

Vatsala Shenoy v. Joint Commissioner of Income Tax (Assessment), Mysore

Civil Appeal No. 1234 of 2012 and connected proceedings (full list below)

[2016] 12 SCR 1 | 2016-10-18

Whether outgoing partners receiving allocated net sale proceeds of a dissolved firm were chargeable to capital gains notwithstanding a going-concern/slump-sale argument; whether interregnum business income was taxable in their individual hands; and what remained of Revenue's protective-assessment appeals.

2(14) | 2(42C) | 45 | 45(4) | 50B

Two-judge bench | A. K. Sikri, J. | N. V. Ramana, J.

Assessment years: 1995-96

Mixed result; historical dissolved-firm sale with allocated assets

This AY 1995-96 decision sustains outgoing partners' capital gains but removes the separate business-income charge from their individual assessments; Revenue's protective appeals are only otiose. The sale was found to have asset/liability allocations, and the goodwill objection was unpreserved. Do not generalise the result to every going-concern sale, partnership dissolution or reconstitution. Applicable-year statutory provisions and later treatment require checking. No current-law certification or automatic mapping to the Income-tax Act, 2025 is supplied.

[paragraphs 17-18; assessees cite Mangalore in their going-concern and goodwill arguments / PDF pages 15, 16 / judicial text; paragraphs 23-30; allocated assets, partner liability and unpreserved goodwill challenge / PDF pages 18, 19, 20, 21, 23, 24 / judicial text; paragraphs 26-35; prior Tribunal narration, historical buyer depreciation, sections 35A/35AB left open / PDF pages 15, 16, 17, 18, 19 / judicial text](#)

01 FACTS OF THE CASE

A beedi-manufacturing partnership last reconstituted in 1982 dissolved on 6 December 1987 under its deed. Disputes led to winding-up proceedings in the Karnataka High Court. A group of partners was permitted to continue the business as an interim arrangement; income after dissolution was returned and assessed as income of an association of persons. Clause 16 required an inter se sale of the going concern and trademarks to the highest-bidding partner or group. A three-partner association (AOP-3) offered Rs. 92 crore; the bid was accepted on 21 September 1994, payment followed on 17 November 1994 and actual handing over on 7 January 1995 (paragraphs 3-9).

For AY 1995-96 the Assessing Officer allocated the proceeds among the outgoing partners and between land, depreciable assets and a balancing goodwill amount, producing long- and short-term capital gains. The officer also brought a proportionate amount of interregnum business profits into the individual assessments. The assessee group challenged those assessments; separate Revenue appeals concerned protective assessments of the dissolved firm. The assessees relied on the going-concern character and the absence of the later section 50B computation regime, questioned goodwill valuation, and alternatively invoked section 45(4) to attribute the capital gain to the firm. On business income, they relied on AOP-3 retaining 40% as the tax component under the High Court orders (paragraphs 10-19).

Source: [reported judgment / paragraphs 3-19; deed, dissolution, interim operation, valuation, assessment and competing submissions / PDF pages 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court separated continued business activity from the continued existence of the old partnership. Dissolution had occurred years earlier; operation by the partner group was an interim arrangement and returns were filed as an AOP. The outgoing partners ultimately received their share of net asset value through the court-supervised sale and distribution. The assets were capital assets, and their transfer engaged section 45 (paragraphs 22-24, 27-29).

A going-concern sale was not, merely for that reason, a slump sale. Here there were separate valuations of land, buildings and machinery; liabilities were also accounted for in distributing the price. Values had therefore been assigned to individual assets and liabilities. On that factual footing the Court rejected the section 2(42C) premise, held section 50B inapplicable and distinguished PNB Finance. The reproduced definition also retains the exception for valuations made solely for stamp duty, registration fees or similar charges (paragraphs 23-26).

The alternative submission that the firm alone should bear capital-gains tax failed because of the long prior dissolution, the subsequent sale under court orders and the stipulated distribution to the partners. The Court approved the High Court reasoning on the outgoing partners' receipt of their shares in the net assets. Its treatment of the goodwill-valuation challenge was qualified: the argument did not survive its preceding conclusions and, in any event, had not been taken before the High Court, Tribunal or lower authorities (paragraphs 29-30).

The business-income issue was different. Forty per cent had been retained by AOP-3 for tax under the High Court arrangement; the Revenue had assessed the continuing business as an AOP in earlier years. The High Court had addressed computation of the profit but not why it should be taxed in the outgoing partners' individual hands. The Court accordingly placed that business/revenue income in AOP-3's assessment (paragraphs 32-34).

