

Commissioner of Income-tax, Andhra Pradesh v. Trustees of H.E.H. the Nizam's Family Trust

Civil Appeal Nos. 1856–1861 of 1974 / Consequent appeals arising from Special Leave Petition Nos. 4171–4174 of 1978 (leave granted in this judgment; final appeal numbers not stated)

[1986] 3 SCR 973 | 1986-09-30

Whether the Reserve Fund and Family Trust Expenses Account created by one trust deed were distinct trusts whose incomes required separate assessments, and whether a conditional reopening-validity question needed decision.

147(a) (actual historical reassessment route for AYs 1960-61 and 1961-62; validity question not decided) | 148 (wording of the second referred question; no independent holding on notice validity)

Two-judge bench | R.S. Pathak, J. | Sabyasachi Mukharji, J.

Assessment years: 1960-61, 1961-62, 1962-63, 1963-64, 1964-65, 1965-66, 1967-68, 1968-69, 1969-70, 1970-71

Distinct trust capacities; reopening question not decided

The judicial body concerns separate trust incomes, including post-1961 years, and expressly identifies section 147(a) of the 1961 Act despite the headnote's erroneous 1922 Act label. The same trustees and one deed did not merge these distinct trusts, but the conditional reopening-validity issue was not decided. Do not convert the result into a beneficiary-tax, exemption or universal separate-account rule. Comprehensive later treatment, current-law status and 2025 mapping are not verified.

01 FACTS OF THE CASE

The Nizam of Hyderabad executed a family trust deed on 10 May 1950 and transferred Government securities of Rs.9 crore to the trustees. The corpus was notionally divided into 175 units: five for the Reserve Fund, three-and-a-half for the Family Trust Expenses Account, and 166-and-a-half allocated to specified relatives. The same persons held the corpus as trustees, but the dispute concerned their different trust capacities, not their personal income or the individual tax liabilities of beneficiaries (physical pages 3–4).

Clause 6 permitted the Reserve Fund's income or corpus to meet special or emergency expenses for specified family members and to cover a deficit in the Expenses Account. On a relative's death, a proportionate reserve portion was to be added to the units allocated to that relative and held on the corresponding trusts. Clause 7 applied the Expenses Account's net income to trust collection, management, remuneration and other trust expenses. After administration of the other trusts, its corpus was to pass to the settlor's successor as Nizam, or failing him the specified eldest male descendant (physical page 4).

For AYs 1960-61 and 1961-62, the two funds initially received separate assessments following the earlier appellate history. The Income-tax Officer then invoked section 147(a) of the 1961 Act to combine the incomes, considering the deed one settlement. He followed the same aggregation approach in original assessments for AYs 1962-63 to 1965-66. The appellate authorities and High Court rejected aggregation. The Court also granted leave in SLPs concerning AYs 1967-68 to 1970-71, where only the aggregation issue arose (physical page 5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court construed the deed as creating several distinct trusts for specific purposes. Common trusteeship and a notional rather than physical division of the original corpus did not erase those trusts. Clause 3(4), concerning division or notional division upon the settlor's death, supported the separate allocations. A settlor could constitute more than one trust through one instrument; clause 10's authority to execute separate deeds for the carved-out funds reinforced that construction (physical pages 5–6).

The Reserve Fund and Expenses Account served clearly demarcated objects, with no overlapping, duplication or intermingling. The specific obligation to transfer enough of the Reserve Fund to make good an Expenses Account deficit did not confuse or merge their identities. Their different ultimate destinations supplied further evidence: reserve portions followed the respective relatives' allocated units, whereas the Expenses Account corpus ultimately went to the designated successor or descendant (physical page 6).

This was a conclusion about the identified trusts, their corpus and the trustees' representative capacities under the deed. The Court did not decide that any two bank accounts or internal ledger labels create separate taxable trusts; nor did it determine each beneficiary's share, status or tax rate. Having rejected aggregation, it expressly declined to decide the conditional second question about the legality of the reassessments for AYs 1960-61 and 1961-62 (physical page 7).

