

## Mangalore Electric Supply Co. Ltd. v. The Commissioner of Income Tax, West Bengal

Civil Appeal No.2160 of 1972 / Civil Appeal No.2006 of 1972

[1978] 3 SCR 913 | 1978-05-04

**Whether the goodwill questions raised through the section 256(2) reference could be pursued without the factual material needed for valuation and apportionment; separately, whether compulsory acquisition was a transfer under the governing 1922 section 12B.**

256(2) (actual reference route; independently reasoned refusal of goodwill contentions requiring absent factual foundations)

Three-judge bench | Y.V. Chandrachud, C.J. | D.A. Desai, J. | R.S. Pathak, J.

Assessment years: 1957-58

### **Mixed statutes, limited goodwill-reference rule and source inconsistencies**

The capital-gains transfer holding applies section 12B of the 1922 Act. The separate section 256(2) branch requires the missing factual basis for these goodwill questions; it is not a universal new-ground bar or a finding that goodwill can never be an asset. Both appeals failed with costs, without a valuation remand. The report caption gives the second High Court date as 19 November 1977, but the judicial body states 19 November 1971; the latter is used with the conflict disclosed. The headnote's fixed-assets figure is Rs.6,45,710, while the judicial body states Rs.6,46,710. The original remains unchanged. The reference procedure is historical; current law, comprehensive later treatment and 2025 mapping are not verified.

## 01 FACTS OF THE CASE

The company distributed electricity in Mangalore under a licence originally granted to Octavious Steel & Company and assigned with State consent. The Madras Government compulsorily acquired the undertaking under the Madras Electricity Supply Undertakings (Acquisition) Act, 1954. The vesting date, initially fixed at 31 December 1956, was advanced to 15 October 1956. The company chose Basis A compensation under sections 5 and 6, calculated at twenty times the average net annual profits of the preceding five consecutive accounting years, and received Rs.18,42,312 (physical pages 2–3/SCR 914 H–915 E).

For AY 1957–58, the Court records the accounting period as 1 April 1955 to 14 October 1956. The Officer treated Rs.11,95,602 as capital gains under section 12B of the Indian Income-tax Act, 1922 after deducting fixed assets stated in the judicial body at Rs.6,46,710. The company argued that compulsory acquisition was not a transfer. The appellate authorities rejected that argument. The Calcutta High Court's 25 August 1971 answer against the company led to Civil Appeal No.2160 of 1972 (physical pages 3–4/SCR 915 E–916 A).

A separate reference arose when the Tribunal declined four additional questions and the company applied under section 256(2) of the Income-tax Act, 1961. The High Court called for all four; the company did not press the third and fourth. The two remaining questions asked whether any compensation was attributable to goodwill and whether the Tribunal should have determined that amount and the resulting capital gains. The High Court answered both against the company on 19 November 1971, as stated in the judicial body, giving rise to Civil Appeal No.2006 of 1972 (physical page 4/SCR 916 B–E).

The goodwill point had not been raised before the Officer or Appellate Assistant Commissioner. Before the Tribunal, the company asserted that goodwill and management rights were acquired, but supplied no material enabling valuation or apportionment. In the Supreme Court it claimed the Tribunal had promised to leave valuation to the Officer. The Tribunal's 9 October 1968 reference-refusal order expressly denied making that assurance (physical pages 8–9/SCR 920 A–921 C).

Source: See the proposition-specific paragraph and PDF-page references below.

## 02 DISCUSSION BY THE HON'BLE COURT

The Court decided two distinct branches. On the historical capital-gains branch, section 12B(1) of the 1922 Act used transfer in a comprehensive sense that included compulsory divestiture and vesting by law. The associated words sale, exchange and relinquishment did not form a distinct genus warranting a restricted reading. The Court also relied on the removal, by the 1956 amendment, of the earlier express exception for compulsory acquisition. Whether compulsory acquisition was itself a sale was unnecessary to decide. This was a construction of the governing 1922 provision, not a ruling under a 1961 capital-gains definition (physical pages 4–8/SCR 916 F–920 A).

