

M/S. THIAGARAJAR CHARITIES, MADURAI

v.

THE ADDITIONAL COMMISSIONER OF
INCOME-TAX AND ANR.

APRIL 24, 1997

[K. S. PARIPOORNAN, K. VENKATASWAMI
AND B.N. KIRPAL, JJ.]

Income-Tax Act, 1961—Section 11—Exemption—Charitable Trust—Mode of determination—Main objects of Trust were educational, medical relief and relief to the poor—Other clauses of the Trust-Deed enumerates as its objects: to assist and promote rural reconstruction work, cottage industry and all other matters incidental thereto—Held, the power of the Trustees to effectuate the aforesaid objects should not be mistaken for the objects of the Trust—The business of purchasing and selling cotton, cotton yarn, cloth and fibres etc., held, corpus of the Trust and the real object was to afford 'relief to the poor'—So, profit making was not the real object of the Trust and the assessee Trust was entitled to exemption.

The appellant was a Trust and was assessed to income tax. Pursuant to its resolution, the Board of Trustees commenced and carried on the business in the purchase and sale of cotton yarn.

The assessee filed its Income-tax returns disclosing "nil" income, though, according to the profit and loss account, it had made a profit. The assessee claimed that the business carried on by it was one held under Trust and since the Trust was for charitable purposes, its income was exempt under section 11 of the Income Tax Act, 1961. The income-Tax-Officer rejected the claim. But in appeal, the Appellate Assistant Commissioner upheld the plea of the assessee and directed the Income-Tax-Officer to grant exemption.

In further appeal, the appellate Tribunal concluded that the object in the Trust-Deed involved carrying on of an activity of profit and held that the income derived by the assessee from the business carried on by it, though, held under the Trust, could not be said to be exempted from tax under Section 11 of the Act. On a Reference, the High court agreed with the view of the Tribunal and held the Trust to be a non-charitable-

A Trust. Hence this appeal.

Allowing the appeal, this Court

B HELD : 1.1. The High Court had wrongly assumed that it is in
 C pursuance of clause 1(g) of the Trust Deed, the business of purchasing and
 D selling cotton, cotton yarn etc. was carried on by the Trust. It is patent
 E that there has been a mix-up of the clauses of the Trust Deed and clauses
 F of the Resolution of the Board. As per clause 3 of the Trust Deed the
 G business so started and carried on was corpus of the Trust. Clause 1(g)
 H of the Deed had nothing to do with such business. A misreading and
 misunderstanding of the vital clauses of the Trust Deed and the Resolution
 of the Trust Board have resulted in the wrong approach and conclusion
 of the High Court. [978-B-D]

D *Dharamdeepti v. Commissioner of Income-Tax, Kerala, 114 ITR 454*
 and *Commissioner of Income-Tax, Kerala v. Shri Shaila And Spiritual*
Colony Charities, 87 ITR 175, relied on.

E 1.2. In interpreting or understanding a Trust Deed one has to bear
 F in mind the basic difference between the corpus of the trust, the object of
 G the Trust and the power of the Trustees. The language employed in clause
 H 1(g) itself suggests that it is a power vested in the Trust to engage and
 promote rural reconstruction work, cottage industry and all matters in-
 cidental thereto. In substance, the activities specified in clause 1(g) is to
 afford "relief to the poor". Clause 1(g) of the Trust-Deed only vests power
 in the Trustees to do certain things to effectuate the main object of the
 Trust contained in clause 1(a) of the Deed - to start, run, develop educa-
 tional, technical, vocational and other institutions and institutes for the
 welfare and uplift of the general public. The power so vested in the trustees
 under clause (g) cannot be called as "the object" of the Trust. So, the
 Income-Tax Appellate Tribunal and also the High Court erred in construing
 clause (g) as "object" of the Trust enabling it to carry on a business
 with profit motive. It is clear that the business of purchasing and selling
 cotton, cotton yarn, cloth and other fibres etc. was held under the Trust
 and in view of clause 3 of the Deed it is the corpus of the Trust in reality.
 It is not an object of the Trust. The business is only a "means" of achieving
 the "object of the Trust; it is a medium through which the object is
 accomplished. [978-G; 980-G-H; 981-D-H]

Aditanar Educational Institution v. Additional Commissioner of Income Tax, (1980) 121 ITR 1, relied on. A

2. The facts available on record show that the profits or amount earned in the business had been essentially spent on charity. There can be no doubt that the profit making was not the real object of the Trust. As such, the income derived by the assessee from the business carried on by it, held under the Trust, is exempt from income tax under section 11 of the Income-Tax Act. [983-E] B

CIVIL APPELLATE JURISDICTION : Civil Appeal Nos. 482 - 484 of 1980. C

From the Judgment and Order dated 23.12.78 of the Madras High Court in Tax Nos. 182 and 252/74 and Reference Nos. 58 and 128 of 1974.

