

Sir Shadi Lal Sugar and General Mills Ltd. & Anr. v. Commissioner of Income Tax, Delhi

Civil Appeal No. 1660 (NT) of 1974

[1987] 3 SCR 692 | 1987-07-31

Whether, on the surviving penalty-reference question, the High Court could replace the Tribunal's supported evaluation of admissions and contractor evidence with its own factual view.

271(1)(c) | 274 | 256 (reference context)

2-judge bench | Sabyasachi Mukharji, J. | G.L. Oza, J.

Assessment years: 1958-59

Historical mens rea passage is later-limited; preserve the restricted reference outcome

This AY 1958-59 assessment arose under the 1922 Act, but the penalty/reference dispute concerned the 1961 Act. The Court expressly confined its deliberate-concealment observations to the law then relevant. K.P. Madhusudhanan's three-judge Bench later held the cited earlier view inapplicable because of the Explanation; MAK Data separately confirms that surrender or buying peace is not automatic immunity under Explanation 1. The 1987 appeal only set aside the High Court's answer to question 3, with costs; do not describe the entire Rs 5,000 penalty as restored. Printed answer-label and maximum-amount inconsistencies are disclosed below. Comprehensive later treatment and present/2025 mapping remain unverified.

01 FACTS OF THE CASE

The company manufactured and sold sugar and confectionery. For AY 1958-59 its assessment under the 1922 Act included Rs 48,500 for cane cost, Rs 67,500 for excess cane shortage and Rs 21,700 for outstation staff salary. It did not challenge those additions, saying it wished to retain good relations with Revenue. A 14 March 1963 notice initiated penalty under sections 274 and 271 of the 1961 Act; the IAC imposed Rs 70,000 on 1 October 1964 on his finding of deliberate understatement (physical pages 4–7/SCR 695–698).

The Tribunal distinguished evidence from the wrong accounting year. Kedar Nath Kanodia, relied on by the IAC, was a later contractor, while the relevant-year contractor Avinash Chand described mill staff at the loading centre and accepted responsibility for shortages. The Tribunal considered that evidence and the company's acceptance of the additions, found the Rs 67,500 and Rs 21,700 items insufficient for the penal finding, but retained Rs 5,000 penalty concerning Rs 48,500 cane cost in light of prior history (physical pages 7–8/SCR 698–699).

Three questions reached the High Court. The section 271 applicability question was no longer disputed in the Supreme Court. The High Court had decided the second question, confined to the Rs 48,500 item, for the assessee; Revenue did not appeal that answer. Only the third question, reframed to concern the Tribunal's finding on Rs 67,500 and Rs 21,700, remained before the Supreme Court. The High Court had displaced that finding because it considered the admissions and their timing insufficiently appreciated (physical pages 5–6 and 8–9/SCR 696–697 and 699–700).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court rejected the assessee's preliminary argument that the favourable answer to question 2 necessarily dictated the answer to question 3: question 2 had been confined to the separate Rs 48,500 item. It then applied the distinction between a pure factual finding and a mixed question involving application of law. An inference from facts remains factual when its formation does not involve a legal principle; reviewing the cumulative effect of the evidence is not the same as reassessing the weight of an isolated fact (physical pages 9–10/SCR 700–701).

A reference can raise a question of law where a factual finding has no evidence, is perverse, ignores material evidence or relies on irrelevant considerations, conjecture or suspicion. But mere preference for another permissible view of evidence does not suffice. The Tribunal had considered the admissions, their timing and the contractor evidence. The High Court's criticism on those points was therefore unjustified (physical pages 10–12/SCR 701–703).

In explaining why an agreed addition did not by itself establish deliberate concealment, the Court expressly restricted the observation to the law at the relevant time and noted subsequent changes were not examined. Its ensuing statement about Revenue proving mens rea belongs to that historical reasoning. It is not a timeless protection for surrendered income, and the later Explanation limitation is identified in the AKHB Review Point (physical pages 10–11/SCR 701–702).

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

03 JUDICIAL DECISION

The assessee's appeal was allowed. The High Court judgment and order were set aside only insofar as its answer to question 3 was concerned; the Supreme Court directed that the reframed question be answered in the affirmative and in favour of the assessee. The assessee was entitled to the costs of the appeal, without a quantified award. The Court did not restore the entire Rs 5,000 Tribunal penalty as a new final quantified order, reopen questions 1 or 2, or direct a fresh assessment (physical page 12/SCR 703).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on the sole surviving question 3

Appeal allowed with costs; High Court answer to question 3 set aside and reframed question answered for the assessee

Final relief on the surviving reference issue; earlier favourable answer about Rs 48,500 remained unchallenged

Not blanket cancellation of every assessment addition, not a renewed adjudication of the applicability question, and not a rule that voluntary surrender always bars penalty.

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

05 AKHB REVIEW POINT

An agreed assessment and a penalty finding answer different questions, but the governing statute determines the evidentiary consequence. This judgment is useful for its careful limits on reference review: the Tribunal considered all relevant evidence, and a different judicial view of its weight did not itself create a legal defect. Keep the two surviving disputed items separate from the unchallenged Rs 48,500 reference answer; the operative order should not be flattened into "Rs 5,000 restored."

