

Saraswati Industrial Syndicate Ltd. v. Commissioner of Income-tax, Haryana, Himachal Pradesh, Delhi

Civil Appeal No. 91 of 1976

[1990] Supp. 1 SCR 332 | 1990-09-04

Whether Rs 58,735 attributable to a trading liability allowed to the transferor before amalgamation could be taxed under the then section 41(1) in the hands of the distinct transferee assessee for AY 1965-66.

41(1)

3-judge bench; single opinion | K.N. Singh, J. | T.K. Thommen, J. | Kuldip Singh, J.

Assessment years: 1965-66

IMPORTANT: PRE-AMENDMENT SUCCESSOR RULE; LATER SECTION 41 EXPRESSLY ADDRESSES SUCCESSORS

Saraswati decides AY 1965-66 under the historical section 41(1). The retained 2011 statutory compilation records substitution from 1 April 1993 and express successor-in-business liability, including an amalgamated company. Do not present this case as a continuing exemption for every successor or as automatically invalidating assessments after merger. The later Mahagun discussion is fact- and statute-specific. The source itself uses different amalgamation/dissolution dates and contains editorial errors, preserved below. Comprehensive later treatment, current-law applicability and Income-tax Act 2025 mapping remain NOT VERIFIED.

01 FACTS OF THE CASE

Saraswati Industrial Syndicate manufactured and sold sugar and machinery for sugar mills and other industries. Indian Sugar and General Engineering Corporation, called Indian Sugar Company in the opinion, manufactured machinery parts for sugar mills. The opening account states that it amalgamated with Saraswati under High Court orders on 28 September 1962 and then lost its separate identity. A later passage describes Saraswati as the transferor's subsidiary and says Indian Sugar stood dissolved under the scheme on 29 October 1962. Both statements are retained; the note does not collapse them into a single supposedly authenticated effective date (physical pages 3,6/SCR 334 E-G,337 B-C).

Before amalgamation, Indian Sugar had obtained an accrual-basis deduction of Rs 58,735, shown as a trading liability. Saraswati took over that liability and contested taxing the amount in its hands for AY 1965-66 under section 41(1), because the earlier deduction had been allowed to a different assessee. The judicial text consistently uses Rs 58,735; the editorial headnote's first amount of Rs 58,734 is not adopted (pages 3-4/SCR 334 G-335 D).

The Income-tax Officer rejected the claim and the Appellate Assistant Commissioner affirmed. The Tribunal allowed Saraswati's appeal, treating it as a distinct assessee after Indian Sugar ceased to exist. On Revenue's reference, the Punjab and Haryana High Court held that both entities continued in a blended form and that the successor's assumption of assets and liabilities carried the tax liability. The reference question specifically concerned Rs 58,735 for AY 1965-66 (page 4/SCR 335 A-F).

The High Court's judgment was dated 15 April 1975 in ITR 14/1972. It refused a certificate sought under section 261 of the Income-tax Act read with section 109 CPC. Saraswati then obtained special leave under Article 136; Civil Appeal 91/1976 resulted. The headnote's section 291 label conflicts with the judicial account and is not used as the appeal route (pages 3-4/SCR 334 B-E,335 F-H).

Source: [reported judgment / paragraphs SCR 334 E-335 H; scheme/dissolution discussion SCR 337 B-C / PDF pages 3, 4, 6 / Judicial text unless expressly identified as editorial/appellate recital](#)

02 DISCUSSION BY THE HON'BLE COURT

Singh J. reproduced the then section 41(1). It treated an amount or benefit subsequently obtained in respect of an earlier allowed loss, expenditure or trading liability as business income of the assessee, including remission or cessation, whether or not the relevant business still existed. The Court held that this wording required identity between the assessee who received the earlier allowance and the assessee later sought to be taxed. Its historical wording did not itself impose that charge on a different successor (page 5/SCR 336 A-F).

CIT v. Hukumchand Mohanlal, 82 ITR 624, supported that construction. As described in this opinion, a widow who succeeded to her husband's business received a sales-tax refund connected with sums paid by him; she could not be charged under that section because she was not the assessee to whom the allowance had been granted. This note relies on Saraswati's own account of that authority, not an unclaimed fresh reading of its complete original (pages 5-6/SCR 336 E-337 A).

