

**(2025) 02 SC CK 0046**

**Supreme Court Of India**

**Case No:** Civil Appeal No. 2411 Of 2025 (Arising Out Of Special Leave Petition (Civil)  
No.943 Of 2023)

K. Krishnamurthy

APPELLANT

Vs

Deputy Commissioner Of  
Income Tax

RESPONDENT

---

**Date of Decision:** Feb. 13, 2025

**Acts Referred:**

- Income Tax Act, 1961 - Section 132, 132(4), 139(1), 142(1), 143(3), 260A, 271AAA, 271AAA(1), 271AAA(2), 271AAB

**Hon'ble Judges:** J.B. Pardiwala, J; Manmohan, J

**Bench:** Division Bench

**Advocate:** Sameer Abhyankar, Rahul Kumar, Krishna Rastogi, Aakash Thakur, Aryan Srivastava, N Venkatraman, Raj Bahadur Yadav, H R Rao, Tejas Patel, Mohd Akhil, Priyadarshini Priya, S A Haseeb, Navanjay Mahapatra, Brijesh Yadav

**Final Decision:** Disposed Of

---

**Judgement**

Total area registered during the FY 2010-11,"41Â acresÂ and 36 guntas",Amount (in Rs.)

Net Income from other sources,"2,27,65,580",

the Actâ€.,,

12. The Income Tax Appellate Tribunal (â€~ITATâ€™™) vide order dated 17th October, 2016 rejected the Appellantâ€™™s appeal against the order",,,

dated 04th March, 2013 again on the ground of non-compliance with Section 271AAA(2) of the Act 1961.",,,

13. The Appellant preferred an appeal under Section 260A of the Act 1961, on the following substantial questions of law:-",,,

1. Whether the compliance with all the three conditions mentioned in Sub-section (2) of Section 271AAA mandatory or not?,,

2. Whether penalty prescribed @ 10% of undisclosed Income under Section 271AAA of the Act can be reduced if the tax together with interest on the undisclosed,,

income as declared by the Assessee in the course of search in a statement under Section 132(4) is partly complied with, with a delay, in the absence of specific",,,

period for such compliance specified in the Sub-clause (iii) of Section 271AAA of the Act?â€",,,

14. Vide the impugned judgment dated 02nd August, 2022, the High Court dismissed the appeal of the Appellant. The relevant portion of the impugned",,,

judgment is reproduced hereinbelow:-,,

10. Undisputed facts of the case are, according to the learned advocate for the assessee, the assessee had admitted an undisclosed income of 2,27,65,580/-and",,,

filed returns showing income of Rs.4,78,02,616/-. The principal argument is that nothing was found during the course of search; assessee had voluntarily filed",,,

return of income more than what he had admitted before the DDIT. According to him, machinery Section has thus failed and therefore, penalty cannot be imposed.",,

11. Sub-section (1) of Section 271-AAA of the Act reads as follows:,,

"The assessing Officer may, notwithstanding anything contained in any other provisions of this Act, direct that, in a case where search has been initiated",,,

under section 132 on or after the 1st day of June, 2007 [but before the 1st day of July, 2012], the assessee shall pay by way of penalty, in addition to tax, if any,",,

payable by him, a sum computed at the rate of ten per cent of the undisclosed income of the specified previous year.â€",,,

12. Sub-section (2) makes it clear that Sub-section (1) shall not apply if three conditions mentioned therein are fulfilled.,,,

13. Admittedly, as recorded by the Tribunal, third condition namely, the payment of tax, together with interest, if any, has not been fulfilled by the assessee.",,

14. In view of the above, first substantial questions raised by the appellant is answered in favour of the Revenue holding that compliance of all three conditions in",,,

Sub-clause (2) of Section 271AAA of the Act are mandatory.,,,

15. Second question with regard to reduction of penalty commensurate with quantum of tax which the appellant has deposited, is also answered against the",,,

assessee and in favour of the revenue, because, admittedly, appellant had not disclosed the income at all. But for search, the same could not have been unearthed.",,

