

PNB Finance Ltd. v. Commissioner of Income Tax-I, New Delhi

Civil Appeal No. 3721 of 2002

[2008] 15 SCR 556 | 2008-11-06

Whether the inseverable compensation for nationalisation of the banking undertaking generated computable capital gains under the law applicable to AY 1970-71.

45 | 48 | 55(2)(i) | 41(2) | 50B (later regime distinguished in judgment) | 256(1)

Two-judge bench | S.H. Kapadia, J. | B. Sudershan Reddy, J.

Assessment years: 1970-71

AY 1970-71 computation failure; later slump-sale machinery distinguished

The non-taxability result is specific to the inseverable banking-undertaking compensation and the AY 1970-71 computation regime. The judgment itself distinguishes later section 50B; it does not exempt every current undertaking transfer or award the claimed capital loss. PDF page 8 has a readable image but no machine text and was reviewed visually. Transfer-date and indexation recitals are qualified; comprehensive later treatment and current law remain unverified.

01 FACTS OF THE CASE

The banking undertaking vested in the nationalised bank in 1969, and the appellant received Rs 10.20 crore, calculated by capitalising the preceding five years' profits. The dispute concerned AY 1970-71. In its return and covering letter, the assessee reserved its objection to section 45 while conditionally seeking the historical 1 January 1954 fair-market-value substitution and contending that the undertaking's acquisition cost was not computable (paragraphs 1-8).

The AO rejected the claimed loss calculation and assessed capital gains of Rs 1,65,34,709. The first appellate authority accepted that the composite consideration could not be allocated among the undertaking's assets and that the computation machinery failed. The Tribunal and High Court took the contrary view, including reliance on the assessee's putative option and Artex Manufacturing. The assessee appealed (paragraphs 8-12).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court separated the former balancing-charge rule in section 41(2) from capital gains under section 45. The former concerns identified depreciable assets and requires consideration allocable to them. Artex involved itemised valuation that actually contributed to the sale price; Electric Control Gear, discussed alongside it, did not permit a balancing charge without evidence allocating a going-concern slump price. The High Court's use of Artex did not resolve this undertaking's non-allocable compensation (paragraphs 13–16).

For section 45, the charge and computation provisions form an integrated scheme. The undertaking was conceptually different from the sum of identified plant and equipment: it included such intangible elements as goodwill, tenancy rights, manpower and the banking licence. On these facts their acquisition costs and an item-wise allocation of the Rs 10.20 crore could not be determined, so the required capital-gains computation failed (paragraphs 17–18).

The conditional return letter did not cure that failure. The historical section 55(2) choice required ascertainable acquisition-cost and substituted-value figures. Capitalisation of profits produced enterprise value, not acquisition cost. The Court also expressly contrasted the later section 50B net-worth machinery effective from 1 April 2000 with the regime of AY 1970-71 (paragraphs 5 and 19).

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

03 JUDICIAL DECISION

The assessee's appeal was allowed without costs and the High Court judgment set aside. For the specific AY 1970-71 transaction, the Rs 10.20 crore compensation was not taxable under section 45 because capital gains could not be computed. No remand or acceptance of a quantified capital-loss allowance was directed (paragraphs 18–20).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Appeal allowed; High Court judgment set aside; no costs

Final on non-taxability under section 45 of this compensation under the historical computation regime

Not a present-law exemption for nationalisation proceeds, every undertaking transfer or every self-generated intangible. The later section 50B regime was expressly distinguished; no quantified capital loss or refund was awarded.

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

05 AKHB REVIEW POINT

For a historical slump-transfer dispute, distinguish consideration used to value the enterprise from evidence allocating that price to identifiable assets. The existence of tangible assets does not itself prove an item-wise price or make the undertaking identical to those assets. Likewise, a conditional alternative computation does not establish an ascertainable statutory cost.

This is an AY 1970-71 decision. The judgment itself warns of the later section 50B computation mechanism; later deemed-cost, valuation and transfer-definition amendments require separate examination. Do not use the source's incidental indexation sentence as an independent formula for this historical year or as present advice.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and AY

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Cover; jurisdiction; 1–3

Source role: reported metadata and judicial text

2.

Topic: Compensation, conditional computation and appellate history

Source url: [Open cited source](#)

Pdf pages: 4; 5; 6; 7

Paragraphs: 3–12

Source role: judicial text

3.

Topic: Balancing charge and valuation distinction

Source url: [Open cited source](#)

Pdf pages: 8; 9

Paragraphs: 13–16; page 8 read from image

Source role: judicial text

4.

Topic: Integrated computation rule, factual application and relief

Source url: [Open cited source](#)

Pdf pages: 9; 10; 11

Paragraphs: 17–20

Source role: judicial text

5.

Topic: Historical regime, section 50B distinction and option

Source url: [Open cited source](#)

Pdf pages: 4; 11

Paragraphs: 5 and 19

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

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

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Complete judicial paragraphs 1–20 on physical pages 3–11/SCR 558–566. Physical page 8/SCR 563 has no extracted text and was read directly from the full page image, including paragraphs 13–15. Preceding headnote excluded; no adjacent judgment.

[Open cited source rendition](#)

Physical page 8/SCR 563 has an empty machine-text layer but a readable image. The complete paragraphs 13–15 were visually read; no source page was omitted or altered.; Paragraph 3 gives vesting on 19 July 1969, while paragraphs 6 and 17 give transfer on 18 July 1969. The note describes the 1969 nationalisation and preserves the unresolved date discrepancy.; Paragraph 4 refers to cost-inflation indexation in describing the historical year, while paragraphs 5 and 19 address the old 1 January 1954 substitution. No indexation computation or independent historical legislative accuracy is certified from that sentence.; The headnote's opening section reference says section 49; the judicial issue and operative determination are section 45 read with the computation provisions.; The narrative describes Revenue's move to the Tribunal as a reference; the later section 256(1) reference to the High Court is separately recorded. No reconstructed procedural document is invented.

STATUTORY SCOPE

Current statutory equivalence and 2025 Act applicability have not been verified.

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: 11](#)

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