T.A. Ramachandran and Janki Ramachandran for the Appellant.

B.S. Ahuja, S.N. Terdol and B.K. Prasad for the Respondents. D

The Judgment of the Court was delivered by

PARIPOORNAN, J. The appellant is a trust. The Trust was created on 4.6.1962. The trust called "Thiagarajar Charities", is an assessee to income tax. In this batch of appeals, we are concerned with the three assessment years 1964-65, 1965-66 and 1966-67. A common question of law arises for consideration herein. The Income-tax Appellate Tribunal referred two identical questions of law for the above three years, to the High Court of Madras for its decision. The question of law referred for the above three years are as follows : E F

"Whether on a proper construction of the trust deed dated 4.6.62, the Tribunal was right in holding that the objects of the trust are not for charitable purposes within the meaning of the said expression as defined in Section 2(15) of the Income tax Act, 1961, and that consequently its income for the *assessment years 1964-65 and 1965-66* is not exempt from tax under Section 11 of the Income tax Act, 1961?" G

"Whether on a proper construction of the trust deed dated 4.6.1962 the Tribunal was right in holding that the objects of the trust are not for Charitable purposes within the meaning of the said expression as defined in Section 2(15) of the Income-tax Act, 1961, and that conse- H

A frequently its income *for the assessment year 1966-67* is not exempt from tax under Section 11 of the Income tax Act, 1961?"

(emphasis supplied)

B 2. The Income-tax Appellate Tribunal as also the High Court of Madras held that the income derived by the assessee from the business carried on by it, though held under a trust could not be said to be exempt from tax under Section 11 of the Income-tax Act. The High Court rendered the decision by a common judgment dated 23.12.1977 in T.C. Nos. 182 and 252/74. This Court by order dated 3.3.1980 in S.L.P. © Nos. 2453-2455/79 granted special leave to appeal to the assessee-appellant to file the appeals from the judgment of the Madras High Court aforesaid. That is how the present appeals are before us.

D 3. The short question that arises for our consideration in this batch of cases is, whether the appellant-assessee-trust is entitled to exemption under Section 11 read with Section 2(15) of the Income-tax Act, 1961, as the relevant provisions stood then.

E 2(15). "charitable purpose" includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility - not involving the carrying on of any activity for profit".

Section 11, as originally enacted, was couched in the following terms :

F "(1) Subject to the provisions of sections 60 to 63, the following income shall not be included in the total income of the previous year of the person in receipt of the income -

G (a) income derived from property held under trust wholly for charitable or religious purposes, to the extent to which such income is applied to such purposes in India; *and, where any such income is accumulated for application to such purposes in india, to the extent to which the income so accumulated is not in excess of twenty five per cent of the income from the property or rupées ten thousand, whichever is higher;*

H (b) income derived from property held under trust in part only for such purposes the trust having been created before the commencement of this Act, to the extent to which such

income is applied to such purposes in India; and where any such income is finally set apart for application to such purposes in India, to the extent to which the income so set apart is not in excess of twenty-five per cent of the income from the property held under trust in part; A

(c) income from property held under trust - B

(i) Created on or after the 1st day of April, 1952, for charitable purposes which tends to promote international welfare in which India is interested, to the extent to which such income is applied to such purposes outside India, and C

(ii) for charitable or religious purposes, created before the 1st day of April, 1952, to the extent to which such income is applied to such purposes outside India;

Provided that the Board, by general or special order, has directed in either case that it shall not be included in the total income of the person in receipt of such income. D

Explanation. - For the purposes of clauses (a) and (b), in computing twenty-five per cent of the income from any such property as is referred to in the said clauses for any previous year, the income from such property for the year immediately preceding the previous year may be adopted, if that income is higher than the income for the previous year. E

