

D. M. Manasvi v. Commissioner of Income-tax, Gujarat II, Ahmedabad

Civil Appeals Nos. 1447-1450 of 1969

[1973] 2 SCR 389 | 1972-09-19

Whether penalty proceedings were validly founded on satisfaction reached during assessment notwithstanding later notice and reference to the IAC, and whether positive evidence supported concealment rather than an inference from a merely false explanation.

271(1)(c) | 271(1)(iii) (historic penalty calculation context) | 274(1) | 274(2) (historic IAC-reference text) | 274(3) (quoted context) | 256(1)

Three-judge bench | K.S. Hegde, J. | P. Jaganmohan Reddy, J. | H.R. Khanna, J.

Assessment years: 1959-60, 1960-61, 1961-62, 1962-63

Historical penalty scheme and preserved AY 1961-62 relief

Four appeals were dismissed, but the High Court's invalidation of AY 1961-62 penalty was not in issue and was not reversed; Tribunal quantum relief is not quantified. Satisfaction during proceedings is distinct from issuing notice later. The actual notice was absent from the paper book, so this is no blanket ruling that defective notices are valid. The historic IAC-reference regime was later changed, section 271(1B) introduced a retrospective deeming rule, and later law changed the burden/mens rea analysis. Section 271(7) excludes AYs commencing on or after 1 April 2017. Primary and supplemental sources contain printing anomalies. Original PDF unchanged; comprehensive later treatment, current law and 2025 mapping remain unverified.

01 FACTS OF THE CASE

The individual assessee was assessed for AYs 1959-60 to 1962-63. In the first return he did not disclose income from, or any interest in, Kohinoor Grain Mills Sales Depot; in the next three years he returned a 20% profit share. The Income-tax Officer found that the purported partnership was actually the assessee's proprietary business and that its entire income belonged to him. The first two completed assessments were reopened and the whole business income included in all four years; those inclusions were upheld by the Appellate Assistant Commissioner and Tribunal (physical pages 2-3/SCR 390 G-391 C).

The Officer treated the omissions as deliberate concealment and initiated proceedings under section 271. Because the minimum imposable penalty exceeded Rs. 1,000, the then section 274(2) required reference to the Inspecting Assistant Commissioner. After hearing the assessee, the IAC imposed Rs. 21,062, Rs. 1,14,477, Rs. 2,02,584 and Rs. 1,02,731 respectively. The Tribunal rejected challenges to initiation and evidence but reduced the quantum; the report does not supply the reduced figures (physical page 3/SCR 391 C-H).

The Gujarat High Court answered the two section 256(1) questions concerning commencement and evidence in favour of Revenue, subject to holding AY 1961-62 penalty proceedings invalid. The Supreme Court expressly says that the ground for that year's invalidity was not before it; the report does not explain the ground. The assessee's four special-leave appeals challenged the adverse answers on initiation, satisfaction and evidential sufficiency (physical pages 2,4/SCR 390 C-F, 392 A-C).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

Section 271(1)(c) required the Officer or Appellate Assistant Commissioner to be satisfied, during proceedings under the Act, that income particulars were concealed or inaccurately furnished. The assessment orders here found a sham partnership, identified the supposed partners as name lenders and treated the business as the assessee's proprietary concern. They directed notice for penalty concerning that concealed/inaccurately stated income. Notices were then issued (physical pages 4-5/SCR 392 D-393 C).

The Court drew a precise temporal distinction: the jurisdictional satisfaction must exist during the proceedings, but actual issue of the consequential notice need not occur before assessment is completed. Satisfaction precedes notice and cannot be equated with it. Applying the five-judge Angidi Chettiar principle, the Court rejected the claim that later notice itself proved absence of earlier satisfaction. This is not permission to first form satisfaction after proceedings have concluded (physical pages 5-6/SCR 393 C-394 C).

The assessee had not produced or printed the actual penalty notice in the paper book. Consequently, the Court could not accept the new suggestion that it failed to mention the Officer's satisfaction. This evidential limitation is material: the judgment did not inspect and uphold a particular defective form or dispense generally with notice requirements (physical page 6/SCR 394 C-D).

Reference to the IAC under the then Rs. 1,000 minimum-penalty threshold did not mean only the IAC could initiate proceedings. Under the scheme considered, initiation belonged to the Officer or Appellate Assistant Commissioner; the Officer could initiate and then refer the matter for imposition. His satisfaction during assessment was the foundation of the penalty proceedings (physical page 6/SCR 394 E-H).

