

Commissioner of Income-tax, Bihar v. Ramniklal Kothari

Civil Appeal Nos. 575 and 576 of 1966

[1969] 3 SCR 860 | 1969-03-07

A partner's share from a registered firm's business remained business income in his individual assessment, so expenditure properly incurred to earn it could qualify for deduction under the 1922 Act.

Indian Income-tax Act, 1922: sections 10(1), 10(2), 16(1)(b), 23(5)(a)(ii) and 66(1)

2-judge bench | J.C. Shah, J. | A.N. Grover, J.

Assessment years: 1955-56, 1956-57

Historical registered-firm scheme

The holding concerns the Indian Income-tax Act, 1922 and does not itself establish the deduction treatment under a later assessment regime.

01 FACTS OF THE CASE

Ramniklal Kothari carried on several businesses as a partner in four registered firms. For assessment years 1955-56 and 1956-57 he returned his shares of firm profits and claimed partner-level deductions for staff salary and bonus, motor-car maintenance and depreciation, travel and interest. The Income-tax Officer allowed only interest, reasoning that Kothari had no independent business and that the firms should have claimed the other items. The first appellate authority agreed. The Tribunal treated the shares as business income, set aside those orders and remanded for examination of the nature of the expenditure. On reference, the Patna High Court held that qualifying expenses incurred in earning income from the firms were deductible.

Source: [SCR pp. 861-862](#) / [PDF pp. 2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court held that business conducted by a firm is business conducted by its partners. A partner's share in the taxable profits of a registered firm, included in his total income under section 23(5)(a)(ii), retained the character of business income under section 10(1). The fact that the firm's own profit had already been computed after firm-level allowances did not prohibit a distinct partner-level deduction for expenditure actually and properly incurred to earn the partner's share, salary, interest, commission or other remuneration. Eligibility remained conditional on proving the expenditure and its necessary connection with earning that income. The Court approved the Bombay, Madras and Patna approaches and rejected the contrary Calcutta view that no deduction could occur after the net partnership share reached the partner.

Source: [SCR pp. 862-864 / PDF pp. 3-5](#)

03 JUDICIAL DECISION

The Supreme Court affirmed the legal entitlement to claim appropriate section 10(2) deductions against the partner's business income and dismissed Revenue's appeals with costs. It did not itself quantify or finally allow every expense; the Tribunal's factual examination on remand remained necessary.

Source: [SCR pp. 862 and 864 / PDF pp. 3 and 5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on the legal question, subject to factual verification of each expense on remand. Revenue's two appeals were dismissed with one hearing fee.

Source: [SCR p. 864 / PDF p. 5](#)

05 AKHB REVIEW POINT

AKHB analysis: separate the firm's expenditure from expenditure personally borne by a partner to earn partnership income. A partner-level claim needs evidence of actual payment, business purpose and nexus; it is not defeated merely because the firm computed its own profit first, but it cannot duplicate a firm-level allowance. Apply this reasoning only after identifying the governing assessment-year statute and later partnership regime.

Source: [AKHB analysis based on SCR pp. 862-864 / PDF pp. 3-5](#)

SOURCE & VERIFICATION

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

Full 5-page SCR report read; editorial headnote on PDF page 1 distinguished from the judicial opinion on PDF pages 2-5.

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Exact catalogue bytes verified: SHA-256

b14a248fe63ec92c902b23647a0b5df7003769ebd6c847eace32f9e538810229; 5 PDF pages.

The first-page image confirms 7 March 1969, correcting OCR that misread the printed 7 as 1. The judicial caption confirms Civil Appeal Nos. 575 and 576 of 1966; Shah J. delivered the opinion.

STATUTORY SCOPE

The judgment interprets the registered-firm and business-deduction scheme of the Indian Income-tax Act, 1922. It establishes legal eligibility to claim qualifying partner-level expenditure; it does not automatically allow each item claimed or state the current partnership-assessment rule.

LATER TREATMENT

Source checked 2026-10-10. Later statutory changes and subsequent judicial treatment have not been comprehensively checked. No current-law clearance is asserted.

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