

आयकर अपीलीय अधिकरण, 'सी' न्यायपीठ, चेन्नई।
**IN THE INCOME TAX APPELLATE TRIBUNAL
'C' BENCH: CHENNAI**

श्री एबी टी. वर्की, न्यायिक सदस्य एवं
श्री एस. आर. रघुनाथा, लेखा सदस्य के समक्ष

**BEFORE SHRI ABY T. VARKEY, JUDICIAL MEMBER AND
SHRI S.R.RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA No.2756/Chny/2025
निर्धारण वर्ष/Assessment Year: 2017-18

Aryan Share & Stock Brokers Ltd., No.7, 7 th Cross Street, 2 nd Floor, Shreejimetropolis, Aminjikai S.O., Chennai-600 030. [PAN: AADCA 1233 H]	v.	The ITO, Corporate Ward-1(1), Chennai.
(अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)
अपीलार्थी की ओर से/ Appellant by	:	Mr.Praveen Kumar Bansal, Advocate (virtually) & Mr. Neeraj Mangla, CA (virtual)
प्रत्यर्थी की ओर से /Respondent by	:	Mr.Kumar Chandan, JCIT
सुनवाईकीतारीख/Date of Hearing	:	21.01.2026
घोषणाकीतारीख /Date of Pronouncement	:	02.02.2026

आदेश / ORDER

PER ABY T. VARKEY, JM:

This is an appeal preferred by the assessee against the order of the Learned Commissioner of Income Tax (Appeal)/NFAC, (hereinafter referred to as 'Ld.CIT(A)'), Delhi, dated 23.09.2025 for the Assessment Year (hereinafter referred to as 'AY') 2017-18.



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2. The assessee is noted to have raised a legal issue, challenging the jurisdiction of Assessing Officer (AO) to reopen the assessment for AY 2017-18, without satisfying the condition precedent as stipulated u/s.147 of the Income Tax Act, 1961 (hereinafter referred to as "the Act").

3. Brief facts of the case are that the assessee company had filed its return of income (RoI) for AY 2017-18 on 09.09.2017, declaring total income at ₹48,04,981/-. The assessee is a registered SEBI Stock-Broker company. The AO has issued notice u/s.148 of the Act on 18.03.2021 expressing his desire to reopen the assessment for AY 2017-18. Pursuant thereto, the assessee is noted to have filed the RoI reiterating the return filed originally. The AO is noted to have issued statutory notices, pursuant to which, the assessee brought to his notice that it is a SEBI Stock-Broker which performs buying & selling of shares on stock-exchange for its clients and that for the purchase/sales made by the clients, necessary debits/credits are received from/to the clients. It was clarified that the transaction mentioned in respect of M/s. Orange Mist Productions Pvt. Ltd., (hereinafter referred to as 'M/s. Orange') pertains to buying & selling of shares on stock-exchange for which payments and receipts are done by/to M/s. Orange. However, the AO was not satisfied with the reply given by the assessee and was of the view that the assessee company is a beneficiary of receiving bogus accommodation entry of ₹7,15,11,173/- from M/s. Orange during the relevant year and



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made addition u/s.69A of the Act to the tune of ₹7,15,11,173/- u/s.69A of the Act. Aggrieved, the assessee is noted to have preferred an appeal before the Ld.CIT(A) who was pleased to dismiss the appeal of the assessee.

4. Aggrieved, the assessee is before us.

5. The Ld.AR appearing for the assessee Shri Praveen Kumar Bansal, Advocate, challenges the jurisdiction of AO to reopen the assessment on the ground that he didn't satisfy the condition precedent as stipulated u/s.147 of the Act. The Ld AR submitted that 'the concept of assessment' is governed by the time barring rule and the assessee acquires a right as to finalities of proceedings. According to him, quietus of the completed assessment can be disturbed only when the AO has satisfied the requirement of law as spelled out in section 147 of the Act. According to the Ld.AR, as per Section 147 of the Act, the AO should record the '*reason to believe escapement of income*' which is an essential condition precedent for invoking jurisdiction to reopen the assessment. Shri Bansal explained, "reason to believe, postulates foundation based on information" and 'belief based on reason". According to him, after foundation based on information is made, there still must be some reason which warrants the holding of belief that income chargeable to tax has escaped assessment, which is absent in this case. The Ld AR further



