

Chintamani Saran Nath Sah Deo v. Commissioner of Income-tax, Bihar & Orissa

Civil Appeal No. 1732 of 1967

[1972] 1 SCR 36 | 1971-08-05

Whether a mining-lease premium described as salami was capital receipt or disguised advance royalty taxable as income

Indian Income-tax Act, 1922: section 66(1)

Two-judge bench; judgment delivered by A. N. Grover, J. | K. S. Hegde, J. | A. N. Grover, J.

Historical, fact-specific capital/revenue holding

The decision concerns a 1944 thirty-year mining lease and the 1922 Act. It does not certify the current treatment of mining premiums or capital gains.

01 FACTS OF THE CASE

The assessee granted a one-year prospecting lease in 1941 and, in 1944, a thirty-year mining lease over 171.03 acres to the same company. The later lease required a substantial salami/premium and a slightly lower per-ton royalty. For assessment year 1944-45, the Income-tax Officer treated Rs.2,20,000 as advance royalty and therefore income. The first appellate authority treated it as capital, but the Tribunal restored the assessment and the Patna High Court treated only Rs.20,000 as capital.

Source: [Primary judgment: lease terms and assessment history](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished the price for parting with the lessor's interest from periodic payments for continuing enjoyment: the former is ordinarily premium or salami on capital account, while the latter is rent or royalty on revenue account. Labels are not conclusive, but the Revenue bears the onus of proving that an apparent premium is disguised income. Comparing the one-year prospecting lease with the thirty-year mining lease did not supply that proof. A longer lease could rationally command a higher premium and lower royalty, and the later estimate of mineral reserves did not show what the parties knew in 1944.

Source: [Primary judgment: capital/revenue test and evidentiary analysis](#)

03 JUDICIAL DECISION

The Tribunal and High Court lacked sufficient material to treat any portion of the premium as capitalised royalty. The Revenue had not examined the assessee or representative about the differing lease terms, had not established comparable mineral quantities under other leases, and had not otherwise discharged its onus.

Source: [Primary judgment: insufficiency of Revenue evidence](#)

04 OUTCOME / IN WHOSE FAVOUR

Appeal allowed. The High Court's order was set aside, the referred question was answered in favour of the assessee and against the Revenue, and the assessee received costs in the Supreme Court and High Court.

Source: [Primary judgment: operative disposition](#)

05 AKHB REVIEW POINT

AKHB analysis: classify a lease receipt from the rights actually transferred, the duration, the payment structure and the evidence of the parties' knowledge—not from the word "salami" or the amount alone. A Revenue case that the premium is advance royalty needs transaction-specific proof and valid comparables. This historical result should not be projected onto the 1961 Act or a later mineral-rights transaction without separate statutory and later-treatment research.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATIONSupreme Court Reports scan - public eSCR mirror

Complete eight-page SCR report read in page-preserving text and every page image inspected. The first physical page begins after the preceding case disposition; the target runs from SCR 36 through the disposition at SCR 43.

Open cited source rendition

Exact catalogue SHA-256 and eight-page count verified; all pages were read and visually inspected.

The report prints the 1944 salami as Rs.2,25,600 in the lease terms but later describes Rs.2,20,000 as the amount treated as income after Rs.5,000 was separated; the note preserves the judgment's figures without silent reconciliation.

The Court did not hold that every amount labelled salami is capital; it placed the evidentiary onus on the Revenue and examined the transaction circumstances.

STATUTORY SCOPE

Indian Income-tax Act, 1922, section 66(1), as applied to assessment year 1944-45. The judgment does not establish the treatment of mining premiums under the Income-tax Act, 1961 or later capital-gains provisions.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. The decision construes the capital/revenue character of a 1944 mining-lease premium under the historical 1922 Act reference; later statutory treatment of mineral receipts and capital gains was not verified.

Related note: Maharaja Chintamani Saran Nath Sah Deo v. The Commissioner of Income-tax, Bihar & Orissa

AI DISCLOSURE

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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