

The Income Tax Officer v. Urban Improvement Trust

Civil Appeal No. 10577 of 2018 and connected proceedings (full list below)

[2018] 13 SCR 847 | 2018-10-12

Whether an Urban Improvement Trust constituted under the Rajasthan Urban Improvement Act, 1959 is a Municipal Committee within clause (iii) of the Explanation to section 10(20), as applicable after the Finance Act, 2002 amendment.

10(20) | 10(20) Explanation (iii) | 10(20A) (deleted by Finance Act, 2002)

Two-judge bench | A. K. Sikri, J. | Ashok Bhushan, J.

Assessment years: 2003-04, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10

Post-2002 entity definition; other issues remitted

The ruling concerns the exhaustive section 10(20) definition effective from 1 April 2003 and the deletion of section 10(20A). It rejects this Rajasthan Trust's clause (iii) claim and revives the ITAT remands; it does not certify liability under every exemption provision or current legislation. Subsequent treatment and any Income-tax Act, 2025 mapping are unverified.

01 FACTS OF THE CASE

Urban Improvement Trust, Kota was established by the State notification of 9 July 1970 to improve the urban area within Kota's municipal limits. Its constitution included municipal representatives, alongside a State-appointed chairman and other members. The existing municipal body continued to operate; the Trust's statute conferred improvement powers, permitted limited municipal functions, provided an improvement fund and betterment charges, and contemplated transfer of property, funds, dues and liabilities to the Municipal Board on dissolution (paras 20-27, physical pages 10-15).

For AY 2003-04, the Trust resisted a section 142(1) return notice on the ground of exemption. The Assessing Officer rejected the claim, the Commissioner (Appeals) accepted it, and the ITAT rejected section 10(20) eligibility while restoring the other undecided issues to the Commissioner (Appeals). The High Court's judgment of 25 July 2017 accepted local-authority status and treated the other questions as academic (paras 4-5, page 4).

A separate branch concerned AYs 2005-06 to 2009-10. The ITAT had directed the Assessing Officer to provide section 148 reasons, permit objections, decide them by a speaking order and make fresh orders. The High Court's judgment of 23 October 2017 instead accepted exemption by following its earlier decision. Revenue challenged both High Court judgments; before the Supreme Court the Trust confined its exemption claim to being a Municipal Committee under clause (iii), rather than a municipality under clause (ii) (paras 6-8, 13 and 28, pages 5, 7 and 15).

Source: [reported judgment / paragraphs 4-8 / PDF pages 4, 5 / judicial text](#); [reported judgment / paragraphs 20-27 / PDF pages 10, 11, 12, 13, 14, 15 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Finance Act, 2002 inserted an exhaustive definition of local authority into section 10(20), effective 1 April 2003. The four categories in the text considered were: (i) a Panchayat referred to in article 243(d); (ii) a Municipality referred to in article 243P(e); (iii) Municipal Committee and District Board, legally entitled to, or entrusted by the Government with, the control or management of a Municipal or local fund; and (iv) a Cantonment Board as defined in section 3 of the Cantonments Act, 1924. The income categories in the opening provision remained relevant: house-property income, capital gains, other-source income, and trade or business income accruing or arising from commodity or service supply other than water or electricity within the authority's own jurisdiction, and from water or electricity supply within or outside it. Being a statutory development body did not itself satisfy the defined entity requirement (paras 14 and 19, pages 7 and 10).

The same Finance Act deleted section 10(20A), which had exempted the income of statutory housing, planning, development and improvement authorities. The quoted explanatory notes make the restriction and withdrawal applicable from AY 2003-04. The Court held that the Trust had been within the earlier section 10(20A) and that its deletion must be given effect; the former exemption could not be preserved simply by invoking the public purpose of urban development (paras 15-18 and 33-34, pages 7-9 and 18-19).

