

Commissioner of Income-tax, U.P. v. M/s. Madan Gopal Radhey Lal

Civil Appeals Nos. 1764 to 1767 of 1967

[1969] 2 SCR 7 | 1968-09-06

Bonus shares and share-dealing stock under the historical 1922 Act: bonus shares were capital when issued and did not automatically become trading stock merely because the parent shares were stock-in-trade, but the Tribunal's unchallenged finding that the assessee converted them into stock-in-trade made their sale proceeds business income.

Indian Income-tax Act, 1922: section 66(1) and historical treatment of capitalised bonus shares

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

Assessment years: 1946-47, 1948-49, 1949-50, 1950-51

Bonus receipt not automatically trading stock

The Court rejected an ipso facto rule: bonus shares were capital at issue and did not become stock-in-trade merely because the corresponding original shares were trading stock.

Conversion depends on intention and conduct

A dealer can hold the same class of asset privately or as stock. Classification requires evidence of the acquirer's intention, conduct and dealings with the specific holding.

Tribunal finding controlled this result

The assessee had not raised a section 66(1) challenge to evidentiary support for the Tribunal's conversion finding, so the High Court and Supreme Court had to accept it on the referred question.

Historical capitalisation regime

The Court described the law at the relevant time, when the stated capitalisation and bonus issue was not treated as dividend. Modern statutory treatment must be verified separately.

01 FACTS OF THE CASE

M/s. Madan Gopal Radhey Lal dealt in shares and securities and held certain original shares as stock-in-trade. It received proportionate bonus shares and later sold them. The Income-tax Officer assessed sale proceeds of Rs.55,607 for 1946-47, Rs.41,625 for 1948-49, Rs.1,43,050 for 1949-50 and Rs.33,170 for 1950-51 as share-business income; the first appellate authority and Tribunal agreed. The Allahabad High Court, by majority after obtaining a supplementary statement, answered against Revenue the question whether sale proceeds of bonus shares issued on trading-stock shares were business profits (SCR pp.8-9; PDF pp.2-3).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

A company's authorised capitalisation of accumulated profits and proportionate bonus issue left the value inside the company as capital and gave shareholders an interest in additional capital rather than income. Bonus shares therefore arrived as capital and did not automatically join stock-in-trade merely because the original shares were trading stock. A trader may hold a commodity personally; classification turns on intention shown by conduct and dealings, and the Court disapproved a contrary automatic-accretion rule (SCR pp.9-10; PDF pp.3-4). Here, however, the Tribunal had found that the assessee received the sale proceeds in the course of and as part of its share business-effectively finding conversion into stock-in-trade. The record before the Court did not contain the underlying departmental orders, and the Tribunal's statement was sparse, but the referred question attacked the receipt's character rather than whether evidence supported that factual finding. Without a section 66(1) challenge to the finding's validity, the courts had to accept it (SCR pp.10-12; PDF pp.4-6).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court discharged the High Court's negative answer and answered the referred question affirmatively: on the Tribunal's binding finding, the bonus-share sale proceeds were business income. It allowed Revenue's appeals with no order as to costs in the Supreme Court or the High Court reference (SCR p.12; PDF p.6).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Commissioner of Income-tax/appellant on the assessed sale proceeds. The result followed the unchallenged finding that the bonus shares had been converted into business stock, not an automatic rule based on the original shareholding (SCR pp.11-12; PDF pp.5-6).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: maintain lot-level evidence showing whether a bonus allotment is held as investment or deliberately brought into trading stock-account classification, board or partner decisions, contemporaneous valuation, sale pattern and tax treatment. In appellate drafting, separately challenge the legal character and the evidentiary support for key factual findings; failure to frame both may make a sparse finding conclusive. Apply current dividend, cost and business-income provisions independently (based on SCR pp.10-12; PDF pp.4-6).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 6-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 6-page count match catalogue asset 1969_2_7_12; every page was reviewed.

The source verifies Civil Appeals Nos. 1764 to 1767 of 1967, 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 judgment addresses bonus issues in assessment years 1946-47 and 1948-49 to 1950-51 under the Indian Income-tax Act, 1922 and the former section 66 reference procedure. It does not determine current dividend, cost-basis, capital-gains, business-income or appellate rules. 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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General legal and tax research only; not legal or tax advice. Verify the original judgment, the governing historical statute and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.