

(1991) 11 SC CK 0006

In the Supreme Court Of India

Case No : Civil Appeal No's. 1204 (NT) of 1979 and 4371 (NT) of 1991

Controller of Estate Duty, Madras

APPELLANT

Vs

N. Shankaran
Controller of Estate Duty Vs N. Krishnan
etc.

RESPONDENT

Date of Decision : 01-11-1991

Acts Referred:

Estate Duty Act, 1953 — Section 2, 2(15), 27, 27(1), 46(2)

Citation : (1991) 100 CTR 104 : (1992) 193 ITR 28 : (1991) 6 JT 512 : (1991) 2 SCALE 958 : (1992) 1 SCC 447 Supp : (1991) 2 SCR 167 Supp : (1992) 60 TAXMAN 57

Hon'ble Judges : S. Ranganathan, J;M.S. Fathima Beevi, J;D. N. Ojha, J

Bench : Full Bench

Advocate : A. Subhashini, for the Appellant; Janaki Ramachandran and A.T.M. Sampath, for the Respondent

Final Decision : Dismissed

Judgement

S. Ranganathan, J.—Both these matters raise the same question viz. whether the act of a member of a joint family by which he impresses his individual property with the character of joint family property or "throws" it into the hotch potch of the joint family or "blends" it with the joint family property is a "disposition" within the meaning of the Estate Duty Act, 1953 (the Act', for short).

2. Civil Appeal No. 1204/79 is an appeal from an order of the High Court declining to call upon the income tax Appellate Tribunal to refer the above question for the decision of the High Court in view of certain earlier decisions of the Court. The Madras High Court also declined to direct a reference on the above issue in T.C.P. No. 478 of 1977 and that is the subject matter of SLP (C) No. 335 of 1979. In view of the pendency of Civil Appeal No. 1204/79, we grant special leave in SLP (C) No. 335/79 also.

3. Before discussing the correctness of the above conclusion, it may be convenient to set out the background of facts in Civil Appeal No. 1204/79. That

appeal arises out of the estate duty assessment consequent on the death of one Natesan Chetty, who died on 1.3.72. He was the Karta of a Hindu Undivided Family (HUF) consisting of himself and his four sons. He was also the owner, in his individual capacity, of five house properties in Madras. On 18.6.1970 and 16.9.1970 he made declarations by which he impressed the above mentioned properties with the character of joint family properties and declared that they would thereafter belong to HUF of which he was the karta. Subsequently, a partition was effected in the family in March 1971 in which two of the above mentioned properties came to the share of the deceased. Sri Natesan Chetty had also borrowed a sum of Rs.46,800/- from the HUF out of the rental income from the above mentioned properties for being invested in the business carried on by him. These borrowings were made between March 1970 and April 1971 and they were repaid in April 1971.

4. In completing the assessment to estate duty of the estate passing on the death of Natesan Chetty, the Assistant Controller of Estate Duty held that the declarations made by the deceased on 18.6.1970 and 16.9.1970 were "dispositions" within the meaning of the said expression as defined in the second explanation to Section 2(15) of the Act. These dispositions having been made for no consideration within the meaning of Section 27(1), amounted, according to him, to gifts and since the gifts had been made within two years of the date of death, the subject matter of the gift was liable to be assessed as part of the estate passing on death u/s 9 of the Act.

5. As already mentioned, two of the properties had been allotted to the share of the deceased in the partition of 1971 and it is common ground that they passed on the death of the deceased as they belonged to him on the date of his death. The question, however, was whether the other three properties which went to the other members of the family as a result of the declarations and partition were also liable to be included as part of the estate deemed to pass on the death of the deceased by the application of Section 9 read with Section 27(1) and Section 2(15) of the Act. The Assistant Controller answered this question in the affirmative and included their value, taken at Rs. 1,22,500, in the principal value of the estate. As a consequence of his conclusion that the properties were liable to be included in the estate, the officer also took the view that the sum of Rs.46,800/- being the loan taken by the deceased from the HUF and discharged within two years prior to the death should be added back in computing the principal value of the estate by reason of the provisions of Section 46(2) of the Act. It is not in dispute before us that though two points were thus involved in the assessment - one regarding the inclusion of the value of three items of property as part of the estate of the deceased passing on his death and the other regarding the addition or disallowance of the debt of Rs.46,800 -- they are interconnected and that, if the first question is answered in favour of the assessee, the second question will also stand answered likewise.