Applying the explanation of Municipal Committee in Agricultural Produce Market Committee, Narela as reproduced in this judgment, the Court stressed that Parliament deliberately omitted the General Clauses Act definition's residual words 'other authority'. The functional or like-nature test from R.C. Jain therefore did not enlarge the exhaustive post-amendment tax definition. Municipal Committees and District Boards were retained to cover continuing municipal bodies not displaced by the newer municipal arrangements; clause (iii) was not a generic category for any body exercising some municipal powers (paras 29-33, pages 15-18).

Under the Rajasthan schemes, the Trust improved areas within a functioning municipality; it was not constituted in the municipality's place. Sections 47 and 48 permitted limited municipal powers for improvement, sections 61-64 concerned the fund and betterment charges, and section 105 addressed ultimate dissolution and succession of assets and liabilities. None transformed the Trust into a Municipal Committee. The High Court's emphasis on statutory functions for the State's benefit consequently could not sustain clause (iii) status (paras 27-28 and 35-39, pages 15 and 19-21).

Source: [reported judgment / paragraphs 13-20 / PDF pages 7, 8, 9, 10 / judicial text](#); [reported judgment / paragraphs 27-39 / PDF pages 15, 16, 17, 18, 19, 20, 21 / judicial text](#)

03 JUDICIAL DECISION

The Trust was not a Municipal Committee within section 10(20) Explanation (iii). All ten Revenue appeals were allowed; the High Court judgments dated 25 July and 23 October 2017 were set aside, and the ITAT orders revived. Parties were to bear their own costs (paras 37, 39-40, physical pages 20-21).

Source: [reported judgment / paragraphs 37, 39-40 / PDF pages 20, 21 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on section 10(20) eligibility

All ten Revenue appeals allowed; both High Court judgments set aside; ITAT orders revived; own costs

Final determination against the claimed section 10(20) Explanation (iii) exemption; other matters remain governed by the revived ITAT remands

The Court decided only the local-authority question argued. It did not adjudicate the remaining assessment issues, make a final tax computation, or independently resolve reopening objections. Clause (ii) municipality status was not the exemption claim pursued before it.

Source: [reported judgment / paragraphs 4-8: ITAT remand directions revived / PDF pages 4, 5 / judicial text](#); [reported judgment / paragraphs 40 / PDF pages 21 / judicial text](#)

05 AKHB REVIEW POINT

Test the legal identity of the body under the relevant year's exhaustive tax definition, separately from its useful public functions or control of funds. For clause (iii), identify an actual Municipal Committee or District Board and the required legal entitlement or Government entrustment of the municipal or local fund; delegated improvement powers do not dispense with the entity criterion. The Rajasthan Trust's coexistence with Kota's municipal body and its limited statutory remit were material.

Preserve the amendment and procedural boundaries. This is a post-1 April 2003 section 10(20) decision following the express withdrawal of section 10(20A), not a ruling that every receipt of every development authority is taxable under every possible provision. Revenue's success restored the ITAT's assessment and reopening remands; it did not itself settle all tax liabilities or objections. Check any different statutory exemption and the applicable year's legislation independently.

Source: [reported judgment / paragraphs 14-20: exhaustive criteria and amendment effect / PDF pages 7, 8, 9, 10 / judicial text](#); [reported judgment / paragraphs 27-40: body, functions and operative scope / PDF pages 15, 16, 17, 18, 19, 20, 21 / judicial text](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 10577 of 2018 / Civil Appeal No. 10578 of 2018 / Civil Appeal No. 10579 of 2018 / Civil Appeal No. 10580 of 2018 / Civil Appeal No. 10581 of 2018 / Civil Appeal No. 10582 of 2018 / Civil Appeal No. 10583 of 2018 / Civil Appeal No. 10584 of 2018 / Civil Appeal No. 10585 of 2018 / Civil Appeal No. 10586 of 2018

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Municipal Committee status under section 10(20) Explanation (iii)

Result: Rejected: the Urban Improvement Trust is not the municipal body merely because limited municipal powers and improvement funds are conferred on it

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 15

Paragraphs: 27-28

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 18; 19; 20; 21

Paragraphs: 33-40

Source role: judicial text

2.