No additional notice or preliminary hearing was necessary before the Officer formed prima facie satisfaction and issued the penalty notice. That would duplicate the subsequent procedure, an approach supported by the Mahaliram Ramjidas analogy. But final liability under section 271 could be determined only after the assessee had been heard or given a reasonable opportunity under section 274. The Court thus separated prima facie initiation from the final conclusion after opportunity to answer (physical pages 6-7/SCR 394 H-395 F).

On evidence, the Tribunal had relied on findings from the separate firm-registration appeal. The alleged adult partners lacked knowledge and control of the business and accumulated profits; the assessee controlled the business, extracted profits as loans and ultimately disposed of them, including investment in a family-interested company in his son's name. The three minors admitted to benefits were his grandchildren. These were positive facts supporting the finding of a deliberately constructed device to disguise the assessee's profits as partnership income (physical pages 7-9/SCR 395 G-397 B).

Anwar Ali did not assist: concealment was not inferred merely because an explanation was false. There was affirmative evidence that the business and income were the assessee's.

02 DISCUSSION BY THE HON'BLE COURT

Khoday Eswarsa's statement against penalty based solely on assessment reasons likewise required no further examination because the Tribunal mainly used facts revealed in the registration appeal. The Court distinguished these authorities on the evidence; it did not overrule them (physical pages 9-10/SCR 397 C-398 D).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Court dismissed all four assessee appeals with costs and one hearing fee. The High Court's adverse answers on the contested initiation and evidential issues stood. The AY 1961-62 invalidity finding, expressly outside the matters considered, was not reversed. The Tribunal's quantum relief was not replaced with the IAC's original figures, and no new final penalty amounts were calculated by the Supreme Court (physical pages 2-4,10/SCR 390 F, 391 H, 392 A, 398 E).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the contested initiation and concealment-evidence issues, with the pre-existing AY 1961-62 invalidity carve-out preserved

Four appeals dismissed with costs; one hearing fee

Final rejection of the assessee's argued challenges to penalty initiation and sufficiency of evidence

No revival of AY 1961-62 penalty; no stated recalculated quantum; no adjudication that all defective notices are valid; no finding that an assessment addition alone invariably establishes concealment.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Build the chronology from the assessment findings, direction to initiate, notice, reference and final hearing. Manasvi supports notice issued after assessment only where the required satisfaction was already reached in the proceedings. It also illustrates why positive evidence from a related registration appeal can sustain penalty while a bare rejected explanation may not. Preserve the AY 1961-62 carve-out and the unreported quantum reduction.

Later satisfaction law needs its own statutory check. Section 271(1B), inserted by the Finance Act, 2008 with retrospective effect from 1 April 1989, deems satisfaction where an assessment/reassessment adds or disallows an amount and directs initiation under section 271(1)(c). Madhushree Gupta (Delhi High Court, 24 July 2009), paragraphs 15.7-15.9 and 19(iv)-(vii), preserves discernible prima facie satisfaction, the assessee's opportunity to rebut it, and compliance with sections 274/275; it does not treat initiation as conclusive guilt. MAK Data (Supreme Court, 30 October 2013), paragraphs 9-10, says no particular form or separate writing of satisfaction is required, while finding actual satisfaction on its record. These authorities do not turn Manasvi into a universal requirement for a separate written satisfaction order or a universal cure for defective notice.

The substantive penalty framework also developed. Atul Mohan Bindal (Supreme Court, 24 August 2009), paragraphs 11-16, treats section 271(1)(c) penalty as civil liability without a mens rea requirement, but insists that the statutory conditions exist and remands the matter. MAK Data, paragraphs 6-8, applies Explanation 1's rebuttable burden framework. Accordingly, the 1972 discussion distinguishing Anwar Ali must not be exported as a universal later-year criminal-proof or deliberate-intent requirement. Neither source is described here as directly overruling Manasvi.

The original section 274(2) reference machinery was amended in 1971 and omitted from 1 April 1976. Sharadamma (Supreme Court, 3 April 1996), SCR 1201-1204, nevertheless preserves valid references already pending before the IAC. The retained 2011 compilation then shows a different approval scheme and contains an inconsistent 1975 omission-date footnote, expressly flagged in the source registry. The Department's bounded section 271(7) text excludes AYs commencing on or after 1 April 2017. These are targeted historical qualifications, not a comprehensive current-law or 2025 mapping opinion.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Caption, decision date, bench, four civil appeals and Khanna authorship

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: SCR 389 heading/H; 390 A-C

2.

Topic: Four assessment years, first original assessment under 1922 Act, and AY 1961-62 invalidity carve-out

Source url: [Open cited source](#)

Pdf pages: 2; 3; 4

Paragraphs: SCR 390 D-H; 391 A-H; 392 A

3.

Topic: Historic section 271(1)(c), section 274 hearing and reference scheme

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 392 D-H; 393 A-C

4.

