

C.I.T., U.P. v. Bankey Lal Vaidya (Dead) by L. Rs.

Civil Appeal No. 1223 of 1967

[1971] 3 SCR 406 | 1971-01-21

Dissolution: receipt of money value of partnership share under historical capital-gains law.

Indian Income-tax Act, 1922: sections 12B(1) and 66(1)

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

Assessment years: 1947-48

Historical dissolution rule

The dissolution occurred in 1946. This result is not a current exemption for partnership dissolution or reconstitution; later statutory charging and deeming provisions require separate examination.

01 FACTS OF THE CASE

The respondent, acting for his HUF, partnered with Devi Sharan Garg in pharmaceutical products and related literature. On dissolution on 27 July 1946, assets were valued at Rs. 2,50,000. Garg took the business and goodwill; the respondent received Rs. 1,25,000 for his share. For AY 1947-48 the Tribunal sustained Rs. 65,000 as capital gains, reduced from Rs. 70,000 assessed. The High Court answered the reference against that charge.

Source: [SCR pp. 406-407](#) / [PDF pp. 1-2](#)

02 DISCUSSION BY THE HON'BLE COURT

The settlement adjusted partners' rights on dissolution: one received the assets and the other their money equivalent. The Court found no sale, exchange or transfer of the respondent's share. Valuation followed by payment of a partner's entitlement was a recognised distribution method. It distinguished *James Anderson*, where an executor's agent actually sold securities, and relied on the explanation of dissolution adjustments in *Dewas Cine Corporation*.

Source: [SCR pp. 408-409](#) / [PDF pp. 3-4](#)

03 JUDICIAL DECISION

The Court agreed that the referred question should be answered in the negative. Revenue's appeal was dismissed with costs; the Rs. 65,000 was not taxable as capital gains under section 12B in this transaction.

Source: [SCR p. 409 / PDF p. 4](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on the historical capital-gains charge arising from this dissolution settlement. The Court did not approve an exemption for an actual sale of assets followed by distribution of the sale proceeds.

Source: [SCR pp. 408-409 / PDF pp. 3-4](#)

05 AKHB REVIEW POINT

AKHB analysis: distinguish a distribution adjusting partners' rights from a sale for a price by examining dissolution terms and asset movements. Preserve that factual distinction when citing the case, but do not carry the 1922 Act result into a modern dissolution or reconstitution without checking the provisions operative on that transaction date.

Source: [AKHB analysis based on SCR pp. 407-409 / PDF pp. 2-4](#)

SOURCE & VERIFICATION

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

Full four-page SCR report read, separating editorial headnote from judicial reasoning; no neighbouring case text used.

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Full source read; page pinpoints used because judgment paragraphs are unnumbered. Exact original bytes match the catalogue SHA-256.

STATUTORY SCOPE

This decision applies the Indian Income-tax Act, 1922 to the stated historical assessment years. Current statutory applicability and any Income-tax Act, 1961 or 2025 crosswalk are not determined.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment has not been verified; no current citator clearance is represented.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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