IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 16.02.2026

CORAM :

THE HONOURABLE MR. MANINDRA MOHAN SHRIVASTAVA,
CHIEF JUSTICE
AND
THE HONOURABLE MR.JUSTICE G.ARUL MURUGAN

W.A.No.4004 of 2025
and C.M.P.No.32475 of 2025

M/s.Khazana Jewellery Pvt. Ltd.
Rep. by its Managing Director
Kishore Kumar Jain
252A, NASA Building, TTK Road,
Alwarpet, Chennai- 600 018
(Now at No.48, Khazana Square,
Whites Road, Royapettah
Chennai -600014)

Appellant

Vs

1.Income Tax Settlement Commission
Additional Bench, Chennai,
Satguru Complex,
640, Anna Salai, Nandanam,
Chennai - 600 035.

2.The Deputy Commissioner of Income Tax
Income Tax Investigation Wing,
Central Circle 2(2), Chennai,
New No.46, Mahatma Gandhi Road,
Chennai - 600 034.

Respondents

PRAYER: Appeal filed under Clause 15 of the Letters Patent to set aside the order passed by the learned Single Judge in W.P.No.10688 of 2020, dated 28.11.2025.

For Appellant: Mr.R.Sivaraman

For Respondents: Mr.A.P.Srinivas
Senior Standing Counsel
and Mr.A.N.R.Jayaprathap
Junior Standing Counsel

JUDGMENT
(Made by the Hon'ble Chief Justice)

Heard learned counsel for the parties.

2. This appeal is directed against the order dated 28.11.2025 passed by the learned Single Judge, whereby the writ petition of the appellant/writ petitioner has been dismissed.

3.1. The facts briefly stated and germane for adjudication of this appeal are that the writ petitioner company is engaged in the business of manufacturing and trading of jewels and assessed to

Income Tax in Pan No.AAACK2564Q under the jurisdiction of the Deputy Commissioner of Income Tax, Income Tax Investigation Wing, Central Circle 2(2), Chennai.

3.2. A search under Section 132 of the Income Tax Act, 1961 (*the Act*) was conducted in the premises on 21.04.2016. During the course of search proceedings, the Managing Director has admitted in response to Question No.8 in his sworn statement that the company's inflated refinery loss would be around 3% to 5% and siphoned off the excess gold from the refining process and sold it in the black market. By virtue of inflation of refinery loss, the writ petitioner had generated about a sum of Rs.70.66 Crores from AY 2011-12 to 2016-17, which was stated by the writ petitioner in the letter dated 29.06.2016.

The writ petitioner, in the aforesaid letter dated 29.06.2016, offered to an extent of Rs.80 Crores (268.200 Kg. of gold bullion) towards stock in trade kept with and held by the employees, goldsmiths, agents, etc. in the year of search, i.e., AY 2017-18.

3.3. During the pendency of the assessment under Section

153 of the Act based on search, the writ petitioner has submitted a settlement application dated 16.10.2018 before the competent authority. However, the application came to be rejected.

3.4. The rejection order was challenged by filing writ petition. The learned Single Judge, vide impugned order, concluded that in order to be eligible for settlement, the provisions contained in Section 245C(1) of the Act require full and true disclosure. As the Settlement Commissioner arrived at the conclusion that there was no full and true disclosure, the rejection of the application could not be faulted. Moreover, it was held that the question of changing the stand by converting the undisclosed portion of income into the income under Section 69B of the Act is beyond the scope of settlement proceedings. Hence, the present writ appeal.

4.1. Learned counsel for the appellant would submit that the mandate of law as contained in Section 245C(1) of the Act requires the assessee to make full and true disclosure of its income which has been disclosed before the Assessing Officer, the manner in which such income has been derived, the additional amount of income tax payable on such income and such other particulars described under the law to become eligible.

4.2. He would submit that the present case involves dispute only with regard to the claim of settlement of Rs.80 Crores as undisclosed income. Referring to the settlement application dated 16.10.2018, learned counsel for the appellant would submit that the manner in which the additional income was derived has been elaborately dealt with and it has been clearly stated as to how the assessee used inflated refinery loss to earn additional income which was not disclosed earlier, but later on disclosed.

