

Commissioner of Income-Tax, Gujarat v. Vadilal Lallubhai etc. etc.

Civil Appeals Nos. 2348-2349 of 1969; Civil Appeal No. 1139 of 1969; Civil Appeals Nos. 2006 and 2007 of 1971 — Supreme Court appeal or expressly printed appeal group decided in this judgment and connected proceedings (full list below)

[1973] 1 SCR 1058 | 1972-08-29

Liquidation distributions deemed dividends by section 2(6A)(c) were not income capable of day-to-day accrual and apportionment under section 44-F; the two fictions could not be combined beyond their statutory purposes.

1922 Act: 2(6A)(c) | 1922 Act: 2(6C) | 1922 Act: 44-F

3 Judges | K. S. Hegde | P. Jaganmohan Reddy | H. R. Khanna

01 FACTS OF THE CASE

The Revenue could not tax the former shareholder under section 44-F by treating later liquidation distributions as income accruing to him day by day. The Court used Vadilal Lallubhai's 1958-59 assessment as illustrative of five appeals. His family controlled managing-agency companies which surrendered those agencies after the Companies Act, 1956 to preserve selling-agency rights. He sold shares to employees, their relatives and a family charitable trust. Within days, the companies entered voluntary liquidation and distributed assets to the new registered holders, who paid no tax or lower rates. The tax authorities and Tribunal applied sections 44-F and 2(6A)(c) of the Indian Income-tax Act, 1922; Gujarat High Court rejected that treatment.

Source: [SCR1060C-1061B: illustrative year, transfers, liquidations and procedural result.](#)

02 DISCUSSION BY THE HON'BLE COURT

Hegde J began with the definitions' qualification that they applied unless repugnant to subject or context. A liquidation distribution attributable to accumulated profits could be deemed dividend, and thus income, but that did not answer the separate section 44-F question. That section concerned periodic income from securities capable of deemed daily accrual and apportionment; its subsection (2) employed a more-than-ten-per-cent tax-avoidance threshold. Distribution of the company's assets upon liquidation was not such recurring income from surviving income-yielding shares. Combining the provisions would require assumptions that the fictional dividend was section 44-F income, accrued daily, and accrued over a selected accounting-year-to-distribution period which the statute did not prescribe. The Court refused to insert those assumptions. The 1939 Select Committee report and marginal note supported the provision's focus on bond-washing arrangements converting periodic revenue into capital receipts. Legal fictions had to remain within their created purpose.

Source: [SCR1061G-1064H: definitions, 44-F mechanism and fiction limits; 1065-1067C: legislative purpose and commentary.](#)

03 JUDICIAL DECISION

The common question was resolved for the assessee: section 44-F read with section 2(6A)(c) was inapplicable to these liquidation receipts. The Court expressly declined to examine the remaining subsidiary questions. It did not hold that liquidation distributions could never be taxed under any provision.

Source: [SCR1065A-C and 1067C-D: incompatible mechanisms; subsidiary issues not examined.](#)

04 OUTCOME / IN WHOSE FAVOUR

All five Revenue appeals dismissed with costs and one hearing fee. The disputed former-shareholder assessment could not rest on section 44-F combined with the liquidation-dividend fiction; subsidiary questions remained open.

Source: [SCR1067D-E: all appeals dismissed, costs, one hearing fee.](#)

05 AKHB REVIEW POINT

A deemed dividend does not automatically satisfy a separate charging mechanism. The compared 1961 section 94(2) and 2025 section 175(3) retain day-to-day language with their own exceptions; modern liquidation definitions 2(22)(c)/2(40)(c) also have qualifications. Full selected texts were read at their stated, differing versions. This does not decide modern dividend-stripping, capital-gains or general anti-avoidance consequences, or approve all pre-liquidation transfers.

Source: [SCR1061G, 1064C-H, 1065A-D: contextual definitions and bounded fiction.](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeals Nos. 2348-2349 of 1969; Civil Appeal No. 1139 of 1969; Civil Appeals Nos. 2006 and 2007 of 1971 — Supreme Court appeal or expressly printed appeal group decided in this judgment / I.T.R. Nos. 2 and 1 of 1966 — Originating High Court appeal/reference docket; not an additional Supreme Court appeal

SOURCE & VERIFICATION

Original reported Supreme Court judgment

10-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified. All physical pages 1-10/SCR1058-1067: complete caption/grouped appeals, Hegde J judgment, section 2 definitions and quoted 44F, legislative materials and foreign commentary, operative dismissal/costs. Every page text and image personally inspected.

