

Vania Silk Mills (P) Ltd. v. Commissioner of Income-tax, Ahmedabad

Civil Appeal No. 1106 (NT) of 1976

[1991] 3 SCR 577 | 1991-08-14

Whether the excess insurance compensation for machinery rendered useless by fire was a capital gain arising from transfer under the then sections 2(47) and 45.

2(47) | 41(2) | 45

Two-judge bench | K.N. Singh, J. | P.B. Sawant, J.

Assessment years: 1967-68

Historical insurance result; narrow transfer rule expressly disapproved

For AY 1967-68 the Court rejected the disputed capital-gains addition on the insurance indemnity, while the separate section 41(2) amount remained outside this dispute. Grace Collis (three judges, 23 February 2001, SCR 104-F-106-C) described that insurance conclusion as correct but expressly disapproved Vania's restriction of section 2(47) to extinguishment consequent on a separate transfer. Do not present that restriction as current law or this decision as a universal exemption for insurance receipts. Later insurance-specific statutory regimes, comprehensive judicial treatment and 2025 Act mapping remain unverified.

01 FACTS OF THE CASE

The assessee manufactured and sold art-silk cloth. It bought machinery for Rs 2,81,741 in 1957 and hired it to Jasmine Mills Pvt. Ltd. at an annual rent of Rs 33,900. A fire at Jasmine Mills on 11 August 1966 left the machinery useless. Jasmine Mills had insured it with its own machinery, on a reinstatement basis, and paid the assessee Rs 6,32,533 out of the insurance settlement (physical page 5/SCR 581-D-F; reinstatement term at physical page 12/SCR 588-A).

For AY 1967-68 the assessee returned Rs 2,62,781, the difference between original cost and written-down value, as profit under section 41(2). The ITO also taxed Rs 3,50,792, the compensation above original cost, as capital gains. The AAC agreed, the Tribunal disagreed, and the Gujarat High Court answered the reference for Revenue. Only the additional capital-gains treatment was before the Supreme Court (physical pages 5-6/SCR 581-F-582-F).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the insurance payment as indemnity for damage or loss, arising from the insurance contract rather than consideration for a transfer to the insurer. Taking over the remnants did not by itself change that character. Reinstatement insurance measured the restoration cost at the fire date; it was unnecessary to establish that the recipient actually spent the proceeds replacing the machinery. Whether Jasmine Mills insured as bailee or agent did not alter the point (paragraphs 5 and 9–10; physical pages 8, 11–12).

The 1991 Court also reasoned that extinguishment under section 2(47) had to occur through a transfer and could not be independent of one, applying associated-word reasoning to sale and exchange. That broad restriction is recorded only as historical reasoning: it was expressly disapproved by the three-judge Court in *Grace Collis*, [2001] 2 SCR 98. *Grace Collis* held that extinguishment of rights can itself fall within section 2(47), independently of another transfer (Vania paragraphs 4 and 6; *Grace Collis* physical page 9/SCR 106-B–C).

The later treatment is precise, not wholesale. *Grace Collis* described Vania's conclusion that section 45 did not apply to its insurance indemnity as correct, before rejecting its additional limitation of the statutory transfer definition. The later case concerned replacement shares following amalgamation and their subsequent sale. It does not warrant publishing Vania's narrow transfer formula as current law, or treating every aspect of the historical insurance result as overruled (*Grace Collis* physical pages 7–9/SCR 104-F–106-E).

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

03 JUDICIAL DECISION

The assessee's appeal was allowed and the Gujarat High Court decision was set aside. The disputed Rs 3,50,792 was not chargeable as capital gains in the historical statutory setting. There was no order as to costs and no remand. The separate Rs 2,62,781 returned under section 41(2) was not held tax-free (paragraph 12, physical page 12/SCR 588-D; facts at physical page 5).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on the disputed capital-gains addition

Appeal allowed; impugned High Court decision set aside; no order as to costs

Historical final merits determination; independent-extinguishment restriction subsequently expressly disapproved

The insurance-loss result must be separated from the disapproved transfer-definition reasoning. No exemption from section 41(2), no universal tax-free insurance rule and no current-law certification follows.

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

05 AKHB REVIEW POINT

Separate the character of the receipt from the definition of transfer and from each potentially applicable charging or recapture provision. The fact that an insurance receipt exceeds original cost does not itself answer those separate inquiries. The actual policy, the loss, the assessment year and the precise statute are essential.

For this historical note, state both propositions together: the 1991 insurance-loss outcome was later described as correct in *Grace Collis*, while Vania's restriction of independent extinguishment was expressly disapproved. Do not use that rejected restriction in an amalgamation or other rights-extinguishment analysis. The bounded review of *Grace Collis* is not a complete later-treatment or later-statutory review; the surviving reach of the insurance result under another year's legislation requires separate verification.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal and AY facts

Source url: [Open cited source](#)

Pdf pages: 1; 5; 6

Paragraphs: SCR 577; SCR 581-A–582-F; cover, jurisdiction and opening/paragraph 2

Source role: reported metadata and judicial text

2.