Issue: Representative AY 2003-04 assessment branch

Result: ITAT order revives: exemption rejected and other issues restored to Commissioner (Appeals) for consideration

In whose favour: Revenue on exemption; remaining issues undecided

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: 4-5, including quoted ITAT paragraph 2.6

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 21

Paragraphs: 40

Source role: judicial text

3.

Issue: AYs 2005-06 to 2009-10 reopening branch

Result: ITAT directions revive for supply of section 148 reasons, opportunity to object, a speaking decision and fresh orders

In whose favour: Revenue on exemption; procedural directions and remaining merits preserved

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: 6-8, including quoted ITAT paragraph 7

Source role: judicial text

2.

Source url: [Open cited source](#)

Pdf pages: 21

Paragraphs: 40

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

142(1); 148; 260A; 80G

OTHER PROVISIONS CONSIDERED

Rajasthan Urban Improvement Act, 1959: sections 2, 8, 9, 47, 48, 61-64 and 105; Rajasthan Municipalities Act, 1959; General Clauses Act, 1897: section 3(31); Constitution of India: articles 243(d), 243P(e), 243Q and 243ZF

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ashok Bhushan, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 21 PDF pages; SHA-256

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Judgment paragraphs 1-40 on physical pages 3-21; preceding pages contain editorial headnote and report identity material. The start page also contains report preliminaries. No neighbouring judgment included.

[Open cited source rendition](#)

Paragraph 4 expressly identifies AY 2003-04 for the representative exemption assessment. Paragraph 6 identifies AYs 2005-06 to 2009-10 for the reopening/reasons branch. Other years for all companions are not supplied or inferred.

All ten appeals printed on physical page 3 are retained. Paragraph 3 selects the facts of the appeal arising from SLP (C) No. 18067 of 2018 concerning Urban Improvement Trust, Kota; the report does not map that SLP or each procedural branch to an individual civil-appeal number.

The issue decided is section 10(20) Explanation (iii), in the setting of the 2002 amendment and deletion of section 10(20A). Sections 142(1), 148 and 260A identify procedure; section 80G occurs in the quoted explanatory notes and no donor deduction is adjudicated.

The preserved SCR report is the reviewed primary judicial source. No separately obtained signed original or neutral-citation verification is claimed; the acquisition index supplies 2018INSC971, while the note cites the printed SCR report; The printed editorial headnote on page 1 repeatedly says section 10(2), an error contradicted by the judicial text, which consistently addresses section 10(20). The note follows the judicial reasons; Paragraph 37 calls the taxpayer the appellant assessee although these are Revenue appeals; paragraphs 2, 8 and 40 control party posture and disposition; The Cantonments Act, 1924 reference is preserved as the historical text reproduced in paragraph 14, not represented as a current statutory cross-reference; The quotation concerning article 243ZF in paragraph 32 is not used as a complete statement of constitutional transitional duration. The note records the tax reasoning without certifying the quoted constitutional text as exhaustive; Narela, R.C. Jain and NOIDA are described only as discussed or relied on in this judgment. Their separate original texts and subsequent treatment were not reviewed for this note; no independent cross-case treatment conclusion is added; The reported schedules do not identify each companion appeal's assessment year or map every appeal to the two remand branches. Those mappings are not invented; The indexed public source URL could not be opened by the web tool during this review. The preserved PDF bytes, hash and page count were verified; current URL liveness is not certified.

STATUTORY SCOPE

Historical provisions and amendment effects are reported from the judgment. The relevant assessment-year text and subsequent legislation require separate verification; no automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent-treatment audit. Earlier authorities are described only as discussed in this judgment; no separate treatment verification or present-law certification is claimed.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 21](#)

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