

Attar Singh Gurmukh Singh v. Income Tax Officer, Ludhiana etc.

Civil Appeal No. 11 of 1991 and connected proceedings (full list below)

[1991] 3 SCR 405 | 1991-08-07

Whether section 40A(3), read with Rule 6DD, was invalid as an arbitrary restraint on business or tax on assumed income, and whether it extended to cash payments for stock-in-trade.

28 | 40A(1) | 40A(3)

Two-judge bench | K. Jagannatha Shetty, J. | Yogeshwar Dayal, J.

Assessment years: See the source-scope notes; no year inferred.

Historical cash-payment rules; genuineness alone is not an exemption

The facts concern cash payments above the original Rs 2,500 threshold; the Court also quotes the Rs 10,000 version after the 1987 amendment and historical Rule 6DD(j). The assessment years are not supplied. Apply the payment modes, thresholds and exceptions for the actual year rather than transplanting this wording. Genuine transactions are not automatically outside section 40A(3); the prescribed exception must be established. Appeals and SLP were dismissed with costs. Comprehensive later treatment and current-law/2025 Act mapping remain unverified.

01 FACTS OF THE CASE

The assessee had paid cash exceeding Rs 2,500 for some stock-in-trade purchases. Those payments were disallowed in computing business income as contrary to section 40A(3) read with Rule 6DD. The common appeals challenged both the validity of the provision and its application to stock purchases. Individual assessment years, purchase amounts and particular exception evidence are not given in the judicial text (physical page 3/SCR 407-D-F).

The Court reproduced section 40A(1), the material part of section 40A(3), its further proviso and Rule 6DD(j). It expressly distinguished the original Rs 2,500 threshold from the Rs 10,000 threshold introduced by the 1987 amendment. The latter quotation does not establish that Rs 10,000 governed each older payment in this appeal group (physical pages 3-5/SCR 407-G-409-E).

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

02 DISCUSSION BY THE HON'BLE COURT

The validity argument was that excluding a genuine stock purchase would tax assumed income and arbitrarily restrict business. The Court read section 40A(3) together with Rule 6DD and rejected that contention. The payment requirement supported verification of genuineness and disclosed sources and restrained unaccounted money. Business expediency and difficulty were relevant through the prescribed exceptions; they were not excluded from consideration (physical pages 5–6/SCR 409-F–410-E).

The Court expressly stated that genuine and bona fide transactions were not outside the section's sweep. Under the then Rule 6DD(j), the assessee had to satisfy the assessing officer about the specified exceptional or impracticable circumstances or genuine difficulty to the payee and furnish evidence of genuineness and payee identity. The judgment does not create an unconditional cash-payment exemption merely because a purchase is real (physical pages 5–6/SCR 409-B–410-C).

Expenditure includes the outgoing to purchase stock-in-trade, notwithstanding its treatment in commercial accounting when gross profit is determined under section 28. Rule 6DD itself contemplated stock and raw-material purchases. The Court agreed with the line of High Court authority applying section 40A(3) to those purchases and rejected the contrary approach of the Gauhati High Court in Hardware Exchange (physical pages 6–7/SCR 410-E–411-E).

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

03 JUDICIAL DECISION

All the appeals and the special leave petition were dismissed with costs. The challenge to validity and the proposed exclusion of stock-in-trade purchases failed. The Court did not grant a particular Rule 6DD exemption or direct a fresh factual inquiry (physical page 7/SCR 411-E).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

All appeals and the special leave petition dismissed with costs

Final merits ruling sustaining validity of section 40A(3), read with Rule 6DD, and its application to stock-in-trade expenditure

The decision preserves prescribed exceptions but does not allow cash purchases merely on proof of genuineness. It does not specify the assessment years or decide each possible exception on individual evidence.

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

05 AKHB REVIEW POINT

Test a cash purchase in two stages: whether it is within the relevant year's payment-disallowance rule, and whether the evidence satisfies an exception actually prescribed for that year. Stock-in-trade is not outside expenditure merely because it appears in the trading account. Conversely, the hardship reasoning must be read with the Rule that the Court actually considered.

Do not transplant the historical Rs 2,500/Rs 10,000 discussion, crossed-payment terminology or then-clause (j) into another year. Preserve the judgment's inconvenient but important sentence that genuine transactions remain within the section's sweep. Genuineness and payee identification were elements of the historical exception analysis, not a universal alternative to the required mode of payment.

