

Commissioner of Income-Tax U.P. Lucknow v. M/s. Gangadhar Baijnath General Gang, Kanpur

Civil Appeal No. 1746 of 1968; Civil Appeal No. 2022 of 1968 — Supreme Court appeal or expressly printed appeal group decided in this judgment and connected proceedings (full list below)

[1973] 1 SCR 928 | 1972-08-23

The ₹35,01,000 compensation was business revenue: the assessee's representatives withdrew from one ordinary trading venture while the agency-holding partnership and the assessee's broader business continued.

1922 Act: 10 | 1922 Act: 66(1)

3 Judges | K. S. Hegde | P. Jaganmohan Reddy | H. R. Khanna

01 FACTS OF THE CASE

The entire ₹35,01,000 compensation was revenue because termination of this trading arrangement did not destroy the assessee firm's business structure. Three Bagla partners and three Jaipuria partners formed Bagla-Jaipuria & Co. in April 1946; it became Swadeshi Cotton Mills' twenty-year managing agent in July. Under an October retirement auction, the Jaipurias continued and the Baglas received ₹97,11,699 capital, ₹1,77,232 interest and the disputed compensation. For 1948-49, the Income-tax Officer taxed compensation under section 10 of the Indian Income-tax Act, 1922. The Appellate Assistant Commissioner added a capital-gains alternative; the Tribunal and High Court sustained business-income treatment but rejected section 12-B liability. Both sides appealed.

Source: [SCR929-933: dockets, assessment year, agreements, payment breakdown and appeals.](#)

02 DISCUSSION BY THE HON'BLE COURT

After the Supreme Court sought a supplementary statement in August 1971, the Tribunal identified possible agency, goodwill and accrued-profit components but lacked material to value them separately. Hegde J examined the rights actually held. Bagla-Jaipuria was a partnership of six individuals, not two firms. Its managing agency and goodwill remained with it after the three Baglas withdrew. The older assessee firm also continued financing, moneylending and other activities. The withdrawal therefore cancelled a contract entered in the ordinary course of its trading business, rather than transferring its own managing agency. The arrangement was terminable at will. The selling agency had already passed to the new firm; alternatively, any indirect loss affected only one trading activity. Use of the compensation to acquire control in other companies supported continuity of the trading structure. Applying *Jairam Valji*, *Gillanders and Kettlewell Bullen*, the Court distinguished normal termination proceeds from compensation for destruction of an income source. Past profits were admittedly revenue.

Source: [SCR933-934 supplementary record; 935-938F ownership, ordinary trading and intact structure.](#)

03 JUDICIAL DECISION

The Court held all ₹35,01,000 assessable under section 10. That conclusion made it unnecessary to decide either the Appellate Assistant Commissioner's competence to invoke section 12-B or substantive capital-gains liability. No monetary allocation among the purported compensation components was made.

Source: [SCR935E: other questions unnecessary;938F-G: entire compensation revenue.](#)

04 OUTCOME / IN WHOSE FAVOUR

Assessee's Civil Appeal 2022/1968 was dismissed with costs. Revenue did not press Civil Appeal 1746/1968 after the indicated conclusion; it was dismissed without a costs order. The entire ₹35,01,000 compensation remained business income; section 12-B and appellate competence were not separately decided.

Source: [SCR938G-H: separate appeals, costs and not-pressed Revenue appeal.](#)

05 AKHB REVIEW POINT

Identify who owned the alleged lost asset and what business survived; goodwill or solatium labels do not decide character. Compared 1961 section 28(ii) and 2025 section 26(2)(b) contain specific termination rules which need their own application. This judgment does not settle modern retirement, reconstitution or capital-gains tax. Returned capital and interest are distinct from the disputed compensation. The printed 1966/1968 appeal-year inconsistency is expressly reconciled.

Source: [SCR932 payment breakdown,934 no valuation,935-938 rights and factual limits.](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 1746 of 1968; Civil Appeal No. 2022 of 1968 — Supreme Court appeal or expressly printed appeal group decided in this judgment / Income-tax Reference No. 286 of 1960 — Originating High Court appeal/reference docket; not an additional Supreme Court appeal

SOURCE & VERIFICATION

Original reported Supreme Court judgment

11-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified. All physical pages 1-11/SCR928-938: full caption/dockets, complete Hegde J judgment, partnership agreements/receipts, supplementary-statement stage, unvalued components, entire reasoning and separate dispositions/costs. Every page text and image personally inspected.

Open cited source rendition

SCR 938 final paragraph says 2022/1966; SCR 929 jurisdiction, counsel and 930 narrative consistently say 2022/1968.

Report repeatedly describes firms/group representatives; Court expressly explains six individual partners at 935, not a legal partnership of two firms.

Supplementary statement could not value agency, goodwill or accrued-profit components; no allocation invented.

No new SC holding on AAC competence or 12-B follows from dismissal; questions expressly unnecessary at 935 E.

Modern statutory evidence is limited to the exact versions and scopes in sources; retained capture hashes are not original website/PDF hashes unless expressly labelled. No present-tax-year or full savings determination.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 10, 66(1)

Whole 28, displayed 2025, read, including (ii)(a)–(e) compensation and termination clauses. Clause (ii)(e) specifically addresses termination/modification of business contracts; historic general characterisation cannot displace its statutory requirements.

Whole 26–27, in Act 2025 as amended FA 2026, read. Section 26(2)(b) contains management, agency and business-contract termination/modification branches; 26(2)(c) addresses vesting of management. No complete modern partnership-reconstitution/capital-gains determination.

Legacy 1922 Act holding; comparison versions and personally read scopes are explicit. No automatic precedent carryover or exhaustive present-law/repeal/savings determination.

Other provisions addressed: Section 12-B and AAC competence questions expressly not examined

LATER TREATMENT

Source checked 2026-10-07. No specific later judgment is adopted in this note; no absence of later treatment is asserted.

Comprehensive subsequent history and present-law applicability are not certified.

Comprehensive subsequent history remains unverified; no later-use claim adopted.

IDENTIFIED SOURCE LINKS

[Income-tax Act, 1961: section 28](#)

Official HTML displayed 2025 Complete section 28 clauses(i)–(vii), provisos, explanations, annotations; HTML 38–136. New personal bounded read of exact retained coordinator official web captures. No inherited prior author read or fresh acquisition/raw HTML/PDF/image claim; no complete present-law/savings certification.

[Income-tax Act, 2025: sections 26–27](#)

Official 2025 Act as amended by Finance Act 2026 Title and 1(1)–(3), web0–13, physical1; complete 26(1)–(4) and 27, web2191–2255, physical55–57, including cross-page lines2193 and 2232. New personal bounded read of exact retained coordinator official web captures. No inherited prior author read or fresh acquisition/raw HTML/PDF/image claim; no complete present-law/savings certification.

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