Source: [reported judgment / paragraphs 20-34 / PDF pages 17, 18, 19, 20, 21, 22, 23, 24 / judicial text](#)

03 JUDICIAL DECISION

The 11 assessee appeals were partly allowed only on the business/revenue-income issue, which was to be assessed in AOP-3's hands. Capital-gains liability of the outgoing assessees was sustained. The four Revenue appeals concerning protective assessments of the firm became otiose and were disposed of on that basis. No costs were ordered and no remand was directed (paragraphs 34-36).

Source: [reported judgment / paragraphs 34-36 / PDF pages 24, 25 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Mixed: Revenue on outgoing partners' capital gains; assessees on individual assessment of business income

Assessee appeals partly allowed; Revenue protective-assessment appeals disposed of as otiose; no costs

Final determination of the live capital-gains and business-income attribution issues; protective appeals rendered unnecessary

Fact-specific sale of a previously dissolved firm with asset/liability allocation. The goodwill-valuation objection was unpreserved, and the disposition is not a general validation of all residual-goodwill calculations. The AOP-3 business-income direction must not be conflated with outgoing partners' capital-gains liability.

Source: [reported judgment / paragraphs](#) Reported appeal list; 3, 34-36 / PDF pages 4, 5, 24, 25 / judicial text

05 AKHB REVIEW POINT

Keep three questions separate: what was transferred and valued, which taxpayer realised the capital gain, and who owed tax on the business income generated during the interim operation. A going-concern label does not displace the Court's findings of asset-wise valuation and liability adjustment. Conversely, a valuation solely for stamp duty or similar fees is expressly treated differently in the reproduced historical definition. Preserve the valuation objection at the lower stages; paragraph 30 is a preservation-limited disposal, not a comprehensive valuation method.

Mangalore Ganesh Beedi Works, concerning the buyer in the same business sale, was cited by the assessees. Its buyer-side depreciation holding does not answer these sellers' separate liability questions. The bounded comparison records that difference without claiming an overruling. The result concerns AY 1995-96 and the particular court-supervised post-dissolution distribution; check the applicable-year provisions and subsequent treatment before using it for a different dissolution, reconstitution or transfer.

Source: [reported judgment / paragraphs 17, 23-30, 33-35 / PDF pages 15, 18, 19, 21, 23, 24, 25 / judicial text](#); [reported judgment / paragraphs 26-35; bounded companion-case comparison / PDF pages 15, 16, 17, 18, 19 / judicial text](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 1234 of 2012 / Civil Appeal No. 1235 of 2012 / Civil Appeal No. 1236 of 2012 / Civil Appeal No. 1237 of 2012 / Civil Appeal No. 1238 of 2012 / Civil Appeal No. 1239 of 2012 / Civil Appeal No. 1240 of 2012 / Civil Appeal No. 1241 of 2012 / Civil Appeal No. 1242 of 2012 / Civil Appeal No. 1243 of 2012 / Civil Appeal No. 1244 of 2012 / Civil Appeal No. 1245 of 2012 / Civil Appeal No. 10190 of 2016 / Civil Appeal No. 10191 of 2016 / Civil Appeal No. 10192 of 2016

DETAILED DISPOSITION AND CONNECTED GROUPS

Appeal groups

1.

Case numbers: Civil Appeal No. 1234 of 2012; Civil Appeal No. 1235 of 2012; Civil Appeal No. 1236 of 2012; Civil Appeal No. 1237 of 2012; Civil Appeal No. 1238 of 2012; Civil Appeal No. 1239 of 2012; Civil Appeal No. 1240 of 2012; Civil Appeal No. 1241 of 2012; Civil Appeal No. 1242 of 2012; Civil Appeal No. 1243 of 2012; Civil Appeal No. 1244 of 2012

Party: Assessee

Result: Partly allowed only on business/revenue-income attribution; capital-gains liability sustained

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 5; 24

Paragraphs: 3, 34

Source role: judicial text

2.

Case numbers: Civil Appeal No. 1245 of 2012; Civil Appeal No. 10190 of 2016; Civil Appeal No. 10191 of 2016; Civil Appeal No. 10192 of 2016

Party: Revenue

Result: Protective-assessment appeals disposed of as otiose

Mapping limit: Paragraph 3 identifies the Revenue group by one civil-appeal number and three SLP-origin descriptions; the three 2016 civil-appeal numbers are the reported group, without individual origin matching.

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 4; 5; 25

Paragraphs: Reported complete appeal list; 3, 35

Source role: judicial text

Issue results

1.

Issue: Slump-sale premise and section 50B

Result: Rejected because individual assets were valued and liabilities accounted for; PNB Finance inapplicable

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 18; 19

Paragraphs: 23-26

Source role: judicial text

2.

Issue: Capital-gains liability of outgoing partners rather than the long-dissolved firm

Result: Individual capital-gains assessments sustained on the sale/distribution facts

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 20; 21; 22; 23

Paragraphs: 27-29

Source role: judicial text

3.

