

Shekhawati General Traders Ltd. v. Income-tax Officer, Company Circle I, Jaipur

Civil Appeal No. 2039 of 1968 / Civil Appeal No. 2040 of 1968

[1972] 1 SCR 927 | 1971-10-04

Could later bonus/right issues reduce the statutory 1 January 1954 fair-market-value cost of shares sold, and could their nondisclosure or later discovery justify reopening under either limb of the then section 147?

45 | 48 | 55(2)(i) (then version) | 147(a) | 147(b) | 148 (notice reference)

Two judges | K.S. Hegde, J. | A.N. Grover, J.

Assessment years: 1962-63, 1964-65

Statutory-date cost only; later limitation and printed figures

The holding rests on the elected 1 January 1954 fair market value already accepted for the pre-date shares. Escorts Farms later confined this protection to statutory substituted cost and rejected a broader exclusion of averaging actual cost. Both notices were quashed with Supreme Court costs and one hearing-fee set, but only CA 2039 facts are narrated; AY 1964-65 appears in the quoted letter without an express appeal allocation. Printed aggregate figures do not reconcile and are not silently corrected. Section 55 and the reopening scheme changed historically. Original judgment PDF unchanged; comprehensive later treatment, current law and 2025 mapping are not verified.

01 FACTS OF THE CASE

The two appeals raised a common capital-gains question. The Court narrates only CA 2039, concerning AY 1962-63 and the previous year ending 31 March 1962. Shekhawati acquired 12,000 Orient Paper Mills ordinary shares of face value Rs.10 each on 29 March 1949, received 12,000 bonus shares on or about 28 April 1951, received another 60,000 bonus shares on or about 4 June 1954 and acquired 25,200 right shares on 26 June 1961. The 22,000 shares sold were admittedly drawn from its 24,000-share holding predating 1 January 1954. The report gives sale proceeds of Rs.8,45,110 and statutory-date market value of Rs.8,63,500 (physical page 2/SCR 928 E-H).

For Birla Jute Manufacturing, the company held 15,000 ordinary shares before 1 January 1954, subsequently received 41,250 bonus shares, and acquired 22,500 right shares for nominal value Rs.3,60,000. It sold 15,000 shares, with printed proceeds of Rs.4,54,130 and 1 January 1954 market value of Rs.6,45,000. The accompanying statement identified the shares sold as acquired or received before the statutory date. The report's aggregate cost/proceeds figures and stated loss do not reconcile with these components, so they are not silently repaired. The operative narrative repeatedly states that a capital loss of Rs.2,10,160 was accepted and allowed to be carried forward in the assessment order of 20 July 1964 (physical page 3/SCR 929 A-D).

On 4 January 1967 the officer issued the challenged reopening notice and a letter proposing to average original cost across original and bonus shares. He relied on the Dalmia decision and said the existing method had wrongly produced the Rs.2,10,160 loss for AY 1962-63 and a Rs.45,176 loss for AY 1964-65. The assessee replied on 9 February 1967 that it had exercised the section 55(2) fair-market-value option and the proposed averaging was irrelevant. The report supplies no separate transaction chronology or expressly verified appeal-to-year allocation for the second appeal (physical pages 3-4/SCR 929 D-930 B).

The Rajasthan High Court dismissed the writ challenge on 20 April 1968. One judge considered that the officer prima facie had reason to believe escaped income resulted from incomplete disclosure of later bonus/right issues; the other considered section 147(a) applicable and section 147(b) inapplicable. The assessee appealed by certificate in CA 2039 and CA 2040 of 1968 (physical pages 2 and 4/SCR 928 B-D and 930 B-F).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The Court approached reopening through the correct capital-gains computation. Section 45 charged gains from a capital-asset transfer and section 48 deducted transfer expenditure and acquisition/improvement cost. The then section 55(2)(i) allowed an owner of an asset acquired before 1 January 1954 to choose actual cost or fair market value on that statutory date. These shares indisputably met the date condition; the assessee had elected the market-value option and the officer had accepted its valuation at the prevailing market rates (physical pages 4-5/SCR 930 F-931 F).

