

आयकर अपीलीय अधिकरण, जयपुर न्यायपीठ, जयपुर
IN THE INCOME TAX APPELLATE TRIBUNAL, JAIPUR BENCHES "A", JAIPUR

श्री विजय पाल राव, न्यायिक सदस्य एवं श्री विक्रम सिंह यादव, लेखा सदस्य के समक्ष
BEFORE: SHRI VIJAY PAL RAO, JM & SHRI VIKRAM SINGH YADAV, AM

आयकर अपील सं./ITA No. 1050/JP/2018
निर्धारण वर्ष / Assessment Year : 2012-13

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| M/s Edila Business World Pvt. Ltd., 6 & 7, Heavy Industrial Area, C- Block Multimetal Limited Campus, Kansua Road, Large Scale Industrial Area, Kota. | बनाम Vs. | D.C.I.T., Central Circle, Kota. |
| स्थायी लेखा सं./जीआईआर सं./PAN/GIR No.: AABCE 6793 J | | |
| अपीलार्थी / Appellant | | प्रत्यर्थी / Respondent |

आयकर अपील सं./ITA No. 1051/JP/2018
निर्धारण वर्ष / Assessment Year : 2014-15

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| M/s Edila Business World Pvt. Ltd., 6 & 7, Heavy Industrial Area, C- Block Multimetal Limited Campus, Kansua Road, Large Scale Industrial Area, Kota. | बनाम Vs. | D.C.I.T., Central Circle, Kota. |
| स्थायी लेखा सं./जीआईआर सं./PAN/GIR No.: AABCE 6793 J | | |
| अपीलार्थी / Appellant | | प्रत्यर्थी / Respondent |

आयकर अपील सं./ITA No. 1105/JP/2018
निर्धारण वर्ष / Assessment Year : 2014-15

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| D.C.I.T., Central Circle, Kota. | बनाम Vs. | M/s Edila Business World Pvt. Ltd., C- Block Multimetal Limited Campus, Kansua Road, Kota. |
| स्थायी लेखा सं./जीआईआर सं./PAN/GIR No.: AABCE 6793 J | | |
| अपीलार्थी / Appellant | | प्रत्यर्थी / Respondent |

निर्धारिती की ओर से / Assessee by : Shri Vijay Goyal (CA) &
Shri Gulshan Agarwal (CA)
राजस्व की ओर से / Revenue by : Shri Varinder Mehta (CIT-DR)

सुनवाई की तारीख / Date of Hearing : 05/02/2019
उदघोषणा की तारीख / Date of Pronouncement : 12/02/2019

आदेश / ORDER

PER: BENCH

These two appeals by the assessee for the A.Y. 2012-13 and 2014-15 and a cross appeal by the revenue for the A.Y. 2014-15 are directed against the respective orders of the Id. CIT(A)-2, Udaipur dated 12/07/2018.

2. All these appeals are being heard together and for the sake of convenience, a composite order is being passed.
3. The assessee is a group concern of Kota Dall Mill (KDM) group and subjected to the search and seizure action U/s 132 of the Act carried out on 02/7/2015. The Assessing Officer initiated the proceedings U/s 153A of the Act in pursuant to the search for all these six assessment years including these two assessment years and made various additions U/s 68 of the Act on account of share capital received by the assessee from one company for the A.T. 2012-13 and from five companies for the A.Y. 2014-15.
4. The assessee challenged the orders passed by the A.O. before the Id. CIT(A) and raised various grounds including the legal ground of

addition made by the A.O. without any incriminating material as well as non-grant of cross examination. The Id. CIT(A), though rejected the grounds raised by the assessee on legal issues, however, addition made by the Assessing Officer in respect of share capital were partly confirmed and partly deleted on the ground that where the A.O. was not having any material or even statement of the alleged entry operator then the addition is not sustainable. Thus, both the assessee as well as the revenue have filed the appeals for the A.Y. 2014-15. Since there is only one share applicant for the A.Y. 2012-13, there is no cross appeal for the said A.Y. 2012-13.

5. For the A.Y. 2012-13, the assessee has raised following grounds of appeal:

- “1. *On the facts and in the circumstances of the case and in law the order passed u/s 153 A read with section 143(3) of the Income Tax Act 1961 is bad in law, void ab-initio, and deserves to be annulled as the assessment for the year under consideration was not abated as on the date of search and CIT (A) erred in holding that the contention of the assessee cannot be accepted in view of SLPs admitted in various cases. The Id. CIT (A) further erred in holding that the additions are to be adjudicated on merits as per relevant ground of appeal hence the issue remains for academic discussion only.*
2. *On the facts and in the circumstances of the case and in law the Id. CIT (A) erred in not declaring the assessment order as bad in law and void ab initio. The findings of Id CIT(A) in this regard are perverse and erroneous. It is contended that the Id. AO passed the assessment order against the doctrine of “audi alterm partem”, violating the principle of natural justice and not giving the opportunity of cross examination of the alleged*

accommodation entry providers, therefore the assessment order ought to held as bad in law and deserves to be annulled.

3. *That the order of the Id CIT (A), confirming the addition made by the AO is arbitrary, whimsical, capricious, perverse, based on no evidence or irrelevant material or irrelevant evidence, and against the law and facts of the case. The addition confirmed by Id. CIT (A) deserves to be deleted.*
4. *On the facts and in the circumstances of the case and in law the Id. CIT (A) erred in confirming the additions made u/s 68 of the Income Tax Act, 1961 by: -*
 - (a) *solely relying on the statements of some alleged accommodation entry providers recorded by some other authorities in some other cases/actions and the opportunity to cross examination was also not provided to assessee.*
 - (b) *giving a contradictory finding that a doubt is raised on the identity and genuineness of the company whose name is mentioned in the statement of accommodation entry providers as well as reports of DDIT (Inv.)-Kolkatta.*
 - (c) *holding that the assessee has not adduced any evidence to rebut the adverse factual finding made by the AO in the assessment order though detailed paper book for relevant AY and common paper books have been submitted, and*
 - (d) *holding that incriminating material had been found during the course of search of accommodation entry provider. Further incriminating material had been gathered by issuing commission to DDIT (Inv.) Kolkatta.*
5. *On the facts and in the circumstances of the case and in law the Id. CIT(A) erred in confirmation the addition of Rs. 6,00,00,000/- made by Id. AO u/s 68 of Income Tax Act, 1961 on account of share application money and share premium taken from following parties and erroneously held that the identity, creditworthiness and genuineness of the under mentioned company is doubtful: -*

| <i>Name of the company from whom loan received</i> | <i>Amount</i> | <i>Name of alleged entry operator whose</i> |
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| | | |
|-----------------------------------|--------------------|------------------------------|
| | | <i>statement were relied</i> |
| <i>Jalsagar Commerce Pvt. Ltd</i> | <i>6,00,00,000</i> | <i>Shri Anand Sharma</i> |

6. *On the facts and in the circumstances of the case and in law the Id. CIT(A) erred in rejecting the theory of peak credit and erred in not allowing the benefit of telescoping, recycling and rotation of funds.*
7. *The assessee prays for leave to Add, to amend, to delete, or modify the all or any grounds of appeal on or before the hearing of appeal.*

6. Ground No. 1 of the appeal is regarding the addition made by the A.O. without any incriminating material found or seized in the course of search and seizure action. We have heard the Id AR of the assessee as well as the Id CIT-DR and considered the relevant material on record. This issue has been considered by the Tribunal in the other group cases of M/s Kota Dall Mill Vs DCIT in ITA Nos. 997 to 1002/JP/2018, 1119/JP/2018, 1057 to 1062/JP/2018 and 1210/JP/2018 vide order dated 31/12/2018 including in the case of M/s Multimetals Limited Vs DCIT in ITA Nos. 1024 to 1026, 1100 to 1104 & 1230/JP/2018 and C.O. 38 & 39/JP/2018 vide order dated 29/01/2019 in para 9 as under:

"9. *We have considered the rival submissions as well as relevant material on record. Undisputedly the assessment for the A.Y. 2010-11 to 2012-13 were not pending on the date of search on 02/7/2015 as the original assessment U/s 143(3) of the Act were also completed prior to the date of search. Thus, the assessment for these three assessment years were not got abated by virtue of search U/s 132 of the Act on 02/7/2015 and therefore the Assessing Officer would assess the total income of the assessee as per the provisions of Section 153A of the Act in respect of these*

three assessment years having regard to the fact that whether any incriminating material was found or came to the knowledge of the Assessing Officer during the search and seizure proceedings. Since these assessment years were not pending as on the date of search, therefore, the proceedings U/s 153A of the Act in respect of these three assessment years would be in the nature of reassessment and not in the nature of assessment as in the case of the remaining assessment years in the A.Y. 2014-15 and 2015-16 which were got abated by virtue of search and seizure action U/s 132 of the Act on 02/7/2015. At the outset we note that the assessments framed by the Assessing Officer U/s 153A of the Act in the case of the assessee before us is solely on the basis of the information received from the Kolkata Investigation Wing which contains the statement of one Shri Anand Sharma in respect of some assessments and the statement of Shri Ankit Bagri in respect of some other assessments. Thus, undisputedly the Assessing Officer has made the addition while completing the assessment U/s 153A of the Act for all the assessment years on the basis of the information received from the Investigation Wing, Kolkata and not on the basis of any material or information gathered during the course of search and seizure action in the case of the assessee. We find that the assessment framed by the Assessing Officer as well as the orders passed by the Id. CIT(A) in the case of the assessee are identical and based on similar facts and circumstances as in the case of M/s Kola Dall Mill pursuant to the same search and seizure action carried out on 02/7/2015. This Tribunal in the case of Kota Dall Mill Vs DCIT vide order dated 31/12/2018 in ITA Nos. 997 to 1002/JP/2018, 1119/JP/2018, 1057 to 1062/JP/2018 and 1210/JP/2018 has considered and decided this issue in para 6 as under:

“6. We have considered the rival submissions as well as the relevant material on record. Undisputedly, the assessments for the assessment years 2010-11 to 13-14 were not pending on the date of search on 2nd July, 2015. Even in some of the assessment years orders under section 143(3) were passed and in other cases the assessment was completed under section 143(1) of the Act. Thus the assessments for the assessment years 2010-11 to 13-14 were not got abated by virtue of search under section 132 on 2nd July, 2015 and the AO would reassess the total income of the assessee as per the provisions of section 153A in respect of these four assessment years i.e. 2010-11 to 13-14. The proceedings under section 153A in respect of these four assessment years would be in the nature of reassessment and not in the nature of assessment as in the cases of the remaining two assessment years i.e. 2014-15 and 15-16 those were got abated by virtue of search and seizure action under section 132 of the Act on 2nd July, 2015. It is a settled proposition of law that the assessment or reassessment under section 153A in respect of the assessment years which have already been completed and assessment orders have been passed determining the assessee’s total income, the addition to the income that has already been assessed can be made only on the basis of incriminating material. In the absence of any incriminating material the completed assessment can only be reiterated. The provisions of section 132 read with section 153A of the Act stipulate two types of situations – one where the assessment of any assessment year falling within six assessment years is pending on the date of initiation of search under section 132 or making of requisition under section 132A of the Act. Therefore, the assessment under section 153A in respect of those assessment years which stand abated due to the reason of pending on the date of initiation of search or requisition shall be the original/first assessment. In the second category where the assessment or reassessment has already been completed on the date of initiation of

search or making of requisition as the case may be, the assessment under section 153A would be in the nature of reassessment. The Hon'ble Delhi High Court in the case of CIT vs. Kabul Chawla while analyzing the provisions of section 153A read with section 132 of the Act has observed in para 37 and 38 as under :-

"37. On a conspectus of Section 153A(1) of the Act, read with the provisos thereto, and in the light of the law explained in the aforementioned decisions, the legal position that emerges is as under:

- i.* Once a search takes place under Section 132 of the Act, notice under Section 153 A(1) will have to be mandatorily issued to the person searched requiring him to file returns for six AYs immediately preceding the previous year relevant to the AY in which the search takes place.
- ii.* Assessments and reassessments pending on the date of the search shall abate. The total income for such AYs will have to be computed by the AOs as a fresh exercise.
- iii.* The AO will exercise normal assessment powers in respect of the six years previous to the relevant AY in which the search takes place. The AO has the power to assess and reassess the 'total income' of the aforementioned six years in separate assessment orders for each of the six years. In other words there will be only one assessment order in respect of each of the six AYs "in which both the disclosed and the undisclosed income would be brought to tax".
- iv.* Although Section 153 A does not say that additions should be strictly made on the basis of evidence found in the course of the search, or other post-search material or information available with the AO which can be related to the evidence found, it does not mean that the assessment "can be arbitrary or made without any relevance or nexus with the seized material. Obviously an assessment has to be made under this Section only on the basis of seized material."
- v.* In absence of any incriminating material, the completed assessment can be reiterated and the abated assessment or reassessment can be made. The word 'assess' in Section 153 A is relatable to abated proceedings (i.e. those pending on the date of search) and the word 'reassess' to completed assessment proceedings.
- vi.* Insofar as pending assessments are concerned, the jurisdiction to make the original assessment and the assessment under Section 153A merges into one. Only one assessment shall be made separately for each AY on the basis of the findings of the search and any other material existing or brought on the record of the AO.
- vii.* Completed assessments can be interfered with by the AO while making the assessment under Section 153 A only on the basis of some incriminating material

unearthed during the course of search or requisition of documents or undisclosed income or property discovered in the course of search which were not produced or not already disclosed or made known in the course of original assessment.

Conclusion

38. The present appeals concern AYs, 2002-03, 2005-06 and 2006-07. On the date of the search the said assessments already stood completed. Since no incriminating material was unearthed during the search, no additions could have been made to the income already assessed.”

Thus the Hon’ble High Court has held that in the absence of any incriminating material, the completed assessment can be reiterated and the abated assessment or reassessment can be made. The Hon’ble High Court has also referred the term used in section 153A as “assess” which is relatable to abated proceedings and the word “reassess” related to completed assessment proceedings. Therefore, the completed assessments can be interfered with by the AO while making the assessment under section 153A only on the basis of some incriminating material unearthed during the course of search or requisition of document or undisclosed income or property discovered in the course of search which were not produced or not already disclosed or made known in the course of original assessment. The Hon’ble Delhi High Court has reiterated its view in case of Principal CIT vs. Kurele Paper Mills (supra) in para 1 to 3 as under :-

1. The Revenue has filed the appeal against an order dated 14.11.2014 passed by the Income Tax Appellate Tribunal (ITAT) in 3761/Del/2011 pertaining to the Assessment Year 2002-03. The question was whether the learned CIT (Appeals) had erred in law and on the facts in deleting the addition of Rs. 89 lacs made by the Assessing Officer under Section 68 of the Income Tax Act, 1961 ('ACT') on bogus share capital. But, the issue was whether there was any incriminating material whatsoever found during the search to justify initiation of proceedings under Section 153A of the Act.

2. The Court finds that the order of the CIT(Appeals) reveals that there is a factual finding that "no incriminating evidence related to share capital issued was found during the course of search as is manifest from the order of the AO." Consequently, it was held that the AO was not justified in

invoking Section 68 of the Act for the purposes of making additions on account of share capital.

3. As far as the above facts are concerned, there is nothing shown to the court to persuade and hold that the above factual determination is perverse. Consequently, after considering all the facts and circumstances of the case, the Court is of the opinion that no substantial question of law arises in the impugned order of the ITAT which requires examination.”

The SLP filed by the revenue against the said decision of Hon’ble Delhi High Court was dismissed by the Hon’ble Supreme Court vide order dated 7th December, 2015. In a subsequent decision, the Hon’ble Delhi High Court in the case of Principal CIT vs. Meeta Gutgutia has again analyzed this issue in para 55 to 71 as under :-

“55. On the legal aspect of invocation of Section 153A in relation to AYs 2000-01 to 2003-04, the central plank of the Revenue's submission is the decision of this Court in *Smt. Dayawanti Gupta (supra)*. Before beginning to examine the said decision, it is necessary to revisit the legal landscape in light of the elaborate arguments advanced by the Revenue.

56. Section 153A of the Act is titled "Assessment in case of search or requisition". It is connected to Section 132 which deals with 'search and seizure'. Both these provisions, therefore, have to be read together. Section 153A is indeed an extremely potent power which enables the Revenue to re-open at least six years of assessments earlier to the year of search. It is not to be exercised lightly. It is only if during the course of search under Section 132 incriminating material justifying the re-opening of the assessments for six previous years is found that the invocation of Section 153A *qua* each of the AYs would be justified.

57. The question whether unearthing of incriminating material relating to any one of the AYs could justify the re-opening of the assessment for all the earlier AYs was considered both in *Anil Kumar Bhatia (supra)* and *Chetan Das Lachman Das (supra)*. Incidentally, both these decisions were discussed threadbare in the decision of this Court in *Kabul Chawla (supra)*. As far as *Anil Kumar Bhatia (supra)* was concerned, the Court in paragraph 24 of that decision noted that "we are not concerned with a case where no incriminating material was found during the search conducted under Section 132 of the Act. We therefore express no opinion as to whether Section 153A can be invoked even under such situation". That question was, therefore, left open. As far as *Chetan Das Lachman Das (supra)* is concerned, in para 11 of the decision it was observed:

"11. Section 153A (1) (b) provides for the assessment or reassessment of the total income of the six assessment years immediately preceding the assessment year relevant to the previous year in which the search took place. To repeat, there is no condition in this Section that additions should be strictly made on the basis of evidence found in the course of the search

or other post-search material or Information available with the Assessing Officer which can be related to the evidence found. This, however, does not mean that the assessment under Section 153A can be arbitrary or made without any relevance or nexus with the seized material. Obviously an assessment has to be made under this Section only on the basis of seized material."

58. In *Kabul Chawla (supra)*, the Court discussed the decision in *Filatex India Ltd. (supra)* as well as the above two decisions and observed as under:

"31. What distinguishes the decisions both in *CIT v. Chetan Das Lachman Das (supra)*, and *Filatex India Ltd. v. CIT-IV (supra)* in their application to the present case is that in both the said cases there was some material unearthed during the search, whereas in the present case there admittedly was none. Secondly, it is plain from a careful reading of the said two . decisions that they do not hold that additions can be validly made to income forming the subject matter of completed assessments prior to the search even if no incriminating material whatsoever was unearthed during the search.

32. Recently by its order dated 6th July 2015 in ITA No. 369 of 2015 (*Pr. Commissioner of Income Tax v. Kurele Paper Mills P. Ltd.*), this Court declined to frame a question of law in a case where, in the absence of any incriminating material being found during the search under Section 132 of the Act, the Revenue sought to justify initiation of proceedings under Section 153A of the Act and make an addition under Section 68 of the Act on bogus share capital gain. The order of the CIT (A), affirmed by the ITAT, deleting the addition, was not interfered with."

59. In *Kabul Chawla (supra)*, the Court referred to the decision of the Rajasthan High Court in *Jai Steel (India) v. Asstt. CIT [2013] 36 taxmann.com 523/219 Taxman 223*. The said part of the decision in *Kabul Chawla (supra)* in paras 33 and 34 reads as under:

'33. The decision of the Rajasthan High Court in *Jai Steel (India), Jodhpur v. ACIT (supra)* involved a case where certain books of accounts and other documents that had not been produced in the course of original assessment were found in the course of search. It was held where undisclosed income or undisclosed property has been found as a consequence of the search, the same would also be taken into consideration while computing the total income under Section 153A of the Act. The Court then explained as under:

"22. In the firm opinion of this Court from a plain reading of the provision along with the purpose and purport of the said provision, which is intricately linked with search and requisition under Sections 132 and 132A of the Act, it is apparent that:

- (a) the assessments or reassessments, which stand abated in terms of II proviso to Section 153A of the Act, the AO acts under his original jurisdiction, for which, assessments have to be made;
- (b) regarding other cases, the addition to the income that has already been assessed, the assessment will be made on the basis of incriminating material; and
- (c) in absence of any incriminating material, the completed assessment can be reiterated and the abated assessment or reassessment can be made."

34. The argument of the Revenue that the AO was free to disturb income *de hors* the incriminating material while making assessment under Section 153A of the Act was specifically rejected by the Court on the ground that it was "not borne out from the scheme of the said provision" which was in the context of search and/or requisition. The Court also explained the purport of the words "assess" and "reassess", which have been found at more than one place in Section 153A of the Act as under:

"26. The plea raised on behalf of the assessee that as the first proviso provides for assessment or reassessment of the total income in respect of each assessment year falling within the six assessment years, is merely reading the said provision in isolation and not in the context of the entire section. The words 'assess' or 'reassess'-have been used at more than one place in the Section and a harmonious construction of the entire provision would lead to an irresistible conclusion that the word assess has been used in the context of an abated proceedings and reassess has been used for completed assessment proceedings, which would not abate as they are not pending on the date of initiation of the search or making of requisition and which would also necessarily support the interpretation that for the completed assessments, the same can be tinkered only based on the incriminating material found during the course of search or requisition of documents."

60. In *Kabul Chawla (supra)*, the Court also took note of the decision of the Bombay High Court in *CIT v. Continental Warehousing Corpn (Nhava Sheva) Ltd.* [\[2015\] 58 taxmann.com 78/232 Taxman 270/374 ITR 645 \(Bom.\)](#) which accepted the plea that if no incriminating material was found during the course of search in respect of an issue, then no additions in respect of any issue can be made to the assessment under Section 153A and 153C of the Act. The legal position was thereafter summarized in *Kabul Chawla (supra)* as under:

"37. On a conspectus of Section 153A(1) of the Act, read with the provisos thereto, and in the light of the law explained in the aforementioned decisions, the legal position that emerges is as under:

- i. Once a search takes place under Section 132 of the Act, notice under Section 153 A (1) will have to be mandatorily issued to the person searched requiring him to file returns for six AYs immediately preceding the previous year relevant to the AY in which the search takes place.
- ii. Assessments and reassessments pending on the date of the search shall abate. The total income for such AYs will have to be computed by the AOs as a fresh exercise.
- iii. The AO will exercise normal assessment powers in respect of the six years previous to the relevant AY in which the search takes place. The AO has the power to assess and reassess the 'total income' of the. aforementioned six years in separate assessment orders for each of the six years. In other words there will be only one assessment order in respect of each of the six AYs "in which both the disclosed and the undisclosed income would be brought to tax".
- iv. Although Section 153 A does not say that additions should be strictly made on the basis of evidence found in the course of the search, or other post-search material or information available with the AO which can be related to the evidence found, it does not mean that the assessment "can be arbitrary or made without any relevance or nexus with the seized material. Obviously an assessment has to be made under this Section only on the basis of seized material."
- v. In absence of any incriminating material, the completed assessment can be reiterated and the abated assessment or reassessment can be made. The word 'assess' in Section 153 A is relatable to abated proceedings (i.e. those pending on the date of search) and the word 'reassess' to completed assessment proceedings.
- vi. Insofar as pending assessments are concerned, the jurisdiction to make the original assessment and the assessment under Section 153A merges into one. Only one assessment shall be made separately for each AY on the basis of the findings of the search and any other material existing or brought on the record of the AO.
- vii. Completed assessments can be interfered with by the AO while making the assessment under Section 153 A only on the basis of some incriminating material unearthed during the course of search or requisition of documents or undisclosed income or property discovered in the course of search which were not produced or not already disclosed or made known in the course of original assessment."