Issue: Goodwill valuation challenge

Result: Rejected in light of the preceding reasoning; independently not entertained as a plea never taken below

In whose favour: Revenue, subject to the preservation limit

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 23; 24

Paragraphs: 30

Source role: judicial text

4.

Issue: Interregnum business/revenue income

Result: Assessable in AOP-3's hands under the High Court arrangement, not the outgoing assessee's individual hands

In whose favour: Assessee

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 24

Paragraphs: 32-34

Source role: judicial text

5.

Issue: Revenue protective assessments of the firm

Result: Appeals rendered otiose by sustaining the individual capital-gains assessments

In whose favour: No independent merits determination necessary

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 25

Paragraphs: 35-36

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

48; 49; 50; 55; 260A

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

A. K. Sikri, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-2015-10-15-mangalore-ganesh-beedi-works

Later case id: sc-2016-10-18-vatsala-shenoy

Relationship: same business sale buyer depreciation and seller capital gains issues distinguished

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 15; 16

Paragraphs: 17-18; assessee cites Mangalore in their going-concern and goodwill arguments

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 18; 19; 20; 21; 23; 24

Paragraphs: 23-30; allocated assets, partner liability and unpreserved goodwill challenge

Source role: judicial text

3.

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17; 18; 19

Paragraphs: 26-35; prior Tribunal narration, historical buyer depreciation, sections 35A/35AB left open

Source role: judicial text

Scope limit: Both complete judgments were read for this bounded comparison. Vatsala records reliance on Mangalore; it does not hold that buyer-side depreciation resolves seller-side slump-sale or capital-gains liability, and does not purport to overrule the buyer depreciation holding. No comprehensive later-treatment audit.

SOURCE & VERIFICATION

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

Identified source rendition: 25 PDF pages; SHA-256

7dded4b40036419ab7a4b3e8f278f50be10ff434ab7f79e2d6a3a2ce6407adf9. Original bytes preserved.

Judgment paragraphs 1-36 on physical pages 5-25 (SCR 5-25), fully read. Physical pages 1-4 contain editorial headnote, references, jurisdiction, complete appeal list and appearances. No adjacent judgment.

[Open cited source rendition](#)

Paragraph 3 expressly states Assessment Year 1995-1996 for the common Karnataka High Court judgment and this group.

Sections 2(14) and 45 support capital-gains liability; the historical section 45(4) argument is rejected on these facts. Sections 2(42C)/50B arise in the failed slump-sale contention. Sections 48-50 and 55 appear in the assessment computations or submissions; the goodwill-valuation plea was not preserved below. Counsel's section 55 amendment-date submission is not adopted as an independently verified legislative-history proposition.

Preserved reported eSCR source; no separate signed-original verification or newly live-validated public URL claimed.; The source uses multiple sale-related dates: bid acceptance on 21 September 1994, deposit on 17 November 1994, treated sale/assessment division on 20 November 1994, and actual handover on 7 January 1995. These are not silently collapsed into one transfer date. Mangalore's buyer-side narrative instead identifies business takeover from 18 November 1994.; The lead narrative describes seven controlling partners; the High Court passage reproduced in paragraph 29 uses AOP-13 comprising erstwhile 13/12 partners. The note retains the distinction between the operating AOP, purchaser AOP-3 and individual outgoing partners without harmonising membership counts.; The original assessment table describes residual goodwill; the later buyer judgment discusses separately acquired intellectual property. This note does not treat the two taxpayer-side valuation findings as interchangeable.; The section 55 amendment date in paragraph 18(a) is counsel's submission, not a legislative-history finding adopted here. The goodwill challenge was not raised below.; Paragraph 35 prints protected assessment; the note describes its stated protective-assessment function and preserves disposal as otiose rather than a fresh merits victory.

The report lists 15 civil appeals. Paragraph 3 identifies Civil Appeal No. 1245/2012 and the three appeals arising from CC Nos. 9101 and 10193/2014 and SLP(C) No. 14812/2014 as Revenue appeals; the other 11 are assessee appeals. The reported civil-appeal list gives Nos. 10190-10192/2016, but no individual SLP-to-civil-appeal matching is invented. Paragraphs 1-2 condone delay in the two CC matters and grant leave. Paragraphs 34-36 preserve different dispositions for the two groups.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions and assessment years only. No automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment or present-law audit has been performed. Any source-checked comparison is expressly bounded.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 25](#)

SHA-256: 7dded4b40036419ab7a4b3e8f278f50be10ff434ab7f79e2d6a3a2ce6407adf9

[reported judgment - PDF pages: 19](#)

SHA-256: 7219a3223ac64b8eb84bc5fbfed90179ae8d62de2357668c852510d673af34ee

[Related note: M/s. Mangalore Ganesh Beedi Works v. Commissioner of Income Tax, Mysore & Anr.](#)

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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