

Commissioner of Income-tax, Gujarat v. Girdhardas & Company Private Ltd.

Civil Appeal No. 690 of 1965

[1967] 1 SCR 777 | 1966-10-07

Liquidation distribution: each payment was apportioned between capital and pre-liquidation accumulated profits in their opening ratio, with only the profit component treated as dividend.

Indian Income-tax Act, 1922: sections 2(6A)(c) and 66(1) | Finance Act, 1955: section 3 | Finance Act, 1956: section 3

3-judge bench | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1958-59

Proportional answer, not full taxation

The Court did not hold the whole Rs.75,000 taxable. It required the accumulated-profit component to be determined by the opening capital/profit ratio.

Historical statutory definition

The ratio construes the 1956 wording of section 2(6A)(c) of the 1922 Act and is not a current-law clearance.

01 FACTS OF THE CASE

The respondent company entered voluntary liquidation on 23 August 1952 with paid-up capital of Rs.25 lakh and accumulated profits of Rs.5,34,041. After several earlier distributions, the liquidator distributed Rs.75,000 on 24 July 1957. For AY 1958-59 the Income-tax Officer treated the entire payment as dividend under section 2(6A)(c), and the Appellate Assistant Commissioner agreed. The assessee argued that earlier distributions had exhausted accumulated profits or, alternatively, that every distribution should be split proportionately between capital and accumulated profits. The Tribunal rejected the exhaustion contention without deciding proportionality; the High Court held no part taxable because the Tribunal had not disintegrated the payment.

Source: [Liquidation, distributions and reference history: SCR pp.778-779 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

At liquidation, company assets and undistributed profits became one consolidated fund; the liquidator did not maintain two independently traceable pools. Section 2(6A)(c), recast in 1956 to overcome the ordinary capital character of liquidation receipts, authorised tax disintegration of each distribution into capital and accumulated-profit components as they stood immediately before liquidation. The correct method was to determine opening capital and accumulated profits, calculate their ratio and apply it to each distribution. Neither a first-in exhaustion theory nor transaction-by-transaction tracing to a supposed separate fund was supported by the provision.

Source: [Legislative history and consolidated liquidation fund: SCR pp.780-782 / PDF pp.4-6](#); [Opening-ratio method and rejection of separate funds: SCR p.783 / PDF p.7](#)

03 JUDICIAL DECISION

The High Court's negative answer was discharged. The Court answered that the portion of Rs.75,000 bearing the same ratio to the payment as accumulated profits bore to the company's total assets immediately before liquidation was dividend. The Tribunal had to determine that component. The appeal was allowed in part, with no order as to costs.

Source: [Reframed answer and partial allowance: SCR p.783 / PDF p.7](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed, favouring the Revenue only in part. The assessee lost the wholly non-taxable answer, but the Revenue did not secure tax on the whole Rs.75,000; only the proportionate accumulated-profit component was dividend, subject to Tribunal quantification.

Source: [Proportionate tax result and no-costs order: SCR p.783 / PDF p.7](#)

05 AKHB REVIEW POINT

AKHB analysis: for a historical liquidation distribution under this provision, reconstruct the balance immediately before liquidation, identify capital and accumulated profits, document the ratio and apply it consistently to each payment; do not assume accumulated profits were exhausted merely because earlier sums exceeded that figure. Before using the methodology today, map the transaction to the currently operative statute and verify later authorities.

Source: [AKHB analysis based on the consolidated-fund and ratio method](#)

SOURCE & VERIFICATION

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

Full 7-page SCR report read; the editorial headnote on PDF pp.1-2 was distinguished from Shah J.'s unnumbered opinion beginning on PDF p.2.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and seven-page count match catalogue asset 1967_1_777_783; all pages were read and visually checked.

The report verifies Civil Appeal No. 690 of 1965, the 7 October 1966 decision date and the three-member bench.

The assessed distribution was Rs.75,000 made on 24 July 1957 for AY 1958-59; the earlier liquidation and distributions supplied the opening-fund context.

STATUTORY SCOPE

The decision interprets section 2(6A)(c) of the repealed Indian Income-tax Act, 1922 as amended in 1956. Current liquidation-distribution provisions and subsequent treatment have not been checked.

LATER TREATMENT

Source checked 2026-10-10. Later treatment and present taxation of liquidation distributions have not been comprehensively checked; no current citator clearance is represented.

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