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wants us to appreciate that information adverse (against assessee) may trigger 'reason to suspect', then the AO to make reasonable enquiry and collect material which would make him believe that there is in fact an escapement of income. According to him, in the present case, a reading of the reasons recorded would reveal that the AO had only reason to suspect and not reasons to believe escapement of income. Hence, according to him, the essential condition precedent has not been satisfied before the AO had assumed the jurisdiction to reopen the assessment. Hence, according to him, the impugned action of the AO reopening the assessment is wholly without jurisdiction and cited several case laws including the decision of the Hon'ble Supreme Court in the case of ITO v. Lakhmani Mewal Das reported in 103 ITR 437. Drawing our attention to the reasons recorded by the AO which is placed at page no.56 of the PB he submitted that a bare reading of the same would reveal that he (AO) received information that assessee had received fund to the tune of ₹7,15,11,173/- from M/s. Orange during the financial year under consideration. And as per such information, M/s. Orange was not involved in genuine business activities and has made suspicious transaction with various parties including the assessee company. According to the AO, on analysis of the return of income (RoI), the turnover accepted by the assessee was only ₹4,01,42,244/- as per Form 3CD and other documents (Form 26AS), therefore, he had formed his



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reason to believe that income as escaped assessment. On the strength of this vague reason, according to Ld AR, the AO has erroneously assumed the jurisdiction to reopen the assessment. Therefore, he wants us to uphold the legal issue and quash the notice issued u/s 148 of the Act.

6. Per contra, the Ld.DR vehemently opposed the legal issue raised by the assessee and submitted that a reading of reasons recorded would reveal that even though the assessee had received fund from M/s. Orange to the tune of ₹7.15 Crs. but the assessee has only shown turnover at ₹4.01 Crs. which fact according to the Ld.DR shows that there is a suppression of income which tantamounts to escapement of income. According to Ld DR, the department had information that M/s. Orange was involved in providing bogus accommodation entries and since the assessee company was a beneficiary of receiving bogus accommodation entries amounting to ₹7.15 Crs, hence, the AO rightly had reason to believe escapement of income. Thus, according to Ld DR, the AO has satisfied the requirement of law, by recording the reasons for reopening of assessment; and therefore the AO had satisfied the condition precedent stipulated u/s 147 of the Act, for reopening of assessment in this case, and hence, the reopening should not be disturbed.

7. In his rejoinder, the Ld.AR countering the argument of Ld DR submitted that the reasons recorded by the AO are fundamentally flawed.



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Explaining the same, he submitted that the AO erred in finding fault with the assessee receiving funds ₹7.15 Crs. from M/s. Orange but still having shown the turnover only ₹4.01 Crs. [as per RoI and Form 26AS], the Ld.AR pointed out that the assessee is a recognized stock-broker of the SEBI, who maintains two separate bank accounts, one for its clients and other for own transactions. Drawing our attention to Page No.12 of Paper Book where assessee has enclosed the RoI from Page Nos.1-52 of Paper Book, he showed that the total credit in the P&L a/c is to the tune of ₹4,01,42,244/- which consists of brokerage, transaction charges, Demat charges & interest income along with gain on mutual funds on the redemption and the income was declaring was ₹48,04,979/- [refer to Page No.1 of Paper Book]. Further, it was shown that actual transaction (accumulative) of the said client [M/s. Orange] for the year under consideration was ₹31.02 Crs. [refer to Page No.204 of the Paper Book] which includes by receipt of ₹7.15 Crs. [refer to Page No.223 of Paper Book]. According to Ld AR, basis for alleging income escaping assessment itself is flawed and erroneous, in as much as the AO erred in comparing the turnover of the assessee with the funds transferred for buying & selling of stocks & shares by the client [M/s. Orange]. According to him, the clients account is being maintained by the assessee/stock-broker as a custodian and doesn't apply to the assessee. According to Ld AR, from a reading of the satisfaction note, it reveals that the AO



