

New Era Agencies (Pvt.) Ltd., Bombay v. Commissioner of Income-tax, Bombay City I, Bombay

Civil Appeal No. 2462 of 1966

[1968] 2 SCR 483 | 1967-11-28

Share dealer's sale of Elphinstone Mills shares: the holding remained stock-in-trade and the full consideration allocated to the assessee's shares, including the premium over market price, was business income rather than payment for a separate controlling right.

Indian Income-tax Act, 1922: sections 66(1) and 66A | Business-income versus capital-realisation principles for securities held as stock-in-trade

3-judge bench; unanimous judgment delivered by V. Ramaswami, J. | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1954-55

Classification turned on the record

The assessee was an admitted share dealer, had historically taken Elphinstone Mills trading results to revenue, and had no books or resolutions showing later conversion of that holding into investment.

A pause in sales was not conversion

Non-sale and accumulation during a price slump from 1949 to 1953 did not by themselves establish an investment holding; the Court regarded accumulation for a later advantageous sale as a plausible trading explanation.

Group influence was not the assessee's asset

Mulraj Kersondas could procure board and managing-agency changes, but the assessee's roughly 13 per cent holding did not itself confer control or the power to deliver those changes.

Premium remained share consideration

The sale price exceeded quoted market prices, yet on this record the assessee parted only with its shares. None of its receipt was allocated to a separately owned controlling or management right.

Report contains a preference-share quotation inconsistency

SCR p.485/PDF p.3 first prints the preference-share market price as Rs.38, but later on the same page and again at SCR p.490/PDF p.8 prints Rs.88. The note does not resolve that source inconsistency; it relies only on the undisputed proposition that the allocated sale price exceeded the quoted price.

Unexplained receipt discrepancy

The report notes that the assessee received Rs.10,42,990 but recorded Rs.10,37,775, leaving Rs.5,215 unexplained. The judgment did not turn that discrepancy into a separate holding.

01 FACTS OF THE CASE

New Era Agencies was a private company and share dealer controlled by Mulraj Kersondas. From 1942 to 1948 it traded in Elphinstone Mills shares and put the resulting profits and losses through revenue. It then largely stopped selling during a market slump while increasing its holdings to 8,693 ordinary and 2,117 preference shares by 1953. Mulraj negotiated a Rs.45 lakh package with K. D. Jalan for 25,000 ordinary and 10,000 preference shares, simultaneous board changes and relinquishment of the Mills' managing agency. Rs.10 lakh went to the managing agent; the remaining Rs.35 lakh was allocated at Rs.80 per ordinary and Rs.150 per preference share, above quoted prices. New Era received Rs.10,42,990 for its shares, booked a Rs.2,34,231 surplus to capital reserve and disputed its taxation as business income for 1954-55 (SCR pp.484-486; PDF pp.2-4).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

A gain on securities is capital only when it represents realisation of an investment rather than an operation in the business of profit-making. New Era's admitted share-dealing business, its 1943-48 trading history in the same shares and its revenue treatment supported stock-in-trade classification. No book entry or corporate resolution evidenced a post-1948 conversion to investment. Accumulating shares during a price slump was consistent with waiting to sell advantageously, and the record did not show that the holding was needed to protect the managing agency (SCR pp.487-489; PDF pp.5-7). As to the premium, the Court examined what New Era itself owned and surrendered. Its approximately 13 per cent stake gave it no control, no power to replace directors and no power to end the managing agency. Those outcomes flowed from Mulraj's influence; New Era passively made its trading stock available. Therefore its entire receipt was the price of its shares, not a composite payment for a separate controlling right (SCR pp.489-491; PDF pp.7-9).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Supreme Court held that the profit on New Era's share sale was business income and that none of the Rs.10,42,990 received could be treated as consideration for any separate valuable right. The High Court was affirmed and the appeal dismissed with costs (SCR pp.489-491; PDF pp.7-9).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Commissioner/Revenue. The full excess over the cost of the Elphinstone Mills shares was taxable as the share dealer's business profit (SCR pp.489-491; PDF pp.7-9).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: classification of a dealer's particular holding needs contemporaneous evidence. If trading stock is converted to investment, document the decision, date, valuation and consistent ledger treatment. In a block sale with governance changes, identify the exact right legally owned and surrendered by the taxpayer before allocating any premium away from share consideration; group influence alone did not establish a separately transferred asset here (based on SCR pp.487-491; PDF pp.5-9).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 9-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 9-page count match catalogue asset 1968_2_483_491; every page was reviewed.

The source verifies Civil Appeal No. 2462 of 1966, the stated bench, issues, reasoning and operative result.

No published or archived standalone AKHB note with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The decision concerns assessment year 1954-55 under the repealed Indian Income-tax Act, 1922 and the historical fixed-capital/circulating-capital analysis. It does not itself determine classification, fair-value or controlling-interest rules under current legislation. No current-law or later-treatment clearance was undertaken.

LATER TREATMENT

Source checked 2026-10-11. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

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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