The Revenue nevertheless proposed to spread the original holding's cost over later bonus/right shares. That argument displaced the statutory cost already selected and ascertained. The Court rejected it. Its discussion of fairness excluded artificially inflated values; it did not immunise a disputed or fictitious valuation. Here the historical fair market value itself was common ground (physical pages 5-6/SCR 931 F-932 H).

Dalmia Investment was distinguished, not overruled. That case concerned valuation of shares including bonus shares, with cost spread across old and bonus holdings if they ranked *pari passu*, or appropriately adjusted if they did not. It had not decided a capital-gains calculation under provisions equivalent to sections 48 and 55(2) in which the taxpayer had used this statutory fair-market-value substitute. The express statutory option controlled the present case (physical page 6/SCR 932 A-H).

For the selected statutory-date value, the later share events relied upon by the officer were extraneous. Consequently neither branch of the then section 147 was engaged. Under section 147(a) the assessee had to disclose material facts necessary for the assessment, not facts irrelevant to that statutory computation. Under section 147(b) the information still had to furnish a reason to believe taxable income had escaped assessment. Later bonus-share acquisition furnished no such reason here. This reasoning does not dispense with material disclosure generally or establish that every later fact is irrelevant in every valuation dispute (physical page 7/SCR 933 A-D).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

Both appeals were allowed, the High Court judgment was set aside, and the impugned notice in each case was quashed. The assessee received its costs in the Supreme Court, with one set of hearing fees. No remand was ordered. The Court did not undertake a new arithmetic assessment, quantify a refund, decide the cost of later bonus/right shares on their sale, or establish that averaging can never apply when actual rather than statutory substituted cost is used (physical page 7/SCR 933 D-E).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Shekhawati General Traders Ltd.; both appeals succeed

Both appeals allowed; High Court judgment set aside; each impugned notice quashed; Supreme Court costs to assessee with one set of hearing fees

Historical statutory fair-market-value cost and both reopening limbs decided; no fresh computation or remand

The statutory date/value election controls. No general prohibition on averaging actual costs; no adjudication of a later bonus-share sale or arithmetic correction.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Start with the acquisition dates, identify exactly which shares were sold, and establish whether the taxpayer elected an available statutory market-value substitute. A later fact cannot create escapement if the governing computation makes it irrelevant. The corollary is narrow: this case does not let every shareholder ignore bonus issues in calculating actual cost.

Escorts Farms (Ramgarh) (26 September 1996) expressly explains and distinguishes Shekhawati. It confines the protection to the statutory substituted-cost election. Where that option was unavailable because the original shares were acquired after the relevant date, the historical averaging rule applied to actual cost; being an investor rather than a share dealer did not change that result. The Court rejected High Court decisions that had misapplied Shekhawati more broadly. It did not overrule Shekhawati's actual statutory-date holding (physical pages 13-16/SCR 30-33, especially paragraphs 10-11).

The statute later changed. The government-hosted 2011 compilation records the movement from the 1954 date to 1964, then to 1 April 1974 and 1 April 1981 through the 1977, 1986 and 1992 amendments. It also records the Finance Act, 1995 expansion of section 55(2)(aa) and insertion of a nil-cost rule for assets allotted without payment, effective from 1 April 1996, subject to the stated statutory-date provisions. The official department's section 55 page labelled 2008 corroborates those limited points. The former section 147(a)/(b) scheme was itself substituted with effect from 1 April 1989 (compilation physical 388-389 and 720/printed 1.347-1.348 and 1.679). Neither the 1971 rule nor the 1996 explanation should be carried into later years without checking the governing text. Comprehensive later treatment, present applicability, complete later amendment/savings history and 2025 mapping remain not verified.