(2) Where the persons in receipt of the income have complied with the following conditions, the restriction specified in clause (a) or clause (b) of sub-section (1) as respects accumulation or setting apart shall not apply for the period during which the said conditions remain complied with - F

(a) such persons, have, by notice in writing given to the Income-tax Officer in the prescribed manner, specified the purposes for which the income is being accumulated or set apart and the period for which the income is to be accumulated or set apart, which shall in no case exceed ten years; G
H

- A** (b) the money so accumulated or set apart is invested in any government security as defined in clause (2) of section (2) of the Public Debt. Act. 1944 (XVIII of 1944), or in any other security which may be approved by the Central Government in this behalf.
- B** (3) Any income referred to in sub-section (1) or sub-section (2) as is applied to purposes other than charitable or religious purposes as aforesaid or ceases to be accumulated or set apart for application thereto or is not utilised for the purpose for which it is so accumulated in the year immediately following the expiry of the period allowed in this behalf shall be deemed to be the income of such person of the previous year in which it is so applied, or ceases to be so accumulated or set apart or; as the case may be, of the previous year immediately following the expiry of the period aforesaid.
- C**
- D** (4) For the purposes of the section '*property held under trust*' includes a business undertaking so held, and where a claim is made that the income of any such undertaking shall not be included in the total income of the persons in receipt thereof, the Income-tax Officer shall have power to determine the income of such undertaking in accordance with the provisions of this Act relating to assessment, and where any income so determined is in excess of the income as shown in the accounts of the undertaking, such excess shall be deemed to be applied to purposes other than charitable and religious purposes and accordingly chargeable to tax within the meaning of sub-section (3).
- E**
- F**

(emphasis supplied)

4. The Trust Deed dated 4.6.1962 is to the following effect :

- G** This Indenture of Trust made this Fourth day of June, 1962 by (1) Shri Karumuttu Thiagarajan Chettiar, son of Muthukaruppan Chettiar, Hindu, Nattukottai Chettiar, (2) Sri T. Sundaram Chettiar, son of Sri Karumuttu Thiagarajan Chettiar Hindu, Nattukottai Chettiar and (3) Sri T. Manickavassagam Chettiar, son of Sri
- H** Karumuttu Thiagarajan Chettiar, Hindu, Nattukottai Chettiar, all

residing at "Meenakshi Nilayam". Tirupparankundram Road, A
Madurai, hereinafter referred to as "the Authors of the Trust".

Whereas the Authors of the Trust are desirous of founding a Public
Charitable Trust for the purposes, ends and *objects* hereinafter set forth.

AND whereas for such charitable purposes, the Authors have set B
apart a sum of Rs. 11,000 (Rupees Eleven Thousand only) and
declare hereby that the said sum shall *form the nucleus of the Trust*.

NOW THIS INDENTURE WITNESSETH AS FOLLOWS :

1. The Authors hereby create a Public Charitable Trust C
hereinafter referred to as THIAGARAJAR CHARITIES
(hereinafter referred to as the Trust) *for the purposes, ends
and objects* hereinafter following :

(a) To establish, maintain, run, develop, improve, extend, D
grant donations for and to and assist in the estab-
lishment, maintenance, running, development improve-
ment and extension of Elementary Schools, Secondary
Schools, High Schools, Colleges, Universities,
Workshops, Weaving, industrial, technological and other E
Art, Craft and Science Institutes, Schools and Institutions
of Tamil or Sanskrit Learning, Hostels for the benefit
of students *and generally all kinds of educational institu-*
tions, whether general, technical vocational professional
or *of other description whatsoever for the welfare and*
uplift of the general Indian Public and to institute and
award scholarships in India for *study, research,* F
apprenticeship for all or any of the said purposes.

(b) To establish, maintain, run, develop, improve, extend, G
grant donations for and to aid and assist in the estab-
lishment, maintenance, running, development, improve-
ment and *extension of libraries, reading rooms, recreation*
centres and all other facilities as are calculated to be of
use in imparting education to the Indian Public.

