IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 31.07.2026

CORAM :

THE HONOURABLE MR. SUSHRUT ARVIND DHARMADHIKARI,
CHIEF JUSTICE
AND
THE HONOURABLE MR.JUSTICE G.ARUL MURUGAN

TCA No.127 of 2026

The Principal Commissioner
of Income Tax-1
Chennai - 600 034.

Appellant(s)

Vs

Aryan Share And Stock Brokers Ltd
No.7, 7th Cross Street, 2nd Floor,
Shreejimetropolis, Aminjikarai, S.O,
Chennai - 600 030.

Respondent(s)

PRAYER: Appeal filed under Section 260-A of the Income Tax Act, 1961 against the order of the Income Tax Appellate Tribunal, Madrac "C" Bench, Chennai, dated 02.02.2026 passed in ITA No.2756/CHNY/2025.

For Appellant(s): Mr.T.Ravikumar
Senior Standing Counsel

JUDGMENT
(Delivered by the Hon'ble Chief Justice)

This appeal filed by the Revenue under Section 260A of the Income-tax Act, 1961 ("the Act") challenges the order dated 2.2.2026 passed by the Income Tax Appellate Tribunal, Madras "C" Bench, Chennai, in I.T.A.No.2756/Chny/2025 for the Assessment Year 2017–18.

2.1. The respondent-assessee is a registered stock-broker regulated by the Securities and Exchange Board of India (SEBI). For Assessment Year 2017–18, the assessee filed its return of income on 9.9.2017, declaring a total income of Rs.48,04,980/-. The return was initially processed under Section 143(1) of the Act. Subsequently, the Assessing Officer received information from the Investigation Wing stating that search operations were conducted in the case of one Shirish C.Shah, who was allegedly involved in providing accommodation entries through various shell entities, including Orange Mist Productions Pvt. Ltd. The information indicated that the assessee had received funds amounting to Rs.7,15,11,173/- from Orange Mist Productions Pvt. Ltd during the relevant financial year.

2.2. On 18.3.2021, the Assessing Officer issued a notice under Section 148 of the Act to reopen the assessment. The reasons recorded by the Assessing Officer for initiating reassessment proceedings were as follows:

> *"M/s.Aryan Share and Stock Brokers Ltd, PAN: AADCA1233H had received fund to the tune of Rs.7,15,11,173/- from M/s. Orange Mist Productions Pvt. Ltd. During the Financial Year 2016-17. M/s. Orange Mist Productions Pvt. Ltd. Was not involved in genuine business activities and has made suspicious transactions with various parties including M/s. Aryan Share and Stock Brokers Ltd.*
>
> *After the analysis of the Return of Income (T.O admitted Rs.4,01,42,244/-), Form 3CD and other documents (26AS) available on record, I have reason to belief that the income has escaped assessment."*

2.3. The Assessing Officer rejected the objections filed by the assessee and completed the reassessment under Section 147 read with Section 144B of the Act on 21.3.2022, treating the entire receipt of Rs.7,15,11,173/- as an unexplained credit under Section 69A of the Act.

2.4. The Commissioner of Income Tax (Appeals) confirmed the addition. On further appeal, the Income Tax Appellate Tribunal quashed the reopening notice and the reassessment order, holding that the Assessing Officer had acted without jurisdiction as the statutory preconditions under Section 147 of the Act were not satisfied. Aggrieved, the Revenue has preferred this appeal.

3.1. Learned Senior Standing Counsel appearing for the appellant submitted that the information received from the Investigation Wing constituted credible "*tangible material*" establishing a live link with the formation of the belief that income had escaped assessment.

3.2. It is argued that at the stage of issuing notice under Section 148 of the Act, the Assessing Officer is only required to form a *prima facie* view regarding escapement of income and is not expected to conclusively establish the escapement.

3.2. Relying on the decision of the Supreme Court in *ACIT v. Rajesh Jhaveri Stock Brokers Pvt. Ltd*[1], learned Senior Standing Counsel contended that since the original return was merely processed under Section 143(1) of the Act, the Assessing Officer had wide latitude to reopen the assessment, and the Tribunal erred in testing the sufficiency or adequacy of the reasons recorded. He also relied on the decision of the Supreme Court in *Raymond Woollen Mills Ltd v. Income-tax Officer*[2].

4. We have carefully considered the submissions of the learned Senior Standing Counsel for the appellant and perused the records.

5. Under Section 147 of the Act, the existence of a valid "*reason to believe*" that income chargeable to tax has escaped assessment is a jurisdictional condition precedent. While the court will not judge the ultimate adequacy of the material, it must ensure that the recorded reasons disclose a rational connection and a direct

[1] *(2007) 291 ITR 500 (SC)*
[2] *(1999) 236 ITR 34 (SC)*

"*live link*" between the material available with the Assessing Officer and the formation of the belief of income escapement.