61. It appears that a number of High Courts have concurred with the decision of this Court in *Kabul Chawla (supra)* beginning with the Gujarat High Court in *Saumya*

Construction (P.) Ltd. (supra). There, a search and seizure operation was carried out on 7th October, 2009 and an assessment came to be framed under Section 143(3) read with Section 153A(1)(b) in determining the total income of the Assessee of Rs. 14.5 crores against declared income of Rs. 3.44 crores. The ITAT deleted the additions on the ground that it was not based on any incriminating material found during the course of the search in respect of AYs under consideration i.e., AY 2006-07. The Gujarat High Court referred to the decision in *Kabul Chawla (supra)*, of the Rajasthan High Court in *Jai Steel (India) (supra)* and one earlier decision of the Gujarat High Court itself. It explained in para 15 and 16 as under:

'15. On a plain reading of section 153A of the Act, it is evident that the trigger point for exercise of powers thereunder is a search under section 132 or a requisition under section 132A of the Act. Once a search or requisition is made, a mandate is cast upon the Assessing Officer to issue notice under section 153A of the Act to the person, requiring him to furnish the return of income in respect of each assessment year falling within six assessment years immediately preceding the assessment year relevant to the previous year in which such search is conducted or requisition is made and assess or reassess the same. Since the assessment under section 153A of the Act is linked with search and requisition under sections 132 and 132A of the Act, it is evident that the object of the section is to bring to tax the undisclosed income which is found during the course of or pursuant to the search or requisition. However, instead of the earlier regime of block assessment whereby, it was only the undisclosed income of the block period that was assessed, section 153A of the Act seeks to assess the total income for the assessment year, which is clear from the first proviso thereto which provides that the Assessing Officer shall assess or reassess the total income in respect of each assessment year falling within such six assessment years. The second proviso makes the intention of the Legislature clear as the same provides that assessment or reassessment, if any, relating to the six assessment years referred to in the sub-section pending on the date of initiation of search under section 132 or requisition under section 132A, as the case may be, shall abate. Sub-section (2) of section 153A of the Act provides that if any proceeding or any order of assessment or reassessment made under sub-section (1) is annulled in appeal or any other legal provision, then the assessment or reassessment relating to any assessment year which had abated under the second proviso would stand revived. The proviso thereto says that such revival shall cease to have effect if such order of annulment is set aside. Thus, any proceeding of assessment or reassessment falling within the six assessment years prior to the search or requisition stands abated and the total income of the assessee is required to be determined under section 153A of the Act. Similarly, sub-section (2) provides for revival of any assessment or reassessment which stood abated, if any proceeding or any order of assessment or reassessment made under section 153A of the Act is annulled in appeal or any other proceeding.

16. Section 153A bears the heading "Assessment in case of search or requisition". It is "well settled as held by the Supreme Court in a catena of decisions that the heading or the Section can be regarded as a key to the

interpretation of the operative portion of the section and if there is no ambiguity in the language or if it is plain and clear, then the heading used in the section strengthens that meaning. From the heading of section 153. the intention of the Legislature is clear, viz., to provide for assessment in case of search and requisition. When the very purpose of the provision is to make assessment In case of search or requisition, it goes without saying that the assessment has to have relation to the search or requisition, in other words, the assessment should be connected With something found during the search or requisition viz., incriminating material which reveals undisclosed income. Thus, while in view of the mandate of sub-section (1) of section 153A of the Act, in every case where there is a search or requisition, the Assessing Officer is obliged to issue notice to such person to furnish returns of income for the six years preceding the assessment year relevant to the previous year in which the search is conducted or requisition is made, any addition or disallowance can be made only on the basis of material collected during the search or requisition, in case no incriminating material is found, as held by the Rajasthan High Court in the case of *Jai Steel (India) v. Asst. CIT (supra)*, the earlier assessment would have to be reiterated, in case where pending assessments have abated, the Assessing Officer can pass assessment orders for each of the six years determining the total income of the assessee which would include income declared in the returns, if any, furnished by the assessee as well as undisclosed income, if any, unearthed during the search or requisition. In case where a pending reassessment under section 147 of the Act has abated, needless to state that the scope and ambit of the assessment would include any order which the Assessing Officer could have passed under section 147 of the Act as well as under section 153A of the Act.

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19. On behalf of the appellant, it has been contended that if any incriminating material is found, notwithstanding that in relation to the year under consideration, no incriminating material is found, it would be permissible to make additions and disallowance in respect of any of the six assessment years. In the opinion of this court, the said contention does not merit acceptance, inasmuch as the assessment in respect of each of the six assessment years is a separate and distinct assessment. Under section 153A of the Act, assessment has to be made in relation to the search or requisition, namely, in relation to material disclosed during the search or requisition. If in relation to any assessment year, no incriminating material is found, no addition or disallowance can be made in relation to that assessment year in exercise of powers under section 153A of the Act and the earlier assessment shall have to be reiterated. In this regard, this court is in complete agreement with the view adopted by the Rajasthan High Court in the case of *Jai Steel (India) v. Asst. CIT (supra)*. Besides, as rightly pointed out by the learned counsel for the respondent, the controversy involved in the present case stands concluded by the decision of this court in the case of *CIT v. Jayaben Ratilal Sorathia (supra)* wherein it has been held that while it cannot be disputed that considering

section 153A of the Act, the Assessing Officer can reopen and/or assess the return with respect to six preceding years ; however, there must be some incriminating material available with the Assessing Officer with respect to the sale transactions in the particular assessment year.'

62. Subsequently, in *Devangi alias Rupa (supra)*, another Bench of the Gujarat High Court reiterated the above legal position following its earlier decision in *Saumya Construction (P.) Ltd. (supra)* and of this Court in *Kabul Chawla (supra)*. As far as Karnataka High Court is concerned, it has in *IBC Knowledge Park (P.) Ltd. (supra)* followed the decision of this Court in *Kabul Chawla (supra)* and held that there had to be incriminating material *qua* each of the AYs in which additions were sought to be made pursuant to search and seizure operation. The Calcutta High Court in *Salasar Stock Broking Ltd. (supra)*, too, followed the decision of this Court in *Kabul Chawla (supra)*. In *Gurinder Singh Bawa (supra)*, the Bombay High Court held that:

"6. once an assessment has attained finality for a particular year, i.e., it is not pending then the same cannot be subject to tax in proceedings under section 153A of the Act. This of course would not apply if incriminating materials are gathered in the course of search or during proceedings under section 153A of the Act which are contrary to and/or not disclosed during the regular assessment proceedings."

63. Even this Court has in *Mahesh Kumar Gupta (supra)* and *Ram Avtar Verma (supra)* followed the decision in *Kabul Chawla (supra)*. The decision of this Court in *Kurele Paper Mills (P.) Ltd. (supra)* which was referred to in *Kabul Chawla (supra)* has been affirmed by the Supreme Court by the dismissal of the Revenue's SLP on 7th December, 2015.

The decision in Dayawanti Gupta

64. That brings us to the decision in *Smt. Dayawanti Gupta (supra)*. As rightly pointed out by Mr. Kaushik, learned counsel appearing for the Respondent, that there are several distinguishing features in that case which makes its ratio inapplicable to the facts of the present case. In the first place, the Assessee there were engaged in the business of Pan Masala and Gutkha etc. The answers given to questions posed to the Assessee in the course of search and survey proceedings in that case bring out the points of distinction. In the first place, it was stated that the statement recorded was under Section 132(4) and not under Section 133A. It was a statement by the Assessee himself. In response to question no. 7 whether all the purchases made by the family firms, were entered in the regular books of account, the answer was:

"We and our family firms namely M/s. Assam Supari Traders and M/s. Balaji Perfumes generally try to record the transactions made in respect of purchase, manufacturing and sales in our regular books of accounts but it is also fact that some time due to some factors like inability of accountant, our busy schedule and some family problems, various purchases and sales of Supari, Gutka and other items dealt by our firms is not entered and shown in the regular books of accounts maintained by our firms."

65. Therefore, there was a clear admission by the Assesseees in *Smt. Dayawanti Gupta (supra)* there that they were not maintaining regular books of accounts and the transactions were not recorded therein.

66. Further, in answer to Question No. 11, the Assessee in *Smt. Dayawanti Gupta (supra)* was confronted with certain documents seized during the search. The answer was categorical and reads thus:

"Ans:- I hereby admit that these papers also contend details of various transactions include purchase/sales/manufacturing trading of Gutkha, Supari made in cash outside Books of accounts and these are actually unaccounted transactions made by our two firms namely M/s. Asom Trading and M/s. Balaji Perfumes."

67. By contrast, there is no such statement in the present case which can be said to constitute an admission by the Assessee of a failure to record any transaction in the accounts of the Assessee for the AYs in question. On the contrary, the Assessee herein stated that, he is regularly maintaining the books of accounts. The disclosure made in the sum of Rs. 1.10 crores was only for the year of search and not for the earlier years. As already noticed, the books of accounts maintained by the Assessee in the present case have been accepted by the AO. In response to question No. 16 posed to Mr. Pawan Gadia, he stated that there was no possibility of manipulation of the accounts. In *Smt. Dayawanti Gupta (supra)*, by contrast, there was a chart prepared confirming that there had been a year-wise non-recording of transactions. In *Smt. Dayawanti Gupta (supra)*, on the basis of material recovered during search, the additions which were made for all the years whereas additions in the present case were made by the AO only for AY 2004-05 and not any of the other years. Even the additions made for AYs 2004-05 were subsequently deleted by the CIT (A), which order was affirmed by the ITAT. Even the Revenue has challenged only two of such deletions in ITA No. 306/2017.

68. In para 23 of the decision in *Smt. Dayawanti Gupta (supra)*, it was observed as under:

"23. This court is of opinion that the ITAT's findings do not reveal any fundamental error, calling for correction. The inferences drawn in respect of undeclared income were premised on the materials found as well as the statements recorded by the assesseees. These additions therefore were not baseless. Given that the assessing authorities in such cases have to draw inferences, because of the nature of the materials - since they could be scanty (as one habitually concealing income or indulging in clandestine operations can hardly be expected to maintain meticulous books or records for long and in all probability be anxious to do away with such evidence at the shortest possibility) the element of guess work is to have some reasonable nexus with the statements recorded and documents seized. In tills case, the differences of opinion between the CIT (A) on the one hand and the AO and ITAT on the other cannot be the sole basis for disagreeing with what is essentially a factual surmise that is logical and plausible.

These findings do not call for interference. The second question of law is answered again in favour of the revenue and against the assessee."

69. What weighed with the Court in the above decision was the "habitual concealing of income and indulging in clandestine operations" and that a person indulging in such activities "can hardly be accepted to maintain meticulous books or records for long." These factors are absent in the present case. There was no justification at all for the AO to proceed on surmises and estimates without there being any incriminating material *qua* the AY for which he sought to make additions of franchisee commission.

70. The above distinguishing factors in *Smt. Dayawanti Gupta (supra)*, therefore, do not detract from the settled legal position in *Kabul Chawla (supra)* which has been followed not only by this Court in its subsequent decisions but also by several other High Courts.

71. For all of the aforementioned reasons, the Court is of the view that the ITAT was justified in holding that the invocation of Section 153A by the Revenue for the AYs 2000-01 to 2003-04 was without any legal basis as there was no incriminating material *qua* each of those AYs."

The Hon'ble Delhi High Court has concurred with the view as taken in case of *Kabul Chawla (supra)* as well as the decision of Hon'ble Jurisdictional High Court in the case of *M/s. Jai Steel India Ltd. vs. ACIT (supra)*. Even on the issue of addition made by the AO in the proceedings under section 153A in respect of the assessment year which was already completed on the date of search, the Hon'ble High Court has held that in the absence of any material which was subsequently unearthed during the search and was not already available to the AO, the additions made by the AO on account of security deposits were rightly deleted by the Id. CIT (A). The relevant observations of the Hon'ble High Court in case of *Principal CIT vs. Meeta Gutgutia (supra)* are in para 53 as under :-

'53. *At this stage, it is also to be noticed that an elaborate argument was made by Mr. Manchanda on the aspect of the security deposits accepted by the Assessee. These were of two kinds - one was of refundable security deposits and the other for non-refundable security deposits. As far as the refundable security deposits were concerned, the AO himself in his remand report accepted them as having been disclosed. This has been noticed by the CIT (A) in para 7.2.1 of his order for AY 2004-05. As regards non-refundable security deposit, the CIT (A) accepted the AO's findings that treating the sum as 'goodwill written off on*

deferred basis' was not correct, hence the addition of Rs. 5,09,343 was held to be justified and correct. It was duly accounted for under 'liabilities' and transferred to income in a phased manner. This was not done by manipulating the account books of the Assessee as alleged by the Revenue. This would have been evident had the return been picked up for scrutiny under Section 143(3) of the Act. This, therefore, was not material which was subsequently unearthed during the search which was not already available to the AO. Consequently, the additions sought to be made by the AO on account of security deposits were rightly deleted by the CIT (A)."

Thus the essential corollary of these decisions is that no addition can be made in the proceedings under section 153A in respect of the assessments which were completed prior to the date of search except based on some incriminating material unearthed during the search which was not already available to the AO. It is pertinent to note that the SLP filed by the revenue against the decision of Hon'ble Delhi High Court in case of Principal CIT vs. Meeta Gutgutia was dismissed vide order dated 2nd July, 2018. There are series of decisions on this issue including the decision of Hon'ble Jurisdictional High Court in case of M/s. Jai Steel India vs. ACIT (supra) wherein the Hon'ble High Court has held in para 23 to 30 as under:-

"23. The reliance placed by the counsel for the appellant on the case of *Anil Kumar Bhatia (supra)* also does not help the case of the assessee. The relevant extract of the said judgment reads as under:—

"19. Under the provisions of Section 153A, as we have already noticed, the Assessing Officer is bound to issue notice to the assessee to furnish returns for each assessment year falling within the six assessment years immediately preceding the assessment year relevant to the previous year in which the search or requisition was made. Another significant feature of this Section is that the Assessing Officer is empowered to assess or reassess the "total income" of the aforesaid years. This is a significant departure from the earlier block assessment scheme in which the block assessment roped in only the undisclosed income and the regular assessment proceedings were preserved, resulting in multiple assessments. Under Section 153A, however, the Assessing Officer has been given the power to assess or reassess the 'total income' of the six assessment years in question in separate assessment orders. This means that there can be only one assessment order in respect of

each of the six assessment years, in which both the disclosed and the undisclosed income would be brought to tax.

20. A question may arise as to how this is sought to be achieved where an assessment order had already been passed in respect of all or any of those six assessment years, either under Section 143(1)(a) or Section 143(3) of the Act. If such an order is already in existence, having obviously been passed prior to the initiation of the search/requisition, *the Assessing Officer is empowered to reopen those proceedings and reassess the total income, taking note to the undisclosed income, if any, unearthed during the search.* For this purpose, the fetters imposed upon the Assessing Officer by the strict procedure to assume jurisdiction to reopen the assessment under Sections 147 and 148, have been removed by the non obstante clause with which sub-section (1) of Section 153A opens. The time-limit within which the notice under Section 148 can be issued, as provided in Section 149 has also been made inapplicable by the non obstante clause. Section 151 which requires sanction to be obtained by the Assessing Officer by issue of notice to reopen the assessment under Section 148 has also been excluded in a case covered by Section 153A. The time-limit prescribed for completion of an assessment or reassessment by Section 153 has also been done away with in a case covered by Section 153A. With all the stops having been pulled out, the Assessing Officer under Section 153A has been entrusted with the duty of bringing to tax the total income of an assessee whose case is covered by Section 153A, by even making reassessments without any fetters, if need be.

21. Now there can be cases where at the time when the search is initiated or requisition is made, the assessment or reassessment proceedings relating to any assessment year falling within the period of the six assessment years mentioned above, may be pending. In such a case, the second proviso to sub-section (1) of Section 153A says that such proceedings "shall abate". The reason is not far to seek. Under Section 153A, there is no room for multiple assessment orders in respect of any of the six assessment years under consideration. That is because the Assessing Officer has to determine not merely the undisclosed income of the assessee, but also the 'total income' of the assessee in whose case a search or requisition has been initiated. Obviously there cannot be several orders for the same assessment year determining the total income of the assessee. In order to ensure this state of affairs namely, that in respect of the six assessment years preceding the assessment year relevant to the year in which the search took place there is only one determination of the total income, it has been provided in the second proviso of sub-Section (1) of Section 153A that any proceedings for assessment or reassessment of the

assessee which are pending on the date of initiation of the search or making requisition "shall abate". Once those proceedings abate, the decks are cleared, for the Assessing Officer to pass assessment orders for each of those six years determining the total income of the assessee which would include both the income declared in the returns, if any, furnished by the assessee as well as the undisclosed income, if any, unearthed during the search or requisition. The position thus emerging is that the search is initiated or requisition is made, they will abate making way for the Assessing Officer to determine the total income of the assessee in which the undisclosed income would also be included, but in case where the assessment or reassessment proceedings have already been completed and assessment orders have been passed determining the assessee's total income and such orders subsisting at the time when the search or the requisition is made, there is no question of any abatement since no proceedings are pending. In this latter situation, the Assessing Officer will reopen the assessments or reassessments already made (without having the need to follow the strict provisions or complying with the strict conditions of Sections 147, 148 and 151) and determine the total income of the assessee. *Such determination in the orders passed under Section 153A would be similar to the orders passed in any reassessment, where the total income determined in the original assessment order and the income that escaped assessment are clubbed together and assessed as the total income.* In such a case, to reiterate, there is no question of any abatement of the earlier proceedings for the simple reason that no proceedings for assessment or reassessment were pending since they had already culminated in assessment or reassessment orders when the search was initiated or the requisition was made." (Emphasis supplied)

24. The said judgment also in no uncertain terms holds that the reassessment of the total income of the completed assessments have to be made taking note of the undisclosed income, if any, unearthed during the search and the income that escaped assessments are required to be clubbed together with the total income determined in the original assessment and assessed as the total income. The observations made in the judgment contrasting the provisions of determination of undisclosed income under Chapter XIVB with determination of total income under Sections 153A to 153C of the Act have to be read in the context of second proviso only, which deals with the pending assessment/reassessment proceedings. The further observations made in the context of de novo assessment proceedings also have to be read in context that irrespective of the fact whether any incriminating material is found during the course of search, the notice and consequential assessment under Section 153A have to be undertaken.

25. The argument of the learned counsel that the AO is also free to disturb income, expenditure or deduction de hors the incriminating material, while making assessment under Section 153A of the Act is also not borne out from the scheme of the said provision which as noticed above is essentially in context of search and/or requisition. The provisions of Sections 153A to 153C cannot be interpreted to be a further innings for the AO and/or assessee beyond provisions of Sections 139 (return of income), 139(5) (revised return of income), 147 (income escaping assessment) and 263 (revision of orders) of the Act.

26. The plea raised on behalf of the assessee that as the first proviso provides for assessment or reassessment of the total income in respect of each assessment year falling within the six assessment years, is merely reading the said provision in isolation and not in the context of the entire section. The words 'assess' or 'reassess' have been used at more than one place in the Section and a harmonious construction of the entire provision would lead to an irresistible conclusion that the word 'assess' has been used in the context of an abated proceedings and reassess has been used for completed assessment proceedings, which would not abate as they are not pending on the date of initiation of the search or making of requisition and which would also necessarily support the interpretation that for the completed assessments, the same can be tinkered only based on the incriminating material found during the course of search or requisition of documents.

27. The Allahabad High Court in *Smt. Shaila Agarwal's (supra)* has held as under:—

"19. The second proviso to Section 153A of the Act, refers to abatement of the pending assessment or re-assessment proceedings. The word 'pending' does not operate any such interpretation, that wherever the appeal against such assessment or reassessment is pending, the same along with assessment or reassessment proceedings is liable to be abated. The principles of interpretation of taxing statutes do not permit the Court to interpret the Second Proviso to Section 153A in a manner that where the assessment or reassessment proceedings are complete, and the matter is pending in appeal in the Tribunal, the entire proceedings will abate.

20. There is another aspect to the matter, namely that the abatement of any proceedings has serious causes and effect in as much as the abatement of the proceedings, takes away all the consequences that arise thereafter. In the present case after deducting bogus gifts in the regular assessment proceedings, the proceedings for penalty were drawn under Section 271(1)(c) of the Act. *The material found in the search may be a ground for notice and assessment under Section 153A of the Act but that would not efface or terminate all the consequence, which has arisen out of*

the regular assessment or reassessment resulting into the demand or proceedings of penalty." (Emphasis supplied)

The said judgment which essentially deals with second proviso to Section 153A of the Act also supports the conclusion, which we have reached hereinbefore.

28. It has been observed by the Hon'ble Supreme Court in *K.P. Varghese v. ITO* [1981] 131 ITR 597/7 Taxman 13 that "it is well recognized rule of construction that a statutory provision must be so construed, if possible that absurdity and mischief may be avoided."

29. The argument of the counsel for the appellant if taken to its logical end would mean that even in cases where the appeal arising out of the completed assessment has been decided by the CIT(A), ITAT and the High Court, on a notice issued under Section 153A of the Act, the AO would have power to undo what has been concluded up to the High Court. Any interpretation which leads to such conclusion has to be repelled and/or avoided as held by the Hon'ble Supreme Court in the case of *K.P. Varghese (supra)*.

30. Consequently, it is held that it is not open for the assessee to seek deduction or claim expenditure which has not been claimed in the original assessment, which assessment already stands completed, only because a assessment under Section 153A of the Act in pursuance of search or requisition is required to be made."

In the case in hand, the transactions of unsecured loans as well as introduction of capital by the partners were duly recorded in the books of account and available with the AO. Further, during the course of search under section 132 of the Act on 2nd July 2015 no material much less incriminating material was either found or seized to disclose any undisclosed income on account of unsecured loans or partners' capital received by the assessee firm. The AO has proposed to make the addition on account of unsecured loans and partners' capital under section 68 being unexplained cash credit solely on the basis of the information received from Investigation Wing Kolkata. It is pertinent to note that the said information was available with the AO prior to the search conducted under section 132 of the Act in case of the assessee on 2nd July, 2015. Therefore, even the sole basis of assessments framed under section 153A of the Act is the information received from Investigation Wing Kolkata and

statement of one Shri Anand Sharma, who is stated to be an entry operator and managed various concerns/companies including M/s.Royal Crystal Dealers, one of the loan creditors of the assessee. Except the said statement and report of the Investigation Wing Kolkata, the AO has neither referred to or was having in possession of any material to indicate that the unsecured loans shown in the books of accounts as well as partners' capital received by the assessee are nothing but assessee's own unaccounted and undisclosed income routed back in the garb of unsecured loans and partners' capital. There is no dispute that these transactions of unsecured loans and partners' capital contribution are duly recorded in the books of accounts and disclosed in the return of income which were already completed as the assessments for these four assessment years were not pending on the date of search, therefore, it is manifest from the record that during the course of search and seizure under section 132 of the Act in the case of the assessee no material much less the incriminating material was unearthed or any undisclosed income which was not disclosed in the books of accounts was detected or found. The only incriminating material which was referred by the AO is pages 21 to 26 of Annexure AS-1 in respect of long term capital gain earned by Shri Rajendra Agarwal and his family members. The said long term capital gain was disclosed by Shri Rajendra Agarwal in his statement under section 132(4) and, therefore, it was surrendered and offered to tax by Shri Rajendra Agarwal and his family members in the year of search. The AO himself has not made any addition in the hand of the assessee on account of long term capital gain which was found during the course of search and seizure. Thus, except the material disclosing the long term capital gain in the hand of Shri Rajendra Agarwal, no other incriminating material either found or referred or is the basis of the addition made by the AO while framing the assessment under section 153A of the Act for the assessment years 2010-11 to 13-14. It is appropriate to refer relevant part of the

assessment order in para 12 pages 48 to 50, para 19 page 83 and para 22 page 86 as under :-

" 12. Submissions made on behalf of the assessee firm have been duly considered. However, even the very elaborate and case laws loaded submissions of the assessee are totally off the mark. Against the self-speaking facts of the very nature of the activities of the so called partner's providing huge partner's capital in the most uninterested manner and providing huge unsecured loans without any collateral or other security, the emphasis of the assessee firm in its submissions has been on seeking protection under various judicial decisions even without having any fact coherence. The submissions made by the assessee are completely devoid of merit in the light of the following facts and circumstances;

a. The department has very sound basis to treat, the receipts of unsecured loan and partner's capital from the above mentioned companies as bogus and in genuine. The findings of this office and Investigation report of the Investigation Directorate Kolkata are not based on any presumption, assumption, guess or bare suspicion. Where the nature and source of a receipt, whether it be of money or other property, cannot be satisfactorily explained by the assessee, it is open for the revenue to hold that it is the income of the assessee and no further burden lies on the revenue to show that the income is from any particular source as enumerated the Hon'ble Supreme Court in the case of Roshan Di Hatti v. CIT (1977) 107 ITR 938 (SC) and Kale Khan Mohammad Hanif v. CIT (1963) 50 ITR 1 (SC).

