



CIVIL

Finality in Insolvency Resolution: Supreme Court's Stance on Belated Claims in CIRP Cases

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Background of the Case

The Supreme Court of India recently delivered a significant judgment in the case of Vaibhav Goel & Anr. versus Deputy Commissioner of Income Tax & Anr. (Civil Appeal No. 49 of 2022), addressing critical issues related to the Corporate Insolvency Resolution Process (CIRP) under the Insolvency and Bankruptcy Code, 2016 (IBC). This case revolves around the corporate debtor M/s. Tehri Iron and Steel Casting Ltd. (the CD) and the validity of tax demands raised after the approval of a resolution plan.

The CIRP was initiated for the CD, and the appellants, Vaibhav Goel & Anr., submitted a Resolution Plan on January 21, 2019. This plan was subsequently approved by the National Company Law Tribunal (NCLT) on May 21, 2019. The Resolution Plan included a contingent liability of Rs. 16,85,79,469/- for the Income Tax Department for the assessment year 2014-15, based on a demand dated December 18, 2017, which was rectified under section 154 of the Income Tax Act, 1961.

However, post-approval, the Income Tax Department issued demand notices dated December 26, 2019, and December 28, 2019, under the IT Act for assessment years 2012-13 and 2013-14, respectively. Notably, no claims regarding these demands were submitted before the Resolution Professional until the Resolution Plan was approved.

The Monitoring Professional (second respondent) challenged these demands before the NCLT, seeking a declaration that they were invalid. The NCLT dismissed the application as frivolous and imposed costs of Rs. 1 lakh on the appellants and the second respondent. Dissatisfied with this outcome, an appeal was filed before the National Company Law Appellate Tribunal (NCLAT), which was also dismissed on November 25, 2021. This led to the current appeal in the Supreme Court under Section 62 of the IBC.

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Supreme Court's Consideration

The Supreme Court examined the submissions made by both parties. The appellants' counsel argued that the NCLT had dismissed the application without assigning any reasons and that the demands for the assessment years 2012-13 and 2013-14 were unsustainable in law since no claims were made before the Resolution Professional until the Resolution Plan was approved.

The Court reviewed the relevant provisions of the IBC, particularly Section 31(1), which outlines the legal effect of the approval of a Resolution Plan. The Court referenced its previous decision in *Ghanashyam Mishra and Sons Pvt. Ltd. v. Edelweiss Asset Reconstruction Company Ltd.*, which clarified that once a Resolution Plan is approved, all claims not part of the plan stand extinguished.

The Court emphasized that the Resolution Plan approved on May 21, 2019, was binding on all stakeholders, including the Income Tax Department. It held that no belated claims could be included after the plan's approval, as this would undermine the principle of allowing resolution applicants to restart operations on a clean slate.

Conclusion

The Supreme Court's judgment in this case reaffirms the sanctity of approved Resolution Plans under the IBC. By setting aside the impugned orders of the NCLT and NCLAT, the Court has ensured that the appellants can proceed with the CD's operations without being hindered by additional tax demands not included in the approved plan.

This decision is significant as it clarifies the legal framework governing insolvency proceedings and protects the interests of resolution applicants. It highlights the importance of finality in the resolution process, preventing stakeholders from raising new claims after the plan's approval. The Court's emphasis on allowing businesses to restart on a clean slate is crucial for encouraging a conducive environment for resolution and revival of financially distressed companies.

The judgment resolves the immediate dispute and provides broader guidance on the implementation and legal implications of an approved Resolution Plans under the IBC. It is a precedent for future cases, ensuring that the principles of fairness, efficiency, and finality are maintained in India’s insolvency framework. For further details write to contact@indialaw.in