

Commissioner of Income Tax, Ahmedabad v. Sarabhai Holdings Pvt. Ltd.

Civil Appeal No. 482 of 2003 / Civil Appeal No. 483 of 2003

[2008] 14 SCR 988 | 2008-10-21

Whether a genuine pre-accounting-year change in deferred-sale interest terms prevented accrual for AY 1980-81, and whether the surviving AY 1979-80 interest addition automatically justified a penalty for a knowingly untrue advance-tax estimate.

210 | 273(2)(a) | 274 | 215 | 271(1)(c)

Two-judge bench | Lokeshwar Singh Pantia, J. | V.S. Sirpurkar, J.

Assessment years: 1979-80, 1980-81

Keep the two years and the two live issues separate

AY 1980-81 interest did not accrue under the genuine variation made before its accounting year. AY 1979-80 accrued interest remained taxable under the unappealed quantum decision, but the Rs.4 lakh section 273(2)(a) penalty stayed cancelled on the particular statutory knowledge/reason-to-believe test. Section 215 and the separately time-barred section 271(1)(c) challenge were not reopened. This is no general permission for retrospective interest waivers or a universal mental-element rule for tax penalties; current law and later treatment remain unverified.

01 FACTS OF THE CASE

The mercantile-accounting assessee transferred a going-concern unit to subsidiary Elscope under agreements effective 1 March 1977. The 4 March 1977 variation stipulated 11% simple interest on unpaid consideration. Elscope's 15 June 1978 proposal changed the payment terms: approximately Rs.1.84 crore would be payable on demand without interest, and Rs.4.7 crore would be payable in five annual instalments beginning 1 March 1987, carrying 11% interest from 1 July 1979. The assessee accepted the proposal by a 30 June 1978 board resolution; Elscope provided the contemplated security (paragraphs 5–12).

After advance-tax notices, the assessee filed a nil estimate on 14 December 1978 for AY 1979-80. Revenue included accrued deferred-sale interest and imposed a Rs.4 lakh penalty under section 273(2)(a). The High Court upheld the AY 1979-80 interest addition but cancelled that penalty; it also upheld non-accrual for AY 1980-81. Only Revenue's AY 1980-81 quantum challenge and AY 1979-80 section 273(2)(a) penalty challenge remained in the present appeals. The earlier year's quantum and section 215 rulings were unappealed, and a separate section 271(1)(c) challenge had already failed on limitation (paragraphs 1–3 and 13–20).

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

02 DISCUSSION BY THE HON'BLE COURT

For AY 1980-81, the accounting period ran from 1 July 1978 to 30 June 1979. The genuine bilateral variation, accepted on 30 June 1978 and supported by the agreed security, preceded that period and set the interest start date at 1 July 1979. The Court upheld the conclusion that no interest accrued in the relevant accounting year. It rejected the suggestion that a genuine lawful contractual adjustment was inherently tax evasion. Because the income had not accrued, there was no accrued interest to relinquish on a commercial-expediency theory (paragraphs 23–26).

The Court contrasted the unappealed AY 1979-80 position. Interest under the earlier terms had already accrued during 1 July 1977–30 June 1978; the resolution on the final day could not retrospectively undo that accrual. This was explanatory context for the live issues, not a fresh appeal allowing the assessee to reopen the earlier year's quantum (paragraphs 3, 24 and 26).

For the separate AY 1979-80 penalty, an unsuccessful claim to exclude accrued interest did not establish all the elements of historical section 273(2)(a). Revenue had to establish the statutory knowledge or reason to believe that the estimate was untrue. On these particular facts, the genuine resolution provided a basis for the assessee's bona fide belief that the interest would not enter its income. The Court distinguished that specific penalty requirement from section 215 interest; it did not make a universal ruling that every tax penalty requires the same mental element (paragraphs 27–29).

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

03 JUDICIAL DECISION

Both Revenue appeals were dismissed and the High Court judgment was confirmed without costs. No interest addition was sustained for AY 1980-81 under these revised contractual terms. The Rs.4 lakh section 273(2)(a) penalty for AY 1979-80 remained cancelled, while the unappealed AY 1979-80 interest addition was not disturbed. There was no remand or decision on the merits of the separate section 271(1)(c) proceeding (paragraphs 1–3, 20 and 30).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on both live Revenue appeals; the unappealed AY 1979-80 quantum ruling for Revenue remained intact

Both Revenue appeals dismissed; High Court judgment confirmed without costs; no remand

Final on AY 1980-81 non-accrual and AY 1979-80 section 273(2)(a) penalty cancellation within the defined appeal scope

Depends on the genuine variation preceding the relevant accounting year and the express historical penalty language. It does not retroactively erase AY 1979-80 accrued interest, decide the separately time-barred section 271(1)(c) challenge on merits or establish a general exemption for group-company interest waivers.

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

05 AKHB REVIEW POINT

Align the agreement, effective date, accounting period and assessment year before deciding whether income ever accrued. A prospective change to the contractual entitlement is analytically different from trying to relinquish income after accrual. The supplied security and undisputed genuineness support the particular prospective arrangement; a board resolution's label alone would not establish the same facts.