6. Dissatisfied with the conclusion of the Assistant Controller, the accountable

person preferred an appeal to the Appellate Controller of Estate Duty which was successful. Thereupon the Department preferred an appeal to the Tribunal which, following a decision of the Madras High Court in A.N.K. Rajamani Ammal Vs. Controller of Estate Duty, held that the sum of Rs. 1,22,500 could not be included in the value of the estate passing on the death and, consequentially, that the add back of Rs.46,800/- was also not justified. Thereupon the Controller of Estate Duty applied, u/s 64(1) of the Act, for a reference to the Madras High Court, for its decision, of the following two questions:

1. Whether, on the facts and in the circumstances of the case, the Appellate Tribunal was right in holding that the transaction by which a Hindu impressed his separate properties [as] with joint family character could not be considered as a disposition under the second, explanation to Section 2(15) and Section 27 of the Estate Duty Act?

2. Whether, on the facts and in the circumstances of the case, the Tribunal was right in holding that the addition of Rs. 1,22,500/- made u/s 9 and Rs.46,800/- made u/s 46(2) could not be sustained in the case of the deceased?

7. The Madras High Court was of the opinion that the basic question at issue was covered ; by the earlier decisions of the Court in A.N.K. Rajamani Ammal Vs. Controller of Estate Duty,) as well as a subsequent decision in Controller of Estate Duty v. Smt. Mookammal 1978-(110) ITR 581. The Court found no substance in the attempt, on behalf of the Revenue, to distinguish the above decisions on the strength of a decision of the Court in Ranganayaki Ammal and Others Vs. Controller of Estate Duty, which had been confirmed by the Supreme Court in Controller of Estate Duty, Gujarat Vs. Kantilal Trikamlal, . In this view of the matter the High Court declined to call for a reference on the two questions above mentioned and dismissed the application for reference. Hence the present Civil Appeal. It is not necessary to set out the facts in SLP No. 335 of 1979 where the question involved is the same except that there was no subsequent partition after the blending and that no question regarding the deductibility of debts also arose in this case.

8. It will be seen that both these appeals are directed against the orders of the High Court declining to call for a reference. It is fairly clear that the questions whether Rajamani Ammal was rightly decided and whether, if so, it needed reconsideration in the light of Kantilal Trikamlal are questions of law. But, in view of the long lapse of time, we have considered the issues on merits and since we are satisfied that the High Court's conclusion was correct, we dispose of the appeals straightaway without going through, the formality of asking the Tribunal to make a reference to the High Court and then awaiting the High Court's decision on the question of law referred.

9. The Estate Duty Act, 1953 has ceased to be enforceable since 16.3.1985. In the circumstances we need not elaborately set out the provisions of the Act and the principles behind them. An outline of the provisions necessary for the

determination of the issue before us will suffice. The Act levies a duty on the aggregate market value of the properties passing on the death of any person (statutorily termed the 'principal value of the estate'). It is manifest that the statute could be easily circumvented if duty were restricted only to properties which actually pass on a death, for various kinds of devices could be thought of by which the property of such person could ostensibly be transferred to others sometime before the death, although it continues to be really under the domain and control of the deceased till the time of his death. The statute, therefore, contains elaborate provisions deeming certain properties to pass on death even though their beneficial enjoyment may not actually change hands at the time of his death. One such item of properties which are deemed to pass on the death of a person are those which formed the subject matter of a gift made by him within a specified period preceding his death. Section 9 of the Act, which contains this deeming provision reads thus:

9. Gifts within a certain period before death - (1) Property taken under a disposition made by the deceased purporting to operate as an immediate gift inter vivos whether by way of transfer, delivery, declaration of trust, settlement upon persons in succession, or otherwise, which shall not have been bona fide made two years or more before the death of the deceased shall be deemed to pass on the death.

In short, the provision enabled the Revenue to ignore any gift of property made by the deceased within two years of his death by creating a statutory fiction that properties so gifted passed on the death of the deceased, although, in fact and in law, they ceased to be his a short time before his death. This is the first fiction.

