

COMMISSIONER OF INCOME TAX, MADRAS v. M/S. MADURAI MILLS CO. LIMITED

Civil Appeal No. 1394 of 1970 — Supreme Court appeal or expressly printed appeal group decided in this judgment and connected proceedings (full list below)

[1973] 3 SCR 662 | 1973-03-09

Liquidation distributions satisfied existing shareholder rights and were not a sale, exchange, relinquishment or transfer attracting 1922 section 12B; 1961 section 46 was an express, distinct charge.

1922 Act: 12B | 1922 Act: 66(1)

3-judge bench | K. S. Hegde, J. | P. Jaganmohan Reddy, J. | H. R. Khanna, J.

01 FACTS OF THE CASE

Madurai Mills held shares in three companies that entered voluntary liquidation in December 1959. During the accounting period relevant to assessment year 1961-62, their liquidators distributed cash or assets to it. The officer assessed a net capital gain under section 12B of the Indian Income-tax Act, 1922. The appellate authorities treated the distribution as an exchange, transfer or relinquishment; the High Court instead held that the liquidators were discharging a legal function without a transaction of that kind. Revenue appealed from the section 66(1) reference.

Source: [SCR663E-664H](#)

02 DISCUSSION BY THE HON'BLE COURT

The Supreme Court read the charging words of section 12B. Distribution did not create new shareholder rights: it satisfied rights already attached to the shares. The shareholder therefore received a share of net assets, not consideration from a sale or comparable transaction. Partnership-distribution decisions supported the distinction. James Anderson was different because securities had actually been sold before proceeds were distributed. Revenue also relied on the disappearance, in the 1956 version, of an earlier proviso expressly excluding liquidation distributions. The Court treated the earlier words as clarification: omitting them could not insert a charge absent from the plain operative text. Legislative history and implications drawn from a proviso could not enlarge clear charging language.

Source: [SCR665B-669F](#)

03 JUDICIAL DECISION

The liquidation receipts did not attract section 12B. The Court expressly distinguished section 46 of the 1961 Act: liability under that provision arose from its express terms and could not be assumed under the 1922 Act without equivalent language. Thus the decision did not exempt liquidation distributions from every later statutory charge.

Source: [SCR668D,669F-G](#)

04 OUTCOME / IN WHOSE FAVOUR

The Revenue's appeal was dismissed with costs. The High Court's answer against taxing the disputed liquidation surplus under section 12B stood.

Source: [SCR669H](#)

05 AKHB REVIEW POINT

Identify both the taxpayer and the charging event: a company's realisation of assets, its distribution, and a shareholder's receipt need separate treatment. Use this judgment's interpretive reasoning only after checking the applicable enactment. The Court itself supplies the principal limit: a later express liquidation charge changes the analysis, so its 1922 conclusion cannot be carried across by analogy alone. Checked later shareholder charges are section 46(2) and 2025 section 68(2); Amin's historical use remains company-definition dependent.

Source: [SCR666B-F,667D-G,669F-G; section46\(1\)-\(2\), complete text web lines15256-15267, physical348/printed1.307; section68\(1\)-\(2\), complete text web lines5154-5164, physical126; Title and section 1\(3\), physical1/web0-13; section536\(1\),\(2\)\(a\)-\(c\), physical584-585/web24385-24399; subsections\(3\)-\(4\), physical589/web24597-24601. No full-section536 reading claimed.; All physical pages1-6/SCR220-225; Madurai discussion224E-H and section46/company-definition qualification225A-G.](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 1394 of 1970 — Supreme Court appeal or expressly printed appeal group decided in this judgment / Tax Case No. 124 of 1965 — Originating High Court appeal/reference docket; not an additional Supreme Court appeal

SOURCE & VERIFICATION

Original reported Supreme Court judgment

8-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.

Open cited source rendition

The headnote at SCR 662 describes the Tribunal as finding no exchange/transfer; the judgment at SCR 664 F states that it found exchange/transfer and alternatively relinquishment. The judgment's account controls.

Minor OCR/citation glitches do not alter the visible identity or operative provision.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 12B, 66(1), Income Tax and Excess Profit Tax (Amendment) Act 1947, Finance (No.3) Act 1956

The checked Department-hosted 2011 section 46(1) excludes a company-level transfer on distribution, while subsection (2) expressly charges the shareholder after the specified dividend reduction. Madurai itself distinguished that express charge; the source is not a complete current amendment-chain check.

Section 68(1)-(2), Finance Act 2026 edition, retains the distinct company-distribution exclusion and shareholder capital-gains charge, with the dividend reduction and deemed consideration for section 72. Madurai's 1922 result therefore supplies no automatic modern shareholder exemption.

The checked section 1(3) generally commences the 2025 Act on 1 April 2026. Section 536 preserves previous operation and accrued rights and keeps specified pre-commencement-year proceedings under the 1961 Act, subject to its savings. None of these comparisons retrospectively replaces the operative law of the judgment.

LATER TREATMENT

Source checked 2026-10-07. R. M. Amin, 26 November 1976, applies Madurai's existing-shareholder-rights reasoning in an assessment for 1962-63 and explains section 46(2) as an express shareholder charge. Its result depended on the then definition of company excluding the Ugandan company. This bounded historical use is not a universal present-day rule excluding extinguishments or foreign-company distributions.

Subsequent-history status remains unverified beyond any specific use recorded below.

IDENTIFIED SOURCE LINKS

[Income-tax Act, 1961; 2011 compilation](#)

2011 compilation section 46(1)-(2), complete text web lines 15256-15267, physical 348/printed 1.307 Selected web-extracted statutory passages personally read; no raw-PDF, rendered-page or full-enactment read claimed. The stated version and bounds control this comparison.

[Income-tax Act, 2025; FA2026](#)

FA2026 section 68(1)-(2), complete text web lines 5154-5164, physical 126 Selected web-extracted statutory passages personally read; no raw-PDF, rendered-page or full-enactment read claimed. The stated version and bounds control this comparison.

[Income-tax Act, 2025, as amended by Finance Act 2026](#)

Title and section 1(3), physical 1/web 0-13; section 536(1),(2)(a)-(c), physical 584-585/web 24385-24399; subsections (3)-(4), physical 589/web 24597-24601. No full-section 536 reading claimed. Selected web-extracted statutory passages personally read; no raw-PDF, rendered-page or full-enactment read claimed. The stated version and bounds control this comparison.

[Commissioner of Income Tax, Gujarat-II, Ahmedabad v. R. M. Amin \(1976-11-26\)](#)

All physical pages 1-6/SCR 220-225; Madurai discussion 224E-H and section 46/company-definition qualification 225A-G. Exact restored SCR PDF personally read in full text and all six full-size images; source hash unchanged before/after. Original catalogue URL is retained provenance, not a newly authenticated endpoint. Text pages read: 1-6. Image pages read: 1-6.

AI DISCLOSURE

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

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