

Sevantilal Maneklal Sheth v. Commissioner of Income-tax (Central), Bombay

Civil Appeal No. 2454 of 1966

[1968] 2 SCR 360 | 1967-11-22

Historical spouse-income clubbing: capital gain produced by sale of shares gifted to the assessee's wife arose from the transferred assets and fell within section 16(3)(a)(iii) after capital gains entered the statutory definition of income.

Indian Income-tax Act, 1922: sections 2(6C), 12B and 16(3)(a)(iii)

2-judge bench; unanimous judgment delivered by V. Ramaswami, J. | J. C. Shah, J. | V. Ramaswami, J.

Assessment years: 1957-58 (the only question pursued in the Supreme Court), 1958-59 and 1959-60 (interest-inclusion proceedings described as background, not decided by this appeal)

Supreme Court issue was limited to the capital gain

Although the report recounts later-year interest inclusions, the only question before the Supreme Court was the Rs.70,860 capital gain for assessment year 1957-58. The interest allocation for 1958-59 and 1959-60 was not decided in this appeal.

Caption and body name different persons

The signed caption names Sevantilal Maneklal Sheth, while the body calls Maneklal Ujamshi the assessee and identifies Sevantilal as his son and a partner. The report does not explain any substitution; the public title therefore follows the signed caption while preserving the inconsistency.

Report contains amount inconsistencies

The body first gives the transferred shares' value as Rs.68,730, while the headnote and later procedural narrative state Rs.69,730. It also alternates between Rs.4,138 and Rs.4,183 in recounting the interest allocation. None changes the sole Rs.70,860 capital-gain question decided.

Historical definition controlled

The Court relied on capital gains having been brought into the 1922 Act definition of income. The decision should not be quoted without identifying the governing statutory version and the exact transferred asset.

01 FACTS OF THE CASE

The body of the report says that in 1951 Maneklal Ujamshi gifted 1,184 ordinary and 155 preference shares in Changdeo Sugar Mills Ltd. to his wife, Bai Laxmibai. After conversion of the preference shares she held 2,424 ordinary shares and sold 2,400 on 1 August 1956 for Rs.1,54,800, producing a capital gain of Rs.70,860 under section 12B. The sale proceeds were deposited with a firm in which Maneklal and his son Sevantilal were partners and earned Rs.9,288 annual interest. The officer included the capital gain for assessment year 1957-58 and the interest for the next two years under section 16(3)(a)(iii). The High Court sustained the capital-gain inclusion but gave the assessee limited relief on some interest questions (SCR pp.361-363; PDF pp.2-4).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

The Supreme Court confined the appeal to whether the Rs.70,860 capital gain was income arising directly or indirectly from the assets transferred to the wife. It rejected a distinction between income yielded while the asset remained held and gain produced when the asset was sold: both sprang from the transferred asset, although the income-producing operation differed (SCR pp.364-365; PDF pp.5-6). Section 16(3)(a)(iii) had been enacted before capital gains were included in income, but the expression had to be read with the subsequently amended section 2(6C). Nothing in the context excluded capital gains, and the provision's anti-avoidance purpose opposed the proposed restriction (SCR p.365; PDF p.6).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court held that the High Court had rightly answered the first referred question against the assessee. Civil Appeal No.2454 of 1966 was dismissed with costs, preserving inclusion of the Rs.70,860 capital gain in assessment year 1957-58 (SCR p.365; PDF p.6).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue/the Commissioner. The wife's Rs.70,860 capital gain from sale of the gifted shares arose from the transferred assets and was includible in the assessee's income under historical section 16(3)(a)(iii) (SCR pp.364-365; PDF pp.5-6).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: for a transferred-asset clubbing question, trace both identity and causal continuity—what property was transferred, what substituted or sale receipt followed, what income arose, and whether the governing clause reaches that income category under the applicable definition. Keep collateral interest on reinvested proceeds separate from the gain on sale of the transferred asset. The report's party and amount inconsistencies should remain visible in professional files rather than being normalized without another authoritative record (based on SCR pp.361-365; PDF pp.2-6).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 6-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 6-page count match catalogue asset 1968_2_360_365; every page was reviewed.

The source verifies Civil Appeal No. 2454 of 1966, the stated bench, issues, reasoning and operative result.

No published or archived standalone AKHB note with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The judgment construes the spouse-transfer clubbing rule in section 16(3)(a)(iii), the capital-gains provision in section 12B and the then-amended definition of income in the repealed 1922 Act. It does not state the result under present section 64 or other provisions of the Income-tax Act, 1961. No current-law or later-treatment clearance was undertaken.

LATER TREATMENT

Source checked 2026-10-11. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

PROFESSIONAL DISCLAIMER

General legal and tax research only; not legal or tax advice. Verify the original judgment, the governing historical statute and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.