Having filed the returns, the assessee did not comply with condition No.3 in Sub-Section (2). If the second question were to be answered in favour of assessee, it",,

will amount to placing premium on a person who does not abide by law.,,

16. In view of the above, this appeal must fail and it is accordingly dismissed.â€",,

15. On 06th January, 2023, this Court was pleased to issue notice confined to the second question urged before the High Court.",,

ARGUMENTS ON BEHALF OF THE APPELLANT,,

16. Learned counsel for the Appellant submitted that the Revenue Authorities as well as the High Court, without expressly stating so, have proceeded",,

on the erroneous presumption that the levy of penalty under Section 271AAA(1) of the Act 1961 is automatic and that the only exception thereto was,,

sub-clause (2) of Section 271AAA of the Act 1961.,,

17. He stated that the Revenue Authorities without satisfying themselves as to the satisfaction of â€~undisclosed incomeâ€™™ as stipulated in Section,,

271AAA(1) of the Act 1961, levied the penalty. He pointed out that in a similar situation, in Ajay Kumar Sood Engineers And ContractorsK N",,

Kandla & Co. vs. DCIT [MANU/IG/0095/2024] the ITAT Chandigarh Bench has held as under:-,,

â€œ9. â€|â€|It seems to us that the Id CIT(A) was swayed by the contention of the assessee in seeking immunity from levy of penalty u/s 271AAA(2) of the Act and,,

in that context, he apparently held that it is for the assessee to demonstrate that income so surrendered falls in the definition of undisclosed income as so defined.",,

As we have held earlier, it is for the Assessing Officer to record a specific finding that undisclosed income as so defined has been found based on tangible",,

verifiable material found during the course of search and the onus is thus on the Assessing officer (and not on the assessee) to satisfy the conditions before the,,

charge for levy of penalty is fastened on the assessee. The assessee might be seeking immunity under section 271AAA(2) but before that the charge for levy of,,

penalty has to be satisfied by the AO and for that, it for the AO to record a specific finding as to the fulfillment of conditions specified therein and which",,

apparently has not been fulfilled in the instant case' (emphasis supplied),,,

18. He submitted that the authorities and the High Court ignored the law laid down by this Court in *Dilip N. Shroff vs. CIT* [(2007) 6 SCC 329],,,

wherein it was held that the imposition of penalty is not mandatory. He pointed out that in the context of Section 271AAB, analogous to the provision",,,

in question, i.e. Section 271AAA, the aforesaid proposition of law was applied by the ITAT, Kolkata Bench in *DCIT vs. Aryan Mining & Trading*",,,

*Corporation Ltd.* [2019 SCC OnLine ITAT 4649]. The use of the word 'may' in the provision (as is the case in Section 271AAA) was held,,

critical in that decision.,,,

19. He further submitted that Section 271AAA(1) of the Act 1961 enables the Assessing Officer to issue a direction for imposition of penalty being a,,

sum 'computed at the rate of ten per cent of the undisclosed income of the specified previous year'. According to him, the two terms",,,

'undisclosed income' and 'specified previous year' are defined in the Explanation appended to Section 271AAA. Therefore, he submitted",,,

that unless there is undisclosed income in terms of the said provision in the specified previous year an order of levy of penalty cannot be issued by the,,

Assessing Officer.,,,

20. He submitted that the MOU dated 19th January, 2009 at the highest set out payments of Rs.10,00,000/- (Rupees Ten Lakhs Only) to the Appellant",,,

and therefore by itself could not have formed the basis for the Penalty Order dated 30th September, 2013.",,,

21. He further submitted that the declaration before the DDIT(Inv.) during search proceedings was made voluntarily. There was no demonstrable",,,

direct co-relation between the declaration in paragraph 4 of the Assessment Order and the MOU dated 19th January, 2009. Moreover, paragraph 5 of",,,

the Assessment Order also most certainly has no co-relation with the MOU dated 19th January, 2009 since as recorded in paragraph 5.2 itself, the",,,

transactions referred to therein have been found in 'copies of sale deeds collected from the Society' and not the Appellant. Therefore, on both",,,

counts, he stated that a sum of Rs.4,78,02,616/- (Rupees Four Crores Seventy Eight Lakhs Two Thousand Six Hundred Sixteen Only) was not the",,,

undisclosed income of the Appellant for Financial Year ('FY') 2010-2011.,,,

22. In the context of the meaning of "undisclosed income", the Appellant relied upon DCIT vs. Aryan Mining & Trading Corporation Ltd.,,,

