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LITIGATION ALERT

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Supreme Court expands retrospective reach of Benami law; reinforces substance over form and threshold rejection of claims

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Background

- The Supreme Court, in *Manjula & Ors. v. D.A. Srinivas¹*, examined a dispute relating to ownership of immovable property and the enforceability of rights claimed through a testamentary instrument. The central question was whether a claim structured through a Will can be sustained where the underlying transaction reflects a benami arrangement
- The dispute concerned immovable properties standing in the name of K. Raghunath. The Respondent (original Plaintiff) claimed ownership based on a Will allegedly executed by the deceased, in whose name the property was held. At the same time, the Respondent asserted that the consideration for acquiring the property had been provided by him and that the property had been held in the name of the deceased due to legal constraints.
- The Appellants (Defendants), being the legal heirs of the deceased, challenged the claim on the ground that the transaction was benami in nature. They contended that even on a plain reading of the plaint, the Respondent was seeking to enforce beneficial ownership arising from a benami arrangement, which is expressly barred under Sections 4 and 6 of the Prohibition of Benami Property Transactions Act, 1988 (“Benami Act”).
- The Trial Court accepted this contention and rejected the plaint under Order VII Rule 11 of the Code of Civil Procedure, 1908 (“CPC”). The High Court, however, reversed the decision and restored the suit for trial. The matter was subsequently carried to the Supreme Court.
- The judgment is significant not merely for its outcome in the facts of the case, but for the broader principles

it addresses. In particular, it examines the extent to which courts may look beyond the form of a claim to its underlying substance, and whether the Benami Act—especially following its substantial amendment in 2016—permits retrospective application of its enforcement machinery.

- It is relevant to note that while the Benami Act, as originally enacted in 1988, prohibited benami transactions and barred enforcement of related rights, its enforcement framework was relatively limited. The 2016 amendment substantially enhanced the statutory architecture by introducing a detailed regime for attachment, adjudication and confiscation. The present ruling may be viewed in the broader context of this legislative evolution towards a more comprehensive enforcement mechanism.

Issue under consideration:

The Supreme Court was called upon to consider:

- Whether a suit framed as a claim under a Will can be rejected at the threshold if the underlying transaction is benami in nature;
- Whether the bar under the Benami Act can be examined at the stage of Order VII Rule 11 CPC; and
- Whether the provisions introduced by the 2016 amendment—particularly those relating to attachment and confiscation—can be applied retrospectively.

Contentions of the parties

- The Appellants submitted that the Respondent’s own pleadings clearly established that the consideration for the property had been provided by him while the legal title stood in another person’s name. According to them, this squarely satisfied the definition of a benami transaction under Section 2(9) of the Benami

Act. It was further argued that the reliance on a Will did not alter the nature of the claim, which in substance was an attempt to enforce beneficial ownership.

- The Appellants also emphasised that while considering an application under Order VII Rule 11 CPC, the Court is required to undertake a meaningful and holistic reading of the plaint. If such reading reveals that the suit is barred by law, the plaint must be rejected at the threshold. Reliance was placed on settled principles that courts must not permit “clever drafting” to create an illusion of a cause of action.
- On the other hand, the Respondent contended that the suit was based on a valid testamentary instrument and not on any benami claim. It was submitted that the nature of the transaction, the intention of the parties, and the validity of the Will were matters requiring detailed examination of evidence and could not be decided at the preliminary stage. The Respondent also sought to invoke the fiduciary capacity exception under the Benami Act.

Ruling of the Supreme Court

- The Supreme Court set aside the judgment of the High Court and restored the order of the Trial Court rejecting the plaint.
- The Court reiterated that while considering an application under Order VII Rule 11 CPC, the plaint must be read as a whole in a meaningful manner. It is not the form of the pleadings, but their substance, that is determinative. The Court observed that where the pleadings disclose that the consideration for the property was provided by one person while the title was held in another’s name, the transaction would prima facie fall within the ambit of a benami arrangement.
- Applying this principle, the Court held that the Respondent’s claim, though structured through a Will, was in substance an attempt to enforce rights arising from a benami transaction. The reliance on a testamentary instrument could not be used to bypass the statutory prohibition under the Benami Act.
- The Court further held that where such a bar is evident from the plaint itself, the suit can be rejected

at the threshold under Order VII Rule 11 CPC, without the need for a full-fledged trial.

Retrospectivity of the 2016 amendments

- A key aspect of the judgment is its treatment of the retrospective application of the 2016 amendments to the Benami Act.
- The Court drew a distinction between substantive provisions, which create new rights or impose new liabilities, and procedural or machinery provisions, which are intended to give effect to an existing statutory framework. It held that the provisions introduced by the 2016 amendment relating to attachment, adjudication and confiscation are in the nature of enforcement machinery and can therefore operate retrospectively.
- In doing so, the Court proceeded on the basis that the prohibition of benami transactions existed under the 1988 Act itself, and that the 2016 amendment primarily strengthened the mechanism for enforcing that prohibition. At the same time, the Court clarified that provisions creating new offences or enhancing penalties would operate prospectively.

DHRUVA INSIGHT

This ruling is significant for placing renewed emphasis on the **retrospective application of enforcement provisions** under the Benami Act. By treating the 2016 amendments as procedural and machinery-oriented, the Supreme Court has effectively expanded the reach of the law to cover transactions predating the amendment.

This approach is broadly aligned with the principles laid down in *CIT v. Vatika Township Pvt. Ltd*ⁱⁱ, where the Court recognised that procedural and clarificatory provisions may operate retrospectively. At the same time, it marks a shift from the more restrictive approach adopted in *R. Rajagopal Reddy v. Padmini Chandrasekharan*ⁱⁱⁱ and the earlier (now recalled) ruling in *Union of India v. Ganpati Dealcom Pvt. Ltd*^{iv}, where retrospective application of confiscatory provisions had been viewed more cautiously.

The judgment also reinforces the principle that courts will examine the **substance of a transaction rather than its form**, and that instruments such as wills cannot be used to legitimise arrangements that are otherwise prohibited by law.

From a broader perspective, the reasoning adopted by the Court may have implications for amendments that may be construed to operate retrospectively. In particular, the distinction between **substantive provisions and machinery provisions** may be relevant in assessing the validity of such amendments under tax legislation, including those introduced by the Finance Act, 2026.

The ruling highlights that the Benami Act carries overriding statutory force, and its prohibition prevails over testamentary instruments such as Will. The same principle may equally apply to other private instruments, including agreements, which cannot be relied upon to enforce rights arising from a benami arrangement.

A comparable debate is also emerging under the Prevention of Money Laundering Act, 2002 (“PMLA”), where courts have examined whether money laundering constitutes a continuing offence, thereby permitting application of enforcement provisions to transactions predating the statute. While the statutory context differs, the underlying tension remains similar—namely, the extent to which enforcement mechanisms can operate retrospectively without violating constitutional safeguards.

From a practical standpoint, the decision is likely to have implications for legacy arrangements involving indirect ownership structures, funding patterns or informal holding arrangements, which may now be subject to closer scrutiny under the Benami Act.

ⁱ CIVIL APPEAL NO. 7370 OF 2026

ⁱⁱ [TS-573-SC-2014]

ⁱⁱⁱ (1995) 2 SCC 630

^{iv} (2022) SCC online SC 1064; recalled in 2024

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