Prima facie onus is always on the assessee to prove the cash credit entry found in the books of account of the assessee. In land mark cases like Kale Khan Mohammad Hanif v CIT (1963) 50 ITR 1 (SC), Roshan Di Hatti v CIT (1977) 107 ITR (SC) it has been held that the law is well settled that the onus of proving the source of a sum of money found to have been received by an assessee, is on him. Where the nature and source thereof cannot be explained satisfactorily, it is open to the revenue to hold that it is the income of the assessee and no further burden is on the revenue to show that the income is from any particular source. It may also be pointed out that the burden of proof is fluid for the purposes of Section 68. Once assessee has submitted basic documents relating to identity, genuineness of transaction and creditworthiness

then AO must do some inquiry to call for more details to invoke Section 68.

- b. The assessee firm has filed confirmation letters and this office has carried out further enquiry to examine the reality of the transactions. An enquiry was sent to the Investigation Directorate Kolkata and it has been established that these investor or lender Companies are controlled by the entry operators. The statements of various entry operators are sufficient evidences to show that the unsecured loan and partner's capital are assessee's own undisclosed income brought into the books of the assessee under the garb of unsecured loan and partner's capital.*
- c. The department has carried out search over the assessee group and during the course of search action u/s 132 of the I.T. Act, 1961, the incriminating documents seized during search proceedings vide pg no. 21 to 26 of Annexure AS-1 of Party B-1, wherein the details of year-wise LTCCG earned by Shri Rajendra Agrawal and his family members, is maintained, which during search action has been accepted to be bogus by all family members in their respective statements."*

"19. In view of above facts of the case and in the light of above judicial decision, it is established that genuineness of the transaction has not been proved. Section 68 of the I.T. Act provides for charging to income tax on any sum credited in the books of the assessee maintained for any previous year if the assessee offers no explanation about the nature and source thereof or the explanation offered is not, in the opinion of the Assessing Officer, satisfactory. It places no duty upon the Assessing Officer to point to the source from which the money was received by the assessee. Where an assessee fails to prove satisfactorily the source and the nature of certain amount of credit during the accounting year, the Income-tax Officer is entitled to draw the inference that the receipt are of an assessable nature. Thus, the assessee is unable to discharge its burden of proof by failing to establish lender's identity, forget the genuineness of transactions and creditworthiness of the lender. Hence, the unsecured loans and partner's capital shown to have been received from various Kolkata Based Companies and other Companies remained unexplained. In the circumstances, I am left with no option than to tax the entire unexplained credits by way of partner's capital and Unsecured loans received from the persons mentioned in para 5 above as unexplained cash credits u/s 68 of the Income Tax Act, chargeable to tax as income of the assessee firm for the respective assessment years."

" 22. After examination of the information and details placed on record and discussion with the assessee, the total income of the assessee is computed as under :-

| | |
|---|---------------------------|
| <i>Returned income as per ITR u/s 153A of the Act.</i> | <i>Rs. 2,82,83,460/-</i> |
| <i>Additions/ Unexplained cash credits u/s /68 of the Act in the form of /unsecured loan and partner's /capital</i> | <i>Rs. 67,20,14,999/-</i> |
| <i>Assessed income</i> | <i>Rs. 70,02,98,459/-</i> |
| <i>R/o</i> | <i>Rs. 70,02,98,459/-</i> |

The total income of the assessee in the status of Firm for Assessment Year 2010-11 relevant to Previous Year 2009-10 is assessed at Rs. 70,02,98,459/- u/s 153A read with section 143(3) of I.T. Act, 1961. The form ITNS-150 showing calculation of tax and interest chargeable, if any, is attached herewith and forms a part of this Order. A notice of demand u/s 156 of the Act and challan for payment of tax, if payable, is hereby issued. Penalty notice u/s 274 rws 271(1)(c) is issued separately."

The entire finding of the AO is based on the information received from the Investigation Wing Kolkata and statement of Shri Anand Sharma. The Id. CIT (A) though has not disputed the legal proposition on this issue, however, the contention of the assessee was turned down merely on the ground that the SLPs filed by the revenue in the cases of Kabul Chawla (supra) and M/s. All Cargo Global Logistics (supra) etc. have been admitted for decision by the Hon'ble Supreme Court. The relevant part of the finding of the Id. CIT (A) in para 3.2.2 and 3.2.4 at pages 35 and 36 are as under :-

"3.2.2 As per the provisions of this section where a search is initiated u/s 132 of the Act, the A.O shall issue a notice requiring the person searched to furnish his return of income in respect of each assessment year falling within six assessment years immediately preceding the assessment year relevant to the previous year in which such search is conducted or requisition is made. Once such returns are filed, the AO has to assess or reassess the total income of such six assessment years.(emphasis supplied by me). (The decisive words used in the provisions are to 'assessee or reassess the total income'). The A.O. is thus duty bound to determine the

'total income' of the assessee for such six assessment years and it is obvious that 'total income' refers to the sum total of income in respect of which a person is assessable. The total income therefore will cover not only the income emanating from declared sources or any material placed before the Assessing Officer but from all sources including the undisclosed ones, or based on the unplaced material before the AO.

3.2.3 The concept of '*assess or reassess*' and '*shall abate*' as contemplated u/s 153A is under hot judicial debate. I find that legally, this issue is very contentious in view of the divergent views of the various authorities. The appellant has tried to highlight most of them. However, it is equally pertinent to mention here that the Department has not accepted the decisions of Hon'ble Mumbai High Court in the case of M/s All Cargo Global Logistics as well as Continental Warehousing (Nhava Sheva) Ltd., and SLP has been filed before the Hon'ble Supreme Court. The Hon'ble Supreme Court has granted leave vide order dated 12.10.2015 as reported in 64 taxmann.com 34 (S.C.). Similarly, in the case of Kabul Chawla SLP has also been filed.

3.2.4 In view of SLPs admitted in case of *Kabul Chawla*, M/s All Cargo Global Logistics as well as Continental Warehousing (Nhava Sheva) Ltd., (supra), assessee's contention cannot be accepted. Moreover, in any case, the additions are to be adjudicated on merits as per relevant ground of appeal, the issue raised in this ground for present remains for academic discussion only. Accordingly, issue raised in ground no. 12 is dismissed."

Therefore, neither in the assessment order nor in the order of the Id. CIT (A) there is any mention or finding that the additions have been made by the AO on the basis of any incriminating material found during the course of search and seizure in the case of the assessee. The AO has solely relied upon the report of the Investigation Wing Kolkata and statement of one Shri Anand Sharma recorded by the Investigation Wing during the survey under section 133A of the Act. Therefore, even if the information/report of the Investigation Wing Kolkata is considered as a relevant evidence, the same cannot be regarded as incriminating material unearthed during the course of search and seizure under section 132 of the IT Act in case of the assessee. The requirement for making the addition under section

153A in the assessment years where the assessment was not pending on the date of search and the proceedings are in the nature of reassessment is essentially the incriminating material disclosing undisclosed income which was not disclosed by the assessee. In the case in hand, the AO himself has not claimed any incriminating material found during the search and seizure in the case of the assessee. Accordingly, in the facts and circumstances of the case and in view of the binding precedents on this issue in which the SLP filed by the revenue was also dismissed by the Hon'ble Supreme Court, the additions made by the AO while passing the assessment orders under section 153A for the assessment years 2010-11 to 13-14 are not sustainable and accordingly the same are liable to be deleted. We order accordingly."

The foundation of the assessment order is the information received from the Investigation Wing, Kolkata and statement of Shri Anand Sharma and Shri Ankit Bagri in respect of the different transactions of unsecured loan/special deposits for issuing special preferential equity shares. The Id. CIT(A) though has not disputed the legal proposition on this issue, however, the ground raised by the assessee was dismissed merely on the reason that the SLP filed by the revenue in the case of CIT Vs. Kabul Chawla (Supra) and M/s All Cargo Global Logistics Ltd. (supra) have been admitted for decision by the Hon'ble Supreme Court. The relevant findings of Id. CIT(A) in the case of Kota Dall Mill has been reproduced by the Tribunal in the order cited (supra) and we find that an identical finding has been given by the Id. CIT(A) in the case of assessee. Therefore, neither in the assessment order, the Assessing Officer has referred or relied upon any incriminating material found during the course of search and seizure action in the case of assessee nor the Id. CIT(A) has disputed this fact that the Assessing Officer was not having any

incriminating material in his possession found and seized during the course of search and seizure action in the case of the assessee which has disclosed any unaccounted or undisclosed income of the assessee. The information received from the Investigation Wing, Kolkata as well as the statement of Shri Anand Sharma and Shri Ankit Bagri cannot be regarded as incriminating material unearthed during the course of search and seizure U/s 132 of the Act in the case of the assessee. Hence, in view of the decisions/binding precedents as relied upon by the Id AR and also considered by this Tribunal in the case of Kota Dall Mill (supra), we have no reason to take a different view on this issue. Accordingly, by following the earlier decision of this Tribunal in the case of group concern M/s Kota Dall Mill we hold that the addition made by the Assessing Officer while passing the assessment orders for the A.Y. 2010-11 to 2012-13 U/s 153A of the Act are not sustainable and liable to be deleted. Hence, this ground of the assessee's appeal is allowed."

Therefore, in view of the earlier orders of this Tribunal on this issue we hold that the addition made by the A.O. U/s 153A of the Act is not sustainable and liable to be deleted when the assessment for the A.Y. 2012-13 was completed U/s 143(3) of the Act and was not pending as on the date of search on 02/7/2015. This ground of the assessee's appeal stands allowed.

7. Ground No.2 of the appeal is regarding the violation of principles of natural justice due to non-allowing the cross examination of the witness, whose statement was relied upon by the assessee.

8. We have heard the Id AR of the assessee as well as the Id CIT-DR and considered the relevant material on record. We note that after considering the detailed arguments of both the parties, the Tribunal in the other group cases have considered and decided this issue including the case of M/s Multimetals Limited Vs DCIT (Supra) in para 14 as under:

"14. We have considered the rival submissions as well as relevant material on record. There is no dispute that the assessee demanded the cross examination of the witnesses, therefore, statements have been relied upon by the Assessing Officer while framing the assessments under consideration. The Id. CIT(A) though while calling the remand report of the Assessing Officer directed to allow the cross examination to the assessee, however, when the Assessing Officer has expressed his inability to produce the witnesses for cross examination, the Id. CIT(A) has finally rejected the objection raised by the Assessing Officer. An identical issue has been considered by us in the case of Kota Dall Mill (supra) vide order dated 31/12/2018 in para 11.1 as under:

"11.1. Even otherwise, the assessment order is solely based on the report of the Investigation Wing Kolkata which in turn is nothing but the narration of the statements recorded during the investigation and the AO was having in possession the statement of only Shri Anand Sharma. Therefore, all these proceedings conducted by the Investigation Wing Kolkata were at the back of the assessee and hence the statement which is the foundation of the report of the Investigation Wing Kolkata as well as the assessment order cannot be accepted in the absence of giving an opportunity of cross examination to the assessee. We find that the assessee has insisted for cross examination during the assessment

proceedings and further during the appellate proceedings. The Id.CIT(A) even called for a remand report and directed the AO to allow cross examination to the assessee. However, the AO has expressed his inability to allow the assessee for cross examination of the witnesses due to the reason that the witnesses belong to Kolkata and it is not possible for AO to make such arrangement. The Id. CIT(A) has finally denied the cross examination to the assessee by giving his finding in para 5.11 at page 188 already reproduced in the earlier part of this order and, therefore, the only reason for denial of cross examination by the Id.CIT(A) is that the statements are so vocal and undeniable that cross examination of such accommodation entry provided by thousands of beneficiaries across India is neither practicable nor viable and therefore uncalled for. We find that the assessee has demanded the cross examination only in respect of the alleged transactions of loans and not for the entire business of the entry providers providing the bogus entries. Undisputedly, the statement of Shri Anand Sharma was recorded by the Investigation Wing Kolkata at the back of the assessee, even the proceedings by the Investigation were conducted at the back of the assessee, therefore, the said statement of Shri Anand Sharma cannot be the sole basis of assessment without giving an opportunity of cross examination to the assessee. The Hon'ble Supreme Court in the case of Andaman Timber Industries vs. CCE (supra) while dealing with the issue of violation of principles of natural justice for not providing the opportunity of cross examination of the witnesses whose statements were relied on by the AO has held in para 6 to 9 as under :-

6. "According to us, not allowing the assessee to cross-examine the witnesses by the Adjudicating Authority though the statements of those witnesses were made the basis of the impugned order is a serious flaw which makes the order nullity inasmuch as it amounted to violation of principles of natural justice because of which the assessee was adversely affected. It is to be borne in mind that the order of the Commissioner was based upon the statements given by the aforesaid two witnesses. Even

when the assessee disputed the correctness of the statements and wanted to cross-examine, the Adjudicating Authority did not grant this opportunity to the assessee. It would be pertinent to note that in the impugned order passed by the Adjudicating Authority he has specifically mentioned that such an opportunity was sought by the assessee. However, no such opportunity was granted and the aforesaid plea is not even dealt with by the Adjudicating Authority. As far as the Tribunal is concerned, we find that rejection of this plea is totally untenable. The Tribunal has simply stated that cross-examination of the said dealers could not have brought out any material which would not be in possession of the appellant themselves to explain as to why their ex-factory prices remain static. It was not for the Tribunal to have guess work as to for what purposes the appellant wanted to cross-examine those dealers and what extraction the appellant wanted from them”.

7. *As mentioned above, the appellant had contested the truthfulness of the statements of these two witnesses and wanted to discredit their testimony for which purpose it wanted to avail the opportunity of cross-examination. That apart, the adjudicating authority simply relied upon the price list as maintained at the depot to determine the price for the purpose of levy of excise duty. Whether the goods were, in fact, sold to the said dealers witnesses at the price which is mentioned in the price list itself could be the subject-matter of cross-examination. Therefore, it was not for the adjudicating authority to presuppose as to what could be the subject-matter of the cross-examination and make the remarks as mentioned above. We may also point out that on an earlier occasion when the matter came up before this court in CCE v. Andaman Timber Industries Ltd., order dated 17.3.2005 was passed remitting the case back to the Tribunal with the directions to decide the appeal on merits giving its reasons for accepting or rejecting the submissions.*

8. *In view of the above, we are of the opinion that if the testimony of these two witnesses is discredited, there was no material with the Department on the basis of which it could justify its action, as the statement of the aforesaid two witnesses was the only basis of issuing the show-cause notice.*

9. *We, thus, set aside the impugned order as passed by the Tribunal and allow this appeal. No costs.”*

Once the assessee has disputed the correctness of the statement and wanted to cross examine the witness which was not given by the AO as well as Id. CIT (A), then the orders passed based on such statement are not sustainable in law. The Hon'ble Delhi High Court in case of CIT vs. Ashwani Gupta, 322 ITR 396 (Delhi) while dealing with the issue of not

providing the opportunity to cross examine the witnesses has held in para 5 to 7 as under :-

"5. Secondly, in fact, a rectification application being MA 264/Delhi/2008 under section 254(2) of the Income-tax Act, 1961 had been filed by the revenue before the said Tribunal. In that also, in paragraph (g) of the Miscellaneous Application, the revenue had submitted as under:—

"(g) Because, although findings of the Tribunal are factually correct but the decision of the Tribunal is not acceptable because violation of the canons of natural justice in itself is not fatal enough so as to jeopardize the entire proceedings. In the interest of justice, the Tribunal could have set aside the assessment order with the limited purpose of offering assessee an opportunity to cross-examine Shri Manoj Aggarwal before completing the proceedings." [Emphasis supplied]

6. A reading of the said paragraph (g) makes it clear that the revenue had accepted the findings of the Tribunal on facts as also the position that there had been a violation of principles of natural justice. However, the revenue's plea was that the violation of principles of natural justice was not fatal so as to jeopardize the entire proceedings. The said miscellaneous application was also rejected by the Tribunal by its order dated 28-11-2008.

7. In view of the foregoing circumstances, we feel that no interference with the impugned order is called for. The Tribunal has correctly understood the law and applied it to the facts of the case. Once there is a violation of the principles of natural justice inasmuch as seized material is not provided to an assessee nor is cross-examination of the person on whose statement the Assessing Officer relies upon, granted, then, such deficiencies would amount to a denial of opportunity and, consequently, would be fatal to the proceedings. Following approach adopted by us in *SMC Share Brokers Ltd.'s case (supra)*, we see no reason to interfere with the impugned order. No substantial question of law arises for our consideration."

Thus the Hon'ble High Court has held that once there is a violation of principles of natural justice inasmuch as seized material is not provided to the assessee nor is cross examination of the person on whose statement the AO relied upon, granted, then, such deficiencies would amount to denial of opportunity and consequently would be fatal to the proceedings. The Hon'ble Bombay High Court in the case of H.R. Mehta

vs. ACIT, 387 ITR 561 (Bombay) has also considered the issue of not providing opportunity of cross examination in para 11 to 17 as under :-

11. We have therefore proceeded to hear and decide the matter unassisted by the revenue. In the course of his submissions Mr. Tralshawala had pressed into service inter alia the decision of the Calcutta High Court in *Mather & Platt (India) Ltd.(supra)* and submitted that merely because a person is not found at an address after several years it cannot be held that he is non existent and that the assessee had discharged his primary onus by identifying the source of the amount paid. The Court observed that once the primary onus is discharged, the onus shifted to the revenue to verify genuineness of the transaction. In the present case no such effort was made by the revenue. We find that in *S. Hastimal (supra)* the Madras High Court observed that after a lapse of several years the assessee should not be placed upon the rack and called upon to explain not only merely, the origin and source of his capital contribution but the origin of origin and the source of source as well. In yet another case of *Bahri Brothers (P) Ltd. (supra)* the Division Bench of Patna High Court observed that where the assessee upon whom the initial burden lies, produces bank certificate to establish that the transaction was carried out through account payee cheques thus disclosing the identity of the creditors as also the source of income, the burden shifts on to the department and the department cannot add the cash credits to his income from undisclosed source.

12. The Hon'ble Supreme Court in *Nemi Chand Kothari (supra)* observed that in order to establish the receipt of a cash credit, the assessee must satisfy three conditions i.e. identity of the creditor, genuineness of the transaction and creditworthiness of the creditor. In the instant case by virtue of the fact that the transaction was completed by cheque payments, the appellant has contended that it had satisfied all the three tests.

13. In *Kishanchand Chellaram (supra)* wherein the Supreme Court observed that the revenue authorities had not recorded the statement of the Manager of the bank and it was difficult to appreciate as to why it was not done and why the matter was not probed further by the revenue.

14. The Delhi High Court in *Ashwani Gupta (supra)* held that once there is a violation of the principles of natural justice inasmuch as when its seized material was not provided to an assessee nor was he permitted to cross examine a person on whose statement the Assessing Officer relied, it would amount to deficiency, amounting to a denial of opportunity and therefore violation of principles of natural justice. In that case CIT (A) had deleted addition made by the Assessing Officer neither since the Assessing Officer had failed to provide copies of seized material to the assessee nor had he allowed the assessee to cross-examine the party concerned. The Division Bench held that once there is violation of the principles of natural justice inasmuch as seized material was not provided to the assessee nor

was given opportunity of cross examining the person whose statement was being used against the assessee the order could not be sustained.

15. In *Andaman Timber Industries (supra)* the Supreme Court found that the Adjudicating Authority had not granted an opportunity to the assessee to cross examine the witnesses and the tribunal merely observed that the cross examination of the dealers in that case, could not have brought out any material which would not otherwise be in possession of the appellant-assessee. The Supreme Court set aside the impugned order and observed that it was not for the Adjudicating Authority to presuppose as to what could be the subject matter of the cross examination and make the remarks such as was done in that case.

16. In the instant case although the appellant assessee has called upon us to draw an inference that the burden shifted to the revenue in the present case once it was established that the payments were made and repaid by cheque we need not hasten and adopt that view after having given our thought to various issues raised and the decisions cited by Mr. Tralshawalla and finding that on a very fundamental aspect, the revenue was not justified in making addition at the time of reassessment without having first given the assessee an opportunity to cross examine the deponent on the statements relied upon by the ACIT. Quite apart from denial of an opportunity of cross examination, the revenue did not even provide the material on the basis of which the department sought to conclude that the loan was a bogus transaction.

17. In our view in the light of the fact that the monies were advanced apparently by the account payee cheque and was repaid vide account payee cheque the least that the revenue should have done was to grant an opportunity to the assessee to meet the case against him by providing the material sought to be used against assessee in arriving before passing the order of reassessment. This not having been done, the denial of such opportunity goes to root of the matter and strikes at the very foundation of the reassessment and therefore renders the orders passed by the CIT (A) and the Tribunal vulnerable. In our view the assessee was bound to be provided with the material used against him apart from being permitting him to cross examine the deponents. Despite the request dated 15th February, 1996 seeking an opportunity to cross examine the deponent and furnish the assessee with copies of statement and disclose material, these were denied to him. In this view of the matter we are inclined to allow the appeal on this very issue.”

Thus the denial of opportunity to cross examine was considered by the Hon'ble High Court which goes to the root of the matter and strikes at the very foundation of the assessment and, therefore, renders the assessment order passed by the AO not sustainable. The Id. A/R has

submitted that Coordinate Bench of this Tribunal in the case of DCIT vs. Shri Prateek Kothari vide order dated 16th December, 2012 in ITA No. 159/JP/2016 has considered this issue in para 2.8 to 2.11 as under :-

“2.8 *We have heard the rival contentions and perused the material available on record. The transaction under question relates to unsecured loans taken by the assessee amounting to Rs 1 Crores from M/s Mehul Gems Pvt Ltd during the impugned assessment year and not accepting the said loan transaction as a genuine transaction by the Assessing officer and the resultant addition made under section 68 of the Act. Undisputedly, the primary onus to establish genuineness of the loan transaction is on the assessee. In the instant case, the assessee has provided the necessary explanation, furnished documentary evidence in terms of tax filings, affidavits and confirmation of the Directors, bank statements of the lender, balance sheet of the lender company, and an independent confirmation has also been obtained by the Assessing officer to satisfy the cardinal test of identity, creditworthiness and genuineness of the loan transaction. However, the Assessing officer has not given any finding in respect of such explanation, documentary evidence as well as independent confirmation. Apparently, the reason for not accepting the same is that the Assessing officer was in receipt of certain information from the investigation wing of the tax department as per which the transaction under consideration is a bogus loan transaction. The said information received from the investigation wing thus overweighed the mind of the Assessing officer. The Assessing officer stated that the primary onus is on the assessee to establish the genuineness of the transaction claimed by it and if the investigation done by the department leads to doubt regarding the genuineness of the transactions, it is incumbent on the assessee to produce the parties alongwith necessary documents to establish the genuineness of the transaction. In response, the assessee submitted that Shri Bhanwarlal Jain is not known to him and regarding various incriminating documentary evidences seized during the course of search and statements recorded of Shri Bhanwarlal Jain and other persons, he specifically requested the AO to provide copies of such incriminating documents and statement of all various persons recorded in this regard and provide an opportunity to the assessee to cross examine such persons. However, the AO didn't provide to the assessee copies of such incriminating documents and statements of various persons recorded and allow the cross-examination of any of these persons. While doing so, the AO stated that “in his statements, Bhanwarlal Jain had described that they are*

indulged in providing accommodation entries of bogus unsecured loans and advances through various Benami concerns (70) operated and managed by them. This admission automatically makes all the transactions done by them as mere paper transactions and in these circumstances, further as per the information name and address of assessee and the Benami Concern through which accommodation entry of unsecured loans was provided is appearing in the list of beneficiaries to whom the said Group has provided. This admission is sufficient to reject the contentions of the assessee.” Further, regarding cross examination, the AO stated that “the right of cross examination is not an absolute right and it depends upon the circumstances of each case and also on the statute concerned. In the present case, no such circumstances are warranted as in the list of beneficiaries to whom accommodation entries were provided by the said group categorically contains the name and address of the assessee. Further the group has categorically admitted to providing of accommodation entries of unsecured loans through various benami concerns.” The AO further relied upon the decision of Hon’ble Supreme Court in the case of C. Vasantlal & Co. Vs. CIT 45 ITR 206(SC) and Hon’ble Rajasthan High Court in case of Rameshwarlal Mali vs. CIT 256 ITR 536(Raj.) among others. In this regard, it was submitted by the assessee that if the entries and material are gathered behind the back of the assessee and if the AO proposes to act on such material as he might have gathered as a result of his private enquiries, he must disclose all such material to the assessee and also allow the cross examination and if this is not done, the principles of natural justice stand violated.