Source: See the proposition-specific paragraph and PDF-page references below.

DETAILED DISPOSITION AND CONNECTED GROUPS

Proceeding outcomes

1.

Case number: Civil Appeal No. 2039 of 1968

Assessment year: 1962-63 (detailed narrative)

Outcome: Allowed; impugned reopening notice quashed

2.

Case number: Civil Appeal No. 2040 of 1968

Assessment year: No express appeal-to-year allocation in the report; AY 1964-65 appears in the quoted reopening letter

Outcome: Allowed on the common question; impugned reopening notice quashed

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, two appeals and High Court metadata

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: SCR 927 heading; 928 B-E

2.

Topic: Share acquisition/bonus/right chronology and detailed AY

Source url: [Open cited source](#)

Pdf pages: 2; 3

Paragraphs: SCR 928 E-929 D

3.

Topic: Unreconciled aggregates and quoted second assessment year

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: SCR 929 A-H

4.

Topic: Reopening, reply and differing High Court reasoning

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: SCR 929 D-930 F

5.

Topic: Historical statutory option and accepted market value

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 930 F-931 H

6.

Topic: Dalmia distinguished; fair-value limit

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: SCR 932 A-H

7.

Topic: Both old section 147 limbs fail; both notices quashed and costs

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 933 A-E

8.

Topic: Later express explanation and distinction

Source url: [Open cited source](#)

Pdf pages: 13; 14; 15; 16

Paragraphs: SCR 30-33; paragraphs 9-12, especially 10-11

Source role: later judicial treatment

9.

Topic: Bonus-share statutory change and reference-date history

Source url: [Open cited source](#)

Pdf pages: 388; 389

Paragraphs: Printed 1.347-1.348; section 55(2)(aa)/(b), footnotes 38,40,45-49

Source role: historical statutory change

10.

Topic: Historical section 147 substitution

Source url: [Open cited source](#)

Pdf pages: 720; 721

Paragraphs: Printed 1.679-1.680; section 147 and footnote 71

Source role: historical statutory change

11.

Topic: Official historical section 55 corroboration

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: HTML section 55(2)(aa)/(b), footnotes 24,26,30,31,33,34; labelled Year 2008

Source role: historical statutory change

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

Actual substantive statutory-cost construction supplies the basis for quashing both reopening notices. The issue is the then fair-market-value option for pre-1 January 1954 assets; no present section 55 reference date or current reopening scheme is inferred.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

A.N. Grover, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961, historical sections 48, 55(2)(i) and 147(a)-(b)

SPECIFIED LATER DECISION AND LIMITS OF THE CHECK

1.

Asset id: S 1996 7 18 33

Title: M/S ESCORTS FARMS (RAMGARH) LTD. versus THE COMMISSIONER OF INCOME TAX, NEW DELHI

Decision date: 1996-09-26

Classification: Expressly explained and distinguished; overbroad High Court applications rejected

Source url: [Open cited source](#)

Pdf pages: 13; 14; 15; 16

Pinpoint: SCR 30-33; paragraphs 9-12, especially 10-11

Holding limit: Protects statutory substituted cost only; actual-cost averaging applies in its historical setting regardless of investor/dealer status. Shekhawati itself not overruled.

Bounded check: verified only within explicit read bounds

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Constitution, Article 226; Indian Companies Act, 1956 (company description in the report)

BOUNDED NON-PDF SOURCES AND READING LIMITS

1.

Kind: official income tax department statutory web text only

Title: Income Tax Department section 55, labelled Year 2008

Url: [Open cited source](#)

Sha256: Not stated in the reviewed record

File bytes: Not stated in the reviewed record

Pdf pages: Not stated in the reviewed record

Physical text pages read:

Physical image pages read:

Bounded read complete: True

Full document read: False

Read bounds: Official rendered HTML lines 38-169: year label; section 55(2)(aa) and (b), especially lines 83-101 and amendment footnotes 24,26,30,31,33,34 at lines 149-169.

