

Principal Director of Income Tax (Investigation) & Ors. v. Laljibhai Kanjibhai Mandalia

Civil Appeal No. 4081 of 2022

[2022] 15 S.C.R. 232 | 2022-07-13

Whether the Gujarat High Court was justified in quashing the 7 August 2018 section 132 authorization, and what limits govern judicial review of the recorded reasons to believe under section 132(1)(b) and (c).

132(1)(b) | 132(1)(c) | 132(1) Explanation

Two-judge bench | Hemant Gupta, J. | V. Ramasubramanian, J.

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

01 FACTS OF THE CASE

The Revenue appealed against the Gujarat High Court's order of 22 February 2019 quashing a section 132 search authorization dated 7 August 2018 and invalidating consequential action. The assessee had challenged the search as a fishing enquiry unsupported by the statutory preconditions, without alleging personal mala fides against the officers. According to the undisputed facts in paragraph 4, he advanced Rs 6 crore on 1 June 2016 and Rs 4 crore on 21 June 2016 to Goan Recreation Clubs Private Ltd. during financial year 2016-17. The loan was secured by a mortgage over property in Bambolim, North Goa. Paragraph 4 records his appointment as a director on 18 May 2016 and cessation on 23 June 2016. The loan was repaid between 6 October 2016 and 31 March 2017, the mortgage was released on 10 July 2017, and declared interest of Rs 42,51,946 was taxed. An assessment under section 143(3) was finalized on 2 March 2021.

The Revenue suspected accommodation entries in the company and associated persons' transactions, including the funding and subsequent cash-deposit pattern. Its allegations and counter-affidavit explanations are investigative assertions, not concluded findings of concealed income. The satisfaction note was approved before the authorization, and the residential search ran from 10 August 2018 until about 3 am on 11 August 2018. The recorded reasons were produced to the High Court and Supreme Court but not supplied to the assessee. The High Court considered clauses (b) and (c) unsatisfied, including because the loan and interest were recorded and the apprehension of non-response to a notice was considered conjectural.

Source: [reported rendition / paragraphs 1-8 / PDF pages 6, 7, 8, 9, 10, 11, 12 / judgment; reported rendition / paragraphs 9-11 / PDF pages 12, 13, 14 / High Court reasoning and party submissions; official signed judgment / paragraphs 1-8 / PDF pages 1, 2, 3, 4, 5, 6, 7, 8 / judgment; official signed judgment / paragraphs 9-11 / PDF pages 9, 10, 11 / High Court reasoning and party submissions](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated authorization as an administrative decision subject to limited judicial review. Drawing on *S. Narayanappa*, *Seth Brothers*, *Lakhmani Mewal Das*, *Partap Singh*, *Agarwal Iron Industries* and *Spacewood Furnishers*, it required actual information, an honest and bona fide belief, and a rational connection between the material and the statutory ground. Mere pretence, mala fides, irrelevant material or absence of the statutory conditions remain reviewable. The exercise of search power is a serious invasion of the taxpayer's rights and must accord with law; judicial restraint does not remove those safeguards (paragraphs 13-22, 26 and 33).

The Court nevertheless held that a writ court cannot reassess the sufficiency or adequacy of the material as an appellate authority. It applied the *Wednesbury* approach and restated the governing principles in paragraph 33. The confidential reasons may be put before the High Court to test the formation of belief; they are not to be reproduced in the judicial order. The judgment also applies the section 132(1) Explanation concerning non-disclosure of recorded reasons, inserted by the Finance Act 2017 with retrospective effect from 1 April 1962. The Court's ability to inspect the reasons is distinct from a claimed right of disclosure to the assessee (paragraphs 5, 19-20 and 32-33).

On these facts, the Court found a relevant investigative basis in the satisfaction note's multiple connected entries, the substantial short-term advance, the parties' circumstances and the suspected accommodation-entry arrangement. Recorded repayment and taxed interest did not, at this threshold, compel the conclusion that no search could be authorized. For clause (b), the Court accepted the Revenue's belief concerning non-production before the West Bengal authorities and the risk that advance notice would disclose the investigation. It held clause (c) satisfied as well, permitting investigation of whether the money advanced and its sources represented undisclosed income (paragraphs 24-28).

