

M. Janardhana Rao v. Joint Commissioner of Income Tax

Civil Appeal No. 4232 of 2003 and connected proceedings (full list below)

[2005] 1 SCR 874 | 2005-01-28

Whether the High Court's disposal of section 260A appeals, without formulating substantial questions of law at admission and with questions framed only after arguments, complied with the statutory appellate procedure.

260A | 50B (party contention; merits not decided)

Three-judge bench | Ruma Pal, J. | Arijit Pasayat, J. | C.K. Thakker, J.

Assessment years: 1995-96

Procedural remand; capital-gains merits and eventual result reserved

The Court did not decide whether the Rs 92 crore transaction was a taxable slump sale or accept the assessee's section 50B argument. It required fresh High Court consideration under section 260A, preserving the proviso for additional substantial questions supported by recorded reasons. The recovery protection lasted three months, subject to further High Court relief. The printed sale date and all 24 appeal units are retained. Comprehensive later treatment, current procedural text and 2025 mapping remain unverified.

01 FACTS OF THE CASE

The appeals arose from a common Karnataka High Court judgment in disputes concerning former partners of Mangalore Ganesh Beedi Works. The firm of thirteen partners had dissolved by efflux of time from 6 December 1987. Revenue described the continued business as A.O.P.-13. Three members, described as A.O.P.-3, successfully bid Rs 92 crore for the assets in court-supervised winding-up proceedings; the narrative treats the sale as effective from 21 November 1994 (physical page 3 / SCR 876).

For AY 1995-96, the assessee filed individual returns. Revenue sought to include their AOP income and capital gains, treating the adjusted consideration as proceeds of a slump sale. Both taxpayers and Revenue had challenged aspects of the Tribunal's decisions. The taxpayers complained that the High Court had not dealt with their objections to slump-sale treatment or their argument about section 50B's later introduction, and that it formulated questions only after arguments had concluded (page 4 / SCR 877).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court confined its decision to section 260A procedure. It compared relevant subsections with section 100 CPC: the memorandum must precisely state the substantial question of law; the High Court must be satisfied that such a question arises and formulate it; the appeal is ordinarily heard on the formulated question, with the respondent entitled to contest its existence. The proviso to section 260A(4) preserves the power, for recorded reasons, to hear another substantial question that the case involves (physical pages 4–6 / SCR 877–879).

The right of appeal is statutory and must be exercised within the governing conditions, not on merely equitable grounds. A question of law is not automatically a substantial question of law. The Court referred to the tests in *Sir Chunilal V. Mehta* and cautioned against using section 260A to disturb findings that are properly factual. Its discussion must be read with the statutory power in subsection (6) concerning issues not determined, or wrongly determined by reason of a decision on the substantial question (pages 6–7).

Here, no substantial question had been formulated at admission. Framing questions after the arguments for purposes of delivering judgment was inconsistent with the statutory scheme. The complaint that certain points had not been considered also appeared justified. These defects required fresh High Court consideration; they did not establish the taxpayers' substantive capital-gains argument (page 7 / SCR 880).

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

03 JUDICIAL DECISION

The common High Court judgment was set aside and the matters remitted for fresh consideration in accordance with section 260A. The Court expressly reserved the merits. Existing Supreme Court protection against tax recovery continued for three months, and the parties could seek appropriate further protection from the High Court pending its decision. The appeals were disposed of with no order as to costs (physical page 8 / SCR 881).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee-appellants on the procedural challenge

High Court judgment set aside; section 260A appeals remitted; three-month continuation of existing recovery protection

Slump-sale characterisation, section 50B argument and capital-gains liability left undecided

No general exemption for pre-2000 sales, no unlimited appellate fact review and no indefinite stay of recovery. The provision for hearing an additional substantial question on recorded reasons remains part of the rule.

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

05 AKHB REVIEW POINT

Audit the appellate record before treating this decision as a tax-merits authority: identify the proposed question, the admission/formulation order, the legal defect in the Tribunal's conclusion, the hearing opportunity and any recorded reasons for adding a question. A challenge to factual findings requires an actual substantial legal issue; this case does not license a routine rehearing of evidence.

The immediate relief was a fresh statutory appeal, with a time-limited bridge for recovery protection. Do not cite the partners' section 50B submission as a Supreme Court holding or infer the eventual tax result from this remand. The separately checked Kalyanasundaram decision illustrates a different endpoint: refusal to interfere because the questions there were factual.

