

M/s. Ramnarain Sons (Pr.) Ltd. v. Commissioner of Income Tax, Bombay

Civil Appeal No. 698 of 1957 — Supreme Court special-leave appeal / Income-tax Reference No. 1 of 1956 — Bombay High Court originating reference; order 2 August 1956

[1961] 2 SCR 904 | 1960-12-05

Shares purchased to obtain a managing agency were capital assets despite the purchaser's share-dealing business; subsequent sale and year-end revaluation did not turn their capital loss into a trading deduction.

1922 Act: 66(1)

3 Judges | J. L. Kapur | M. Hidayatullah | J. C. Shah

01 FACTS OF THE CASE

The company carried on share dealing, brokerage and managing-agency activities. In 1946 it acquired 1,507 Dawn Mills shares at Rs. 2,321-8-0 each when the market price was Rs. 1,610, obtaining control and the managing agency; its directors bought another 1,000 shares. Sale of 400 shares produced a claimed Rs. 1,78,438 loss. For 1947-48 the Tribunal allowed that sale loss as incidental to agency business but rejected Rs. 7,04,000 claimed from valuing the retained shares as trading stock. The High Court treated the acquisition as capital.

Source: [SCR 905-908: reference, acquisition, losses and procedural history.](#)

02 DISCUSSION BY THE HON'BLE COURT

The Supreme Court examined the purpose of the particular acquisition rather than the company's general business description. Whether the transaction constituted trading was a mixed question of law and fact, open to examination on the historical section 66 reference. The shares were acquired to secure an enduring profit source, the managing agency, rather than for resale as stock. Borrowing at interest, the memorandum's permission to deal in shares, and entries among trading shares could not change that character. The substantial premium reinforced the control-acquisition purpose. Even assuming that the directors held their block as nominees, the reasoning remained the same; the Court did not establish nominee ownership as an independent fact.

Source: [SCR 908-910: mixed question, purpose, premium and capital character.](#)

03 JUDICIAL DECISION

Both the managing agency and the relevant shares were capital assets. Integration of the two acquisitions and subsequent disposal of some shares did not make the sale loss revenue. The High Court also properly refused a direction to refer the company's proposed questions: capital shares could not generate a trading-account loss merely through cost-or-market valuation.

Source: [SCR 910: sale loss and refused reference/valuation claim.](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee appeal dismissed. The sale loss remained capital, and the proposed trading valuation treatment remained unavailable. Dismissed with costs.

Source: [SCR 910 final paragraph: dismissal with costs.](#)

05 AKHB REVIEW POINT

Analyse intention, acquisition terms and the role of the asset separately for each shareholding. A dealer may hold capital investments alongside trading stock. Neither the financing method nor accounting labels answers that inquiry alone. The judgment denied trading deductions under the historical assessment; it did not decide a modern capital-loss computation, carry-forward entitlement or every later conversion of investment into stock.

Source: [SCR 909-910: transaction-specific character, financing and books.](#)

SOURCE & VERIFICATIONOriginal reported Supreme Court judgment

7-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified. Every physical text/image page 1-7/SCR 904-910. Target caption physical 1 about 60 percent down after *Shriram & Others v State of Bombay* criminal-committal discussion and appeals dismissal; exclude that preceding material and Subba Rao margin. No following case. Shah opinion physical 2 lower part through last page final dismissal with costs. Share purchase for managing agency was capital despite share dealer status/borrowing/book entries; sale and valuation losses not trading deductions. G Venkataswami cited 464 in headnote 905 but 646 in opinion footnote 908; retain citation discrepancy without adopting an invented correction.

Open cited source rendition

Physical 1 begins with *Shriram & Others v State of Bombay* criminal-committal discussion and dismissal; exclude it and its Subba Rao attribution.

Venkataswami Naidu is cited at [1959] Supp. 1 SCR 464 in the headnote but 646 in the opinion footnote; no corrected citation is invented.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 66(1)

Displayed 2025 sections 2(13),2(14) and 28(i) distinguish business profits and capital assets. The capital-asset definition excludes stock-in-trade subject to its securities exception, and includes company management/control rights. The page separately displays the Finance Act 2025 investment-fund substitution effective 1 April 2026; no single unqualified historical text is assumed.