2019 SCC Online ITAT 4649 wherein it has been held:-,,

21. "From bare perusal of the definition of the word "undisclosed income" we find that in order to bring a receipt or specie of income within the meaning of",,

the said expression, it is obligatory for the AO to demonstrate and prove that the income is represented either wholly or partly by any money, bullion, jewellery or",,

other valuable article or thing found in the course of search u/s 132 and which was not recorded on or before the date of search in the books of accounts or other,,

documents maintained in the normal course relating to such previous year or otherwise not disclosed to the Commissioner before the date of search",,,

22. We however find that nothing has been brought on record by the AO which in any manner even suggested let alone proved with cogent material that the said,,

income was actually represented either wholly or partly by any sum of money, bullion, jewellery or other valuable article or thing and which was found as a result",,

of search.....",,,

23. Without prejudice to the above submissions, he stated that the penalty could not have been imposed on the entire returned income for FY 2010-",,,

2011. At the highest, and without prejudice to the submission that the Declaration in paragraph 4 of the assessment order had no co-relation to the",,

documents seized during search, he submitted that penalty could have been imposed on the alleged undisclosed income of Rs.2,27,65,580/- (Rupees",,

Two Crores Twenty Seven Lakhs Sixty Five Thousand Five Hundred Eighty Only) referred to in the said declaration at paragraph 4 of the,,

Assessment Order.,,,

ARGUMENTS ON BEHALF OF THE RESPONDENT,,

24. Per contra, learned counsel for Respondent-Income Tax Department submitted that there were concurrent findings of all the authorities below",,

against the Appellant upholding the Penalty amount on the entire income returned as he had failed to meet the conditions of the section.,,,

25. He emphasised that there was a search and the assessment was completed at Rs.4,78,02,616/- (Rupees Four Crores Seventy Eight Lakhs Two",,

Thousand Six Hundred Sixteen Only). He submitted that the charging section is attracted as the assessee/Appellant had failed to comply with the,,

mandatory conditions of Section 271AAA (2) of the Act 1961.,,

26. He submitted that the assessee had failed to adhere to any of the conditions specified under the aforesaid Section as the assessee had never,,

admitted to any undisclosed income and the income was detected only after a search and the assessee never disclosed or explained the manner in,,

which that income was derived/earned and lastly, he did not pay the tax and the interest thereon until 2016 i.e. after three years of the assessment",,,

order.,,

27. He pointed out that the Delhi High Court in the case of PCIT vs. Amul Gabrani (ITA No.1251 of 2018 dated 24th July, 2024) has held that to",,,

claim the benefit of the Section 271AAA(2) of the Act 1961, the assessee has to satisfy the requirements/conditions of the said sub-Section. He",,,

pointed out that the judgment of the Delhi High Court in Amul Gabrani (supra) was carried in Appeal before this Court by the assessee vide Special,,

Leave Petition (Civil) Dy. No.43696 of 2024, wherein this Court upholding the High Court judgment and while dismissing the Special Leave Petition",,,

observed as under:-,,

“We concur with the view taken by the Delhi High Court about the interpretation of sub-section 2 of Section 271AAA of the Income Tax,,

Act, 1961”.,,

28. He, therefore, prayed that the impugned judgment be upheld.",,,

REASONING,,

29. Having heard learned counsel for the parties, this Court is of the view that the present case revolves around the interpretation of Section 271AAA",,,

of the Act 1961. Since the said Section is a complete code in itself, the relevant portion of the said Section is reproduced hereinbelow:-",,,