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wondered 'as to when' M/s. Orange given funds to the tune of ₹7.15 Crs. to the assessee, how come the assessee is showing only a turnover of ₹4.01 Crs, such a doubt itself is flawed. He reminded us that the transaction which had taken place in the client accounts can't be termed in the hands of the assessee and hence, couldn't have been compared with either the turnover or the income of the assessee. Thus, according to Ld AR, the AO misdirected himself by considering the funds transferred by M/s. Orange for buying & selling of stocks & shares through the assessee acting as a stock-broker as the turnover/income of the assessee and thus, confused himself with the nature of the business carried on by the assessee, as if he was a normal trader without appreciating that the assessee is a stock-broker, whose turnover is only brokerage & commission on transaction of buying & selling of stocks & shares of his clients and one of the client being M/s. Orange. Thus, Ld AR submitted that it is evident that the AO on wrong assumption of facts has usurped jurisdiction prematurely on the basis that despite M/s. Orange has given funds of ₹7.15 Crs. to the assessee still assessee has shown only ₹4.01 Crs. and that M/. Orange was not involved in genuine business activities which according to the AO are suspicious and therefore, he formed the reason to believe the income as escapement of income. The Ld AR reminded us that, 'reason to suspect' is not jurisdictional requirement of law to reopen. Without the AO to have reason to believe the escapement



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of income, the action of the AO will fall short of the requirement of law to reopen the assessment. Adverse information against assessee only triggers 'reason to suspect' and in such an event, he should enquire and collect material and thereafter form belief that income has escaped assessment. Thus, according to Ld AR, without satisfying the condition precedent, the attempt made by the AO to reopen the assessment has to be held to be wholly without jurisdiction and has to be quashed.

8. Since the assessee has raised the legal issue challenging the jurisdiction of the AO to reopen the assessment, let us have a look at the provision of law governing the same and the well settled principles regarding reopening of assessments. The AO in order to validly assume reopening jurisdiction has to satisfy the requirement of law as stipulated u/s. 147 of the Act. As per section 147 of the Act, the AO should record the satisfaction spelling out the "*reason to believe*" that the income chargeable to tax for that assessment year has escaped assessment. If this essential condition is not satisfied, it cannot be said that AO has validly assumed jurisdiction u/s. 147 of the Act. Further, it is well settled that reasons, as recorded for reopening the assessment, are to be examined on a standalone basis. Nothing can be added to the reasons recorded, nor anything can be deleted from the reasons recorded. The Hon'ble Bombay High Court, in the case of **Hindustan Lever Ltd. vs. R.B. Wadkar [(2004) 268 ITR 332]**, has, inter alia, observed that



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".....It is needless to mention that the reasons are required to be read as they were recorded by the AO. No substitution or deletion is permissible. No additions can be made to those reasons. No inference can be allowed to be drawn on the basis of reasons not recorded. It is for the AO to disclose and open his mind through the reasons recorded by him. He has to speak through the reasons." Their Lordships added that "The reasons recorded should be self-explanatory and should not keep the assessee guessing for reasons. Reasons provide link between conclusion and the evidence....". Therefore, the reasons are to be examined only as they were recorded by the competent officer before the issue of the notice.

9. The next important point is that even though reasons, as recorded, may not necessarily prove escapement of income at the stage of recording the reasons, such reasons must point out to an income escaping assessment. The reasons should not merely disclose need for an inquiry which may result in detection of an income escaping assessment. Undoubtedly, at the stage of recording the reasons for reopening the assessment, all that is necessary is the formation of prima facie belief that an income has escaped the assessment and it is not necessary that the fact of income having escaped assessment is proved to the hilt. What is, however, necessary is that there must be something tangible which



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indicates even if not establishes, the escapement of income from assessment. It is only on this basis that the Assessing Officer can form the belief that an income has escaped assessment. Merely because detailed investigation was not carried out and if so, could have led to detection of income escaping assessment, cannot be the reason enough to hold the view that income has escaped assessment. It is also important to bear in mind the subtle but important distinction between factors which indicate an income escaping the assessments and the factors which indicate a legitimate suspicion about income escaping the assessment. The former category consists of the facts which, if established to be correct, will have a cause and effect relationship with the income escaping the assessment. The latter category consists of the facts, which, if established to be correct, could legitimately lead to further inquiries which may lead to detection of an income which has escaped assessment. There has to be some kind of a cause and effect relationship between reasons recorded and the income escaping assessment. While dealing with this aspect of the matter, it is useful to bear in mind the observations made by Hon'ble Supreme Court in the case of **ITO Vs LakhmaniMewal Das [(1976) 103 ITR 437]** that, "*.....the reasons for the formation of the belief must have rational connection with or relevant bearing on the formation of the belief. Rational connection postulates that there must be a direct nexus or live link between the material coming to the notice of*



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the ITO and the formation of this belief that there has been escapement of the income of the assessee from assessment in the particular year because of his failure to disclose fully and truly all material facts. It is no doubt true that the Court cannot go into sufficiency or adequacy of the material and substitute its own opinion for that of the ITO on the point as to whether action should be initiated for reopening assessment. At the same time, we have to bear in mind that it is not any and every material, howsoever vague and indefinite or distant, remote and farfetched, which would warrant the formation of the belief relating to escapement of the income of the assessee from assessment."

