

Mrs. Arundhati Balkrishna v. Commissioner of Income Tax

Civil Appeal No. 80 of 1975 / Civil Appeal No. 81 of 1975

[1989] 1 SCR 865 | 1989-03-01

Whether the beneficiary's taxable trust income is the amount actually paid or receivable after the trust's book outgoings, or the trust income computed with only deductions permitted by the Income-tax Act; and whether proportionate interest attributable to personal/non-investment withdrawals was deductible in the two assessment years.

161(1) | 166

Two-judge bench | R.S. Pathak, C.J. | Ranganath Misra, J.

Assessment years: 1964-65, 1966-67

Historical trust-income ruling: taxable income is not simply the distribution

This judgment concerns AYs 1964-65 and 1966-67; the additional sections 161(1)/166 computation question arose only for AY 1964-65. The same income figure governs the trustee or beneficiary assessment, after deductions permitted by the Act. A trust's book outgoings or reduced cash distribution do not themselves establish deductible expenditure. Interest disallowances were sustained by adopting Padmavati Jaikrishna, whose full reasons are not reproduced here. Both appeals were dismissed with costs. Later treatment and any current-law or Income-tax Act, 2025 mapping remain not_verified.

01 FACTS OF THE CASE

The assessee derived income from several sources, including the Shrimati Arundhati Balkrishna Trust, Ahmedabad. For AY 1964-65, the trust's books recorded Rs 10,880 as interest paid to the Harivallabhadas Kalidas Estate Account. After examining withdrawals, deposits and amounts used for the assessee's personal expenditure, the Income Tax Officer disallowed Rs 6,199 as the proportionate interest referable to personal withdrawals. For AY 1966-67, he disallowed Rs 12,833 out of interest of Rs 25,496 because the relevant withdrawals were for purposes other than investment (physical page 3/SCR 867 A-D).

The Appellate Assistant Commissioner and Tribunal rejected the assessee's claim to deduct the whole interest in each year. For AY 1964-65 she also contended that only the net amount received from the trust should be taxed in her hands, rather than the trust income determined under the Act. The Tribunal rejected that contention too. At her instance it referred the interest questions for both years and the additional computation question for AY 1964-65 to the Gujarat High Court (physical pages 3-4/SCR 867 E-H, 868 A-C).

The High Court answered the interest questions against the assessee. On the additional question it held that the includible amount was the trust's income determined under the Act, rather than actual or receivable distributions or the figure appearing in its books. Both appeals before the Supreme Court challenged these adverse answers (physical pages 2 and 4/SCR 866 F, 868 C-E).

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

02 DISCUSSION BY THE HON'BLE COURT

Interest disallowance. The Court dealt with this issue by adopting an existing Supreme Court determination, rather than conducting a fresh tracing or computation exercise. The High Court had relied on its judgment in *Shrimati Padmavati Jaykrishna*, [1975] 101 ITR 153. That judgment had been affirmed by the Supreme Court in *Padmavati Jaikrishna v. Addl. CIT, Gujarat*, [1987] 166 ITR 176. For the reasons accepted in that appeal, the Court answered the interest questions for both years against the assessee. The present source does not reproduce those earlier reasons in detail (physical page 4/SCR 868 E-G).

Representative and direct assessment. Addressing the distinct AY 1964-65 question, the Court began with the trust income received on behalf of the beneficiary. Section 161(1) subjected a representative assessee to the relevant duties, responsibilities and liabilities as if the income were beneficially his, but an assessment on the trustee remained in the representative capacity. Tax was levied and recovered in the like manner and to the same extent as from the represented person. Section 166 preserved direct assessment of that person, or recovery of the tax from that person. The Income Tax Officer could proceed against the trustee or the beneficiary, but the income to be assessed had to be the same figure (physical pages 4-5/SCR 868 H-869 C).

Taxable income is not merely the cash distribution. A trustee receives the beneficiary's income under an obligation to pass it on, but administration charges and other expenses commonly intervene before payment. If the beneficiary received the income directly, she too would incur outgoings. In either route, the Act's computation requires gross income to be reduced by admissible deductions. The trust's accounting subtraction of an outgoing therefore does not, merely by reducing the payment, settle its tax deductibility (physical page 5/SCR 869 C-E).

The Court accordingly distinguished the book income actually paid after outgoings from the real trust income computed after the different permissible deductions. It was that latter income which had to be included in the beneficiary's total income. Its use of real income was tied to the statutory deduction exercise, not to a rule that every expense or difference between receipts and cash distribution must be allowed (physical page 5/SCR 869 E-F).

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

03 JUDICIAL DECISION

The Court upheld the proportionate interest disallowance for AYs 1964-65 and 1966-67 by adopting its reasons in *Padmavati Jaikrishna*. On the additional AY 1964-65 issue, it upheld inclusion of the trust's income as computed under the Act with permissible deductions, rather than only the amount actually received/receivable after book outgoings. Both Civil Appeal Nos. 80 and 81 of 1975 were dismissed with costs (physical pages 4-5/SCR 868 E-G, 869 E-G).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on both interest questions and on the additional AY 1964-65 trust-income computation question

Both appeals dismissed with costs; High Court answers sustained

Final determination of the appealed questions, with no remand or further computation direction reported

The same-income principle concerns the trustee/beneficiary alternatives in this case. The judgment does not decide discretionary-trust rates, simultaneous double recovery, every kind of trust expense, or the amount of any future-year assessment.

