

P. K. Badiani v. Commissioner of Income Tax, Bombay

Civil Appeal No. 1695 of 1971 — Assessee appeal limited to reference question1 on development rebate

[1977] 1 SCR 638 | 1976-09-21

A development-rebate reserve remained part of the company's commercial accumulated profits for deemed-dividend purposes under section 2(6A)(e) of the Indian Income-tax Act, 1922. Deductibility in computing taxable profits did not turn the rebate into a commercial expense. Merely transferring profits to a reserve did not capitalise them (SCR 642-648).

Indian Income-tax Act, 1922 | 1922 Act: 2(6A)(e) | 1922 Act: 10(2)(vi-b)

3-judge bench | H.R. Khanna, J. | N.L. Untwalia, J. | Jaswant Singh, J.

01 FACTS OF THE CASE

Untwalia J., with Khanna and Jaswant Singh JJ., delivered the single judgment on 21 September 1976 in Civil Appeal 1695 of 1971, from Bombay High Court's 2 February 1970 decision in ITR 54 of 1963. The appeal concerned assessment year 1958-59 and advances to a shareholder and managing director of Sadhana Textile Mills Pvt. Ltd. Only reference question 1, about the development-rebate reserve, was pressed; questions 2-4 were not challenged (SCR 639-641).

Source: [SCR 638-648; physical PDF pages 1-11](#)

02 DISCUSSION BY THE HON'BLE COURT

Accumulated profits meant real commercial profits, not the figure produced by tax-computation rules. Development rebate under section 10(2)(vi-b) was an incentive for installing new machinery, materially different from ordinary recurring depreciation. The Court assumed the plausibility of deducting normal depreciation for this case without conclusively deciding that issue. Lawful capitalisation could change profits into capital, but the accounting transfer here did not change their character. The Court drew support from Tea Estate India and distinguished effective capitalisation from a reserve entry (SCR 643-648).

Source: [SCR 638-648; physical PDF pages 1-11](#)

03 JUDICIAL DECISION

A development-rebate reserve remained part of the company's commercial accumulated profits for deemed-dividend purposes under section 2(6A)(e) of the Indian Income-tax Act, 1922. Deductibility in computing taxable profits did not turn the rebate into a commercial expense. Merely transferring profits to a reserve did not capitalise them (SCR 642-648).

Source: [SCR 638-648; physical PDF pages 1-11](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue The High Court's answer on the disputed question was affirmed and the assessee's appeal dismissed without costs. The decision did not independently re-adjudicate the unchallenged calculation questions or fix a general formula for every shareholder's running account (SCR 640-641, 648). Historical income-tax issue decided with the qualifications stated in this note No current-law or comprehensive later-treatment certification.

Source: [SCR 638-648: physical PDF pages 1-11](#)

05 AKHB REVIEW POINT

The operative provisions are sections 2(6A)(e) and 10(2)(vi-b) of the 1922 Act. The judgment distinguishes accumulated-profit timing under 1961 Act section 2(22), Explanation II; that historical comparison is not a current 2025 equivalence. Later treatment is unverified. Source: supplied SCR report, [1977] 1 SCR 638-648. SCR 641 prints accounting year "1966" against the surrounding 1956 chronology. The report year differs from the 1976 judgment date; ordinary-depreciation treatment and unchallenged calculation questions remain outside the holding.

Source: [SCR 638-648: physical PDF pages 1-11](#)

ASSESSMENT YEARS AND LIMITS

Years: 1958-59

Qualification: Only the assessment years material to the issue described are listed.

REPORTED CITATION

Supplied SCR report citation; no machine-generated neutral citation substituted.

SOURCE & VERIFICATION

[Original reported Supreme Court judgment](#)

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Only question 1 was pressed; there is no fresh holding on peak-loan computation. Normal-depreciation treatment was assumed, not conclusively decided. The accounting year 1966 printed at SCR 641 conflicts with the surrounding 1956 context.

STATUTORY SCOPE

Indian Income-tax Act, 1922. The historical operative enactment is identified. Source-discussed 1961 provisions are contextual unless expressly stated; no 2025 mapping is asserted.

LATER TREATMENT

Source checked 2026-10-09. Subsequent appeals, review proceedings, stays, reversals and later treatment have not been comprehensively checked. This is not a citator status certificate.

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