Topic: Satisfaction during proceedings distinguished from later actual notice; Angidi principle

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 393 C-H; 394 A-C

5.

Topic: Notice absent from paper book; ITO initiates, IAC imposes on reference

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: SCR 394 C-H

6.

Topic: No duplicate preliminary hearing, but final opportunity to be heard mandatory

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: SCR 394 H-395 F

7.

Topic: Independent positive evidence from firm-registration appeal

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: SCR 395 G-397 B

8.

Topic: Anwar Ali distinguished on positive evidence; Khoday Eswarsa point not necessary

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: SCR 397 C-398 D

9.

Topic: Four appeals dismissed, costs, one hearing fee

Source url: [Open cited source](#)

Pdf pages: 10

Paragraphs: SCR 398 E

10.

Topic: Later no-prescribed-form satisfaction and Explanation 1

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: MAK Data paragraphs 6-11, particularly 7 and 9-10; SCR 576-578

11.

Topic: Later civil liability does not dispense with statutory conditions; remand

Source url: [Open cited source](#)

Pdf pages: 9; 10; 14; 15

Paragraphs: Atul Mohan Bindal paragraphs 11-16; SCR 472-473, 477-478

12.

Topic: Historic reference forum amended/omitted, pending references preserved

Source url: [Open cited source](#)

Pdf pages: 2; 3; 5

Paragraphs: Sharadamma SCR 1201 D-H, 1202 B-E, 1204 B-G

13.

Topic: Section 271(1B) retrospective deeming and historical savings; changed section 274

Source url: [Open cited source](#)

Pdf pages: 956; 957; 973

Paragraphs: 2011 compilation printed 1.915-1.916, 1.932; section 271(1B), footnote 25, section 271(5), section 274 and footnote 68

14.

Topic: Later discernible satisfaction safeguard despite deeming amendment

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Madhushree Gupta paragraphs 15.7-15.9 and 19(iv)-(vii); reproduced pages 50-52 and 63-64; retained text supports the specified propositions

15.

Topic: Section 271 assessment-year exclusion

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Section 271(7); successful web text line 141

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

Actual construction and application of the 1961 penalty scheme, including jurisdictional satisfaction, later notice, reference to IAC and final hearing. No section 297 transition issue is decided and no automatic present-law or 2025 crosswalk is inferred.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

H.R. Khanna, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961 (penalty and reference issues); Indian Income-tax Act, 1922 (first original assessment and cited analogies)

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Indian Income-tax Act, 1922, section 23(3) (first original assessment); Indian Income-tax Act, 1922, section 28 (Angidi Chettiar and Anwar Ali discussion); Indian Income-tax Act, 1922, section 34 (Mahaliram Ramjidas analogy)

BOUNDED NON-PDF SOURCES AND READING LIMITS

1.

Kind: later judgment primary text reproduction bounded

Title: Ms. Madhushree Gupta v. Union of India & Anr.; British Airways PLC v. Union of India & Ors.

Court: Delhi High Court

Decision date: 2009-07-24

Case numbers: W.P.(C) No. 5059 of 2008; W.P.(C) No. 6272 of 2008

Url: [Open cited source](#)

Format: HTML judicial reproduction viewed through web tool

Full document read: False

Full bounded judicial text read: False

Bounded read complete: True

Read bounds: Identity/opening and background paragraphs 1-4 (reproduced pp 1-10); part of the Manasvi discussion in paragraph 13.1 (pp 30-32); paragraphs 15-16 (pp 47-52); conclusions paragraph 19 and final paragraph numbered 17 (pp 62-64). Public reliance is restricted to paragraphs 15.7-15.9 and 19(iv)-(vii), whose text is retained. This is a bounded review, not a complete reading of the 64-page judgment.

Reliance limit: Later High Court interpretation of section 271(1B), not Supreme Court overruling. It preserves discernible prima facie satisfaction and hearing/limitation safeguards. Subsequent appellate treatment of this High Court case was not exhaustively checked.

Provenance: Bounded judicial reproduction read through a web research service. The stated passages were retained for review; no downloaded raw HTML or authenticated signed court original was acquired.

2.

Kind: official statutory web text bounded

Title: Income Tax Department section 271 text

Url: [Open cited source](#)

Format: English statutory body within Hindi-interface web page

Full document read: False

Bounded read complete: True

Read bounds: Successfully returned web text lines 131-141: subsections (1A), (1B), (5), (6) and (7), with footnotes 99, 1 and 2 dated 2023 visible at lines 145-148. Reliance limited to subsection (7) excluding AYs commencing on or after 1 April 2017 and corroborative text of (1B).

