

M/s. Kachwala Gems, Jaipur v. Joint Commissioner of Income Tax, Jaipur

Civil Appeal No. 5809 of 2006 / SLP (Civil) No. 1779 of 2005

[2006] Supp. 10 SCR 992 | 2006-12-14

Whether defects in the stock, valuation and purchase records justified rejection of books and the best-judgment estimate sustained by the Tribunal.

144 | 145(3)

Two-judge bench | S.B. Sinha, J. | Markandey Katju, J.

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

Fact-based estimate; no universal 30% rule

The Court sustained the Tribunal's reduced estimate because the record defects and reasons supported it. Best judgment must still be honest and fair. The judgment does not make 30% a general rate, restore the AO's 40%, or make one missing register automatically decisive. Comparator figures differ in the source, and the assessee's assessment year is not supplied. Current law and comprehensive later treatment remain unverified.

01 FACTS OF THE CASE

The assessee traded in precious and semi-precious stones. The AO identified several defects: no quantitative stock details or stock register, no reliable basis for closing-stock valuation, purchases of approximately Rs 42 lakh whose genuineness was not established, and a disclosed gross-profit rate inconsistent with the assessee's earlier results and comparables. The books were rejected under section 145(3), and income was estimated under section 144 (official pages 1–2).

The AO applied a 40% gross-profit rate. CIT(A) reduced it to 35%, and the Tribunal further reduced it to 30%. The assessee disputed both the adverse purchase finding and rejection of its books. No assessment year for the assessee is expressly specified in the judgment; dates attached to comparators are not used to fill that gap.

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

02 DISCUSSION BY THE HON'BLE COURT

Whether the purchases were bogus was treated as a factual finding with which the Court would not interfere on this record. The tax authorities had given cogent reasons for rejecting the books, and the Court found no reason to substitute a different view (official page 2).

Some estimation is inherent in a best-judgment assessment when reliable accounts have not been furnished. That does not permit an arbitrary figure: the estimate must be honest and fair. The Court found no arbitrariness in the assessment as reduced through the appellate process. It neither prescribed 30% as an industry-wide benchmark nor held that a missing stock register alone invariably warrants rejection.

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

03 JUDICIAL DECISION

The assessee's appeal was dismissed without costs. The Tribunal's reduced 30% estimate remained undisturbed; the Court did not restore the AO's 40% rate or order a fresh assessment (official page 2).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the assessee's challenge

Assessee appeal dismissed; no costs

Final refusal to disturb the book-rejection and reduced factual estimate

Fairness and reasons remain necessary; no universal gross-profit percentage, automatic single-defect rule or criminal finding is laid down.

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

05 AKHB REVIEW POINT

Separate the two inquiries: whether the accounts are unreliable enough to reject, and whether the resulting estimate is defensible. Document the stock/valuation defects, purchase verification, earlier history and relevance of proposed comparables rather than relying on the word guesswork. An estimate may involve judgment without becoming arbitrary.

The outcome sustained an already reduced figure on its facts. It is not authority for imposing the highest comparator rate or for treating every unverified purchase as independently proved criminal conduct. The provision applicable to another year and comprehensive later treatment need separate verification.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, record defects and stated statutory provisions

Source url: [Open cited source](#)

Pdf pages: 1

Paragraphs: Unnumbered judicial text

Source role: official identity and judicial text

2.

Topic: Progressive rate reductions and the challenge

Source url: [Open cited source](#)

Pdf pages: 2

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Honest and fair estimation; dismissal without costs

Source url: [Open cited source](#)

Pdf pages: 2

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Reported counterpart and editorial boundary

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3; 4

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Markandey Katju, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 2 PDF pages; SHA-256

83619e36175c8d6b7326ff1c3ce8e7aedb3b9323c67245fc7f48c7763bec4102. Original bytes preserved.

Complete official legacy judgment, all physical pages; identity and ending visually checked.

[Open cited source rendition](#)

The comparator Gem Plaza is described at 35% in the numbered defect recital and 35.48% in the later narration; the source is not silently harmonised.; The source's malformed comparator year 1997098 and the separate 1997-98 comparator reference do not establish the assessee's assessment year.; The words bogus purchases record the tax authorities' finding accepted as factual; the appeal does not decide a criminal charge.

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

[official original judgment - PDF pages: 2](#)

SHA-256: 83619e36175c8d6b7326ff1c3ce8e7aedb3b9323c67245fc7f48c7763bec4102

[reported judgment - PDF pages: 4](#)

SHA-256: 0b8223a88e3532a21dd478e07bbd07d7b6b9d11a5b7e61b581659e7d1ac514be

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