Topic: Historical statutory text and transfer reasoning later disapproved

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8; 9

Paragraphs: Paragraphs 3–6; SCR 582-G–585-F

Source role: judicial text

3.

Topic: Indemnity, bailment and reinstatement policy

Source url: [Open cited source](#)

Pdf pages: 8; 9; 11; 12

Paragraphs: Paragraphs 5 and 9–10; SCR 584-C–585-B, 587-C–588-B

Source role: judicial text

4.

Topic: Precedent treatment and final relief

Source url: [Open cited source](#)

Pdf pages: 12

Paragraphs: Paragraphs 11–12; SCR 588-C–D

Source role: judicial text

5.

Topic: Exact later treatment: insurance outcome correct, narrow transfer restriction disapproved

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: Unnumbered judicial text; SCR 104-F-106-E

Source role: bounded later judicial treatment

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

P.B. Sawant, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER CHECKS AND THEIR LIMITS

1.

Label: Bounded later judicial treatment; comprehensive treatment remains unverified

Case: Commissioner of Income Tax, Cochin v. Mrs. Grace Collis and Others

Case id: sc-2001-02-23-grace-collis-amalgamation

Decision date: 2001-02-23

Source asset id: 2001_2_98_107

Read scope: Entire ten-page source read; direct treatment at physical pages 7–9/SCR 104-F-106-C visually checked.

Finding: The three-judge Court expressly described the insurance-indemnity conclusion as correct, but disapproved limiting extinguishment in section 2(47) to extinguishment consequent on an independently established transfer. It held the expression also includes independent extinguishment. This precise distinction must accompany any use of Vania.

Comprehensive status: not verified

HISTORICAL STATUTORY CONTEXT

AY 1967-68, accounting year ending 31 August 1966. Paragraph 3 reproduces section 45 and the then section 2(47); the Court did not decide later insurance-specific statutory regimes. Section 41(2) appears as the separate amount voluntarily returned. Later statutory changes and Income-tax Act, 2025 mapping are not verified.

IDENTIFIED PROCEDURAL HISTORY

Assessee appeal by High Court certificate from Gujarat High Court judgment dated 22/23 January 1976 in Income Tax Reference No. 122 of 1974. ITO and AAC rejected the disputed capital-gains claim; Tribunal accepted the assessee's case; High Court answered both reference questions for Revenue.

ROLE AND SCOPE OF EACH IDENTIFIED PROVISION

1.

Section: 2(47) and 45

Role: Capital-gains issue decided under provisions as applicable to AY 1967-68; the narrow independent-extinguishment interpretation was later expressly disapproved in Grace Collis.

2.

Section: 41(2)

Role: Rs 2,62,781 was returned as taxable profit; no separate challenge to that component was decided.

OPERATIVE 1961 ACT PROVISIONS

2(47); 45

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 12 PDF pages; SHA-256

009256a60692a9516b54438d890bd1774497a42b2154cd834c992e307f86399c. Original bytes preserved.

Complete judicial text from physical page 5/SCR 581-D, Sawant J. opening (unnumbered paragraph 1), through numbered paragraphs 2–12 and disposal at physical page 12/SCR 588-D. Editorial headnote on physical pages 1–5 separately read. No adjacent judgment included.

Open cited source rendition

The source's first referred question prints "the transfer was justified" at SCR 582-C; the narrative makes clear that the Tribunal's decision is being discussed. The note paraphrases the question rather than reproducing the apparent wording error.; The editorial list at SCR 581-A gives J.K. Cotton as 164 ITR 18, while judicial paragraph 11 at SCR 588-C prints 164 ITR 81. No corrected citation is invented or relied upon for an independent holding.; Vania has printed paragraph numbers 2–12 after the unnumbered opening paragraph. Grace Collis has unnumbered judicial paragraphs; no paragraph numbers are invented for it.; Grace Collis's headnote contains an internally inconsistent extinguishment sentence; the check relies on its judicial treatment at SCR 104-F–106-C. The later opinion's printed answer block also has anomalies unrelated to the expressly stated treatment; no correction is asserted.; The corpus metadata identifier 1991INSC194 was not independently verified as a published neutral citation. The note uses the printed SCR citation.

STATUTORY SCOPE

Apply the statutory version for the relevant assessment year. No present-law certification or automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment remains not_verified. The specifically bounded Grace Collis check is complete: it approves the historical insurance-indemnity conclusion while expressly disapproving the narrow independent-extinguishment rule. No later statutory insurance regime or present-law certification has been verified.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 12

SHA-256: 009256a60692a9516b54438d890bd1774497a42b2154cd834c992e307f86399c

bounded later judgment check - PDF pages: 10

SHA-256: fba25e6e092b0b2a6e68727f534c644e779cc918ade4c92ad99214c9cf0ae693

Related note: Commissioner of Income Tax, Cochin v. Mrs. Grace Collis and Others

AI DISCLOSURE

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