2.9 *In light of above discussions, in our view, the crux of the issue at hand is that whether the principle of natural justice stand violated in the instant case. In other words, where the AO doesn’t want to accept the explanation of the assessee and the documentation furnished regarding the genuineness of the loan transaction and instead wants to rely upon the information independently received from the investigation wing of the department in respect of investigation carried out at a third party, can the said information be used against the assessee without sharing such information with the assessee and allowing an opportunity to the assessee to examine such information and explain its position especially when the assessee has requested the same to the Assessing officer.*

2.10 *In this regard, the Hon’ble Supreme Court in the case of Dhakeswari Cotton Mills Ltd. v. CIT (1954) 26 ITR 775 (SC) (Copy at Case Law PB 812-818) has held that “The rule of*

law on this subject has been fairly and rightly stated by the Lahore High Court in the case of Seth Gurmukh Singh where it was stated that while proceeding under sub-section (3) of section 23, the Income-tax Officer, though not bound to rely on evidence produced by the assessee as he considers to be false, yet if he proposes to make an estimate in disregard of that evidence, he should in fairness disclose to the assessee the material on which he is going to find that estimate; and that in case he proposes to use against the assessee the result of any private inquiries made by him, he must communicate to the assessee the substance of the information so proposed to be utilized to such an extent as to put the assessee in possession of full particulars of the case he is expected to meet and that he should further give him ample opportunity to meet it.” It was held in that case that “In this case we are of the opinion that the Tribunal violated certain fundamental rules of justice in reaching its conclusions. Firstly, it did not disclose to the assessee what information had been supplied to it by the departmental representative. Next, it did not give any opportunity to the company to rebut the material furnished to it by him, and lastly, it declined to take all the material that the assessee wanted to produce in support of its case. The result is that the assessee had not had a fair hearing.”

The Hon’ble Supreme Court in case of C. Vasantlal & Co. Vs. CIT 45 ITR 206 (SC) has held that “the ITO is not bound by any technical rules of the law of evidence. It is open to him to collect material to facilitate assessment even by private enquiry. But, if he desires to use the material so collected, the assessee must be informed about the material and given adequate opportunity to explain it. The statements made by Praveen Jain and group were material on which the IT authorities could act provided the material was disclosed and the assessee had an opportunity to render their explanation in that regard.”

The Hon’ble Supreme Court in case of Kishinchand Chellaram v. CIT (1980) 125 ITR 713 (SC) (Copy at Case Law PB 585-591) has held that “whether there was any material evidence to justify the findings of the Tribunal that the amount of Rs. 1,07,350 said to have been remitted by Tilokchand from Madras represented the undisclosed income of the assessee. The only evidence on which the Tribunal could rely for the purpose of arriving at this finding was the letter, dated 18-2-1955 said to have been addressed by the manager of the bank to the ITO. Now it is difficult to see how this letter could at all be relied upon by the Tribunal as a

material piece of evidence supportive of its finding. In the first place, this letter was not disclosed to the assessee by the ITO and even though the AAC reproduced an extract from it in his order, he did not care to produce it before the assessee or give a copy of it to the assessee. The same position obtained also before the Tribunal and the High Court and it was only when a supplemental statement of the case was called for by this Court by its order, dated 16-8-1979 that, according to the ITO, this letter was traced by him and even then it was not shown by him to the assessee but it was forwarded to the Tribunal and it was for the first time at the hearing before the Tribunal in regard to the preparation of the supplemental statement of the case that this letter was shown to the assessee. It will, therefore, be seen that, even if we assume that this letter was in fact addressed by the manager of the bank to the ITO, no reliance could be placed upon it, since it was not shown to the assessee until at the stage of preparation of the supplemental statement of the case and no opportunity to cross examine the manager of the bank could in the circumstances be sought or availed of by the assessee. It is true that the proceedings under the income-tax law are not governed by the strict rules of evidence and, therefore, it might be said that even without calling the manager of the bank in evidence to prove this letter, it could be taken into account as evidence. But before the income-tax authorities could rely upon it, they were bound to produce it before the assessee so that the assessee could controvert the statements contained in it by asking for an opportunity to cross examine the manager of the bank with reference to the statements made by him.”

- 2.11 *In light of above proposition in law and especially taking into consideration the decision of the Hon'ble Supreme Court in case of C. Vasantlal & Co. (supra) relied upon by the Revenue and which actually supports the case of the assessee, in the instant case, the assessment was completed by the AO relying solely on the information received from the investigation wing, statement recorded u/s 132(4) of Shri Bhanwarlal Jain and others, and various incriminating documentary evidence found from the search and seizure carried out by Investigation Wing, Mumbai on the Shri Bhanwarlal Jain group on 03.10.2013. It remains undisputed that the assessee was never provided copies of such incriminating documents and statements of Shri Bhanwarlal Jain and various persons and an opportunity to cross examine such persons though he specifically asked for such documents and cross examination. On the other hand, the burden was sought to be shifted on the ITA No. 159/JP/16 The*

ACIT, Central -2, Jaipur vs. M/s Prateek Kothari, Jaipur 21 assessee by the A.O. It is clear case where the principle of natural justice stand violated and the additions made under section 68 therefore are unsustainable in the eye of law and we hereby delete the same. The order of the Id CIT(A) is accordingly confirmed and the ground of the Revenue is dismissed.”

Thus when the assessee has specifically asked for cross examination of the witnesses whose statements were relied upon by the AO, then the denial of the opportunity to cross examine would certainly in violation of principles of natural justice and consequently renders the assessment order based on such statement as not sustainable in law. Hence in view of the facts and circumstances of the case where the assessee has repeatedly requested and demanded the cross examination of the witnesses whose statements were relied upon by the AO in the assessment order and further the report of the DDIT Investigation Kolkata is also based on the statement of such person then the denial of cross examination by the AO as well as Id. CIT (A) despite the fact that the assessee was ready to bear the cost of the cross examination of the witnesses is a gross violation of principles of natural justice. Thus the additions made by the AO on the basis of such statement without any tangible material is not sustainable in law and liable to be deleted. Accordingly the addition made by the AO is also deleted on merits apart from the legal issue decided in favour of the assessee.”

The facts and circumstances in both the cases are identical and therefore, following the earlier order of this Tribunal in case of Kota Dall Mill, we hold that the addition made by the Assessing Officer on the basis of the information/report of the DDIT (Investigation), Kolkata as well as the statements of Shri Anand Sharma and Shri Ankit Bagri without giving an opportunity of cross examination is not sustainable as the addition is solely based on the statement and information which is nothing but summary of statements recorded by

the DDIT(Inv), Kolkata. Hence, the addition made by the Assessing Officer is deleted. Ground No. 2 of the appeal is decided in favour of the assessee."

Following the earlier orders of this Tribunal, this issue is decided in favour of the assessee and against the revenue.

9. Grounds No. 3 to 5 of the appeal are regarding the addition made U/s 68 of the Act in respect of the share capital received from M/s Jalsagar Commerce Pvt. Ltd. We have heard the Id AR of the assessee as well as the Id. CIT-DR and considered the relevant material on record. The issue of addition made on account of unsecured loan taken from M/s Jalsagar Commerce Pvt. Ltd. was considered by this Tribunal in the case of Kota Dall Mill Vs DCIT (Supra) vide order dated 31/12/2018 and thereafter in the case of M/s Multimetals Limited Vs. DCIT (supra) vide order dated 29/01/2019 as under:

"25. We have heard the Id AR of the assessee as well as the Id. CIT-DR and considered the relevant material on record. The issue of addition made on account of unsecured loan taken from M/s Jalsagar Commerce Pvt. Ltd. was considered by this Tribunal in the case of Kota Dall Mill Vs DCIT (Supra) vide order dated 31/12/2018 and thereafter in the case of M/s Multimetals Limited Vs. DCIT (supra) vide order dated 29/01/2019 wherein the Tribunal has considered this issue in para 18 as under:

"18. We have considered the rival submissions as well as relevant material on record. The Assessing Officer has made the additions in respect of the

unsecured loan from M/s Jalsagar Commerce Pvt. Ltd. as well as M/s Teac Consultants Pvt. Ltd. by treating the same as accommodation entries. The Assessing Officer for the A.Y. 2010-11 has relied upon the statement of Shri Anand Shama which was recorded by the Kolkata Investigation Wing and then forwarded to the Assessing Officer. On appeal, the Id. CIT(A) deleted the addition in respect of M/s Teac Consultants Pvt. Ltd. by noting the fact that the Assessing Officer was not even having any statement of alleged entry operator controlling M/s Teac Consultants Pvt. Ltd.. The Id. CIT(A) confirmed the addition of unsecured loan from M/s Jalsagar Commerce Pvt. Ltd. because the Assessing Officer was having the statement of Shri Anand Sharma and accepted that M/s Jalsagar Commerce Pvt. Ltd. is beneficiary of accommodation entries. At the outset we note that that the identical issue of unsecured loan taken from the M/s Jalsagar Commerce Pvt. Ltd. was considered by us in case of Kota Dall Mill (supra) in para 11 as under:

- “11. We have considered the rival submissions as well as the relevant material on record. For the assessment year 2010-11, the assessee has challenged the addition sustained by Id. CIT (A) in respect of unsecured loan from M/s. Jalsagar Commerce Pvt. Ltd. The other additions made by the AO on account of unsecured loans as well as partners’ capital for the assessment year 2010-11 were deleted by the Id. CIT (A) on the ground that the AO was not having in his possession even the statement of the concerned persons in support of his finding that the alleged loan and partners’ capital is nothing but bogus accommodation entries. Therefore, the revenue has challenged that part of the order in the cross appeal. The Id. A/R of the assessee has pointed out that for the assessment year 2010-11 there was no loan from the company controlled by Shri Anand Sharma, M/s. Royal Crystal Dealers Pvt. Ltd. but the assessee took the loan from M/s. Jalsagar Commerce Pvt. Ltd. which is not the company

owned or controlled by Shri Anand Sharma. The Id. CIT (A) has sustained the addition in respect of loan from M/s. Jalsagar Commerce Pvt. Ltd. in para 5.1 to 5.12 as under :-

"5.1 In this respect, I find that Shri Anand Sharma whose statement is reproduced at Page 56 of the Assessment Order has clearly accepted that M/s Jalsagar Commerce Pvt. Ltd. is beneficiary company like Kota Dal Mill and both of these were provided bogus loans/advances by Royal Crystal Dealer Pvt. Ltd which is a paper company controlled by him. He further stated that the beneficiary party such i.e. M/s Jalsagar Commerce Pvt. Ltd. gave him cash in lieu of which cheques was given by him for some commission income. He also admitted that some paper companies have sold to beneficiary parties. Though, in the initial report dated 28.11.2017, M/s Jalsagar Commerce Pvt. Ltd. was treated a party in Rajasthan, in later report dated 06.12.2017 the entry operator Shri Anand Sharma was linked with M/s Jalsagar Commerce Pvt. Ltd. as per the data base prepared by Directorate of Investigation Kolkata The relevant part of the said statement as reproduced on page no.57 of the assessment order is as under: -

provided to Aradhana Estate Pvt Ltd. In the entire process the beneficiary party gave me cash in lieu of which I gave them cheque for some commission income. Some paper companies have been sold to beneficiary parties. A total of Rs. 54.48 Crores respectively have been given as accommodation entry.

Pages 72 and 73 consist of ledger copy of Rajgharana Vyapaar Pvt Ltd through which bogus / accommodation share application money has been provided to Apeksha Securities Ltd. In the entire process the beneficiary party gave me cash in lieu of which I gave them cheque for some commission income. Some paper companies have been sold to beneficiary parties. A total of Rs. 31.31 Crores have been given as accommodation entry.

Page 71 is ledger copy of Ranjeet Retrail Garments Trading Pvt Ltd through which bogus / accommodation share application money has been provided to Umra Securities Pvt Ltd. In the entire process the beneficiary party gave me cash in lieu of which I gave them cheque for some commission income. Some paper companies have been sold to beneficiary parties. A total of Rs. 20.00 Crores respectively have been given as accommodation entry.

Pages 67 to 70 consist of ledger copies of bogus loans / advance given to Jalsagar Commerce Pvt Ltd, Kota Dall Mill by Royal Crystal Dealer Pvt Ltd which is a paper company controlled by me. In the entire process the beneficiary party gave me cash in lieu of which I gave them cheque for some commission income. Some paper companies have been sold to beneficiary parties. A total of Rs. 39.62 and Rs.47.585 Crores respectively have been given as bogus loans respectively to the above mentioned party.

Pages 61 to 66 consist of ledger copy of Swaraswati Commodities Pvt Ltd through which bogus / accommodation share application money has been provided to Mansi Commodities Pvt Ltd, Gupta Corporation Ltd. In the entire process the beneficiary party gave me cash in lieu of which I gave them cheque for some commission income. Some paper companies have been sold to beneficiary parties. A total of Rs. 1.50 and Rs. 45.55 Crores respectively have been given as accommodation entry.

Pages 51 to 60 consist of ledger copy of Satyam Financial Advertising Pvt Ltd through which bogus / accommodation share application money has been provided to Anmol Biscuits Pvt Ltd, Anmol Stainless Pvt Ltd, Baid Holding Pvt Ltd and Osho Gears & Pinions Ltd. In the entire process the beneficiary party gave me cash in lieu of which I gave them cheque for some commission income. Some paper companies have been sold to beneficiary parties. A total of Rs. 4.99, Rs. 12.4225, Rs. 12.10 and Rs. 1.17 Crores respectively have been given as accommodation entry. A bogus loan of Rs.

Handwritten signature
(DEPONENT) 06/02/14

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5.2 However, it is the submission of the Appellant that no notice under Section 131 or 133(6) of the Act was issued to this company, either by the Ld. AO or by the concerned AO or by the DDIT (Inv.) Kolkata. Also, on bare perusal of the assessment order, it is evident that the name of the said companies does not appear in the statement of any of the entry operators as reproduced by the AO in the Assessment Order. However, the relevant documents including the Ledger a/c showing the transactions with appellant company, Source sheet of funds of transactions made with the Appellant, Copy of bank statement showing the

transactions, etc. stand submitted for confirmation of the transaction of loan with the Appellant.

5.3 In my considered view, as the name of M/s Jalsagar Commerce Pvt. Ltd. is clearly mentioned as beneficiary company in the statement of Shri Anand Sharma, and Shri Anand Sharma is mentioned that some of such paper company are sold to beneficiary party, in view of fact that name of M/s Jalsagar Commerce Pvt. Ltd. Is mentioned in the reports as discussed in para 4.4.7 above, a genuine doubt is raised on the identity and genuineness of company. Further, the adverse facts pointed out in the reports as discussed in para 4.4.7 above for established background of all these share holders / depositors being the puppet in the hand of one or other accommodation entry providers, layering the transaction by cheque deposit on the same day or preceding day of share application / deposits, the assertions of the AO for no-creditworthiness or in-adequate creditworthiness of the so-called shareholders / depositors holds fields. During the appellate proceeding before me, though paper books for relevant AY and common Paper Books have been submitted, the same does not adduce any evidence to rebut the adverse factual finding made by the AO in the assessment order as mentioned by me in Para 4.1 above and categorically mentioned in the reports as discussed in para 4.4.7 above. Under these adverse background of appellant employing modus-operendi of resorting accommodation entry provider to build-up share capital / unsecured loans by foul means, what the AO is vehemently making the case for is the law on the issue-section 68 of Income-tax Act has to be applied by evolving perceptions for the law on the issue and not on the basis of routine perceptions on the law on the issue that is losing their relevance.

5.4 With all due respect to authorities cited by the appellant for canvassing his stand point, I am not able to persuade my conscience to agree with appellants arguments. In my considered opinion, under the adverse background of appellant employing modus-operendi of resorting accommodation entry provider to build-up unsecured loans as established in the assessment order as briefly highlighted in Para 4.1 above, and armed with several authorities on the issue cited by the AO, I

fully agree with the view taken by AO. However, to fortify the finding of the AO and to highlight the guiding principle on adjudicating non-genuine unsecured loans raised through accommodation entry providers, I place further reliance on few more case laws with underlining the similarity of adverse facts prevailing in the present case as follows:-

5.5 In case of Suman Gupta V/s. Income Tax Officer ITAT, Agra Bench (2012) 138 ITD 0153 held as under:-

The AO discussed each and every creditor in the assessment order and the crux of the findings of the AO had been that there were very small bank balances in the bank accounts of the creditors and they were having meager income and as such, they were not men of means to advance any loan to the assessee. It is well settled law that burden is upon the assessee to prove ingredients of section 68 of the Act by proving identity and creditworthiness of the creditors and genuineness of the transactions. The assessee has, however, failed to prove the creditworthiness of the creditors who were having only meager income. No details of their savings have been filed. The assessee has never shown his willingness to produce the remaining creditors for examination before the AO. Therefore, the genuineness of the transaction could not have been examined by the AO. The smallness of the bank balance in the bank accounts of the creditors prior to issue of cheques would clearly reveal that they were not having any source and it was the money of the assessee which was routed through the bank accounts of the creditors for the purpose of giving credits to the assessee. These were, therefore, accommodation entries only and as such, could not be considered as genuine transactions. Merely because the loans have been received through banking channel, is not sacrosanct to make a non-genuine transaction as genuine transaction.

On consideration of the facts of the case in the light of above discussion and decision, there is no justification to interfere with the order of the ld. CIT(A). The assessee has failed to prove the creditworthiness of all the creditors and no source of their income has been filed. At the best the assessee is able to prove identity of the creditors, but the assessee failed to prove the genuine credit in the

matter. All the creditors have been rightly found to be men of meager means and no source of income have been filed to prove that they were having sufficient funds or savings in order to give loans to the assessee. On verification of the bank account of the depositors, it was specifically found that there were no sufficient funds available in their bank account and they were having only small bank balance, which was even not sufficient to meet out their household expenses or day-to-day requirements. Therefore, it is unbelievable to accept the contention of the assessee that said persons were having creditworthiness to advance any loan to the assessee. CIT(A) was justified in confirming the addition u/s. 68 of the IT Act. In the present case, the assessee has not adduced any sufficient evidence before the authorities below to prove the creditworthiness of the creditors and genuineness of the transactions in the matter. Therefore, the assessee has not satisfied the essential ingredients of section 68 of the IT Act.

Conclusion:

Merely because the loans have been received through banking channel, is not sacrosanct to make a non-genuine transaction as genuine transaction.

The above decision is confirmed by Hon'ble Allahabad High Court vide their judgment in ITA No.680/12 vide judgment dated 07.08.2012 and SLP of assessee was dismissed before the Hon'ble Apex Court as reported in 2013-LL-0122-69

5.6 Hon'ble High Court of Delhi in case of Commissioner of Income Tax V/s. Navodaya Castles Pvt. Ltd. reported at (2014) 367 ITR 0306 involving exactly similar facts observed in Para 2, 3 then Para 2 as under:-

2. *The appeal arises out of the impugned order dated 31st October, 2011, passed by the Income Tax Appellate Tribunal, upholding the order passed by the Commissioner of Income Tax (Appeals) deleting addition of Rs.54,00,000/- made under Section 68 of the Income Tax Act, 1961 (Act, for short), by the Assessing Officer on account of share application.*

3. *The assessee, a company, had filed their return of income for the assessment year 2002-03 declaring loss of Rs.1,58,035/- on 20th October, 2002, which was processed under Section 143(1) of the Act. Subsequently, on the basis of a report*

submitted by the Investigation Wing that the assessee was a recipient of accommodation entries in form of share application money/share capital/share premium, notice under Section 147 read with Section 148 of the Act was issued and served on 25th March, 2009.....

.....

7. Summons under Section 131 of the Act were sent to the alleged shareholders and they were asked to furnish details on 10th December, 2009. Directors/Principal officers were required to personally come and depose. The summonses, as per the assessment order, were received back unserved. At the same time, the assessee filed details and confirmations of the alleged share capital. Earlier on 8th December, 2009, a detailed show cause notice was issued, fixing the hearing on 14th December, 2009. The assessee was asked to produce the shareholders along with their books of accounts to substantiate its claim of genuineness of the cash credits. In fact on 10th December, 2009, authorized representative had appeared and he was apprised that the summons issued to the shareholders under Section 131 had been received back unserved in five cases and he was requested to provide the present postal address of the parties. In the meanwhile, the Assessing Officer managed to get hold of the bank statements of the shareholders, who had allegedly made deposits by way of cheques and pay orders. The assessment order specifically records that huge cash deposits in lacs were being regularly deposited in the said accounts and then pay orders/cheques were issued to the respondent assessee.

8. On 14th December, 2009, authorized representative appeared and stated that the assessee was unable to produce directors or principal officers of the six shareholder companies pleading that they were not shareholders now and seven years had passed since the transactions took place. The assessment order records and mentions about the transactions recorded in the bank accounts of the shareholder/entry operator companies to show and establish that there was immediate deposit of cash and then issue of cheques. It was further mentioned that these companies were under control of one Mahesh Garg and his group, who were operating various accounts. The Assessing Officer made addition of

Rs.54,00,000/- under Section 68 of the Act and Rs.1,08,000/- as commission paid for procuring the said shares being 2% of Rs.54,00,000/-.

.....

.....

11. We have heard the Senior Standing counsel for the Revenue, who has relied upon decisions of the Delhi High Court in Commissioner of Income Tax Vs. Nova Promoters and Finlease (P) Ltd. [2012] 342 ITR 169 (Delhi), Commissioner of Income Tax Vs. N.R. Portfolio Pvt. Ltd., 206 (2014) DLT 97 (DB) (Del) and Commissioner of Income Tax-II Vs. MAF Academy P. Ltd., 206 (2014) DLT 277 (DB) (Del). The aforesaid decisions mentioned above refer to the earlier decisions of Delhi High Court in Commissioner of Income Tax Vs. Sophia Finance Ltd., [1994] 205 ITR 98 (FB)(Delhi), CIT Vs. Divine Leasing and Finance Limited [2008] 299 ITR 268 (Delhi) and observations of the Supreme Court in CIT Vs. Lovely Exports P. Ltd. [2008] 319 ITR (St.) 5 (SC).

12. The main submission of the learned counsel for the assessee is that once the assessee had been able to show that the share holder companies were duly incorporated by the Registrar of Companies, their identity stood established, genuineness of the transactions stood established as payments were made through accounts payee cheques/bank account; and mere deposit of cash in the bank accounts prior to issue of cheque/pay orders etc. would only raise suspicion and, it was for the Assessing Officer to conduct further investigation, but it did not follow that the money belonged to the assessee and was their unaccounted money, which had been channelized.

13. As we perceive, there are two sets of judgments and cases, but these judgments and cases proceed on their own facts. In one set of cases, the assessee produced necessary documents/evidence to show and establish identity of the shareholders, bank account from which payment was made, the fact that payments were received thorough banking channels, filed necessary affidavits of the shareholders or confirmations of the directors of the shareholder companies, but thereafter no further inquiries were conducted. The second set of cases are those where there was evidence and material to show that the shareholder

company was only a paper company having no source of income, but had made substantial and huge investments in the form of share application money. The assessing officer has referred to the bank statement, financial position of the recipient and beneficiary assessee and surrounding circumstances. The primary requirements, which should be satisfied in such cases is, identification of the creditors/shareholder, creditworthiness of creditors/shareholder and genuineness of the transaction. These three requirements have to be tested not superficially but in depth having regard to the human probabilities and normal course of human conduct.

