

Commissioner of Income-tax, Madras v. S. S. Sivan Pillai and Others

Civil Appeals Nos. 2321-2324 of 1966

[1971] 1 SCR 434 | 1970-04-29

Industrial undertaking dividend exemption depended on taxable profits after unabsorbed depreciation, rather than commercial profits alone.

Indian Income-tax Act, 1922: sections 15C(1), 15C(3), 15C(4), 10(2)(vi), 10(2)(vi-a) and 24(2)

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

Assessment years: Shareholders: 1955-56 and 1956-57; company: 1954-55 and 1955-56

Historical statutory scope

This decision interprets the former section 15C scheme and depreciation provisions of the repealed 1922 Act. It does not determine exemption or deduction under a differently worded later incentive regime.

01 FACTS OF THE CASE

Sri Ganapathy Mills Co. Ltd. paid dividends from commercial profits for the years ending December 1953 and December 1954. Current and brought-forward depreciation, however, left it without taxable profits. Shareholders claimed exemption under section 15C(4). The taxing authorities and Tribunal rejected that claim; the High Court accepted it on a computation that excluded unabsorbed depreciation when determining the relevant undertaking profits.

Source: [SCR pp. 435-437 / PDF pp. 2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 15C(3) required profits to be computed under section 10. Under section 10(2)(vi), proviso (b), unabsorbed depreciation became part of the following year's depreciation allowance; it could not be ignored or treated as arising only under section 24(2). Section 24(2), proviso (b), dealt with priority and did not convert depreciation into an ordinary carried-forward loss. The shareholder exemption was limited to dividends attributable to profits exempt under section 15C(1). Because this company had no taxable profits after the required allowances, there were no such exempt profits supporting the shareholders' claim.

Source: [SCR pp. 437-441 / PDF pp. 4-8](#)

03 JUDICIAL DECISION

The Court answered the referred question in the negative and allowed the Revenue appeals. The parties were directed to bear their own costs in the Supreme Court and High Court. The disallowance of the shareholders' section 15C(4) claim was sustained.

Source: [SCR pp. 441 / PDF pp. 8](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue prevailed on the dividend-exemption issue. The distinction was between commercial profits available for dividend distribution and taxable profits eligible for the specific statutory exemption; mere distribution of a dividend did not create the exemption.

Source: [SCR pp. 437-441 / PDF pp. 4-8](#)

05 AKHB REVIEW POINT

AKHB analysis: when an investor exemption depends on the undertaking's exempt profits, reconcile the company's commercial accounts with its statutory taxable-profit computation, including brought-forward allowances, before attributing dividends to exempt income. Keep shareholder and company assessment years distinct. Check the precise later legislation and subsequent treatment before extending this historical computation rule to a current incentive claim.

Source: [AKHB analysis based on SCR pp. 435-441 / PDF pp. 2-8](#)

SOURCE & VERIFICATION

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Full 8-page SCR report read, separating editorial headnote from judicial text.

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Full source read; original bytes match catalogue SHA-256. Judicial text is unnumbered, so SCR and PDF page pinpoints are used.

The judicial text distinguishes shareholders' assessment years 1955-56 and 1956-57 from the company's 1954-55 and 1955-56; this distinction is retained.

STATUTORY SCOPE

This decision interprets the former section 15C scheme and depreciation provisions of the repealed 1922 Act. It does not determine exemption or deduction under a differently worded later incentive regime.

LATER TREATMENT

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