The Pr. Commissioner of Income-Tax, Central & Anr. v. M/s Dream Logistics Company Ltd.

Income Tax Appeal No. 28 of 2025

2026:KHC:39985-DB | 2026-07-30

Section 41(1) addition of Rs. 2.60 crore as cessation of trading liability towards M/s Megha Minerals rightly deleted where liability was discharged by cheque on 21.04.2010, no cash-back was proved, and third-party statement was untested by cross-examination.

Income-tax Act,1961: sections 41(1), 143(3), 147, 260A

High Court of Karnataka at Bengaluru | 2-judge bench (Division Bench) | S.G. Pandit, J. | Dr. K. Manmadha Rao, J.

Assessment years: 2011-12

01 FACTS OF THE CASE

For AY 2011-12, the assessment of M/s Dream Logistics Company Ltd. (engaged in iron ore mining and logistics) was reopened under section 147 based on an ADIT (Investigation), Ballari enquiry report in the case of M/s Megha Minerals and the sworn statement of Sri Iranna Shankarappa Baddur. The AO added Rs. 2,60,00,000 under section 41(1) as cessation of liability, which the CIT(A) affirmed on 09.03.2024. The ITAT Bengaluru (in ITA No. 526/Bang/2024, order dated 13.09.2024) deleted the addition.

Source: PDF pp.2–4, paras 1–5

02 DISCUSSION BY THE HON'BLE COURT

The Division Bench noted that the Tribunal had recorded categorical findings of fact that the liability towards M/s Megha Minerals stood discharged through banking channels by cheque on 21.04.2010, there was no evidence of remission or cessation of liability under section 41(1) or that any cash was received back by the assessee after encashment, and the assessee was never afforded an opportunity to cross-examine the third-party deponent. Revenue's counsel fairly submitted that no substantial question of law arose.

Source: PDF pp.4–7, paras 5–14

03 JUDICIAL DECISION

Holding that the Tribunal's findings were based on appreciation of evidence without perversity and raised no substantial question of law under section 260A, the High Court dismissed ITA No. 28 of 2025 at the admission stage with no order as to costs.

Source: PDF pp.7–8, paras 12–16

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee (M/s Dream Logistics Company Ltd.); Revenue appeal dismissed.

Source: PDF p.8, para 16

05 EXPERT COMMENTS

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

Payment of a liability is different from remission of it: The Tribunal found that the Megha Minerals liability was discharged by cheque on 21 April 2010. The addition was made under section 41(1), so Revenue needed to establish the relevant remission, cessation or benefit rather than merely question the purchase narrative. The High Court upheld the finding that those essential ingredients were absent on this record. (PDF pp.3–6, paras 3–10)

The alleged cash return required proof connecting it to the assessee: The questions referred to encashment and later withdrawal, but the Tribunal found no evidence that any amount came back to the taxpayer. Its further concern was reliance on a third-party statement without cross-examination. These facts explain the result; they do not make cheque payment conclusive proof of genuineness in every transaction. (PDF pp.4–6, paras 5–11)

The appellate failure was specific to the findings and provision: Revenue sought another appreciation of the evidence without demonstrating perversity, statutory misapplication or legal infirmity, and counsel accepted that no substantial question arose. The dismissal preserves deletion of this section 41(1) addition. It does not adjudicate a hypothetical addition under another provision or establish that the supplier's every transaction was genuine. (PDF pp.6–8, paras 10–16)

Source: PDF pp.3–6, paras3–10

SOURCE & VERIFICATION

Original judgment PDF (20260730_KAHC010073742025.pdf)

All 8 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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