Commissioner of Income Tax, Shimla v. H.P. State Industrial Development Corporation Ltd.

ITR 1/2000

No neutral citation stated in source | 2008-04-30

Worthless subsidiary shares held as stock-in-trade supported trading loss without an actual sale.

256(2)

High Court of Himachal Pradesh | Division Bench | Deepak Gupta | Kuldip Singh

Assessment years: Not specified in source

01 FACTS OF THE CASE

The reference challenged deletion of a Rs.96,38,630 addition described as bad debts. The corporation held subsidiary shares as trading stock and had previously paid tax on share-sale profits. Himachal Worsted Private Ltd. accumulated losses exceeding Rs.3 crore and went into liquidation; the corporation wrote off its shares. The source separately mentions 1985 winding up and the petition allowed on 19 May 1993.

Source: PDF p.1

02 DISCUSSION BY THE HON'BLE COURT

The Tribunal found the shares were stock-in-trade. The Court rejected Revenue's argument that absence of an actual share sale prevented deduction: after liquidation the shares had become worthless and could not be sold. The loss was therefore a trading loss, rather than being denied merely because no sale occurred.

Source: PDF p.2

03 JUDICIAL DECISION

The reference was answered for the assessee and against Revenue. The Registrar General was directed to send a copy to the Tribunal.

Source: PDF p.2

04 OUTCOME / IN WHOSE FAVOUR

The taxpayer retained the favourable deduction result for the worthless trading shares. The Court did not announce a general allowance for all subsidiary investments or determine a capital-loss computation.

Source: PDF p.1

05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Stock-in-trade status was the decisive factual foundation — Past taxable share-sale profits and the Tribunal's finding supported treatment as trading stock. Subsidiary ownership alone was not the test. For another holding, its established business character must be demonstrated before using this reasoning; a capital investment cannot be assumed to receive the same treatment.

Worthlessness explained why a sale was unnecessary here — The Court linked the absence of sale to liquidation and the inability to sell shares that had become worthless. This is different from a mere market-price decline or an elective book write-down while value remains. The evidence of liquidation and lost value is therefore essential to the application of the decision.

The question's bad-debt label does not replace the holding — The Court expressly called the allowance a trading loss. The earlier interest waiver mentioned in the history is not the subject of a new interest ruling, and the source gives no assessment year. Those distinctions prevent importing bad-debt conditions, a principal-loan write-off or an invented timing conclusion into this decision.

Source: PDF p.1

SOURCE & VERIFICATION

20080430_HPHC010003182000.pdf

Complete source PDF reviewed: 3 physical pages.

All 3 original pages read and visually inspected; all five panels audited.

Open cited source rendition

All three pages read and visually inspected. Source states winding up in 1985 and separately records the Company Judge allowing the petition on 19 May 1993. No assessment year is identified.

STATUTORY SCOPE

Section 256(2) reference; the Court characterized the loss as trading loss, despite the question describing bad debts.

LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment has not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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