

Commissioner of Income Tax, Mumbai v. M/s. General Insurance Corporation

Civil Appeal No. 4422 of 2001

[2006] Supp. 6 SCR 561 | 2006-09-25

Whether expenses attributable to issuing bonus shares were revenue expenditure, distinct from expenses for increasing authorised share capital.

260A (appeal history)

Two-judge bench | Ashok Bhan, J. | Markandey Katju, J.

Assessment years: 1991-92

Bonus component only; fresh-capital expenses remain distinct

The Court allowed the revenue character of expenditure attributable to bonus shares, which capitalised existing reserves without fresh funds. It did not allow the entire combined expense for authorised-capital expansion and the bonus issue. The Rs 600 example is hypothetical, and section 37 is not expressly identified in the judgment. Current law and comprehensive later treatment remain unverified.

01 FACTS OF THE CASE

For AY 1991-92, the assessee claimed Rs 1,04,28,500 of stamp and registration expenses associated with increasing authorised capital from Rs 75 crore to Rs 250 crore and issuing bonus shares. CIT(A) bifurcated the expenditure: the authorised-capital increase component was disallowed, while the bonus-issue component was allowed. The Tribunal and High Court agreed (physical pages 2–4).

The Supreme Court granted leave only on the question relating to bonus shares. The judgment supplies the combined expenditure figure but does not quantify the bonus-only portion; the Court was not asked to allow the whole combined amount.

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

02 DISCUSSION BY THE HON'BLE COURT

Fresh share issuance brings additional funds into the company and expands its capital base; authorities treating those issue expenses as capital, including Punjab State Industrial Development Corporation and Brooke Bond, therefore addressed a different setting. Issuing bonus shares by capitalising existing reserves brings in no fresh funds and does not increase the capital employed in the business (physical pages 4–9).

The Court adopted Dalmia Investment's explanation that the shareholder's economic interest is represented by a larger number of shares rather than enlarged merely by the issue. Its share-capital/reserves example illustrates reclassification of the same overall amount, not the company's actual accounts. On that basis, bonus-issue expenditure was revenue expenditure. The Court agreed with the Bombay and Calcutta views and rejected the contrary Gujarat and Andhra Pradesh conclusions on this issue (physical pages 7–10).

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

03 JUDICIAL DECISION

Revenue's appeal on the bonus-share question was dismissed, leaving the allowance of the bonus-issue component intact. The authorised-capital component remained outside the issue granted leave. The closing text does not make an express costs order or direct a remand (physical page 10).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on bonus-issue expenditure

Revenue appeal dismissed on the confined question

Final revenue-character ruling for expenditure attributable to the bonus issue

No allowance of the entire combined Rs 1,04,28,500 and no rule treating fresh-capital issue expenses as revenue.

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

05 AKHB REVIEW POINT

Separate the purpose of each expense before classifying it. A reserve-capitalisation bonus issue differs from raising fresh capital even where both are processed together. The absence of new business funds was central; it does not mean the formal paid-up share capital cannot change.

For a mixed bill, use supported allocation rather than treating this judgment as permission to deduct every issue-related expense. The reported Rs 600 illustrative total is not a financial fact about the taxpayer, and the decision does not supply a current statutory allowance checklist.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, AY, combined expenses and confined question

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3; 4

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Fresh-capital authorities distinguished

Source url: [Open cited source](#)

Pdf pages: 4; 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Bonus-capitalisation reasoning and illustration

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Competing High Court views and dismissal

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ashok Bhan, 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

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Complete unnumbered judicial text on physical pages 2–10/SCR 562–570; earlier headnote excluded; embedded precedent quotations and hypothetical example distinguished.

[Open cited source rendition](#)

The judgment decides the revenue/capital character of bonus-issue expenditure but does not expressly identify section 37 as the operative section. It is not inserted as a quoted adjudicated provision; the source's reference to an appeal under section 143(3) is treated as a procedural recital error.

The Rs 1,04,28,500 is combined expenditure. The source does not separately quantify the allowable bonus component.; The Rs 100/500 and Rs 200/400 illustration, each totalling Rs 600, is hypothetical and not the assessee's balance sheet.; Physical page 3 describes an appeal under section 143(3), an apparent procedural miscitation; it is not used as the legal source of an appeal right.; The headnote's section 81 belongs to the Companies Act, 1956, not the Income-tax Act. The judicial text does not expressly cite section 37 as the deduction section.

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](#)

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