14. Certificate of incorporation, PAN number etc. are relevant for purchase of identification, but have their limitation when there is evidence and material to show that the subscriber was a paper company and not a genuine investor. It is in this context, the Supreme Court in CIT vs. Durga Prasad More [1971] 82 ITR 540 (SC) had observed:-

“Now we shall proceed to examine the validity of those grounds that appealed to the learned judges. It is true that the apparent must be considered real until it is shown that there are reasons to believe that the apparent is not the real. In a case of the present kind a party who relies on a recital in a deed has to establish the truth of those recitals, otherwise it will be very easy to make self-serving statements in documents either executed or taken by a party and rely on those recitals. If all that an assessee who wants to evade tax is to have some recitals made in a document either executed by him or executed in his favour then the door will be left wide open to evade tax. A little probing was sufficient in the present case to show that the apparent was not the real. The taxing authorities were not required to put on blinkers while looking at the documents produced before them. They were entitled to look into the surrounding circumstances to find out the reality of the recitals made in those documents.”

15. Summarizing the legal position in Nova Promoters and Finlease (P) Ltd.(supra), and highlighting the legal effect of section 68 of the Act, the Division Bench has held as under:-

“32. The tribunal also erred in law in holding Assessing Officer ought to have proved that the monies emanated from the coffers of the assessee-company and came back as share capital. Section 68 permits the Assessing Officer to add the credit appearing in the books of account of the assessee if the latter offers no explanation regarding the nature and source of the credit or the explanation offered is not satisfactory. It places no duty upon him to point to the source from which the money was received by the assessee. In A. Govindarajulu Mudaliar v CIT, (1958) 34 ITR 807, this argument advanced by the assessee was rejected by the Supreme Court. Venkatarama Iyer, J., speaking for the court observed as under (@ page 810):-

“Now the contention of the appellant is that assuming that he had failed to establish the case put forward by him, it does not follow as a matter of law that the amounts in question were income received or accrued during the previous year, that it was the duty of the Department to adduce evidence to show from what source the income was derived and why it should be treated as concealed income. In the absence of such evidence, it is argued, the finding is erroneous. We are unable to agree. Whether a receipt is to be treated as income or not, must depend very largely on the facts and circumstances of each case. In the present case the receipts are shown in the account books of a firm of which the appellant and Govindaswamy Mudaliar were partners. When he was called upon to give explanation he put forward two explanations, one being a gift of Rs. 80,000 and the other being receipt of Rs. 42,000 from business of which he claimed to be the real owner. When both these explanations were rejected, as they have been it was clearly upon to the Income-tax Officer to hold that the income must be concealed income. There is ample authority for the position that where an assessee fails to prove satisfactorily the source and nature of certain amount of cash received during the accounting year, the Income-tax Officer is entitled to draw the inference that the receipt are of an

assessable nature. The conclusion to which the Appellate Tribunal came appears to us to be amply warranted by the facts of the case. There is no ground for interfering with that finding, and these appeals are accordingly dismissed with costs.”(emphasis supplied)

Section 68 recognizes the aforesaid legal position. The view taken by the Tribunal on the duty cast on the Assessing Officer by section 68 is contrary to the law laid down by the Supreme Court in the judgment cited above. Even if one were to hold, albeit erroneously and without being aware of the legal position adumbrated above, that the Assessing Officer is bound to show that the source of the unaccounted monies was the coffers of the assessee, we are inclined to think that in the facts of the present case such proof has been brought out by the Assessing Officer. The statements of Mukesh Gupta and Rajan Jassal, the entry providers, explaining their modus operandi to help assessee’s having unaccounted monies convert the same into accounted monies affords sufficient material on the basis of which the Assessing Officer can be said to have discharged the duty. The statements refer to the practice of taking cash and issuing cheques in the guise of subscription to share capital, for a consideration in the form of commission. As already pointed out, names of several companies which figured in the statements given by the above persons to the investigation wing also figured as share-applicants subscribing to the shares of the assessee-company. These constitute materials upon which one could reasonably come to the conclusion that the monies emanated from the coffers of the assessee-company. The Tribunal, apart from adopting an erroneous legal approach, also failed to keep in view the material that was relied upon by the Assessing Officer. The CIT (Appeals) also fell into the same error. If such material had been kept in view, the Tribunal could not have failed to draw the appropriate inference.

*16. In the said case, the Division Bench had also examined the decision of the Supreme Court in *Lovely Exports P. Ltd.* (supra) and other cases in which the assessee had succeeded. It was noticed that in the case of *Lovely Exports P. Ltd.* affidavits/confirmations of shareholders were filed and income tax record numbers of the shareholders were made available, but the Assessing Officer, who*

had sufficient time, failed to carry out inquiry and examination. reference was made to the observations in Divine Leasing (supra) to the effect that there cannot be two opinions on the aspect that the pernicious practice of conversion of unaccounted money through the masquerade or channel of investment as share capital must be firmly excoriated by the Revenue, but when there is preponderance of evidence to show absence of culpability, the assessee should not be harassed by the Revenue. A delicate balance must be maintained between the two interests. In Divine Leasing (supra), the following proposition was elucidated:-

“In this analysis, a distillation of the precedents yields the following propositions of law in the context of Section 68 of the IT Act. The assessed has to prima facie prove (1) the identity of the creditor/subscriber; (2) the genuineness of the transaction, namely, whether it has been transmitted through banking or other indisputable channels; (3) the credit worthiness or financial strength of the creditor/subscriber. (4) If relevant details of the address or PAN identity of the creditor/subscriber are furnished to the Department along with copies of the Shareholders Register, Share Application Forms, Share Transfer Register etc. it would constitute acceptable proof or acceptable Explanation by the assessed. (5) The Department would not be justified in drawing an adverse inference only because the creditor/subscriber fails or neglects to respond to its notices; (6) the onus would not stand discharged if the creditor/subscriber denies or repudiates the transaction set up by the assessed nor should the AO take such repudiation at face value and construe it, without more, against the assessed. (7) The Assessing Officer is duty-bound to investigate the creditworthiness of the creditor/subscriber the genuineness of the transaction and the veracity of the repudiation.”

17. Nova Promoters and Finlease (P) Ltd. (supra) after referring to the dismissal of SLP against Divine Leasing case (supra) observed as under:-

“.....So understood, it will be seen that where the complete particulars of the share applicants such as their names and addresses, income tax file numbers,

their creditworthiness, share application forms and share holders' register, share transfer register etc. are furnished to the Assessing Officer and the Assessing Officer has not conducted any enquiry into the same or has no material in his possession to show that those particulars are false and cannot be acted upon, then no addition can be made in the hands of the company under sec.68 and the remedy open to the revenue is to go after the share applicants in accordance with law. We are afraid that we cannot apply the ratio to a case, such as the present one, where the Assessing Officer is in possession of material that discredits and impeaches the particulars furnished by the assessee and also establishes the link between self-confessed "accommodation entry providers", whose business it is to help assessee bring into their books of account their unaccounted monies through the medium of share subscription, and the assessee. The ratio is inapplicable to a case, again such as the present one, where the involvement of the assessee in such modus operandi is clearly indicated by valid material made available to the Assessing Officer as a result of investigations carried out by the revenue authorities into the activities of such "entry providers". The existence with the Assessing Officer of material showing that the share subscriptions were collected as part of a pre-meditated plan – a smokescreen – conceived and executed with the connivance or involvement of the assessee excludes the applicability of the ratio. In our understanding, the ratio is attracted to a case where it is a simple question of whether the assessee has discharged the burden placed upon him under sec.68 to prove and establish the identity and creditworthiness of the share applicant and the genuineness of the transaction. In such a case, the Assessing Officer cannot sit back with folded hands till the assessee exhausts all the evidence or material in his possession and then come forward to merely reject the same, without carrying out any verification or enquiry into the material placed before him. The case before us does not fall under this category and it would be a travesty of truth and justice to express a view to the contrary."

18. *Lovely Exports Pvt. Ltd.(supra)* was also considered and distinguished in *N.R. Portfolio Pvt. Ltd. (supra)* and it was held that the entire evidence available on

record has to be considered, after relying upon CIT Vs. Nipun Builders and Developers, [2013] 350 ITR 407 (Delhi), wherein it has been held that a reasonable approach has to be adopted and whether initial onus stands discharged would depend upon facts and circumstances of each case. In case of private limited companies, generally persons known to directors or shareholders, directly or indirectly, buy or subscribe to shares. Upon receipt of money, the share subscribers do not lose touch and become incommunicado. Call money, dividends, warrants, etc. have to be sent and the relationship remains a continuing one. Therefore, an assessee cannot simply furnish some details and remain quiet when summons issued to shareholders remain un-served and uncomplied. As a general proposition, it would be improper to universally hold that the assessee cannot plead that they had received money, but could do nothing more and it was for the Assessing Officer to enforce shareholders' attendance in spite of the fact that the shareholders were missing and not available. Their reluctance and hiding may reflect on the genuineness of the transaction and creditworthiness of the creditor. It would be also incorrect to universally state that an Inspector must be sent to verify the shareholders/subscribers at the available addresses, though this might be required in some cases. Similarly, it would be incorrect to state that the Assessing Officer should ascertain and get addresses from the Registrar of Companies' website or search for the addresses of shareholders themselves. Creditworthiness is not proved by showing issue and receipt of a cheque or by furnishing a copy of statement of bank account, when circumstances requires that there should be some more evidence of positive nature to show that the subscribers had made genuine investment or had, acted as angel investors after due diligence or for personal reasons. The final conclusion must be pragmatic and practical, which takes into account holistic view of the entire evidence including the difficulties, which the assessee may face to unimpeachably establish creditworthiness of the shareholders.

19. In *N.R. Portfolio Pvt. Ltd. (supra)*, it has been held as under:-

“18. In the remand report, the Assessing Officer referred to the provisions of Section 68 of the Act and their applicability. The word “identity” as

defined, it was observed meant the condition or fact of a person or thing being that specified unique person or thing. The identification of the person would include the place of work, the staff, the fact that it was actually carrying on business and recognition of the said company in the eyes of public. Merely producing PAN number or assessment particulars did not establish the identity of the person. The actual and true identity of the person or a company was the business undertaken by them. This according to us is the correct and true legal position, as identity, creditworthiness and genuineness have to be established. PAN numbers are allotted on the basis of applications without actual de facto verification of the identity or ascertaining active nature of business activity. PAN is a number which is allotted and helps the Revenue keep track of the transactions. PAN number is relevant but cannot be blindly and without considering surrounding circumstances treated as sufficient to discharge the onus, even when payment is through bank account.

19. On the question of credit worthiness and genuineness, it was highlighted that the money no doubt was received through banking channels, but did not reflect actual genuine business activity. The share subscribers did not have their own profit making apparatus and were not involved in business activity. They merely rotated money, which was coming through the bank accounts, which means deposits by way of cash and issue of cheques. The bank accounts, therefore, did not reflect their creditworthiness or even genuineness of the transaction. The beneficiaries, including the respondent-assessee, did not give any share-dividend or interest to the said entry operators/subscribers. The profit motive normal in case of investment was entirely absent. In the present case, no profit or dividend was declared on the shares. Any person, who would invest money or give loan, would certainly seek return or income as consideration. These facts are not adverted to and as noticed below are true and correct. They are undoubtedly relevant and material facts for ascertaining creditworthiness and genuineness of the transactions.

30. What we perceive and regard as correct position of law is that the court or tribunal should be convinced about the identity, creditworthiness and genuineness of the transaction. The onus to prove the three factum is on the assessee as the facts are within the assessee's knowledge. Mere production of incorporation details, PAN Nos. or the fact that third persons or company had filed income tax details incase of a private limited company may not be sufficient when surrounding and attending facts predicate a cover up. These facts indicate and reflect proper paper work or documentation but genuineness, creditworthiness, identity are deeper and obtrusive. Companies no doubt are artificial or juristic persons but they are soulless and are dependent upon the individuals behind them who run and manage the said companies. It is the persons behind the company who take the decisions, controls and manage them.”

20. Now, when we go to the order of the tribunal in the present case, we notice that the tribunal has merely reproduced the order of the Commissioner of Income Tax (Appeals) and upheld the deletion of the addition. In fact, they substantially relied upon and quoted the decision of its coordinate bench in the case of MAF Academy P. Ltd., a decision which has been overturned by the Delhi High Court vide its judgment in C.I.T vs. MAF Academy P.Ltd [(2014) 206 DLT 277]. In the impugned order it is accepted that the assessee was unable to produce directors and principal officers of the six shareholder companies and also the fact that as per the information and details collected by the Assessing Officer from the concerned bank, the Assessing Officer has observed that there were genuine concerns about identity, creditworthiness of shareholders as well as genuineness of the transactions.

21. In view of the aforesaid discussion, we feel that the matter requires an order of remit to the tribunal for fresh adjudication keeping in view the aforesaid case law. The question of law is, therefore, answered in favour of the Revenue and

against the respondent-assessee, but with an order of remit to the tribunal to decide the whole issue afresh.

As reported at 2015-TIOL-314-SC-IT, in the above case, the Hon'ble Supreme Court observed to effect that 'merely because the assessee has been able to show that the shareholder companies were duly incorporated and their identity & genuineness stands established, there were deposits of cash in the bank accounts prior to issue of cheque or pay orders, the same would raise suspicion and addition can be made on such account'

5.7 It may be mentioned that as reported at 2016-TIOL-207-SC-IT, the Hon'ble Supreme Court dismissed SLP by Rick Lunsford Trade & Investment Ltd in case of Rick Lunsford Trade & Investment Ltd Vs CIT 'upholding that it is open to the Revenue Department to make addition on account of alleged share capital u/s 68, where the assessee company has failed to show genuineness of its shareholders.'

5.8 Hon'ble Delhi High Court in case of Commissioner of Income Tax-II V/s MAF Academy Pvt. Ltd. involving exactly similar facts in ITA 341/2012 dated 28th November, 2013 observed in Para 33 to 36 as under:

33. The Assessee company is a private limited company and had not come out with any public issue nor made any advertisement for issuance of share capital. However, in one year there is infusion of share capital including premium of Rs.4,35,00,000/-, out of which only Rs.92,00,000/- was infused from the Directors/family members of the Directors. The remaining share capital had been infused from parties which were completely unrelated either to the Assessee or to any of its Directors. In a private limited company, normally the investment of shares is from parties or persons who are friends or relatives of Promoters/Directors.

34. It is noticed that the shares had face value of Rs.100 /- and were allotted at a premium of Rs.100 /- to Rs.200/- and were then subsequently purchased by the Promoters/Directors, who had originally transferred these shares at Rs.35 /- per share.

35. *It is really surprising that a person who had purchased shares at a premium of Rs.100 /- to Rs.200/- per share i.e. at a price of Rs.200 /- to Rs.300/- per share, sold the shares at Rs.35 /- per share i.e at a substantial loss. Another surprising factor is that the entire investment happened during a short span of time and re-transfer of the shares to the four Promoters/Directors of the company at Rs.35 /- per share by different parties also happened during a short span of few days. The modus operandi and the manner in which cash is deposited in a bank and then utilized by way of an account payee cheque for purchase of shares for a premium of Rs.100 /- to Rs.200/- per share and then the sale of shares at a loss clearly establishes that the said transaction was a camouflage transaction. The Assessee has clearly attempted to camouflage the accommodation entries and tried to give it a colour of purchase of share capital and then sale of the same at a loss. Thus the Assessee's capital increased or was enhanced by a substantial figure through these dubious transactions. This should be and has to be checked.*

36. *Out of Rs.4.35 crores received as share capital including premium, only Rs.92 lacs has been received from the directors or their family members and the remaining amount has been received from parties totally unrelated to the Assessee. Notices to some of the investors could not be served and even the Inspector who was deputed to serve the summons stated that none of the addresses could be found. The authorised representative of the Assessee refused to produce the parties who had invested in the share capital on the ground that they were not in a position to produce them. The fact that the Assessee failed to produce the persons who had invested towards share capital shows that these were people who were completely unrelated to the Assessee and as such, all the entries were merely accommodation entries. Otherwise, in a private limited company, it would not have been difficult on the part of the Assessee to produce persons who were investing substantial amount of money in the company towards share capital.*

37. *The Assessing Officer in his order has as a sample referred to the entries in the account of some of the share holders noticing that there are cash deposits of the exact amount for which cheque is subsequently issued to the Assessee. Perusal of the bank statements clearly establishes that these parties were depositing cash*

and immediately either on the same day or in the near future withdrawing the same through a cheque which was issued in favour of the Assessee.

Then Hon'ble Delhi High Court held in Para 53 to 54 as under:-

53. In contrast to the above judgments, in the present case, the Assessee is a private limited company and in the factual matrix, we have held that the Assessee has not been able to discharge the initial onus and has not been able to establish the identity, creditworthiness of the share applicants and the genuineness of the transaction. Though, in our considered opinion, none of the above judgments, referred to by the Assessee respondent, are applicable in the facts of the present case and in view of the findings recorded by us hereinabove.

54. In view of the above, we are of the view that the Assessee has not discharged the onus satisfactorily and the additions made by the Assessing Officer were justified and sustainable.

5.9 Hon'ble Income Tax Appellate Tribunal Delhi Bench: 'B' in case of M/s. Amtrac Automotive India Pvt. Ltd. Versus ACIT, Circle 1(1), involving exactly similar facts in their appellate order ITA No.2920/Del/09 for A.Y. 2005-06 dated 31.12.2009 observed in Para 3 & then Para 2 as under:-

3. The assessee company is engaged in share trading in the year under consideration. In the course of scrutiny, the assessing officer noted that the appellant has introduced fresh share capital to the tune of Rs. 15,00,000/- at a share premium of Rs. 1,35,00,000/-.....

.....

2.1 The AO asked the appellant to furnish details of such share holders mentioning their identity, genuineness of transaction and credit-worthiness. Appellant produced confirmation of deposit from directors of the respective company, copies of income tax return filed and copies of bank statement reflecting the above transactions. In order to verify the entire transactions in the Asstt. year 2005-06 light of genuineness and creditworthiness, he issued

summons u/s 131 of the Act to all the above 15 persons. They were asked to produce the copies of return for AY. 2005-06 and their ledger accounts from which the source of above share application money could have been verified. All the above summons were returned unserved with the comments from the postal authorities as "no such person in the above address". The AO accordingly brought this fact to the notice of the counsel of the assessee vide order sheet entry dated 18.12.2007 and he was given an opportunity to produce the functional directors of the above companies for verification. As mentioned in the assessment order, after certain adjournments, a letter was finally filed from the appellant mentioning that it is no in touch of the above share holders and their present whereabouts are not known to it. The appellant, however, relying upon the decision of Hon'ble Delhi High Court in the case of [CIT vs. Sophia Finance Ltd.](#) In which the powers of the Assessing Officer was not precluded from making enquiries in share application money, submitted that no addition can be made.

2.1.1 The AO however was not convinced with the submission of the appellant. He observed that that it was only in the course of enquiry that he tried to examine the above share applicants. Since the summons issued to such persons remained unserved, it became the duty of the appellant either to produce them for verification or to state their correct addresses. It appears to be highly improper that in a Private Ltd. Company, the assessee is not in a position to state the exact whereabouts or fail to produce the persons who collectively hold more than 25% of its total share holding. He also observed that mere filing of Asstt. year 2005-06 confirmation letters do not absolve the appellant from its onus to prove the credit entries reflected in its books of accounts as has been held by Hon'ble Calcutta High Court in the case of [CIT vs. United Commercial & Industrial Co. \(P\) Ltd.](#)[1991] 187 ITR 596. He further observed that the facts that the amount were paid by account payee cheques do not make it satisfactory as held in [CIT vs. Precision finance Pvt. Ltd.](#) 208 ITR 465 (Cal.). Even income -tax file particulars, where the share holder is assessed to tax is not sufficient as found in [CIT vs. Korlay Trading Co. Ltd.](#) 232 ITR 820 (Cal.)

2.1.2 The AO also referred the enquiry initiated by investigation wing of the Department in August 2003 which culminated into detection of many entry

operators who are operating number of accounts in the same bank/branch or in different branches, in the names of companies, firms, proprietary concerns and individuals. For the operations of these bank accounts, filing income tax returns etc. persons are hired. Like any other business it does requires manpower according to the scale of operation. Except for two or three persons who are required regularly to visit banks and do other spade work like collection of cash etc., most of the other persons involved are on part time basis. The part time employees are called as and when required to sign documents, cheque books etc. Some of the entry operators have also roped in their own relatives for operation of entry accounts and filing the income tax returns. Interestingly most of these concerns / individuals have obtained PAN from the department and are filing returns as well. What is shown in the returns is not the actual state of affairs. For example with one PAN several bank accounts are simultaneously Asstt. year 2005-06 operated and only one account might be shown for the purpose of audit and filing income tax returns. The entry operators provide entry in the garb of share application money, gifts, loans etc. through these accounts, in lieu of cash, to any person who is having unaccounted money.

2.1.2.1 The AO observed that some of the companies show above by the appellant as its share holders were found to have stated before investigation wing that they were mere name lender for advancing money. To quote some of them, Shri Rajesh Bansal, Director of M/s. Rubicon Associates Pvt. Ltd., Shri Mahesh Garg, Director of M/s. S.J. Hosiery Pvt. Ltd. Etc. have categorically stated before the Investigation wing, in their statement taken on oath, that they used to take the amount in cash and give entries to different concerns as gift, loan or share application money. According to AO, to enquire into this aspect also, the appellant was asked to produce the functional directors of such share holders.

2.1.3. In view of these facts and circumstances, the Assessing Officer concluded that the credit in the name of these shareholders are not genuine and represents unexplained cash credits. Accordingly he made addition of Rs. 1.50 lakhs to the returned income.

Then Hon'ble Income Tax Appellate Tribunal Delhi Bench: 'B' held in Para 6 as under:

6. As regards ground No. 2, we find that the assessee has stated to have received fresh share capital to the tune of Rs. 15 lacs and share premium of Rs.1,00,35,000/- i.e. a share of face value of Rs. 10/- each issued at a premium of Rs. 90/- totaling to Rs. 100/-. When the AO asked the appellant to furnish the details the assessee produced share application forms and other details like bank statement, copy of acknowledgment of return etc. However when the AO conducted inquiry at the stated address, summons were received back unserved with the postal remark "no such person in the above address". This fact was Asstt. year 2005-06 brought to the notice of assessee also. Thereafter the assessee except producing the papers could not prove existence or availability of the respective share applicants. When the identity of the person is required to be proved so as to examine whether in fact they have applied for allotment of shares, the existence itself is not proved. The existence of a person is not merely on paper. Particularly when the AO required the assessee to produce the share applicants and particularly when at the stated address the share applicants do not found to be existing, it cannot be said that the amount received by assessee is proved to be towards share capital. The transaction cannot be proved merely on paper. Neither before AO nor before Ld. CIT (A) the assessee could make the share applicants available. Therefore when the identity of the person itself is not proved, the amount received by assessee cannot be considered to be genuinely received.

6.1. It is also to be noted that the assessee company is stated to have issued shares at premium 9 times its face value. The assessee is a private limited company. It has not issued prospectus for issue of shares nor under the [Companies Act 1956](#), it can invite the public to apply for and allot the shares. The company is prohibited from making any invitation for allotment of shares. How the premium was fixed is not forth coming. Looking to the balance sheet or past history of assessee, the assessee company has never declared dividend in the past. The company has no business plans which can raise its profitability in the near future.

The income declared by the assessee is only by way of short term capital gain and the assessee do not seem to have carried on any business.

