

**(2014) 12 GUJ CK 0024**  
**In the Gujarat High Court**  
**Case No : Tax Appeal No. 93 of 2002**

A.C.I.T.

APPELLANT

Vs

VXL (India) Ltd.

RESPONDENT

**Date of Decision :** 03-12-2014

**Acts Referred:**

Income Tax Act, 1961 — Section 143(1)(a), 143(2), 143(3), 260A

**Citation :** (2014) 12 GUJ CK 0024

**Hon'ble Judges :** Kaushal Jayendra Thaker, J;K.S. Jhaveri, J

**Bench :** Division Bench

**Advocate :** Pranav G. Desai, Advocate for the Appellant; S.N. Soparkar, Sr. Advocate and Swati Soparkar, Advocate for the Respondent

## Judgement

K.S. Jhaveri, J.—This appeal u/s. 260A of the Income Tax Act, 1961 is filed against the judgment and order dated 05.09.2001 passed by the Income Tax Appellate Tribunal, Rajkot in ITA No. 322/AHD/1993 & 322/AHD/1993 whereby, the appeal filed by the Revenue was partly allowed and that of the assessee was allowed.

2. Briefly stated, the facts are that the assessee filed the original return of income on 28.12.1989 declaring total income at Rs. 1,69,201/-. The return was processed u/s. 143(1)(a) of the Act. Notice u/s. 143(2) was also issued and served upon the assessee. Subsequently, on 21.03.1991 the assessee filed a revised return of income declaring total income of Rs. 1,62,75,938/-. The return was processed u/s. 143(1)(a) and Notice was issued. Ultimately, the Assessing Officer passed the order of assessment u/s. 143(3) on 30-31/03/1992.

3. Against the above order of the Assessing Officer, appeal was filed before the CIT(A). Vide order dated 20.11.1992, the CIT(A) allowed the appeal. Being aggrieved by the order of CIT(A), both the Revenue as well as the assessee filed appeals before the Appellate Tribunal.

4. The Appellate Tribunal heard the cross-appeals together and thereafter, vide

impugned judgment and order dated 05.09.2001, the appeal filed by the Revenue was partly allowed and that of the assessee was allowed.

5. The appeal was admitted on 04.02.2002 on the following substantial question of law;

"Whether on the facts and in the circumstances of the case, the Income Tax Appellate Tribunal has erred in law and on facts in holding that the expenses to the tune of Rs. 24,43,257/- incurred in issue of Debentures could be allowed as revenue expenditure?"

6. We have heard learned counsel for both the sides. The question of law formulated in this appeal is already concluded by a decision of this Court passed in Tax Appeal No. 481/1999 & 482/1999 decided on 02.07.2009. The observations made in Paras ? 7 to 9 of the said decision are relevant for our purpose. It reads as under;

"7. We heard learned Senior Counsel appearing for either side at length. Facts would clearly indicate that assessee company had issued convertible debentures of Rs. 125/- each of which Rs. 45/- each was to be converted into three shares on 1.7.1983 during the assessment year 1984-85 and had incurred expenses to the tune of Rs. 19,00,925/-. According to the assessee, the expenses incurred are in respect of issuance of convertible debentures. Facts would further clearly indicate that major portion of the convertible debentures was converted into equity shares, and thereby assessing company had got enduring benefit. Debenture under the Company law means a document which either creates or acknowledges a debt. Debentures, wholly secured or unsecured are also used as convertible debentures with the option of being subsequently converted into shares. Share is a right to a special amount of the Share Capital of a company. Capital can be raised by converting debentures into equity shares. Expenditure incurred by the assessee on conversion of convertible debentures into equity shares would have to be treated as capital expenditure. Normally, in a company there are two kinds of share capital; preferential share capital and equity share capital. Generally, all share capital not falling within the description of preference capital is equity capital. Equity share capital is that part of share capital which confers a right either to the whole or part of any residue of any profits or to the whole or part of any residue of any assets remaining for distribution after satisfying the claims of any other shareholders whose right to participate therein is limited. Equity share-holders are owners of the company, sharing its risks, profits, and losses and having a residual claim on the earnings and assets of a company and are paid their share of the company's profit after all other claims are met, and in the event of liquidation of the company, they share whatever is left of the company after all its creditors have been paid. They enjoy limited liability i.e. liability only to the extent of their share-holding and they are only entitled to vote at the company's meetings, thus controlling the management. If the company prospers, it is the equity shareholder who is the greatest gainer. Therefore, in our view, when the debentures are converted into equity shares,

the assessing company has already got enduring benefit and the expenditure incurred by the conversion of equity shares has to be treated as capital expenditure.

8. Apex Court in *India Cements Ltd. vs. CIT, Madras (supra)*, held that the loan obtained is not an asset or advantage of an enduring nature, but obtaining capital by issuance of shares is different from obtaining loan by debentures. Above referred judgment was followed by the Apex Court in *Brooke Bond India Ltd. vs. CIT (supra)* and took the view that expenditure incurred by the company in connection with issue of shares with a view to increase its share capital, is directly related to the expansion of the capital base of the company, and is capital expenditure, even though it may incidentally help in the business of the company and in the profit-making.

9. In view of the above position, decisions cited by the learned counsel for the assessee have no application. Facts of the case clearly indicate that portion of the convertible debenture was converted into equity shares and assessee company had got enduring benefits and therefore, the expenditure incurred by the assessee on conversion of convertible debentures into equity shares has to be treated as capital expenditure. It may be noted that the Assessing Authority disallowed expenditure only to the extent pertaining to the convertible portion of the expenditure which formed part of the capital. As such disallowance made by the Income Tax Officer, which was confirmed by the Commissioner (Appeals) has to be sustained. The question of law raised by the Revenue, though not happily framed, is accordingly answered in the negative in favour of the Revenue and against the Assessee. Consequently, appeals are allowed and the order of the Tribunal is set aside."

6.1 It is reported by learned Senior Counsel Mr. Soparkar that the aforesaid decision of this Court has not been carried in appeal before the Apex Court. Considering the facts of the case, we concur with the view taken by the coordinate Bench of this Court in the above-referred decision and accordingly, we answer the question in favour of the assessee and against the Revenue.

7. Since we are concurring with the view taken in the above decision, we are not assigning elaborate reasons while disposing off this appeal. Consequently, the appeal stands disposed of.