For the goodwill reference obtained under section 256(2), the Court did more than repeat the Tribunal's findings. It explained that even if the referred questions involved a legal principle, they were mixed questions of law and fact: before any part of the compensation could be attributed to goodwill, goodwill had to be found in fact to possess some value. A legal formulation of the question did not remove that factual prerequisite (physical page 8/SCR 920 G–H).

The Tribunal had recorded that goodwill was absent from the balance sheet, no acquisition of goodwill was proved, no valuation evidence was supplied, and there was no material about value as at 1 January 1954. It also found that management rights were not independent of the acquired business and had not been separately valued. These are the findings the Supreme Court recounted; they should not be recast as a universal rule that goodwill cannot exist unless entered in a balance sheet (physical page 8/SCR 920 C–F).

The Court rejected the asserted excuse for the evidentiary gap because the Tribunal's own order contradicted the claimed assurance. It then held that, given the mixed nature of the questions, the failure to raise them before the first two authorities and the absence of valuation/apportionment material even when raised before the Tribunal, the company could not pursue the contentions involved in those questions. It affirmed the High Court for those reasons. The decided procedural point is confined to a claim requiring missing factual foundations; the judgment does not announce an absolute prohibition on new pure-law grounds or declare the reference itself void (physical page 9/SCR 921 A–E).

Source: See the proposition-specific paragraph and PDF-page references below.

## 03 JUDICIAL DECISION

Civil Appeal No.2160 of 1972 was dismissed and the High Court's 25 August 1971 judgment on section 12B was affirmed. Civil Appeal No.2006 of 1972 was also dismissed: the goodwill questions failed on the Court's stated mixed-question and evidentiary reasoning, and the High Court's judgment was affirmed. In the ultimate order both appeals were dismissed, both High Court judgments confirmed, and the company was ordered to pay the Commissioner's costs in the appeals. There was no remand for goodwill valuation (physical page 8/SCR 920 A; physical page 9/SCR 921 D–F).

Source: See the proposition-specific paragraph and PDF-page references below.

**04 OUTCOME / IN WHOSE FAVOUR**

In whose favour: Revenue in both appeals

Both assessee appeals dismissed; both High Court judgments confirmed; assessee to pay Commissioner's costs in the appeals

Final 1922 section 12B transfer holding; separate reasoned mixed-question/evidentiary refusal in the reference expressly obtained under 1961 section 256(2)

No general ruling that goodwill is never a capital asset or cannot have value; no absolute bar against a new pure-law ground; no void-reference ruling. Compulsory acquisition as a sale was expressly unnecessary. Two of four additional reference questions were not pressed and their subject matter is not reproduced.

Source: See the proposition-specific paragraph and PDF-page references below.

**05 AKHB REVIEW POINT**

For a mixed law-and-fact reference, identify the factual findings needed before the proposed legal consequence can follow. Here, goodwill attribution required evidence of existence and value and a basis for apportioning the compensation; presenting the contention as a legal question did not supply that record. Preserve what was actually placed before each authority and verify any claimed assurance against its written order. Do not turn this refusal into either a universal bar on new legal grounds or a substantive rule denying goodwill recognition.

A separately checked, government-hosted 2011 compilation limits section 256(1) to Tribunal orders passed before 1 October 1998 and sets out the reference-on-refusal procedure in subsection (2) (physical pages 912–913). That later version check is not part of the 1978 holding and does not establish the procedure applicable today.

Source: See the proposition-specific paragraph and PDF-page references below.

**PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES**

1.

**Topic:** Decision date and three-judge bench

**Source url:** [Open cited source](#)

**Pdf pages:** 1

**Paragraphs:** SCR 913 heading

**Source role:** reported metadata

2.

**Topic:** Both docket groups, caption date conflict and judicial opening

**Source url:** [Open cited source](#)

**Pdf pages:** 2

**Paragraphs:** SCR 914 F–H

**Source role:** reported metadata and judicial text

3.

**Topic:** Acquisition, compensation, actual 1922 merits and assessment year

**Source url:** [Open cited source](#)

**Pdf pages:** 3

**Paragraphs:** SCR 915 A–H

**Source role:** judicial text

4.

**Topic:** Actual section 256(2) route, two questions pressed and judicial-body High Court dates

**Source url:** [Open cited source](#)

**Pdf pages:** 4

**Paragraphs:** SCR 916 A–E

**Source role:** judicial text

5.

