

M/s. Malabar Industrial Co. Ltd. v. Commissioner of Income-tax, Kerala State

Civil Appeal No. 3646 of 1993

[2000] 1 SCR 744 | 2000-02-10

Whether the Commissioner validly revised a nil assessment accepting compensation as agricultural income without supporting material or inquiry, and whether the disputed Rs.3,66,649 receipt was taxable for assessment year 1983-84.

263(1)

2-judge bench | D.P. Wadhwa, J. | S.S. Mohammed Quadri, J.

Assessment years: 1983-84

Historical section 263 revision decision

This note reviews the historical section 263(1) setting decided in 2000. It does not verify later section 263 amendments, including Explanation 2, subsequent judicial treatment or present procedure. Check the applicable statutory version and later authority; no automatic mapping to the Income-tax Act, 2025 is made.

01 FACTS OF THE CASE

Malabar Industrial agreed on 18 July 1982 to sell a 699-acre rubber estate to M/s. Supriya Enterprises for Rs.210 lakh, payable in instalments. The purchaser failed to meet the payment schedule. The parties extended time on terms requiring an additional Rs.3,66,649 described as compensation or damages for loss of agricultural income and other liabilities. The Court records a company resolution dated 25 September 1983. The assessment year was 1983-84 and the accounting period ended on 28 February 1983; these dates are retained as printed rather than silently adjusted (SCR 747 C-F).

The return annexure described the amount as compensation and damages for loss of agricultural income. On 31 October 1985, the Income-tax Officer accepted that entry and made a nil assessment. After examining the record and issuing a section 263 notice, the Commissioner held by an order dated 8/9 February 1988 that the receipt was unconnected with agricultural operations and taxable as income from other sources. The Tribunal dismissed the assessee's appeal on 5 August 1988. On a section 256(1) reference, the Kerala High Court answered against the assessee both the revision-jurisdiction question and the question whether the amount was a taxable receipt; the assessee appealed to the Supreme Court (SCR 746 H-748 B).

Source: [reported judgment](#) / [paragraphs SCR 746 H-748 B](#); [unnumbered judicial opening and facts](#) / [PDF pages 3, 4, 5](#) / [judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court read section 263(1) as imposing two cumulative jurisdictional conditions: the assessment order must be erroneous and it must also prejudice Revenue. Either condition alone is insufficient. It identified incorrect factual assumptions, incorrect application of law, breach of natural justice and absence of application of mind as forms of error. Section 263 was not a general power to correct every perceived mistake (SCR 749 A-D).

Prejudice to Revenue was not confined to a special category of acts undermining revenue administration. The Court rejected the narrower Madras High Court formulation in Venkatakrishna Rice Company. Loss of tax lawfully payable because of an erroneous assessment could constitute prejudice. But the Court expressly required error and prejudice to be read together: a reduction in tax resulting from a course permitted by law was not enough. Where two views were possible and the Income-tax Officer adopted one, the Commissioner's disagreement did not by itself establish an erroneous prejudicial order; the protection did not extend to a view unsustainable in law (SCR 749 E-750 E).

The actual assessment did not rest on an examined, supported legal view. The company resolution apparently had not been placed before the officer; there was no supporting material for the agricultural-income description, and the officer accepted the account entry without inquiry. The Court found lack of application of mind and upheld revision on that record. The conclusion is expressly grounded in these facts; it does not equate every shorter assessment discussion or every disagreement about the depth of inquiry with this factual absence of material and inquiry (SCR 750 E-H).

On the receipt itself, there was no finding that the amount was fixed or quantified as loss of agricultural income. The Tribunal's findings that agricultural operations had ceased in November 1982 and that the receipt did not relate to agricultural operations had not been challenged before the High Court. The further section 2(1A) question therefore did not arise. Although the Court disagreed with the High Court's description of the payment as damages for breach, treating it instead as paid for modification or relaxation of the contract, it upheld taxation under income from other sources (SCR 751 A-D).

Source: [reported judgment / paragraphs SCR 749 A-751 D; complete jurisdictional and receipt analysis / PDF pages 6, 7, 8 / judicial text](#)

03 JUDICIAL DECISION

The assessee's appeal was dismissed with costs. The Court upheld the Commissioner's exercise of section 263(1) jurisdiction and the conclusion that Rs.3,66,649 was a taxable receipt under income from other sources for assessment year 1983-84. It did not accept the High Court's breach-of-contract characterization, but that difference did not change the result (SCR 750 E-H and 751 A-D).

Source: [reported judgment / paragraphs SCR 750 E-H and 751 A-D / PDF pages 7, 8 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee appeal dismissed with costs

Final merits decision upholding revision and taxation of the disputed receipt

Both error and prejudice must be established. The factual absence of supporting material and inquiry here is distinct from an officer adopting a sustainable permissible view. The agricultural-income classification question under section 2(1A) was not independently decided.

Source: [reported judgment / paragraphs SCR 750 E-H and 751 A-D / PDF pages 7, 8 / judicial text](#)

05 AKHB REVIEW POINT

Analyze revision in two stages. Identify the concrete factual or legal error and then explain the resulting prejudice; a lower tax figure, standing alone, is not the statutory test. Distinguish an unsupported acceptance without inquiry from an assessment supported by material and a sustainable legal view. The two-views passage does not protect a view that cannot be sustained in law, nor does an assertion that another view is imaginable automatically defeat revision.

