
(2002) 07 GUJ CK 0018
In the Gujarat High Court
Case No : Gift-tax Reference No. 3 of 1994

Commissioner of Gift Tax

APPELLANT

Vs

Arvindkumar Chandulal

RESPONDENT

Date of Decision : 04-07-2002

Acts Referred:

Gift Tax Act, 1958 — Section 12(12)

Citation : (2002) 178 CTR 537 : (2003) 264 ITR 594 : (2002) 123 TAXMAN 1107

Hon'ble Judges : M.S. Shah, J;K.A. Puj, J

Bench : Division Bench

Advocate : Tanvish Bhatt, for the Appellant;

Judgement

M.S. Shah, J.—When this reference reached hearing today, Mr. Tanvish Bhatt, learned standing counsel for the Revenue, made a specific request that since this reference is covered by a reported decision of this court and the matter is pending since 1994, the reference may be taken up for hearing by this Bench notwithstanding the fact that one of us (Mr. Justice K.A. Puj) had appeared as counsel for the assessee at the hearing before the Tribunal.

2. In view of the above request, we have taken up the reference for hearing today since the reference is pending since 1994 and the controversy is concluded by a reported decision.

3. In this reference at the instance of the Revenue, the following question is referred for our opinion in respect of the assessment year 1980-81 :

"Whether, on the facts and in the circumstances of the case, the Tribunal was right in law in holding that there was no gift by the assessee in favour of the two partners of the firm whose shares had increased after the retirement of the assessee ?"

4. We have heard Mr. Tanvish Bhatt, learned standing counsel for the applicant-Revenue. Though served, none appears for the respondent-assessee.

5. The assessee retired from the partnership and the position regarding the shares of various partners before and after his retirement was as follows :

Sr. No.

Partners

Before retirement

After retirement

1,

Gulabben Dalichand

24 per cent.

30 per cent.

2,

Jayantilal Dalichand

14 per cent.

38 per cent.

3.

Chimanlal Dayabhai

16 percent.

16 per cent.

4.

Mahendrakumar Ramanlal

16 per cent.

16 per cent.

Arvindkumar Chandulal

30 per cent.

?

Total

100 per cent,

100 per cent.

6. In response to the notice issued by the Gift-tax Officer, the assessee filed a nil return stating that this was a case of only reconstitution of the firm and that since the retiring partner did not have right to share in the future profit, there

was no question of his giving up such a right. The Gift-tax Officer, however, computed the value of the taxable gift at Rs. 93,480 after granting the basic exemption of Rs. 5,000. The Deputy Commissioner of Income Tax (Appeals) rejected the appeal of the assessee relying on the decision of the Supreme Court in Commissioner of Gift Tax, Gujarat Vs. Chhotalal Mohanlal, and held that there was a relinquishment by the retiring partner in favour of two of the remaining partners.

7. In his appeal before the Tribunal, the assessee pointed out from the new partnership deed that the partners whose shares had increased had also agreed to increase their share in the losses and that the two partners whose shares had increased had also contributed fresh capital. The Tribunal, therefore, accepted the assessee's contention that there was consideration and, therefore, there was no gift. The Tribunal distinguished the decision of the Supreme Court in Commissioner of Gift Tax, Gujarat Vs. Chhotalal Mohanlal, , since that was a case of minors being admitted to the benefits of the partnership and, hence, there could not be any question of their sharing losses. Hence, this reference at the instance of the Revenue.

8. At the hearing today, our attention is invited to the decision of the apex court in The Commissioner of Gift Tax, Trivandrum Vs. T.M. Louiz, and also the decision dated September 25, 2001, of this court in Gift-tax Reference No. 2 of 1987 Commissioner of Gift Tax Vs. Arunbhai Hargovandas Patel, , as also the decision of the apex court in Commissioner of Gift-tax Vs. D.C. Shah and Others, .

9. Having heard learned standing counsel for the Revenue and having considered the facts as found by the Tribunal, we are of the view that the case at hand is squarely covered by the decision of the Supreme Court in The Commissioner of Gift Tax, Trivandrum Vs. T.M. Louiz, as explained by this court's decision dated September 25, 2001 in Gift-tax Reference No. 2 of 1987 Commissioner of Gift Tax Vs. Arunbhai Hargovandas Patel, . In The Commissioner of Gift Tax, Trivandrum Vs. T.M. Louiz, , the apex court has held as under (page 835) :

"When a partner retires from a partnership, the partnership continues. The assets and the goodwill of the firm continue to remain the assets and the goodwill of the firm. All that the retiring partner gets is the value of his share in the partnership assets less its liabilities. It cannot, in such circumstances, be held, assuming that the retiring partner received less than what was his due, that the difference was something that he had transferred to the continuing partners within the meaning of "transfer of property" for the purposes of the Gift-tax Act or that there was a gift liable to gift-tax."

10. Again in Commissioner of Gift-tax Vs. D.C. Shah and Others, , the apex court has held that when one of the partners in a firm retires or his share is decreased and the share of another/other partner/s is correspondingly increased, it does not necessarily lead to the inference that the former had gifted the difference to the latter.

11. The profit-sharing ratio in a firm can vary for a number of reasons, among them the ability of the partners to devote time to the business of the firm. The gift of a part of a partner's share to another has to be established by relevant evidence and the onus of doing so is on the Revenue.

12. In the facts of the present case, the two partners whose share was increased had not only agreed to share their losses but had also brought fresh capital when the assessee retired from the partnership firm. In the background of these facts, the aforesaid decision of the apex court in Commissioner of Gift-tax Vs. D.C. Shah and Others, is clearly applicable and, therefore, the Tribunal was justified in taking the view that there was no gift made by the assessee in favour of two of the continuing partners.

13. In view of the above discussion, our answer to the question is in the affirmative, i.e., in favour of the assessee and against the Revenue.

14. The reference, accordingly, stands disposed of with no order as to costs.