

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

Civil Appeal Nos. 4437–4445 of 1997

[2001] 2 SCR 98 | 2001-02-23

Whether extinguishment of shareholders' rights in an amalgamating company was a transfer within section 2(47), so that section 49(2) supplied the acquisition cost of replacement shares for computing capital gains on their later sale.

2(47) | 45 | 47(vii) | 49(2) | 256(1)

Three-judge bench | S.P. Bharucha, J. | N. Santosh Hegde, J. | Y.K. Sabharwal, J.

Assessment years: 1976-77

Later share sale, not automatic amalgamation taxation; printed answers conflict

This is an AY 1976-77 capital-asset and carry-over-cost decision about the later sale of replacement shares. Qualifying section 47(vii) relief is not erased. The source's answer-1 beneficiary, answer-2 response, some cost labels and sale figures contain unresolved internal discrepancies; they are not silently corrected. The operative result allows Revenue's appeals. Do not infer current amalgamation or stock-in-trade law; only the expressly bounded 2026 comparison is checked, and comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

The assessees held shares in Ambassador Steamship Pvt. Ltd. A Kerala High Court-sanctioned scheme amalgamated that company into Collis Line Pvt. Ltd.; for each old share, shareholders received 14 fully paid shares of Rs 100 each in Collis Line. The report records that 45,318 replacement shares were sold to B.K. Chatterji and associates on 29 February 1976 for Rs 48,72,523, described in the report as Rs 107.50 per share. Those printed figures are not arithmetically harmonised here (SCR 100-F-101-C).

For AY 1976-77, the ITO applied sections 47(vii) and 49(2). Because the assessees had not supplied their original acquisition costs, he derived cost using the replacement-share number, Rs 100 face value and the 14-for-one ratio. CIT(A) and the Tribunal upheld the assessment. The High Court answered the transfer and cost questions against Revenue, treated the second question as not arising, but left liberty to consider taxing the difference on a Rs 100 share sold at Rs 107.50 (SCR 100-A-101-H).

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

02 DISCUSSION BY THE HON'BLE COURT

Rasiklal Maneklal concerned exchange or relinquishment under the 1922 Act; it did not end the inquiry under the 1961 Act's express inclusion of extinguishment in section 2(47). The Court examined Vania Silk Mills and disapproved its restriction of extinguishment to a consequence of an independently established transfer. Such a restriction would deprive the additional statutory words of effect. Extinguishment can itself constitute transfer, independently of a sale or exchange (SCR 102-F-106-C).

The assessee's rights in the old shares ceased on amalgamation. That was a transfer within section 2(47), qualifying in this case under section 47(vii); section 49(2) therefore carried the acquisition cost of the old shares into the replacement shares. The taxable computation before the Court concerned the later sale of those replacement shares. The judgment does not impose immediate capital-gains tax on an amalgamation that qualifies for section 47(vii) (SCR 102-A-F, 106-D-E).

The Court saw no reason to disturb the ITO's computation in light of the assessee's failure to disclose acquisition cost without prejudice to their legal position. This evidentiary setting does not create a universal face-value/ratio valuation rule (SCR 106-G-107-A).

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

03 JUDICIAL DECISION

Revenue's appeals were allowed, the High Court judgment and order were set aside, and there was no order as to costs. No remand was directed (SCR 107-B-C). The reported answer block at SCR 106-F nevertheless prints question 1 as affirmative and in favour of the assessee, question 2 as not arising, and question 3 as affirmative and in favour of Revenue. Those internally discordant printed answers are disclosed rather than silently rewritten; the transfer/cost reasoning and final allowance of Revenue's appeals are separately stated.

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue in the reasoning and operative appeals disposition; printed question-answer anomalies expressly retained

Revenue appeals allowed; High Court judgment set aside; no remand; no order as to costs

Final holding on extinguishment as transfer and carry-over cost on the later share sale

Qualifying section 47(vii) amalgamation relief must be distinguished from taxation of the later sale. No general taxation of every amalgamation, business-stock substitution, or mandatory face-value valuation follows.

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

05 AKHB REVIEW POINT

Separate the three steps: transfer under section 2(47), exclusion of the qualifying amalgamation transfer from section 45 through section 47(vii), and carry-over basis under section 49(2) when the replacement shares are later sold. Obtain the scheme, shareholder status, the applicable statutory version and actual original cost evidence before quantifying any gain.