Crucially, the Court distinguished reasons to believe from final assessment conclusions. Although it made adverse observations about the transaction's apparent genuineness, it said that the accommodation-entry allegation and money trail still required investigation. The Revenue might ultimately fail or succeed; either possibility did not justify stopping an otherwise valid search at the threshold. This is not an adjudication that the Rs 10 crore was taxable undisclosed income, a determination of additions or penalties, or an endorsement of every search based merely on suspicion.

Source: [reported rendition / paragraphs 13-22 / PDF pages 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26 / judgment and quoted precedents](#); [reported rendition / paragraphs 24-28 / PDF pages 26, 27, 28 / judgment](#); [reported rendition / paragraphs 29-33 / PDF pages 28, 29, 30, 31, 32, 33 / judgment and quoted precedents](#); [official signed judgment / paragraphs 13-22 / PDF pages 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24 / judgment and quoted precedents](#); [official signed judgment / paragraphs 24-28 / PDF pages 25, 26, 27, 28 / judgment](#); [official signed judgment / paragraphs 32-33 / PDF pages 32, 33, 34, 35 / judgment](#)

03 JUDICIAL DECISION

The Revenue's appeal was allowed. The Gujarat High Court order quashing the authorization dated 7 August 2018 was set aside, and the Revenue was left at liberty to proceed against the assessee in accordance with law. The Court upheld the authorization against the challenge made; it did not determine a tax addition, quantify a liability, impose a penalty or direct a merits reassessment by remand. Paragraph 34 contains no separate order on costs.

Source: [reported rendition / paragraphs 34 / PDF pages 33 / judgment](#); [official signed judgment / paragraphs 34 / PDF pages 35 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on validity of the search authorization

Revenue appeal allowed; High Court order set aside; Revenue at liberty to proceed in accordance with law

Search-authorization challenge decided; underlying tax liability and transaction genuineness not finally adjudicated

Fact-specific application of section 132(1)(b) and (c) and the limits of writ review. It does not make the recorded reasons immune from judicial scrutiny or convert an investigative belief into proof of undisclosed income.

Source: [reported rendition / paragraphs 24-28; 34 / PDF pages 26, 27, 28, 33 / judgment](#); [official signed judgment / paragraphs 24-28; 34 / PDF pages 25, 26, 27, 28, 35 / judgment](#)

05 AKHB REVIEW POINT

Separate the authorization file from the eventual assessment file. For a section 132 challenge, identify the information available before authorization, the relevant statutory clause, the reasons recorded, the authorizing authority and approval chronology. Focus review on the existence, bona fides and rational relevance of the belief, rather than asking the writ court to reweigh its adequacy. At the same time, preserve the taxpayer's distinction between a legally sufficient basis for investigation and proof supporting an assessment addition. A loan recorded in books, later repayment and taxed interest do not by themselves decide the authorization issue under this judgment. Nor does this judgment treat every unusual commercial transaction as concealment. Keep any disclosure request for assessment material separate from a demand for the confidential satisfaction note. Use paragraph 33 as the Court's synthesis and check the applicable statutory version and subsequent treatment before reliance; no automatic mapping to the Income-tax Act, 2025 is made.

Source: [reported rendition / paragraphs 4-5; 24-28; 32-34 / PDF pages 8, 26, 27, 28, 31, 32, 33 / judgment](#); [official signed judgment / paragraphs 4-5; 24-28; 32-34 / PDF pages 3, 4, 25, 26, 27, 28, 32, 33, 34, 35 / judgment](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

132(1)(a); 131(1); 142(1); 143(3); 133A; 147(a); 148; Chapter XIV-B

PROVISION-SPECIFIC SCOPE

1.

Provision: 132(1)(b) and (c)

Role: Operative grounds for authorization: anticipated non-production of useful documents and possession of income or property not disclosed or not likely to be disclosed; applied in paragraphs 26-28

2.

