

Star Company Limited v. Commissioner of Income Tax (Central), Calcutta

Civil Appeal No. 1635 of 1968

[1970] 1 SCR 772 | 1969-08-07

Share dealer's exceptional purchase above market and resale to the same counterparty: loss not incurred in ordinary share-dealing business

Indian Income-tax Act, 1922: sections 10(1) and 66(1)

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

Transaction-specific conclusion; not an accounting-label rule

The Court relied on the combined proved features, not solely on the entry describing investment loss. It did not need to adopt the High Court's disputed finding that the assessee acted as a pawn in a managing-agency acquisition.

01 FACTS OF THE CASE

Star, a share and securities dealer, claimed a Rs. 1,11,816 loss in AY 1954-55 from selling 1,575 Fort William Jute preference shares back to Mugneeram Bangur & Co. at Rs. 115 each. It had acquired 1,620 shares at Rs. 186 and another 50 at Rs. 184, while the market had stood near Rs. 119. The purchases followed a managing-agency acquisition agreement and were funded by a bank overdraft. The Tribunal rejected the business-loss claim but did not accept the authorities' theory that Star had been used as a pawn in that acquisition. The High Court nevertheless answered the general reference against Star.

Source: [SCR pp. 773-776 / PDF pp. 2-5](#)

02 DISCUSSION BY THE HON'BLE COURT

The Tribunal's final order favoured Revenue despite rejecting some of its reasons. Because the referred question broadly asked whether the loss arose in share-dealing business, Revenue did not need a separate reference merely to challenge those reasons. The Court recognised the limits on reappraising primary facts in reference jurisdiction. It then decided the appeal without relying on the High Court's disputed pawn finding: the very high acquisition price, immediate timing after the agency agreement, unusually large transaction, purchase and resale with the same concern, relatively minor other dealings and bank overdraft jointly distinguished these shares from ordinary trading transactions.

Source: [SCR pp. 777-779 / PDF pp. 6-8](#)

03 JUDICIAL DECISION

On the admitted and proved circumstances, whatever the acquisition motives, these preference shares were not bought and sold in the ordinary course of Star's share-dealing business. The referred question was correctly answered in the negative against the assessee.

Source: [SCR pp. 778-779 / PDF pp. 7-8](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee's appeal was dismissed with costs. The claimed loss remained disallowed as a share-dealing business loss. The Court did not determine a separate capital-loss computation or hold that every above-market purchase by a dealer is non-trading.

Source: [SCR p. 779 / PDF p. 8](#)

05 AKHB REVIEW POINT

AKHB analysis: assess each disputed securities transaction against the taxpayer's normal trading pattern, contemporaneous market price, funding, counterparty arrangements and commercial purpose. Preserve contracts and evidence explaining exceptional terms. Book classification is relevant evidence but should not replace the full factual inquiry. In reference proceedings distinguish a favourable final result from adverse reasons, and frame the referred question carefully. Apply present statutory provisions independently.

Source: [AKHB analysis based on SCR pp. 774-779 / PDF pp. 3-8](#)

SOURCE & VERIFICATION

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

Complete 8-page report read, including all judicial text; reporter headnote distinguished from the Court's reasoning.

[Open cited source rendition](#)

Complete eight-page report read, including judicial text at SCR pp. 773-779; hash matches catalogue.

The headnote's Rs. 185 acquisition price describes the background agreement; the judicial narrative records Star's main purchase at Rs. 186. The note follows the judicial narrative.

The reproduced Tribunal quotation uses Rs. 1,11,818, whereas the referred question, facts and claimed loss consistently state Rs. 1,11,816; that source variation is preserved here.

STATUTORY SCOPE

The ruling applies historical tax provisions in its stated factual setting; it is not an automatic crosswalk to current income-tax law.

LATER TREATMENT

Source checked 2026-10-12. Comprehensive later judicial treatment has not been checked. No current-law or citator clearance is represented.

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