

Sri Jagatram Ahuja v. Commissioner of Gift Tax, Hyderabad

Civil Appeal No. 3137 of 1995

[2000] Supp. 4 SCR 1 | 2000-10-17

Gift tax: adjustment of partnership rights on dissolution did not constitute a transfer merely because the settlement was below proportionate market value.

Gift-tax Act, 1958: sections 2(xii), 2(xxiv), 16 and 26(1) | Indian Partnership Act, 1932: nature of partner rights on dissolution

3-judge bench | S. P. Bharucha, J. | S. N. Phukan, J. | Shivaraj V. Patil, J.

Assessment years: 1972-73

Dissolution adjustment distinguished from a separate gift

The Court treated these linked documents as distribution or adjustment of partnership rights on dissolution. It distinguished reconstitution involving gifts of profit shares to minors and an independent sale or transfer.

01 FACTS OF THE CASE

Two brothers were partners in the restaurant firm 3-Aces. An April 1971 agreement was followed by dissolution on 22 November 1971 and a release document in March 1972. One brother took the assets and liabilities; the appellant accepted Rs.3 lakh in full settlement of his partnership rights, including land, buildings, profits and goodwill. On reopening, the Gift Tax Officer valued his share at Rs.12,67,015 and treated the excess over consideration as a gift. The Tribunal rejected gift liability; the High Court held for Revenue. Valuation itself was not challenged before the Supreme Court.

Source: [SCR pp. 3-5](#) / [PDF pp. 3-5](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court applied Getti Chettiar and the nature of partnership rights: a partner has no exclusive title to a specific firm asset, and dissolution distribution or adjustment gives effect to pre-existing rights rather than transferring a particular asset from that partner. The linked settlement here was such an adjustment. The Court distinguished cases in which reconstitution reduced a partner's share and conferred benefits on minors without corresponding capital. It also rejected importing the wider Estate Duty Act definition into the Gift-tax Act; similarly worded expressions must be read in their own statutory context unless the enactments are in pari materia or incorporate the definition.

Source: [SCR pp. 6-14](#) / [PDF pp. 6-14](#)

03 JUDICIAL DECISION

The appeal was allowed. The Andhra Pradesh High Court judgment was set aside and the Tribunal's order upheld. The referred question was answered affirmatively, in favour of the assessee and against Revenue. No costs were awarded.

Source: [SCR p. 14 / PDF p. 14](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee succeeded on gift-tax liability because the transaction was an adjustment or distribution of firm assets upon dissolution, not a transfer of property within the relevant definition. The Court did not decide the disputed property valuation, which was not pressed.

Source: [SCR pp. 5 and 14 / PDF pp. 5 and 14](#)

05 AKHB REVIEW POINT

AKHB analysis: read retirement, dissolution and release instruments together and identify whether they settle existing partnership rights or effect a distinct transfer. Do not assume every unequal allocation is a gift, or that every reconstitution escapes tax. Separate valuation from the charging requirement and apply the statute and amendments governing the actual transaction year.

Source: [AKHB analysis based on SCR pp. 10-14 / PDF pp. 10-14](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 14-page SCR report read, separating editorial headnote from judicial text.

[Open cited source rendition](#)

Full source read; original bytes and PDF page count match the catalogue. Judicial text is unnumbered, so SCR/PDF page pinpoints are used.

The headnote lists section 2(xiv), but the judicial text quotes and applies the transfer definition in section 2(xxiv). This note follows the judicial text.

The source narrates an original assessment date of 12 February 1972 alongside AY 1972-73 and a March 1972 release. No finding on that chronology is necessary to the reported holding, and it is not used to infer a separate tax event.

STATUTORY SCOPE

The case applies the Gift-tax Act, 1958 to AY 1972-73. It does not decide present income-tax consequences of partnership reconstitution or dissolution, including later statutory charging or deeming provisions.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment has not been verified; no current citator clearance is represented.

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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