

M/s Bangalore Club v. The Commissioner of Wealth Tax & Anr.

Civil Appeal Nos. 3964-3971 of 2007

[2020] 13 SCR 488 | 2020-09-08

Whether Bangalore Club was liable to wealth tax under section 21AA for the specified historical years, and whether its income-tax AOP status or fluctuating membership required that result despite its social objects and equal liquidation-share rule.

2(31)

Three-judge bench | R. F. Nariman, J. | Navin Sinha, J. | Indira Banerjee, J.

Assessment years: 1981-82, 1984-85, 1985-86, 1986-87, 1987-88, 1988-89, 1989-90, 1990-91

Wealth-tax ruling with limited income-tax comparisons

Cross-law decision: the appeals concern the Wealth-tax Act, 1957, not an income-tax assessment. This note is retained for the Court's express section 2(31) comparison and its application of the distinction between income-tax status and wealth-tax liability. Section 52(2) appears only through K.P. Varghese as a purposive analogy. No income-tax demand, capital-gains computation or mutuality exemption was decided in these appeals.

01 FACTS OF THE CASE

Cross-law setting: these were wealth-tax appeals. Bangalore Club was an unregistered social members' club, with objects including social, cultural, sporting and recreational facilities, fellowship and running the club from members' subscriptions and contributions. For assessment years 1981-82 and 1984-85 to 1990-91, the assessing officer treated the assets as belonging to members whose shares were indeterminate because membership and the date of dissolution could vary (paragraphs 1-3).

The Tribunal reversed the assessment, relying on the club's social objects and Rule 35, which provided for equal division of surplus assets among the specified member categories after debts and liabilities were discharged on winding up. The Karnataka High Court ruled for Revenue by following Chikmagalur Club and dismissed review. Revenue also relied on the club's treatment as an AOP in Bangalore Club v. CIT (2013) and on section 21AA(2); the club challenged the wealth-tax charge and the alleged indeterminacy (paragraphs 3-8).

Source: [reported judgment / paragraphs 1-8 / PDF pages 6, 7, 8, 9, 10 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court began with the actual wealth-tax charging scheme. The historical section 3(1) named individuals, Hindu undivided families and companies; this club fell in none of those categories. Section 21AA was an anti-evasion provision directed to specified associations whose members' shares in income or assets were indeterminate or unknown, rather than a general addition of every association to the charging provision (paragraphs 9-13 and 25-28).

To construe the expression AOP in section 21AA, the Court traced the historical income-tax authorities beginning with Indira Balkrishna under the 1922 Act and the requirement of voluntary association for a common income-producing purpose. It then expressly noted, in passing, that the Explanation to section 2(31) of the 1961 Act, effective 1 April 2002, displaced that income/profit-purpose qualification for income-tax personhood. The historical meaning nevertheless informed the wealth-tax enactment under consideration. The business-or-profession language in section 21AA(2) supported that construction; the club's members had joined for social facilities rather than a common business or profit-making object (paragraphs 14-24).

The cross-law distinction was actually applied to Revenue's argument based on the 2013 income-tax case. Section 2(31) includes both an AOP and a body of individuals, and the Court tentatively observed that the latter might describe the club. More decisively, taxing an AOP as such under income tax differs from satisfying the special anti-evasion conditions of wealth-tax section 21AA. Income-tax assessment status therefore did not automatically establish the wealth-tax liability in issue. The Court did not set aside the 2013 income-tax decision or finally reclassify the club for income tax (paragraph 33).

The Court also used K.P. Varghese as a specific purposive analogy. It recalled that the historical section 52(2) capital-gains rule required understatement of consideration, not merely the stated market-value difference. This supported reading section 21AA in light of its anti-evasion object. The club was not one of multiple associations created by an otherwise taxable person with undefined member shares to escape tax. The analogy did not decide a capital-gains computation in this case or establish a universal intention requirement for all tax provisions (paragraphs 25-28).