(c) To establish, maintain, run, develop, improve, extend, H
grant donations for and to aid and assist in the estab-

- A lishment, maintenance, running, development, improvement and *extension of hospitals, clinics, dispensaries, sanatoria, maternity homes* and all similar institutions as well afford treatment, cure, rest, recuperation and other allied advantages in the way of alleviating the sufferings of humanity.
- B (d) To build, erect and construct and to aid and assist in the building, erection and construction of houses, tenements and places of residence for *the poor, needy and defectives* and to afford them all *comforts and conveniences*.
- C (e) To conduct poor feeding and generally to give food and clothing to the poor, needy and defectives and to afford relief to people in distress and affected by earthquake, flood famine, pestilence and other accidents and conduct or grant donations for the support of the inmates of orphanages.
- D (f) To help, assist and give aid to the fathers, or other natural guardians, or near relatives of indigent and unmarried girls for the marriages of such girls.
- E (g) To *engage in, carry on, help, aid and assist and promote, rural reconstruction work, cottage industry and all other matters incidental thereto in India -*
- F (h) The above objects shall be independent of each other and the Board of Trustees as hereinafter constituted may, from time to time, apply the Trust properties in carrying out all or any of the aforesaid objects of the Trust as they may deem fit.
- G 2. The Authors do hereby constitute themselves as the First Trustees of the Trust for their lives. On the death of any of the Authors of the Trust, his senior-most male lineal descendant shall succeed as Trustee in his place for his life. The said Trustees shall have authority at any time and from time to appoint or coopt other persons not exceeding four to be Trustees to act along with themselves.
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3. The Trust properties shall consist of the sum of Rs. 11,000 provided to the Trust by the Authors as hereinbefore mentioned and all and every other moneys and properties gifted, conveyed and transferred to the Trust by any person whatsoever for the purpose of carrying out the objects of the Trust hereby created and shall also include any income derived by the investment of Trust Properties and all additions, accretions, accumulation and augmentations thereto including any profit on realisation of investments of *Trust Properties and in particular, the expression Trust properties shall include any business undertaking held or carried on by the Trust.* A B C
4. Sri Karumuttu Thiagarajan Chettiar shall be the first Managing Trustee and he shall hold office for life, unless he voluntarily relinquishes the office and thereafter the senior-most amongst the remaining Authors, failing which the senior-most male lineal descendent of Shri Karumuttu Thiagarajan Chettiar shall become the Managing Trustee and such Managing Trustee shall hold office for his life. D
5. The term of office of a Trustee save that of the Authors of the Trust, their descendants as mentioned in clause 2 and the Managing Trustee shall be three years from the date of his appointment but he shall, in the discretion of the other Trustees, be eligible for re-appointment. E
6. Whenever any person appointed as Trustee disclaims or any such Trustee either original or substituted dies or is for a continuous period of six months absent from Indian Union or leaves Indian Union for the purpose of residing abroad or desires to be discharged from the Trust or refuses or becomes in the opinion of a principal Civil Court of original jurisdiction unfit or personally incapable to act in the Trust accepts as inconsistent trust or is otherwise disqualified, a new Trustee may be appointed in his place by the Managing Trustee with the approval of the majority of the remaining Trustees, if any. F G
7. All the Trustees including the Managing Trustee for the time being of the Trust shall be referred to collectively as the Board of Trustees and the Board of *Trustees shall have the* H

- A *following powers in regard to the investment of all or any part of the Trust properties.*
- (a) To invest in any securities of the Central or State Government.
- B (b) To invest in the purchase of any leasehold or freehold lands or buildings and in the construction of any buildings on any land belonging to the Trust.
- (c) To invest in Fixed Deposits, Current or other accounts in any Scheduled Bank.
- C (d) To invest in shares, debentures or bonds of any Public Company or corporation incorporated in India.
- (e) To invest in *any business undertaking* of whatsoever nature to be carried on by the Trust.
- D (f) To invest moneys in *any business undertaking for the purpose of acquiring and carrying on any business undertaking, such as Managing Agency, Selling Agency or Purchasing Agency* of any Company, or Corporation in India.
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Provided that nothing hereinbefore contained shall be deemed to authorise any of the Trustees for the time being to advance any of the Trust properties as loans to any of the Trustees. Such business undertaking may be carried on individually by the Trust or in partnership or in combination with any other person or persons."

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(Clauses 8 to 31 have been omitted as they are not relevant.)