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

03 JUDICIAL DECISION

The incomes of the Reserve Fund and Family Trust Expenses Account could not be aggregated in one assessment and had to be assessed separately. The first question was answered in the negative, in favour of the assessee. The second question did not arise and was not considered. All appeals, including the consequent appeals after grant of leave, were dismissed with costs. No remand was ordered (physical pages 5 and 7; SCR 977 E–F and 979 A–C).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee trustees in the separate trust capacities

Revenue appeals dismissed with costs; separate assessment of the two trust incomes upheld; conditional reassessment-validity question left undecided

Final reasoned merits ruling on aggregation; no adjudication of the conditional second question

Deed-specific trust identity ruling across the stated historical years; no exemption, beneficiary-rate, discretionary-trust or general reopening-validity holding.

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

05 AKHB REVIEW POINT

Identify the capacity in which each trustee holds each fund before combining income merely because the trustees and founding document are common. Read the purpose, corpus allocation, permitted transfers, beneficiaries and ultimate destination together. A carefully limited transfer power can coexist with separate trust identities, but segregation must emerge from the legal arrangement rather than labels alone.

Keep the merits and jurisdiction questions separate. The Revenue lost because the two incomes could not be aggregated; the Court did not separately invalidate section 147/148 action. The headnote's reference to the 1922 Act with section 147 must not displace the express 1961 Act reference in the judicial body. The appeals cover both pre-1962 assessment years and later years under the 1961 Act; no present-law or 2025 crosswalk is certified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and first appeal group

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: SCR 973 A–B; 975 B–D

Source role: reported metadata and judicial text

2.

Topic: Deed allocations and separate destinations

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: SCR 975 F–H; 976 A–G

Source role: judicial text

3.

Topic: Actual 1961 reopening, post-1961 years and additional appeals

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 977 A–F

Source role: judicial text

4.

Topic: Distinct trusts and trustees' capacities

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 977 G–H; 978 A–H

Source role: judicial text

5.

Topic: Separate assessments, undecided second question and costs

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 979 A–C

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R.S. Pathak, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961; mixed historical assessment periods

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Indian Income-tax Act, 1922: pre-1962 assessment-period background; the source's opening headnote incorrectly pairs this Act with section 147; Trust Deed dated 10 May 1950: clauses 3(4), 6, 7 and 10

SOURCE & VERIFICATION

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

Identified source rendition: 7 PDF pages; SHA-256

b5d4a48aa60523a39ce127262cb833847246420652bcea492ec457c9acdb7176. Original bytes preserved.

Complete unnumbered judicial body begins physical page 3/SCR 975 D and ends physical page 7/SCR 979 C. Editorial headnotes on pages 1–3 distinguished; no neighbouring judgment.

Open cited source rendition

The opening editorial headnote prints “Indian Income Tax Act, 1922, s.147”. Judicial page 5 expressly identifies clause (a) of section 147 of the Income Tax Act, 1961. Preserve the source unchanged and use the judicial body for statutory attribution.; The High Court had answered both questions negatively; the Supreme Court independently held that the second question did not arise. Do not report a Supreme Court finding that the reopening was invalid.; The formal jurisdiction line lists Civil Appeals 1856–61 of 1974 “etc.” The judicial body also grants leave in SLPs 4171–4174 of 1978 and disposes of the consequent appeals; no invented final appeal numbers.; The source does not identify a representative-assessment charging section or decide beneficiary-specific liability. No section 160/161/164 holding is inferred.; The wealth-tax appellate order appears only in the procedural history. This judgment disposes of income-tax appeals and is not a substantive wealth-tax ruling.

The first six years are the original reference group. AYs 1967-68 to 1970-71 are the later SLP group, also disposed of. AY 1966-67 is not stated. AYs 1955-56 to 1959-60 appear only as prior assessment history.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. Any bounded later primary-source comparison actually checked is expressly identified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 7](#)

SHA-256: b5d4a48aa60523a39ce127262cb833847246420652bcea492ec457c9acdb7176

AI DISCLOSURE

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