

Chuharmal S/o Takarmal Mohnani v. Commissioner of Income-Tax, M.P., Bhopal

Special Leave Petition (Civil) No. 1863 of 1986

[1988] 3 SCR 788 | 1988-05-02

Whether the recovery of foreign wrist-watches from the assessee's bedroom and his failure to rebut ownership justified their value being assessed under section 69A, and whether the historical less-than-80% Explanation to section 271(1)(c) supported the concealment penalty for AY 1974-75.

69A | 271(1)(c) (historical single Explanation) | 256(1)

Two-judge bench | Sabyasachi Mukharji, J. | S. Ranganathan, J.

Assessment years: 1974-75

Rebuttable ownership inference and historical 80% penalty rule; report anomalies retained

This reasoned SLP refusal concerns AY 1974-75. Ownership was inferred from proved possession and unrebutted circumstances, not every form of custody. The penalty used the earlier single 80% Explanation, later replaced from 1 April 1976 according to the checked historical statute. The report conflicts on legislative dates, procedural dates and Rs.90,768 versus the reasoned Rs.90,568 total; these are disclosed in the note. It does not announce a general rule about criminal acquittal. Comprehensive later treatment and present-law/2025 mapping remain unverified.

01 FACTS OF THE CASE

The assessee returned income of Rs.3,113 for AY 1974-75 from two general stores at Durg. On 12 May 1973 customs officers searched his bedroom and recovered 565 foreign wrist-watches, valued at Rs.87,455, from a suitcase, a concealed almirah cavity and a bundle behind the almirah. A contemporaneous panchnama recorded the recovery. The judgment recounts a signed statement admitting the recovery facts but denying knowledge of how the watches came into the house (physical page 4/SCR 791A-F).

The report describes customs confiscation and a Rs.2 lakh customs penalty, an opportunity of personal hearing and cross-examination that was not taken, and income-tax proceedings adding the watches' value. A separate Rs.90,000 income-tax penalty followed. The Tribunal dismissed the assessee's two appeals, and the High Court answered against him the questions whether he was the owner and whether the Department had established concealment. The report also records an appellate acquittal in criminal customs proceedings, but this petition concerned the income-tax assessment and penalty (physical pages 5-6/SCR 792A-793B).

The source's procedural chronology contains incompatible dates, and page 5 gives Rs.90,768 while the operative penalty reasoning on page 8 totals Rs.3,113 plus Rs.87,455 as Rs.90,568. This note follows the expressly reasoned figures without reconstructing a corrected chronology or treating the two amounts as interchangeable.

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

02 DISCUSSION BY THE HON'BLE COURT

On ownership, the Court approved the use of the principle embodied in section 110 of the Indian Evidence Act, 1872. Once possession is shown, the person affirming that the possessor is not the owner bears the burden of establishing that assertion. On these particular facts, possession of the watches was established and the assessee furnished no evidence rebutting ownership. The principle is rebuttable and depends on its factual conditions; it does not equate every form of custody with ownership (physical page 6/SCR 793C-H).

The Court adopted the approach discussed in J.S. Parkar: although the Evidence Act's strict rules do not govern income-tax proceedings with their full rigour, tax authorities may use appropriate evidentiary principles. Section 110 expresses a common-law principle capable of application where the circumstances satisfy it. The Court then read section 69A with the surrounding circumstances. The section concerns an assessee found to own the specified money or valuables, their absence from books if maintained, and no explanation or an unsatisfactory explanation of acquisition. Its language permits the specified amount or value to be deemed income; the judgment did not dispense with those statutory conditions (physical page 7/SCR 794A-H).

On penalty, the Court quoted the historical single Explanation to section 271(1)(c). Its trigger was returned income below 80% of the statutorily adjusted assessed income. The comparison allowed the specified reduction for bona fide income-earning expenditure disallowed as a deduction. Once triggered, the assessee could rebut the deeming rule by proving that failure to return the correct income did not arise from fraud or gross or wilful neglect. Here Rs.3,113 was below 80% of Rs.90,568, and the assessee did not discharge that burden. The Court held the Revenue's onus satisfied on these facts even though the proceedings were penal in nature (physical page 8/SCR 795B-H).

These are two separate steps: the evidence supporting ownership and the section 69A addition, followed by the historical statutory penalty presumption. The mere fact of an addition was not expressed as a universal, version-independent rule requiring a penalty.

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

03 JUDICIAL DECISION

The Court agreed with both High Court answers, holding the inclusion of Rs.87,455 proper and the historical penalty burden discharged. It dismissed the application for special leave as without merit, leaving the Rs.90,000 penalty undisturbed. Leave was refused; no civil appeal was allowed or dismissed after a grant of leave, and no separate costs direction is recorded (physical pages 7-9/SCR 794E-796B).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Reasoned dismissal of the assessee's special-leave petition; section 69A addition and Rs.90,000 penalty left undisturbed

Express reasoned determination of ownership/evidence and historical penalty questions at the special-leave stage

AY 1974-75 and the then single 80% Explanation. No universal ownership inference, automatic penalty rule, fresh customs disposition or general rule on the effect of criminal acquittal.

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

05 AKHB REVIEW POINT

Keep the foundational facts and the rebuttal opportunities separate. Establish what was found, where it was found, the relevant possession and ownership evidence, any books maintained, and the explanation for acquisition before relying on section 69A. A general denial in this record did not rebut the inference. The decision does not settle every case involving a bailee, employee, carrier or another person holding property for someone else.