10. The term "reason to believe" cannot be considered or evaluated in a watertight compartment and scope and applicability may vary from case to case, depending upon the facts and circumstances. The power under sections 147 / 148 comes into existence if he had reason to believe that income has escaped assessment. Formation of reason to believe that income escaped assessment has to be that of a prudent person. The reasons for such belief have to be recorded in writing on the basis of material in the possession of AO. While the words "reason to believe" are wide in their import, it cannot include a mere suspicion or ipse dixit of the AO. The belief of the AO should lead him to form an honest and reasonable opinion based on reasonable grounds. This proposition has



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been laid down by the Hon'ble Supreme Court in the judgments of ITO vs. Lakhmani Mewal Das (supra) and Navinchandra Mohanlal Parik vs. WTO (124 ITR 68). The reasonability of the grounds which led to the formation of belief warranting reopening is tested from the point of view whether or not they are germane to the formation of belief that income escaped assessment. The Hon'ble Supreme Court endorsing the Full Bench decision of the Hon'ble Delhi High Court in **CIT vs. Kelvinator of India Ltd. (320 ITR 561)** held in its order, "*.....that Assessing Officer has power to reopen, provided there is "tangible material" to come to the conclusion that there is escapement of income from assessment. Reasons must have link with the formation of belief.*" Therefore, if the fresh tangible material which the AO has in his possession is relevant to have nexus to the formation of belief then, of course, the AO would have the necessary jurisdiction to take action under the Act. What is required to be examined is not the adequacy or sufficiency of the grounds but the existence of belief. In our view, all that one has to examine is that whether there was some material which, gave rise to prima facie view that income has escaped assessment and the belief was formed in good faith or was it mere pretense for initiating action u/s 147/148 of the Act. Having taken note of the above legal position of law, now let us look into the facts pertaining to the legal grounds involved in the present appeal.



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For this, we need to look into the reasons recorded by the AO before proposing to reopen the assessment which is reproduced as under:-

"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."

11. After having perused reasons recorded by the AO, the question before us whether the AO validly assumed jurisdiction as contemplated by law to issue notice u/s 148 of the Act and thereafter make an order of assessment u/s. 147 of the Act; and for that it is necessary to examine whether the AO has satisfied the condition precedent as stipulated under the said section viz., AO has recorded "*reason to believe*" that the income chargeable to tax for that assessment year has escaped assessment. If this condition is not satisfied at the first place, then it cannot be said the AO has validly assumed jurisdiction u/s. 147 of the Act. Therefore, the question for consideration is whether on the basis of the reasons recorded by the AO to reopen the assessment, it can be legally held that AO on the basis of whatever material before him, had reasons (which he had indicated in his "*reasons recorded*") which warrant holding a belief that income chargeable to tax has escaped assessment. The reasons recorded by AO to reopen has to be evaluated on a stand-alone basis and no



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addition/extrapolation can be made or assumed while adjudicating the legal issue of AO's usurpation of jurisdiction u/s. 147 of the Act. From the reasons already set out above, it emerges that, the AO had taken note of receipt of funds of Rs.7.15 crores by the assessee from M/s Orange Mist Productions Pvt Ltd during the year. According to AO, M/s Orange Mist Productions Pvt Ltd was not involved in genuine business activities and that it had made suspicious transactions with various parties including the assessee. After purported analysis of the return of income, 3CD etc. of the assessee and taking note of the admitted turnover of Rs.4.01 crores, the AO formed his belief that income had escaped assessment and, hence required to be reopened u/s. 147 of the Act and consequently issued the impugned notice u/s 148 of the Act.

