

Ram Bai

Vs

Commissioner of Income Tax

Civil Appeal No. 4911 of 1993

(D.P. Wadhwa, M. Srinivasan JJ)

18.02.1999

JUDGMENT

M. Srinivasan, J

1. The appellant owned certain lands in Nacharam village near Hyderabad. The Government of Andhra Pradesh acquired the same under the provisions of the Land Acquisition Act. A sum of Rs. 25,240/- was awarded as compensation by the Land Acquisition Officer on 20.11.65. On a reference at the instance of the appellant, the civil court enhanced the compensation to Rs. 2,72,136/- including solatium and interest. The same was affirmed on appeal by the High Court on 16.10.70. The appellant filed a return under Section 139(4) of the Income-tax Act (hereinafter referred to as the 'Act') On 17.2.72 disclosing the interest on belated payment of compensation as her income. The I.T.O. rejected it as invalid as it was filed beyond the period prescribed under Section 139(4) of the Act. The I.T.O. initiated proceedings under Section 147(a) of the Act for the year ending 31.3.65 in March `1973 and issued a notice under Sec. 148 on 21.4.73. He sought the sanction of the Commissioner on the ground that the land acquired was not agricultural land as it has not been subjected to agricultural operation and the capital gains thereon were chargeable to income-tax.

2. On 4.9.78, the I.T.O. made an order of assessment holding that a sum of Rs. 2,43,934/- was payable as tax and initiated penalty proceedings. On appeal by the assessee, the Commissioner of Income-tax (Appeals) held that the I.T.O. could not have had any reason to believe that there was escapement of income as there was no material whatever at that time to indicate that the lands were non-agricultural. The Commissioner allowed the appeal and cancelled the order of assessment under S. 147(a). The Department approached the Income-tax Appellate Tribunal with an appeal but in vain as the Tribunal agreed with the Commissioner and confirmed his order.

3. The Revenue applied for reference to the High Court on the following three questions :

1. Whether on the facts and circumstances of the case, the Income-tax Appellate Tribunal is correct in holding that the reassessment proceedings were not valid by considering only a part of the Income-tax Officer's note ?
2. Whether on the facts and circumstances of the case, the Income-tax Appellate Tribunal is justified in holding that the income-tax Officer had no reason to believe that the land was not agricultural and in view of the Andhra Pradesh High Court's decision in the case of CIT v. Officer-in-charge (Court of wards) versus CWT (72 ITR 552) which was not accepted by the Department.?

3. Whether on the facts and in the circumstances of the case, the Appellate Tribunal is justified in holding that the lands are agricultural lands ?

4. By a detailed order, the Tribunal rejected the application with reference to Questions 2 and 3 but referred only the first question by recasting it as follows :

"Whether on the facts and in the circumstances of the case the Appellate Tribunal was right in holding that the reassessment proceedings initiated by the Income-tax Officer in this case were not valid in law ?

The High Court by its judgment dated 1.4.91 answered the question in the negative in favour of the Revenue and against the assessee. Aggrieved by this, the assessee filed this appeal on Special Leave.

5. We have earlier referred to the fact that the Tribunal referred only one question to the High Court for its decision and refused to refer the other two questions as desired by the Revenue. The High Court had mentioned in its judgment that the counsel appearing before it made a representation that the other two questions were also subject-matter of another reference. The High Court has recorded in its judgment that the particulars about the other alleged reference were not furnished and thus the only question to be considered was that referred to it by the Tribunal.

6. We have already mentioned that the I.T.O. sought sanction of the Commissioner to reopen the matter. That was by a communication dated 17.3.73 in which the relevant part read as follows :

"In this case the assessee owned 16 acres 33 cents in Nacharam village near Hyderabad. This was acquired by the Government with effect from 27.10.1964. The assessee was awarded a final compensation of Rs. 2,10,361/- on 7.7.1967. The land in question is not agricultural land and had not been subjected to agricultural operations. The capital gains are chargeable to income tax. The value as on 1.1.54 is estimated at Rs. 1,000/- per acre and the total value of the entire land as on 1.1.1954 would be about Rs. 16,500/-. Thus the assessee made a net capital gain of Rs. 1,93,860/-. Besides the amount of interest that accrued year to year will have to be included as a protective basis. The assessee has filed a return disclosing an income of Rs. 3599/- being interest on belated compensation on 17.2.1972. As this has been filed beyond the period prescribed under Section 139(4) the return has been treated as invalid and filed. I have therefore, reason to believe the income chargeable year 1965-66 and that such escapement was by reason of omission or failure on the part of the assessee to make a valid return under Section 139 for the assessment year 1965-66. I request for reopening the assessment under Sec. 147(1)."