Then identify the exact penalty version. The report prints inconsistent legislative references: SCR 795 first mentions Finance Act 1974, later Finance Act 1964, while the editorial headnote refers to the 1975 amendment. The actual Explanation quoted and applied is the earlier 80% provision. The Income Tax Department's historical 1966 section text and amendment footnote record its insertion from 1 April 1964. Its historical 1986 text and footnote 18 record replacement by Explanations 1–4 from 1 April 1976. These bounded comparisons clarify the version; they do not apply the replacement provisions to this case or certify current penalty law.

There is another source-history discrepancy: SCR 794 says section 69A began on 1 January 1964, while the Department's historical section text records 1 April 1964. Its quoted Assessing Officer wording reflects a later designation change recorded from 1 April 1988. Preserve the original report while checking statutory history independently. The recorded customs acquittal is background here: the Court supplies no general analysis of its binding effect on tax adjudication. Comprehensive subsequent judicial treatment and present-law/2025 mapping remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, bench, docket and judicial opening

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: Cover; SCR 790E–H

Source role: reported metadata and judicial text

2.

Topic: AY, recovery, statement and source chronology

Source url: [Open cited source](#)

Pdf pages: 4

Paragraphs: SCR 791A–H

Source role: judicial text

3.

Topic: Hearing opportunity, tax penalty, criminal background and reference questions

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 792A–793B

Source role: judicial text

4.

Topic: Conditional possession/ownership inference and absence of rebuttal

Source url: [Open cited source](#)

Pdf pages: 6

Paragraphs: SCR 793C–H

Source role: judicial text

5.

Topic: Use of evidence principles and section 69A conditions

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: SCR 794A–H

Source role: judicial text

6.

Topic: Historical 80% Explanation, statutory adjustment, rebuttal and figures

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: SCR 795A–H

Source role: judicial text

7.

Topic: Reasoned refusal of leave

Source url: [Open cited source](#)

Pdf pages: 9

Paragraphs: SCR 796A–B

Source role: judicial text

8.

Topic: Historical 80% Explanation and 1964 insertion footnote

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Section 271(1)(c), single Explanation and footnotes 2–3; page labelled 1966

Source role: official hosted historical statutory text

9.

Topic: Replacement of single Explanation from 1 April 1976

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Explanations 1–4 and amendment-history footnote 18; page labelled 1986

Source role: official hosted historical statutory text

10.

Topic: Section 69A commencement and later office designation

Source url: [Open cited source](#)

Pdf pages:

Paragraphs: Complete section 69A and footnotes 28a–29; page labelled 1988

Source role: official hosted historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sabyasachi Mukharji, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

1.

Act: Indian Evidence Act, 1872

Section: 110

Role: Rebuttable ownership principle expressly applied in tax proceedings

2.

Act: Customs Act, 1962

Sections: 110(2); 124(a)

Role: Background seizure and hearing chronology only; not the basis of a separate customs holding in this petition

SOURCE & VERIFICATION

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

Identified source rendition: 9 PDF pages; SHA-256

aa882d55d3eb8cddaad45672374edeeacd8f5335e6786cf04bbb2c9310638559. Original bytes preserved.

Complete unnumbered Sabyasachi Mukharji J. reasons from physical page 3/SCR 790G through physical page 9/SCR 796B.

Headnotes and appeal metadata precede the judicial opening. Customs proceedings are recounted background, not a separate adjudication in this document. No adjacent judgment.

Open cited source rendition

Headnotes occupy physical pages 1–3 before the Court's opening at SCR 790G. The headnote's proposition about the 1975 amendment is not substituted for the different legislative references and actual Explanation in the body.; The report is a reasoned refusal of SLP (Civil) No. 1863 of 1986. The statement at SCR 791F concerning SLP No. 1008/86 refers to a customs matter to be dealt with later; this report does not dispose of that separate proceeding.; SCR 791B–C links a January 1974 notice to a December 1975 customs order, and SCR 791E–F puts the 13 May statement after reference to departure on 14 May. Both are source-level chronological anomalies; no silently corrected chronology is asserted.; SCR 792B gives Rs.90,768; SCR 795E expressly computes Rs.90,568 from returned income of Rs.3,113 and seized watches of Rs.87,455. The reasoned computation is retained and the discrepancy disclosed.; The headnote scan at SCR 790C reads 80%, although extracted text can misread it as 110%. The body and quoted provision at SCR 795 also read 80%.; SCR 795A–B says Finance Act 1974; SCR 795G instead mentions Finance Act 1964; the headnote at SCR 790B mentions Taxation Laws (Amendment) Act 1975. The note identifies the actual 80% text and separately checked historical compilation, not a universal amendment holding.; SCR 794C gives 1 January 1964 for section 69A commencement. The official-hosted 1988 section text, footnote 29, records 1 April 1964; footnote 28a separately dates the Assessing Officer wording from 1 April 1988.; The penalty amount is the result upheld in this record. No independent present-law recomputation or claim about all section 69A additions is made.; The Department-hosted historical statutes carry a Taxmann imprint. Their statutory wording and editorial amendment footnotes are distinguished from the Court's own reasoning and from an original Gazette audit.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. Only the expressly identified historical statutory comparisons have been checked; no later judicial treatment is claimed.

IDENTIFIED SOURCE LINKS

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

SHA-256: aa882d55d3eb8cddaad45672374edeeacd8f5335e6786cf04bbb2c9310638559

[official hosted historical statutory text](#)

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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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