

Income Tax Officer and Others v. M/s. Madnani Engineering Works Ltd., Calcutta

Civil Appeal No. 829 of 1975

[1979] 2 SCR 905 | 1979-01-04

Whether a former section 147(a) reopening notice could stand where the assessee had produced the hundis and interest entries and the Officer's affidavits asserted bogus loans without disclosing the material underlying that belief.

147(a) (former omission/failure-to-disclose reopening provision) | 147(b) (historical alternative stated to be unavailable after four years) | 148 (notice dated on or about 25 January 1968)

Two-judge bench | P.N. Bhagwati, J. | A.D. Koshal, J.

Assessment years: 1959-60

Former section 147(a); fact-bound disclosure and material requirements

This 4 January 1979 judgment voided the specific reopening notice for AY 1959-60 under former sections 147(a)/148. Preserve both its disclosure finding and the separate failure to disclose material supporting belief. Do not turn its language about not confessing bogus documents into immunity from fresh specific evidence: the bounded Phool Chand comparison explains that distinction through Burlop but is not direct treatment of Madnani. Comprehensive later treatment, current-law status and 2025 mapping are not verified.

01 FACTS OF THE CASE

For AY 1959-60, the company was allowed deduction of interest paid to creditors from whom it claimed to have borrowed on hundis. The original assessment was completed on 23 August 1960. On or about 25 January 1968, the Income Tax Officer issued a notice under section 148 to reopen that assessment. The Court identified the route as former section 147(a), since more than four years had elapsed from the close of the assessment year and former section 147(b) was unavailable. The Officer alleged that the loans were bogus, no interest had actually been paid to the named creditors, and income had consequently escaped assessment because of failure to disclose material facts fully and truly (physical pages 2–3/SCR 906 F–907 A).

In the company's writ proceeding, the Officer's affidavit of 5 December 1968 initially withheld the supporting facts, claiming prejudice to the Revenue. A further affidavit of 27 January 1970 said that proceedings for AY 1963-64 had revealed fictitious hundi loans and non-genuine credits relevant to AY 1959-60. The Single Judge dismissed the writ petition; the Division Bench reversed and quashed the reopening notice. The Officer appealed by certificate (physical pages 3–4/SCR 907 B–908 D).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court rejected the initial refusal to disclose the facts underlying the statutory belief. Existence of reason to believe was justiciable: the Court had to be able to determine whether the Officer had material on which he could reasonably believe that income had escaped assessment because of the assessee's disclosure failure. The Officer could not defeat that judicial inquiry merely by asserting that disclosure would prejudice the Revenue (physical page 3/SCR 907 C-E).

On the disclosure issue, the Court applied *Burlop Dealers*. It described that case as holding that an assessee which had produced its accounts and relevant evidence was not obliged to furnish the adverse inferences that the Officer might draw from them. Here the company had produced all the hundis and the entries showing interest payments. The Court held that the company could not be said to have failed in disclosure merely because it had not confessed that those documents and entries were bogus; investigation of their genuineness was for the Officer. It expressly treated the relevant language of former section 147(a) as identical to section 34(1)(a) considered in *Burlop* and concluded that the required disclosure failure was absent on this record (physical pages 4-6/SCR 908 D-910 A).

The Court also gave a distinct material-based ground. The further affidavit merely stated that the Officer had discovered non-genuine loans and bogus credits. It did not disclose the material from which that conclusion had been drawn, so the Court could not examine whether a reasonable belief had an actual foundation. The Court was not satisfied that the statutory reason to believe existed (physical page 6/SCR 910 B-E). These are historical jurisdictional holdings on the demonstrated record; the later comparison below prevents the disclosure discussion from becoming an unqualified rule that producing documents always immunises a fabricated transaction from reopening.

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

03 JUDICIAL DECISION

The notice for reopening under former section 147(a), issued through section 148, was held void in the circumstances. The Court dismissed the Revenue's appeal with costs, leaving intact the Division Bench's order quashing and setting aside the notice. There was no remand or quantified assessment/refund direction (physical pages 4 and 6/SCR 908 C-D; 910 E).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Revenue appeal dismissed with costs; reopening notice held void and High Court quashing order left intact

Final jurisdictional ruling on this reopening notice, based both on the disclosure conclusion and failure to disclose material supporting belief

The Court did not conduct a final trial of each loan's genuineness or determine a quantified tax liability. No express reservation or remand is stated in the operative order; no immunity from a different legally supported reopening is inferred.

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

05 AKHB REVIEW POINT

Read the original disclosure and the actual material supporting the Officer's belief separately. A statement that credits were found bogus is a conclusion; in this case the affidavits did not expose its evidentiary foundation for judicial review. The judgment's broad language about not confessing falsity must remain tied to the record and historical statutory route.

