

COMMISSIONER OF INCOME TAX, MADRAS v. M/S. P. S. S. INVESTMENTS (P) LTD.

Civil Appeal Nos. 1853(A) and 1854 of 1971; Originating High Court proceedings: Tax Cases Nos. 18 and 19 of 1966; Tribunal reference applications: R.A. No. 169 of 1965-66 / R.A. No. 168 of 1965-66

[1977] 2 SCR 78 | 1976-11-09

For the historical super-tax rebate formula, the distribution year's income and profits controlled; the company could not substitute the composition of earlier profits from which its dividend was sourced. Only reference question 1 was argued and answered.

2-judge bench | H.R. Khanna, J. | V.R. Krishna Iyer, J.

Question 1 and historical formula only

The Court answered only the distribution-year question. The paid-up-capital question was unargued, and the specific annual super-tax formula has no automatic modern counterpart.

Operative context: Finance Acts, 1958 and 1959: First Schedule, Part II, paragraph D, Explanation (iii); Indian Income-tax Act, 1922: sections 55 and 66(1).

01 FACTS OF THE CASE

P.S.S. Investments declared Rs. 99,000 in dividends in the previous year ending 31 December 1957, against paid-up capital of Rs. 1,65,000. For 1958-59 its assessed total income was Rs. 73,255, including capital gains. The dividend exceeded six per cent of capital, activating the Finance Act's reduction of super-tax rebate.

The company argued that the dividend came from 1956 profits and that those earlier taxable and non-taxable components should determine the statutory proportion. The appellate authorities accepted the earlier-year approach, and the Madras High Court answered two reference questions for the company. The parties agreed that the decision for 1958-59 would govern the corresponding 1959-60 controversy.

Source: [SCR79C-81C](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 55 of the 1922 Act imposed super-tax at annual statutory rates. Paragraph D of Part II of the 1958 Finance Act's First Schedule prescribed a rate, a rebate, a reduction for dividends above a capital threshold, and a further proportional adjustment under Explanation(iii) where profits included tax-exempt amounts.

The Court treated that Explanation as a confined statutory fiction. Its formula related the company's total income for the previous year to its profits and gains for that year, excluding capital receipts and allowing specified adjustments. Those repeated time references identified the year of distribution. They did not authorise tracing the dividend into earlier reserves and substituting the tax composition of the year in which those reserves arose.

The Court's criticism of the provision's complexity did not alter its textual analysis. It also observed that this particular pattern had been abandoned after 1959 and that super-tax later ceased as a separate charge. The second reference question, about proportionate reduction of paid-up capital, received no argument. The judgment supplies no independent Supreme Court merits ruling on that question or a freshly calculated final tax figure.

Source: [SCR81H-85F](#)

03 JUDICIAL DECISION

The Revenue's appeals were allowed and the High Court judgment set aside. Question 1 was answered negatively: the relevant profits and gains were those of the distribution previous year. Each side bore its own costs in both courts.

Source: [SCR85D-G](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue appeals allowed; question 1 answered negatively. Result: Revenue on the temporal formula issue. Costs: Own costs in Supreme Court and High Court. Scope: Distribution-year rule decided; question 2 unargued and not separately answered. Limit: Specific 1958/1959 annual Finance Act super-tax formula.

Source: [SCR85E-G](#)

05 AKHB REVIEW POINT

Build the computation from the exact annual Finance Act and label each time reference before tracing profits through reserves. Confine a statutory fiction to its specified numerator, denominator and year. Keep the unargued capital question outside the holding, and do not transplant this discontinued super-tax formula into later dividend-tax provisions.

Source: [SCR84D-H;85A-F](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

8-page retained public-mirror SCR report. The complete report was read as text and page images. Fresh remote authentication as a signed original is not claimed.

Open cited source rendition

The headnote says year ending 30 December 1957; the judicial text at SCR 79D and 80C says 31 December 1957. The table at 79G prints the 20% amount in malformed digits, while its total is 17,160; no replacement final-tax computation is offered. Judgment date is 9 November 1976 although the report is in 1977. Reference questions also identify Tribunal R.A.Nos.168 and 169 of 1965-66; these are not additional court dockets.

STATUTORY SCOPE

Finance Acts, 1958 and 1959: First Schedule, Part II, paragraph D, Explanation (iii); Indian Income-tax Act, 1922: sections 55 and 66(1).

No direct successor to the particular 1958/1959 annual Finance Act rebate formula is established. The original judgment itself records discontinuation of that pattern; its specific computation remains historical.

No direct 2025 statutory counterpart is identified for the discontinued annual super-tax rebate formula. P.S.S. can guide the confined interpretation of a statutory fiction only after the actual later text is analysed.

Section 1(3) commenced the 2025 Act on 1 April 2026, subject to exceptions. Section 536 preserves prior operation, rights and liabilities and the 1961 procedure for specified earlier-year and pending proceedings. Determine the governing year and savings before using any comparison.

Related-section tags are research navigation only. They are not provisions decided in this judgment or verified mappings beyond any expressly bounded comparison below.

No automatic precedent carry-over or verified case-specific 2025 applicability is claimed.

LATER TREATMENT

Source checked 2026-10-07. Income-Tax Officer v Smt. S.S. Shetty (Income Tax Appellate Tribunal, Mumbai, 1981-04-16), paragraphs 7-11: Cites P.S.S. Investments among authorities for strictly construing tax fictions without supplying omitted words, in historical section 2(22)(e) deemed-dividend litigation. This is analogy for statutory construction, not direct application of the old rebate calculation and not a current deemed-dividend certificate.

Bounded later use is recorded below. No claim of exhaustive research, absence of contrary treatment or current-law certification is made.

IDENTIFIED SOURCE LINKS

[Income-Tax Officer v Smt. S.S. Shetty \(1981-04-16\), nonofficial judicial text reproduction](#)

paragraphs 7-11 Third-party public judicial text via web extraction; no court-original image validation; apparent OCR/typesetting anomalies preserved; link markup removed only in passage file; bounded passage only, not full later judgment.

[2025 Act commencement and savings, selected FA 2026 text](#)

Section 1(3), physical 1, lines 0-13; section 536(2)(a)-(e), physical 584-585, lines 24385-24408.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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