

## LEGAL UPDATES

### **ITAT: CONVERTIBLE WARRANT FORFEITURE CAUSES STCL**

In an [appeal](#) decided by the division bench constituted of Sh. V.D. Rao and Sh. M.K. Aggarwal, ITAT held that the assessee/appellant's right to acquire shares would expire upon forfeit of the converted warrant. Appellate Tribunal noted that a share in a firm denotes a share in the ownership of the firm. Although the assessee's right to ownership stands obliterated upon forfeiture, the firm's existence along with liabilities and assets stands to continue. The forfeitures merely signify a reduction of the shareholder of all the shareholders. Thus, such a loss of one shareholder can be regarded as a capital loss. The appellate tribunal rejected CIT's observations that these are mere allegations and that such forfeiture is a sham transaction and is devoid of any merit. Further, the appellate tribunal found no substantive backing for the allegation made by CIT. ITAT after referring to various decisions, classified such loss by share warrant's forfeiture as STCL or a short-term capital loss. Hence, ITAT allowed the appeal and directed AO to allow the claim of the appellant.