

The Commissioner of Income-tax, Bombay v. E. D. Sheppard

Civil Appeal No. 527 of 1961

[1964] 1 SCR 163 | 1962-12-12

Shares allotted on termination of employment and the historical exclusion for compensation solely for loss of employment

Indian Income-tax Act, 1922: section 7(1), Explanation 2 (pre-1955 form)

Four-judge bench; majority judgment delivered by S. K. Das, J.; Raghubar Dayal, J. dissented. | S. K. Das, J. | J. L. Kapur, J. | A. K. Sarkar, J. | Raghubar Dayal, J.

Historical salary provision

The Court expressly dealt with the pre-1955 form of section 7 and Explanation 2 of the 1922 Act.

Dissent recorded

Raghubar Dayal, J. would have treated the shares as taxable profits in lieu of salary; the public note states the majority result.

01 FACTS OF THE CASE

Killick Nixon & Co. terminated Sheppard's renewed three-year employment during a corporate reorganisation. The successor employed him from the next day on altered terms, while the old partnership caused 1,700 shares, valued at Rs.2,21,000, to be allotted free. The Tribunal accepted the partners' evidence that the allotment compensated for loss of employment and was not remuneration for past services.

Source: [Primary judgment: facts and findings](#)

02 DISCUSSION BY THE HON'BLE COURT

The majority rejected Revenue's argument that compensation meant only damages legally enforceable under the service contract. It treated deprivation of employment, and prospects rooted in that employment, as capable of supporting compensation even when another job followed immediately. Once the Tribunal's evidentiary finding of sole compensation stood, the statutory exception controlled.

Source: [Primary judgment: majority reasoning](#)

03 JUDICIAL DECISION

The majority held that Explanation 2 did not convert the share allotment into taxable salary because the payment was solely for loss of employment. The dissent considered the employment terminable on notice and the shares connected with past service, and would have taxed them as profits in lieu of salary.

Source: [Primary judgment: holding and dissent](#)

04 OUTCOME / IN WHOSE FAVOUR

By the majority, the Commissioner's appeal was dismissed with costs and the High Court's answer in favour of the assessee remained undisturbed.

Source: [Primary judgment: operative order](#)

05 AKHB REVIEW POINT

AKHB analysis: for historical termination receipts, identify the statutory version, the fact-finder's conclusion about the payment's sole purpose, and whether lost prospects are genuinely rooted in the ended employment. Do not transplant the result to current salary provisions without checking the present text and later treatment.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATION**[Supreme Court Reports scan - public eSCR mirror](#)**

Complete 37-page SCR asset read in page-preserving text and every page image inspected, including the three-judge majority, the dissent and the final By Court order.

[Open cited source rendition](#)

Exact catalogue SHA-256 and 37-page count verified; the complete report was read and every source page image inspected.

STATUTORY SCOPE

The ruling construes section 7(1) and Explanation 2 of the 1922 Act as they stood before the 1955 amendment. Verify the current Income-tax Act, 1961 and later authorities before reliance.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. This note reports a historical salary-receipt ruling under the Indian Income-tax Act, 1922.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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