10. The legislature next proceeded to enact a second fiction. This was in order to bring into the net of taxation transactions which may not be comprehended within the legal concept of a gift because they are ostensibly made for some consideration. It provided in Section 27 that:

27. (1) Dispositions in favour of relatives - Any disposition made by the deceased in favour of a relative of his shall be treated for the purposes of this Act as a gift unless -

(a) the disposition was made on the part of the deceased for full consideration in money or money's worth paid to him for his own use or benefit; or

(b) ...; and references to a gift in this Act shall be construed accordingly

Resort to this provision in the present case is needed for a purpose. Admittedly, the deceased received no consideration for impressing the property with the character of joint family property. If this amounted to a transfer, then Section 9 alone would be sufficient to bring the properties within the net of taxation. But it could be argued that a gift involves a 'transfer' without consideration but the act of blending does not constitute a 'transfer' [vide: Commissioner of Income Tax, Madras Vs. M.K. Stremann, Madras, and a host of other cases under the income

tax Act], Section 27 helps the Department in the present case only in that it uses a much wider word, 'disposition,' and treats dispositions in favour of relatives as gifts.

11. The statute had to make provision for a third fiction as well as it could still be contended that the word 'disposition' would not be sufficient to comprehend certain types of transactions. To be on the safe side, therefore, the statute proceeded to enact a special definition of the word 'disposition' in Section 2(15) of the Act wide enough to rope in various kinds of acts in respect of property. This provision, insofar as it is material for our present purposes, reads as follows:

2(15). 'Property' includes any interest in property, movable or immovable, the proceeds of sale thereof and any money or investment for the time being representing the proceeds of sale and also includes any property converted from one species into another by any method;

Explanation 1 - The creation by a person or with his consent of a debt or other right enforceable against him personally or against property which he was or might become competent to dispose of, or to charge or burden for his own benefit, shall be deemed to have been a disposition made by that person, and in relation to such a disposition the expression 'property' shall include the debt or right created.

Explanation 2 - The extinguishment at the expense of the deceased of a debt or other right shall be deemed to have been a disposition made by the deceased in favour of the person for whose benefit the debt or right was extinguished, and in relation to such a disposition the expression 'property' shall include the benefit conferred by the extinguishment of the debt or right;

12. The short case of the Department now is this; the deceased in these cases was full and exclusive owner of the Immovable properties in question. By the act of blending he has converted them into HUF properties. The properties no longer belong to him as an individual; they belong to the family thereafter with certain rights qua them in the other members of the HUF. In other words, there has been an extinguishment, at the expense of the deceased, of a part, at least, of his rights in the properties with a corresponding benefit to the others. There has also been the creation, by the deceased, of a right in the others enforceable against the deceased and the properties e.g. the right to demand a partition. The deceased, therefore, has made a disposition in favour of his relatives for no consideration within two years of his death. The value of the properties, in respect of which he made the disposition in favour of the family, are, therefore, liable to be included in the principal value of the estate passing on his death u/s 9 read with Section 27 read with the Explanations to Section 2(15). This is quite apart from the fact that the value of the two properties, which subsequently fell to the share of the deceased at the partition in March 1971, are liable to be included as his own property actually passing on his death. The question that we have to consider is, therefore, whether the legal incidence of the act of blending

can be brought within the four corners of the two Explanations to Section 2(15) of the Act.

13. It was precisely this question which had been considered by the Madras High Court earlier in *A.N.K. Rajamani Ammal Vs. Controller of Estate Duty*, . In deciding the issue, the High Court had the benefit of two earlier decisions of this Court in *Goli Eswariah Vs. Commissioner of Gift Tax, Andhra Pradesh*, and *The Commissioner of Gift Tax, Madras Vs. N.S. Getty Chettiar*, where this Court had held, in the context of the Gift Tax Act, that the act of blending and the act of a coparcener receiving, on partition of a HUF, less than the share he was entitled to receive would not constitute gifts. The details of this decision need to be set out at some length.