**Topic:** Transfer argument, ejusdem generis and 1922 legislative history

**Source url:** [Open cited source](#)

**Pdf pages:** 4; 5; 6; 7

**Paragraphs:** SCR 916 F–919 H

**Source role:** judicial text

6.

**Topic:** First appeal disposition and Tribunal findings on goodwill

**Source url:** [Open cited source](#)

**Pdf pages:** 8

**Paragraphs:** SCR 920 A–F

**Source role:** judicial text

7.

**Topic:** Mixed-question rule: factual value prerequisite; alleged Tribunal assurance rejected

**Source url:** [Open cited source](#)

**Pdf pages:** 8; 9

**Paragraphs:** SCR 920 G–H and 921 A–C

**Source role:** judicial text

8.

**Topic:** Evidentiary refusal, second appeal, both judgments affirmed and costs

**Source url:** [Open cited source](#)

**Pdf pages:** 9

**Paragraphs:** SCR 921 D–F

**Source role:** judicial text

9.

**Topic:** Bounded later statutory version: historical reference route**Source url:** [Open cited source](#)**Pdf pages:** 912; 913**Paragraphs:** 2011 compilation: section 256(1)–(3), printed pages 1.871–1.872**Source role:** bounded later statutory comparison

## JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Y.V. Chandrachud, C.J.

## ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961 (express section 256(2) reference route and decided evidentiary/procedural issue); Indian Income-tax Act, 1922 (section 12B capital-gains merits)

## OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Indian Income-tax Act, 1922: section 12B(1), as substituted by Finance (No.3) Act, 1956, and its earlier compulsory-acquisition exception; Income-tax and Excess Profits Tax (Amendment) Act, 1947, and Indian Finance Act, 1949 (legislative history of section 12B); Madras Electricity Supply Undertakings (Acquisition) Act, 1954: sections 4, 5 and 6

## SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 9 PDF pages; SHA-256

ea5215935288d7bab698f8abe312c6c6182b505e53a6eef65e2ac5cd53f9a3fd. Original bytes preserved.

Judicial body begins physical page 2/SCR 914 H (Chandrachud, C.J.) and ends physical page 9/SCR 921 F with both appeals dismissed and costs. Page 1 and upper page 2 are reporter material and appellate metadata. No neighbouring judgment.

[Open cited source rendition](#)

The 1961 connection is express in the judicial body at SCR 916 B; the independent procedural reasoning is at SCR 920 G–921 E. The separate transfer merits remain 1922 law.; The caption gives 19 November 1977 for the second High Court judgment; the judicial body expressly gives 19 November 1971. This note uses the body date and preserves the inconsistency.; The headnote fixed-assets figure of Rs.6,45,710 differs from the judicial body's Rs.6,46,710. The body figure is used; it also reconciles the stated compensation and capital-gains figures.; The accounting period is reproduced as printed, including its 1 April 1955 starting date, without editorial reconstruction.; The recounted Tribunal findings about absence of balance-sheet goodwill and management rights are not universal Supreme Court rules about goodwill.; The source contains isolated printed/OCR anomalies including the historical Act year and section typography at SCR 918 F. Repeated judicial identification of the governing provision as 1922 section 12B controls the note.

The judicial body expressly gives AY 1957–58 and the accounting period 1 April 1955 to 14 October 1956. The separate reference is expressly described as obtained under 1961 section 256(2); no section 297 transition holding is inferred.

## STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no current-law carryover certification. Verify the applicable statutory version separately.

**LATER TREATMENT**

Source checked 2026-10-05. not\_verified. Bounded later statutory comparison only: government-hosted 2011 compilation, section 256(1)–(3), physical pages 912–913. Corpus name discovery produced no verified later judicial treatment of this procedural holding; unrelated search hits and web leads were not promoted. No complete citation history, current-law validation or 2025 mapping.

**IDENTIFIED SOURCE LINKS**

[reported judgment - PDF pages: 9](#)

SHA-256: ea5215935288d7bab698f8abe312c6c6182b505e53a6eef65e2ac5cd53f9a3fd

[official hosted statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

**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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