

K. A. Ramachar and Another v. Commissioner of Income Tax, Madras

Civil Appeals Nos. 142 and 143 of 1960 — Two Supreme Court certificate appeals by legal representatives / C.R. No. 32 of 1952 — Madras High Court originating reference

[1961] 3 SCR 380 | 1961-01-10

An assignment of portions of a partner's profits to family members applied income that accrued to him; direct-payment rights did not create diversion by an overriding title.

1922 Act: 16(1)(c) | 1922 Act: 16(3) | 1922 Act: 66(1)

3 Judges | J. L. Kapur | M. Hidayatullah | J. C. Shah

01 FACTS OF THE CASE

Rangachari held a six-anna share in the profits and losses of Chari and Ram. On 22 September 1947 he settled one-fourth of the profits payable to him, but none of the losses, on each of his wife, married adult daughter and minor daughter for eight years. The deeds were irrevocable during that period and allowed each beneficiary to collect directly from the firm. The firm first credited profits to Rangachari's account and then transferred the stipulated fractions. His legal representatives challenged inclusion in his income for two years, relying on section 16(1)(c)'s third proviso and diversion by overriding title.

Source: [SCR381 bottom-383: legal representatives, deeds, credits and years.](#)

02 DISCUSSION BY THE HON'BLE COURT

Hidayatullah J applied the distinction explained in Sitaldas Tirathdas and the related assignment decisions. The deeds themselves addressed profits payable to the settlor. Under this arrangement the partner remained entitled to the firm's profits, while payment to the beneficiaries merely discharged the firm's obligation to him. Neither the language permitting direct collection nor the description of the assigned right as an actionable claim changed the source of the entitlement. The accounts independently confirmed that profits first accrued to Rangachari and were then applied on his instructions.

Source: [SCR384-385: earlier authorities and entitlement.](#)

03 JUDICIAL DECISION

The settlements did not divert the profits before accrual. The third proviso did not shelter these payments because the asserted section 16(1)(c) situation did not arise. For the first year the deeds also postdated the accounting year; the Court's accrual-and-application reasoning addressed the arrangement itself and supported both appeals' dismissal.

Source: [SCR385: application after accrual, not overriding title.](#)

04 OUTCOME / IN WHOSE FAVOUR

Both appeals by the legal representatives dismissed. Inclusion of the assigned profits in Rangachari's total income was upheld. Dismissed with costs.

Source: [SCR385 bottom: both appeals dismissed, costs.](#)

05 AKHB REVIEW POINT

Distinguish assignment of receivable profits from transfer of the underlying income-producing interest or a genuine sub-partnership. Direct payment alone is not decisive. This historical partner-income assessment also cannot establish present taxability of every firm profit share, for which later exemptions and statutory conditions require separate attention.

Source: [SCR382-385:profits not losses.source retained.direct-payment limits.](#)

SOURCE & VERIFICATION

Original reported Supreme Court judgment

6-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified. All 6 physical text/image pages SCR380-385. PREVIOUS First National City Bank v Commissioner of Income-tax, Bombay City, Kapur J physical 1/SCR380 top through appeal allowed/costs here+High Court and separator (~41%); capital/reserves/Undivided Profits/R2(1)/Schedule II passage excluded. TARGET caption starts physical 1 ~43%; headnote extends physical 2/SCR381 through ~58%; Hidayatullah opinion starts physical 2 ~80% and ends physical 6/SCR385 ~83%, two appeals dismissed costs. No following judgment. Physical 5 degraded but text/image jointly legible for three prior-case analyses; no missing substantive target page.

Open cited source rendition

Physical 1 upper portion belongs to First National City Bank and its capital/reserve holding, not Ramachar.

Physical 5/SCR 384 is degraded but substantive text is legible with its extraction and image; no missing passage is inferred.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 16(1)(c), 16(3), 66(1)

Displayed 2025 section 60 includes income transferred without its underlying assets in the transferor's income. Separately, section 10(2A) excludes an eligible partner's share in the total income of a separately assessed firm, according to its Explanation. Ramachar's historical inclusion does not establish that all later firm shares are taxable.

2025 section 96 addresses income transfer without assets; Schedule III Table row 2 excludes the eligible partner's firm-income share subject to the deed's profit-sharing ratio. These comparisons do not replace examination of the actual source, assignment and applicable exemption.

The holding applies the historical 1922 Act. The 2025 Act generally commences 1 April 2026; selected 536(1), (2)(a)-(e), (3)-(4) preserve earlier operation and specified proceedings. Only identified versions/passages were checked; no complete savings, amendment-history or present-case applicability assessment is claimed.

LATER TREATMENT

Source checked 2026-10-08. Kinariwala (10 December 2002), SCR 657F-658A, expressly applies Ramachar to assignment of a partner's income. It distinguishes a genuine sub-partnership at 659B-660B, so Ramachar is not a rule against every diversion involving a partnership. Section 60 is expressly left undecided at 660C. The lead merits appeal and the 55 companion appeal-units receive separately stated relief at 660D-G.

Only the identified later judgment was checked for this bounded use. Comprehensive subsequent history and present-case applicability remain unverified.

All 11 text/images SCR 650-660. Quadri opinion physical 3/652F through 11/660G. Express Ramachar application physical 8-9/657F-658A; genuine sub-partnership distinguished at 10-11/659B-660B; section 60 expressly unnecessary at 660C. Lead 1899/2002 merits allowed; 55 companion appeal-units have 256(2) reference orders allowed and questions answered in judgment terms; no costs. No neighboring judgment.

IDENTIFIED SOURCE LINKS

[Income-tax Act,1961: 60](#)

Displayed2025 Web67-68, complete60. Exact stated web text personally read, including cross-page continuations. No original HTML/PDF or images, whole-Act or automatic case-applicability claim.

[Income-tax Act,1961: 10\(2A\)](#)

Displayed2025 2025 displayed10(2A)/Explanationat74-75; initial2018 section-10-66notadopted. Exact stated web text personally read, including cross-page continuations. No original HTML/PDF or images, whole-Act or automatic case-applicability claim.

[Income-tax Act,2025: 96 andScheduleIII row 2](#)

As amended byFinance Act,2026 Web6785-6790; ScheduleIII25056-25072and25095-25103. Exact stated web text personally read, including cross-page continuations. No original HTML/PDF or images, whole-Act or automatic case-applicability claim.

[Income-tax Act,2025: commencement and selectedsavings](#)

As amended byFinance Act,2026 1(1)-(3)web 0-13;536(1), (2)intro/(a)-(e)web 24385-24408;536(3)-(4)24597-24601. Notfull536. Exact stated web text personally read, including cross-page continuations. No original HTML/PDF or images, whole-Act or automatic case-applicability claim.

[Commissioner of Income Tax v.Sunil J.Kinariwala — \[2002\]Supp.4SCR650](#)

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