There was an additional, independent answer on determinacy. Rule 35 gave members equal shares in surplus on liquidation. Cases in which members could never receive club assets were distinguishable, but the result here still favoured the club. Applying the wealth-tax reasoning in Trustees of H.E.H. Nizam's Family, the Court rejected future fluctuation of membership as enough to make the relevant list and equal shares indeterminate. It overruled Chikmagalur Club for failing to account for the statutory purpose and relevant AOP authorities (paragraphs 29-35).

02 DISCUSSION BY THE HON'BLE COURT

Source: [reported judgment / paragraphs 9-13 / PDF pages 10, 11, 12, 13 / judicial text; reported judgment / paragraphs 14-24 / PDF pages 13, 14, 15, 16, 17, 18, 19 / judicial text; reported judgment / paragraphs 25-28 / PDF pages 20, 21, 22 / judicial text; reported judgment / paragraphs 29-35 / PDF pages 23, 24, 25, 26, 27.](#)

02 DISCUSSION BY THE HON'BLE COURT

[28, 29 / judicial text; official signed judgment / paragraphs 17-19 / PDF pages 13, 14 / judicial text; official signed judgment / paragraphs 26-28 / PDF pages 21, 22 / judicial text; official signed judgment / paragraphs 33 / PDF pages 26, 27 / judicial text](#)

03 JUDICIAL DECISION

Section 21AA did not attract wealth-tax liability on these facts. The Court overruled CWT v. Chikmagalur Club, set aside the impugned High Court judgment and review judgment, and allowed the appeals with no order as to costs (paragraphs 28, 30 and 36). No income-tax demand or exemption was granted or removed.

Source: [reported judgment / paragraphs 28, 30, 36 / PDF pages 22, 24, 29 / judicial text; official signed judgment / paragraphs 36 / PDF pages 32 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Bangalore Club on the historical wealth-tax liability

Appeals allowed; impugned High Court judgment and review judgment set aside; no order as to costs

Final wealth-tax merits ruling with express but bounded income-tax statutory comparisons

No direct assessment determination under the Income-tax Act, 1961. The section 2(31) discussion does not preserve the pre-2002 income-purpose qualification for later income-tax personhood; the section 52(2) passage is an analogy; the tentative body-of-individuals observation is not a final classification. The 2013 mutuality/interest ruling was not overruled.

Source: [reported judgment / paragraphs 28, 30-33, 35-36 / PDF pages 22, 24, 25, 28, 29 / judicial text](#)

05 AKHB REVIEW POINT

Begin with the charging provision and statutory version before carrying an entity label from one tax enactment to another. This decision is useful for its express refusal to equate income-tax AOP status with automatic wealth-tax liability. When using its historical AOP discussion, separately account for the section 2(31) Explanation effective 1 April 2002 and the Court's tentative language about a body of individuals.

Use the K.P. Varghese passage as the stated historical purposive analogy, not as a present valuation safe harbour or an across-the-board exemption for bona fide conduct. For a comparable historical wealth-tax question, examine the club's actual objects, the statutory anti-evasion conditions and the member-share rules. Verify subsequent treatment and the applicable law independently; this note makes no current-law or 2025 Act carryover claim.

Source: [reported judgment / paragraphs 17-19, 27-28, 31-36; editorial implications distinguished from holding / PDF pages 15, 22, 24, 25, 28, 29 / judicial text](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

52(2); 167A

PROVISION-SPECIFIC SCOPE

1.

Act: Income-tax Act, 1961

Section: 2(31), clause (v) and Explanation

Role: Express judicial statutory comparison and applied cross-law distinction, not an income-tax assessment holding

Basis: Paragraphs 17-18 state that, from 1 April 2002, the Explanation removes the income/profit-purpose qualification addressed in the preceding authorities for income-tax personhood. Paragraph 33 uses the wider definition and different charging context to reject an automatic translation of income-tax AOP status into section 21AA wealth-tax liability. The possible body-of-individuals classification is tentative, not a final reclassification.

2.

Act: Income-tax Act, 1961

Section: 52(2)

Role: Historical provision explained through K.P. Varghese and borrowed as purposive analogy

Basis: Paragraph 27 explains that the historical 15% value difference was insufficient without understatement of consideration. Paragraphs 26-28 use the anti-evasion purpose analogy to construe wealth-tax section 21AA; there is no capital-gains dispute or fresh section 52(2) assessment here.

