

Commissioner of Income-tax, Madhya Pradesh, Nagpur v. Seth Govindram Sugar Mills Ltd.

Civil Appeals Nos. 38 and 39 of 1964

[1965] 3 SCR 488 | 1965-03-26

Firm status after a partner's death: a two-partner firm ended on death despite a continuation clause, but a new partnership arose when the successor attained majority.

Indian Partnership Act, 1932: sections 4, 5, 31 and 42(c) | Indian Income-tax Act, 1922: sections 16(1)(b) and 66(2)

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1950-51

Ultimate result differs from principal reasoning

Revenue displaced the High Court's theory that the 1943 firm continued after Nandlal's death, but lost the appeals because a new partnership was conceded and found to exist from 13 December 1949.

Historical HUF discussion

The judgment's observations about who could manage or represent a joint Hindu family were made under the law and facts then considered; current application requires independent review of later law.

01 FACTS OF THE CASE

After a family partition, Nandlal and Bachhulal, as kartas of their respective branches, formed a two-person partnership on 28 September 1943 to run the sugar mill. The deed stated that death would not dissolve the firm and that a legal heir or nominee would replace the deceased. Nandlal died on 9 December 1945, leaving three widows and two minor sons; Bachhulal continued the business. For AY 1950-51 the tax authorities treated the concern as an association of persons, while the High Court held that representatives of both families had continued the partnership.

Source: [Family structure, partnership deed and assessment history: SCR pp.490-491 / PDF pp.3-4](#)

02 DISCUSSION BY THE HON'BLE COURT

Partnership arises from contract, not status. Section 42(c) could preserve a firm with more than two partners after one died, but where a two-person firm lost one partner the firm itself ended and there was no subsisting partnership into which an heir could automatically enter; any later arrangement would be a new partnership. The 1943 firm therefore ended on Nandlal's death. A joint Hindu family was not itself a partner, though its karta could partner with another karta. On the evidence, neither the widows nor the court-appointed guardians had formed a new partnership with Bachhulal after the death. Venkatlal, however, attained majority on 13 December 1949 and thereafter represented his family branch; the documents and concession before the High Court supported a new partnership from that date.

Source: [Two-partner dissolution and new-partnership principle: SCR pp.492-494 / PDF pp.5-7](#); [HUF representation and evidentiary analysis: SCR pp.495-497 / PDF pp.8-10](#); [New partnership from Venkatlal's majority: SCR p.498 / PDF p.11](#)

03 JUDICIAL DECISION

The Court set aside the High Court's finding that the partnership had continued immediately after Nandlal's death, but confirmed that a partnership came into existence from 13 December 1949. It answered that the assessee's status for AY 1950-51 was a firm within section 16(1)(b) and that the Tribunal had misdirected itself in denying partnership status. Revenue's appeals were dismissed, with each side bearing its own costs because the assessee had failed on its main continuity contentions.

Source: [Operative answers, dismissal and costs: SCR p.498 / PDF p.11](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on the ultimate tax-status issue: the concern was a firm for AY 1950-51 and Revenue's appeals were dismissed. The outcome was mixed because Revenue prevailed in showing that the original two-person partnership had ended in 1945 and that only a new partnership began in December 1949.

Source: [Mixed reasoning and assessee-favouring final status: SCR p.498 / PDF p.11](#)

05 AKHB REVIEW POINT

AKHB analysis: do not infer continuity merely from a deed clause when a firm has only two partners. First determine whether the original firm legally survived; if not, separately prove a new consensual partnership, its start date, parties and representatives. For tax classification, align that date with the relevant accounting period and preserve the difference between winning the final status question and losing the underlying continuity argument.

Source: [AKHB analysis based on the dissolution and new-contract distinction](#)

SOURCE & VERIFICATION

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

Full 11-page SCR report read and visually checked. The editorial headnote on PDF pp.1-2 was distinguished from Subba Rao J.'s unnumbered judgment beginning on PDF p.2; the dissolution, HUF representation, evidentiary findings and operative answers through PDF p.11 were reviewed.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 11-page count match catalogue asset 1965_3_488_498; every page was read as extracted text and inspected as a rendered image.

The judicial text verifies Civil Appeals Nos.38 and 39 of 1964, the three-member bench, AY 1950-51, the two-stage partnership analysis and dismissal without costs.

No published AKHB record or archived reviewed release matched this party identity, citation, case numbers or source asset.

STATUTORY SCOPE

The tax-status question arose under the repealed Indian Income-tax Act, 1922. The partnership analysis applies the Partnership Act, 1932 and historical Hindu-law propositions stated on the record; this note does not represent that every proposition concerning HUF management remains unchanged after later statutory and constitutional developments.

LATER TREATMENT

Source checked 2026-10-10. Later treatment of the two-partner dissolution rule, the relevant income-tax status provisions and the historical HUF-management discussion has not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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