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

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 4232 of 2003 / Civil Appeal No. 4242 of 2003 / Civil Appeal No. 4237 of 2003 / Civil Appeal Nos. 4233–4234 of 2003 / Civil Appeal Nos. 4235–4236 of 2003 / Civil Appeal Nos. 4240–4241 of 2003 / Civil Appeal Nos. 4238–4239 of 2003 / Civil Appeal Nos. 761–764 of 2005 / Civil Appeal Nos. 755–756 of 2005 / Civil Appeal No. 5322 of 2003 / Civil Appeal Nos. 757–760 of 2005 / Civil Appeal Nos. 765–766 of 2005

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and complete appeal groups

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Cover; jurisdiction; leave-grant and judicial opening

Source role: reported metadata and judicial text

2.

Topic: Historical sale dispute, assessment year and competing submissions

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Unnumbered factual opening; SCR 876–877

Source role: judicial text

3.

Topic: Quoted section 260A and statutory procedural explanation

Source url: [Open cited source](#)

Pdf pages: 4; 5; 6

Paragraphs: Unnumbered quotation and reasons; SCR 877–879

Source role: judicial text including quoted statute

4.

Topic: Substantial-question tests and procedural defects

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: Unnumbered reasons; SCR 880

Source role: judicial text

5.

Topic: Merits reservation, remand, three-month protection and costs

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: Closing unnumbered paragraphs; SCR 881

Source role: judicial text

6.

Topic: Bounded comparison: factual questions and dismissal rather than remand

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: P.V. Kalyanasundaram paragraph 6; SCR 953

Source role: bounded judicial comparison

OTHER PROVISIONS CONSIDERED

Code of Civil Procedure, 1908, section 100 (analogy); Companies Act, 1956, section 583(4)(a) (factual context)

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Arijit Pasayat, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED RELATED DECISIONS AND THEIR LIMITS

1.

Case id: sc-2007-09-14-pv-kalyanasundaram-evidence

Title: Commissioner of Income Tax, Salem v. P.V. Kalyanasundaram

Source url: [Open cited source](#)

Checked passages: Complete judicial paragraphs 1–6 read; comparison limited to paragraph 6

Finding: Kalyanasundaram rejected the suggested substantial questions as fact-based on its evidence and dismissed Revenue's appeal. Rao instead required the High Court to observe the procedural framework before resolving the pending appeals.

Limit: Bounded thematic comparison only. No claim that Kalyanasundaram cites, overrules or comprehensively settles later treatment of Rao.

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 8 PDF pages; SHA-256

f652aa925a3fc75060f25d4b9b61eb58b34c4e74bac5026b01d4f7cc1fc614fb. Original bytes preserved.

Complete unnumbered judicial text on physical pages 3–8 / SCR 876–881, beginning with Arijit Pasayat, J. and ending with the remand, three-month recovery protection and no-costs disposal. Earlier editorial/report material excluded; historical section 260A quotation and attributed Sir Chunilal tests distinguished. No adjacent judgment.

Open cited source rendition

The source lists 24 numbered civil appeals in the preserved groups. The judicial opening grants leave in SLP(C) Nos. 13009–13012/2003, 13021–13022/2003, 2763–2766/2004 and 13015–13016/2003. These are conversion-stage proceedings, not an additional set of 12 decided tax appeals.

The section 50B argument appears as the assessee's submission and was not adjudicated. The judgment expressly says no opinion is expressed on the merits.; The printed sale date is 21 November 1994 and the stated bid is Rs 92 crore. No different date, allocation of consideration or individual gain is imported from other Mangalore Ganesh Beedi litigation.; The three-month continuation applies to interim protection already granted in these appeals; it is not a general or indefinite stay under section 260A.; The report has no numbered judicial paragraphs. Pinpoints use physical PDF pages and SCR pages rather than invented paragraph numbers.; The statute permits an additional substantial question for recorded reasons under the section 260A(4) proviso. The admission-stage requirement must not be abbreviated to an absolute prohibition on any later question.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment has not been verified. Any expressly labelled bounded comparison is limited to its identified text and is not a current-law or Income-tax Act, 2025 certification.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 8

SHA-256: f652aa925a3fc75060f25d4b9b61eb58b34c4e74bac5026b01d4f7cc1fc614fb

bounded judicial comparison - PDF pages: 5

SHA-256: 1835a3d7f0aca249d9e239419ac49a61a842d7fed2a91f4d00b74318e1651e8d

Related note: Commissioner of Income Tax, Salem v. P.V. Kalyanasundaram

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.

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