“271AAA. Penalty where search has been initiated.”(1) The Assessing Officer may, notwithstanding anything contained in any other provisions of this Act",,,

direct that, in a case where search has been initiated under section 132 on or after the 1st day of June, 2007, [but before the 1st day of July, 2012], the assessee",,,

shall pay by way of penalty, in addition to tax, if any, payable by him, a sum computed at the rate of ten per cent of the undisclosed income of the specified",,,

previous year.,,

(2) Nothing contained in sub-section (1) shall apply if the assessee, â€",,

(i) in the course of search, in a statement under sub-section (4) of section 132, admits the undisclosed income and specifies the manner in which such income has",,

been derived;,,

(ii) substantiates the manner in which the undisclosed income was derived; and,,

(iii) pays the tax, together with interest, if any, in respect of the undisclosed income.â€",,

xxx xxx xxx,,

Explanation.â€"For the purposes of this section,â€",,

(a) â€œUndisclosed incomeâ€ meansâ€",,

(i) any income of the specified previous year represented, either wholly or partly, by any money, bullion, jewellery or other valuable article or thing or any entry",,

in the books of account or other documents or transactions found in the course of a search under section 132, which hasâ€",,

(A) not been recorded on or before the date of search in the books of account or other documents maintained in the normal course relating to such previous year;,,

orâ€! â€! ,,,

(b) â€œspecified previous yearâ€ means the previous yearâ€",,

(i) which has ended before the date of search, but the date of filing the return of income under sub-section (1) of section 139 for such year has not expired before",,

the date of search and the assessee has not furnished the return of income for the previous year before the said date; or,,

(ii) in which search was conducted.â€,,

SECTION 271AAA(1),,

30. This Court is of the view that Section 271AAA(1) of the Act 1961 stipulates that the Assessing Officer may, notwithstanding anything contained",,

in any other provisions of the Act 1961, direct the Assessee, in a case where search has been carried out to pay by way of a penalty, in addition to the",,

tax, a sum computed at the rate of 10% (Ten per cent) of the undisclosed income of the specified previous year. However, the imposition of penalty is",,

not mandatory. Consequently, penalty under this Section may be levied if there is undisclosed income in the specified previous year.",,

31. This Court is of the view that though under Section 271AAA(1) of the Act 1961, the Assessing Officer has the discretion to levy penalty, yet this",,

discretionary power is not unfettered, unbridled and uncanalised. Discretion means sound discretion guided by law. It must be governed by rule, not by",,

humour, it must not be arbitrary, vague and fanciful. [See: Som Raj and Others vs. State of Haryana and Others, (1990) 2 SCC 653].",,

SECTION 271AAA(2),,

32. Section 271AAA(2) of the Act 1961 stipulates that Section 271AAA(1) shall not be applicable if the assesseeâ€"(i) in a statement under sub-,,

section (4) of Section 132 in the course of the search, admits the undisclosed income and specifies the manner in which such income has been",,

derived; (ii) substantiates the manner in which the undisclosed income was derived; and (iii) pays the tax, together with interest, if any, in respect of",,

the undisclosed income. (See: Chaturvedi & Pithisariaâ€™s Income Tax Law Seventh Edition).,,

33. Consequently, if the aforesaid conditions (i) and (ii) are satisfied and the tax together with interest on the undisclosed income is paid upto the date",,

of payment, even with delay, in the absence of specific period of compliance, then penalty at the rate of 10% (Ten per cent) under Section 271AAA",,

of the Act 1961 is normally not leviable.,,

EXPRESSION â€˜UNDISCLOSED INCOMEâ€™,,

34. The expression â€˜Undisclosed Incomeâ€™ has been defined in Explanation (a) appended to Section 271AAA of the Act 1961. This Court is of,,

the view that as Section 271AAA is a penalty provision, it has to be strictly construed. The fact that the assessee has surrendered some undisclosed",,

income during the course of search or that the surrender is emerging out of the statements recorded during the course of search is not sufficient to,,

fasten the levy of penalty. The onus is on the Assessing Officer to satisfy the condition precedent stipulated in the said Explanation, before the charge",,

for levy of penalty is fastened on the assessee.,,

35. Consequently, it is obligatory on the part of the Assessing Officer to demonstrate and prove that undisclosed income of the specified previous year",,

was found during the course of search or as a result of the search.,,

EXPRESSION "SPECIFIED PREVIOUS YEAR"™,,

36. Further, the expression "specified previous year"™ has been defined in Explanation (b) appended to Section 271AAA of the Act 1961. Since",,

in the present case, the search was conducted on 25th November, 2010 and as the year for filing returns under Section 139(1) of the Act 1961 which",,

ended prior to that date had expired on 31st July, 2010, Explanation b(i) is not applicable so as to make AY 2010-11 the specified previous year.",,

