

Assistant Director of Inspection (Investigation) v. Kum. A. B. Shanthi

Criminal Appeal No. 601 of 1992 with Civil Appeal No. 4478 of 2000

[2002] 3 SCR 764 | 2002-05-03

Constitutional validity and legislative competence of the cash-loan/deposit mode rule in section 269SS and its historical prosecution and penalty consequences

Income-tax Act, 1961: sections 269SS, 271D, 273B | Income-tax Act, 1961 (historical): section 276DD | Constitution of India: articles 14, 246; Seventh Schedule, List I, entry 82

Two-judge bench; judgment delivered by K. G. Balakrishnan, J. | R. P. Sethi, J. | K. G. Balakrishnan, J.

Historical text; no automatic penalty

The judgment upheld the provisions' validity. It did not dispense with section 273B reasonable cause, decide every element of a particular contravention, or verify the present statutory text and thresholds.

01 FACTS OF THE CASE

One Madras High Court order had quashed prosecution against A. B. Shanthi after holding section 269SS unconstitutional under article 14; in a connected matter, a Single Judge and Division Bench had rejected a separate challenge to sections 269SS and 271D. The Supreme Court heard the Revenue's criminal appeal and the connected assessee appeal together. The challenges attacked the borrower/lender distinction, Parliament's competence under entry 82, and the severity of historical prosecution and penalty provisions.

Source: [Primary judgment: challenges and procedural setting](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court accepted the anti-evasion rationale: unexplained cash discovered in searches could be dressed up later as loans or deposits using manipulated records and confirmations, and section 269SS targeted that practice. Borrowers and lenders were not similarly situated for this purpose, so penalising the accepting borrower did not offend article 14. Entry 82 received a broad construction covering ancillary measures that make income-tax collection effective; section 269SS was therefore within legislative competence and not colourable legislation. The Court also relied on section 273B: proof of reasonable cause for a genuine, bona fide inability to use the prescribed banking mode mitigated undue hardship.

Source: [Primary judgment: anti-evasion rationale, competence and reasonable cause](#)

03 JUDICIAL DECISION

Section 269SS was not discriminatory or beyond Parliament's competence. Section 269SS, section 271D and historical section 276DD were not unconstitutional as draconian or expropriatory, particularly given section 273B reasonable cause. The High Court's constitutional basis for quashing the prosecution could not stand.

Source: [Primary judgment: constitutional holdings](#)

04 OUTCOME / IN WHOSE FAVOUR

Criminal Appeal No. 601 of 1992 allowed and the impugned High Court judgment set aside. Civil Appeal No. 4478 of 2000 dismissed without costs.

Source: [Primary judgment: operative disposition](#)

05 AKHB REVIEW POINT

AKHB analysis: use A. B. Shanthi for the constitutional foundation of the prescribed-mode rule, not as a substitute for transaction-level analysis. A penalty file still requires the applicable statutory version, aggregation and exception checks, proof of taking or accepting the covered amount, competent proceedings and a genuine section 273B reasonable-cause evaluation. Do not transplant the report's historical threshold or prosecution provision into a current file without verification.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATION

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

Complete eleven-page SCR report read in page-preserving text and every page image inspected, from SCR 764 through the connected-appeal dispositions at SCR 774.

[Open cited source rendition](#)

Exact catalogue SHA-256 and eleven-page count verified; all pages were read and visually inspected.

The lead result restores the Revenue challenge to the High Court's constitutional quashing; it does not itself determine factual guilt, penalty quantum or reasonable cause on an individual transaction.

The report's reproduced block labelled section 271D contains repayment/section 269T language associated with the neighbouring penalty scheme; the public note relies on the Court's holdings rather than silently treating that reproduced wording as a current statutory quotation.

STATUTORY SCOPE

The judgment records section 269SS as operative from 1 July 1984, an increase in the stated threshold from Rs.10,000 to Rs.20,000 from 1 April 1989, omission of prosecution section 276DD and introduction of penalty section 271D from that date, together with the reasonable-cause protection in section 273B. These are historical statements from the report, not a current compliance checklist.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. The report discusses the statutory text and monetary thresholds then before the Court, including historical section 276DD; later amendments, scope changes and current thresholds were not independently verified for this note.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

PROFESSIONAL DISCLAIMER

General legal and tax research only; not legal or tax advice. Verify the complete judgment, governing statutory version and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.