14. Three contentions had been urged in *Rajamant*: (a) The first was that the act of blending constituted a 'disposition' within the general meaning of that word. Repelling this contention, the Court observed:

The learned Counsel for the revenue placed strong reliance on the word "disposition" in Section 27(1) of the Act and contended that even an act of throwing of the self-acquired property into the common stock of a joint Hindu family is included in that expression. In a case arising under the Gift-tax Act, the word "disposition" came up for consideration in the decision in *Goli Eswariah Vs. Commissioner of Gift Tax, Andhra Pradesh*, . The Supreme Court held that the word "disposition" refers to a bilateral or a multilateral act and it does not refer to a unilateral act. This decision of the Supreme Court approves the decision of this Court in *The Commissioner of Gift Tax, Madras Vs. P. Rangasami Naidu*, . It is true that these decisions are under the Gift-tax Act. It is also true that the word "disposition" was considered in these decisions, with particular reference to the definition of "transfer of property" under that Act. We are of the view that the word "disposition" in Section 27(1) of the Estate Duty Act also refers to a bilateral or multilateral act. The section refers to a disposition by the deceased in favour of a relative and also speaks of partial failure of consideration. Section 9 also refers to property "taken under a disposition". Therefore, in our opinion. The word "disposition" in Section 27(1), however wide its ambit may be, would not include the unilateral act of a person by which he throws his self-acquired property into the common stock of the joint family.

(b) It has been next contended, on behalf of the Revenue that, by throwing the self-acquired properties into the common stock of the joint family, the deceased has created a right enforceable against him in favour of the sons or the other coparceners viz. the right to demand partition of the properties in question which they could not have exercised earlier. This contention was rejected by the learned Judges by applying the principle enunciated in an earlier Full Bench decision of the Court in *Goli Eswariah Vs. Commissioner of Gift Tax, Andhra Pradesh*, , where a similar contention had been repelled in the context of the Gift Tax Act. The Court had there observed:

With the father having absolute power of disposition inter vivos or testamentary in respect of his self-acquisition and with no power in the son to interdict any alienation or disposition or call for partition, the son's interest is next to nothing. But the right is real. It lies dormant. It is this dormant right which the undivided sons have in their father's property that entitles them to take the self-acquired property of the father as coparceners to the exclusion of a divided son. Juridically, it must be this dormant birth-right that enables the father at his pleasure, without formalities, to deny to himself his independent power of predominant interest and look upon the property as the property of the family.

xxx xxx xxx xxx xxx In our view, it is this birth-right imperfect and subordinate to the special power and predominant interest of the father that comes into play and makes the interest in preasenti, when the father chooses to waive his rights. At this pleasure and without reference to his son, if the father abandons or determines once for all not to exercise his independent power over the property, the son's interest therein becomes a real and full-fledged coparcenary right. There is no vesting of rights here by the father on the son, but what is dormant springs to life but irrevocably at the pleasure of the father.

(c) A third contention raised on behalf of the Revenue was that throwing the self-acquired property into the common stock of the joint family would amount to "extinguishment at the expense of the deceased of a debt or other right" within the meaning of Explanation 2 to Section 2(15). This contention was also repelled by the learned Judges. They observed:

We are also of the opinion that throwing the self-acquired property into the common stock of the joint family will not amount to "extinguishment at the expense of the deceased of a debt or other right" within the meaning of Explanation 2 to Section 2(15). As seen from the judgments cited above, after the act of throwing into the common stock, it is the joint family or the coparcenary that owns the property. The person who converted his individual property into joint family property is a member of the Hindu joint family or the coparcenary and continues to be a member of the joint family. His interest in the erstwhile separate property would extend to the whole of the property even as of the other coparceners, for the interest of every coparcener extends over the whole of the joint family property. There is community of interest and unity of possession between all the coparceners. On the death of any one of the coparceners the others take the property by survivorship. It may be, the ultimate survivor is the person who threw the self-acquired property into the common stock. It, therefore, follows that there was no extinguishment of the right of the deceased and creation of a right in favour of another, in the case of throwing the self-acquired properties into the common stock. The decision in *S.P. Valliammai Achi Vs. Controller of Estate Duty*, relied on by the learned Counsel for the revenue, and the decision in *Kantilal Trikamlal Vs. Controller of Estate Duty, Gujarat*,) , relied on by the learned Counsel for the accountable person, related to what we may term as "unequal partitions". They do not deal with cases of

throwing the self-acquired properties into the common stock. We are not concerned with the case as to whether an unequal partition would amount to an extinguishment of a right and creation of a benefit within the meaning of Explanation 2 to Section 2(15), which was the point that was considered in those cases.