Provenance: Official web text successfully read at the stated bounds. No raw HTML download or verified compilation-as-of year. This limited section text is not an all-amendments or current-law certificate.

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 10 PDF pages; SHA-256 da8fa5c8b3455adbddeb0ad1006495f5988bbc1ae5e1157397cc360ed80536b5. Original bytes preserved. Page 1/SCR 389 contains a stray running header from Nageshwara v. Maharashtra, then Manasvi caption, date, bench, reporter headnote and appellate caption. Judicial text starts physical page 2/SCR 390 C, Khanna J., and ends physical page 10/SCR 398 E with dismissal, costs and one hearing fee. No separate opinion. Prior-case running header is not Manasvi authorship or reasoning.

[Open cited source rendition](#)

full primary text read: True; all primary page images reviewed: True; source integrity verified: True; actual statutory scope verified: True; later treatment comprehensive: not_verified; current law status: not_verified; statutory mapping 2025: not_verified

The 1972 decision date and 1973 reporter year are both verified from the scan. Frozen catalogue label 1972INSC 230 is not printed or independently authenticated by this PDF.

The physical page 1 running header Nageshwara v. Maharashtra (Dua, J.) belongs to the preceding report; Manasvi is authored by Khanna, J.; The catalogue lists only lead Appeal 1447; the judgment expressly disposes of Appeals 1447-1450.; AY 1961-62 penalty invalidity is stated twice, but its ground is not supplied. Dismissal does not reinstate it.; Page 3/SCR 391 G literally prints section 277(1)(c) in the Tribunal synopsis. The surrounding judicial discussion and reproduced provisions identify section 271(1)(c); original unchanged.; The four stated IAC penalties are historical original figures. The Tribunal granted unquantified relief; no final reduced amounts are invented.; The actual penalty notice was not produced/printed before the Court. No generic notice-validity conclusion should be inferred.; Anwar Ali is quoted through its headnote as acknowledged by the judicial text; the Court distinguishes it on positive evidence rather than rejecting its rule for those facts.; Madhushree's reproduced final disposal paragraph is numbered 17 after conclusions paragraph 19; no silent renumbering. Its broad narrative that the assessee lost throughout does not displace Manasvi's primary AY 1961-62 carve-out.; The 2011 compilation footnote 68 at physical page 973 prints 1-4-1975 for omission of old 274(2); Sharadamma expressly gives 1-4-1976. Sharadamma page 5 then mislabels the omission statute 1970 while page 2 states 1975. These anomalies are recorded without changing either original.; Later statutory and judicial checks are bounded; the full amendment history, jurisdiction-specific defective-notice law and current 2025 transition are not exhaustively reviewed.

All four are in the case captioned reference. The High Court had invalidated penalty proceedings for AY 1961-62 on a ground expressly outside this appeal discussion. The Court's dismissal must not be read as restoration of that penalty. The first year's original assessment was under 1922 section 23(3), but the penalty/reference issues expressly arise under the 1961 Act.

The scan covers all four appeals; the frozen catalogue lists only lead No. 1447. Appeals by special leave from Gujarat High Court, Income-tax Reference No. 6 of 1968, judgment dated 30 August 1968.

STATUTORY SCOPE

No automated section-number mapping to the Income-tax Act, 2025 and no opinion on current savings/transitional application. Historical provision versions and forum/notice questions must be checked for the specific proceeding.

LATER TREATMENT

Source checked 2026-10-05. Comprehensive later treatment not verified. Targeted title, citation and adverse-treatment searches and independent bounded reads identified the specified satisfaction, burden and historical-forum qualifications. No exhaustive citator check, absence-of-adverse-treatment conclusion or current-effectiveness certification is made. The third-party Madhushree reproduction was read only at the declared bounds; no authenticated court original was acquired.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 10](#)

SHA-256: da8fa5c8b3455adbdeb0ad1006495f5988bbc1ae5e1157397cc360ed80536b5

[reported judgment bounded comparison - PDF pages: 9](#)

SHA-256: 91d7e419fde3ad10516dae1326d7ae48eb5a69b0b112963cce7e849ecc5c0044

[reported judgment bounded comparison - PDF pages: 15](#)

SHA-256: d93e3c6fd741fb993c82ea2463a40445b0d24c05aba5fa72b833ef7adb253ed3

[reported judgment bounded comparison - PDF pages: 5](#)

SHA-256: b1316668ba9db3a04a87164173d25cb015f05c42a611e1f0d0af9335143d5c36

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SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

[Ms. Madhushree Gupta v. Union of India & Anr.; British Airways PLC v. Union of India & Ors.](#)

[Income Tax Department section 271 text](#)

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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