For a compensation receipt, examine the contractual alteration, the basis of quantification and the activities to which the payment actually relates. A bookkeeping label cannot replace that evidence. Here the Court upheld both revision and taxability while correcting the characterization of the contractual payment. Keep that issue-specific result separate from any general proposition about all agricultural compensation or every omitted inquiry. Later section 263 amendments and subsequent treatment require a separate check.

Source: [reported judgment / paragraphs SCR 749 A-751 D; editorial application confined to the reasoning and facts / PDF pages 6, 7, 8 / judicial text](#)

DETAILED DISPOSITION AND CONNECTED GROUPS**Issue results**

1.

Issue: Commissioner's jurisdiction under section 263(1)

Result: Upheld: nil assessment accepted an unsupported account entry without inquiry or application of mind, producing the erroneous prejudicial assessment on this record

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: SCR 749 A-D and 750 C-H; unnumbered judicial paragraphs

Source role: judicial text

2.

Issue: Taxability of Rs.3,66,649

Result: Taxable under income from other sources; receipt arose from relaxation or modification of contractual terms and lacked the factual agricultural connection claimed

In whose favour: Revenue

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: SCR 751 A-D; unnumbered final judicial discussion

Source role: judicial text

3.

Issue: Further section 2(1A) agricultural-income question

Result: Did not arise in view of unchallenged findings and absence of a finding quantifying the amount as lost agricultural income

In whose favour: Not separately decided

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 8

Paragraphs: SCR 751 A-C

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

2(1A); 256(1)

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Syed Shah Mohammed Quadri, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

HISTORICAL STATUTORY SETTING

Historical section 263(1), reproduced in the judgment at SCR 748 F-H and 749 A, required an order erroneous insofar as prejudicial to Revenue and provided for an opportunity of hearing and such inquiry as the Commissioner considered necessary. The printed explanation is omitted as x x x. This review does not verify subsequent amendments to section 263, including Explanation 2, or their effect.

SOURCE & VERIFICATION

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

Identified source rendition: 8 PDF pages; SHA-256

d2911ca11b504e12a86fef0d0a8b4e9cb18a5a3661de50dc835961f614098dc. Original bytes preserved.

Unnumbered judicial text begins with the judgment author at the foot of physical PDF page 3 (SCR 746) and ends with dismissal with costs on physical PDF page 8 (SCR 751). Headnote and editorial case list on physical pages 1-3 are excluded from the ratio.

Complete bounded judicial text read in cached extracted text; source images of pages 1, 3, 4, 6, 7 and 8 checked for identity, exact chronology, jurisdictional reasoning and disposition. The PDF hash matches the preserved consolidated acquisition index. Public mirror of eSCR, not an independently obtained signed original.

Open cited source rendition

SCR citation, Supreme Court decision date, bench, author and appeal number checked against the preserved PDF.

Machine-index 2000INSC61 is not asserted as a verified neutral citation. The source reports two different High Court order dates in its jurisdictional caption and opening judicial passage; the note does not silently reconcile them.

The referred question and factual narrative on physical page 4 (SCR 747 B-D) expressly state assessment year 1983-84; accounting period ended 28 February 1983.

Section 263(1) is the revision provision construed and applied. Section 256(1) supplies the reference procedure. Section 2(1A) is mentioned in the final discussion, but the Court says the further agricultural-income question does not arise on the unchallenged factual findings. The income-from-other-sources head is applied; no section 56 pinpoint is invented.

The preserved SCR source has no numbered judicial paragraphs. All pinpoints use physical PDF pages and printed SCR page/letter coordinates; headnote paragraph labels 1.1-1.3 are not judicial paragraph numbers.; The jurisdictional caption on physical page 3 (SCR 746 F) refers to a Kerala High Court judgment/order of 26 August 1992 in C.M.P. No.4215 of 1991 in I.T.R. No.15 of 1990. The opening judicial passage on pages 3-4 describes the Division Bench judgment in I.T.R. No.15 of 1990 as dated 22 October 1991. Both appear in the source; no unsupported reconciliation is made.; The judicial facts print the company resolution date as 25 September 1983, while also stating an accounting period ending 28 February 1983 and assessment year 1983-84. These dates are recorded as printed; this note does not infer a corrected date or a different assessment year.; The Commissioner's order is printed as 8/9 February 1988. The note preserves that form rather than choosing one date.; The Court rejected the receipt's breach-of-contract characterization and treated it as arising from modification or relaxation of contractual terms; the taxable result should not be restated as a universal rule for all damages.; Later section 263 changes, including Explanation 2, have not been checked against a bounded official statutory source. No statement about their commencement, retrospective reach or effect on this judgment is certified.; The public source is a preserved mirror of eSCR with an acquisition-index hash match. It is not described as a newly obtained official SCI-hosted original.

STATUTORY SCOPE

Historical judgment review only. No automatic mapping to the Income-tax Act, 2025 or certification of present law or procedure.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent judicial treatment or current-law audit.

IDENTIFIED SOURCE LINKS

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

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