

THE INCOME TAX APPELLATE TRIBUNAL
"SMC" Bench, Mumbai
Before Shri Shamim Yahya (AM)

I.T.A. No. 4580/Mum/2018 (Assessment Year 2011-12)

M/s. Priyal Trading Company Ground Floor, Datar Niwas 87, Perin Nariman Street Fort, Mumbai-400 001. PAN :AADFT3852G	Vs.	ITO Ward 17(2)(5) Aayakar Bhavan M.K. Road Mumbai-400 020.
(Appellant)		(Respondent)

Assessee by	Shri Jitendra Singh
Department by	Shri Chaitanya Anjaria
Date of Hearing	10.7.2019
Date of Pronouncement	06.9.2019

ORDER

This is an appeal by the assessee wherein the assessee is aggrieved that the learned CIT-A has erred in sustaining 12.5% disallowance on account of bogus purchases, vide order dated 20.6.2018 for A.Y. 2011-12.

2. Brief facts of the case are that the assessee is engaged in business of trading in paper and cardboard. Information was received from the Sales Tax Department that the assessee has made bogus purchases. The assessment was accordingly reopened.

3. The Assessing Officer in this case has made 12.50% addition on account of bogus purchases amounting to Rs. 13,78,243/-. Upon assessee appeal learned CIT(A) confirmed the same.

4. Against above order assessee is in appeal before the ITAT. I have heard learned Departmental Representative and perused the records.

5. Upon careful consideration I find that assessee has provided the documentary evidence for the purchase. Adverse inference has been drawn

due to the inability of the assessee to produce the suppliers. I find that in this case the sales have not been doubted. It is settled law that when sales are not doubted, hundred percent disallowance for bogus purchase cannot be done. The rationale being no sales is possible without actual purchases. This proposition is supported from honourable jurisdictional High Court decision in the case of Nikunj Eximp Enterprises (in writ petition no 2860, order dt. 18.6.2014). In this case the honourable High Court has upheld hundred percent allowance for the purchases said to be bogus when sales are not doubted. However in that case all the supplies were to government agency.

6. In the present case the facts of the case indicate that assessee has made purchase from the grey market. Making purchases through the grey market gives the assessee savings on account of non-payment of tax and others at the expense of the exchequer. In such a situation in my considered opinion on the facts and circumstances of the case the 12.5% disallowance out of the bogus purchases meets the end of justice. However, in this regard assessee has prayed that when only the profits earned by the assessee on these bogus purchase transaction is to be taxed the gross profit already shown by the assessee and offered to tax should be reduced from the standard 12.5% being directed to be disallowed on account of bogus purchases.

7. Upon careful consideration I find considerable cogency in the submission in the ground taken by the assessee, as otherwise it will be double jeopardy to the assessee. Accordingly I modify the order of learned CIT-A and direct that the disallowance in this case be restricted to 12.5 % of the bogus purchases as reduced by the gross profit rate already declared by the assessee on these transactions. Learned Counsel of the assessee fairly accepted this proposition.

8. In the result this appeal filed by the assessee stands partly allowed.
Order has been pronounced in the Court on 6.9.2019.

Sd/-
(SHAMIM YAHYA)
ACCOUNTANT MEMBER

Mumbai; Dated : 6/9/2019

Copy of the Order forwarded to :

1. The Appellant
2. The Respondent
3. The CIT(A)
4. CIT
5. DR, ITAT, Mumbai
6. Guard File.

//True Copy//

BY ORDER,

(Assistant Registrar)
ITAT, Mumbai

PS