The remaining issue was whether Indian Sugar continued as the same entity after amalgamation under sections 391 and 394 of the Companies Act. The Court held that it did not. Amalgamation may form a new company or absorb one company into another. Mere acquisition of share capital in a company which continues its business is conceptually different. Although the true legal effect and transferred rights and liabilities depend substantially on the scheme, merger extinguishes the transferor's separate corporate entity (page 6/SCR 337 B-H; pages 7-8/SCR 338 G-339 A).

The Court drew support from General Radio and Appliances Co. Ltd. v. M.A. Khader, [1986] 2 SCC 656, a tenancy case in which the transferor ceased to exist after court-sanctioned amalgamation. It rejected the High Court's theory that the transferor's personality survived in a blended form or that the two entities could be treated as jointly continuing for this tax charge. The Tribunal was right that Saraswati was a separate entity and different assessee. The scheme's assumption of Indian Sugar's pre-dissolution liabilities did not supply the missing statutory identity for this later section 41 charge (pages 6-8/SCR 337 C-339 B).

The ruling is tied to the historical charging language and AY 1965-66. It does not say that transferred contractual liabilities vanish, that every tax obligation ceases at amalgamation, or that later statutory successor provisions can be ignored. A bounded official-web reading of Mahagun Realtors, 5 April 2022, shows that the Court later reproduced Saraswati's corporate-identity reasoning and discussed its earlier statutory setting, while treating assessment nullity as dependent on scheme terms and facts. Mahagun's paragraphs 42-43 restored the distinct assessment dispute to the Tribunal for merits consideration. That is a separate procedural setting, not a reversal of this historical section 41 result (Mahagun paragraph 20 and opening paragraph 21; paragraphs 42-43; official web-text reported pages 11-13,34).

Source: [reported judgment / paragraphs Historical section 41 text, same-assessee rule and merger analysis / PDF pages 5, 6, 7, 8 / Judicial text unless expressly identified as editorial/appellate recital](#)

03 JUDICIAL DECISION

The Supreme Court agreed that the amalgamating company had ceased to exist and that Saraswati was not liable under the then section 41(1) for Rs 58,735. It allowed the appeal, set aside the High Court order and answered the reference in favour of the assessee and against Revenue. There was no order as to costs (physical page 8/SCR 339 B-C).

Source: [reported judgment / paragraphs Operative SCR 339 B-C / PDF pages 8 / Judicial text unless expressly identified as editorial/appellate recital](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Saraswati Industrial Syndicate, the assessee

Appeal allowed; High Court order set aside; reference answered for assessee against Revenue.

Final historical section 41(1) chargeability ruling; no remand.

Rs 58,735 for AY 1965-66; no adjudication of later successor legislation or every post-merger assessment.

Source: [reported judgment / paragraphs Appeal/reference answer/costs, SCR 339 B-C / PDF pages 8 / Judicial text unless expressly identified as editorial/appellate recital](#)

05 AKHB REVIEW POINT

Identify who received the earlier deduction, who obtained the later benefit, the relevant assessment year and the charging language then in force. In a merger, read the scheme for the transfer date, dissolution, transferred liabilities and the identity in which subsequent proceedings were conducted. The printed 28 September and 29 October 1962 dates describe different stages in this report; resolving the precise effective-date mechanics would require the scheme and court orders, which are not separately examined here.

The important statutory caution is concrete. The retained 2011 compilation states that Finance Act 1992 substituted section 41(1) with effect from 1 April 1993; clause(b) expressly addresses a successor in business, and Explanation 2 includes an amalgamated company. The same pages also record later explanation amendments, including the 1996 unilateral-write-off provision and 1999 demerger addition. These are separate later enactments, not statements made in the 1990 judgment. Physical pages 305-306/printed 1.264-1.265 support the warning but do not authenticate the full amendment chain or current text. The corporate-identity analysis and the historical tax result must therefore be separated. AKHB REVIEW POINT is editorial analysis.

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

DETAILED DISPOSITION AND CONNECTED GROUPS

Costs: No order as to costs.

Proceeding outcomes

1.

Case number: Civil Appeal No. 91 of 1976

Parties: Saraswati Industrial Syndicate Ltd. v. CIT, Haryana, Himachal Pradesh, Delhi

Appellant role: Assessee/transferee company

Outcome: Allowed; High Court reference answer reversed in assessee's favour

Assessment years: 1965-66

Amount: Rs 58,735

Underlying proceeding: Punjab and Haryana High Court ITR 14/1972, judgment 15 April 1975; certificate under section 261/CPC 109 refused; special leave granted

Pinpoint: Physical pages 3-4,8/SCR 334 B-335 H,339 B-C

SEPARATE JUDICIAL OPINIONS AND READING BOUNDARIES

1.