Asstt. year 2005-06 In such circumstances the share premium is not found to be justified by any of the act on the part of assessee. These facts are revealing more than the apparent shown on the paper. All these facts put together reveal that neither the identity of the share applicants are proved nor justification for share premium has been proved. In such circumstances the court cannot put blinker on the eye and look only at the papers presented before it. There is something more than that meets the eye. As rightly contended by Ld. DR in such situation the observation of Hon'ble Supreme Court in the case of CIT Vs. Durga Prasad More 82 ITR 540 and in the case of Sumati Dayal Vs. CIT 214 ITR 801 are apt for application. We therefore do not find any reason to hold that the share capital receipts by assessee were from persons whose identity is established and the amount is genuinely received towards share capital.

5.10 In a recent decision in case of Principal Commissioner Of Income vs Bikram Singh in ITA 55/2017, the Hon'ble High Court of Delhi held on 25 August, 2017 as under:-

25. The law applicable to transactions of this nature is well settled by this Court in Divine Leasing (supra). Both parties have referred to and relied upon this judgment. This Court, after analyzing the entire law on the subject in the context of [Section 68](#) of the Act, held as under:

"...16. In this analysis, a distillation of the precedents yields the following propositions of law in the context of [Section 68](#) of the IT Act. The assessee has to prima facie prove (1) the identity of the creditor/subscriber; (2) the genuineness of the transaction, namely, whether it has been transmitted through banking or other indisputable channels; (3) the creditworthiness or financial strength of the creditor/subscriber. (4) If relevant details of the address or PAN identity of the creditor/subscriber are furnished to the Department along with copies of the Shareholders Register, Shared Application Forms, Share Transfer Register etc. it

would constitute acceptable proof or acceptable explanation by the assessee. (5) The Department would not be justified in drawing an adverse inference only because the creditor/subscriber fails or neglects to respond to its notices; (6) the onus would not stand discharged if the creditor/subscriber denies or repudiates the transaction set up by the assessee nor should the AO take such repudiation at face value and construe it, without more, against the assessee. (7) The Assessing Officer is duty-bound to investigate the creditworthiness of the creditor /subscriber the genuineness of the transaction and the veracity of the repudiation...."

26. In *Divine Leasing (supra)*, on the question of burden of proof, the Court relied upon [CIT v. Musaddilal Ram Bharose](#), (1987) 165 ITR 14, to hold that the initial burden is upon the Assessee to show the absence of fraud and this is not discharged by the Assessee tendering an incredible and fantastic explanation. The Court also held that every explanation given by the Assessee need not be accepted.

27. In *Kamdhenu (supra)*, this Court categorically held that the initial burden lies on the Assessee to establish the identity of the shareholders, the genuineness of the transaction and the creditworthiness of the shareholders. It is only after the initial burden is discharged that the onus shifts to the Revenue. This Court in *Kamdhenu (supra)* referred to [CIT v. Sophia Finance](#), 205 ITR 98 which had held to the same effect. The *Divine leasing (supra)* and *Sophia Finance (supra)* judgments were reiterated by this Court in *Dwarkadhish (supra)*. Thus, the law in relation to [Section 68](#) is well settled.

.....

43. The transactions in the present appeal are yet another example of the constant use of the deception of loan entries to bring unaccounted money into banking channels. This device of loan entries continues to plague the legitimate economy of our country. As seen from the facts narrated above, the transactions herein clearly do not inspire confidence as being genuine and are shrouded in mystery, as to why the so-called creditors would lend such huge unsecured, interest free

loans - that too without any agreement. In the absence of the same, the creditors fail the test of creditworthiness and the transactions fail the test of genuineness.

5.11 In my considered view, the technical objections raised by the Appellant in respect of loan from M/s Jalsagar Commerce Pvt. Ltd. are of no avail to the appellant due to following undisputed facts:-

i. It is undisputed fact that the Income Tax Department has made tremendous investigations in such shell companies of Kolkata, Mumbai and Delhi providing accommodation entry and statements made by several accommodation entry providers have become virtually in public domain. It is no argument that the AO did not provide such statement before the assesment or in any of the notices. These facts were well known to the appellant group and ignorance is mere pretence.

ii. Moreover, such statements are so vocal and undeniable that as mentioned in some of the case laws above, cross-examination of such accommodation entry provides by thousands of beneficiaries across India is neither practicable nor viable and therefore uncalled for.

iii. It is undisputed fact that in the statement dated 06.02.2014 Shri Anand Sharma had admitted to be one of such accommodation entry providers. The sum and substance of the said statement is that the concern M/s Jalsagar Commerce Pvt. Ltd. was engaged in the activities of providing accommodation entries and the appellant happened to be one of such beneficiary of such concern. It is also admitted fact that Shri Anand Sharma had been running the affair of the said company.

v. The statement of Shri Anand Sharma in which name of M/s Jalsagar Commerce Pvt. Ltd. cannot be completely ignored solely on the legal grounds raised by the Appellant.

5.12 In view of above discussion, it is clear that the incriminating material had been found during the course of search of accommodation entry provider. Further

incriminating material had been gathered by issuing commission to DDIT (Inv.) Kolkata, during the assessment proceedings and all such material have been shared with the appellant at least during the remand report proceeding. In view of nation-wide known scam by the accommodation entry providers of Kolkata and elsewhere burst by the Income Tax Department, there was no need to provide opportunity for cross-examination of same accommodation entry providers. Any way in the rejoinder submission to remand report the appellant is absolutely silent on cross-examination and by such conduct he has forgone his right to cross-examine. Therefore, the principles of natural justice have been followed. As discussed in preceding paras, under the facts and circumstance of the case, it could not be said that AO did not followed the binding decision of the Hon'ble Supreme Court and the Hon'ble jurisdiction Court. Therefore, in view of above facts discussed in Para 4.1 & 4.4.7, 5.1 to 5.3 and legal position apprised in Para 5.5 to 5.11 above, it is held that the addition made by the AO on account of unsecured loans amounting to Rs. 12,36,49,999/- from M/s Jalsagar Commerce Pvt. Ltd. sustainable and the same is confirmed."

Thus the addition was confirmed based on the report of the DDIT (Inv.) Kolkata. We find that the report of the DDIT (Inv.) Kolkata is also based on the statements of various persons recorded during their investigation and the statement of Shri Anand Sharma was also sent along with the report of the AO. The Id. CIT (A) has confirmed the addition because of the reason that the statement of Shri Anand Sharma was very much in the possession of the AO who has admitted in his statement that M/s. Jalsagar Commerce Pvt. Ltd. was engaged in the activity of providing accommodation entry. However, we find that M/s. Jalsagar Commerce Pvt. Ltd is not managed or controlled by Shri Anand Sharma, rather the company M/s. Royal Crystal Dealers Pvt. Ltd. was stated to have been owned by Shri Anand Sharma and in his statement dated 6th February, 2014 Shri Anand Sharma has stated to have been providing entries from M/s. Royal Crystal Dealers Pvt. Ltd. to M/s. Jalsagar Commerce Pvt. Ltd. Therefore, there is no allegation or any admission in the statement of Shri Anand Sharma that he has provided bogus

loan entry to the assessee or any group concerns of the assessee. Since the name of M/s. Jalsagar Commerce was crepted in his statement, the AO has presumed that the loan provided by M/s. Jalsagar Commerce Pvt. Ltd is nothing but the bogus accommodation entry provided by Shri Anand Sharma through M/s. Royal Crystal Dealers Pvt. Ltd. The AO has tried to establish the nexus of the loan received by the assessee through the statement of Shri Anand Sharma where he has purported to have provided the alleged entry. Since there is no direct allegation or admission of providing loan by Shri Anand Sharma to the assessee through M/s. Royal Crystal Dealers Pvt. Ltd., then even if there is a possibility of bogus accommodation entry routed through another intermediary company M/s. Jalsagar Commerce Pvt. Ltd., it requires a definite link of the transactions from M/s. Royal Crystal Dealers Pvt. Ltd. to M/s. Jalsagar Commerce Pvt. Ltd. and then the loan to the assessee. Once the chain of transactions and flow of money from one entity to another entity and finally to the assessee has not been established, then the addition made merely on suspicion, how so strong it may be, is not sustainable. On the contrary, when the assessee produced all the relevant record which contains their financial statements, bank accounts statement of loan creditor, return of income, assessment orders framed under section 143(3), confirmation of the loan creditor, then a proper examination could have very well established the link, if any, in providing the accommodation entry from one entity to another and finally to the assessee. However, no such link was found in the documents and financial statements of these companies, rather in the bank account statement of loan creditor M/s. Jalsagar Commerce Pvt. Ltd. there was no suspicious transaction of receiving any entry or any deposit of an equal amount prior to giving the loan to the assessee. The assessee has paid interest to the creditor, which was duly accepted by the AO as business expenditure. Undisputedly, the assessee has produced the income-tax record of the loan creditor, bank statement, financial statements including Balance Sheet, copy of ROC master data

showing the status of loan creditor company as “active”, confirmation of loan given to the assessee. Further, the AO issued summons and also got the summons served through DDIT Kolkata under section 131 of the IT Act which were duly responded by the loan creditor. Except the statement of Shri Anand Sharma and the report of the Investigation Wing Kolkata, the AO has not brought on record any other material to controvert or disprove the documentary evidence produced by the assessee. It is pertinent to note that the loan creditor was assessed to tax and the AO completed the assessment under section 143 (3) for various assessment years which are relevant for the assessment year under consideration. The AO in case of loan creditor has not disturbed the transactions of loan given by this company to the assessee. From the financial statements of the loan creditor it is apparent that the loan creditor was having sufficient funds to advance the loan amount to the assessee and once the said financial statements were not disturbed, then the creditworthiness of the loan creditor cannot be doubted when it was accepted in the assessment order passed under section 143(3) of the IT Act. We further note that the AO insisted the assessee to produce the directors of the loan provider company. The assessee produced the affidavit, and the notices issued by the AO under section 131 and 133(6) of the Act were duly complied with by the creditor. The statement of the Director of M/s. Royal Crystal Dealers Pvt. Ltd. was also recorded by the AO wherein the Director has confirmed the transaction of loan. There are various reports of the DDIT Kolkata which are placed at pages 406 to 422 of the paper book. We find that all these reports are based on the statements recorded during the investigation but no documentary evidence was either gathered or has been referred in these reports. Therefore, even if these reports are to be taken into consideration, these are nothing but narration of the statements of various persons taken during the investigation. It is well settled principle as well as the directions of the CBDT issued under the Circulars that during the course of investigation, the department should concentrate and focus on

collecting documentary evidence disclosing undisclosed income instead of obtaining the statement and then support of their claim merely on the basis of the statement. Therefore, the statements recorded by the DDIT Kolkata are also not based on any documentary evidence so as to have an evidentiary value for sustaining the additions made by the AO. The entire report of the Investigation Wing is based on statements recorded during survey and search. Once the assessee has produced the documentary evidence and particularly the financial statements of the loan creditors, their bank account statement, then in the absence of any discrepancy or fault in these financial statements or in the bank account statement to reflect that the transactions in question are nothing but bogus accommodation entries, the addition made by the AO is not sustainable as it is merely on the basis of surmises and conjectures and not on any tangible material disclosing the non-genuineness of the transactions. The AO has not disputed the transactions routed through banking channel having sufficient funds which is also supported by the financial statements and further the assessments of the loan creditor were completed under section 143(3). The details of loans taken from M/s. Jalsagar Commerce Pvt. Ltd., interests credited/paid and repayment of loan amount as well as closing balance are as under :-

| Name of Company | AY | Opening Balance | Loan taken during the year | Interest credited in loan a/c during the year | Interest credited in interest Paid /payable a/c | Loan repayment/ TDS/transfer in partner capital during the year | Closing balance |
|-------------------------------|-------|-----------------|----------------------------|---|---|---|-----------------|
| Jalsagar Commerce Private Ltd | 10-11 | 41,298 | 34,70,40,000 | 13,96,176 | 12,56,558 | 34,21,15,916 | 51,05,000 |
| Jalsagar Commerce Private Ltd | 11-12 | 51,05,000 | 77,18,70,000 | 16,71,599 | 15,04,439 | 77,18,37,160 | 53,05,000 |
| Jalsagar Commerce Private Ltd | 12-13 | 53,05,000 | 78,95,00,000 | 1,07,08,434 | 96,37,591 | 31,72,80,655 | 47,85,95,188 |
| Jalsagar Commerce Private Ltd | 13-14 | 47,85,95,188 | 2,76,31,50,000 | 0 | 0 | 2,97,53,40,000 | 26,64,05,188 |
| Jalsagar Commerce Private Ltd | 14-15 | 26,64,05,188 | 97,34,50,000 | 0 | 0 | 1,24,03,55,188 | (5,00,000) |
| Jalsagar Commerce Private Ltd | 15-16 | 0 | 1,34,89,00,000 | 49,00,600 | 44,10,540 | 1,34,93,90,060 | 0 |
| Jalsagar Commerce Private Ltd | 16-17 | 0 | 87,11,00,000 | 1,67,23,178 | 1,50,50,860 | 87,27,72,318 | 0 |

All these details were before the AO as all these assessment years were passed by the AO pursuant to the search and seizure action under section 132 of the IT Act. Thus it is clear that for the assessment year 2015-16 there was Nil balance on account of loan taken from M/s. Jalsagar Commerce Pvt. Ltd. and the entire loan was already repaid by the assessee. We further note that it is not the case of repayment of loan after the search action on 2nd July, 2015 but there is a regular repayment of loan for each year as it is evident from the details reproduced above. Therefore, the transactions of taking loan and repayment cannot be treated as bogus once the assessee has been regularly repaying the loan amount and small balance was there at the end of the year. Once there was no balance at the end of the year on the loan account, then the addition cannot be made by treating the loan taken and repaid as bogus transaction. Apart from these facts, the assessee has also made the payment of interest which was also subjected to TDS. This shows the genuineness of the transactions and all these transactions have taken place prior to the date of search and duly recorded in the books of accounts and also subjected to assessment under section 143(3) for some of the assessment years. Therefore, even as per the evidence produced by the assessee, the alleged suspicion of the AO was got dispelled and in the absence of any contrary evidence except the statement which is not even a conclusive proof of transaction of bogus entry to the assessee, the additions made by the AO are not sustainable.”

Thus, the Tribunal has considered the fact that the assessee produced all the relevant documentary evidence in support of the claim to establish the identity, creditworthiness and genuineness of unsecured loan. We further note that in support of its claim, the assessee produced following documents:

| S. No. | Particulars of Documents |
|---------------|---|
| 1 | Copy of Ack. of ITR of AY 2010-11 |
| 2 | Copy of balance sheet and annexure of loans & advance of AY 2010-11 |

| | |
|----|--|
| 3 | Copy of relevant page of bank statement showing the entry of payment made to assessee. |
| 4 | Confirmation of loan given to assessee from books of accounts of party. |
| 5 | Confirmation of loan given to assessee from books of accounts of assessee. |
| 6 | Copy of affidavit of Sangeeta Somani director of company. |
| 7 | Copy of balance sheet of company of 31.03.2010, 31-03-2011,31-03-2012, 31-03-2013, 31-03-2014,31-03-2015 and 31-03-2016 |
| 8 | Copy of assessment order passed in the case of above named company for AY 2005-06, AY 2007-08, AY 2011-12, AY 2012-13 and 2014-15. |
| 9 | Copy of ROC master data. |
| 10 | Copy of PAN card. |

The Assessing Officer has not brought any material on record to controvert the correctness of the evidence filed by the assessee rather all these records was subjected to the scrutiny assessment in the case of the loan creditor, therefore, once the department has accepted financial statement of the loan creditors then the same cannot be denied while examining genuineness of the transaction in the hand of the assessee. Hence, by following the earlier order of this Tribunal in the case of Kota Dall Mill (supra) wherein the issue of loan taken from M/s Jalsagar Commerce Pvt. Ltd. was examined and decided in favour of the assessee, we delete the addition made by the Assessing Officer in this regard.”

We find that in the case in hand, the assessee has also produced all the relevant documents as referred in the earlier order of this Tribunal which includes ITR, financial statements, bank statements, confirmation of loan, affidavit of the Director of the loan creditor, balance sheet of various years showing the availability of the funds, status of the loan creditor as per the ROC master data and the assessment orders framed U/s 143(3) of the Act by the A.O.. Therefore, once the assessee has produced the relevant documentary evidence in support of the claim as well as repayment of the loan including the payment of interest, which were not disallowed or disturbed by the A.O. in any of the years then in absence of any contrary

material brought by the A.O. to controvert or dispute the correctness of the evidence filed by the assessee, the addition made by the A.O. and confirmed by the Id. CIT(A) are not sustainable. Further the statement relied upon by the A.O. of Shri Anand Sharma, nowhere states that he has provided any accommodation entry to the assessee but reference of M/s Jalsagar Commerce Pvt. Ltd. in the statement is only to the extent that he has provided accommodation entries to M/s Jalsagar Commerce Pvt. Ltd. through another company namely Royal Crystal Dealer Pvt. Ltd. Further the A.O. has not pointed out any discrepancy in the record to show that the assessee's own money has been routed back in the garb of unsecured loans. Accordingly, in view of the earlier orders of this Tribunal, we delete the addition made by the A.O. in respect of unsecured loan taken from M/s Jalsagar Commerce Pvt. Ltd.."

Following the earlier orders of this Tribunal, this issue is decided in favour of the assessee and against the revenue.

10. Ground No. 6 of the assessee's appeal is regarding denial of benefit of telescoping, recycling and rotation of funds by rejecting the peak credit theory.

11. We have considered the Id AR of the assessee as well as the Id CIT-DR and considered the relevant material on record. Since the additions made by the Assessing Officer have been finally deleted by us, therefore, this ground of the assessee's appeal is become infructuous.

12. The appeal for the A.Y. 2014-15, the assessee has raised following grounds of appeal:

- “1. On the facts and in the circumstances of the case and in law the Id. CIT (A) erred in not declaring the assessment order as bad in law and void ab initio. The findings of Id CIT(A) in this regard are perverse and erroneous. It is contended that the Id. AO passed the assessment order against the doctrine of “audi alterm partem”, violating the principle of natural justice and not giving the opportunity of cross examination of the alleged accommodation entry providers, therefore the assessment order ought to held as bad in law and deserves to be annulled.*
- 2. That the order of the Id CIT (A), confirming the addition made by the AO is arbitrary, whimsical, capricious, perverse, based on no evidence or irrelevant material or irrelevant evidence, and against the law and facts of the case. The addition confirmed by Id.CIT (A) deserves to be deleted.*
- 3. On the facts and in the circumstances of the case and in law the Id. CIT (A) erred in confirming the additions made u/s 68 of the Income Tax Act, 1961 by :-*
 - a) solely relying on the statements of some alleged accommodation entry providers recorded by some other authorities in some other cases/actions and the opportunity to cross examination was also not provided to assessee.*
 - b) giving a contradictory finding that a **doubt** is raised on the identity and genuineness of the company whose name is mentioned in the statement of accommodation entry providers as well as reports of DDIT (Inv.)-Kolkatta.*
 - c) holding that the assessee has not adduced any evidence to rebut the adverse factual finding made by the AO in the assessment order though detailed paper book for relevant AY and common paper books have been submitted, and*
 - d) holding that incriminating material had been found during the course of search of accommodation entry provider. Further*

incriminating material had been gathered by issuing commission to DDIT (Inv.) Kolkatta.

4. *On the facts and in the circumstances of the case and in law the Id. CIT(A) erred in confirmation the addition of Rs. 4,00,00,000/- made by Id. AO u/s 68 of Income Tax Act, 1961 on account of share application money and share premium thereon taken from following parties and erroneously held that the identity, creditworthiness and genuineness of the under mentioned company is doubtful: -*

| <i>Name of the company from whom loan received</i> | <i>Amount</i> | <i>Name of alleged entry operator whose statement were relied</i> |
|--|----------------------|---|
| <i>Royal Crystal Dealers Pvt. Ltd.</i> | <i>2,00,00,000/-</i> | <i>Shri Anand Sharma</i> |
| <i>Doshi Management Pvt. Ltd.</i> | <i>2,00,00,000/-</i> | <i>Shri Anand Sharma in his statement (copy as provided to applicant) never admitted to be managing this company.</i> |

5. *On the facts and in the circumstances of the case and in law the Id. CIT(A) erred in rejecting the theory of peak credit and erred in not allowing the benefit of telescoping, recycling and rotation of funds.*
6. *The assessee prays for leave to Add, to amend, to delete, or modify the all or any grounds of appeal on or before the hearing of appeal.*

13. Ground No. 1 of the appeal is regarding the violation of principles of natural justice in not allowing the cross examination. This issue is common as in the appeal for the A.Y. 2012-13.

14. We have heard the Id. AR of the assessee as well as the Id CIT-DR and considered the relevant material on record. In view of our finding on this issue for the A.Y. 2012-13, the same is decided in favour of the assessee and against the revenue.

15. Grounds No. 2 to 4 of the appeal are regarding the additions made by the Assessing Officer U/s 68 of the Act in respect of share capital received from M/s Royal Crystal Dealers Pvt. Ltd. and Doshi Management Pvt. Ltd.

16. We have heard the Id. AR of the assessee as well as the Id. CIT-DR and considered the relevant material on record. The issue of genuineness of the transaction in respect of Doshi Management Pvt. Ltd. as well as M/s Royal Crystal Dealers Pvt. Ltd. was considered by this Tribunal vide order dated 31/12/2018 in the case of M/s Kota Dall Mill Vs. DCIT (supra) in para 22 as under:

“22. We have carefully perused the impugned orders of the AO as well as the Id. CIT (A) and also gone through the documents filed by the assessee in support of the claim and found that the assessee produced the identical documentary evidence as in the case of assessment year 2010-11. Even the parties are same for these years and, therefore, once the identity, creditworthiness and genuineness of the transaction in respect of one party is decided, then the same is applicable for all the subsequent years subject to condition that a sufficient fund was available with the creditor. We note that except M/s. Royal Crystal Dealers Pvt. Ltd. and M/s. Doshi Management Pvt. Ltd., additions for which were confirmed by the Id. CIT (A) for all these years on the reasoning that these companies are managed and controlled by Shri Anand Sharma, the alleged entry operator, the other creditors are common as in the preceding years. This finding of the Id. CIT (A) is identical to the finding in respect of M/s. Jalsagar Commerce Pvt. Ltd. for the assessment year 2010-11.

Accordingly, in view of our finding on this issue, the addition sustained by the Id. CIT (A) is deleted. Rest of the parties for which the additions were deleted by the Id. CIT (A) are same for which the AO was not having any material or document to substantiate the finding of bogus accommodation entries as in the case of other parties, namely, M/s. Birla Arts Pvt. Ltd., M/s. Tech Consultants Pvt. Ltd., M/s. Sangam Distributors Pvt. Ltd. As regards the corporate partners who have introduced the capital, they remain the same for all the years and, therefore, the issue is common for all these years except the fact that for the assessment year 2014-15 only one partner, namely, M/s. Bansidhar Advisory Pvt. Ltd. introduced some capital of Rs. 13.00 lacs and for the assessment year 2013-14 only three partners introduced the capital. Therefore, in view of our finding on all these issues while deciding the cross appeals for the assessment year 2010-11, the grounds raised by the assessee and revenue for the assessment years 2011-12 and 14-15 stand disposed off on the same terms and finding of the assessment year 2011-12 is mutatis-mutandis applicable for these assessment years.”

Thus, the additions made by the A.O. and confirmed by the Id. CIT(A) are based on the statement of alleged entry operator without any other material either found or referred by the DDIT(Inv.), Kolkata. The findings of the A.O. as well as the Id. CIT(A) are identical as in respect of M/s Jalsagar Commerce Pvt. Ltd.. Therefore, in view of our decision in respect of M/s Jalsagar Commerce Pvt. Ltd. as well as the earlier decision of this Tribunal in case of M/s Kota Dall Mill Vs. DCIT (supra), the addition confirmed by the Id. CIT(A) are not sustainable and liable to be deleted.

