

P. Sarada v. Commissioner of Income Tax (Central), Madras

Civil Appeal No. 649 (NT) of 1987

[1997] Supp 6 SCR 325 | 1997-12-09

Whether excess withdrawals from a closely held company became deemed dividends when paid, despite a pre-existing instruction concerning another shareholder's credit and a year-end book adjustment.

2(22)(e) (historical wording applicable to AY 1973-74) | 256(1) (reference history)

Two-judge bench | Suhas C. Sen, J. | K. Venkataswami, J.

Assessment years: 1973-74

Historical deemed-dividend conditions and payment dates control

The appeal was dismissed without costs: later repayment or the 31 March adjustment did not undo these qualifying advances. The holding depends on the historical company/shareholder requirements and accumulated-profits limit, not merely a running account. The printed withdrawal schedule has date, count and paise inconsistencies; retain the reported Rs 93,027 question without silent recomputation. Other counsel-line appeal numbers are not separately disposed of in this note. Current law, 2025 mapping and later treatment remain unverified.

01 FACTS OF THE CASE

P. Sarada was a substantial shareholder of Universal Radiators Pvt. Ltd., a company in which the public were not substantially interested. In the accounting year 1 April 1972 to 31 March 1973, she made withdrawals between 3 July 1972 and 22 March 1973 when her running account had no credit balance. The ITO included the reported total of Rs 93,027 as deemed dividend, also finding sufficient accumulated profits. The Appellate Assistant Commissioner upheld that treatment (physical pages 2–4).

The Tribunal accepted that the withdrawals should be attributed to another shareholder's credit, relying on a letter dated 3 April 1972 from his father directing that Rs 1 lakh be made available to Sarada. But the company did not debit that shareholder's account and credit Sarada until 31 March 1973. On the Commissioner's reference, the High Court answered against the Tribunal's exclusion of the withdrawals. Sarada appealed (physical pages 3–5).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

Under the historical section 2(22)(e), a qualifying advance or loan by the company to a shareholder with substantial interest was included in dividend to the extent of accumulated profits. The company's status and Sarada's substantial interest were undisputed. On the accepted facts the company made loans or advances, so the fiction operated on each payment date. Repayment or later adjustment did not reverse the dividend already deemed received (physical page 5).

The Court relied on the payment-date approach in Tarulata Shyam under the predecessor provision, section 2(6A)(e) of the 1922 Act: the loan need not remain outstanding at year-end. It also rejected the argument that the High Court had impermissibly disbelieved the letter or reappraised the Tribunal's facts. The decisive accepted fact was that the other shareholder's credit remained intact while the company allowed Sarada's withdrawals; the High Court drew the legal consequence from those facts (physical pages 5–6).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Supreme Court found no fault with the High Court's reasoning and dismissed Civil Appeal No. 649 (NT) of 1987 without an order as to costs. The Rs 93,027 described in the reference remained assessable as deemed dividend on the respective payment dates; the year-end adjustment did not remove that consequence. No additional operative disposition of the appeal numbers appearing only in the counsel line is inferred (physical pages 2, 5–6).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee's appeal dismissed; no order as to costs

Final ruling on the qualifying excess withdrawals for AY 1973-74

The payment-date conclusion presupposes a qualifying loan or advance, the historical shareholder and company conditions, and sufficient accumulated profits; it does not classify every corporate running-account entry as dividend.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Reconstruct the account on the actual payment dates. A year-end journal entry cannot by itself undo an already completed qualifying company advance. Equally, the existence of a running account is not the charging test: the nature of the payment, applicable shareholder and company conditions, available credit and accumulated-profits ceiling must first be established. The Court did not reject the instruction letter as false; the absence of contemporaneous debits to the other account was decisive.

Keep the historical statutory language and tax year visible. This judgment does not certify current shareholder thresholds, lending exceptions, recipient rules or later dividend-tax mechanics, and no mapping to the Income-tax Act, 2025 has been made. The narrative and withdrawal schedule have source-level date, count and paise discrepancies; the note preserves the Rs 93,027 legal question without inventing a corrected tax computation.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, main appeal and beginning of judicial text

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: No credit balance, accumulated profits, letter and reference

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Historical account and printed schedule discrepancies

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Year-end transfer and historical section 2(22)(e)

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Payment-date rule, no factual reappraisal and dismissal without costs

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: Unnumbered judicial text

Source role: judicial text

HISTORICAL STATUTORY BASIS

The operative provision is section 2(22)(e) of the Income-tax Act, 1961 as it stood for AY 1973-74, including the substantial-interest condition and accumulated-profits limit. The 1922 Act appears in the cited Tarulata Shyam precedent and does not make this an old-Act-only judgment.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 6 PDF pages; SHA-256

4adde2803a49d24c5cc32fe32562846b1d1ba49f0e11cb248bbac8d889ea2028. Original bytes preserved.

Complete unnumbered judicial text physical pages 2–6/SCR 326–330, beginning SEN, J. on page 2. The counsel line mentioning other appeal numbers is not treated as an operative disposition of those appeals.

[Open cited source rendition](#)

Physical page 4 says fourteen different dates, but prints sixteen withdrawal entries on fifteen distinct dates. Its entries total Rs 93,027.14, while the printed total and repeated judicial figure are Rs 93,027. The narrative also places the Rs 1,831.14 excess balance as on 22 March 1973 although the schedule labels it 3 July 1972. These are source discrepancies, not a basis for a fresh calculation.; The page 3 account/letter narrative shifts between the father's instruction and the shareholder's credit. The note relies on the Court's clear finding that the other shareholder's account was not debited until 31 March 1973, rather than resolving the source's pronouns.; The page 2 counsel line also mentions Civil Appeals 3894–95/1984. The heading and judicial conclusion identify and decide the present appeal; no separate result for those other numbers is asserted.; The source cover identifies Suhas C. Sen; the ingestion metadata abbreviation S.C. Sen is not adopted as the judge's verified name.; The substantial-interest wording is explicitly historical. Current law, statutory exceptions and comprehensive later treatment are unverified.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

LATER TREATMENT

Source checked 2026-10-04. Subsequent judicial treatment and later statutory changes were not independently checked. Tarulata Shyam is described only as the earlier authority relied upon in this judgment; it is not a separately verified later-treatment source.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 6](#)

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