

M/s. Y. L. Agarwalla and Others v. Commissioner of Income Tax, Central, Calcutta

Civil Appeal No. 1112 of 1976

[1978] 3 SCR 1059 | 1978-07-27

Whether Rs.3,08,187 allocated to three minor sons admitted to the benefits of a partnership was their individual income or assessable as the HUF's income when the firm continued to use Rs.10,00,000 of HUF capital interest-free.

2-judge bench | P.N. Bhagwati, J. | V.D. Tulzapurkar, J.

Assessment years: 1969-70

Historical HUF attribution; no section stated in the judgment

The decision concerns the expressly stated AY 1969-70 and the proved link between the minors' profit shares and interest-free HUF capital. It does not identify an Income-tax Act section; its 1961 Act connection is supported by the assessment history and the separately labelled 2011 commencement/savings check, not by an attributed transition holding. The judicial body's four major daughters and repeated 18 December 1967 death date control over inconsistent reporter/isolated wording. Do not generalise this into automatic clubbing of every minor's income. Comprehensive later treatment, current law and 2025 mapping remain not_verified.

01 FACTS OF THE CASE

Yudhisthir Lal Agarwalla represented the assessee HUF as karta in Grand Smithy Works, with a 36% profit share. He died on 18 December 1967. The judicial narrative records his widow, six daughters (four majors and two minors), and three minor sons. Under the existing deed the surviving partners and the deceased partner's heirs could continue the business. By letters of 11 January 1968 the widow, for herself and the HUF, and the four major daughters declined to become partners. The surviving partners nevertheless admitted each minor son to the benefits of the partnership with a 14% profit share, under a new deed effective from 19 December 1967 (physical pages 3–4/SCR 1061 E–1062 C).

The new deed's clause 6 included the capital standing to the deceased's credit in the firm's capital, and made no provision for interest. The HUF's Rs.10,00,000 remained with the firm, interest-free, throughout the disputed period. None of the heirs demanded its return or relinquished the deceased's interest in the firm and its assets (physical pages 7–8/SCR 1065 E–1066 B).

For the expressly stated AY 1969-70, the widow's HUF return included partnership income only up to the death, claiming that the minors' subsequent Rs.3,08,187 for 19 December 1967–31 August 1968 belonged to them individually. The ITO included it in the HUF's income; the AAC, by order of 24 March 1971, and the Tribunal upheld that treatment. The Calcutta High Court also answered the reference against the assessee. The Supreme Court appeal challenged that result (physical pages 4–5/SCR 1062 D–1063 A; appellate metadata at physical page 3/SCR 1061 C).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The assessee argued that the minors' shares were individual unless the Revenue proved that they were HUF nominees or benamidars, which they could not legally be; their admission was genuine, the widow and daughters had declined to join, and no formal agreement continuing HUF ownership had been found. The Revenue answered that the relevant test was the real connection with family funds and detriment to the family, rather than the minors' formal representative capacity. These are the rival submissions, not interchangeable statements of the Court's ratio (physical pages 5–6/SCR 1063 B–1064 H).

The Court examined what the letters actually disclaimed. They declined partnership, but did not surrender the heirs' rights in the deceased's share or assets. Clause 6 and the actual interest-free retention of HUF capital led the Court to infer tacit assent by the widow on behalf of the HUF. The Court expressly accepted that she had not signed the new deed and that the minors could not legally be regarded as HUF nominees or benamidars. Nevertheless, their admission and the continued free use of the family capital were quid pro quo; the resulting share income had a direct and substantial nexus with family funds (physical pages 7–8/SCR 1065 B–1066 E).

For the legal test, the Court adopted the general principles stated in *Raj Kumar Singh Hukumchandji*. That earlier case concerned a karta's managing-director remuneration, but its tests were not confined to that form of receipt. The Court distinguished a return earned from family investment from compensation essentially earned by an individual's services. The subsidiary tests included connection with family investment, use of family assets, detriment to the family, and aid or assistance of family funds. The extended passage on remuneration is an attributed quotation from *Raj Kumar*; the present Court then expressly applies its principles to the minors' partnership income (physical pages 8–9/SCR 1066 E–1067 E).

Here the minors rendered no services. Their profit shares were earned with the aid of the HUF funds; the firm's interest-free use caused detriment to the HUF and supplied the requisite nexus. In substance, the income was a return to the family on its investment. The lower authorities and High Court were therefore correct to assess it as HUF income. The reasoning does not depend on fictitious admission, legal nominee status, or a signature by the widow (physical page 9/SCR 1067 E–G).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Court dismissed the assessee's appeal with costs, upholding assessment of the disputed Rs.3,08,187 in the HUF's hands. It made no remand or further inquiry direction (physical page 9/SCR 1067 G–H).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee appeal dismissed with costs

Final reasoned attribution of the minors' partnership income to the HUF on the proved family-capital nexus

The judgment does not decide a statutory clubbing provision, minor-income exemption, later partnership-tax regime or current Hindu succession rule. No express reserved merits issue, refund or quantified costs award is stated.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Trace the consideration and use of capital before treating the name on a partnership profit allocation as decisive. The Court acknowledged the minors' inability to be HUF nominees yet found the income belonged to the family because their admission was linked to the continuing interest-free use of family capital. The result is an independently reasoned application of the family-funds attribution principle to minors; it is not a general rule that every minor family member's income belongs to the HUF.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, date, bench and single appeal

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: SCR 1059 heading; 1061 C–E

Source role: reported metadata and judicial text

2.

