

M/s. Sree Narayana Chandrika Trust v. Commissioner of Gift Tax, Kerala

Civil Appeal No. 1427 of 2001

[2003] 3 SCR 958 | 2003-04-25

Partnership reconstitution and gift tax: capital contribution and enforceable business obligations supplied adequate consideration for the incoming partner's share.

Gift-tax Act, 1958: sections 4(1)(a), 16 and 26(1)

2-judge bench | Brijesh Kumar, J. | B. N. Srikrishna, J.

Adequate consideration on these facts

The Court assumed that a transfer might exist and rejected inadequate consideration on the evidence. It did not hold that every reallocation of partnership shares is outside gift tax.

Second question left unanswered

The Court expressly declined to decide the referred question about quantifying consideration during the subsistence of a partnership. The Tribunal's reasoning on that question is not the Supreme Court's holding.

Historical statutory scope

This is a Gift-tax Act decision for AY 1983-84; current income-tax consequences require independent review.

01 FACTS OF THE CASE

The assessee, a charitable public trust, held a 45% profit-and-loss share in Chandrika Enterprises. On reconstitution in October 1982, M. U. Indira joined with a Rs. 25,000 capital contribution and a 12% share. Several existing partners' shares changed, including the trust's reduction to 30%. The deed imposed business obligations on all partners, although designated managing and administrative partners performed particular functions. The Gift Tax Officer treated the trust's 15-percentage-point reduction as a taxable gift for AY 1983-84. The appellate Commissioner upheld the assessment, but the Tribunal held that no taxable gift arose. On Revenue's reference, the Kerala High Court answered both referred questions against the trust.

Source: [SCR pp. 960-963](#) / [PDF pp. 3-6](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court examined the distinctions between contributing an asset to a partnership, admitting minors to partnership benefits without consideration, and transferring a firm asset to a partner for less than its value. It did not treat those situations as interchangeable with a reconstitution supported by capital and business obligations. Applying *D. C. Shah*, it held that a decrease in one partner's share and increase in another's share did not itself establish a gift; Revenue had to establish the alleged gift with evidence. Here the incoming partner contributed capital, her usefulness and services were not disputed, and she undertook to carry on the firm's business sincerely and faithfully for its common advantage. Appointment of managing and administrative partners did not extinguish the obligations of the others. Revenue produced no material establishing inadequate consideration in that setting.

Source: [SCR pp. 963-966 / PDF pp. 6-9](#)

03 JUDICIAL DECISION

Even assuming a transfer of the 12% share in favour of the incoming partner, the Court held that it was not for inadequate consideration and therefore did not constitute a taxable gift under section 4(1)(a). It answered the first referred question in the assessee's favour, held it unnecessary to answer the second question about evaluation of consideration during a subsisting partnership, allowed the appeal and set aside the High Court's judgment. There was no order as to costs.

Source: [SCR p. 966 / PDF p. 9](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee succeeded on the absence of inadequate consideration. The result does not establish that partnership interests can never be valued during the firm's subsistence, or that a reduction in profit share can never involve a gift. The second valuation question remained expressly unanswered.

Source: [SCR pp. 965-966 / PDF pp. 8-9](#)

05 AKHB REVIEW POINT

AKHB analysis: compare the before-and-after sharing ratios with the incoming partner's capital, contractual duties and actual contribution to the business. A numerical reduction alone does not prove inadequate consideration, and the incoming partner's allotted percentage should not be confused with a particular existing partner's reduction. Preserve the deed and evidence of services. Treat the Court's fact-specific adequacy finding separately from the valuation question it left open, and analyse any present-day tax consequences under the applicable provisions independently.

Source: [AKHB analysis based on SCR pp. 960-966 / PDF pp. 3-9](#)

SOURCE & VERIFICATION

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

Full 9-page SCR report read; editorial headnote on PDF pages 1-2 distinguished from the judicial text on PDF pages 3-9.

[Open cited source rendition](#)

All nine pages were read; exact PDF bytes, SHA-256 hash and page count match the source catalogue.

The printed report identifies the date, two judges and Civil Appeal No. 1427 of 2001; the judicial opinion is delivered by B. N. Srikrishna J.

The trust's share decreased by 15 percentage points, whereas the incoming partner received 12%; those figures are kept distinct.

The printed assessment computation at SCR p. 961 appears internally inconsistent; the note does not reproduce that computation.

The source contains no numbered judicial paragraphs; SCR and physical-PDF page pinpoints are used.

STATUTORY SCOPE

The decision applies the historical Gift-tax Act, 1958 to AY 1983-84. It does not determine the operation of current income-tax provisions concerning receipts, partner transactions or reconstitution; those require separate statutory and factual analysis.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment and present statutory equivalence have not been verified; no current citator clearance is represented.

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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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