15. The above decision is clearly against the Revenue. The Revenue, however, strongly relies upon a later decision of the same High Court in *Ranganayaki Ammal and Ors. v. Controller of Estate Duty* 1972 (88) ITR 96. It is submitted that *Ranganayaki Ammal* has been affirmed by this Court in *Controller of Estate Duty, Gujarat Vs. Kantilal Trikamlal*, - a common judgment reversing *Kantilal Trikamlal Vs. Controller of Estate Duty, Gujarat*, and affirming *Ranganayaki Ammal (Mad)* - and, therefore, *Rajamani* is no longer good law. It is, therefore, necessary to refer to these cases though the question involved there was somewhat different.

16. In *Ranganayaki Ammal*, the deceased Bheema Naidu and his widow and children constituted a Hindu undivided family. A little within the period of two years prior to the death of the deceased, a partition was effected of the joint family properties and in that partition he took a smaller share instead of his legal half benefiting the other to the extent of the difference. The same thing had happened in the case of *Kantilal Trikamlal* also. *Trikamlal Vadilal* and his son *Kantilal* constituted a Hindu undivided family. On 16th November, 1953, an instrument styled a "release deed" was executed between the two persons. Under this instrument, a sum of rupees one lakh out of the joint family properties was taken by the deceased in lieu of his share in the joint family properties and he relinquished his interest in the remaining properties of the joint family which were declared to belong to *Kantilal* as his sole and absolute properties and *Kantilal* also relinquished his interest in the amount of rupees one lakh given to the deceased and declared that the deceased was the sole and absolute owner of the said amount. *Trikamlal Vadilal* died on 3rd June, 1955, that is, within two years of the release deed. The Assistant Controller found that, as on November 16, 1953, the deceased was entitled to a one-half share in the joint family properties, the value of which was Rs.3,44,058, but had relinquished his interest in the joint family properties by receiving only a sum of rupees one lakh. The officer, therefore, held that the difference between Rs. 3,44,058 and Rs. 1,06,724 (being the amount received by the deceased together with interest) was includible in the principal value of the estate of the deceased, being the value of a disposition by the deceased in favour of a relative for partial consideration. This assessment was upheld eventually by the Supreme Court. Both these decisions, thus, raised the question whether there was a "gift" within the meaning of Section 9 read with Section 27 read with the Explanations to Section 2(15) of the Estate Duty Act where a coparcener in a HUF, at the family partition, voluntarily agrees to accept properties of a value less than what he is entitled to claim, as a matter of right, at such partition. This Court - as did the Madras High Court in *Ranganayaki Ammal*, the Andhra Pradesh decision in *SMT.*

CHERUKURI ESWARAMMA Vs. CONTROLLER OF ESTATE DUTY., and the Punjab and Haryana High Court judgment in Controller of Estate Duty Vs. Jai Gopal Mehra, answered the question in the affirmative. This Court distinguished Goli Eswariah Vs. Commissioner of Gift Tax, Andhra Pradesh, and The Commissioner of Gift Tax, Madras Vs. N.S. Getty Chettiar, on the ground that the definition of 'disposition' in Explanation 2 to Section 2(15) of the Estate Duty Act is much wider than the scope of that expression used in the Gift Tax Act. We do not consider it necessary to set out here the full and detailed reasoning of this Court in Kantilal Trikamlal' s case.

17. Before proceeding further, we may refer to a few later decisions of High Courts relevant to the issue before us. The Allahabad High Court, in Controller of Estate Duty Vs. Smt. Laxmi Bai, , a decision rendered after Kantilal Trikamlal, thought that the act of blending would not be a 'disposition' within the meaning of the Estate Duty Act. In Controller of Estate Duty, Gujarat Vs. Babubhai T. Panchal, , the Gujarat High Court had occasion to consider the question whether a transaction of release by a member of a Hindu Undivided family, within a period of two years of his death, of his interest in the family properties would amount to a 'disposition' within the meaning of Explanation 2 to Section 2(15) of the Estate Duty Act. The question was answered in the negative. In C.E.D. v. Satyanarayan Babulal Chaurasia 1983 (140) ITR 158, the Bombay High Court, within touching the issue in detail, merely held, applying Goli Eswariah Vs. Commissioner of Gift Tax, Andhra Pradesh, ., that the act of blending does not involve a transfer.