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"32. *The business of the Board of Trustees shall be dealt with either at the meetings of the Board of Trustees or by resolution in circulation.....*"

(emphasis supplied)

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(clauses 33 to 36 have been omitted as they are not relevant.)

5. A true copy of the Resolution of the Trust Board dated 6.6.1962 available at pages 30-31 of the Paperbook, is to the following effect : A

"True copy of the resolution dated 6.6.1962

True copy of the resolution passed by the Board of Trustees at the Meeting held on 6th June, 1962 "MEENAKSHI", Tiruparankundram Road, Madurai at 1 A.M. B

PRESENT :

1. Sree Karumuttu Thiagarajan Chettiar
2. Sri T. Sundaram Chettiar
3. Sree T. Manickavasagam Chettiar.

Sree Karumuttu Thiagarajan Chettiar took the Chair. D

The following resolution were unanimously passed :

1.
2. Resolved to undertake and *carry on the business of purchase and sale of cotton, cotton yarn and cloth or other fibres both wholesale and retail and the Managing Trustee be and is hereby authorised to take the necessary steps in this behalf.* E
3. Resolved to appoint Sree T.V. Krishnamoorthy as the Manager of the Trust *and to the business aforesaid and to authorise him to enter into contracts for purchase and sale of cotton, cotton yarn and cloth or other fibres both for ready and future delivery and to sign and execute all contracts on that behalf from time to time.* F

(emphasis supplied) G

6. The Board of Trustees commenced *and carried on business* in the purchase and sale of cotton yarn as per the resolution of the Board dated 6.6.1962, quoted hereinabove. For assessment years 1964-65 and 1965-66 the relevant previous years being the periods from 4.6.1962 to 31.5.1963 and from 1.6.1963 to 31.5.1964 respectively, the assessee filed returns H

A disclosing "nil" income, though, according to the profit and loss account, it had made a profit of Rs. 8,72,550 and Rs. 13,14,269 respectively. The assessee claimed that the business carried on by it and from out of which it had derived income was one held under Trust and since the Trust was for charitable purposes, the income was exempt from tax under Section 11 of the Act. The claim was rejected by the Income-tax Officer. He determined the total income as Rs. 8,72,550 for the assessment year 1964-65 and Rs. 13,14,269 for the assessment year 1965-66. In appeals, the Appellate Assistant Commissioner by his orders dated 29.9.1969 and 22.4.1970 upheld the plea of the assessee and directed the Income-tax Officer to grant exemption. In further appeals filed by the Revenue, the Appellate Tribunal

B held that the objects covered by *paragraph (1) clause (g) of the Trust Deed* did not fall under the head "relief of the poor" The Tribunal further held that the objects covered by clause (g) would be covered by the fourth limb of Section 2(15) of the Act, namely, "object of general public utility" and held that the objects stated in paragraph (1) clause (g) of the Deed

C involved carrying on of an activity for profit, and applying the test laid down by a decision of the Kerala High Court in *C.I.T. v. Indian Chamber of Commerce*, 80 ITR 645 concluded that the income derived by the assessee from the business carried on by it, though held under Trust, could not be said to be exempt from tax under Section 11 of the Act. All the statutory authorities followed the decision rendered for the earlier assessment years

D 1964-65 and 1965-66 for the subsequent assessment year 1966-67 without further discussion. The References made to the High Court of Madras for all the three years were considered together and agreeing with the Tribunal, the High Court held thus :

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F ".....But clause (g) provides for the Trust carrying on cottage industries and there is nothing in the trust deed to show that there is no profit motive. We are, therefore, on the opinion that the object of the Trust is also carrying on an activity for profit."

(emphasis supplied)

G The High Court proceeded further and held as follows :

H "..... In the present case the object mentioned in clause (g) is one of general public utility and it involves the carrying on of activity for profit, namely the business of purchasing and selling cotton, cotton yarn and cloth and other fibres, wholesale or retail, which

necessarily implies a motive for profit. It would not fall within the meaning of "Charitable purpose" mentioned in Section 2(15) of the Income Tax Act, 1961. In the present case the Trustees have absolute discretion to utilise the funds of the Trust to the one or the other of the several objects of the Trust."

