

## Commissioner of Income-Tax, Madras v. K.R. Sadayappan

Civil Appeal No. 1248 of 1978

[1990] 3 SCR 255 | 1990-07-10

**Whether cancellation of the historical concealment penalty, without cogent rebuttal of the statutory presumption, could be treated as raising no referable question of law.**

271(1)(c), historical Explanation introduced by Finance Act, 1964 | 256(1) | 256(2)

Two-judge bench | Sabyasachi Mukharji, C.J. | K.N. Saikia, J.

Assessment years: 1966-67

### Historical rebuttable presumption; reference relief only

The Court held that the historical Explanation's 80% test shifted a rebuttable evidentiary burden and that no cogent rebuttal had been identified. It ordered a reference; it did not finally restore the Rs 18,750 penalty. The report contains a stray 30% recital and an awkward year-attribution sentence, neither adopted as a separate proposition. Apply the statutory version for the relevant year. Later treatment, current-law application and 2025 mapping remain unverified.

### 01 FACTS OF THE CASE

For AY 1966-67, the individual film-distribution assessee filed a return on 12 July 1968 and a revised return on 4 January 1969 showing a net loss of Rs 9,490. Wealth statements did not reveal an investment in a T. Nagar plot. Search material disclosed a purchase on 13 April 1965 with two others, including a portion in his son's name. The stated overall price was Rs 80,000, of which Rs 25,000 related to the son's portion; documents revealed an overall price of Rs 1,40,000. The assessee's attributable on-money payment was Rs 18,750, not the entire difference in the overall price (physical pages 3-4/SCR 257-258).

The ITO added Rs 18,750 as undisclosed income and referred penalty proceedings to the IAC because the minimum leviable penalty exceeded Rs 1,000. The IAC imposed Rs 18,750, holding the historical Explanation's burden undischarged. The assessee had admitted making the on-money payment, and no evidence showed that his son financed it. The Tribunal cancelled the penalty: although the supposed cash surplus could be rejected as false, it considered rejection insufficient to prove concealed income and relied on Anwar Ali and Khoday Ramarao (physical pages 4-5).

Revenue unsuccessfully sought a section 256(1) reference on cancellation of penalty, the Explanation and the evidentiary basis for the Tribunal's view. The Madras High Court rejected the section 256(2) application on 9 March 1977 in T.C. Petition No. 362 of 1975, holding that no question of law arose. Revenue appealed by special leave. This was an appeal from refusal to direct a reference, not an appeal from a High Court answer to a completed reference (physical pages 3 and 5-6).

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

## 02 DISCUSSION BY THE HON'BLE COURT

The Court applied the Explanation introduced by the Finance Act, 1964 as it stood for the dispute. Where returned total income was below 80% of assessed total income, subject to the quoted reduction for bona fide expenditure disallowed as a deduction, the assessee had to prove that failure to return the correct income did not arise from fraud or gross or wilful neglect. Failure to discharge that burden attracted the deemed-concealment/inaccurate-particulars consequence. Relying on *Mussadilal Ram Bharose*, the Court distinguished the earlier Revenue-burden position and treated the statutory presumption as rebuttable, not conclusive (physical pages 6–7/SCR 260–261).

Rebuttal required relevant, cogent and reliable material. The fact-finding body judges its sufficiency; a conclusion that the onus has been discharged can be factual when the correct legal test has been applied. It does not become immune from scrutiny simply because the Tribunal describes an explanation as having been given. Here the Supreme Court read the Tribunal as accepting that the asserted available cash was false, leaving the extra money unexplained. Neither the Tribunal nor High Court identified cogent rebutting material. The High Court therefore had not correctly applied the statutory presumption and *Mussadilal* principles (physical pages 7–8).

This is an actual ruling on the historical evidentiary rule and its legal misapplication, followed by reference relief. It is not a universal rule that every rejected explanation establishes concealment independently of the applicable statute, nor does the Court treat the presumption as irrebuttable. The report gives no final assessed-total calculation from which to reconstruct the 80% test (physical pages 6–8).

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

## 03 JUDICIAL DECISION

The Supreme Court allowed Revenue's appeal, set aside the High Court's refusal order and directed a reference on the stated question of law. The Tribunal was to forward a statement of the case within four months and the High Court was to dispose of the reference as quickly as possible. Appeal costs were to be costs in the reference. Despite the discussion that penalty may be imposed, the operative order did not itself restore or newly levy the Rs 18,750 penalty or answer the reference finally (physical page 8/SCR 262).