3.

Act: Income-tax Act, 1961

Section: 167A

Role: Lower-authority background only

Basis: Paragraphs 2 and 5 recount the assessing officer's reliance and the Tribunal's discussion of a CBDT circular; the Supreme Court gives no independent section 167A holding or rate determination.

4.

Act: Indian Income-tax Act, 1922

Section: 3

Role: Historical source of the AOP test

Basis: Paragraphs 14-16 quote Indira Balkrishna and the earlier line; those propositions must not be mislabelled as newly decided 1961 provisions.

5.

Act: Wealth-tax Act, 1957

Section: 3(1); 21AA(1)-(2)

Role: Principal provisions decided

Basis: The club is outside the relevant section 3(1) categories and does not satisfy section 21AA, construed in its historical anti-evasion and business-purpose context; determinate equal liquidation shares supply an additional ground.

6.

Act: Wealth-tax Act, 1957

Section: 21(1), 21(4)

Role: Quoted beneficiary-determinacy analogy

Basis: Paragraphs 33-35 apply Trustees of H.E.H. Nizam's Family to reject uncertainty based solely on fluctuating future membership; these are wealth-tax provisions.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R. F. Nariman, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Wealth-tax Act, 1957; 1961 Act statutory comparison

PRIMARY ACT DECIDED

Wealth-tax Act, 1957

SCOPE OF THE CROSS-LAW COMPARISON

Affirmative, narrowly bounded cross-law eligibility. Paragraphs 17-18 expressly identify and explain the section 2(31) Explanation; paragraph 33 applies section 2(31)'s AOP/body-of-individuals and income-tax charging context to reject Revenue's automatic carryover argument. Paragraph 27 additionally explains and uses the distinctive section 52(2) understatement requirement by analogy. This is more than a citation to a tax case for a generic legal maxim; no direct 1961 merits ruling is represented.

SOURCE & VERIFICATION

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

Identified source rendition: 32 PDF pages; SHA-256

f82384da2f627c2af7455128624e4c7ea0991c43e77fc5f27f1cc4278e57a116. Original bytes preserved.

One signed judgment on physical PDF pages 1-32.

Cover, author, signed date, signatures, material statutory analysis and disposition matched with the fully read reported judicial text; no complete independent rereading of this rendition claimed.

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These are wealth-tax assessment years stated in paragraph 2, not income-tax assessments adjudicated here.

Cross-law decision: the appeals concern the Wealth-tax Act, 1957, not an income-tax assessment. This note is retained for the Court's express section 2(31) comparison and its application of the distinction between income-tax status and wealth-tax liability. Section 52(2) appears only through K.P. Varghese as a purposive analogy. No income-tax demand, capital-gains computation or mutuality exemption was decided in these appeals.; The section 2(31) Explanation discussion is introduced as an observation in passing, while paragraph 33 applies the statutory comparison to Revenue's argument. Do not convert all observations into a direct income-tax ratio.; Paragraph 28 describes the club as an association of persons in a general sense; paragraphs 24, 30-33 distinguish the particular association targeted by section 21AA. Do not describe the holding as an absolute denial that the club can ever be an AOP.; Paragraphs 31-35 discuss equal liquidation shares and the fixed membership list at the relevant point. The decision does not find that the club had actually liquidated.; The paragraph number 23 first appearing on reported PDF page 18 belongs to the quotation from Diwan Bros.; the present Court's paragraph 23 begins later on the same page. The nested Fibre Boards citation is not a separate 1961 holding.; The reported cover and signed original agree on decision date, appeal numbers and bench. The original PDFs are retained without amendment.

STATUTORY SCOPE

Wealth-tax assessment years 1981-82 and 1984-85 to 1990-91; historical AOP authorities; judicial explanation of the Income-tax Act section 2(31) Explanation effective 1 April 2002; historical section 52(2) through K.P. Varghese.

No current-law certification or automatic Income-tax Act, 2025 mapping.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment, amendment or current-law review. Authorities discussed within this judgment are identified as internal treatment only.

IDENTIFIED SOURCE LINKS

[official signed judgment - PDF pages: 32](#)

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