

Commissioner of Income Tax v. Ram Kumar Aggarwal and Bros.

Civil Appeal No. 1453 of 1976

[1993] Supp. 3 SCR 502 | 1993-11-02

The Rs. 32,25,550 surplus received on liquidation was a revenue receipt because the firm held the shares as trading stock. Distribution realised the value of that stock even without a sale of the shares to the liquidator. Revenue's appeal succeeded and all three referred questions were answered against the assessee.

Two-judge bench | B.P. Jeevan Reddy, J. | S.P. Bharucha, J.

Liquidation of trading shares

The shares were established trading stock. The decision does not exempt investment-share liquidation receipts or determine their treatment under later capital-gains or dividend provisions.

Operative context: Indian Income-tax Act, 1922.

01 FACTS OF THE CASE

The firm regularly dealt in shares. It acquired all equity shares of Chrestian Mica Co. Ltd. in 1945 and took over its management. It subsequently claimed and obtained a trading-loss allowance on the footing that those shares were stock-in-trade, and retained that treatment in later assessments, including its original position for AY 1956-57.

The company entered voluntary liquidation in 1955. The officer included a Rs. 32,25,550 liquidation surplus in the firm's income for AY 1956-57. The Tribunal deleted the addition. Although the Calcutta High Court rejected the firm's attempt to deny its trading-stock treatment, it regarded the liquidation distribution as capital and outside a trading transaction.

Source: [SCR 504 E-506 H](#)

02 DISCUSSION BY THE HON'BLE COURT

Whether shares are held as investment or trading stock depends essentially on the facts. Here the firm's admissions and consistent course of conduct, including the earlier trading-loss claim, established trading stock. Conversion of the underlying company from public to private status did not change that conclusion.

The Court rejected the idea that liquidation distributions were unrelated to the shareholder's shares. Section 511 of the Companies Act described distribution according to members' rights and interests. What the shareholder received was the value of its shareholding. The technical survival of the company or share certificates until dissolution did not alter the commercial reality after distribution.

A sale or transfer of the shares was unnecessary for a trading receipt to arise. A liquidation surplus could be capital in the liquidator's hands yet revenue in the hands of a shareholder who held the shares as stock-in-trade. The receipt took its character from the recipient's holding.

The Court distinguished the bonus-share decision in *Madan Gopal Radhey Lal* and the investment situations in the English authorities. It approved the analogous *Patna* decision in *Dalmia Cement Paper Marketing*. Its passing reference to the dividend definitions of both Indian Acts warned against importing English conclusions mechanically; it did not decide a separate section 2(22) issue.

Source: [SCR 507 E-511 F](#)

03 JUDICIAL DECISION

The Supreme Court reversed the High Court, held the surplus assessable in the firm's hands and answered all three referred questions negatively, for Revenue.

Source: [SCR 511 F-G](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue's appeal allowed; High Court judgment set aside; all three reference questions answered negatively. Result: Revenue. Costs: No costs. Scope: Revenue character and assessability of the identified trading-share surplus decided. Limit: The shares were established trading stock. The decision does not exempt investment-share liquidation receipts or determine their treatment under later capital-gains or dividend provisions.

Source: [SCR 511 F-G](#)

05 AKHB REVIEW POINT

Establish the capacity in which the particular shares were held, using accounts, past claims and actual dealing conduct. Then identify what the liquidation distribution realises. Do not assume that a capital distribution at company level is capital for a share dealer, or that absence of a conventional sale prevents a trading receipt.

Source: [SCR 507 E-509 E](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

10-page retained public-mirror SCR report. The complete report was read as text and page images. Fresh remote authentication as a signed original is not claimed.

Open cited source rendition

The report expressly answers all three questions negatively; that includes the Tribunal's reopening of the established stock-in-trade character. Its treatment of this firm's admissions is grounded in the sustained factual course of conduct.

STATUTORY SCOPE

Indian Income-tax Act, 1922.

Separately identified 1961 Act provisions, not directly adjudicated here: Section 2(22): Mentioned at SCR 511 B to caution against mechanically applying English liquidation authorities; no direct holding under this provision.

Current statutory equivalence and Income-tax Act, 2025 applicability have not been verified. No automatic carry-over of this precedent is claimed.

LATER TREATMENT

Source checked 2026-10-06. In DLF Universal Ltd. v. DCIT (ITAT Delhi Special Bench, 4 January 2010), the majority at paragraph 16.48.8 distinguished Ram Kumar: continuously held trading shares realised on liquidation differed from land contributed to a partnership as capital. The separate dissent, paragraph 45, invoked Ram Kumar on the factual character of the investment-versus-stock question. Those positions must not be conflated.

Verified the bounded DLF majority distinction and separate dissent; comprehensive subsequent history remains unverified.

DLF majority paragraph 16.48.8 and context, dissent paragraphs 44-47, and opinion identities/date; web-extracted text only.

IDENTIFIED SOURCE LINKS

DLF Universal Ltd. v. DCIT (2010-01-04)

Nonofficial web-extracted judicial text. Caption and opening facts; majority paragraphs 16.48.6-16.48.8 and opening 16.49 (reported pages 125-131); majority signatures/date at 176 and separate dissent opening 182-183; end of dissent paragraph 44 and paragraphs 45-47 at 219-230. Bounded excerpts only, not full 230 pages; no raw PDF/hash or images verified.

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