Provision: 132(1) Explanation

Role: Non-disclosure of recorded reasons; the judgment discusses the Finance Act 2017 insertion with effect from 1 April 1962 in paragraphs 5, 8 and 33(ix)

3.

Provision: 132(1)(a), 131(1) and 142(1)

Role: Quoted statutory background. Revenue did not rely on clause (a) for this authorization; paragraph 11 identifies that distinction

4.

Provision: 143(3)

Role: Factual background: paragraph 4 records that an assessment was finalized on 2 March 2021; no assessment appeal is disposed of

5.

Provision: 133A; 147(a); 148

Role: Appear in discussion or quotation of other decisions, not independent issues decided in this appeal

6.

Provision: Chapter XIV-B

Role: Paragraph 25 uses it in contrasting reasons to believe with final assessment conclusions; the applicable assessment machinery or a block assessment is not adjudicated

FINANCIAL YEARS IDENTIFIED

2016-17

SOURCE & VERIFICATION

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

Identified source rendition: 33 PDF pages; SHA-256

632bb55d8815033c3d6494d96b2f45d758d3147cd9b1b3eae00a9d470431041f. Original bytes preserved.

[Open cited source rendition](#)

Paragraph 4 states cessation as director on 23 June 2016; the Revenue affidavit quoted in paragraph 6 states resignation as Additional Director on 25 June 2016. The factual narrative follows paragraph 4 and preserves the discrepancy here.

Paragraph 16's introductory description says that the Court can examine sufficiency or adequacy; the immediately following quoted precedent and the express conclusions in paragraphs 32-33 say that adequacy is not for review. This apparent wording inconsistency is present in both renditions. The note follows the express final synthesis, without editing either original.

The reported headnote lists sections 132 and 133. The operative holding concerns section 132; section 133A appears only in the discussion of Ajit Jain. No independent section 133 holding is inferred.

Paragraph 25 refers to final block-assessment conclusions under Chapter XIV-B. That passing reference is not treated as a ruling selecting assessment machinery for the August 2018 search.

The quoted Revenue material uses unsecured-loan language while paragraph 4 records a property mortgage. The note reports the Court's factual account and does not resolve the accounting or security classification.

The source uses adverse investigative observations but expressly leaves the accommodation-entry allegation and money trail to be investigated. Authorization success is not labelled success on a tax addition or finding of tax evasion.

No numbered AY is invented. Financial year 2016-17 and the assessment date are retained in their actual source roles.

The index neutral citation 2022INSC719 is not independently verified from a visible PDF. The verified reported citation is [2022] 15 S.C.R. 232.

The reported judicial boundary is physical pages 6-33, not the entire editorial headnote; the official original is the same decision with different physical pagination.

SCR citation verified on the reported cover. The source index records 2022INSC719, which is not printed in either inspected PDF and is not represented here as independently verified.

No numbered assessment year is identified for the operative dispute. Paragraph 4 expressly identifies financial year 2016-17 and the section 143(3) assessment date of 2 March 2021; no assessment year is inferred from those facts. Generic references to the relevant or same assessment year in paragraphs 24-25 are not converted into an AY.

Official original cover identifies the appeal as arising out of SLP (Civil) No. 25046 of 2019. It challenges the Gujarat High Court order dated 22 February 2019 in R/Special Civil Application No. 16360 of 2018, identified in the SCR preface.

STATUTORY SCOPE

Section 132 and the Finance Act 2017 Explanation as examined by the judgment; no independent current-statute audit

No automatic mapping to the Income-tax Act, 2025 or any later search-assessment scheme.

LATER TREATMENT

Source checked 2026-10-04. Subsequent review proceedings, stays, reversals and later judicial treatment have not been comprehensively checked. This note is not a citator status certificate.

IDENTIFIED SOURCE LINKS

[reported rendition - Physical PDF page 1 / SCR page 232 - PDF pages: 33](#)

SHA-256: 632bb55d8815033c3d6494d96b2f45d758d3147cd9b1b3eae00a9d470431041f

[official signed judgment - PDF pages: 35](#)

SHA-256: a398a5822c03bcd990c7d9a1fd413d096e3bb9191933acf42f0cbab1519d8c5d

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