Author: K.N. Singh, J.

Formal position: Single opinion of the Court

Separate opinions: False

Read scope: Full bounded judicial opinion and all reported source pages; no dissent or concurrence present

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

261 (certificate application); Companies Act 1956 sections 391 and 394; CPC section 109; Constitution Article 136; Later section 41(1)(b)/Explanation 2 successor provisions: separate statutory caution only

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

K.N. Singh, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER TREATMENT CHECKS AND THEIR LIMITS

1.

Source: Mahagun, paragraph 20 and opening paragraph 21; paragraphs 42-43

Result: Quotes and contextualises Saraswati; separate fact-dependent assessment-nullity outcome, not a general erasure of successor tax liability

Status: bounded official web text only

2.

Source: 2011 statutory compilation pp 305-306

Result: Later express successor charge and definition materially limit historical no-identity proposition

Status: bounded historical statute only

PDF TEXT-ONLY SOURCE CHECKS AND READING LIMITS

1.

Kind: official later judgment web text bounded

Title: Principal Commissioner of Income Tax (Central)-2 v. M/s Mahagun Realtors (P) Ltd.

Decision date: 2022-04-05

Case numbers: Civil appeal arising out of SLP (C) No. 4063 of 2020; civil appeal number blank in official cover

Url: [Open cited source](#)

Source format: Official Supreme Court PDF, web-extracted text only

Accessed at utc: 2026-10-05T22:10:46Z

Web reported pdf pages: 34

Physical text pages read:

Physical image pages read:

Full document read: False

Full web judicial text read: False

Read bounds: Bounded web text: cover/paragraph 1 identity; paragraph 20 quotation across reported pages 11-13, opening of paragraph 21 at page 13 concerning the earlier statutory setting, and paragraphs 40-43 on pages 30-34 including final result. Other visible surrounding text was context only. No complete Mahagun merits, all long quotations or numerical-table audit claimed.

Provenance: Official web-extracted PDF text only. Screenshot attempts on reported pages 12,13,34 returned timeout/cache-miss errors; no raw PDF download made, no raw SHA-256/byte count or image-read claim.

Reliance limit: Express later discussion of Saraswati and fact-specific assessment-nullity distinction, not reversal of the historical section 41 holding or comprehensive amalgamation/current-law certification.

Source anomalies: Mahagun paragraph 20 uses transferee for the company said to have ceased to exist and says that the disallowance view was upheld before quoting Saraswati. That compressed later recap is not adopted as an account of the primary parties or outcome; the Saraswati original controls.; Mahagun paragraph 21 addresses the assessment-era statutory setting, not an assertion that the 1990 decision preceded the 1967 amendment.

SOURCE & VERIFICATION

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

Identified source rendition: 8 PDF pages; SHA-256

bcc6f7aec611da966995543696ec3e3a69c243b016dc1939d53594ada907db2e. Original bytes preserved.

[Open cited source rendition](#)

full primary text read: True; all primary page images reviewed: True; material primary page images reviewed: True; source integrity verified: True; actual statutory scope verified: True; all listed proceedings accounted for: True; all authored opinions separately accounted for: True; material later treatment limits prominent: True; comprehensive later treatment verified: False; current law verified: False; mapping 2025 verified: False; independent QA complete: True; parent full prose approval: True

SCR report citation, date, bench, docket and operative disposition verified from source images. Catalogue 1990INSC266 remains metadata only, not authenticated as a neutral citation.

AY 1965-66 expressly identified for the disputed Rs 58,735. The earlier year in which Indian Sugar received the deduction is not supplied.

STATUTORY SCOPE

No Income-tax Act 1961 to Income-tax Act 2025 equivalence, commencement, transition, savings or automatic precedent carryover certified. Bounded later statutory/judicial checks remain separate.

LATER TREATMENT

Source checked 2026-10-05. Mahagun supplies a bounded official-web later discussion and separate assessment-nullity warning. The legislative successor amendment is separately evidenced by a 2011 government-hosted compilation. Neither is comprehensive current-law or citator verification.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 8](#)

SHA-256: bcc6f7aec611da966995543696ec3e3a69c243b016dc1939d53594ada907db2e

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

[Principal Commissioner of Income Tax \(Central\)-2 v. M/s Mahagun Realtors \(P\) Ltd.](#)

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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