

Union of India and another etc. v. A. Sanyasi Rao and others etc.

Civil Appeal Nos. 4290-4394 of 1989 etc.; connected writ petitions and special leave petitions
[1996] 2 SCR 570 | 1996-02-13

Constitutionality of historical sections 44AC and 206C: presumptive collection preserved, regular business-income assessment required

Income-tax Act, 1961: historical sections 44AC and 206C; sections 28 to 43C | Constitution of India: Article 14 and Seventh Schedule, List I, Entry 82

Three-judge bench; judgment delivered by K. S. Paripoornan, J. | A. M. Ahmadi, C.J. | S. C. Sen, J. | K. S. Paripoornan, J.

Historical presumptive-tax scheme

The Court read section 44AC down as an adjunct to collection under section 206C; it did not dispense with regular assessment or strike down the whole collection scheme.

01 FACTS OF THE CASE

Assessees trading in country liquor, timber and other forest produce challenged sections 44AC and 206C as beyond legislative competence and unconstitutional. Several High Courts upheld the scheme; Andhra Pradesh, followed in substance by Orissa and Punjab and Haryana, read section 44AC down to preserve ordinary assessment. Both assessees and the Union appealed, with connected direct writ petitions and special leave petitions.

Representative cases involved a Haryana liquor contractor and a firm buying tendu leaves from State forest departments for resale. The Government relied on difficulty tracing short-lived or benami trading concerns and recovering their tax.

Source: [Primary judgment: Paragraphs 1-9; SCR 573-585; PDF pp.4-16](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court construed Entry 82 broadly enough to cover incidental anti-evasion machinery. Using purchase price to measure collection at an anterior stage did not change an income-tax levy into a purchase tax. Sections 44AC and 206C were machinery provisions; the charge arose under the Act's charging framework. Legislative latitude and practical collection difficulties justified selecting particular trades for presumptive collection. But no rational basis was shown for denying those traders the normal reliefs under sections 28 to 43C. The object of securing collection did not justify eliminating regular assessment, and section 206C(4) itself contemplated an assessment in which collection credit would be given.

Source: [Primary judgment: Paragraphs 12-19; SCR 588-600; PDF pp.19-31](#)

03 JUDICIAL DECISION

The Court agreed with the Andhra Pradesh High Court that excluding sections 28 to 43C was disproportionate to the identified mischief and unreasonable. It upheld section 44AC only as an adjunct to and explanation of section 206C: after collection, business profits and gains still had to be determined by regular assessment under sections 28 to 43C. The legislative-competence challenge and attack on the collection scheme as a whole failed.

Source: [Primary judgment: Paragraphs 18-20; SCR 598-600; PDF pp.29-31](#)

04 OUTCOME / IN WHOSE FAVOUR

A direction issued preserving regular assessment under sections 28 to 43C. To that limited extent, the assessee's writ petitions, civil appeals and special leave petitions were partly allowed; in all other respects the batch stood dismissed. There was no order as to costs. This was mixed relief, not wholesale invalidation of tax collection at source.

Source: [Primary judgment: Paragraph 20; SCR 600; PDF p.31](#)

05 AKHB REVIEW POINT

AKHB analysis: distinguish the collection mechanism from final computation of taxable income. Administrative difficulty can justify collecting early, but does not itself justify denying comparable businesses ordinary assessment reliefs. For this historical scheme, the practical protection was a regular assessment and credit for collected tax, not exemption from collection. Verify the applicable statutory version and later treatment before drawing any present-law analogy.

Source: [Primary judgment: AKHB analysis based on paragraphs 18-20; SCR 598-600; PDF pp.29-31](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Complete 31-page Supreme Court Reports rendition; judicial reasons distinguished from editorial headnotes.

[Open cited source rendition](#)

The source describes representative cases rather than every proceeding in the batch; no common assessment year is inferred. The operative paragraph 20 sustains section 44AC as read down, rather than invalidating the whole scheme.

STATUTORY SCOPE

This decision concerns the historical section 44AC presumptive scheme and section 206C as reproduced in the report. The reproduced rates, goods categories and collection procedure must not be applied as current law. Article 19(1)(g) was pleaded but not urged (paragraph 12).

LATER TREATMENT

Source checked 2026-10-12. Later judicial treatment and present-law application have not been comprehensively checked. No current-law or citator clearance is represented.

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