12. We find that the aforesaid reasons do not satisfy the requirements of Section 147 of the Act. The reasons and the information referred to is extremely scanty and vague. There is no reference to any document or statement, or any tangible material or evidence that prima facie shows or establishes nexus or link which discloses escapement of income. Rather, it appears that the reasons were recorded by the AO on his own subjective notions and opinion. The AO has not adduced any material basis which he suspected that M/s Orange Mist Productions Pvt Ltd was involved in non-genuine business transactions or that its transactions with M/s Orange



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Mist Productions Pvt Ltd was suspicious. The AO has mechanically averred that the assessee had received funds from M/s Orange Mist Productions Pvt Ltd which he suspected to be involved in non-genuine activities and thus straightaway concluded that income chargeable to tax had escaped assessment. There is no reason or basis whatsoever stated for arriving at such a belief. The AO has also not examined the nature of receipt of funds from M/s Orange Mist Productions Pvt Ltd by the assessee and only because there was a receipt from M/s Orange Mist Productions Pvt Ltd he suspected that it may represent income escaping assessment, an action we are unable to countenance.

13. It must be kept in mind that reasons to believe postulates foundation based on information and belief based on reason. Even if there is foundation based on information there must be some reason warrant holding the belief that income chargeable to tax has escaped assessment. It has to be kept in mind that the Hon'ble Supreme Court in **Ganga Saran & Sons P. Ltd. Vs. ITO (1981) 130 ITR 1 (SC)** held that the expression "*reason to believe*" occurring in sec. 147 "*is stronger*" than the expression "*if satisfied*" and such requirement has to be met by the AO in the reasons recorded before usurping the jurisdiction u/s. 147 of the Act. It must be kept in mind that information adverse against the assessee may trigger "*reason to suspect*" then the AO is duty bound to make



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reasonable enquiry to collect material which would make him believe that there is in fact an escapement of income which requirement of law has not been fulfilled in this case by the AO.

14. The important question in the present case which alludes us is how the AO formed his opinion that M/s Orange Mist Productions Pvt Ltd was involved in suspicious transactions with the assessee. Apparently there appears to be no basis for this conclusion arrived at by the AO in the reasons recorded. The Ld. DR however sought to defend the action of the AO by submitting that, the AO had compared the receipt of funds of Rs.7.15 crores with the turnover of assessee of Rs.4.01 crores and since the turnover was not commensurate with the amount received from M/s Orange Mist Productions Pvt Ltd, the AO had formed his belief that income had escaped assessment. According to the Ld. DR, the AO after verifying the ITR and Form 3CD of assessee was of the view that, if the assessee was in receipt of Rs.7.15 crores from M/s M/s Orange Mist Productions Pvt Ltd, then correspondingly its turnover ought to have been higher than such receipt of funds. He submitted that, because the turnover reported in P&L A/c of assessee was only Rs.4.01 crores, which was lower than the amount transacted with M/s Orange Mist Productions Pvt Ltd, the AO formed a belief that income chargeable to tax would have escaped assessment.



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15. The Ld. AR, on the other hand, explained that, the AO had failed to appreciate the basic fact that, the assessee was a stock-broker, who was maintaining two separate bank-accounts viz., one for its proprietary business transactions and second one for his clients for their trading. The Ld. AR submitted that, the transactions involving receipt and payment of funds from the bank account maintained for the client did not constitute its turnover and that assessee was only entitled to derive brokerage for the transactions conducted on their behalf. The Ld. AR showed us that, the assessee had conducted stock market transactions aggregating to Rs.31.02 crores for and on behalf of M/s Orange Mist Productions Pvt Ltd which included the impugned sum of Rs.7.15 crores. He submitted that, the AO acted on an erroneous assumption that, the bank credit in said client account ought to correlate with the turnover of the assessee. It was brought to our notice that, the assessee being a broker was only a custodian of clients' monies transacted on their behalf on the stock exchange and therefore the turnover reported in P&L A/c would not comprise of these transactions. The Ld. AR submitted that the turnover would only comprise of the brokerage derived from such transactions, which usually ranged between 0.1% to 0.75%. The Ld. AR illustrated that, in the present case, since the monies transacted through the bank account maintained for client included Rs.7.15 crores of M/s Orange Mist



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Productions Pvt Ltd, then the approximate commission derived by the assessee there from would be Rs.3-4 lacs, which would form part of the aggregate turnover of Rs.4.01 crores credited in P&L A/c and not the transacted value of Rs.7.15 crores. The Ld. AR showed us that, the turnover reported in P&L A/c comprised of brokerage, transaction charges, demat charges, interest income, gain from proprietary trades etc. He thus argued that the AO had misdirected himself on a wrong assumption of fact that the monies paid by M/s Orange Mist Productions Pvt Ltd to the assessee-broker for buying and selling stocks on their behalf, should comprise as turnover/income of the assessee. The Ld. AR emphasized that, the AO had confused the nature of assessee's business as a trader of general goods & services instead of a registered stock-broker, and failed to appreciate the basic fact that, being a broker, the assessee's turnover only comprised of the brokerage element embedded in the monies transacted on client's behalf viz., M/s Orange Mist Productions Pvt Ltd and not the entire transacted value itself.

