

Sakthi Trading Co. v. Commissioner of Income Tax, Coimbatore

Civil Appeal No. 3818 of 1999

[2001] Supp. 1 SCR 214 | 2001-08-02

Whether a partner's death and the resulting dissolution required market-value stock revaluation when the remaining partners continued the same business without interruption.

263

Two-judge bench | Y.K. Sabharwal, J. | Brijesh Kumar, J.

Assessment years: 1984-85

Continuing-business valuation; later distribution rules are separate

The cost-or-lower-market rule was applied because the business continued without interruption; partnership dissolution alone did not require market-value stock revaluation. The Court did not decide split-assessment necessity. Later section 9B has specified-receipt and fair-market-value rules, so this is not a blanket modern exemption on reconstitution or distribution. Costs are unquantified; comprehensive later treatment/current mapping remain unverified.

01 FACTS OF THE CASE

One of six partners died on 6 February 1984, and the other five continued the business from 7 February. The AO accepted the regularly used cost-or-market-whichever-lower stock valuation. The Commissioner revised under section 263, requiring market-value valuation at dissolution. The Tribunal found there had been no discontinuance and set aside that revision; the High Court answered against the assessee (physical pages 2–5).

The appeal concerned stock valuation, not whether two separate assessment orders should have been made. The actual continuity finding was unchallenged.

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

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished A.L.A. Firm, which involved dissolution together with discontinuance and separate businesses thereafter. Mere dissolution of the partnership did not answer whether this business had ceased. On the Tribunal's finding here, it had continued (physical pages 5–9).

For that continuing business, cost or lower market value remained the applicable commercial inventory rule. A market value above cost would recognise unrealised stock appreciation. The long discussion of A.L.A. Firm and Chainrup explains that principle; the foreign-property amounts and years in those quotations are not Sakthi's transactions (physical pages 6–10).

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

03 JUDICIAL DECISION

The question was answered in the assessee's favour and the appeal allowed with costs. No costs amount, stock value, tax recomputation or fresh remand was specified (physical page 10).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Appeal allowed with costs; market-value-only direction rejected

Final on the stated historical continuing-business valuation question

Continuity was proved and unchallenged. No ruling on the necessity of split assessments or every later distribution of assets to partners.

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

05 AKHB REVIEW POINT

Document actual continuity: business operations, assets and liabilities, the reconstitution agreement and how accounts were maintained. Distinguish a change in legal partnership composition from an actual business cessation. The result is not secured merely by calling a transaction reconstitution.

A bounded later statutory check is included: the official section 9B page labelled 2024 (No. 2) contains deemed-transfer and fair-market-value rules where specified persons receive capital assets or stock on dissolution or reconstitution. That is a different statutory inquiry from this AY 1984-85 stock-valuation dispute. This note does not apply section 9B retrospectively, assume mere reconstitution triggers it without the required receipt, or decide every related section 45(4) question.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, AY and reconstitution facts

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Revision, continuity finding and confined question

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Distinguished A.L.A. Firm and stock-valuation principles

Source url: [Open cited source](#)

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

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Application and allowance with costs

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Later specified-receipt/FMV deemed-transfer framework

Source url: [Open cited source](#)

Locator: Section 9B(1)–(3) and Explanation; page version label 2024 (No. 2)

Source role: bounded later statutory html

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Y.K. Sabharwal, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 10 PDF pages; SHA-256

6589515bfba48981bb7fdbd3b2f13ba14b1bed0f81c4f6e8713f50387fe581dd. Original bytes preserved.

Complete unnumbered judicial text physical pages 2–10/SCR 215–223; headnote and long A.L.A. Firm/other precedent quotations distinguished.

[Open cited source rendition](#)

The source repeatedly discusses the earlier A.L.A. Firm facts, including dollar amounts, Malayan properties and AY 1961-62. Those are not the present firm's values or assessment years.; The reference question describes takeover by a partner, while the factual findings describe continuation by the remaining five under their deed; no separate sole-proprietor transaction is inferred.; The need for two assessments is expressly outside the appeal. The continuing-business result does not decide that procedural question.; The statutory section 9B source is unpaginated HTML labelled 2024 (No. 2), not a certificate of the current 2026 statute or a complete review of later dissolution taxation.

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: 6589515bfba48981bb7fdbd3b2f13ba14b1bed0f81c4f6e8713f50387fe581dd

[official historical statutory html](#)

SHA-256: a4961116c21afb2db5405fff7a1baafdf222eae42c838f766cddc17f59db366d

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