

Rameshwar Lal Sanwarmal v. Commissioner of Income-Tax, Assam

Civil Appeal No. 133 of 1979

[1980] 2 SCR 369 | 1979-12-05

Loans to the HUF's business concerns were not deemed dividends under section 2(6A)(e) of the 1922 Act because the HUF was only the beneficial owner; its karta was the registered shareholder. The earlier same-party decision had not decided that threshold question. The Court answered it for the assessee.

Two-judge bench | P.N. Bhagwati, J. | R.S. Pathak, J.

Old deemed-dividend text; later law differs

The registered-shareholder rule construed 1922 section 2(6A)(e). The materially amended 1961 section 2(22)(e) and later decisions require separate analysis.

Operative context: Indian Income-tax Act, 1922; historical sections 2(6A)(e).

01 FACTS OF THE CASE

The HUF beneficially owned shares in Shyam Sunder Tea Co. (P) Ltd., registered in its karta S.M. Saharia's name. The closely held company advanced loans to three businesses owned by the HUF. For AY 1956-57, the officer attributed Rs. 4,48,045 of the advances to accumulated profits and treated them as deemed dividends. The quoted reference question described the relevant year's disputed amount as Rs. 3,43,505 net.

The litigation raised two separate issues: whether these loans were deemed dividends at all, and, if so, whether the registered or beneficial owner was taxable. In an earlier appeal Revenue challenged only the second limb of the High Court's decision. The Supreme Court ruled that deemed dividends, like actual dividends, could be taxed in the beneficial owner's hands. The present appeal followed further reference proceedings and raised the unresolved first limb.

Source: [SCR 371 E-375 C](#)

02 DISCUSSION BY THE HON'BLE COURT

The earlier answer could not be read as deciding a contention that had never been raised, argued or considered. The Court confined that decision to the taxation-of-beneficial-owner issue it actually addressed. The unchallenged threshold conclusion could not be displaced by treating an inadvertent broad reference answer as an implicit ruling on everything within the question.

On the statutory issue, the Court followed C.P. Sarathy Mudaliar. In the 1922 provision, 'shareholder' meant the registered shareholder. Beneficial ownership alone did not bring a loan to the HUF within the loan-to-shareholder limb. The company-law relationship depended on entry in the shareholder register.

There was no conflict between Sarathy Mudaliar and the earlier same-party decision: one concerned entry into the deemed-dividend definition, the other the person assessable if that definition was satisfied. The Court rejected Revenue's request to refer the old-Act question to a larger bench. Since the loans were to the HUF's concerns rather than the registered holder, they could not be taxed as deemed dividends in the HUF's hands under that provision.

Source: [SCR 375 C-379 A](#)

03 JUDICIAL DECISION

The first reference question was answered for the assessee on the threshold deemed-dividend issue. The other two questions decided by the High Court on remand became unnecessary and were not pressed. The appeal concerned AY 1956-57; the separately mentioned AY 1955-56 limitation dispute was outside its scope.

Source: [SCR 378 G-379 B](#)

04 OUTCOME / IN WHOSE FAVOUR

First reference question answered for the assessee on the contested aspect; other two remand questions not considered. Result: Assessee. Costs: No order as to costs of the appeal. Scope: Old-Act deemed-dividend character of the loans decided; remaining questions unnecessary. Limit: The registered-shareholder rule construed 1922 section 2(6A)(e). The materially amended 1961 section 2(22)(e) and later decisions require separate analysis.

Source: [SCR 378 G-379 B](#)

05 AKHB REVIEW POINT

Identify the precise statutory version, the registered holder, beneficial owner, borrower and relevant concern. Separate the definition's triggering conditions from the identity of the person assessable. When using an earlier judgment in the same litigation, check the grounds actually challenged and decided; its result is not an answer to every issue that might have arisen.

Source: [SCR 376 A-378 H](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

11-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 report distinguishes the officer's Rs. 4,48,045 accumulated-profit attribution from Rs. 3,43,505 net in the AY 1956-57 reference question. Rs. 2,21,702 gross belongs to AY 1955-56, outside this appeal. The actual decision date is 5 December 1979, not the 1980 report year.

STATUTORY SCOPE

Indian Income-tax Act, 1922; historical sections 2(6A)(e).

Separately identified 1961 Act provisions, not directly adjudicated here: Section 2(22)(e): Materially amended later provision considered in Gopal and Sons and National Travel; not adjudicated in this 1979 judgment.

Current statutory equivalence and Income-tax Act, 2025 applicability have not been verified. No automatic carry-over of this precedent is claimed.

LATER TREATMENT

Source checked 2026-10-06. National Travel Services v. CIT, 18 January 2018, paragraphs 7-12, expressly traced this old-Act rule and the later amendment adding beneficial-owner and concern language. Paragraphs 13-19 discussed Ankitech and its affirmation in Madhur Housing, expressed prima facie disagreement and sought a three-judge reconsideration. This was a reference, not a final merits resolution. On 10 August 2021, Civil Appeal Nos. 2068-2071 of 2012 were dismissed as withdrawn under the Vivad se Vishwas process. That order does not decide the statutory question or establish the status of companion Civil Appeal No. 837 of 2018.

Separately, Gopal and Sons (HUF) v. CIT, 4 January 2017, applied the amended concern limb and Explanation 3 to an HUF and distinguished Sarathy Mudaliar's old statutory setting. It demonstrates why absence of HUF registration alone cannot be treated as a complete answer under the amended provision.

Verified the identified National Travel 2018 reasoning, exact 2021 withdrawal order, and Gopal and Sons amended-law distinction. Comprehensive subsequent history and companion appeal status remain unverified.

IDENTIFIED SOURCE LINKS

National Travel Services v. CIT (2018-01-18)

Caption and judicial paragraphs 1-20, web lines 48-164; historical statutory text at 5-12, actual treatment at 13-20. Nonofficial host; no raw PDF or images read.

National Travel Services v. CIT (2021-08-10)

Indian Kanoon judicial-order reproduction; not an authenticated official PDF. Complete signed order and record of proceedings, web lines 44-62; only Civil Appeal Nos. 2068-2071/2012. No raw PDF or images read.

Gopal and Sons (HUF) v. CIT (2017-01-04)

Caption and complete reproduced judicial text, web lines 46-121; concern-limb reasoning and old-Act distinction at 104-117. Nonofficial host; no raw PDF or images read.

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