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

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 11 of 1991 / Civil Appeal No. 2752 of 1979 / Civil Appeal No. 1105 of 1976 / Civil Appeal Nos. 29 and 985 of 1987 / Civil Appeal No. 4950 of 1989 / Civil Appeal No. 1032 of 1979 / Civil Appeal No. 3331 of 1983 / SLP (Civil) No. 15 of 1980 / CMP No. 1350 of 1980 / Civil Appeal No. 1425 of 1976

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, case group and payment facts

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: SCR 405; SCR 407-B-F; cover, jurisdiction and judicial opening

Source role: reported metadata and judicial text

2.

Topic: Historical statute, thresholds and Rule 6DD(j)

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: SCR 407-G-409-E; reproduced statute and rule

Source role: judicial text

3.

Topic: Validity, genuineness and bounded exceptions

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 409-F-410-E; unnumbered judicial reasoning

Source role: judicial text

4.

Topic: Stock purchases, rejection of contrary view and costs

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: SCR 410-E-411-E; unnumbered judicial reasoning and disposal

Source role: judicial text

OTHER GOVERNING STATUTES

1.

Act: Income-tax Rules, 1962

Provisions: Rule 6DD; Historical Rule 6DD(j)

Role: The prescribed exceptions, including then-clause (j), form part of the validity and hardship analysis.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

K. Jagannatha Shetty, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

HISTORICAL STATUTORY CONTEXT

The assessee's payments exceeded the original Rs 2,500 threshold. The Court also reproduced the version with Rs 10,000 after the 1987 amending Act and explained that change. The prescribed form was a crossed cheque or crossed bank draft. Historical Rule 6DD(j) required specified difficulty/exceptional circumstances plus evidence of payment genuineness and payee identity. These thresholds, payment forms and exception wording are not presented as present law.

IDENTIFIED PROCEDURAL HISTORY

Common judgment on the listed appeals and SLP. The lead appeal is from Punjab and Haryana High Court judgment dated 15 October 1979; the printed jurisdiction block identifies C.Q.P. No. 1009 of 1974. The source does not supply full factual histories for each companion.

APPEAL GROUPING AND SOURCE LIMITS

One common judgment: True

Appeal count: 9

Special leave petition count: 1

Associated application: CMP No. 1350 of 1980; listed in jurisdiction block; no separate operative application direction supplied

ROLE AND SCOPE OF EACH IDENTIFIED PROVISION

1.

Section: 40A(3)

Role: Validity and applicability to stock-in-trade purchase expenditure decided.

2.

Section: 40A(1)

Role: Overriding introductory provision reproduced with the statute; the narrative loosely refers to section 40A(3) as beginning with the non-obstante clause.

3.

Section: 28

Role: Commercial accounting for stock-in-trade in computing gross business profit; supports the expenditure analysis.

OPERATIVE 1961 ACT PROVISIONS

40A(3)

SOURCE & VERIFICATION

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

Identified source rendition: 7 PDF pages; SHA-256

322c316bf8579ca2eed9fd293f217aac28cfc26a8d1988ae2881dbf9d6e095e. Original bytes preserved.

Complete unnumbered judicial text from physical page 3/SCR 407-D, K. Jagannatha Shetty J. opening, through physical page 7/SCR 411-E and dismissal with costs. Editorial headnote/metadata on physical pages 1–3 separately read. No adjacent judgment included.

[Open cited source rendition](#)

The printed jurisdiction block gives C.Q.P. No. 1009 of 1974. It is retained as printed; no assumed correction to another case-type abbreviation is made.; The non-obstante text is reproduced under section 40A(1), although the narrative calls section 40A(3) an overriding provision. The note identifies the statutory location without altering the original.; The source gives no assessment years. The original Rs 2,500 payment facts and the subsequently reproduced Rs 10,000 version are kept separate.; The phrase that genuine and bona fide transactions are not taken out of the section's sweep is confirmed in the image at SCR 410-A. It is not reversed or silently treated as a universal exception.; The headnote says Hardware Exchange was reversed; the judicial text states disagreement with that view while dismissing the listed assessee matters. This note uses the judicial formulation rather than inventing a separate operative reversal of an unlisted Revenue appeal.; The source has no numbered judicial paragraphs; pinpoints use physical PDF pages and printed SCR pages/letter zones.

The common judicial text does not state the assessment years; none is inferred from the threshold or docket dates.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment has not been verified. Any bounded check is identified expressly and does not certify current law.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 7](#)

SHA-256: 322c316bf8579ca2eed9fd293f217aac28cfc26a8d1988ae2881dbf9d6e095e

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