

Price Waterhouse Coopers Pvt. Ltd. v. Commissioner of Income Tax, Kolkata-I and Anr.

Civil Appeal No. 6924 of 2012

[2012] 8 SCR 849 | 2012-09-25

Whether section 271(1)(c) penalty was justified for failing to add back a gratuity provision where the tax audit report filed with the original return expressly said it was inadmissible and the explanation showed a bona fide, inadvertent computation error.

271(1)(c) | 40A(7)

2-judge bench | S.H. Kapadia, C.J.I. | Madan B. Lokur, J.

Assessment years: 2000-01

Historical section 271(1)(c) penalty decision

This note concerns section 271(1)(c) in the historical statutory and assessment-year setting of the judgment. It is not a present-day penalty manual. Verify the applicable provision, statutory version and subsequent authority; no automatic mapping to the Income-tax Act, 2025 is made.

01 FACTS OF THE CASE

For assessment year 2000-01, the assessee, a management consultancy business, filed a return on 30 November 2000 accompanied by its tax audit report and Form 3CD particulars. Column 17(i) expressly identified a gratuity provision of Rs.23,70,306 as not allowable under section 40A(7). Nevertheless, the computation did not add it back. The original scrutiny assessment of 26 March 2003 also overlooked the discrepancy (paragraphs 3-5).

The Assessing Officer issued a reopening notice on 22 January 2004 and supplied reasons on 16 December 2004, pointing to the audit report itself. Once the error was brought to its attention through those reasons, the assessee explained the omission, filed a revised return on 20 January 2005, and paid the additional tax and interest after reassessment. The officer imposed Rs.27,37,689 as penalty at 300% of the tax sought to be evaded. The Commissioner (Appeals) upheld it; the Tribunal reduced it to 100%, while treating the error as one a competent organization should not have made. The High Court dismissed the assessee's appeal (paragraphs 6-13).

Source: [reported judgment](#) / [paragraphs 3-13](#) / [PDF pages 3, 4, 5, 6, 7](#) / [judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Supreme Court required an explanation of how the mistake occurred. An affidavit stated that the business employed around 1,000 people and had a separate accounts department. It suggested confusion about employees taken over with an acquired business who, unlike other employees, were not members of an approved gratuity fund. A common-resource preparer who was not a chartered accountant completed the return, and the signing director assumed it was correctly prepared and missed the discrepancy. The Court considered that explanation alongside the contemporaneous documents (paragraphs 14-16).

The Court emphasized the unusual facts. Professional reputation and expertise did not make an inadvertent mistake impossible. More importantly, the audit report filed with the return unequivocally identified the provision as inadmissible. That existing disclosure supported the conclusion that the omission was a computation error; even the original Assessing Officer had overlooked it (paragraphs 17-18).

On this record, the Court found neither concealment nor furnishing of inaccurate particulars: the failure to add back the provision was a bona fide, inadvertent human error. The assessee should have exercised care, but the absence of due care in these particular circumstances did not establish either statutory default. The Court's repeated limitation to the peculiar facts is material. It did not announce immunity whenever an assessee calls a mistake inadvertent, pays tax after detection, or has filed some audit material (paragraphs 19-20).

Source: [reported judgment / paragraphs 14-20 / PDF pages 7, 8, 9 / judicial text](#)

03 JUDICIAL DECISION

The appeal was allowed, and the Calcutta High Court's order was set aside, without costs. The Supreme Court held the penalty unjustified because it accepted the omission as an inadvertent and bona fide error on the peculiar facts (paragraphs 20-21).

Source: [reported judgment / paragraphs 20-21 / PDF pages 9 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Appeal allowed; High Court order set aside; penalty held unjustified; no costs

Final merits relief from the historical section 271(1)(c) penalty

Fact-specific bona fide computation error supported by the original audit disclosure and the explanation of preparation. The tax and interest paid after reassessment were not undone, and the judgment did not rule on every reopening or deduction issue.

Source: [reported judgment / paragraphs 9 and 20-21 / PDF pages 6, 9 / judicial text](#)

05 AKHB REVIEW POINT

Preserve the document trail showing what was disclosed when the original return was filed, the precise mismatch in the computation, and the evidence explaining how it arose. Here the disclosure was specific: the audit report itself said the particular provision was not allowable. The later affidavit supplied context for the error; subsequent payment alone was not the Court's reason for deleting the penalty.

Use this decision for its evidence-based conclusion, with the historical provision and facts kept visible. It does not make professional expertise a bar to a genuine-error explanation, but neither does it create a general carelessness exemption or require proof of deliberate concealment in every section 271(1)(c) case. Check the actual statutory conditions and applicable later authority before relying on an asserted mistake.

Source: [reported judgment / paragraphs 4 and 14-20; editorial application limited to the disclosed computation error / PDF pages 4, 7, 8, 9 / judicial text](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

139(6); 139(6A); 44AB; 143(3); 147; 148; 260A

OTHER GOVERNING STATUTES

1.

Act: Income-tax Rules, 1962

Role: Rule 6G(2), Form 3CD and the historical column 17(i) disclosure described in paragraphs 3-4

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Madan B. Lokur, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

HISTORICAL STATUTORY SETTING

The question was a penalty under historical section 271(1)(c), concerning a gratuity provision expressly identified in the filed tax-audit particulars as inadmissible under section 40A(7). Paragraphs 3-4 place the return, audit report and Form 3CD in their then sections 139(6), 139(6A), 44AB and Rule 6G(2) setting. The Court did not decide the substantive deductibility of a different gratuity provision or certify later return-form requirements.

SOURCE & VERIFICATION

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

Identified source rendition: 9 PDF pages; SHA-256

8331747185dfc035f84c10ebf8c2594dfd107776ac6ce6f760b97b8dd2414f13. Original bytes preserved.

Judicial paragraphs 1-21 on physical PDF pages 3-9 (reported pages 851-857). The headnote preceding the author line on pages 1-3 is editorial, not judicial reasoning.

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SCR citation, Supreme Court decision date, bench and author checked against the preserved reported PDF. Appeal year 2012 follows the cover and preserved index; the jurisdiction line prints 2011, an inconsistency expressly disclosed below. No neutral citation inferred.

Judicial paragraph 3 states assessment year 2000-2001; normalized here as 2000-01.

The reported cover on physical PDF page 1 and preserved index give Civil Appeal No. 6924 of 2012; the jurisdiction line on physical PDF page 3 prints 6924 of 2011. The selected appeal year follows the cover/index, with the inconsistency expressly preserved.; The lengthy passage in paragraph 13 is the High Court's reasoning, quoted before reversal. Its automatic-liability language must not be attributed to the Supreme Court's own holding.; The affidavit describes the preparer's possible confusion; that explanation is presented as affidavit evidence, not an independently established finding about every employee or the organization's systems.; The Tribunal, rather than the Supreme Court, reduced the penalty from 300% to 100%; the Supreme Court held imposition unjustified.; This bounded judicial text does not discuss MAK Data, which was decided later, or Reliance Petroproducts. No judicial cross-case treatment is inferred.

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: 9](#)

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