16. Having considered the contentions put forth by both the parties, we, in principle, are firstly unable to countenance the plea of the Ld. DR for the reason that, the reasons recorded by the AO nowhere expressly discloses his mind that his formation of belief that the receipt of funds of Rs.7.15 crores from M/s Orange Mist Productions Pvt Ltd represented



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income escaping assessment was due to the fact that such receipt did not commensurate with the turnover of the assessee for the relevant year. For this, we gainfully refer to the principles laid down by the Hon'ble Bombay High Court in the case of **Hindustan Lever Ltd., Vs. R.B.Wadkar (supra)** already discussed above. According to us, the reasons recorded should be clear and unambiguous and should not suffer from any vagueness. The reasons recorded must disclose his mind. Reasons are the manifestation of mind of the AO. The reasons recorded should be self-explanatory and should not keep the assessee guessing for the reasons. The AO, in the event of challenge to the reasons, must be able to justify the same based on material available on record. He must disclose in the reasons as to which fact or material was not disclosed by the assessee fully and truly necessary for assessment of that assessment year, so as to establish vital link between the reasons and evidence. That vital link is the safeguard against arbitrary reopening of the concluded assessment. The reasons recorded by the AO cannot be supplemented by filing affidavit or making oral submission, otherwise, the reasons which were lacking in the material particulars would get supplemented by the time the matter reaches to the Court, on the strength of affidavit or oral submissions advanced.



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17. Be the same as it may, the Ld. AR has brought to our notice that, this purported comparison sought to be made by the Revenue before us was also factually misplaced. It is seen that, the assessee is engaged in the business of stock broking being registered member of stock exchange, who conducted transactions on its own account as well as on clients' behalf. Being an active broker of shares, securities, futures & options traded in various capital market segments, the assessee regularly conducts high value transactions for and on behalf of its clients and the only consideration involved for the assessee in this chain of transactions was 'brokerage'. It is observed that, M/s Orange Mist Productions Pvt Ltd was one of the assessee's registered client on whose behalf the assessee had undertaken transactions in various segments of capital markets. The relationship between the assessee and M/s Orange Mist Productions Pvt Ltd was that of broker-principal. The assessee in its capacity of being a stock broker, had provided stock broking services to its customers including M/s Orange Mist Productions Pvt Ltd. It is a well-settled mechanism by way of which investors willing to trade on the stock market can execute their trades through a stock broker. Investors are required to place an order with the stock broker and transfer the requisite payment, for executing such order of purchase or sale, to the broker. The broker, after receiving the payment for a trade by way of margin posting, is bound/required to execute the trade on behalf of its client. Neither does



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the broker have any right on the monies received by it from its clients for executing trades on their behalf nor does the broker have any right on the shares purchased by it through trades executed on behalf of the client. We thus observe that, the assessee broker was only acting as an intermediary in the transaction involving receipt of Rs.7.15 crores which was paid/discharged to the stock exchange on behalf of M/s Orange Mist Productions Pvt Ltd and the assessee was only entitled to the brokerage upon the execution of the trade. Thus, any or all monies received from the clients including M/s Orange Mist Productions Pvt Ltd was held by the assessee in its fiduciary capacity and did not constitute its own proprietary receipt and thus, could not, by any stretch of imagination, be construed to be its turnover or for that matter income escaping assessment.

18. It is true that, the assessee received the impugned sum through banking channel from M/s Orange Mist Productions Pvt Ltd. But these monies were never received nor they were intended for the proprietary use by the assessee. It is evident from the contemporaneous facts placed before us that the payment of Rs.7.15 crores was made by M/s Orange Mist Productions Pvt Ltd to meet its own contractual obligation with the Exchanges against their own proprietary trades and the monies collected by the assessee was in its capacity as Member-broker of the Exchange.



