

Anarkali Sarabhai, Shahibag House, Ahmedabad v. Commissioner of Income Tax, Ahmedabad

Civil Appeal No. 541 of 1983

[1997] 1 SCR 500 | 1997-01-24

Whether full redemption of preference shares held as capital assets is a transfer under section 2(47)(i), so that the surplus received over acquisition cost is taxable under section 45.

2(47)(i) | 2(47)(ii) (argument expressly left undecided) | 45 | 261 (appeal certificate)

Two-judge bench | S.C. Agrawal, J. | Suhas C. Sen, J.

Assessment years: 1969-70

Clause (i) decided; clause (ii) left open and source figures conflict

The full-redemption surplus was taxable under section 2(47)(i); the appeal was dismissed without costs, and the final clause (ii) contention was expressly left undecided. The source's purchase/redemption figures conflict with its stated gain, and its opening and final High Court dates differ. Do not silently correct either. Kartikeya's later partial-reduction application was checked only as a bounded comparison. Historical corporate-law reasoning does not certify modern buy-back treatment, current law or 2025 mapping; comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

For AY 1969-70, with calendar year 1968 as the accounting year, the individual held 297 redeemable preference shares of Universal Corporation Pvt. Ltd. at Rs 1,000 face value each. The company redeemed them for Rs 2,97,000. The source prints the purchase price as Rs 2,68,550 but describes the excess as Rs 30,450; those figures are inconsistent, since their arithmetic difference is Rs 28,450. The note does not substitute that subtraction for an adjudicated gain (physical pages 3–4).

The ITO assessed capital gains, and the Appellate Assistant Commissioner, Tribunal and Gujarat High Court upheld that treatment. The assessee argued that redemption merely returned capital and involved no sale, exchange, relinquishment or relevant extinguishment. A section 261 certificate brought the question to the Supreme Court (physical pages 3–5).

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

02 DISCUSSION BY THE HON'BLE COURT

The definition of transfer is inclusive. To receive the redemption money the shareholder had to give up, abandon or surrender the shares. The Court held that this brought the transaction within section 2(47)(i) as relinquishment. Separately it considered the transaction a sale: under the historical Companies Act, 1956 scheme, the company paid for and took back its preference shares, with section 77(5) preserving redemption under section 80 from the restrictions on a company buying its own shares. The shares here were capital assets, so the resulting surplus attracted section 45 (physical pages 5–8).

The Court distinguished distribution on liquidation in R.M. Amin and found the cited partnership-contribution, amalgamation and machinery-insurance authorities inapposite to this redemption. It agreed with the Bombay High Court's redemption analysis in Sath Gwaladas Mathuradas Mohata Trust. The final contention was that redemption extinguished the share itself, rather than rights in a continuing asset, so clause (ii) could not apply. Because clause (i) already disposed of the case, the Court expressly declined to decide that contention (physical pages 8–11).

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

03 JUDICIAL DECISION

The appeal was dismissed and the High Court's conclusion was affirmed without an order as to costs. Redemption on these facts fell within section 2(47)(i), making the surplus taxable as capital gains under section 45. The Court did not decide the final section 2(47)(ii) contention. The conclusion prints a High Court date inconsistent with the opening appeal particulars; no corrected date or gain amount is inferred (physical page 11, read with pages 3–4).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee's appeal dismissed; High Court result affirmed; no order as to costs

Final capital-gains ruling under section 2(47)(i) for this full redemption

The final clause (ii) contention is expressly reserved. The judgment is not a ruling on every destruction/extinguishment event, every return of capital, liquidation distribution or current buy-back tax treatment.

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

05 AKHB REVIEW POINT

Anchor this authority to the route actually decided: a shareholder surrenders capital-asset preference shares for redemption consideration, amounting to relinquishment and, in the historical corporate-law setting, sale. Do not turn the quoted Bombay reasoning into a Supreme Court determination of the clause (ii) argument that its final paragraph leaves open. Nor does describing the company as buying back shares settle a distinct modern statutory buy-back regime.

A bounded later comparison is available within this batch. Kartikeya V. Sarabhai, 4 September 1997, physical pages 7–8, expressly applied Anarkali to a partial capital reduction and explained the difference between complete and proportionate loss of rights. That later application does not change what Anarkali itself expressly reserved. Current statutory interaction, cost computation and comprehensive subsequent treatment still require separate verification; the inconsistent printed figures and High Court dates should remain visible.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal particulars and redemption facts

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Clause (i) surrender and separate sale analysis

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7; 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Distinguished and quoted precedents

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10; 11

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Clause (ii) expressly reserved, dismissal and conflicting date

Source url: [Open cited source](#)

Pdf pages: 11

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Bounded later application to partial reduction

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: Unnumbered judicial text

Source role: bounded later judicial treatment

HISTORICAL STATUTORY BASIS

A 1961 Act capital-gains dispute for AY 1969-70, decided under section 2(47)(i) read with section 45. Section 12B of the 1922 Act appears only in the discussion of Rasiklal Maneklal; it is not the charging provision in this appeal.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Suhas C. Sen, J.

OTHER GOVERNING ACTS

1.

Act: Companies Act, 1956

Provisions: 77(1); 77(5); 80; 85

Role: Historical preference-share redemption and company purchase restrictions used in the sale analysis

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 11 PDF pages; SHA-256

613241b53eee64a8fec59151d3ab4b6a71577474a354677345358c69d362a05a. Original bytes preserved.

Complete unnumbered judicial text physical pages 3–11/SCR 502–510, beginning SEN, J. on page 3. The Court decides section 2(47)(i), expressly declines to decide the final clause (ii) contention, and dismisses without costs. Printed amount and High Court-date inconsistencies preserved.

[Open cited source rendition](#)

Physical pages 3–4/SCR 502–503 print Rs 2,97,000 redemption consideration, Rs 2,68,550 purchase price and Rs 30,450 excess. The first two figures differ by Rs 28,450, not the stated Rs 30,450. The note does not silently correct the source or certify a replacement assessed amount.; Physical page 3 gives the Gujarat High Court judgment date as 18/22.6.82, while the final paragraph at page 11 prints 18/22.8.1992. Both are visually confirmed; the Supreme Court's own 24 January 1997 date and Civil Appeal 541/1983 are clear. No replacement High Court date is asserted.; The Supreme Court expressly does not express an opinion on the final section 2(47)(ii) submission. Extinguishment language in the quoted Bombay judgment or the later Kartikeya comparison must not erase that reservation.; The source reproduces expanded section 2(47) wording and historical Companies Act, 1956 provisions. Unrelated later-inserted transfer limbs are not treated as the basis for the 1968 redemption; present-law and 2025 equivalence are unverified.; The Rs 50,000 figure on physical page 10 belongs to the embedded Bombay precedent, not this appellant's redemption.; The partnership-contribution decision bearing Kartikeya's name at 156 ITR 509, discussed on page 9, is distinct from the September 1997 partial-capital-reduction judgment checked here as later treatment.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-04. Comprehensive later treatment remains not verified. One bounded direct later comparison was completed: Kartikeya V. Sarabhai, 4 September 1997, physical pages 7–8, expressly applied Anarkali to partial preference-capital reduction. This does not establish current-law validity of every proposition or a complete citator result.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 11](#)

SHA-256: 613241b53eee64a8fec59151d3ab4b6a71577474a354677345358c69d362a05a

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

SHA-256: b1f8ca894655d683a19a5ae0410a9ade7930c2bc983d0f69256cca1d3df4e327

[Related note: Kartikeya V. Sarabhai v. Commissioner of Income Tax](#)

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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