6. A long line of Supreme Court decisions establish that "*reason to believe*" cannot be equated with mere suspicion, conjecture, or subjective speculation.

(a) In *Calcutta Discount Co. Ltd. v. ITO*[3], the Constitution Bench established that the expression "reason to believe" predicates that the belief must be held in good faith and founded on definite information, not arbitrary surmise.

(b) In *ITO v. Lakhmani Mewal Das*[4], the Supreme Court reiterated that there must be a direct nexus or live link between the material coming to the knowledge of the officer and the formation of the belief. Remote, vague, or far-fetched material cannot form the basis of a valid reopening.

(c) In *CIT v. Kelvinator of India Ltd*[5], the Supreme

[3] *(1961) 41 ITR 191 (SC)*
[4] *(1976) 103 ITR 437 (SC)*
[5] *(2010) 320 ITR 561 (SC)*

Court affirmed that post-amendment, the Assessing Officer must possess "*tangible material*" to conclude that income has escaped assessment, preventing the reassessment power from turning into an arbitrary power of review.

7. Applying these principles to the facts at hand, the reasons recorded by the Assessing Officer reveal a total non-application of mind and a fundamental misconception of law and fact. The Assessing Officer noticed that the assessee received Rs.7.15 Crore from Orange Mist Productions Pvt. Ltd and compared this figure against the assessee's admitted turnover of Rs.4.01 Crore. Finding the client receipt larger than the broker's turnover, the Assessing Officer arbitrarily presumed escapement of income.

8. The reasons recorded by the Assessing Officer contain no reference to any specific document, ledger, or material establishing that the client payments received in trust were converted into the proprietary income of the assessee. The recorded reason exhibits mere suspicion, which cannot satisfy the standard of "*reason to*

believe" under Section 147 of the Act.

9. Learned Standing Counsel for the Revenue placed heavy reliance on *Rajesh Jhaveri* (supra) to contend that because the return was originally processed under Section 143(1) of the Act, the Assessing Officer was justified in issuing a notice under Section 148 of the Act. This reliance is misplaced. In *Rajesh Jhaveri* (supra), the Supreme Court held that where an assessment is completed by issuing an intimation under Section 143(1) of the Act, the concept of "*change of opinion*" does not apply, because no opinion was formed by the Assessing Officer in the first place. However, the said decision does not do away with the primary jurisdictional requirement of Section 147 of the Act. Even in a Section 143(1) scenario, the Assessing Officer must independently possess valid "*reason to believe*" based on tangible material showing income escapement. The decision in *Rajesh Jhaveri* (supra) cannot be interpreted as granting the Assessing Officer a roving mandate to initiate reassessment on arbitrary assumptions or a complete misunderstanding of fundamental business facts.

10. Similarly, the principles governing the limits of reassessment jurisdiction discussed in *Raymond Woollen Mills Ltd.* (supra) do not assist the Revenue in the instant case. In the said decision, the Supreme Court held that the Court should only have to evaluate whether there is *prima facie* material on the basis of which the Department could reopen the assessment, without deciding the ultimate correctness of the material. However, *prima facie* material must still be relevant material. In the case at hand, the requirement of a rational live link fails entirely.

11. We also note that the Tribunal properly adverted to settled principles regarding the interpretation of recorded reasons, including the decision of the Bombay High Court in *Hindustan Lever Ltd. v. R.B. Wadkar*[6], which holds that recorded reasons must be self-explanatory, without allowing the Revenue to impermissibly supplement or reconstruct them during appellate proceedings.

12. The Appellate Tribunal arrived at a finding of fact that the Assessing Officer acted on erroneous assumptions without any

[6] *(2004) 268 ITR 332 (Bom)*

tangible material or live link to establish escapement of income. The findings recorded by the Tribunal are consistent with settled law laid down by the Supreme Court. No perversity has been demonstrated in the factual evaluation or legal conclusion of the Tribunal.

The Tax Case Appeal is, accordingly, dismissed finding no substantial question of law for consideration.

(SUSHRUT ARVIND DHARMADHIKARI, CJ)   (G.ARUL MURUGAN,J)

31.07.2026

Index : Yes/No
Neutral Citation : Yes/No
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To:

1. The Assistant Registrar
   Income Tax Appellate Tribunal
   Chennai Benches, Chennai.

2. The Additional Commissioner of Income Tax
   National Faceless Assessment Centre
   Delhi.

3. The Commissioner of Income-tax (Appeals)
   Income Tax Department
   National Faceless Appeal Centre
   Delhi.

THE HON'BLE CHIEF JUSTICE
AND
G.ARUL MURUGAN,J.

(sasi)

TCA No.127 of 2026

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