

Commissioner of Income-tax, West Bengal, Calcutta v. Shri Prem Bhai Parekh and Others

Civil Appeal No. 2272 of 1966

[1971] 1 SCR 308 | 1970-04-20

Historical clubbing provision: proximate connection between gifted assets and minors' partnership income.

Indian Income-tax Act, 1922: sections 16(3)(a)(iv), 66(1) and 66A(2)

3-judge bench | J. C. Shah, J. | K. S. Hegde, J. | A. N. Grover, J.

Assessment years: 1956-57

1922 Act nexus ruling; no present minor-income exemption

The Court addressed section 16(3)(a)(iv), not later broadly framed minor-income clubbing provisions. The constitutional challenge was not pressed and was not decided. Do not offer this as a current arrangement for avoiding clubbing.

01 FACTS OF THE CASE

The assessee, Ajitmal Parekh, retired from a firm and gifted Rs. 75,000 to each of four sons. His adult son became a partner in the reconstituted firm and three minor sons were admitted to its benefits, investing funds derived from the gifts. For AY 1956-57 the officer included the minors' partnership income in the father's total income under section 16(3)(a)(iv). The High Court answered against inclusion. The separate constitutional-validity question was not pressed and was left undecided.

Source: [SCR pp. 309-310 / PDF pp. 2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The transfer of the money and its use as contributed funds were accepted facts. But income arose from admission to partnership benefits, which the Court treated as too remote from the gifts to satisfy the required statutory nexus. Because the provision artificially attributed another person's income to the transferor, it required strict construction: direct or indirect connection must be proximate, and income must result from the transfer rather than merely be connected with it in some way.

Source: [SCR pp. 310-311 / PDF pp. 3-4](#)

03 JUDICIAL DECISION

The High Court's answer in favour of the assessee was sustained and the Revenue appeal is recorded as dismissed. The minors' identified partnership income was not included under the historical provision on these facts. The constitutional question remained undecided and the source prints no separate costs direction.

Source: [SCR pp. 309-311 / PDF pp. 2-4](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on the specific 1922 Act attribution issue. The result is not a finding that the gifts were unconnected with the contributions; it concerns the insufficient proximity between transfer and the income source for that provision.

Source: [SCR pp. 310-311 / PDF pp. 3-4](#)

05 AKHB REVIEW POINT

AKHB analysis: distinguish tracing of contributed capital from proof of the legal nexus required by a particular attribution provision. Preserve the income-producing arrangement and exact statutory wording. Later minor-income clubbing rules can have materially different scope, so this historical nexus ruling should not be presented as current tax-planning permission. The unpressed constitutional question supplies no constitutional precedent.

Source: [SCR pp. 309-311 / PDF pp. 2-4](#)

SOURCE & VERIFICATION

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Case title names Prem Bhai Parekh and others; judicial facts identify assessee Ajitmal Parekh. Both roles are preserved without inventing an explanation.

The report's final disposition line records appeal dismissed; the judicial discussion ends with the proximate-nexus rule, and no distinct costs direction is printed.

STATUTORY SCOPE

Historical statutory regime and assessment facts control. No automatic Income-tax Act, 2025 crosswalk or present-law certification.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent judicial treatment and current-law applicability remain unverified; no current-law assurance or citator clearance.

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