

**IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI BENCH "SMC", MUMBAI**

BEFORE SHRI C.N. PRASAD, HON'BLE JUDICIAL MEMBER

**ITA NOs. 2563, 2557 & 2556/MUM/2019
(A.Ys: 2009-10, 2010-11 & 2011-12)**

Income Tax Officer – 28(2)(5) Room No. 308, 6 th Tower Vashi Railway Station Complex Vashi, Navi Mumbai – 400 703	v.	M/s. Raj Tools Centre PAP, R-33, Hira Sadan Opp. E BARS Pharmaceutical Co., Rabale, Navi Mumbai– 400 701 PAN: AAHFR9012L
(Appellant)		(Respondent)

Assessee by : Shri Abhishek Shrivastav

Department by Amrita Singh

Date of Hearing : 19.10.2020

Date of Pronouncement : 23.10.2020

ORDER

PER C.N. PRASAD (JM)

1. These appeal are filed by the revenue against different orders of the Learned Commissioner of Income Tax (Appeals) – 26, Mumbai [hereinafter in short "Ld.CIT(A)"] dated 27.02.2019 for the A.Ys., 2009-10, 2010-11 & 2011-12 in restricting the disallowance to 12.5% of purchases as against the entire purchases disallowed as non-genuine/bogus by the Assessing Officer.

2. Briefly stated the facts are that, the assessee engaged in the business trading in industrial tools and accessories like bearings belts, bits drills, filed return of income on 21.09.2009, 16.09.2010 and 24.09.2011 and declaring income of ₹.77,236/-, ₹.24,192/- & ₹.1,41,979/- for the A.Y: 2009-10, A.Y. 2010-11 and A.Y.2011-12 respectively, and the returns were processed u/s. 143(1) of the Act. Subsequently, Assessing Officer received information from the DGIT (Inv.), Mumbai about the accommodation entries provided by various dealers and assessee was also one of the beneficiary from those dealers. The assessments were reopened U/s. 147 of the Act based on the information received from DGIT(Inv.) Mumbai, that the assessee has availed accommodation entries from various dealers who are said to be providing accommodation entries without there being transportation of any goods. In the reassessment proceedings, the assessee was required to prove the genuineness of the purchases made from various parties referred in Assessment Order. Assessee vide letter dated 12.02.2015 & 25.06.2015 furnished 3CD audit report along with schedule and ROI and bank statements and submitted that the purchases made are genuine. Assessee further submitted that the payments are made through account payee cheques as such contended that all the purchases are genuine.

However, parties were not produced before the Assessing Officer and no explanation was offered.

3. Not convinced with the submissions of the assessee the Assessing Officer treated the purchases as non-genuine and he was of the opinion that assessee had obtained only accommodation entries without there being any transportation of materials and the assessee might have made purchases in the gray market. It is the finding of the Assessing Officer that the assessee did not purchase the material from the parties and assessee failed to prove the quantity of material in the bills used in the construction/contract activity. Assessing Officer observed that the notice issued u/s. 133(6) of the Act to the parties were returned unserved with a remark "left/Not Known" and the assessee did not produced the parties before the Assessing Officer. Therefore, Assessing Officer treated entire purchases of ₹.2,06,304/-, ₹.3,43,073/- & ₹.2,60,603/- for the A.Y:2009-10, A.Y. 2010-11 and A.Y. 2011-12 respectively as non-genuine and added to the income of the assessee. On appeal the Ld.CIT(A) considering the evidences and various submissions of the assessee restricted the disallowance to an extent of 12.5% of the non-genuine purchases.

4. Ld. Counsel for the assessee reiterated the submissions made before the Ld.CIT(A).
5. Ld. DR vehemently supported the orders of the Assessing Officer.
6. Heard both sides, perused the orders of the authorities below. On a perusal of the order of the Ld.CIT(A), I find that the Ld.CIT(A) considered this aspect of the matter elaborately with reference to the submissions of the assessee and the averments in the Assessment Order and following the decision of Hon'ble Gujarat High Court in the case of CIT v. Simit P. Sheth [356 ITR 451] restricted the disallowance to 12.5% of the non-genuine purchases. While holding so, the Ld.CIT(A) for the A.Y. 2011-12 observed as under: -

"Grounds No. 2 to 6 of the appeals are against addition of ₹.2,60,603/-, as unexplained expenditure u/s 69C of the Act. As per the investigations carried out by the Sales Tax Authorities, the aforementioned parties were found to be involved in giving accommodation entries only without actually supplying the goods. The logical inference is that the purchases made by the appellant would also be in the nature of accommodation entries only. To verify the same, the AO had made enquiries by issuing notices u/s 133(6) which were returned unserved by the postal authorities. This party was found to be non-existent at the address given by the appellant. The appellant also failed to provide the latest address of the party. During the scrutiny assessment the appellant furnished details of purchases and corresponding sales. However, the appellant could not produce the party before the AO inspite of opportunity being given. The appellant also failed to produce delivery challans or transportation details. The onus of proving the genuineness of such purchases is on the appellant which the appellant had not been able to discharge fully. When the hawala party had admitted on oath that it had given accommodation entries only without actually supplying the goods, the genuineness of purchases made from these parties will have to be

considered taking this into consideration while examining the documentation submitted by the appellant in support of its claim. The documentary evidences such as purchase bills, payments by cheques, etc. would all have been orchestrated to present a facade of genuineness and does not necessarily mean that the purchases from these parties are genuine. The Courts have held that payment by cheque by itself is not sacrosanct so as to prove genuineness of purchases when the surrounding circumstances are suspect. However, the appellant has shown onward sales which has not been doubted by the Assessing Officer. Since there can be no sales without corresponding purchases, the only logical explanation is that the appellant would have made purchases from undisclosed parties in the gray market at lower rates and purchases were shown as being made from the impugned parties to suppress its profits. In such a situation, the various Courts including the Hon'ble Gujarat High Court in the case of CIT vs Simit P. Sheth, 356 ITR 451 have held that not the entire purchases but only the profit element embedded in these purchases was to be disallowed. The Hon'ble Gujrat High Court in this case has held that profit margin of 12.5% of the bogus purchases will be reasonable. Respectfully following the Order in the case of Simit P. Sheth the addition is restricted to 12.5% of the bogus purchases of Rs. 2,60,603/-. This ground of appeal is 'Partly Allowed'."

7. On a careful perusal of the order of the Ld.CIT(A) and the reasons given therein, I do not find any infirmity in the order passed by the Ld.CIT(A) in restricting the addition/disallowance to the extent of 12.5% of the purchases. Grounds raised by the revenue are dismissed.
8. In the result, appeals of the Revenue are dismissed.

Order pronounced on 23.10.2020 as per Rule 34(4) of ITAT Rules by placing the pronouncement list in the notice board.

Sd/-
(C.N. PRASAD)
JUDICIAL MEMBER

Mumbai / Dated 23/10/2020
Giridhar, Sr.PS

Copy of the Order forwarded to:

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

//True Copy//

BY ORDER

(Asstt. Registrar)
ITAT, Mum