The disapproval of Vania's narrow transfer definition should not be converted into rejection of every aspect of its insurance-loss result. Nor should this capital-asset case decide later business-income issues merely by using the word transfer. The separately labelled Jindal comparison below illustrates why stock-in-trade, commercial realisability and the timing of allotment require an independent inquiry.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, jurisdiction and three referred questions

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Cover; jurisdiction at SCR 99-F; unnumbered judicial opening at SCR 99-H-100-E

Source role: reported metadata and judicial text

2.

Topic: Scheme, sale, historical assessment and cost record

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered judicial text, SCR 100-F-102-F

Source role: judicial text

3.

Topic: Rasiklal, Vania and independent extinguishment

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7; 8; 9

Paragraphs: Unnumbered judicial text and attributed precedent quotation, SCR 102-F-106-C

Source role: judicial text

4.

Topic: Transfer and carry-over basis; conflicting printed answers; disposal

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: Unnumbered judicial text, SCR 106-D-107-C

Source role: judicial text

5.

Topic: Bounded later comparison: capital transfer versus business realisation and remand

Source url: [Open cited source](#)

Pdf pages: 38; 40; 61; 62; 63

Paragraphs: 16.3–16.4; 18.3–18.4; 28–34

Source role: bounded later judicial comparison

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.P. Bharucha, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER CHECKS AND THEIR LIMITS

1.

Label: Bounded later judicial comparison; not comprehensive treatment verification

Case: M/s Jindal Equipment Leasing Consultancy Services Ltd. v. Commissioner of Income Tax Delhi-II, New Delhi

Decision date: 2026-01-09

Source asset id: 2026_1_517_579

Read scope: Paragraphs 16.3–18.4 and 28–34 only, with cover; physical PDF pages 37–40 and 61–63

Finding: The later Court expressly discusses Grace Collis's transfer holding while separating the section 28 business-profit inquiry. Paragraphs 30–31 hold that substitution of stock-in-trade by shares realisable in money and capable of definite valuation can produce business income upon allotment; the actual character/realisability of the holdings required Tribunal fact-finding. Paragraph 33 affirms the High Court judgment and disposes of the appeals in those remand terms. This is not a final assessment of every amalgamation gain or a present-law certification.

Comprehensive status: not verified

HISTORICAL STATUTORY CONTEXT

The Court expressly set out the provisions as they stood for the relevant period: section 2(47)'s inclusive transfer definition; section 45; the qualifying shareholder amalgamation exception in section 47(vii), including allotment consideration and an Indian amalgamated company; and section 49(2)'s carry-over acquisition cost. The scheme was under Companies Act, 1956 sections 391(2) and 394. No mapping to later amendments or the Income-tax Act, 2025 is certified.

IDENTIFIED PROCEDURAL HISTORY

Appeals from Kerala High Court judgment dated 3 June 1996 in ITR Nos. 269–277 of 1985; reference at the assessee's instance under section 256(1).

SOURCE & VERIFICATION

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

Identified source rendition: 10 PDF pages; SHA-256

fba25e6e092b0b2a6e68727f534c644e779cc918ade4c92ad99214c9cf0ae693. Original bytes preserved.

Complete unnumbered judicial text from SCR 99-H through 107-C (physical PDF pages 2–10); preceding headnote excluded.

No adjacent judgment.

[Open cited source rendition](#)

SCR 106-F prints answer 1 as affirmative and in favour of the assessee and answer 2 as not arising, despite the immediately preceding transfer/cost reasoning and final allowance of Revenue's appeals. Images confirm this is in the source; no corrected order was verified.; SCR 101-D reverses the old/new-company labels in a cost recital, while the statutory quotation at SCR 102-E-F and holding at SCR 106-D-E clearly state carry-over cost from old shares to replacement shares. SCR 106-G also uses amalgamated company when discussing omitted cost evidence; retain the clearer statutory/holding account and flag the source wording.; The printed total sale consideration, share count and stated per-share amount are not arithmetically reconciled; no corrected amount is invented.; The headnote's abbreviated exigibility language and internally inconsistent sentence at SCR 99-C are not substituted for the judicial reasoning. There was an exempt qualifying amalgamation transfer followed by the assessed later sale.; The primary report does not number judicial paragraphs. Primary pinpoints are SCR pages/letter zones and physical PDF pages, not invented paragraph numbers.

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 subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 10](#)

SHA-256: fba25e6e092b0b2a6e68727f534c644e779cc918ade4c92ad99214c9cf0ae693

[bounded later judgment comparison - PDF pages: 63](#)

SHA-256: fa688c165e999b3b1db92b4f270d6a8e4f3420bb7ca2fa00ddb5c4f043cfd07a

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