, case number, date or source hash.

STATUTORY SCOPE

The decision applies the Indian Income-tax Act, 1922 to transactions involving British India and the former native State of Pudukottai. It does not determine the operation of the Income-tax Act, 1961 or any present place-of-accrual, anti-avoidance or corporate-separateness rule.

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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