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

05 AKHB REVIEW POINT

Keep the identity of the taxable person separate from the measurement of the taxable income. Sections 161(1) and 166 permit the representative or direct route, but changing the route does not change the income figure. When reconciling a beneficiary's receipts with a trust computation, identify each outgoing and test whether the applicable statutory version permits its deduction; a trust ledger debit or a smaller cash distribution is not enough.

For interest claims, distinguish this judgment's incorporation of Padmavati Jaikrishna from a fully reproduced statement of that case's facts and deduction test. Consult that original judgment before extending the adopted reasoning to a materially different borrowing or use of funds. Do not turn the present reference to real income into an independent exception overriding statutory disallowances. The additional computation ruling is confined to the issue for AY 1964-65, while the interest ruling covers both identified years.

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

DETAILED DISPOSITION AND CONNECTED GROUPS**Operative groups**

1.

Group: AYs 1964-65 and 1966-67: interest

Result: Rs 6,199 and Rs 12,833 disallowances respectively sustained

2.

Group: AY 1964-65: beneficiary's trust-income computation

Result: Statutory trust income after permissible deductions includible; cash/book distribution alone does not govern

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Title, date and bench

Source url: [Open cited source](#)

Pdf pages: 1

Paragraphs: SCR 865 A-B; report title

Source role: reported metadata

2.

Topic: Both appeal numbers, High Court origin and judgment author

Source url: [Open cited source](#)

Pdf pages: 2

Paragraphs: SCR 866 F-H; metadata and judicial opening

Source role: reported metadata and judicial text

3.

Topic: Interest figures and proceedings for the two years

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: SCR 867 A-H

Source role: judicial text

4.

Topic: Referred questions, High Court answers and adopted interest reasoning

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: SCR 868 A-G

Source role: judicial text

5.

Topic: Sections 161(1)/166 and identical income figure in either assessment route

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 868 H-869 C

Source role: judicial text

6.

Topic: Permissible deductions, statutory computation and distinction from cash/book distribution

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 869 C-F

Source role: judicial text

7.

Topic: Dismissal of both appeals with costs

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 869 F–G

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R.S. Pathak, C.J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

APPEAL GROUPING AND SOURCE LIMITS

Single judgment: True

Appeals disposed of: Civil Appeal No. 80 of 1975; Civil Appeal No. 81 of 1975

Origin: Gujarat High Court judgment and order dated 26/27 August 1974 in I.T. Reference Nos. 7 and 29 of 1973

Scope pin: Physical page 2/SCR 866 F; interest issue for both years and additional trust-computation issue only for AY 1964-65 at physical pages 3–4/SCR 867–868

ROLE AND SCOPE OF EACH IDENTIFIED PROVISION

1.

Section: 161(1)

Role: Trustee assessed only in representative capacity, with tax leviable/recoverable in the like manner and to the same extent as from the person represented; foundation for the same income figure in trustee or beneficiary assessment.

2.

Section: 166

Role: Preserves direct assessment of the person for whose benefit the income is receivable or recovery of the tax from that person; read with section 161(1) for the computation holding.

3.

Section: Interest deduction provision not numbered in this source

Role: Proportionate interest attributable to personal/non-investment withdrawals was disallowed. The Court adopts the reasons in Padmavati Jaikrishna, [1987] 166 ITR 176. No additional section number is inferred or tagged as expressly decided.

OPERATIVE 1961 ACT PROVISIONS

161(1); 166

SOURCE & VERIFICATION

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

Identified source rendition: 5 PDF pages; SHA-256

2a67fc204e7aaef4154400e6765f8ca15d7d86e4b02cf22f2202cc4a05a022b. Original bytes preserved.

Complete unnumbered judicial text from physical page 2/SCR 866 H (Pathak CJ opening) through dismissal with costs at physical page 5/SCR 869 F–G. Editorial headnote and report metadata on physical pages 1–2 separately read. No adjacent judgment.

[Open cited source rendition](#)

SCR report title, date, bench, author and opening page checked in original images. The catalogue neutral citation is not promoted to a PDF-verified citation.

Interest disallowance arose in both years. The additional question whether the beneficiary is assessed on statutory trust income or the amount received/receivable from the trust arose only for AY 1964-65 (physical pages 3-4/SCR 867 E-H, 868 A-B).

The judicial text is unnumbered; pins use physical PDF pages and printed SCR pages/letter bands, not editorial headnote numbering.; The source catalogue lists only Civil Appeal No. 80/1975; the original report records Civil Appeal Nos. 80 and 81 of 1975. Both are preserved here.; The AY 1964-65 interest question has awkward negative phrasing in the original reference; the factual disallowance and operative answer are clear, and the question is not silently rewritten as a quotation.; The interest issue is resolved by expressly adopting a prior Supreme Court judgment. No independent reading or later-treatment certification of that prior case is claimed.; No numbered interest-deduction provision is supplied by this judicial text; none is invented.

STATUTORY SCOPE

Historical assessment years 1964-65 and 1966-67. No automatic carryover to current law or mapping to the Income-tax Act, 2025 is certified.

LATER TREATMENT

Source checked 2026-10-04. No independent later-treatment review is certified in this note.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 5](#)

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