Reliance limit: Corroborates only historic 1995/1996 bonus-asset amendment and 1977/1986/1992 reference-date changes. The page is explicitly labelled 2008, not a current 2026 statute.

Provenance: Official HTML text inspected through web rendition. No raw HTML file or PDF hash, byte count or page-image verification asserted.

Integrity check: WEB TEXT ONLY; NO RAW FILE INTEGRITY CLAIM

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 7 PDF pages; SHA-256

950db7b9d76ffa7e14dbdfcd4e23d620791487a02f4ca11ba2d2ddf80d9bc416. Original bytes preserved.

Open cited source rendition

full primary text read: True; all primary page images reviewed: True; source integrity verified: True; actual statutory scope verified: True; later treatment comprehensive: not_verified; current law status: not_verified; statutory mapping 2025: not_verified

The printed decision date is 4 October 1971 although the SCR report year is 1972. Catalogue identifier 1971INSC267 is not printed or independently authenticated in this rendition.

The source date is 4 October 1971 in a 1972 report. The catalogue lists only CA 2039, but the judgment disposes of CA 2039 and CA 2040 of 1968.; Only CA 2039 facts are narrated. AY 1964-65 and Rs.45,176 occur in the quoted officer letter; no separate transactions or express appeal-to-year allocation are supplied.; SCR 929 prints aggregate acquisition cost Rs.15,09,400, sale proceeds Rs.12,09,240 and loss Rs.2,10,160. They do not reconcile with one another or with the component figures. The accepted loss is reported as stated, not independently recalculated or silently corrected.; The officer's letter calls the cited case Dalmia Cement; the Court identifies and discusses Dalmia Investment Co. Ltd., 52 ITR 567. The final footnote is also malformed. The substantive distinction is the statutory value option.; The judgment describes the company under the Companies Act, 1956 while narrating 1949 acquisition; no incorporation date is invented from that description.; The source repeatedly calls the notice one under section 147; the quoted High Court passage refers to notice under section 148. It is described here as the reopening notice.; Escorts Farms narrows attempted extensions of this case; it does not overrule the actual statutory-date holding. Its later recap labels the 26 June 1961 issue bonus shares, whereas the primary Shekhawati judgment says right shares; this note follows the primary source.; The 1954 valuation date, old reopening limbs and pre-amendment share-cost context are historical. Full current-law and 2025 transition checks have not been performed.

AY 1962-63 is expressly the detailed case, with previous year ending 31 March 1962. AY 1964-65 and loss Rs.45,176 appear in the quoted 4 January 1967 letter. They are not a separately narrated factual case or a verified appeal-to-year allocation.

Both certificate appeals arise from Rajasthan High Court D.B. Civil Writ Nos. 104 and 105 of 1967, decided 20 April 1968. The Court narrates only CA 2039 facts. Its quoted reopening letter also refers to AY 1964-65, but it does not expressly allocate that year or independent transactions to CA 2040.

STATUTORY SCOPE

No automatic Income-tax Act, 2025 crosswalk. Complete amendments, commencement, savings and case-specific present applicability have not been verified.

LATER TREATMENT

Source checked 2026-10-05. not_verified. Escorts Farms expressly explains and distinguishes Shekhawati and rejects an overbroad investor/actual-cost reading. This bounded primary-source check is not comprehensive citator coverage or a certification of current capital-gains law.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 7](#)

SHA-256: 950db7b9d76ffa7e14dbdfcd4e23d620791487a02f4ca11ba2d2ddf80d9bc416

[later reported judgment bounded - PDF pages: 16](#)

SHA-256: 5c2bf8c868bc666b17c347b4004a8d19697c3a0f819505062446bece18f831d3

[official government hosted statutory compilation bounded - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

[Income Tax Department section 55, labelled Year 2008](#)

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.