A bounded primary-source check is essential before repeating the older mens rea passage. In K.P. Madhusudhanan v. CIT (21 August 2001), a three-judge Bench expressly considered Sir Shadi Lal Sugar and held that the earlier view could no longer apply by reason of the Explanation (physical page 6/SCR 6 C–E). Separately, MAK Data v. CIT (30 October 2013), paragraphs 6–11, applied Explanation 1 and rejected purchase of peace, avoidance of litigation or voluntary-disclosure labels as automatic answers to penalty. These checks support the warning against blanket immunity; they do not certify every later development or erase every procedural proposition in this historical decision. Neither the chronological shorthand nor the different old/new Explanation formulations in K.P. Madhusudhanan are transplanted as a current statutory test.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, AY and actual 1961 Act penalty route

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: reported metadata and judicial text

2.

Topic: Three questions and sole surviving question 3

Source url: [Open cited source](#)

Pdf pages: 5; 6; 9

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

3.

Topic: Distinct contractors and Tribunal findings

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

4.

Topic: Reference-jurisdiction reasoning and express historical-law qualification

Source url: [Open cited source](#)

Pdf pages: 9; 10; 11; 12

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

5.

Topic: Operative limited setting aside and costs

Source url: [Open cited source](#)

Pdf pages: 12

Paragraphs: Unnumbered judicial text; physical PDF pages one-based

Source role: judicial text

6.

Topic: Express later limitation of Sir Shadi Lal Sugar

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: SCR 6 C-E

Source role: bounded later treatment

7.

Topic: Later Explanation 1 surrender comparison

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9

Paragraphs: Judicial paragraphs 6–11

Source role: bounded later comparison

OTHER GOVERNING STATUTES

Indian Income-tax Act, 1922: original AY 1958-59 assessment; section 66 discussed through reference-jurisdiction precedents

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sabyasachi Mukharji, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER TREATMENT CHECKS AND THEIR LIMITS

1.

Case: M/s. K.P. Madhusudhanan v. Commissioner of Income Tax, Cochin

Decision date: 2001-08-21

Bench: 3-judge bench

Asset id: S 2001 2 1 6

Relationship: Expressly addresses Sir Shadi Lal Sugar; earlier agreed-addition/mens-rea view held no longer applicable because of the Explanation

Pinpoint: Physical page 6/SCR 6 C–E

Source url: [Open cited source](#)

Scope limit: Narrow primary later-treatment verification; not a comprehensive audit and not an assertion that the entire reference-jurisdiction ruling was overruled.

2.

Case: MAK Data P. Ltd. v. Commissioner of Income Tax-II

Decision date: 2013-10-30

Asset id: 2013_10_570_578

Relationship: Bounded later Explanation 1 comparison, not express direct treatment

Pinpoint: Judicial paragraphs 6–11; physical pages 7–9/SCR 576–578

Source url: [Open cited source](#)

Scope limit: No automatic immunity from surrender or purchase-of-peace labels; no whole-case or comprehensive current-law review.

HISTORICAL STATUTORY VERSION AND TEMPORAL LIMITS

Operative scheme: AY 1958-59 assessment was completed under the 1922 Act. The actual penalty notice of 14 March 1963 and penalty order of 1 October 1964 were under sections 274/271 of the 1961 Act. The Court reasons under the historical deliberate-concealment/Revenue-burden framework and expressly confines that discussion to the law at the relevant time.

Source pin: Physical pages 4–6/SCR 695–697 for statutory route and limited appeal; physical pages 10–11/SCR 701–702 for the express historical-law reservation and mens rea language.

Limit: The Supreme Court did not reopen question 1 about the applicability of section 271 and did not apply the later Explanation regime. No return date or detailed transitional provision is supplied; the note does not select a statutory version from the 1964 penalty-order date alone.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 12 PDF pages; SHA-256

b46dc5b3102fe0302ff8953a205c503950a328cae4d63ab50ccea91da9fae2e9. Original bytes preserved.

Editorial headnote and reported proceedings occupy physical pages 1–4/SCR 692–695. Complete unnumbered Mukharji J. judgment begins on physical page 4/SCR 695 and ends on physical page 12/SCR 703. Lower-authority narratives, original/reframed questions and quoted precedents distinguished. No adjacent judgment.

Open cited source rendition

The source prints inconsistent affirmative/negative descriptions for the earlier High Court answers on physical page 6. The express surviving scope and the Supreme Court's operative answer on page 12 control this note; no silent correction of the printed questions is made.; Question 2 on physical page 5 prints section 271(2); the actual concealment-penalty issue and reframed question are identified elsewhere as section 271(1)(c). The isolated printed label is not adopted as a new holding.; The IAC maximum-penalty recital differs: Rs 1,06,317 at physical page 5 and Rs 1,06,371 at page 7. Neither is silently preferred or reproduced as an operative amount. The actual imposed Rs 70,000 and intermediate Tribunal Rs 5,000 are consistent.; The source names the respondent as CIT, Delhi while the appealed High Court is Allahabad; both are retained as printed.; K.P. Madhusudhanan's source contains differing Explanation formulations and historical shorthand; only its express treatment of this case is used here, without recasting statutory chronology.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year and default.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment has not been verified. Only expressly identified bounded primary-source comparisons have been checked; no current-law certification.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 12

SHA-256: b46dc5b3102fe0302ff8953a205c503950a328cae4d63ab50ccea91da9fae2e9

bounded later treatment judgment - PDF pages: 6

SHA-256: 28948f0b4423d7f86a9a09ea53b0997114058f5e7cbe4175a3d905b50b9a2286

bounded later comparison judgment - PDF pages: 9

SHA-256: 91d7e419fde3ad10516dae1326d7ae48eb5a69b0b112963cce7e849ecc5c0044

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