17. Ground No. 5 of the assessee's appeal is regarding denial of benefit of telescoping, recycling and rotation of funds by rejecting the peak credit theory.

18. We have considered the Id AR of the assessee as well as the Id CIT-DR and considered the relevant material on record. Since the additions made by the Assessing Officer have been finally deleted by us, therefore, this ground of the assessee's appeal is become infructuous.

19. In the cross appeal for the A.Y. 2014-15, the revenue has taken following grounds:

- “1. Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the addition of Rs. 5,20,00,000/- made by the AO u/s 68 of the IT Act on account of unexplained share application money claimed to have obtained by the assessee from M/s Banshidhar Advisory Pvt. Ltd., M/s Vasundhara Advisory Pvt. Ltd. and M/s Prithvi Vinimay Pvt. Ltd.*
- 2. Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the addition of share application money by observing that the alleged investor companies M/s Banshidhar Advisory Pvt. Ltd., M/s Vasundhara Advisory Pvt. Ltd. and M/s Prithvi Vinimay Pvt. Ltd. are not shell companies without considering the financial statement of these companies.*
- 3. Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the addition of share application money claimed to have obtained from companies M/s Banshidhar Advisory Pvt. Ltd., M/s Vasundhara Advisory Pvt. Ltd. and M/s Prithvi Vinimay Pvt. Ltd. merely for the reason that*

evidences in the form of statement on oath of the relevant entry operators were not available on record.

- 4. Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the addition of share application money claimed to have obtained from M/s Banshidhar Advisory Pvt. Ltd., M/s Vasundhara Advisory Pvt. Ltd and M/s Prithvi Vinimay Pvt. Ltd despite the fact that the Directors or Principal Officers of these companies were never produced before the Assessing Officer for examination despite number of opportunities provided by the AO for producing and also ignoring the fact that the assessee neither expressed its inability in producing the lenders nor produced them either.*
- 5. Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the addition of share application money claimed to have obtained from M/s Banshidhar Advisory Pvt. Ltd, M/s Vasundhara Advisory Pvt. Ltd and M/s Prithvi Vinimay Pvt. Ltd merely by observing that the assessee has cooperated in assessment by showing his willingness to produce the Directors of Investor companies and some Directors/Officers were also produced before the AO despite the fact that even the directors which were produced before the AO failed to substantiate the genuineness of the alleged transactions.*
- 6. Whether on the facts and circumstances of the case and in law, the CTI(A) was justified in deleting the addition of unexplained share application money by observing that the appellant cannot be fastened upon the burden to produce the Investors before the AO and in not considering the decision of the Hon'ble Supreme Court in Navodaya Castle (P) Ltd. Vs CIT(2015) 56 taxman.com 18(SC) when there were genuine concerns of the genuineness of the transactions.*
- 7. Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the disallowance of Rs. 65,523/- made by the AO by invoking the provisions of section 14A of the IT Act.*

8. *Whether on the facts and circumstances of the case and in law, the CIT(A) was justified in deleting the disallowances of Rs. 2,077/- made by the AO on account of shortage & damages, Rs. 36,784.- on account of expenses of personal nature, Rs. 34,066/- on account of foreign travel expenses and Rs. 8,70,566/- out of claim of direct expenses.*

The Appellant crave, leave or reserving the right to amend modify, alter add or forego any ground(s) of appeal at any time before or during the hearing of this appeal”.

20. Grounds No. 1 to 6 of the appeal are regarding the additions made by the A.O. in respect of three share applicants namely M/s Banshidhar Advisory Pvt. Ltd., M/s Vasundhara Advisory Pvt. Ltd and M/s Prithvi Vinimay Pvt. Ltd., which was deleted by the Id. CIT(A) for want of any supporting material as well as statement of alleged entry operator.

21. We have heard the Id CIT-DR as well as the Id AR of the assessee and considered the relevant material on record at the outset we note that an identical issue has been considered by this Tribunal in the case of M/s Kota Dall Mill Vs. DCIT (supra) in para 19 as under:

" 19. Having considered the rival submissions as well as the relevant material on record, we note that the AO has made the addition of the amount of partners' capital from these four corporate entities on identical reasoning as the addition was made on account of unsecured loans. During the year under consideration, the assessee firm received Rs. 42,47,25,000/- on account of partners' capital from the corporate partners as under :-

| S. No. | Name of the Partner | Addition of Capital during AY under Appeal |
|--------|---|--|
| 1 | M/s Bansidhar Advisory Private Limited | Rs. 13,22,20,000/- |
| 2 | M/s Vasundhara Advisory Private Limited | Rs. 8,96,45,000/- |
| 3 | M/s Prithvi Vinimay Private Limited | Rs. 13,93,45,000/- |
| 4 | M/s Macro Soft Technology Private Limited | Rs. 6,35,15,000/- |
| | Total | Rs. 42,47,25,000/- |

We find that the assessee produced all the relevant documentary evidence in support of the transactions before the AO. The summary of these documents are as under :-

| S.No | Particulars | Paper book Page No. |
|--|--|---------------------|
| M/s Vasundhara Advisory Pvt. Ltd. | | |
| 1 | • Copy of ledger a/c of partner from books of accounts of assessee. | 843-845 |
| 2 | • Copy of Ack. of ITR of AY 2010-11 and computation of total income. | 846-847 |
| 3 | • Copy of Balance sheet of AY 2010-11 | 848-855 |
| 4 | • Confirmation of a/c of the assessee from books of accounts of partner. | 856-859 |
| 5 | • Copies of relevant bank a/c of partner showing the entries of payment made to assessee against capital introduce. | 860-872 |
| 6 | • Copy of affidavit executed by Mr. Ravi Mundra director of Doshi Management Pvt. Ltd on behalf of amalgamated Company M/s Vasundhara Advisory Pvt Ltd, | 873-875 |
| 7 | • Copy of order of Calcutta High Court regarding amalgamation of company in Doshi Management Pvt. Ltd | 876-900 |
| 8 | • Copy of balance sheet of company of 31.03.2010, 31.03.2011, 31.03.2012 and 31.03.2013. | 901-904 |
| 9 | • Copy of assessment order passed in the case of above named company for AY 2014-15. | 905-908 |
| 10 | • Copy of ROC master data. | 909 |
| 11 | • Copy of certificate dated 06.11.2011 issued by registrar of companies regarding modification of charges/mortgage. | 910 |
| 12 | • Copy of PAN card. | 911 |
| 13 | • Copy of Summon No. 1439 dated 13.10.2017 and reminder notice No. 1579 dated 31.10.2017 issued by DDIT (Investigation), Unit-1(3), Kolkata u/s 131 of Income Tax Act, 1961. | 912-915 |
| 14 | • Copy of reply submitted by the company in response to summon/notice issued to it along with dispatched proof | 916-918 |

| M/s. Prithivi Vinimay Pvt. Ltd. | | |
|--|--|-----------|
| 15 | • Copy of ledger a/c of partner from books of accounts of assessee. | 919-921 |
| 16 | • Copy of Ack. of ITR of AY 2010-11 and computation of total income. | 922-923 |
| 17 | • Copy of Balance sheet of AY 2010-11 | 924-942 |
| 18 | • Confirmation of a/c of the assessee from books of accounts of partner. | 943-946 |
| 19 | • Copies of relevant bank a/c of partner showing the entries of payment made to assessee against capital introduce | 947-958 |
| 20 | • Copy of affidavit executed by Mr. Ravi Mundra director of Doshi Management Pvt. Ltd on behalf of amalgamated Company M/s Prithvi Vinimay Pvt Ltd, | 959-962 |
| 21 | • Copy of order of Calcutta High Court regarding amalgamation of company in Doshi Management Pvt. Ltd | 963-987 |
| 22 | • Copy of balance sheet of company of 31.03.2010, 31.03.2011, 31.03.2012 and 31.03.2013. | 988-991 |
| 23 | • Copy of assessment order passed in the case of above named company for AY 2006-07 and 2014-15. | 992-1000 |
| 24 | • Copy of ROC master data. | 1001-1002 |
| 25 | • Copy of certificate dated 08.02.2013 issued by registrar of companies regarding modification of charges/mortgage. | 1003 |
| 26 | • Copy of PAN card. | 1004 |
| 27 | • Copy of Summon No. 1440 dated 13.10.2017 and reminder notice No. 1578 dated 31.10.2017 issued by DDIT (Investigation), Unit-1(3), Kolkata u/s 131 of Income Tax Act, 1961. | 1005-1008 |
| 28 | • Copy of reply submitted by the company in response to summon/notice issued to it along with displaced proof | 1009-1011 |
| M/s Macro Soft Technology Pvt. Ltd. | | |
| 29 | • Copy of ledger a/c of partner from books of accounts of assessee. | 1012-1013 |
| 30 | • Copy of Ack. of ITR of AY 2010 and computation of total income. | 1014-1015 |
| 31 | • Copy of Balance sheet of AY 2010-11 | 1016-1024 |
| 32 | • Confirmation of a/c of the assessee from books of accounts of partner. | 1025-1027 |
| 33 | • Copies of relevant bank a/c of partner showing the entries of payment made to assessee against capital introduce. | 1028-1033 |
| 34 | • Copy of affidavit of Deepa Kriplani director of company. | 1034-1037 |
| 35 | • Copy of balance sheet of company of 31.03.2010, 31.03.2011, 31.03.2012, 31.03.2013, 31.03.2014, 31.03.2015 and 31.03.2016. | 1038-1044 |
| 36 | • Copy of assessment order passed in the case of above named company for AY 2009-10, 2011-12, AY 2012-13 and 2014-15. | 1045-1064 |
| 37 | • Copy of ROC master data. | 1065-1066 |
| 38 | • Copy of certificate dated 06.11.2011 issued by registrar of companies regarding modification of charges/mortgage. | 1067 |

| | | |
|---|--|-----------|
| 39 | • Copy of PAN card. | 1068 |
| 40 | • Copy of notice No. 1604 dated 21.09.2017 issued by DCIT, CC, Kota u/s 131 of Income Tax Act, 1961. | 1069 |
| 41 | • Copy of Reply of Notice submitted by the company | 1070 |
| 42 | • Copy of Summon No. 2115 dated 31.10.2017 issued by DCIT, CC, Kota u/s 131 of Income Tax Act, 1961. | 1071 |
| 43 | • Copy of Reply of Notice submitted by the company on 13.11.2017 and 23.11.2017. | 1072-1074 |
| M/s Banshidhar Advisory Pvt. Ltd | | |
| 44 | • Copy of ledger a/c of partner from books of accounts of assessee. | 1075-1077 |
| 45 | • Copy of Ack. of ITR of AY 2010-11 and computation of total income. | 1078-1079 |
| 46 | • Copy of Balance sheet of AY 2010-11 | 1080-1089 |
| 47 | • Confirmation of a/c of the assessee from books of accounts of partner. | 1090-1093 |
| 48 | • Copies of relevant bank a/c of partner showing the entries of payment made to assessee against capital introduce. | 1094-1100 |
| 49 | • Copy of affidavit executed by Mr. Ravi Mundra director of Doshi Management Pvt. Ltd on behalf of amalgamated Company M/s Banshidhar Advisory Pvt Ltd, | 1101-1103 |
| 50 | • Copy of order of Calcutta High Court regarding amalgamation of company in Doshi Management Pvt. Ltd | 1104-1128 |
| 51 | • Copy of balance sheet of company of 31.03.2010, 31.03.2011, 31.03.2012 and 31.03.2013. | 1129-1132 |
| 52 | • Copy of assessment order passed in the case of above named company for AY 2014-15. | 1133-1137 |
| 53 | • Copy of ROC master data. | 1138-1139 |
| 54 | • Copy of certificate dated 06.11.2011 issued by registrar of companies regarding modification of charges/mortgage. | 1140 |
| 55 | • Copy of PAN card. | 1141 |
| 56 | • Copy of Summon No. 1438 dated 13.10.2017 and reminder notice No. 1580 dated 31.10.2017 issued by DDIT (Investigation), Unit-1(3), Kolkata u/s 131 of Income Tax Act, 1961. | 1142-1145 |
| 57 | • Copy of reply submitted by the company in response to summon/notice issued to it along with dispatched proof | 1146-1148 |

Thus it is apparent that in support of the claim of identity of the corporate partners, their capacity and genuineness of the transactions, relevant documentary evidences were already filed before the AO. The assessee has also produced the assessment orders passed under section 143(3) for various assessment years in case of these four corporate partners who have introduced the partners' capital in the assessee firm. The details of the assessment orders passed under section 143(3) are as under :-

Assessment u/s 143(3)

| Name of Company | Assessment year | Paper Book page no. |
|-------------------------------------|-----------------|---------------------|
| M/s Vasundhara Advisory Pvt. Ltd. | 2014-15 | 905 |
| M/s Prithivi Vinimay Pvt. Ltd. | 2006-07 | 992 |
| M/s Prithivi Vinimay Pvt. Ltd. | 2014-15 | 998 |
| M/s Macro Soft Technology Pvt. Ltd. | 2009-10 | 1048-1050 |
| M/s Macro Soft Technology Pvt. Ltd. | 2011-12 | 1052-1053 |
| M/s Macro Soft Technology Pvt. Ltd. | 2012-13 | 1059-1060 |
| M/s Macro Soft Technology Pvt. Ltd. | 2014-15 | 1061-1062 |
| M/s Banshidhar Advisory Pvt. Ltd | 2014-15 | 1133-1134 |

All these four companies status has been shown in the Master data of ROC as "Active" and three of which, namely, M/s. Banshidhar Advisory Pvt. Ltd., M/s.Prithvi Vinimay Pvt. Ltd. and M/s. Vasundhara Advisory Pvt. Ltd. status was shown as "Amalgamated". Therefore, these companies have already under gone process of amalgamation through the approval of the Hon'ble High Court. Hence, there cannot be any dispute about the identity and the affairs of these companies as genuine. The assessee also produced the records about the availability of the funds with these four companies which were sufficient to introduce the partners' capital. The details of the source of funds of these four companies as submitted by the assessee are as under :-

M/s Vasundhra Advisory Pvt. Ltd.

| Assessment Year | Financial Year | Share capital raised |
|-----------------|----------------|----------------------|
| 2006-07 | 2005-06 | 5,76,00,000 |
| 2010-11 | 2009-10 | 6,61,50,000 |
| 2011-12 | 2010-11 | 5,43,50,000 |
| 2014-15 | 2013-14 | 10,82,35,000 |

M/s Prithvi Vinimay Pvt. Ltd

| Assessment Year | Financial Year | Share capital raised |
|------------------------|-----------------------|-----------------------------|
| 2005-06 | 2004-05 | 1,51,00,000 |
| 2006-07 | 2005-06 | 4,68,20,000 |
| 2007-08 | 2006-07 | 2,72,20,000 |
| 2010-11 | 2009-10 | 7,84,00,000 |
| 2011-12 | 2010-11 | 1,96,00,000 |
| 2014-15 | 2013-14 | 12,87,50,000 |

M/s Macro Soft Technology Pvt. Ltd

| Assessment Year | Financial Year | Share capital raised |
|------------------------|-----------------------|-----------------------------|
| 2002-03 | 2001-02 | 9,98,000 |
| 2004-05 | 2003-04 | 9,75,00,000 |

M/s Bansidhar Advisory Pvt. Ltd

| Assessment Year | Financial Year | Share capital raised |
|------------------------|-----------------------|-----------------------------|
| 2006-07 | 2005-06 | 5,76,00,000 |
| 2010-11 | 2009-10 | 10,64,00,000 |
| 2011-12 | 2010-11 | 1,61,00,000 |
| 2014-15 | 2013-14 | 15,00,00,000 |

The assessee has also submitted the records regarding the corporate guarantee of Rs. 73.60 crores given by the SBBJ in favour of M/s. Bansidhar Advisory Pvt. Ltd. and, therefore, it was brought on record the fact that the bank has issued the corporate guarantee only after verification of the financial condition of the said company. We find that the bank guarantee to the company of Rs. 73.60 crores issued by the bank is always secured by the liquid-able assets of the company which shows that the company was having underlined assets to secure the said bank guarantee and consequently the creditworthiness of the said company was duly examined by the bank. The Id. CIT (A) has considered all these facts while deciding this issue in para 7.3 to 7.3.9 as under :-

7.3 It may be mentioned that same procedure of remand report have been done as discussed in para 4.3 above and the same is not repeated here. Similarly, as discussed in para 4.4.3 this matter too was referred by the AO for verification by issuing commission u/s 131(1)(d) to the Deputy Director of Income Tax (Inv), Unit-1(3), Kolkata vide same letters and same reports as discussed in para 4.4.4 were received from The Deputy Director of Income Tax (Inv), Unit-1(3), Kolkata. As observed in para 4.4.5 & 4.4.6, the two reports dated 28.11.2017 and 06.12.2017 from The Deputy Director of Income Tax (Inv), Unit-1(3), Kolkata are capable to findout where the appellant has employed foul means and where the transaction are of routine business requirements. From the careful perusal of these the two reports dated 28.11.2017 and 06.12.2017 from the Deputy Director of Income Tax (Inv), Unit-1(3), Kolkata. I don't find adverse findings alongwith eloquent evidences in the form of statement on oath of relevant entry operators in respect of capital contributions by four companies, namely, M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited and M/s Macro Soft Technology Private Limited. The same is evident from the respective details for above lenders in the above reports dated 28.11.2017 and 06.12.2017 as under:-

“With reference to your above quoted letter, this office has issued Summon notices u/s 131 of the Income Tax Act, 1961 dated 13.10.2017 to the following sixteen (16) companies based in Kolkata as mentioned in your above quoted letter requesting to furnish the requisite details related to share application money/share premium/special deposits/unsecured loan/capital introduced by partners or any transactions made

with group concerns of the KDM Group for the period from F.Y. 2009-10 to 2015-16 within 05 (five) days of receipt of Summon Notices. As regards 5 (five) assesses, Summons notices u/s 131 of the Income tax Act, 1961 has not been issued since it is observed that the present address of five (5) companies is located either in Rajasthan or Patiala.

..... In response to said both notices dated 13.10.2017 & 31.10.2017, none of the directors appeared personally but the following companies have submitted their reply containing various details by post on different dates, the details of which is mentioned under and the same is being forwarded herewith in original for your further necessary action at your end:”

| <i>S. No.</i> | <i>NAME OF CONCERNS</i> | <i>PARTICULARS OF SUBMISSION</i> | <i>Date of submission received by post</i> |
|---------------|--|---|--|
| <i>12.</i> | <i>BANSHIDHAR ADVISORY PVT LTD (AMALGAMATED WITH DOSHI MANAGEMENT PVT LTD)</i> | <i>Transactions details with KDM Group concern, copy of ledger, copy of certificate of incorporation & PAN Card, copy of assessment order u/s 143(3) for A.Y. 14-15, audited accounts for F.Y. 09-10 to 12-13, source of fund, bank statement showing the transactions with KDM group concerns, nature of business & copy of Hon'ble High Court order in respect of Amalgamation.</i> | <i>07.11.2017</i> |
| <i>13.</i> | <i>VASUNDHARA ADVISORY PVT LTD (AMALGAMATED WITH DOSHI MANAGEMENT PVT LTD)</i> | <i>Nature of business, copy of Hon'ble High Court order in respect of Amalgamation, transactions related to investment in equity shares and capital</i> | <i>07.11.2017</i> |

| | | | |
|--|--|--|------------|
| | | <i>contribution with KDM group concern, bank statement depicting the transactions with KDM group concerns, audited accounts for F.Y. 09-10 to 12-13, source of fund, copy of certificate of incorporation & PAN Card, copy of ledger & copy of assessment order u/s 143(3) for the A.Y. 14-15.</i> | |
| 14. | <i>PRITHVI VINIMAY PVT LTD (AMALGAMATED WITH DOSHI MANAGEMENT PVT LTD)</i> | <i>Transactions details, copy of ledger along with supporting documents incl. Share applications, share allotment, account confirmation from Kota Dall Mill, Form-2, audited accounts for F.Y. 09-10 to 12-13, copy of assessment order u/s 143(3) for A.Y. 14-15, copy of certificate of incorporation and PAN card, details regarding source of fund, bank statement depicting the transactions details & copy of Hon'ble High Court order in respect of Amalgamation.</i> | 07.11.2017 |
| No summons were issued for M/s Macro soft Technology Pvt. Ltd by DDIT (Inv.) Unit 1(3) Kolkata | | | |

“.....this office has also verified the companies as per database of paper/shell companies/entities prepared by Directorate of Investigation Wing, Kolkata on the basis of statements of various entry operators at different occasions before the Income Tax Department. On verification, the following facts has been emerged out from the database

which reveals that some companies are listed in the database of paper/shell companies controlled & managed by entry operators and the same is being produced as under in the tabular form:

| SL. NO. | NAME OF CONCERNS | PAN | ADDRESS GIVEN IN COMMISSION | NOTICE ISSUED | ENTRY OPERATOR | DUMMY DIRECTOR |
|---------|---|------------|---|--|--|---|
| 1 | BANSIDHAR ADVISORY PVT LTD (AMALGAMATED WITH DOSHI MANAGEMENT PVT LTD) | AACCB7815M | 11A ESPLANAD E EAST 3 RD FLOOR, KOLKATA – 700069 | NOTICE ISSUED U/S 131 AT GIVEN ADDRESS | This company is amalgamated with M/s Doshi Management Pvt Ltd which has been identified as paper/shell company controlled & managed by entry operator Anand Sharma | SHASHI KUMARI RAMANI- The name of these dummy directors are listed in database, who worked/works under different entry operators for different period, the details of which has been given below in tabular form. |
| 1 | VASUNDHARA ADVISORY PVT LTD (AMALGAMATED WITH DOSHI MANAGEMENT PVT LTD) | AACCV1837B | 11A ESPLANAD E EAST 3 RD FLOOR, KOLKATA – 700069 | NOTICE ISSUED U/S 131 AT GIVEN ADDRESS | This company is amalgamated with M/s Doshi Management Pvt Ltd which has been identified as paper/shell company controlled & managed by entry operator Anand Sharma | PUNAM RAMANI – The name of these dummy directors are listed in database, who worked/works under different entry operators for different period, the details of which has been given below in tabular form. |
| 1 | PRITHVI VINIMAY PVT LTD (AMALGAMATED WITH DOSHI MANAGEMENT PVT LTD) | AADCP4531D | 11A ESPLANAD E EAST 3 RD FLOOR, KOLKATA – 700069 | NOTICE ISSUED U/S 131 AT GIVEN ADDRESS | This company is amalgamated with M/s Doshi Management Pvt Ltd which has been identified as | DEEPAK TIBREWAL – The name of these dummy directors are listed in database, who |

| | | | | | | |
|---|--|--|--|--|---|---|
| | | | | | paper/shell company controlled & managed by entry operator Anand Sharma | worked/works under different entry operators for different period, the details of which has been given below in tabular form. |
| It may be mentioned here that amalgamation took place in July 2014 where as statement of Shri Anand Sharma are prior to March 2014. | | | | | | |

“Further, the verification and investigation of past and present directors of following companies has been carried out with the help of Database of Entry Operators prepared by Directorate of Investigation Wing, Kolkata which reveal that the directors of these companies have been listed under the name of various entry operators who are engaged in the business of providing accommodation entries by appointing various dummy directors by known entry operators whose names has been mentioned in the under mentioned table.

| S. No. | Name of company | Name of Director(s) | Period | Name of Entry Operator |
|--------|-----------------------------|----------------------|-----------------------|------------------------|
| 1. | VASUNDHARA ADVISORY PVT LTD | PUNAM RAMANI | 28.02.2011-TILL DATE | NAWAL KISHORE JALAN |
| 2. | PRITHVI VINIMAY PVT LTD | DEEPAK TIBREWAL | 28.03.2014-TILL DATE | PANKAJ AGARWAL |
| 3. | BANSIDHAR ADVISORY PVT LTD | SHASHI KUMARI RAMANI | 09.01.2009-16.03.2012 | ANKIT BAGRI |

It may be mentioned here that three companies namely; M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited were amalgamated with M/s Doshi Management Pvt Ltd in July 2014 in accordance with permission from Kolkata High Court, whereas the

statements entry operator Anand Sharma are dated 02.07.2013 and 06.02.2017 i.e. prior to March 2014 by which M/s Doshi Management Pvt Ltd. Might have been identified as paper/shell company. Neither statement of Shri Anand Sharma not any list or annexure of said statements indentifying M/s Doshi Management Pvt. Ltd. Is available on record, though it is included in the report of DDIT (Inv.), Unit 1(3), Kolkatta. Therefore, the lable of paper/shell company cannot be applied to M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited as at the relevant time they were not part of M/s Doshi Management Pvt Ltd. Moreover, in data base of directorships for these companies; M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited as reproduce above also clearly show no direct controle or influence of the alleged entry operator Anand Sharma. Similarly, the statement of Ankit Bagri is not implicating M/s Bansidhar Advisory Pvt. Ltd. in any manner as Shell Company. There are no statements from Nawal Kishore Jalan and Pankaj Agarwal on record implicating M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited as shell companies.