Consequently, by virtue of Explanation b(ii), AY 2011-12 (the year in which the search was conducted) is the specified previous year in the present",,

case for the purpose of Section 271AAA(1) of the Act 1961.,,

NO PENALTY IS ATTRACTED ON Rs.2,27,65,580/-.",,

37. In the present case, the Appellant admitted Rs.2,27,65,580/-(Rupees Two Crores Twenty Seven Lakhs Sixty Five Thousand Five Hundred Eighty",,

Only) as income for AY 2011-12 during the search before DDIT (Inv.) as well as substantiated the manner in which the said undisclosed income was,,

derived and paid tax together with interest thereon, albeit belatedly.",,

38. Consequently, all the conditions precedent mentioned in Section 271AAA(2) stand satisfied and, therefore, penalty under Section 271AAA(1) is",,

not attracted on the said amount of Rs.2,27,65,580/- (Rupees Two Crores Twenty Seven Lakhs Sixty Five Thousand Five Hundred Eighty Only).",,

HOWEVER, PENALTY AT THE RATE OF 10% IS LEVIABLE ON Rs.2,49,90,000/-",,

39. However, in the assessment order dated 15th March, 2013 passed under Section 143(3) of the Act 1961, which has attained finality, it is an",,

admitted position that the Appellant had not offered in the declaration before the DDIT(Inv.) any income on land transactions belonging to Mr. Sharab,,

Reddy and Mr. NHR Prasad Reddy. From the assessment order dated 15th March, 2013 (reproduced hereinabove), it is apparent that the Appellant",,

offered Rs.2,49,90,000/- (Rupees Two Crores Forty Nine Lakhs Ninety Thousand Only) under the head income from other sources on account of",,

these land transactions during the course of assessment proceedings only and not at any time during the search.,,

40. The argument that the said transactions had not been found in the search at the Appellant's premises but had been found due to copies of, sale deeds collected from the society cuts no ice with this Court as the sale deeds had been collected as a result of the search and in, continuation of the search. This Court is of the view that as the causation for collecting the sale deeds from the Society was the search at the, Appellant's premises, it cannot be said that the said documents were not found in the course of the search.",

41. Further, this Court is of the opinion that the expression "found in the course of search" is of a wide amplitude. It does not mean, documents found in the assessee's premises alone during the search. At times, search of an assessee leads to a search of another individual, and/or further investigation/interrogation of third parties. All these steps and recoveries therein would fall within the expression "found in the, course of search",,

42. Since income of Rs.2,49,90,000/- (Rupees Two Crores Forty Nine Lakhs Ninety Thousand Only) constitutes undisclosed income found during the, search, penalty under Section 271AAA(1) of the Act 1961 is leviable on the said amount. Also, as the said amount was not admitted in the declaration, before the DDIT(Inv.) during the course of search but was disclosed by the Appellant only during the assessment proceedings, and that too, after the, Assessing Officer had asked for copies of the sale deeds from the Society, this Court is of the view that the exception carved out in Section, 271AAA(2) is not attracted to the said portion of the income.,

CONCLUSION,,

43. Keeping in view the aforesaid, the present appeal is disposed of with a direction to the Appellant to pay penalty at the rate of 10% (Ten per cent), on Rs.2,49,90,000/- (Rupees Two Crores Forty Nine Lakhs Ninety Thousand Only) and not Rs.4,78,02,616/- (Rupees Four Crores Seventy Eight, Lakhs Two Thousand Six Hundred Sixteen Only). Pending applications, if any, also stand disposed of.",