(emphasis supplied) B

In coming to the above conclusion, the High Court of Madras followed a Full Bench decision of the High Court of Kerala in *Commissioner of Income tax, Kerala v. Dharamadeepti*, 100 ITR 375. It was held that the Trust is a non-charitable Trust and the income realised by the Trust from its business in cotton, cotton yarn, cloth Etc. for the assessment years 1964-65 to 1966-67 is not exempt from tax under Section 11 of the Act. C

7. We heard counsel. At the outset, we should highlight one aspect. It appears that there is some patent mistake or confusion in the approach made by the High Court. The Trust Deed dated 4.6.1962 clause 1(g) is to the following effect : D

"(g) To engage in, carry on, help, aid and assist and promote rural reconstruction work, cottage industry and all other matters incidental thereto in India."

(emphasis supplied) E

The trust carried on the business of purchasing and selling cotton, cotton yarn, cloth and other fibres wholesale and retail, not in pursuance to clause (g) aforesaid, but in pursuance to the power vested in it under clause 7(e) read with clause 32 of the Trust Deed, which are to the following effect : F

7. (e) "To invest in any business undertaking of whatever nature to be carried on by the Trust."

32. "The business of the Board of Trustees shall be dealt with either at the meetings of the Board of Trustees or by resolution in circulation." G

(emphasis supplied)

Pursuant to the above power vested in the Trustees, a Resolution H

A dated 6.6.1962, quoted in this judgment, was passed by the Board which enabled the Trust to undertake and carry on the business of purchasing and selling cotton, cotton yarn and other fibres both wholesale and retail etc. It is patent that the High Court of Madras wrongly assumed, that it is in pursuance of clause 1(g) of the Trust Deed, the business of purchasing and selling cotton, cotton yarn etc. was carried on by the Trust. We are afraid that there has been a mixer-up of clause 1(g) of the Trust Deed and Clause 7(e) read with clause 32 of the Resolution of the Board dated 6.6.1962. The Appellate Tribunal denied exemption to the asséssee-Trust solely based on clause 1(g) of the Deed. The Trust Deed vested powers on the Trustees to carry on any business as per clause 7(e) of the Deed. The Board authorised the same by a separate Resolution dated 6.6.1962. The business so started was held under Trust. In other words, as per clause 3 of the Trust Deed, the business (so started or carried on) was a corpus of the Trust. clause 1(g) of the Deed had nothing to do with such business. We are afraid that a misreading and misunderstanding of the vital clauses of the Trust Deed and the Resolution of the Trust Board - have resulted in the wrong approach and conclusion of the Madras High Court in holding that the appellant-Trust in the present case is a non-charitable Trust, and that the income realised by the Trust from its business of cotton, cotton yarn etc. is not exempt from tax under Section 11 of the Act. The High Court of Madras came to the conclusion, as it did, based on a Full Bench decision of the High Court of Kerala in *C.I.T. v. Dharamadepti*, 100 ITR 375. The said decision was revised by this Court in *Dharamadepti v. Commissioner of Income-tax, Kerala*, 114 ITR 454. So, the very basis of the decision of the High Court of Madras no longer exists.

F 8. Counsel on both sides addressed elaborate arguments based on the Trust Deed dated 4.6.1962. The short question is, whether the objects of the Trust will fall within the first three categories mentioned in Section 2(15) of the Act, namely, "relief of the poor, education, medical relief" or will it fall under the fourth limb only and even so, its impact herein? In interpreting or understanding the Trust Deed one has to bear in mind the basic difference between the corpus of the Trust, the objects of the Trust and the powers of the Trustees. See : *Aditanar Educational Institution v. Additional Commissioner of Income-tax*, (1997) 1 SCALE 758 = JT (1997) S.C. 284.

H It will be useful to remember the following passages in the judgment

of the Kerala High Court in *Commissioner of Income-tax, Kerala v. Shri Shaila Industrial and Spiritual Colony Charities*, 87 ITR 175 (at page 182) : A

"..... It drew a distinction between *the objects* in a memorandum of association and *the powers* taken in the memorandum of association to carry out those objects. Reliance had been placed on a decision of the Court of Appeal in *North of England Zoological Society v. Chester Ruler District Council*, (1959) 3 All ER 116. C.A. which in turn referred to a decision of the House of Lords in *Cotman v. Brougham*, (1918) A.C. 514 (H.L.) Lord Wrenbury expressed the view in *Cotman v. Brougham* that there may be included in the objects what are not real objects of the company but are enabling powers to achieve the objects of the company. A passage from the judgment of Lord Wrenbury at page 522 may be extracted : B C