4.3. According to learned counsel for the appellant, the detailed manner in which it has been stated by it as to how the refinery loss was inflated itself reveals as to how the undisclosed income was arrived at.

4.4. His next submission pertains to the manner in which the writ petitioner derived stock in trade which was offered towards undisclosed income of Rs.80 Crores and as to why it was rejected vide the order impugned in the writ petition. He would submit that the rejection order has not taken into consideration the details submitted by the writ petitioner in his confidential enclosure/ application for settlement dated 16.10.2018 in which the Managing Director has given details of the mode and manner in which the income was derived at and the authority has misdirected itself only to the aspect of stock in trade without appreciating as to how the assessee had correlated the stock in trade with the undisclosed income. The undisclosed income was the result of inflated refinery loss. In this manner, no proper consideration has been taken place. This aspect was not duly appreciated by the learned Single Judge.

5. Learned counsel for the revenue would submit that the application filed by the writ petitioner was considered in detail and the authority was of the view that the assessee failed to substantiate with materials and evidences with regard to its claim in respect of Rs.80 Crores offered during AY 2017-18 as excess stock. He would submit that the burden was on the applicant to explain the query raised by the department and differentiate the said sum of Rs.80 Crores as stock in trade/investment made. The exercise

undertaken by the authority cannot be said to be against the provisions of law. He would submit that upon going through the materials on record the authority arrived at a conclusion that there was no true and full disclosure. Therefore, the rejection is proper.

6. We have taken into consideration submissions made by learned counsel for the parties and perused records.

7. Since the present case relates to the period prior to the abolition of the scheme of settlement under Section 245C of the Act, the provisions contained in Section 245C of the Act are applicable. A perusal of the provisions contained in Section 245C(1) of the Act makes it clear that a prayer for settlement could be made giving full and true disclosure of income which has not been disclosed; the manner in which the said income has been derived; the additional amount of income tax payable on such income; and other particulars as may be prescribed.

8. We have perused the application filed by the writ petitioner before the authority. The application itself titles "*CONFIDENTIAL*

ENCLOSURE 'D' : The Manner in which the Additional income has been derived". This contains the details of the assessee's involvement in inflating refinery loss. The process of refinery, as to how the loss was being assumed and periodically accumulated has been explained in great detail. The details run in as many as 25 paragraphs.

9. The order passed by the authority rejecting the application, however, says that full and true particulars of the materials and evidences have not been disclosed with regard to the manner in which the undisclosed income i.e. Rs.80 Crores was derived.

10. We are of the view that the assessee has submitted details of the manner in which the undisclosed income i.e. Rs.80 Crores was derived. According to the assessee, the stock in trade is directly related to Rs.80 Crores which in turn was result of inflation of refinery loss, which perhaps the assessee was not correct in claiming as such, and this appears to be only a device not to disclose an income which the assessee otherwise had accumulated.

11. The aforesaid aspect, in our view, was not taken into consideration in a proper manner by the competent authority. Since the rejection of the application for settlement not only results in imposition of interest, penalty, but also in prosecution, we are of the view that the competent authority was required to closely examine and scrutinize the manner in which income was derived, as was stated by the assessee in his application dated 16.10.2018.

12. We are, therefore, of the view that interest of justice would be served if the competent authority scrutinizes in detail the manner in which the assessee derived undisclosed income of Rs.80 Crores. We make it clear that even according to the revenue, as far as the remaining Rs.70 Crores is concerned, the writ petitioner is already eligible for settlement.

13. The learned Single Judge has proceeded to accept the reasoning given by the authority resulting in dismissal of the writ petition.

14. In view of the above consideration, the impugned order

passed by the learned Single Judge is set aside. Consequently, the order dated 11.6.2020 is also set aside. The case is remanded to the competent authority for consideration afresh of the writ petitioner's application for settlement keeping in view the observations made by this Court, more particularly, the detailed application filed by the writ petitioner explaining the manner in which it derived the undisclosed income.

15. The writ appeal is, accordingly, allowed. There shall be no order as to costs. Consequently connected miscellaneous petition is closed.

(MANINDRA MOHAN SHRIVASTAVA, CJ) (G.ARUL MURUGAN,J)

16.02.2026

Index : Yes/No
Neutral Citation : Yes/No
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