

Commissioner of Income Tax, Bihar v. Dalmia Investment Co. Ltd.

Civil Appeal No. 780 of 1962

[1964] 7 SCR 210 | 1964-03-13

Historical bonus-share cost: where bonus and original trading shares ranked equally, the original acquisition cost was spread across the combined holding.

Indian Income Tax Act, 1922: section 2(6A) definition of dividend and section 66(1) | Historical computation of trading profit and bonus-share cost

3-judge bench | A. K. Sarkar, J. | M. Hidayatullah, J. | J. C. Shah, J.

Assessment years: 1949-50

Majority and dissent use different methods

Hidayatullah and Shah JJ. spread historic cost across pari-passu original and bonus shares. Sarkar J. agreed that face value and nil cost were wrong but would use market value at the issue date.

Rs. 3,11,646 was not upheld

The Department's nil-cost figure failed. The majority attributed Rs. 2,92,141 cost to the 31,909 bonus shares; its final table yields a different trading result and addition.

Equal-ranking condition

Cost spreading was straightforward because the bonus shares ranked pari passu. The majority said different rights could require market or other equitable adjustment.

Not dividend merely at face value

Capitalisation of reserves did not release cash to shareholders under the historical definition considered. The decision does not state the tax treatment of every later bonus issue.

01 FACTS OF THE CASE

The share-dealing and investment company acquired 31,909 Rohtas Industries shares in 1944 for Rs. 5,84,283 and received one pari-passu bonus share for each in January 1945. After sales and further purchases, it held 1,10,747 trading shares at the start of 1948, including the 31,909 bonus shares recorded at their Rs. 10 face value. It sold the entire holding for Rs. 15,50,458 and returned a Rs. 7,444 loss for assessment year 1949-50. The officer used another averaging method; the first appellate authority and Tribunal treated bonus cost as nil and computed Rs. 3,11,646 profit; the Patna High Court treated face value as cost and found no profit (SCR pp.212-219; PDF pp.3-10).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

The majority rejected face value as deemed dividend or cost: capitalising reserves gave the shareholder additional certificates representing the same proportional interest, without releasing cash or making the company poorer. The shares could trade above or below face value, so face value was not a payment voucher (SCR pp.219-223; PDF pp.10-14). Nil cost was also commercially wrong because the bonus issue immediately diluted the value represented by each original certificate. For pari-passu shares, the acceptable method was to spread the original acquisition cost across original and bonus shares; if rights differed, market evidence or equitable adjustments could be needed (SCR pp.223-227; PDF pp.14-18). Sarkar J. agreed that neither face value nor nil cost was proper, but would deem acquisition at issue-date market value by analogy with an asset introduced into trading stock (SCR pp.212-217; PDF pp.3-8).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

By majority, the Court allowed Revenue's appeal with costs in the Supreme Court and High Court. It held that the Rs. 3,11,646 profit computation was not lawful, attributed Rs. 2,92,141 of the original cost to the 31,909 pari-passu bonus shares, and required the resulting revised trading-profit computation rather than the High Court's no-profit approach (SCR pp.225-227; PDF pp.16-18).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue succeeded in overturning the High Court's face-value/no-profit reasoning, while the Department's nil-cost computation also failed. The binding method spread original cost over the equal-ranking original and bonus shares (SCR pp.223-227; PDF pp.14-18).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: identify whether the shares were trading stock or investment, reconstruct the original cost and bonus ratio, and compare the legal and economic rights of both classes. Use straight cost spreading only where the holdings rank equally; otherwise preserve market and rights evidence. Keep the majority method distinct from Sarkar J.'s market-value dissent and recalculate the actual transaction rather than copying the rejected Rs. 3,11,646 figure. Apply the statute governing the relevant year (based on SCR pp.219-227; PDF pp.10-18).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 18-page SCR report read and checked. The editorial headnote was distinguished from the judgment text and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 18-page count match catalogue asset 1964_7_210_227; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeal No. 780 of 1962, the stated bench, issues, reasoning and operative result. No published AKHB note or archived reviewed record with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The Court addressed assessment year 1949-50 under the Indian Income Tax Act, 1922 and the facts of a 1945 pari-passu bonus issue held in a share dealer's trading account. It does not certify modern bonus-share cost provisions, capital-gains rules or accounting standards.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

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