

M/s. Sundaram Clayton Ltd. and others v. Commissioner of Income Tax

Civil Appeal Nos. 4360-4361 (NT) of 1981 and connected appeal; internal docket inconsistencies disclosed in verification notes

[1996] Supp. 2 SCR 253 | 1996-05-02

Surtax capital computation: converting existing reserves into bonus shares did not increase the capital base for a proportionate Rule 3 addition.

Companies (Profits) Surtax Act, 1964: Second Schedule, Rules 1 and 3 | Super Profits Tax Act, 1963: Second Schedule, Rule 2, distinguished | Income-tax Act, 1961: section 256(1), reference procedure

2-judge bench | G. N. Ray, J. | B. L. Hansaria, J.

Assessment years: 1971-72

Source discrepancies disclosed

The SCR report contains inconsistent docket, previous-year and claimed-adjustment figures. The note relies on the verified parties, decision date, report citation and clear Rule 3 holding; it does not silently repair the disputed particulars.

Historical statutory scope

The ruling addresses the Surtax Act capital base, not the taxability or valuation of bonus shares under current law.

01 FACTS OF THE CASE

For the lead AY 1971-72, Sundaram Clayton capitalised part of its general reserves by issuing 20,400 fully paid bonus shares of Rs.100 each. It claimed that the Rs.20,40,000 reclassification into paid-up share capital justified a proportionate addition to the capital computed under the Surtax Act. The assessing officer rejected the claim, the Tribunal accepted it, and the Madras High Court answered the reference for Revenue. A connected matter followed that High Court ruling. The Supreme Court confined its consideration to the bonus-capital question; two other reference questions were expressly left outside the appeals' disposal.

Source: [Facts, proceedings and scope: SCR pp.255-258](#)

02 DISCUSSION BY THE HON'BLE COURT

Rule 3 required an increase during the previous year in the company's capital base as computed under the preceding rules, caused by a qualifying share-capital increase, debenture issue or borrowing. Moving an amount already included as a reserve into paid-up share capital did not enlarge that base. The Court approved the Gujarat High Court's explanation of this threshold and agreed with the result reached by the Madras, Bombay and Delhi High Courts. It distinguished Rule 2 under the Super Profits Tax Act, whose wording and operation differed; a decision interpreting that rule could not determine the Surtax Rule 3 question.

Source: [Court's reasons: SCR pp.263-264](#)

03 JUDICIAL DECISION

The bonus issue merely converted existing reserves into fully paid shares and did not increase the relevant capital base. The threshold for the Rule 3 proportionate adjustment therefore failed. The Court found no basis to interfere with the Madras High Court decisions and dismissed all appeals without an order as to costs.

Source: [Holding and dismissal: SCR pp.263-264](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue succeeded against the claimed additional surtax capital allowance. The judgment does not deny that paid-up share capital changed as an accounting category; it holds that the already-computed overall statutory capital base did not increase through this internal conversion.

Source: [Effect of reserve conversion: SCR pp.263-264](#)

05 AKHB REVIEW POINT

AKHB analysis: reconcile the opening statutory capital computation with each claimed later addition before applying a time-weighted adjustment. Trace whether a bonus issue introduces a new eligible amount or only transfers an existing reserve between balance-sheet headings. Similar labels in predecessor statutes do not establish identical treatment where the operative wording changes. Resolve the source's docket and numerical discrepancies before using them for a pleading or calculation.

Source: [AKHB analysis based on the Rule 3 threshold](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 12-page SCR report read, with judicial text beginning on SCR p.255 / PDF p.3. Source discrepancies on PDF pp.3-4 were additionally inspected in rendered page images. Editorial headnotes and counsel's submissions were separated from the Court's reasons.

Open cited source rendition

Exact bytes and 12-page count match catalogue asset S_1996_2_253_264. Date and bench appear on SCR p.253. The catalogue's 1996INSC611 metadata is not printed and is not independently certified here.

SCR p.255's jurisdiction heading gives Civil Appeal Nos. 4360-61 (NT) of 1981; the judicial opening prints 1360-61 of 1981. The catalogue identifies 4360/1981. The heading is used with the internal discrepancy disclosed.

The same opening prints companion Civil Appeal No.1705 of 1980 from a High Court decision dated 12 November 1986. This internally inconsistent companion docket/year is not silently corrected or separately certified.

SCR p.256 prints the previous-year start once as 1 August 1996, although the same page repeatedly identifies opening capital at 1 August 1969, with the year ending 31 July 1970. The narrative omits an asserted corrected previous-year range.

The headnote at SCR p.253 prints a proportionate claim of Rs.6,84,237; the judicial text at p.256 prints Rs.8,84,237. No disputed adjustment amount is adopted in the note.

The headnote labels Mohan Meakin overruled, but the Court's own text at SCR pp.263-264 says its interpretation of a different Act's rule is not germane here. The note states that narrower judicial reasoning.

The source has no numbered judicial paragraphs; physical PDF and SCR page pinpoints are used.

STATUTORY SCOPE

This is a historical Companies (Profits) Surtax Act capital-computation decision for the lead AY 1971-72. The differently worded Super Profits Tax Act rule was distinguished. No present capital, income-tax or valuation rule is certified.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment and present statutory applicability have not been checked; no current citator clearance is represented.

AI DISCLOSURE

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

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