

Miss Dhun Dadabhoy Kapadia v. Commissioner of Income-tax, Bombay

Civil Appeal No. 757 of 1965

[1967] 2 SCR 1 | 1966-10-31

Capital gains on renounced rights shares: the computation had to account for the simultaneous depreciation in the taxpayer's original shares caused by creation of the rights.

Indian Income-tax Act, 1922: sections 12B(ii), 66(1) and 66A(2)

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

Assessment years: 1957-58

Historical section 12B computation

The calculation concerns the 1922 Act and a 1956 rights issue. Do not transplant the deduction method to current section 48/55 computations without checking the applicable statutory version and later authorities.

01 FACTS OF THE CASE

The assessee held 710 Tata Iron and Steel Company ordinary shares as an investment. A 1956 one-for-one rights issue entitled her to 710 new shares at Rs.105 each or to renounce the entitlement. She sold the entitlement on 12 June 1956 for Rs.45,262.50. Around the shares going ex-rights, the quoted value of each original share fell from Rs.253 to Rs.198.75. The tax authorities and Bombay High Court treated the full receipt as capital gain and rejected her claim to deduct about Rs.37,630 representing the fall in value of the original shares. The referred issue arose for AY 1957-58.

Source: [Rights issue, renunciation proceeds, market-value fall and referred question: SCR pp.2-3 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court analysed the transaction as a whole. Immediately before renunciation, the taxpayer's capital asset comprised the 710 old shares plus the matured right to acquire 710 new shares. Afterwards she held the old shares at their lower ex-rights value plus the cash received. The net gain therefore required deducting the value diminution attributable to the rights. In the alternative formulation, depreciation of the old shares was, in a commercial sense, the value invested in acquiring the transferable right, so only the excess of sale proceeds over that diminution represented net gain. Drawing support from Dalmia Investment and ordinary business/accounting practice, the Court rejected the High Court's view that such commercial principles were inapplicable merely because the computation was for tax.

Source: [Before-and-after asset comparison and alternative commercial valuation: SCR pp.4-5 / PDF pp.4-5; Accounting/commercial-practice principle and final computation: SCR pp.5-6 / PDF pp.5-6](#)

03 JUDICIAL DECISION

The Court held that the full Rs.45,262.50 receipt was not the net capital gain and that approximately Rs.37,630, representing the simultaneous depreciation in the 710 original shares, had to be deducted. It allowed the appeal, set aside the High Court's answer, answered the referred question affirmatively and awarded the assessee costs in both courts.

Source: [Deduction, affirmative answer and operative allowance: SCR p.6 / PDF p.6](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. She obtained a recomputation principle and an affirmative answer to the reference; the Court did not treat the entire renunciation receipt as taxable net gain.

Source: [Assessee's successful result: SCR p.6 / PDF p.6](#)

05 AKHB REVIEW POINT

AKHB analysis: for a rights-entitlement disposal, reconstruct the complete economic transaction rather than isolating cash proceeds. Preserve the offer terms, record date, entitlement ratio, subscription price, cum-rights and ex-rights quotations, sale contract and holding character of the original shares. Compute only under the statute applicable to the relevant year: this judgment's commercial logic is historically important, but current cost-basis rules and later authorities require separate verification.

Source: [AKHB analysis based on the whole-transaction and commercial-practice reasoning](#)

SOURCE & VERIFICATION

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

Full 6-page SCR report read. The editorial headnote on PDF pp.1-2 was distinguished from the unnumbered judgment beginning on PDF p.2. The headnote's OCR-like '128(2)' was not followed because the judicial text and referred question identify section 12B(ii).

Open cited source rendition

Exact source bytes, SHA-256 and six-page count match catalogue asset 1967_2_1_6; every PDF page was read.

The judicial text verifies Civil Appeal No. 757 of 1965, decision on 31 October 1966, the three-member bench, AY 1957-58 and previous year 1956-57.

No Dhun Dadabhoy Kapadia record exists in content/supreme-court-cases.json. One later published record discusses this precedent, but is a different 2010 judgment and not a duplicate.

STATUTORY SCOPE

This decision applies section 12B of the repealed Indian Income-tax Act, 1922 to a 1956 rights issue. Current capital-gains provisions, cost rules for rights entitlements, later statutory amendments and subsequent judicial treatment have not been checked.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and the current statutory computation of rights-entitlement gains have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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