Open cited source rendition

SCR 1060 prints managing-agency employees went into liquidation; surrounding text makes clear the subject is companies.

SCR 1064 attributes 2(6A)(c) to the Sarathy Mudaliar discussion and then repeats (c); this note does not silently recite a corrected subsection for that separate precedent.

Indian section 44-F proviso printed 1063 refers to three preceding years; foreign commentary printed 1067 refers to following years. They are distinct texts, not interchangeable qualifications.

HC docket/date transcription retained exactly; no invented additional HC groups for five SC appeals.

Modern statutory evidence is limited to the exact versions and scopes in sources; retained capture hashes are not original website/PDF hashes unless expressly labelled. No present-tax-year or full savings determination.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 2(6A)(c), 2(6C), 44-F

Full section 94(2024 No. 2) and complete 2(22)(2025) read. Section 94(2) uses day-to-day income; 94(3) has no-avoidance/exceptional-avoidance qualifications; 94(7)–(8) are distinct loss rules. Section 2(22)(c) liquidation dividend remains subject to exclusions and accumulated-profit explanations. Old 44F's 10% threshold is not imported.

Full 175(2026) and complete 2(40)(2025) read. Section 175(3) is the day-to-day comparator with 175(4) qualifications; 175(8)–(10) contain separate loss rules. Section 2(40)(c) and its exclusions/definitions must be read together; dated old exclusions are not identical. Versions are not harmonised into a full 2026 audit.

Legacy 1922 Act holding; comparison versions and personally read scopes are explicit. No automatic precedent carryover or exhaustive present-law/repeal/savings determination.

Other provisions addressed: 1922 Act section 44-E referenced in 44-F proviso; English Finance Act 1927 section 33 and Income-tax Act 1952 section 237 discussed

LATER TREATMENT

Source checked 2026-10-07. No specific later judgment is adopted in this note; no absence of later treatment is asserted.

Comprehensive subsequent history and present-law applicability are not certified.

Comprehensive subsequent history remains unverified; no later-use claim adopted.

IDENTIFIED SOURCE LINKS

[Income-tax Act, 1961: section 94](#)

2024 (No. 2) Full section: lines 64–117, subsections (1)–(8), Explanation under (1), and section-wide Explanation (a), (aa), (b), (c), (d); amendment notes lines 121–124; version header lines 38–58. Fresh personal read of complete selected section/definition text; not whole Act. Exact distinct versions preserved. No original PDF/HTMLbytes, source images or comprehensive current law claim.

[Income-tax Act, 2025: section 175](#)

2026 Full section: lines 63–112, subsections (1)–(11), including all nested clauses of (11); version header lines 38–58. Fresh personal read of complete selected section/definition text; not whole Act. Exact distinct versions preserved. No original PDF/HTMLbytes, source images or comprehensive current law claim.

[Income-tax Act, 1961: section 2\(22\)](#)

2025 Whole selected clause 2(22): lines 304–344. Includes (a)–(f), all exclusions, Explanations 1, 2, 2A and 3. Header lines 38–65. Not the whole of section 2; amendment footnotes outside these bounds not read. Fresh personal read of complete selected section/definition text; not whole Act. Exact distinct versions preserved. No original PDF/HTMLbytes, source images or comprehensive current law claim.

[Income-tax Act, 2025: section 2\(40\)](#)

2025 Whole selected clause 2(40): lines 216–244. Includes (a)–(f), all exclusions and concluding where (A)–(E). Header lines 38–65. Not the whole of section 2. Fresh personal read of complete selected section/definition text; not whole Act. Exact distinct versions preserved. No original PDF/HTMLbytes, source images or comprehensive current law claim.

Section 94 securities provision; Department and Ministry header; no amendment-year label visible in extracted text: departmental PDF corroboration

No printed amendment-year label; filename timestamp is not a statutory version All extracted PDF lines 0–67, pages P0–P1 (2 pages); no screenshot/image reading claim. Fresh personal read of complete selected section/definition text; not whole Act. Exact distinct versions preserved. No original PDF/HTMLbytes, source images or comprehensivecurrentlaw claim.

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