Topic: Actual AY, accounting period, HUF interest, death, family and new profit shares

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: SCR 1061 E–1062 G

Source role: judicial text

3.

Topic: Appellate history and parties' separate submissions

Source url: [Open cited source](#)

Pdf pages: 4; 5; 6

Paragraphs: SCR 1062 H–1064 H

Source role: judicial text

4.

Topic: Letters declined partnership; no relinquishment or capital demand; Rs.10,00,000 and clause 6

Source url: [Open cited source](#)

Pdf pages: 7; 8

Paragraphs: SCR 1065 B–1066 E

Source role: judicial text

5.

Topic: Court applies general family-funds tests to minors and rejects need to treat them as nominees

Source url: [Open cited source](#)

Pdf pages: 8; 9

Paragraphs: SCR 1066 B–1067 G

Source role: judicial text

6.

Topic: Dismissal with costs

Source url: [Open cited source](#)

Pdf pages: 9

Paragraphs: SCR 1067 G–H

Source role: judicial text

7.

Topic: Supplemental statutory scope only: commencement, repeal and savings

Source url: [Open cited source](#)

Pdf pages: 42; 1004; 1005; 1006

Paragraphs: Section 1(3); section 297(1)–(2); 2011 compilation

Source role: supplemental editorial scope analysis not judgment

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

V.D. Tulzapurkar, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961: historical AY 1969-70 assessment; Act connection supported by the judicial assessment history and the separately identified commencement/savings check

SUPPLEMENTARY HISTORICAL ACT IDENTIFICATION; NOT A HOLDING BY THE COURT

Status: supplemental primary supported historical scope

Analysis: The report itself does not name the Act or a tax section. Its own income-tax assessment history places both the income period (1967–68) and the express assessment year (1969-70) after commencement, followed by the AAC's 1971 order. Section 1(3) of the official 2011 compilation gives commencement as 1 April 1962; section 297 repeals the 1922 Act while saving specified earlier returns, assessments and pending proceedings. Nothing in the narrated wholly later assessment concerns such a pre-commencement proceeding. Read together, these sources support the historical 1961 Act connection. This is the reviewer's supplemental scope analysis, not a transition ruling by the Court or an invented section attribution.

Source

Kind: supplemental statutory scope check

Title: Income-tax Act, 1961, as amended by Finance Act, 2011; Department of Revenue-hosted compilation

Url: [Open cited source](#)

Filename: DOR_IT_Act_English_2011_compilation.pdf

Sha256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

File bytes: 8394755

Pdf pages: 1251

Physical text pages read: 42; 1004; 1005; 1006

Physical image pages read: 42; 1004; 1005; 1006

Reviewed provisions: Section 1(1)–(3), physical page 42/printed 1.1; section 297(1)–(2)(m), physical pages 1004–1006/printed 1.963–1.965

Version label: 2011 compilation, bounded commencement/repeal/savings check only

Limits: Only these provisions were reviewed for the historical Act-identification issue. Not a full statute review, complete historical amendment chain, current-law certificate or 2025 mapping. Not provisions construed by the Court in Agarwalla.

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 9 PDF pages; SHA-256

c6cb71afca82da731d40024ae86ccc42a6e854a6d375d38ea76b38beb52cf84c. Original bytes preserved.

Judicial body begins physical page 3/SCR 1061 E (Tulzapurkar, J.) and ends physical page 9/SCR 1067 G–H with dismissal and costs. Pages 1–2 and upper page 3 contain reporter headnote, appellate metadata and appearances. No neighbouring judgment.

[Open cited source rendition](#)

The judicial body says four major daughters and two minor daughters; the headnote instead says three major daughters. The judicial narrative controls.; The death is repeatedly stated as 18 December 1967 in the facts; the single 19 December reference at SCR 1065 C conflicts with that narrative and with the commencement of the new arrangement. The note preserves 18 December and discloses the inconsistency.; The report's SCR 1063 A sentence summarising the High Court is textually incomplete; the actual conclusion is unambiguous in the Court's own reasons and disposition.; No tax section is actually identified. The Act connection uses the expressly dated assessment history plus separately labelled government-hosted commencement and savings text.; AY 1969-70 and the stated 1967–68 accounting period are both retained exactly; neither is recalculated.; No comprehensive later-treatment verification or complete statutory amendment reconstruction was undertaken.

The judicial body expressly identifies AY 1969-70 and the accounting period 1 September 1967–31 August 1968. The disputed post-death share income covers 19 December 1967–31 August 1968. Do not substitute a different AY by recalculating from the accounting dates.

No section of the Income-tax Act is named or construed in the judgment. The 2011 compilation's sections 1 and 297 are supplementary editorial scope evidence, not adjudicated provisions and therefore not placed in this list.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025; no present-law certification. Verify applicable statutory text, amendments and later judicial treatment separately.

LATER TREATMENT

Source checked 2026-10-05. not_verified. Bounded exact-name and factual-identifier searches of the frozen corpus did not produce a later primary candidate for independent review. That limited result is not evidence that no later treatment exists. Raj Kumar Singh Hukumchandji and Dhanwatey are reported only as discussed in this judgment; their original judgments were not independently reviewed here. No comprehensive citator, current-law or 2025 mapping check.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 9](#)

SHA-256: c6cb71afca82da731d40024ae86ccc42a6e854a6d375d38ea76b38beb52cf84c

[supplemental statutory scope check - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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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