6. Apart from the said communication, there is nothing on record to disclose the material on which the I.T.O. decided to reopen the assessment. he has made an assertion in the said communication that the land in question was not subjected to agricultural operation and that he had reason to believe, the income chargeable to tax had escaped for the assessment year 1965-66 by reason of omission or failure on the part of the assessee to make a valid return. But for such assertion, no reference has been made to any material on the basis of which he proceeded to invoke the provisions of Sec. 147(1) of the Act. Even the assertion as such was a bare one without any reference to the materials on the basis of which he made the said assertion.

7. An attempt was made on behalf of the Revenue to show that the land in question did not satisfy the test prescribed by this Court in *Commissioner of Wealth-tax, Andhra Pradesh v. Officer-in-Charge (Court of wards) Paigah (1976) 105 I.T.R. 133*. In that case this Court laid down that for the purposes of Wealth Tax Act agricultural land should be shown to have connection with an agricultural purpose and user in order to be considered as an agricultural land and the mere possibility of user of land by some possible future owner or possessor for an agricultural purpose was not sufficient. The Court said that it was not the mere potentiality which will affect its valuation as part of the assets but its actual condition and intended user had to be seen for purposes of exemption from wealth tax. By that judgment, this Court reversed the judgment of the Andhra Pradesh High Court in *Officer-in-Charge (Court of wards) v. Commissioner of Wealth-tax (1969) 72 I.T.R. 552 (F.B.)*. The Full Bench of the High Court had in its judgment held that actual user of the land for agricultural purposes was not necessary for making it an agricultural land and it was sufficient if the land could have been put to agricultural use. The judgment of this Court was rendered only on August 6, 1976 long after the re-opening of the assessment by the I.T.O. in the present case. Thus when he invoked Section 147(a) of the Act, the aforesaid judgment of the Full Bench of the Andhra Pradesh High Court was holding the field. Hence, the I.T.O. could not have applied a test different from that laid down by the said Full Bench for determining whether the land in question in his case was an agricultural land. Consequently, the decision of this Court in *C.W.T. v. Officer-in-charge (Court of wards) Paigah (supra)* will be of no help to the Revenue.

8. Learned counsel for the Revenue has placed reliance on the judgment of this Court in *Central Provinces Manganese Ore Co. Ltd. v. Income-tax Officer, Nagpur, (1991) 191 I.T.R. 662*. It was held on the facts in that case that the reasons recorded in the notice issued under Section 147(a) and the material on record justified the issue of such notice. That ruling will not help the Revenue in this case as there is no material whatever on record to justify the issue of notice by the I.T.O. under Section 147 of the Act.

9. The Commissioner of Income-tax (Appeals) and the Appellate Tribunal have discussed the matter in great detail and pointed out several facts which were sufficient to show that the land in question was an agricultural land. In the face of such materials if the I.T.O. wanted to reopen the assessment he should have at least some materials to the contrary which could enable him to say that he had reason to believe that the lands were non-agricultural lands and there was escapement of income.

10. The High Court was while answering the reference completely ignored and overlooked the findings of fact rendered by the Commissioner of Income-tax (Appeals) and Appellate Tribunal and proceeded to discuss the matter as if it was sitting in appeal over the order of the Tribunal. The High Court has also assumed that the I.T.O. had looked into the Revenue records and other connected records on the basis of which he came to the conclusion that the reopening of the assessment was necessary. We are unable to agree with the reasoning of the High Court.

11. The learned counsel for the Revenue has attempted to support the order of the High Court by stating that the interest accrued from year to year on the compensation paid to the assessee would have to be brought to assessment on protective basis and the same was sufficient to reopen the assessment. There was no such argument before any of the authorities or the High Court.

12. In the circumstances, the order of the High Court requires to be upset and accordingly we allow this appeal and set aside the judgment of the High Court. The question referred to the High Court by the Tribunal is answered in the positive in favour of the assessee. There will be no order as to costs.