Keep the quantum and penalty tracks separate. The assessee lost the earlier-year accrual position yet retained relief from the advance-tax-estimate penalty because the statutory knowledge/reason-to-believe requirement was not established on these facts. Do not transplant that historical section 273(2)(a) test to another penalty provision without reading its text, or treat the dismissal on limitation in the separate section 271(1)(c) proceeding as a merits endorsement.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal numbers and author

Source url: [Open cited source](#)

Pdf pages: 1; 5

Paragraphs: Cover; jurisdiction line; 1

Source role: reported metadata and judicial text

2.

Topic: Reference questions, live/excluded proceedings and accounting years

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7; 8

Paragraphs: 1-6

Source role: judicial text

3.

Topic: Original interest terms, prospective variation and security

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10

Paragraphs: 7–12

Source role: judicial text

4.

Topic: Advance-tax estimate, assessments, lower orders and separate limitation disposal

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12; 13

Paragraphs: 13–20

Source role: judicial text

5.

Topic: Parties' competing submissions

Source url: [Open cited source](#)

Pdf pages: 13; 14; 15

Paragraphs: 21–22

Source role: judicial text

6.

Topic: Genuine variation and year-specific accrual reasoning

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17

Paragraphs: 23–26

Source role: judicial text

7.

Topic: Separate penalty reasoning and quoted statutory mental element

Source url: [Open cited source](#)

Pdf pages: 17; 18; 19; 20; 21

Paragraphs: 27–29

Source role: judicial text

8.

Topic: Operative dismissal and Rs.4 lakh penalty cancellation

Source url: [Open cited source](#)

Pdf pages: 21

Paragraphs: 30

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

210: Historical advance-tax notices are factual background.

273(2)(a) read with 274: Live AY 1979-80 Rs.4 lakh penalty issue; the statutory knowledge/reason-to-believe requirement is applied.

215: Separate AY 1979-80 interest reference was not appealed by the assessee; discussed only to distinguish interest from the penalty requirement.

271(1)(c): Separate concealment-penalty appeal had already been dismissed on limitation; not a merits issue in these appeals.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

V.S. Sirpurkar, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

LIVE AND CONCLUDED PROCEEDINGS DISTINGUISHED

1.

Proceeding: ITR 56/1986, AY 1980-81 quantum

Status: Live Revenue challenge; no-accrual conclusion upheld

2.

Proceeding: ITR 220/1995, AY 1979-80 section 273(2)(a) penalty

Status: Live Revenue challenge; cancellation of Rs.4 lakh penalty upheld

3.

Proceeding: ITR 56/1986, AY 1979-80 quantum

Status: High Court decision for Revenue unappealed by assessee; not reopened

4.

Proceeding: ITR 75/1987, AY 1979-80 section 215 interest

Status: High Court decision for Revenue unappealed by assessee; not reopened

5.

Proceeding: ITR 58/1993, AY 1979-80 section 271(1)(c) penalty

Status: Revenue's separate challenge dismissed on limitation on 4 October 2004, as reported in paragraph 20; no present merits review

SOURCE & VERIFICATION

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

Identified source rendition: 21 PDF pages; SHA-256

09f8377f225663c6f9379db1b87af5860007926ad0a4b3be03cbbb051b0f7ec2. Original bytes preserved.

One joint judgment by V.S. Sirpurkar, J., paragraphs 1–30, physical pages 5–21 (SCR 992–1008). Pages 1–4 and the opening of page 5 are reporter/editorial material. Reference questions, agreement/resolution extracts, statutory quotation and High Court reasoning are distinguished from the present Court's conclusions. No separate opinion or adjacent judgment.

[Open cited source rendition](#)

Live quantum issue: AY 1980-81, accounting year 1 July 1978–30 June 1979. Live section 273(2)(a) penalty issue: AY 1979-80, accounting year 1 July 1977–30 June 1978. AY 1979-80 quantum is discussed only against the final, unappealed High Court determination.

The headnote discusses both years broadly, but paragraphs 2–3 and 20 limit the live appeals to AY 1980-81 quantum and AY 1979-80 section 273(2)(a) penalty. The note preserves that distinction.; The headnote's abbreviated wording about payment from 1 July 1979 must not be confused with instalment dates. Paragraph 11 says interest starts 1 July 1979, whereas the revised Rs.4.7 crore instalments start 1 March 1987.; Paragraph 10 reports approximately Rs.4.54 crore covered by instalments under the earlier changes; paragraph 11 reports Rs.4.7 crore under the revised terms. The note does not harmonise differing stages into a new calculation.; Paragraphs 25 and 28 include discussion of AY 1980-81 advance-tax/penalty consequences, but the opening scope statement and final Rs.4 lakh penalty ruling concern AY 1979-80. No additional present penalty appeal is inferred.; Paragraph 29 recounts adverse High Court language about the earlier-year retrospective claim alongside the Supreme Court's acceptance of a bona fide estimate belief. That narration is not treated as a finding that the prospective AY 1980-81 arrangement was a sham.; The separate section 271(1)(c) challenge was dismissed on limitation, as the present judgment records; its merits and subsequent penalty-law developments were not independently checked.

STATUTORY SCOPE

Current statutory equivalence and 2025 Act applicability have not been verified.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent judicial or statutory audit. The related company proceedings and earlier limitation disposal are recorded only as reported here; no independent comparison or current-law/2025-Act certification.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 21](#)

SHA-256: 09f8377f225663c6f9379db1b87af5860007926ad0a4b3be03cbbb051b0f7ec2

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.