A bounded later comparison is Phool Chand Bajrang Lal (13 July 1993). In explaining Burlop, that Court distinguished a fresh inference from the same material from subsequently obtained specific, reliable information exposing a false transaction. It held that merely having disclosed the transaction did not protect it in the latter situation. The Court preserved limited review of whether material existed and had a rational connection to the belief, without judicial assessment of its sufficiency. It upheld initiation of reassessment but expressly reserved the merits (physical pages 20–21 and 24–26/SCR 47–48, 51–53). This is a later comparison through Burlop and former section 147(a), not a claim that Phool Chand expressly overruled or directly treated Madnani.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, date, bench and appeal number

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: SCR 905 heading; 906 D–E

Source role: reported metadata and judicial text

2.

Topic: AY 1959-60, completed assessment, section 148 notice and former section 147(a) route

Source url: [Open cited source](#)

Pdf pages: 2; 3

Paragraphs: SCR 906 F–907 B

Source role: judicial text

3.

Topic: Justiciability of reason to believe and Officer's two affidavits

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: SCR 907 B–H

Source role: judicial text

4.

Topic: Procedural history and Burlop comparison

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: SCR 908 A–909 H

Source role: judicial text

5.

Topic: Disclosure ruling, alternative absence-of-material ground, void notice and costs

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 909 F–910 E

Source role: judicial text

6.

Topic: Bounded later comparison: Burlop explanation, fresh specific information, review limits and express merits reservation

Source url: [Open cited source](#)

Pdf pages: 20; 21; 24; 25; 26

Paragraphs: SCR 47 A–48 D; 51 G–53 F

Source role: bounded later statutory comparison

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

P.N. Bhagwati, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961 (historical provisions adjudicated in this judgment)

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Indian Income-tax Act, 1922: section 34(1)(a), in the Burlop Dealers analogy which the Court applied because of identical language

SOURCE & VERIFICATION

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

Identified source rendition: 6 PDF pages; SHA-256

c6b555c4c28e424fe6a0981744f9c450ab0a9dee0ba3b4a5767e23f676d90c4c. Original bytes preserved.

Judicial body begins physical page 2/SCR 906 E and ends page 6/SCR 910 E. Page 1 and upper page 2 contain reporter material, appellate metadata and appearances. No neighbouring judgment.

Open cited source rendition

The actual decision is 4 January 1979, Civil Appeal 829 of 1975, not another Madnani Engineering dispute or the distinct Madnani Development land-loss decision of 16 July 1986.; The appealed assessment is AY 1959-60; AY 1963-64 supplies the Officer's alleged discovery context only. The Court nonetheless expressly applied the 1961 Act reopening provisions.; The printed heading and judicial text say section 147(a); OCR of the headnote misreads this as section 141(a). The notice was issued under section 148.; The Court's nondisclosure conclusion and its separate absence-of-material ground must both be preserved. Its historical disclosure language is not a general licence to make false statements or an immunity against subsequently obtained specific evidence.; Phool Chand is a bounded later comparison explaining Burlop and the fresh-information distinction; it is not labelled direct treatment or overruling of this judgment.; The appeal was dismissed with costs. The report does not quantify the costs, tax liability or refund or order a remand.

The assessment reopened was AY 1959-60, completed on 23 August 1960. AY 1963-64 appears only as the later assessment proceedings during which the Officer said he discovered fictitious loans; it is not an additional appealed assessment. The Court expressly adjudicated the 1961 Act reopening route and compared its wording with the 1922 Act; no section 297 transition ruling is supplied or inferred.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no present-law certification. Identify the applicable statutory version and procedural route separately.

LATER TREATMENT

Source checked 2026-10-05. not_verified. Bounded primary comparison: Phool Chand Bajrang Lal, 13 July 1993; physical pages 17–26 read for the Burlop explanation, fresh-information distinction, judicial-review limits and express merits reservation, with pages 6–9 for facts and page 1 for identity. The original PDF's SHA-256, bytes and page count were freshly verified, and images of pages 1, 20, 21, 25 and 26 checked. No direct treatment of Madnani is claimed from that source. Corpus search leads mentioning Madnani in other later decisions were not promoted into verified public treatment. No comprehensive citator search, current statutory validation, complete amendment history or 2025 mapping.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 6

SHA-256: c6b555c4c28e424fe6a0981744f9c450ab0a9dee0ba3b4a5767e23f676d90c4c

later judgment bounded comparison - PDF pages: 26

SHA-256: 7395f7c8ad65c0b4b1d9ba448026f723365d317ba914316fb84f2be25dd8132e

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