Sections 2(20),2(22) and 26(1),(2)(a) retain the business/capital distinction with their own text. Section 2(22) expressly includes specified securities and management/control rights and qualifies its stock-in-trade exclusion. These comparisons do not decide capital-loss computation, set-off or carrying forward under the later Act.

The judgment applies the historical 1922 Act. The 2025 Act generally commenced 1 April 2026. Selected section 536(1), (2)(a)-(e), (3)-(4) preserve earlier operation and specified proceedings. Only identified versions and passages were checked; applicability to a current assessment requires its tax year, savings and full governing law.

LATER TREATMENT

Source checked 2026-10-08. Bagla (27 September 1972), SCR 458B-459B, expressly applies Ramnarain: borrowing to buy shares and later selling some do not alone turn a supported managing-agency capital acquisition into trading stock. SCR 459C-D separately treats Bagla's sale surplus as capital gains under the 1922 Act; this is not a general exemption for such gains.

Only the specifically identified later authority was checked for this bounded use. Comprehensive subsequent history and present-case applicability remain unverified.

All 8 physical text/image pages, SCR 452-459, including caption/headnote, Khanna opinion, both reference questions, citations and final costs. No neighboring case.

IDENTIFIED SOURCE LINKS

Rameshwar Prasad Bagla v. Commissioner of Income-tax, U.P., Lucknow — [1973] 2 SCR 452

All 8 physical text/image pages, SCR 452-459, including caption/headnote, Khanna opinion, both reference questions, citations and final costs. No neighboring case. SCR 458B-459B applies Ramnarain to borrowed funds and subsequent share sale: those circumstances alone do not displace supported capital-acquisition purpose. Target reconciled by title, Dawn Mills, 1507 shares at 2321-8-0 versus 1610,400 shares sold and 178438 loss, and quotations matching targetSCR 909-910. Auxiliary prints target [1961] 41ITR 534, not its judgment date or SCR citation; linkage is based on multiple matching facts/quoted passages, not invented printed citation equivalence. Bagla separately holds profits taxable as capital gains under 1922 section 12-B at 459C-D; neither judgment supplies a general tax exemption. Text pages read: 1-8. Image pages read: 1-8.

Income-tax Act, 1961: 28(i)

Official Income-tax Act, 1961 page displayed year 2025 Header/version 38-58; opening and 28(i)63-70. Only stated official web-extracted text personally read. No original HTML/PDF integrity, PDF images, entire Act or comprehensive current-law claim.

Income-tax Act, 2025: 26(1),(2)(a)

As amended by Finance Act, 2026 Web 2190-2194, including 2193 cross-page continuation. Only stated official web-extracted text personally read. No original HTML/PDF integrity, PDF images, entire Act or comprehensive current-law claim.

Income-tax Act, 1961: 2(13),2(14)

Official Income-tax Act, 1961 page displayed year 2025 Header/version 38-58; 144 business; 152-215 full capital-asset definition including displayed substitution. Only stated official web-extracted text personally read. No original HTML/PDF integrity, PDF images, entire Act or comprehensive current-law claim.

Income-tax Act, 2025: 2(20),2(22)

As amended by Finance Act, 2026 Web 135-136 business; 146-220 full capital-asset definition/exclusions, including 160 and 205 cross-page. Only stated official web-extracted text personally read. No original HTML/PDF integrity, PDF images, entire Act or comprehensive current-law claim.

Income-tax Act, 2025: commencement and selected savings

As amended by Finance Act, 2026 Title/version and section1(1)-(3), web0-13; section536(1),(2)(a)-(e), web24385-24408; section536(3)-(4), web24597-24601. Selected savings only, not full section536. Only stated official web-extracted text personally read. No original HTML/PDF integrity, PDF images, entire Act or comprehensive current-law claim.

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