

R.M. Arunachalam Etc. v. Commissioner of Income Tax, Madras

Civil Appeal Nos. 6098–6101 of 1983 / Civil Appeal No. 860 of 1988 / Civil appeal arising from SLP (C) No. 10737 of 1981 (counsel line identifies CA 4386/1997)

[1997] Supp 2 SCR 64 | 1997-07-09

Whether estate duty attributable to inherited property formed part of its acquisition or improvement cost for capital-gains computation.

45(1) | 48 | 49(1) | 55(1)(b) | 55(2)

Two-judge bench | S.C. Agrawal, J. | D.P. Wadhwa, J.

Assessment years: 1966-67, 1967-68, 1969-70, 1970-71, 1971-72, 1972-73

Estate-duty claim failed; inherited mortgages are a distinct category

The assessee acquired no new interest by paying the estate-duty charge, so no acquisition/improvement deduction followed. The Court separately recognised cost treatment for clearing a predecessor's subsisting mortgage, while distinguishing an owner's own later mortgage. The new diversion argument was not decided. The source's appellate-history and year-range shorthand are corrected by its judicial particulars; historical valuation dates and comprehensive later treatment remain qualified.

01 FACTS OF THE CASE

Ramanathan Chettiar died in 1958, leaving property to his widow and daughter. After partition, his widow adopted the assessee and later bequeathed her property to him on her death in August 1964. The assessee sold inherited properties in the relevant later years and sought to deduct proportionate estate duty paid on the two estates as acquisition or improvement cost. The ITO rejected that claim, and the appellate authorities and High Court maintained the rejection (physical pages 5–7).

The four principal appeals concerned AYs 1966-67, 1967-68, 1969-70 and 1970-71; separate appeals concerned AYs 1971-72 and 1972-73. The detailed reference excludes AY 1968-69 despite the opening's abbreviated 1966-67 to 1970-71 range. The claim turned on the effect of the estate-duty charge and inherited title, not on a fresh determination of estate-duty liability or any general present-day inheritance tax (physical pages 5–7).

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

02 DISCUSSION BY THE HON'BLE COURT

For inherited assets, the relevant provisions carried forward the qualifying previous owner's cost, with permitted improvements. Estate duty created a statutory charge securing payment; it did not transfer a proprietary interest to the State in the manner of a mortgage. On these facts the assessee had full title before payment and acquired no new asset interest or improved title by discharging the duty. The proportionate payment therefore was neither acquisition cost nor improvement cost under sections 48, 49 and 55 (physical pages 7–16).

The Court nevertheless rejected Ambat Echukutty Menon's treatment of an inherited mortgage. If a previous owner had mortgaged property and the mortgage subsisted at death, the heir inherited only the mortgagor's interest; clearing that mortgage acquired the mortgagee's interest, with the payment treated as acquisition cost. That differs from an owner clearing a mortgage created after acquiring the property, which buys no additional interest. This express distinction did not give the estate-duty appellant a deduction (physical pages 17–19).

A separate diversion-of-income theory was advanced for the first time in the Supreme Court. It was independent of the acquisition/improvement questions considered below, so the Court declined to decide it. Its merits were not rejected as a universal proposition (physical page 17).

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

03 JUDICIAL DECISION

All the connected appeals were dismissed without costs. The High Court's rejection of the estate-duty deduction stood, while the contrary inherited-mortgage reasoning in Ambat Echukutty Menon was disapproved. The Court gave no new capital-gain calculation or estate-duty refund and did not adjudicate the late diversion theory (physical pages 17–19).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the estate-duty deduction claims

All connected assessee appeals dismissed; no costs

Final rejection of estate duty as acquisition/improvement cost, with an express distinction for inherited mortgages

No finding that every encumbrance payment is deductible or that every estate-related payment is barred; the new diversion issue was not entertained.

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

05 AKHB REVIEW POINT

Identify the legal interest actually acquired and who created the encumbrance. A charge securing a tax does not automatically mean part of ownership belongs to the State and is later purchased back. A subsisting mortgage created by the predecessor raises a different acquisition question from an owner's own later borrowing. Preserve the title chain, mortgage creation, payment and transfer dates rather than treating all amounts required to clear a sale as equivalent costs.

Read the favourable inherited-mortgage discussion alongside the adverse result for this appellant. It is not an allowance of the estate-duty claim. The same-day Jagdishchandran decision applies that distinction to a case outside the inherited-mortgage category. The historic 1 January 1954 valuation references, estate-duty machinery and quoted section versions are not current computation or inheritance-tax instructions. Comprehensive later treatment and 2025 Act mapping remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, six appeals, actual years and estate-duty claim

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Historical computation provisions and lower-court reasoning

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 10; 11; 12; 13

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Charge versus mortgage and estate-duty application

Source url: [Open cited source](#)

Pdf pages: 14; 15; 16

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Diversion theory left unexamined

Source url: [Open cited source](#)

Pdf pages: 17

Paragraphs: Unnumbered judicial text

Source role: judicial text

5.

Topic: Inherited-mortgage distinction and final dismissal

Source url: [Open cited source](#)

Pdf pages: 18; 19

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.C. Agrawal, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 19 PDF pages; SHA-256

4de0c115e81a1c8eb12d908fe4b788eaa14730cd7dc7eff62fef69005cfdcf09. Original bytes preserved.

Complete judicial text physical pages 5–19/SCR 68–82; six connected appeals, estate-duty claim distinguished from prior-owner mortgage analysis.

[Open cited source rendition](#)

The headnote on physical page 2 says the appellate authorities rejected the ITO assessment, while the actual judicial narrative on page 6 says they rejected the assessee's appeals. The latter controls.; The opening gives a broad AY 1966-67 to 1970-71 range, but the four amounts and exact reference question identify 1966-67, 1967-68, 1969-70 and 1970-71. No additional AY 1968-69 appeal is invented.; The body grants leave in SLP10737/1981 and identifies its year; the counsel line supplies CA4386/1997. That source role is disclosed rather than treated as a separate additional appeal.; The headnote describes the adopted son as inheriting, while the judicial body identifies acquisition under the widow's will. Both fall within the statutory succession discussion, but the actual mode here is retained.; The inherited-mortgage facts in Ambat Echukutty Menon and the approval of Daksha Ramanlal concern cited authorities, not a finding that this appellant paid such a mortgage.; No final estate-duty amount or aggregate Supreme Court capital-gain computation is supplied. Historical returned and assessed figures do not establish a modern valuation-date rule.; The late diversion-of-income argument was not entertained because of the reference scope; the Court expressly declined to go into it.

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. Comprehensive subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 19](#)

SHA-256: 4de0c115e81a1c8eb12d908fe4b788eaa14730cd7dc7eff62fef69005cfdcf09

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.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.