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The only consideration involved qua the assessee was the brokerage for facilitating this transaction on stock-exchange. We thus are in agreement with the Ld. AR that, the impugned receipt of funds from the principal-customer, M/s Orange Mist Productions Pvt Ltd by the assessee in its fiduciary capacity of Member-broker of the stock exchange could not possibly be alleged as the income of the assessee escaping assessment.

19. We also observe that the recorded reasons were bereft of any specific allegation against the assessee and as to what was the specific nature of the receipt basis which it was suspected to have impact on the income of the assessee for AY 2017-18. There is force in the submission of the Ld. AR that, in the assessee's line of business i.e. share broking, the assessee only acts as an intermediary between the investor/trader in securities and the Stock Exchange. Ultimately, it is the customer alone who is both liable to pay the monies for the transactions carried out by the assessee on its behalf and enjoy the shares purchased by the assessee on its behalf. The assessee, being a broker had no material interest in the monies given by the customer. It is also not in dispute that the assessee could not have legally utilized the impugned sum for its own proprietary trading. On these facts and circumstances, it was incumbent on the AO to speak through his reasons as to how did he form his belief



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that the payments collected and disbursed on customer's behalf had any bearing on the total income of the assessee.

20. There is also merit in the Ld. AR's submission that, given the nature of business of the assessee, there could not possibly be any correlation between its turnover and the receipt of funds from the customers. According to us, the AO erred in comparing the turnover of the assessee with the funds transacted between the customers and stock exchange, for the reasons that the funds received and paid were towards the value of stocks or securities purchased or sold on clients' behalf, whereas the turnover of the assessee qua such transactions would only comprise of brokerage of 0.01% to 0.75% of the value transacted. For instance, the receipt of funds of Rs.7.15 crores from M/s Orange Mist Productions Pvt Ltd to buy/sell securities on its behalf would result in brokerage of Rs.70,000/- to Rs.1,40,000/- approx. and only the brokerage would form part of the turnover of Rs.4.01 crores. The transaction of Rs.7.15 crores conducted by the assessee on client's behalf could not possibly form part of its own proprietary turnover and therefore the purported comparison sought to be made by the Revenue was extraneous having no coherent logic to it.



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21. We thus find that, the assessee had received the monies from M/s Orange Mist Productions Pvt Ltd, conducted trade on its behalf, credited their account with shares & securities in their demat account, and its role was only that of an intermediary in the capacity of a stock broker rendering its share broking services for earning income by way of brokerage. On these admitted facts therefore, the AO was unjustified in alleging that the impugned receipt of Rs.7.15 crores by the assessee-broker from M/s Orange Mist Productions Pvt Ltd in its fiduciary capacity represented assessee's income escaping assessment.

22. In light of the above, we are of the view that, the AO, based on the reasons recorded as set out above, had initiated a roving enquiry to examine the veracity of his own subjective notions, in as much as, there was no tangible material or evidence in possession demonstrated through his recorded reasons which could have validly led him to believe that income of the assessee had escaped assessment. The reasons recorded were scant and vague, as already held above, and therefore does not stand the test as laid by plethora of judicial precedence (supra) which is necessary to assume jurisdiction u/s 147 of the Act. Therefore, in the light of the aforesaid facts and circumstances of the case as discussed, we find that the reasons recorded by the AO to justify reopening the assessment u/s. 147 fails and, therefore, the very assumption of jurisdiction to



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reassess the assessee fails. Since the assumption of jurisdiction by him to reopen itself is *corum-non-judice* and, therefore, all subsequent action is null in the eyes of law and therefore, we quash the reopening and consequent reassessment order framed by him.

23. In the result, appeal filed by the assessee is allowed.

Order pronounced on the 02nd day of February, 2026, in Chennai.

Sd/-
(एस. आर. रघुनाथा)
(**S.R.RAGHUNATHA**)

लेखा सदस्य/**ACCOUNTANT MEMBER**

Sd/-
(एबी टी. वर्की)
(**ABY T. VARKEY**)

न्यायिक सदस्य/**JUDICIAL MEMBER**

चेन्नई/Chennai,
दिनांक/Dated: 02nd February, 2026.
TLN

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT, Chennai / Madurai / Salem / Coimbatore.
4. विभागीय प्रतिनिधि/DR
5. गार्डफाईल/GF