

N. Bagavathy Ammal v. Commissioner of Income Tax, Madurai and Anr.

Civil Appeal Nos. 2606–2607 of 2001

[2003] 1 SCR 614 | 2003-01-27

Whether agricultural land excluded from capital assets under the historical definition was nevertheless an asset received on liquidation within section 46(2).

2(14) | 2(22)(c) (computation quotation) | 45 | 46(1) | 46(2) | 47(viii) (historical) | 48 | 148 (assessment history) | 256(1)

Two-judge bench | Ruma Pal, J. | B.N. Srikrishna, J.

Assessment years: 1970-71

Shareholder-liquidation charge; apply the actual computation

Section 46(2) used assets more broadly than the historical capital-assets definition, so the received agricultural land was not excluded on that ground. This does not tax every agricultural-land transfer or dispense with the dividend adjustment and section 48 computation. No individual value or fresh tax amount is fixed; the historical quoted text and amendment chronology are not present-law certification. Comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

The two appellants were sisters and shareholders in Palkulam Estate (Private) Ltd., which entered liquidation in 1964. A December 1969 compromise decree distributed assets, including agricultural land, to them and other persons. The assessments for AY 1970-71 were reopened, and the AO included the value of each appellant's land share in the capital-gains computation under section 46(2) (physical pages 3–4).

CIT(A) and the Tribunal treated assets in section 46(2) as confined to capital assets under section 2(14), excluding the agricultural land. The High Court disagreed. Only the first of the two referred questions survived; the second was not pressed before the High Court (physical pages 4–5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished a company's transfer of property from its distribution of assets on liquidation. Section 46(1) excludes the distribution as a company transfer for section 45 purposes, while section 46(2) independently charges the shareholder's receipt. The latter was introduced to address a taxable event not captured by the earlier transfer-based approach (physical pages 5–7).

Parliament used assets in section 46 rather than limiting the language to capital assets. Agricultural land could therefore fall within the shareholder charge even if excluded from the historical section 2(14) definition. The reproduced computation takes money or market value on distribution, reduces the amount assessed as dividend under section 2(22)(c), and treats the balance as full consideration for section 48. The concluding market-value language is not a direction to ignore those statutory computation steps (physical pages 7–8).

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

03 JUDICIAL DECISION

Both assessee appeals were dismissed without costs, sustaining the High Court's answer for Revenue. No fresh market value, individual gain or tax amount was fixed, and no remand was ordered (physical page 8).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Two assessee appeals dismissed; no costs

Final on the meaning of assets in the identified shareholder-liquidation charge

Company and shareholder consequences differ. The result is not a general rule taxing every agricultural-land transfer or taxing gross market value without the prescribed reductions and computation.

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

05 AKHB REVIEW POINT

Identify whose charge is in issue and the event triggering it. A rule about the company's transfer, or an exclusion from the general capital-asset definition, does not automatically decide the shareholder's independent liquidation receipt. Work through the dividend adjustment and capital-gain computation rather than equating receipt value with final tax.

The case concerns AY 1970-71. Its reproduced definition and amendment chronology are not a current agricultural-land test, and the separate unpressed reference question was not decided. Later corporate-distribution provisions and statutory versions require their own review.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeals, year and distribution

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Assessment history and surviving question

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Company versus shareholder charges and statutory formula

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Assets interpretation and dismissal

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ruma Pal, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 8 PDF pages; SHA-256

61247a9cd5139e0bf815fc015e0254c3b9afedce0603eb44a8297714c18e040d. Original bytes preserved.

Complete unnumbered judicial text on physical pages 3–8/SCR 616–621; earlier editorial material and embedded statutory/precedent quotations distinguished.

[Open cited source rendition](#)

Page 6 describes the capital-asset definition as prior to amendment in 1972. This source chronology is not independently certified or used to supply a current amendment timeline.; The source's section 45 quotation contains later exemption references; it is not presented as a verified verbatim consolidation for AY 1970-71.; The reported 479.89-acre figure is not apportioned between the sisters or assigned as each individual's holding. No valuation is inferred.; The judgment's final market-value statement is read with its express section 46(2) quotation and section 48 reference, not as taxation of the full receipt without computation.; The liquidation/non-transfer principles discussed under the 1922 Act are historical background; the actual holding is under section 46(2) of the 1961 Act.

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: 8](#)

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