"The objects of the company and the powers of the company to be exercised in effecting the objects are different things. Powers are not required to be, and ought not to be, specified in the memorandum. The Act intended that the company, if it be a trading company, should by its memorandum define the trade, not that it should specify the various acts which it should be within the power of the company to do in carrying on the trade. The Third Schedule of the Act contains model forms, of memoranda of association. These ought to be followed. Section 118, sub-section (1), enacts that those forms 'or forms as near thereto as circumstances admit' shall be used in all matters to which those forms refer. D E F

There has grown up a pernicious practice of registering memoranda of association which , under the clause relating to objects, contain paragraph after paragraph not specifying or delimiting the proposed trade or purpose, but confusing power with purpose and indicating every class of act which the corporation is to have power to do. The practice is not one of recent growth. It was in active operation when I was a junior at the Bar. After a vain struggle I had to yield to it, contrary to my own convictions. It has arrived now at a point at which the fact is that G H

A the function of the memorandum is taken to be, not to specify, not to disclose, but to bury beneath a mass of words the real object or objects of the company with the intent that every conceivable form of activity shall be found included somewhere within its terms."

B The paragraphs relied on by counsel *on behalf of the revenue can be treated as powers distinct from the primary objects of the company and they are meant to enable the real purposes being achieved. The memorandum in question is one wherein there has been a mingling of real objects with powers. The real objects disclose charitable purposes and the powers taken are merely to carry out the objects.*"

C

(emphasis supplied)

D [See also : Pennigton's Company Law (6th Edn.) page 13; Palmer's Company Law (25th Edn.) Vol. 1 para 2.606, wherein the law has been discussed in detail.]

E 9. The objects of the Trust have been clearly stated in paragraph I of the Trust Deed. The main purpose and objects of the Trust are education, medical relief and poor relief. In that behalf, the Trust has been authorised to establish, maintain, run etc. educational institutions, technological *and other institutes for the welfare and uplift of the general Indian Public*; to assist in the establishment and running of hospitals, clinics and dispensaries etc.; to assist in building and erection of houses and places of residence for the poor; and to afford relief to the poor by giving food, clothing and to help them in distress during earthquake, flood famine, pestilence etc. In this connection, we should notice clause 1(g) which is to the following effect :

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(g) *To engage in, carry on, help, aid and assist and promote rural reconstruction work, cottage industry and all other matters incidental thereto in India-*".

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H Though this sub-clause is included among the "object clause", it is, really only a power. The language employed in clause 1(g) itself suggests that *it is a power* vested in the Trust to engage and promote etc. rural reconstruction work, cottage industry and all other matters incidental thereto. A three-member Bench of this Court in *Dharmadeepti v. C.I.T.*

Kerala, 114 ITR 454 construed *clause 3(b) of the Deed* in the said decision, specified among the objects clause, as one really *vesting powers*, incidental or ancillary to the attainment of the main *objects in clause 3(a) therein*, in the appropriate or ancillary to the attainment of the main objects in clause 3(a) therein, in the appropriate authority. (See page 458). We should also bear in mind that this power is so vested in this case, to effectuate the objects contained in clause 1(a) to establish, maintain schools, colleges, workshops industrial technological and other institutes etc. *"of whatever description for the welfare and uplift of the general Indian public"*. "Rural reconstruction", necessarily involves the uplift of the rural masses, and is directed for the welfare of such people. Majority of such persons belong to the "poor (or poorer) segments of the society". Similarly "cottage industry" is associated with the idea of a small, simple enterprise or industry in which employees, work in their own houses or in a small place gathered together for the purpose, using their own equipments and is usually found in rural areas/places or so carried on, by the poor (or poorer) section of the society. In substance, the above activity, specified in clause (1) (g) is to afford "relief to the poor". We understand clause 1(g) of the Trust Deed dated 4.6.1962 as only vesting a power in the Trustees to do certain things to effectuate the main objects of the Trust contained in clause 1(a) of the Deed - to start, run, develop educational technical, vocational and other institutions and institutes for the welfare and uplift of the general Indian public. The power so vested in the Trustees under clause (g) cannot be called as "the objects" of the Trust. So understood, we have no hesitation to hold that the Income-tax Appellate Tribunal and also the High Court erred in construing clause (g) aforesaid as "object" on the Trust enabling it to carry on a business with a profit motive. Looked at from a different angle, and in the alternative, it is clear that the business of purchasing and selling cotton, cotton yarn, cloth and other fibres etc., was held under Trust; the said business was started in exercise of the powers vested in the Trustees under clause 7(e) read with clause 32 of the Resolution dated 6.6.1962 and in view of clause 3 of the Deed it is the "corpus" of the Trust in reality. It is not an object of the Trust. So, it cannot be said that *the trust is carrying on* (business) - an activity for profit. The business - corpus - property held under trust - produces or results in income, like *any other property*. That is all. The business is only a "means" of achieving the "object" of the trust; it is medium through which the "objects" are accomplished. In