18. The question that falls for our consideration now is whether, despite the extended definition in Section 2(15) of the Act, as explained in Kantilal Trikamlal, the act of blending, unlike the voluntary acceptance of an unequal partition, falls outside the purview of the deeming part of the definition contained in the explanations. We think the answer to this question has to be in the affirmative. Reverting once again to the contentions of the Revenue in Rajamani (which are also the contentions reiterated before us for the Revenue), it will be remembered that Rajamani specifically dealt with the language of the two Explanations to Section 2(15) and that its decision rested on three grounds:

(1) a 'disposition', as held in Goli Eswariah Vs. Commissioner of Gift Tax, Andhra Pradesh, , has to be a "bilateral" or 'multilateral' act or transaction, not a unilateral act;

(ii) the act of blending does not create any right enforceable against the blender or his property but only brings to the surface rights already latent and inherent in the others; and

(iii) the act of blending does not result in the extinguishment of any right of the blender with a correlative conferral of benefit on others.

19. In our view, Kantilal Trikamlal does not affect the validity of any of the three grounds set out above. So far as the first ground is concerned, it does not touch

upon the reasoning of Goli Eswariah, not to say doubt or dissent from it. It refers to The Controller of Estate Duty, Andhra Pradesh Hyderabad Vs. Kancharla Kesava Rao, - hinting at a possible distinction - and to Getti Chettiar (but without any hint of dissent) and points out that "the conventional-construction Of 'disposition' has to submit to the larger sweep of hypothetical extension by definition" and that, unlike under the Gift Tax Act, "there is no limitation, environmental or by the society of words, warranting the whittling down of the unusually wide range of Explanation 2 to Section 2(15)". In other words, the cumulative effect of Goli Eswariah, Getti Chettiar and Kantilal Trikamlal is that 'blending' or 'partition' will not be a 'disposition' within the ordinary connotation of the expression but will be one if either of the Explanations to Section 2(15) are attracted. This takes us to the other two contentions dealt with in Rajamani as to the scope of the two explanations. On this aspect, Rajamani has held that, unlike an unequal partition, the act of blending will not Amount to a 'disposition' attracting Sections 9 and 27 of the Act. It distinguished cases of unequal partition dealt with in S.P. Valliammai Achi Vs. Controller of Estate Duty,) and the High Court's decision in Kantilal Trikamlal Vs. Controller of Estate Duty, Gujarat, cited before it which have now received the imprimatur of this Court in Kantilal Trikamlat. We are inclined to think that the distinction has been made on sound lines. We do not consider it necessary to repeat or elaborate the reasoning in Rajamani on these two points as it succinctly Epitomizes well-settled principles of Hindu Law. Suffice it to say that we endorse this reasoning and think that the High Court was right in holding, in the present cases, that the acts of blending did not result in the 'gift' of immovable properties within the meaning of the statute and that Rajamani required no reconsideration because of Ranganayaki Ammal Trikamlal.

20. This disposes of the question sought to be referred in these cases. We should however like to advert to another aspect which may arise for consideration at some future date. It may, perhaps, be possible to contend that, though as declaration of blending does not amount to a 'gift', where the act of blending is followed up by a subsequent partition, the two transactions taken together do result in the extinguishment, at the expense of the deceased, of his rights in the properties which go to the share of other coparceners at the subsequent partition and that, if the two can be treated as parts of the same transaction, Explanation 2 to Section 2(15) may be attracted. But this, apart from being a totally new question of law not raised at any stage and not debated before us, would also require not only a closer look from the legal angle but also investigation into facts, particularly as to whether the act of blending and the subsequent partition can be treated, in law and on facts, as parts of a Single transaction, We, therefore, express no opinion on this issue.

21. For the reasons discussed above, these appeals fail and are dismissed. But we make no order regarding costs.