

R. Dalmia v. C.I.T., Delhi, New Delhi

Civil Appeal No. 1519 of 1971 — Assessee special-leave appeal from Delhi High Court judgment of 22 January 1971 in Income Tax Reference No. 25 of 1966; questions 1, 3 and 4 remained, question 2 was not pressed.

[1978] 1 SCR 537 | 1977-09-21

Interest of Rs.2,04,744 on borrowing to acquire dividend-yielding rights was deductible under section 12(2) of the 1922 Act. The Rs.1,05,000 default damages remained capital, and the Rs.95,664 dividend had to be included in income. Transfer of equitable title was expressly left undecided (SCR 540-546).

Indian Income-tax Act, 1922 | 1922 Act: 12(2)

2-judge bench | P.N. Bhagwati, J. | S. Murtaza Fazal Ali, J.

01 FACTS OF THE CASE

The assessee agreed in 1948 to acquire shares from Bharat Bank for Rs.44,14,990 using bank borrowing. Pending delivery, the agreement allocated later-declared dividends and bonuses to him and required interest at six per cent. He failed to take some shares by the extended date and paid damages. For AY 1953-54 he sought deductions for interest and damages and exclusion of the dividend. The Tribunal and Delhi High Court denied the deductions but excluded the dividend, relying on absence of equitable title (SCR 538-540).

Source: [SCR 537-546; physical PDF pages 1-10](#)

02 DISCUSSION BY THE HON'BLE COURT

Fazal Ali J. resolved the interest issue through the contractual income rights rather than title to the shares. The genuine agreement was acted upon and made the declared dividends available for the assessee's benefit. Interest had the required nexus with earning that income and was neither capital nor personal expenditure. Section 12(2) required the relevant expenditure in the accounting year for the income-earning purpose; a nexus could be indirect, though this case supplied a direct one. By contrast, damages resulted from the assessee's default in a capital share acquisition, and share dealing was not his main business (SCR 541-546).

Source: [SCR 537-546; physical PDF pages 1-10](#)

03 JUDICIAL DECISION

The interest deduction was allowed and the damages disallowance affirmed. The dividend exclusion was reversed; the Court accepted the Revenue's submission, with the assessee's express concession following allowance of interest. It neither decided equitable ownership nor affirmed the High Court's view on that point (SCR 540-541, 546).

Source: [SCR 537-546; physical PDF pages 1-10](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed: assessee on interest; Revenue on damages and dividend inclusion The appeal was allowed in part. Rs.2,04,744 was deductible, Rs.1,05,000 was not, and Rs.95,664 was restored to total income. Each side bore its own Supreme Court costs. No remand was ordered (SCR 546). Partial substantive allowance across three issues; equitable-title question reserved No current-law or comprehensive later-treatment certification.

Source: [SCR 537-546; physical PDF pages 1-10](#)

05 AKHB REVIEW POINT

Separate the expense's income-earning nexus from title to the underlying asset, and distinguish interest from acquisition-default damages. The dividend result includes an express concession and must accompany the interest result. Later treatment and current dividend-deduction or 2025 statutory equivalence remain unverified.

Source: [SCR 537-546; physical PDF pages 1-10](#)

ASSESSMENT YEARS AND LIMITS

Years: 1953-54

Qualification: Only years material to the issues described are listed; different claims may cover different years as stated in the facts.

REPORTED CITATION

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

STATUTORY CONTEXT

Indian Income-tax Act, 1922, section 10(2)(xv): discussed through Bombay Steam Navigation

SOURCE & VERIFICATION

Original reported Supreme Court judgment

Unchanged supplied SCR report; catalog identifies a CC-BY-4.0 public eSCR mirror. Not represented as a separately fetched official signed PDF. Headnote SCR 537-538; jurisdiction/counsel and sole Fazal Ali J. judgment begin SCR 538; reasons and partial-allowance disposition end SCR 546. No adjacent judgment included.

Open cited source rendition

At SCR 539 the narration of the damages issue ends by referring to interest as a revenue loss; question 3 and the final ruling clearly concern Rs.1,05,000 damages.

The headnote names Bombay Steam Navigation Co. (1963); the reasons use (1953). Smt. Nirmala Doshi's middle initial also differs between headnote and reasons. The cited authorities are not independently certified.

STATUTORY SCOPE

Indian Income-tax Act, 1922. The historical operative enactment is identified. Other enactment references are source context only unless expressly identified as operative; 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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