

Commissioner of Income-tax, Madras v. M. V. Murugappan & Ors.

Civil Appeal No. 566 of 1967

[1971] 1 SCR 377 | 1970-04-24

Liquidation distribution of current-year profits under the historical dividend definition.

Indian Income-tax Act, 1922: sections 2(6A)(c) and 66(1)

3-judge bench | J. C. Shah, J. | K. S. Hegde, J. | A. N. Grover, J.

Assessment years: 1955-56

Historical statutory version

The result concerns current profits in the year of liquidation for AY1955-56; it is not a general exemption for liquidation distributions.

01 FACTS OF THE CASE

Ajax Products Ltd., which kept calendar-year accounts, went into liquidation on 31 October 1954. On 10 March 1955 its liquidators distributed a share in Carborundum Universal Ltd. of equal face value for each share held. The disputed Rs.81,611 was the after-tax balance of profits earned from 1 January to 31 October 1954. The Revenue appeal was confined to that sum, although the reference had also mentioned another amount.

Source: [SCR p.378](#) / [PDF p.2](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished capital distributed by a liquidator from dividend under the statutory extension. Under the historical clause, profits of the year in which winding up occurred were not accumulated profits. Deletion of the six-year proviso in 1955 removed that temporal restriction; the report separately records replacement of clause (c) effective 1 April 1956. The Court held that the current profits distributed here could not be treated as dividend under the law applicable to AY1955-56.

Source: [SCR pp.379-381](#) / [PDF pp.3-5](#)

03 JUDICIAL DECISION

The Revenue appeal was dismissed with costs, leaving undisturbed the conclusion that the Rs.81,611 current-profit component was not taxable as dividend in the shareholders' hands for AY1955-56.

Source: [SCR p.381 / PDF p.5](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee shareholders succeeded on the disputed current-profit component. The appeal did not determine the separate amount for which no certificate had been obtained.

Source: [SCR pp.378,381 / PDF pp.2,5](#)

05 AKHB REVIEW POINT

AKHB analysis: trace the liquidation date, distribution date, profit period and precise statutory version before classifying a distribution. Separate current profits from accumulated profits and restrict this historical result to its assessment-year setting. The source's inconsistent year reference should not be used to infer that a later amendment governed the earlier assessment.

Source: [AKHB analysis based on SCR pp.378-381 / PDF pp.2-5](#)

SOURCE & VERIFICATION

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The final paragraph refers to the Finance Act of 1956, while the preceding statutory history states that amendment took effect on 1 April 1956 and the case concerns AY1955-56. This internal report inconsistency is disclosed; no broader proposition on retrospective operation is inferred.

STATUTORY SCOPE

The decision concerns the dividend definition applicable to AY1955-56 under the repealed 1922 Act. Later statutory amendments must be examined separately.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment has not been verified; no current citator clearance is represented.

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