7.3.1 In view of above ground reality I am treating M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited not as shell company as treated by the AO as nowhere adverse facts, details and corroboratory evidences in the form of statements of the alleged entry operator Anand Sharma or Ankit Bagri implicating them are found in the reports dated 28.11.2017 and 06.12.2017 from Investigation Directorate, Kolkata. I have also considered the assessment order, the remand report along with its all enclosures, the

relevant statements reproduced in the Assessment Order by the AO, the submissions made by the appellant along with paper book for the year under consideration and all relevant material placed on record and could not find a single piece of evidence to say that any one of above could be shell company.

7.3.2 It is seen that during this year, the AO has made additions in the hands of Assessee on account of partner's capital from four companies, namely, M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited and M/s Macro Soft Technology Private Limited. The AO alleged that despite providing huge capital contribution, none of the newly introduced Partner is interested in the business activities of the Assessee Firm as there is no working Partner on their behalf and none of them have nominated any Director or other Officer of the Company to act as Working Partner in the Assessee Firm.

7.3.3 However, the A/R of the Appellant while representing the case has argued the matter in detail and has filed detailed submissions as reproduced above in response to the findings and allegations of the AO. A summarized form of the submissions and arguments put forth by the A/R is given hereunder:

- a) The Appellant has duly discharged the initial onus cast upon it u/s 68 of the Act by furnishing the Name, Address, PAN, Copy of ITR, Copy of Bank Statement and Confirmation from the Partners, Balance Sheet etc. Through the said documents, identity, creditworthiness of the corporate partners along with the genuineness of the transactions carried out with them was duly established.
- b) The AO has not observed anything in the assessment order regarding any defect or flaw in the documents submitted.

- c) The capital contributions of the companies that have been treated as unexplained by the AO were introduced in AY 2012-13. In the assessment proceedings of AY 2012-13 which was completed u/s 143(3) of the Act, such capital contributions were treated as genuine. Thus, once in the completed assessment proceedings the capital contribution of those companies has been considered as genuine than there is no reason to treat the capital received from such companies during the year as non genuine without having any material and only on presumption, assumption and surmises.
- d) Submission made in Ground No. 2 in respect of unsecured loans may also be treated as a submissions for the purpose of this ground of appeal.
- e) All the partners must be working partners is not mandatory under any of the laws in force.
- f) All the transactions were done through proper banking channels.
- g) The notices issued to the four companies u/s 131/133(6) of the Act were duly complied with along with the copy of the relevant documents.
- h) Affidavits of the directors of all companies were submitted wherein the Directors confirmed their investment as partner's capital in the Appellant Firm.
- i) No reliance can be placed on rejected books of account for working out peak credit for the purpose of making additions in the hands of the appellant.
- j) The reports/inspection report and statements relied upon by the AO were not provided to the appellant during assessment proceedings and directly reproduced in the assessment order.

7.3.4 In my considered view, as far as the partner's capital from the companies namely, M/s Bansidhar Advisory Private Limited, M/s

Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited and M/s Macro Soft Technology Private Limited is concerned, it is evident from the documents placed on record that Notice was issued by DDIT, Kolkata u/s 131/133(6) to these companies which was duly complied with and relevant documents were filed. There is no fact on record that the notices remained unserved or these companies were not found existent on the given addresses. Furthermore, Affidavit of the directors were also submitted wherein the Directors confirmed investment in the Appellant Firm in the form of partner's capital.

7.3.5 The only allegation of the AO is that the Directors of these companies have not been nominated as working partners. In my view, such allegation is without any substance as there is no legal obligation on a partnership firm to appoint all the partners as working partners. There are various partners in firms which only do investment in the firm and do not participate in the regular business activities of the firm. Such partners are called sleeping partners and the said partners do exist in the normal business parlance.

7.3.6 The Appellant in discharge of its onus u/s 68 of the Act has filed confirmation of accounts as well as bank statement reflecting the transactions with other substantiating documents as well as the relevant assessment orders, which are available at page no. 645 to 867 of PB. From these documentary evidences placed on record, identity, creditworthiness and genuineness of transactions is established. There is no gain saying that the onus squarely lies on the appellant to prove the identity, creditworthiness and genuineness of the cash credits. In the case of Addl. CIT v. Bahri Bros. (P) Ltd. [1985] 154 ITR 244 (Pat), the Hon'ble Patna High Court has held "*if the loans are given by an account paying cheque, it amounts to*

identification of the parties and discharge of burden by the borrower." In view of the above, it is clear that Appellant discharged its burden u/s 68 of the Act. Even otherwise, there is no adverse finding of any investigation conducted by the department in relation to the said companies. Therefore, in the absence of any independent inquiry and any adverse findings to rebut the evidences filed by the Appellant, I find that the addition in respect of the partner's capital from the aforesaid 04 companies totaling to Rs. 42,47,25,000/- is unjustified; firstly, on the ground that no inquiries were made to rebut the evidences filed by the Appellant and secondly, on the ground that Appellant duly discharged its burden casted upon u/s 68 of the Act to explain nature and source of the transactions by proving the identity, creditworthiness of the corporate partners and genuineness of the transaction. Notably, the transactions with the said four companies are duly verifiable from confirmation of accounts filed at page 650 to 653, 708 to 711, 763 to 766 & 830 to 832 of PB with supporting bank statements placed at page 654 to 660, 712 to 716, 767 to 778 & 833 to 838 of PB and have been carried out through banking channels only and thus, appellant has duly proved the identity, creditworthiness and genuineness of the transactions.

7.3.7 Furthermore, from the perusal of documentary evidences submitted by the Appellant, it is seen that transactions have been done through banking channels and on the date of making of loans, there is balance available in the accounts of the borrowers, which proves the creditworthiness and genuineness of the transactions. There is no case of any cash deposition in the account of any of the investor companies at the time of issuing cheques/RTGS in favour of the Assessee. Therefore, in view of the settled judicial precedents as

already relied upon and mentioned in Ground No. 2 above, I am of the considered view that Appellant duly discharged its burden casted upon it u/s 68 of the Act. It is further seen that M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited and M/s Macro Soft Technology Private Limited have duly replied to the notices issued by DCIT/DDIT(Inv.), Kolkata in respect of commission, these facts remain uncontroverted by the AO.

7.3.8 Further, it is evident from the Assessment Order that other findings and allegations of the AO with respect to the partner's capital are similar to the findings made by the AO with respect to the unsecured loans of the Appellant. As the said similar findings and allegations have already been dealt with in Ground No. 2 above, these are not again dealt with for the sake of brevity. However, my view regarding the findings and allegations as already discussed in Ground No. 2 above, shall mutatis mutandis apply to the findings and allegations of the AO with respect to partner's capital made in this ground of appeal.

7.3.9 In view of the above discussion of relevant facts and following the several ratios on the subject from Hon'ble Apex Court, High Courts including jurisdictional High Courts, Tribunals including jurisdictional Tribunals, the impugned addition of Rs. 42,47,25,000/- on account of partner's capital from M/s Bansidhar Advisory Private Limited, M/s Vasundhara Advisory Private Limited, M/s Prithvi Vinimay Private Limited and M/s Macro Soft Technology Private Limited is not sustainable and hence the same stands deleted."

Thus the finding of the Id. CIT (A) are based on the facts as well as the documentary evidence produced by the assessee whereas the AO has not brought on record any contrary evidence except the allegation made in the report of the Investigation Wing Kolkata. Therefore, the documentary evidences brought by the assessee cannot be negated merely on the basis or allegation made in the report which is nothing but narration of the statements recorded of certain persons. The report of the DDIT Investigation cannot substitute the documentary evidence. Accordingly, in view of the facts and circumstances, we do not find any error or illegality in the order of the Id. CIT (A) qua this issue."

Thus, the issue of identity, creditworthiness and genuineness of the transactions in respect of these three companies were examined and decided by this Tribunal and consequently the order of the Id. CIT(A) was upheld. Since the facts and circumstances of the case are identical and the basis of the addition made by the A.O. is also same then following the earlier orders of this Tribunal, we do not find any error or illegality in the order of the Id. CIT(A) qua these issues.

22. Ground No. 7 of the appeal is regarding the disallowance made by the A.O. U/s 14A of the Act, which was deleted by the Id. CIT(A). The assessee is having investment in shares as on 31/3/2014 of Rs. 65,52,300/-. The A.O. has made disallowance U/s 14A of the Act read with Rule 8D of the Income Tax Rules, 1962 (in short the Rules) being 1% of

the average investment which comes to Rs. 65,523/-. On appeal, the Id. CIT(A) deleted the addition by considering the fact that when the assessee has not earned any exempt income during the year under consideration.

"13.3 I have considered the rival submissions and perused the material on record.

13.3.1 In my considered view, the AO has legally erred in directly applying the provision of section 14A of the Act, without recording any satisfaction as to the correctness of the claim made by the Appellant. In the assessment order, there is no satisfaction recorded by the AO as required by section 14A(1) of the Act before proceeding further to make any disallowance u/s 14A of the Act. Further, it is seen that AO has mechanically applied the Rule 8D as amended w.e.f. 02.06.2016, which was not even applicable to relevant assessment year. In my considered view, the law cannot be applied mechanically and that too retrospectively. It is seen that AO has not established any nexus of investment with borrowed funds, rather availability of sufficient interest free funds justifies the case of the Appellant that disallowance u/s 14A of the Act is unwarranted. Further, it is seen that AO has neither pointed out nor given any specific findings in the assessment order that any exempt income was earned during the relevant assessment year. Therefore, in view of the non-fulfillment of such statutory requirement as laid down in various judicial precedents and Circulars as relied upon by the A/R in his submission, in my considered view, the disallowance u/s 14A of the Act of Rs. 65523 is unwarranted. Accordingly, the same is deleted and these grounds of appeals are allowed."

The fact recorded by the Id. CIT(A) that the assessee has not earned any exempt income during the year under consideration has not been disputed

by the department and therefore, in view of the settled proposition of law on this point and particularly the decision of Hon'ble Delhi High Court in the case of Chemvest Ltd. Vs CIT 378 ITR 33, we do not find any error or illegality in the order of the Id. CIT(A) qua this issue. Hence, we uphold the same.

23. Ground No. 8 of the appeal is regarding disallowance of various expenses. The A.O. has made disallowance of 5% of vehicle expenditure and other expenditure on account of personal use. Further the A.O. has also made disallowance of 10% of the expenditure debited by the assessee on account of shortage and damages and disallowance of 10% of foreign travelling expenditure on account of personal use. On appeal, the Id. CIT(A) has deleted the disallowances made by the A.O. by holding that the disallowances were made by the A.O. on the basis of suspicion without bringing any fact or evidence. Further these are purely ad hoc disallowances based on estimation.

24. We have heard the Id CIT-DR as well as the Id AR of the assessee and considered the relevant material on record. The A.O. has made disallowances of certain percentages of various expenditure on account of personal use as well as on ad hoc basis. The Id. CIT(A) has dealt with these disallowances made by the A.O. in para 14 to 17.3.1 as under:

“14 The ground no. 24 of appeal as follow:-

“24. Under the facts and the circumstances of the case and in law the Ld. AO has erred in law and in facts in making a non specific addition of Rs. 2077 to the total income of the Appellant on account of partial disallowance of claims in respect of shortages and damages.”

14.1 As mentioned in the assessment order at page no. 3-4, AO made disallowance of Rs. 2,077/- on estimate basis of 10% of total expenses of Rs. 20,774/- debited under the head “shortage and damage expenses”. According to AO, these expenses are not allowable as they are not supported with due vouchers/supportings.

14.2 The A/R has attended the proceeding and made submissions as follows:-

The disallowance was made by disallowing the 10% of total expenses of Rs. 20,774/- debited under the head “shortage and damage expenses”. The expenses debited under this head is on a/c of amounts deducted by the customers while making final payments of the invoices of the assessee on a/c of damaged material/poor quality. This deduction is normal feature of business of the assessee and payment is received after this making deduction on this a/c. All the vouchers under his head is entered are supported by credit note or debit notes and verifiable from books of account. There is no element of cash in this a/c. The Id. AO did not find any specific defects in books of accounts of the assessee to justify the addition so made.

In view of the above the disallowance made by Id. AO without specifying the reasons may kindly be deleted.

14.3 I have considered the rival submissions and material placed on records, it is seen that AO has just doubted on the existence of internal made vouchers without specifying any defect as to non-verifiability or veracity of the expenditure claimed. As per the ledger account submitted, there is no cash expenses debited in this account, further the addition has been made purely on estimate and ad hoc basis. Therefore, in the absence of any specific defects as to non-verifiability of these expenses and no

inquiries being made by the AO to support his action, this addition of Rs. 2,077/- is deleted.

15. The ground no. 25 of appeal as follow:-

“25. Under the facts and the circumstances of the case and in law the Ld. AO has erred in law and in facts in making a non specific addition of Rs. 36,784 to the total income of the Appellant on account of partial disallowance of various expenditure by alleged to be personal nature expenditure.”

15.1 As mentioned in the assessment order at page no. 4, AO made disallowance of Rs. 36,784/- on estimate basis in respect of petrol & vehicle running Rs. 1,52,952/-, Telephone & mobile Rs. 1,00,264/- and depreciation on four passengers vehicles Rs. Rs. 4,82,470/-. The AO disallowed 5% of these expenses on account of personal use. According to AO, these expenses are not bifurcated into business and non-business use and personal use cannot be ruled out in respect of these expenses. Accordingly, he made disallowance of Rs. 36,784/-.

15.2 The A/R has attended the proceeding and made submissions as follows:

1. *During the course of assessment proceedings audited books of accounts with bills/expense vouchers were produced for verification. The Ld. A.O. has not pointed out any specific defect in bills/vouchers maintained by the assessee. The Ld. A.O. disallowed the amount without any basis or pointed out any specific defects.*
2. *The depreciation is a statutory allowance and it cannot be disallowed. As per provision of section 38(2) read with section 32(I)(ii)(a) of I.T. Act, 1961 and also Hon'ble I.T.A.T. Jaipur Bench, Jaipur in case of DCIT V/s. Kailashchand Gupta (IIIV) Tax World 36, has held that since depreciation is statutory provisions and even if there is part use for non business purpose, no part of the depreciation can be disallowed. Reliance is also placed on the decision of Hon'ble Mumbai Tribunal in the case of Mukesh K Shah Vs ITO 92 TTJ 1060.*
3. *The company is an artificial judicial person and there cannot be any personal use expenses by the company, therefore no disallowance can be*

made on a/c of personal use of expenses. Reliance placed on Sayaji Iron & Engg. Co. Ltd. Vs CIT (2002) 253 ITR 749 (Guj) 7121 Taxman 43

In view of the above submissions, we pray that the addition of Rs. 36,784/- made by the AO may kindly be deleted.

15.3 I have considered the rival submissions and material placed on records, it is seen that AO has just doubted on the existence of internal made vouchers without specifying any defect as to non-verifiability or veracity of the expenditure claimed. As per the ledger account submitted, there is no cash expenses debited in this account, further the addition has been made purely on estimate and ad hoc basis. Further, claim of depreciation in respect of assets used for business purpose cannot be denied by alleged personal use in view of the judgment relied upon by the Appellant. Therefore, in the absence of any specific defects as to non-verifiability of these expenses and no inquiries being made by the AO to support his action, to contend the personal use in the case of Company, which has separate existence, The addition of Rs. 36784/- is deleted.

16. The ground no. 26 of appeal as follow:-

“26. Under the facts and the circumstances of the case and in law the Ld. AO has erred in law and in facts in making addition of Rs. 34066/- to the total income of the Appellant on account of foreign travelling expenditures by not allowing the deductions of the same under section 37(1) of the Act. ”

16.1 As mentioned in the assessment order at page no. 4 & 5, AO made disallowance of Rs. 34,066/- on estimate basis in respect of foreign travelling expenditure The AO disallowed 10% of these expense on account of personal use. According to AO, these expenses are not bifurcated into business and non-business use and personal use cannot be ruled out in respect of these expenses. Accordingly, he made disallowance of Rs. 34,066/-.

16.2 The A/R has attended the proceeding and made submissions as follows:-

1. *During the course of assessment proceedings audited books of accounts with bills/expense vouchers were produced for verification. The Ld. A.O. has not pointed out any specific defect in bills/vouchers maintained by the assessee. The Ld. A.O. disallowed the amount without any basis or pointed out any specific defects.*
2. *The company is an artificial judicial person and there cannot be any personal use expenses by the company, therefore no disallowance can be made on a/c of personal use of expenses. Reliance placed on Sayaji Iron & Engg. Co. Ltd. Vs CIT (2002) 253ITR 749 (Guj) /121 Taxman 43.*

In view of the above submissions, we pray that the addition of Rs. 34,066 made by the AO may kindly be deleted.

16.3 I have considered the rival submissions and material placed on records, for parity of reasoning and findings given in ground no. 24 & 25 and in view of judgment in case of Reliance placed on Sayaji Iron & Engg. Co. Ltd. Vs CIT (2002) 253 ITR 749 (Guj) /121 Taxman 43, the addition of Rs. 34,066/- is deleted.

17. The ground No. 27 and 28 of appeal as follow:-

“ 27. Under the facts and the circumstances of the case and in law the Ld. AO has erred in law and in facts in making a non specific addition of Rs. 8,70,566/- to the total income of the Appellant on account of partial disallowance of direct expenditure.

28. Under the facts and the circumstances of the case and in law the Ld. AO has erred in law and in facts in making a non specific addition of Rs. 870566 to the total income of the Appellant on account of partial disallowance of direct expenditure without appreciating that no expenditure has been pointed out by the Ld. AO in the Assessment Order that has been incurred on account of direct expenditure and not allowable as per the Income Tax Act 1961. ”

17.1 As mentioned at page no. 2 & 3 in the assessment order, AO made disallowance of Rs. 8,70,566/- on estimate basis in respect of certain direct expenses viz cutting (Factory) Rs. 48,04,738/-, polishing (Factory) Rs. 10,07,178/-, Cutting (mining) Rs. 73,49,327/-, diesel Rs. 1,45,30,571/-

and lubricants Rs. 13,27,068/- totaling Rs. 2,90,18,882/. The AO disallowed 3% of these expenses on account of his claim of non-maintenance of proper stock and monthly consumption details. Accordingly, he made disallowance of Rs. 8,70,566/-.

17.2 The A/R has attended the proceeding and made submissions as follows:-

- 1) *The books of account of the assessee were audited by Chartered Accountants under Companies Act. The auditors have not made any qualification in their audit report and have reported that the Profit and Loss Account give a true and fair view of the profits of the company. The assessee is engaged in mining business. As explained in submission given to Id. AO and apparent from books of accounts there was not expenses which were not supported by bills/vouchers. All the expenses are duly supported by VAT invoices/commercial invoices issued by the respective vendor. The auditors of (the company have examined the internal control system of the company and reported in the Audit Report that the company has adequate internal control system. The defects pointed out by the AO are of general in nature and no specific instances have been given regarding alleged defects. The assessee is maintaining proper books of account. Each case has to be considered on its own peculiar facts, having regard to the nature of business and adhoc disallowance should not be made by one or another reason.*
- 2) *The maintenance of stock register of material is not possible/practicable thus the same cannot be maintained. However the expenses are duly supported by bills/vouchers and whatever stock remain at the end of the year is taken into consideration as per method of valuation of closing stock adopted by the assessee. When all the expenses incurred during the year were supported by bills/vouchers wherein no specific defects has been pointed by Id. AO then how the genuineness of such expenses can be doubted merely for the reason that the stock register was not maintained. Even if separate record is not maintained the Books of Accounts can't be rejected on this ground. Reliance is placed on following decisions: -*

** CIT Vs Jas Jack Elegance Exports 324ITR 95 (Delhi)*

** Haridas Parikh Vs ITO 113 TTJ 274 (ITAT Jodhpur):- Hon'ble ITAT Jodhpur Bench*

** Vishal Infrastructure Ltd Vs ACIT 104 ITD 537 (ITAT Hyderabad)*

** Ashok Refractories Pvt. Ltd Vs CIT (2005) 279 ITR 475 (cal)*

** Avdesh Pratap Singh Abdul Rehman & Bros Vs CIT (1994) 210 ITR 406*

** Pandit Bros Vs CIT (1954) 26 ITR 159 (Pun)*

without prejudice to above this is to submit that in the AY 2011-12 considering the submission of the assessee the CIT (A) disallowed only an amount of Rs. 2,00,000/- out of total expenses of Rs. 1,34,04,154/- which gives only disallowance of Rs. 1.492% only thus the disallowance made by Id. AO excessive.

In view of above the addition made by Id. AO may kindly be deleted.

17.3 I have considered the rival submissions and material placed on records.

17.3.1 It is seen that no specific instances of any defects has been pointed out by the AO. Further various observations made by the AO are of general and trivial nature only. Therefore, in the absence of any specific case of revenue leakage or wrong claim of the expenditure, the action of AO is not justified. Similarly, for partity of reasoning and findings given in ground no. 24 & 25 and in view of judgment in case of Reliance placed on Sayaji Iron & Engg. Co. Ltd. Vs CIT (2002) 253 ITR 749 (Guj) /121 Taxman 43, the addition of Rs. 8,70,566/- is deleted.”

Therefore, so far as the disallowance made by the A.O. on account of personal use, since the assessee is a company and therefore, the personal use of any vehicle or other facility cannot be a ground for disallowance when it falls in the category of fringe benefit if any. Further the A.O. has not made out any case that the foreign visits undertaken by the Directors of the company are in any case for the personal purpose and not for the business purpose. Even otherwise the A.O. has made only ad hoc disallowance of 10% on account of personal use which is not justified as the visit can be either personal or for business purpose and it cannot be

presumed that there is an element of personal use in a visit made for business purpose. Therefore, the ad hoc disallowances made by the A.O. are not sustainable and consequently we do not find any error or illegality in the impugned order of the Id. CIT(A) qua this issue.

25. In the result, appeals of the assessee are allowed and the appeal of the revenue is dismissed.

Order pronounced in the open court on 12th February, 2019.

Sd/-
(विक्रम सिंह यादव)
(VIKRAM SINGH YADAV)
लेखा सदस्य / Accountant Member

Sd/-
(विजय पाल राव)
(VIJAY PAL RAO)
न्यायिक सदस्य / Judicial Member

जयपुर / Jaipur
दिनांक / Dated:- 12th February, 2019.

*Ranjan

आदेश की प्रतिलिपि अग्रेषित / Copy of the order forwarded to:

1. अपीलार्थी / The Appellant- M/s Edila Business World Pvt. Ltd., Kota.
2. प्रत्यर्थी / The Respondent- The D.C.I.T., Central Circle, Kota.
3. आयकर आयुक्त / CIT
4. आयकर आयुक्त(अपील) / The CIT(A)
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, जयपुर / DR, ITAT, Jaipur
6. गार्ड फाईल / Guard File (ITA Nos. 1050, 1951 & 1105/JP/2018)

आदेशानुसार / By order,

सहायक पंजीकार / Asst. Registrar