

Raja Mohan Raja Bahadur v. Commissioner of Income-tax, U.P.

Civil Appeal No. 1395 of 1966

[1967] 3 SCR 482 | 1967-04-06

Cash-basis money-lending income: marketable Encumbered Estates bonds received in statutory substitution for a debtor's liability were money's worth and brought the embedded interest into receipt, measured by market value rather than face value.

Indian Income-tax Act, 1922: sections 4, 10, 12, 13 and 34(1)(a) | U.P. Encumbered Estates Act, 1934: section 27

3-judge bench; unanimous judgment delivered by J. C. Shah, J. | J. C. Shah, J. | S. M. Sikri, J. | V. Ramaswami, J.

Assessment years: 1948-49, 1949-50

Cash basis included money's worth

The Court did not convert the assessee to mercantile accounting. It held that a cash-basis trader had received income because transferable State bonds with money value, not merely an unperformed promise of the original debtor, were received in satisfaction.

Market value, not face value

The taxable embedded income was the excess of the bonds' market value on receipt over principal then due. The authorities' use of face value required adjustment, a point conceded by Revenue.

State obligation replaced the debtor

The Government was not merely the debtor's collection agent. Its bond obligation remained unimpaired even if it could not recover from the landholder and therefore constituted fresh security replacing the original liability.

Later sale required anti-duplication adjustment

The assessee disclosed a difference on sale in assessment year 1949-50. The record did not show whether tax was levied, but Revenue undertook to adjust any duplicated assessment; the Court gave no separate direction.

Dismissal was qualified by concessions

Although the appeal was dismissed and the High Court answer remained, the operative economic amount was narrowed by the market-value concession and possible double-tax adjustment.

01 FACTS OF THE CASE

The appellant Hindu undivided family carried on money-lending on the cash basis and obtained a decree against Nisar Ahmad Khan. After the U.P. Encumbered Estates Act applied to the debtor, the Special Judge fixed Rs.5,00,992 due. The appellant received Rs.1,54,692 in cash in 1946 and, on 26 February 1948, State bonds with face value Rs.3,46,300 for the balance. It allocated Rs.2,22,097/9/11 to principal and costs and Rs.1,24,202/6/1 to interest accrued, but did not return that interest for assessment year 1948-49. After selling the bonds for Rs.3,21,600 in October 1948, it disclosed the difference over principal for 1949-50. A section 34(1)(a) reassessment treated the bonds as interest received in the earlier year; the appellate authorities and Allahabad High Court agreed (SCR pp.482-485; PDF pp.1-4).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 13 made the regular accounting method relevant. On cash basis, receipt of money or money's worth rather than mere accrual controlled; where a trader received a marketable commercial asset in satisfaction, income embedded in that asset was received without waiting for a cash sale. Compulsion by law did not change the result once title was complete (SCR p.486; PDF p.5). The State's bonds were not simply the original debtor's renewed promise or an agency arrangement. They replaced the debtor's liability with an independent State obligation and were convertible into money, unlike the deferred self-promise considered in Cross (SCR pp.487-488; PDF pp.6-7). However, only the excess of market value at receipt over principal was taxable, not the excess of face value. Revenue also agreed to adjust any tax already charged on the later sale disclosure (SCR pp.488-489; PDF pp.7-8).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Supreme Court maintained the affirmative answer that receipt of the Encumbered Estates bonds brought embedded income into tax for assessment year 1948-49 and dismissed the appeal without costs. It relied on Revenue's concessions that market value, not face value, controlled and that any duplicate tax from assessment year 1949-50 would be adjusted (SCR pp.488-489; PDF pp.7-8).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

Principally in favour of Revenue on timing and character of receipt, but subject to valuation and anti-duplication protections for the assessee. Only market value over principal at receipt was taxable, and any tax already collected on the later sale disclosure was to be adjusted (SCR pp.488-489; PDF pp.7-8).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: under a cash-basis receipt inquiry, identify whether the creditor received only a deferred promise or a completed transfer of an independently enforceable, realisable asset. Then value the asset at the legally relevant receipt date, separate principal from embedded income and reconcile later sale-year returns so the same economic amount is not taxed twice. The report's market-value qualification is as important as its receipt holding (based on SCR pp.486-489; PDF pp.5-8).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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Full 8-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

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Exact source bytes, SHA-256 and 8-page count match catalogue asset 1967_3_482_489; every page was reviewed.

The source verifies Civil Appeal No. 1395 of 1966, the stated bench, issues, reasoning and operative result.

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

STATUTORY SCOPE

The judgment applies receipt and accounting-method provisions of the repealed Indian Income-tax Act, 1922 to bonds issued under the historical U.P. Encumbered Estates Act, 1934. It does not determine current accrual, fair-value, debt-restructuring, securities or reassessment law. No current-law or later-treatment clearance was undertaken.

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.

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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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