

M/s. K.P. Madhusudhanan v. Commissioner of Income Tax, Cochin

Civil Appeal No. 6465 of 2000

[2001] Supp. 2 SCR 1 | 2001-08-21

Whether penalty could fail solely because the notice did not separately invoke the Explanation to section 271(1)(c), and whether agreeing to the addition supplied immunity.

271(1)(c) | Explanation 1(B) to section 271(1)(c)

Three-judge bench | S.P. Bharucha, J. | Y.K. Sabharwal, J. | Brijesh Kumar, J.

Assessment years: 1986-87

Explanation-invocation issue only; historical formulations differ

The Court did not require the notice to name the Explanation separately and rejected an automatic buy-peace defence. It did not validate every notice defect or impose a penalty on every agreed addition. The report mixes an Explanation 1 quotation with an 80%/fraud-or-neglect discussion; neither supplies a current test. Read the civil-penalty language with the bounded Dharamendra comparison. Costs are unquantified; comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

For AY 1986-87, the partnership firm's rice-purchase payments included a demand draft and telegraphic transfer entered in its cash book after their actual dates. The firm said it had used temporary hand loans but could not substantiate them and offered Rs 93,000 as additional income. The AO rejected the explanation and imposed a Rs 37,975 penalty (physical pages 2–3).

The Tribunal deleted the penalty, including on the ground that the proposal did not expressly mention Explanation 1(B). The High Court reversed. The assessee also argued that the agreed addition was made to buy peace.

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

02 DISCUSSION BY THE HON'BLE COURT

The Explanation formed part of section 271. A notice invoking the section did not need an additional express invocation of that Explanation before its prescribed deeming consequences could be considered. The Court rejected the contrary Bombay High Court approach in P.M. Shah and Dharamchand L. Shah (physical pages 4–6).

The argument based on Sir Shadilal did not avoid the applicable Explanation. The Court rejected the contention that agreeing to an addition by itself displaced that statutory framework. This decided the specific Explanation-invocation issue; it was not a ruling validating every ambiguous notice or eliminating the statutory conditions, bona-fide explanation protection and hearing requirements.

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

03 JUDICIAL DECISION

The assessee's appeal was dismissed with costs, sustaining the High Court's result and the penalty outcome. Costs were not quantified, and no criminal conviction or new assessment addition was ordered (physical page 6).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Assessee appeal dismissed with costs

Final on the identified historical penalty and notice objection

No separate Explanation label was required on this issue; not a universal cure for every notice defect or an automatic penalty for every agreed addition.

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

05 AKHB REVIEW POINT

Distinguish failure to name the Explanation from failure to identify the alleged statutory default or give a fair opportunity to respond. Identify the governing version and whether its factual predicates and explanation protections are met. An unsupported explanation and an agreed addition require legal analysis rather than a buy-peace shortcut in either direction.

The report quotes Explanation 1 with a bona-fide disclosure proviso but later discusses an 80%/fraud-or-neglect formulation not reproduced in that quotation. Do not turn that historical discussion into a current percentage or mens rea test. The independently read Dharamendra Textile paragraphs 24–27 later distinguish civil section 271(1)(c) liability from criminal section 276C wilfulness. This bounded comparison does not decide the validity of every later notice or every penalty provision.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, AY and penalty facts

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Quoted Explanation and rejected notice argument

Source url: [Open cited source](#)

Pdf pages: 4; 5

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Narrow notice holding, surrender argument and costs

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Later civil/criminal penalty distinction

Source url: [Open cited source](#)

Pdf pages: 37; 38

Paragraphs: 24–27

Source role: bounded later judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.P. Bharucha, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 6 PDF pages; SHA-256

28948f0b4423d7f86a9a09ea53b0997114058f5e7cbe4175a3d905b50b9a2286. Original bytes preserved.

Complete unnumbered judicial text physical pages 2–6/SCR 2–6; prior headnote and rejected High Court quotations kept distinct.

Open cited source rendition

The quoted Explanation 1(B) and bona-fide proviso on pages 4–5 differ in formulation from the later 80%/fraud-or-neglect discussion. No single harmonised present statutory test is fabricated.; Page 3 describes the Rs 93,000 both as income from other sources and as an unexplained-investment addition; this note does not reconstruct its charging section.; The judgment's discussion of why the Explanation was introduced is reported reasoning, not an independently verified complete legislative chronology.; The later Dharamendra rendition prints section 272(1)(c) and 271(1)(e) in paragraph 25; the surrounding paragraphs concern 271(1)(c). Those slips are not treated as distinct provisions or quoted as accurate text.

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. Comprehensive subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 6

SHA-256: 28948f0b4423d7f86a9a09ea53b0997114058f5e7cbe4175a3d905b50b9a2286

bounded later judicial comparison - PDF pages: 38

SHA-256: dd39c734cf109c6a5ff73b2d0c32f3a914cea6f7ee0e70fdd68a4c36968e38b2

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