



## SC REDUCTION OF SHARE CAPITAL

Supreme Court held that the reduction of share capital qualifies as 'transfer' under section 2(47) of the Income-tax Act, 1961 ('the Act') and resultant capital loss shall be allowed.

This Supreme Court judgment addressed the tax implications of a reduction in share capital by Asianet News Network Pvt. Ltd. (ANNPL), a subsidiary of Jupiter Capital Pvt. Ltd<sup>1</sup>. The case focused on whether the reduction in shareholding constituted a "transfer" under Section 2(47) of the Income-tax Act, 1961, allowing Jupiter Capital to claim a long-term capital loss. The Court ruled in favor of Jupiter Capital, holding that the reduction in share capital qualifies as a transfer.

### KEY FINDINGS:

#### Reduction in Share Capital is a Transfer:

The reduction in the number of shares held by Jupiter Capital, accompanied by payment of consideration, resulted in the extinguishment of shareholder rights, meeting the definition of "transfer" under Section 2(47). The Court relied on its earlier rulings in *Kartikeya Sarabhai v. CIT*<sup>2</sup> and *Anarkali Sarabhai v. CIT*<sup>3</sup>, reiterating that the extinguishment or relinquishment of rights constitutes a transfer even if the face value of shares remains unchanged.

#### Capital Loss Validity:

The reduction in the number of shares from 15,33,40,900 to 9,988, and the receipt of ₹3,17,83,474 as consideration, led to a legitimate claim of long-term capital loss under Section 45 of the Income-tax Act.

#### Broader Interpretation of Transfer:

The Court emphasized that "transfer" under Section 2(47) is broad, including not just outright sales but also partial relinquishment or extinguishment of rights.

#### No Requirement for Change in Shareholding Proportion:

The unchanged percentage of Jupiter Capital's shareholding (99.88%) was irrelevant; the reduction in the number of shares and associated rights was sufficient to qualify as a transfer.

#### Rejection of Revenue's Arguments

The Revenue's contention that no rights were extinguished because the face value and percentage ownership remained the same was dismissed as untenable.

This judgment reaffirms that the reduction in share capital, resulting in the extinguishment of shareholder rights, qualifies as a transfer under Section 2(47) of the Income-tax Act. By validating Jupiter Capital's claim for long-term capital loss, the Supreme Court has provided much-needed clarity on the tax treatment of corporate restructuring transactions.