Mr. Joy Bajaj v. The Assistant Commissioner of Income Tax, Ward 4(2), Jaipur

D.B. Income Tax Appeal No. 88/2020

2025:RJ-JP:11201-DB | D.B. Income Tax Appeal No. 88/2020 | 2025-03-11

Scope of deeming fiction under section 56(2)(vii)(b) for AY 2015-16: where ITAT deleted the Rs. 53,50,000 addition for delayed cheque encashment in a disputed property purchase, ITAT could not invent a double deeming fiction directing the AO to tax notional interest on delayed payment of purchase consideration.

Income-tax Act, 1961: sections 14, 56(1), 56(2)(vii)(b) and 143(3)

High Court of Judicature for Rajasthan | 2-judge bench (Division Bench) | Avneesh Jhingan, J. | Maneesh Sharma, J.

Assessment years: 2015-16

Notional interest rejected; actual interest distinguished

The Court found no evidence that the retained consideration earned interest. It did not exempt actual interest income. Paragraph 1 gives the ITAT order date as 22 March 2019, while paragraph 2 describes acceptance on 22 February 2019 and later rectification.

01 FACTS OF THE CASE

Joy Bajaj bought two offices on 16 October 2014 for Rs. 54,50,000. Only Rs. 1 lakh was initially encashed; the seller sued to cancel the deeds. Settlement and a 29 April 2017 correction deed led to replacement cheques of Rs. 53,50,000. ITAT deleted the corresponding section 56 addition but directed a notional-interest adjustment; rectification left that result intact.

Source: PDF pp. 1-2 and 4, paras 1-3 and 9

02 DISCUSSION BY THE HON'BLE COURT

The Court corrected ITAT's description of the suit and cheque history. Revenue had not challenged deletion of the addition, and there was no cross-appeal, cross-objection, pleading or material supporting the new direction. No actual interest earning was found. Ajax Products, (1965) 55 ITR 741, and Amarchand N. Shroff, (1963) 48 ITR 59, supported confining tax liability and legal fictions to their terms.

Source: PDF pp. 5-7, paras 10-16

03 JUDICIAL DECISION

Section 56(2)(vii)(b) created neither a fiction that delayed consideration earned interest nor one taxing such notional interest. The finding that this was not property received without consideration or below stamp-duty value had become final. The substantial question was answered for the assessee and the appeal allowed.

Source: PDF pp. 6-7, paras 14-18

04 OUTCOME / IN WHOSE FAVOUR

The assessee succeeds against the notional-interest direction. The decision does not protect interest actually earned or determine the application of a later statutory provision.

Source: PDF pp. 5-7, paras 12 and 14-18

05 EXPERT COMMENTS

The appellate record mattered independently of the fiction — ITAT had already deleted the sole disputed addition, and Revenue neither challenged that result nor brought a cross-appeal or cross-objection. The High Court also found no supporting prayer, pleading or material for the new interest direction. The case therefore combines the limits of the tax provision with the actual scope and evidentiary record of this appeal.

Do not confuse retained funds with proved income — The inference that keeping Rs. 53,50,000 must have generated interest was unsupported. Paragraph 12 expressly distinguishes interest actually earned, which could be taxable under the appropriate income head, from assumed income. The successful challenge concerns a constructed notional amount, not an exemption for real investment returns.

Apply the holding to its stated provision and facts — The Court relied on Ajax Products and Amarchand N. Shroff, with Bengal Immunity appearing in the latter quotation; it did not cite Mother India Refrigeration. Its conclusion rests on section 56(2)(vii)(b) and the final finding about consideration and stamp-duty value. Extending that result to section 56(2)(x) requires a separate statutory comparison not undertaken here.

Source: Editorial analysis; source references in the structured comments

SOURCE & VERIFICATION

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STATUTORY SCOPE

The ruling concerns section 56(2)(vii)(b) for AY 2015-16. It does not discuss successor section 56(2)(x), and section 260A is not expressly cited.

LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment not independently verified.

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