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

**04 OUTCOME / IN WHOSE FAVOUR**

In whose favour: Revenue on the legal challenge to refusal of a reference

Appeal allowed; High Court refusal set aside; statement of case and reference directed; costs in the reference

Historical presumption and legal-error ruling made; reference disposal and final penalty outcome are not supplied

No final restoration of the penalty, fresh tax computation, conclusive fraud finding detached from the statutory presumption, or current-law penalty rule.

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

**05 AKHB REVIEW POINT**

Identify the exact penalty provision and statutory version before allocating the evidentiary burden. Then separate the threshold for the historical presumption, the material said to rebut it, and the fact-finder's reasons. The label 'finding of fact' does not cure use of the wrong burden or absence of any identified rebutting material.

Keep the holding and relief separate: this judgment corrects the presumption analysis but orders a reference. It does not supply the later answer or final penalty disposal. The source also contains material reporting anomalies, including an isolated 30% recital contradicted by the quoted 80% text. Do not reuse that recital as a statutory threshold. Comprehensive later treatment, modern penalty provisions and any 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, assessment year, original/revised returns and investment

**Source url:** [Open cited source](#)

**Pdf pages:** 1; 3; 4

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

**Source role:** reported metadata and judicial text

2.

**Topic:** Penalty, quoted Tribunal reasoning and proposed reference questions

**Source url:** [Open cited source](#)

**Pdf pages:** 4; 5

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

**Source role:** judicial text

3.

**Topic:** High Court refusal and complete historical Explanation

**Source url:** [Open cited source](#)

**Pdf pages:** 6; 7

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

**Source role:** judicial text

4.

**Topic:** Rebuttable onus and fact-finding qualification

**Source url:** [Open cited source](#)

**Pdf pages:** 7; 8

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

**Source role:** judicial text

5.

**Topic:** Application to absent rebuttal and actual reference relief

**Source url:** [Open cited source](#)

**Pdf pages:** 8

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

**Source role:** judicial text

## JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sabyasachi Mukharji, C.J.

## ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

## SOURCE & VERIFICATION

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

Identified source rendition: 8 PDF pages; SHA-256

bf8ccce42dfa8acea0efb83adc2b9204889d750b3b248ca9aab57ea0db846ae1. Original bytes preserved.

Editorial headnotes and reported proceedings occupy physical pages 1–3/SCR 255–257. Complete Sabyasachi Mukharji C.J. judgment begins on physical page 3/SCR 257 and ends on page 8/SCR 262. Tribunal and High Court quotations on pages 4–6, and Mussadilal quotation on page 7, are separately attributed. No neighbouring judgment.

[Open cited source rendition](#)

The image at physical page 7/SCR 261 itself prints 30% in one prose recital. The Explanation quoted at pages 6–7 and the Mussadilal quotation on page 7 consistently use 80%; the note follows those texts and does not silently treat the source as error-free.; The opening at page 3 describes the original return as declaring "No loss". That wording is not converted into a nil-income figure. The subsequent revised loss of Rs 9,490 is expressly stated.; The page 8 sentence that there was "no controversy that the amount was not the income of the year in question" is awkward in context and sits beside the headnote's account of lack of proof for the relevant year. No independent categorical finding on the year of earning is inferred from it.; Page 5 refers to the respondent moving the High Court, although the surrounding chronology and the appeal identify Revenue as the party seeking the reference. The note follows the complete procedural account.; The complete final order directs a reference. Neither the editorial appeal-allowed label nor the body's statement that penalty may be imposed establishes that the Supreme Court finally reinstated the penalty.; Anwar Ali, Khoday Ramarao and Mussadilal are discussed through this primary judgment only; no separate full-source or later-treatment review of them is claimed.

**STATUTORY SCOPE**

No automatic mapping to the Income-tax Act, 2025 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. Earlier authorities discussed in this judgment have not been separately retrieved for this review.

**IDENTIFIED SOURCE LINKS**

[reported judgment - PDF pages: 8](#)

SHA-256: bf8ccce42dfa8acea0efb83adc2b9204889d750b3b248ca9aab57ea0db846ae1

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