

Juggi Lal Kamlapat v. Commissioner of Income-tax, U.P.

Civil Appeals Nos. 968 and 969 of 1967

[1969] 1 SCR 988 | 1968-09-04

Sham managing-agency termination: lifting the corporate veil and treating purported compensation as business revenue

Indian Income-tax Act, 1922: section 66(1) and business-receipt principles | Indian Income-tax Act, 1922: section 34 (challenge abandoned before Tribunal) | Excess Profits Tax Act, 1940: section 15 (challenge abandoned before Tribunal)

Three-judge bench; judgment delivered by V. Ramaswami, J. | J. C. Shah, J. | V. Ramaswami, J. | A. N. Grover, J.

Specific sham findings, not a universal rule against incorporation

The result depended on false termination reasons, continuing control and benefit, and the business nexus of the payment. The Court did not hold that common shareholding alone always removes corporate separateness or that every agency-termination receipt is revenue.

01 FACTS OF THE CASE

The assessee partnership managed J. K. Iron and Steel under a 25-year agreement. Three Singhanian brothers held 51% of the firm and, with their families, controlled the managed company and the replacement J. K. Commercial Corporation. The managed company purported to replace the firm because it could not finance operations, despite no contractual financing obligation, and paid Rs. 2 lakhs on 31 October 1943 for premature termination. The officer, AAC and Tribunal treated the receipt as business income. Reopening challenges were abandoned; the reference asked whether evidence supported the revenue character of the receipt.

Source: [SCR pp. 989-994 / PDF pp. 2-7](#)

02 DISCUSSION BY THE HON'BLE COURT

The Tribunal found the termination reasons false and the payment collusive: the partners continued the managing-agency undertaking through the new company's directorships and shareholding. Corporate personality is ordinarily separate, but the authorities could examine the reality where the entity was used for the proved tax-evasion device. On these facts there was no genuine loss or destruction of the profit-yielding apparatus. The same persons continued to enjoy its profits, now as dividends rather than partnership shares. The Rs. 2 lakhs had an intimate connection to the firm's managing-agency office and operations. The submission that tax-saving intention does not invalidate an otherwise lawful transaction failed because the finding here was of a sham, not merely such an intention.

Source: [SCR pp. 994-998 / PDF pp. 7-11](#)

03 JUDICIAL DECISION

There was material supporting the Tribunal's conclusion that the Rs. 2 lakh payment arose in the course of the assessee's managing-agency business and was a revenue receipt. The High Court's answer against the assessee was upheld.

Source: [SCR pp. 997-998 / PDF pp. 10-11](#)

04 OUTCOME / IN WHOSE FAVOUR

Both assessee appeals were dismissed with costs, with one set of hearing fee. The receipt remained taxable under the income-tax and excess-profits-tax assessments. The Court did not decide the abandoned challenge to reopening or quantify a new assessment.

Source: [SCR p. 998 / PDF p. 11](#)

05 AKHB REVIEW POINT

AKHB analysis: test termination compensation against the actual contractual rights, reason for termination, continuing control, post-termination activities and whether an income-producing apparatus was genuinely lost. Keep contemporaneous evidence of commercial purpose and valuation. Do not infer sham merely from related ownership, but do not treat changed legal form as conclusive when concrete contrary facts exist. Modern compensation and anti-avoidance provisions require separate review.

Source: [AKHB analysis based on SCR pp. 994-998 / PDF pp. 7-11](#)

SOURCE & VERIFICATION

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

Complete 11-page report read, including all judicial text; reporter headnote distinguished from the Court's reasoning.

[Open cited source rendition](#)

Complete eleven-page primary report read; exact hash matches catalogue.

The source provides payment on 31 October 1943 and original assessment on 6 April 1945, but does not expressly label the assessment year; no inferred year is inserted.

Legality of reopening was abandoned before the Tribunal and was not decided by this judgment.

Other published Juggilal/Juggi Lal rulings concern different dockets and issues: firm registration (1966), share-trading motive (1969) and wealth valuation (1983).

STATUTORY SCOPE

The ruling applies historical tax provisions in its stated factual setting; it is not an automatic crosswalk to current income-tax law.

LATER TREATMENT

Source checked 2026-10-12. Comprehensive later judicial treatment has not been checked. No current-law or citator clearance is represented.

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