Raj Pal Katyal v. The Commissioner of Income Tax

ITA 1215/2005 & CM APPL. 44560/2026

2026:DHC:8934-DB | 2026-10-01

Section 68 cash credits: addition of Rs. 7,00,000 on unsecured loans upheld where two alleged lenders denied advancing any loan upon examination by the AO and two others could not explain preceding cash deposits in their bank accounts; cheque payment alone does not prove creditworthiness.

Income-tax Act,1961: sections 68, 131, 143(1), 143(2), 143(3)

High Court of Delhi | 2-judge bench (Division Bench) | Subramonium Prasad, J. | Amit Sharma, J.

Assessment years: 1997-98

01 FACTS OF THE CASE

Raj Pal Katyal, proprietor of Kailash Engineers, appealed the ITAT order dated 2 March 2005 for AY 1997-98. The AO had added Rs.9,00,400 as unexplained unsecured loans; CIT(A) deleted Rs.2,00,400 but sustained Rs.7,00,000. The retained amounts concerned Pawan Kumar and S. L. Magoo, who denied making the loans, and Santosh Rani and Vimla Arora, whose ability to provide the money was not satisfactorily established. The admitted question was whether the Tribunal's finding on creditworthiness was perverse.

Source: PDF pp.1–7, paras 1–11

02 DISCUSSION BY THE HON'BLE COURT

The Court examined the creditor statements and the concurrent findings of the AO, CIT(A) and ITAT. It applied the section 68 principles quoted from NRA Iron & Steel on identity, capacity and genuineness, including the need for inquiry into the supporting evidence, and found no perversity in the rejection of creditworthiness. It distinguished KRBL Infrastructure because the authorities there had accepted creditworthiness on the material before them. The quoted statutory text includes later provisos, but the judgment does not separately determine their temporal application to AY 1997-98.

Source: PDF pp.7–12, paras 12–16

03 JUDICIAL DECISION

Answering the substantial question of law in favour of the Respondent/Department and against the assessee, the High Court dismissed ITA 1215/2005 along with pending applications.

Source: PDF p.12, paras 17–18

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Revenue. The assessee's appeal was dismissed and the section 68 addition of Rs. 7,00,000 for AY 1997-98 stood confirmed.

Source: PDF p.12, paras 17–18

05 EXPERT COMMENTS

AKHB Expert Comments — editorial analysis, distinct from the Court's findings.

Banking form did not answer the lender-specific evidence: The two denials of lending and the unexplained capacity of the other two creditors supplied the factual basis for the retained Rs.7 lakh. Cheques and affidavits could not be considered in isolation from those statements. The practical evidentiary task is to reconcile each creditor's confirmation, capacity and actual flow of money, rather than rely on the banking channel alone. (PDF pp.4–7, paras 10–11)

The partial deletion shows why each credit must be examined: CIT(A) did not treat every credit alike: it accepted the small loan from a government servant, gave the benefit of doubt where a statement had not been recorded, and removed prior-year credits. The High Court was reviewing the remaining adverse findings. The decision is therefore evidence-specific, not a presumption that all unsecured loans or all family loans are unexplained. (PDF pp.5–7, para 10)

Perversity and the statutory time frame define the limit: KRBL was distinguished because its factual findings went the other way; its outcome did not establish that these creditors had capacity. For AY 1997-98, the relevant analysis is the section 68 burden applied to this evidence. The later provisos reproduced in the order should not be cited as a separate holding that subsequent source-of-source amendments applied retrospectively to this assessment. (PDF pp.7–12, paras 13–18)

Source: PDF pp.4–7, paras10–11

SOURCE & VERIFICATION

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All 12 original pages read and visually reviewed; SHA-256 verified. Source-based analysis, not current-law clearance.

All five panels re-reviewed against the original on 21 October 2026.

Open cited source rendition

Complete original source and all five note panels checked; original docket identities preserved.

STATUTORY SCOPE

Only provisions expressly stated in this order are indexed. Subsequent treatment and current law have not been independently verified.

LATER TREATMENT

Source checked 2026-10-21. Subsequent proceedings and current judicial treatment have not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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