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A this view, the entire approach made by the Appellate Tribunal as also by the High Court fails to give due effect to the Trust Deed as a whole and is palpably erroneous and the resultant conclusion is vitiated, in denying the exemption to the appellant Trust. We hold accordingly.

B 10. Counsel for the appellant-assessee drew our attention to a decision rendered by a Constitution Bench of this Court in *Additional Commissioner of Income-tax, Gujarat v. Surat Art Silk Cloth Manufacturers Association*, (1980) 121 ITR 1, and contended that the dominant purpose as could be gleaned from the various clauses of the Trust Deed is only to sub-serve the charitable purpose and not to earn profit and so, the appellant-assessee is entitled, in any view of the matter, [even if this case falls under the fourth limb of Section 2(15)] to the exemption under Section 11 of the Act. Our attention was invited to the following observations of Bhagwati, J. (who delivered the judgment of the majority) at pages 25-26 of the report which is to the following effect :

D "..... *The test which has, therefore, now to be applied is whether the predominant object of the activity involved in carrying out the object of general public utility is to subserve the charitable purpose or to earn profit. Where profit-making is the predominant object of the activity, the purpose, though an object of general public utility, would cease to be a charitable purpose. But where the predominant object of the activity is to carry out the charitable purpose and not to earn profit, it would not lose its character of a charitable purpose merely because some profit arises from the activity.* The exclusionary clause does not require that the activity must be carried on in such a manner that it does not result in any profit. It would indeed be difficult for persons in charge of a trust or institution to so carry on the activity that the expenditure balances the income and there is no resulting profit. That would not only be difficult of practical realisation but would also reflect unsound principle of management. We, therefore, agree with Beg J. when he said in *Sole Trustee, Loka Sikhshana Trust's case* (1975) 101 ITR 234, 256 SC that :

H "If the profits must necessarily feed a charitable purpose under the terms of the trust , the mere fact that *the activities of the trust yield profit will not alter the charitable character of the*

trust. The test now is, more clearly than in the past, the genuineness of the purpose *tested by the obligation created to spend the money exclusively or essentially on charity.*"

The learned judge also added that the restrictive condition "that the purpose should not involve the carrying on of any activity for profit would be satisfied if *profit-making in not the real object.*" (emphasis supplied). We wholly endorse these observations."

(emphasis supplied)

We are of the view that the above test is *also* satisfied on the facts of this case.

11. It appears from the affidavit filed by the appellant-trust, which is available at page 142 of the paperbook, that an aggregate sum of Rs. 16,48,030 was spent for charitable purposes during the period from 4th June, 1962 to 31st May, 1967. The purposes are aid to the various colleges, orphanages, relief to the poor and different categories or types of education. It also appears that in one of the assessment years, the amount so applied is much more than the total income. The facts available in the records go to show that the profits or amounts earned in the business fed the charitable purposes specified in the Trust Deed. In other words, the amounts earned had been essentially spent on charity. There can be no doubt that profit making was not the real object of the trust.

12. In the light of the above, we answer the question referred to the High Court in favour of the assessee and against the Revenue. We hold that the income derived by the assessee from the business carried on by it held under trust, is exempt from income tax under Section 11 of the Act. The common judgment of the Madras High Court dated 23.12.1977 rendered in T.C. Nos. 182 and 252 of 1974, is set aside and this batch of appeals allowed with costs including advocates' fees which is estimated at Rs. 10,000 in each appeal.

B.K.

Appeals allowed.