

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

**BEFORE SHRI VIKAS AWASTHY, HON'BLE JUDICIAL MEMBER AND
SHRI S. RIFAUR RAHMAN, HON'BLE ACCOUNTANT MEMBER**

**ITA NOs. 5921, 5922, 5923 & 5924/MUM/2019
(A.Ys: 2009-10, 2011-12, 2012-13 & 2014-15)**

M/s. Adesh Exports JE-1240, Bharat Diamond Bourse Bandra Kurla Complex Bandra (E), Mumbai -400051 PAN: AAFA3692G	v.	ACIT – Central Circle – 19(1) Room No. 203, Matru Mandir Tardev Road, Mumbai – 400 007
(Appellant)		(Respondent)

Assessee by	:	Shri Rajesh Shah
Department by	:	Shri Mehul Jain
Date of Hearing	:	17.05.2022
Date of Pronouncement	:	23.05.2022

ORDER

PER S. RIFAUR RAHMAN (AM)

1. These appeals are filed by the assessee against common order of the Learned Commissioner of Income Tax (Appeals)–29, Mumbai [hereinafter in short "Ld.CIT(A)"] dated 17.06.2019 for the A.Ys.2009-10, 2011-12, 2012-13 and 2014-15.

2. Since the issues raised in all the appeals are identical, therefore, for the sake of convenience, these appeals are clubbed, heard and disposed off by this consolidated order. We are taking Appeal in ITA.No. 5921/MUM/2019 for Assessment Year 2009-10 as a lead case.

3. Assessee has raised following grounds in its appeal: -

"1. The Ld. CIT(A) has erred in confirming the reopening of assessment u/s 147 of The Income Tax Act 1961.

2. The Ld. CIT(A) has erred in confirming the addition 'of Rs.6,59,919/- on account of profit on alleged bogus purchase @ 4%.

3. The Ld.CIT(A) has erred in, not following the order of Hon'ble Bombay High Court without even considering the judgement in his order.

4. The appellant reserves the right to add, alter or withdraw any grounds of appeal."

4. At the time of hearing, Ld. Counsel for the assessee submitted that Ground No.1 is not pressed, accordingly, the same stand dismissed.

5. Briefly stated the facts are that, the assessee engaged in the business of import, export and manufacturing of diamonds and filed its return of income on 28.09.2009 declaring income of ₹.64,22,154/- for the A.Y. 2009-10 and the return was processed u/s. 143(1) of the Act. Subsequently, Assessing Officer received information from the DGIT (Investigation), Mumbai about the accommodation entries provided by various dealers and assessee was also one of the beneficiary from those

dealers. The assessment was reopened U/s. 147 of the Act based on the information received from DGIT (Investigation), Mumbai that the assessee has availed accommodation entries from Impex Gems, Daksha Diamonds and M/s. Jewel Diam who are appeared as hawala dealers in the website of the DGIT (Investigation), Mumbai who are said to be providing accommodation entries without there being transportation of any goods. In the re-assessment proceedings, the assessee was required to prove the genuineness of the purchases made from the above parties which are referred in the Assessment Order. The assessee vide letter dated 14.12.2016 produced books of account, bank statement and bills for demonstrating that the impugned purchases have been exported, and submitted that the purchases made are genuine.

6. 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. Assessing Officer considering the submissions of the assessee and facts and circumstances of the case, added the profit margin embedded in the transaction with the impugned entity is taken at 5% of the value of the transaction i.e. ₹.8,24,899/- (5%

of ₹.1,64,97,972/-). Therefore, Assessing Officer treated purchases of ₹.8,24,899/- for A.Y. 2009-10 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 along with the various judicial pronouncements restricted the Gross Profit/disallowance to the extent 4% of the non-genuine purchases. The assessee is in appeal against the order of the Ld.CIT(A).

7. Before us, the Ld. Counsel for the assessee reiterated the submissions made before the lower authorities. Ld. AR of the assessee submitted that assessee has already declared Gross Profit @10.83% and Gross Profit on alleged bogus purchases after adjusted Gross Profit is 10.76%. He also placed reliance on the decision of the Hon'ble Bombay High Court in the case of Pr.CIT *v.* M/s. Mohommad Haji Adam & Co. in Income Tax Appeal No. 1004 of 2016 dated 11.02.2019 and submitted that the Assessing Officer may be directed to estimate the Gross Profit on the non-genuine purchases to similar percentage as shown in the genuine purchases for the purpose of disallowance.

8. On the other hand, Ld. DR submitted that the decision in the case of Pr.CIT *v.* M/s. Mohommad Haji Adam & Co. (*supra*) relied on by the

assessee is distinguishable to the present facts, since the issue involved in the above case is that the assessee is a trader whereas in the given case assessee is involved in processing of the diamonds. He relied on the finding of the Ld.CIT(A) and analysis given in Para No. 5.1.10 of the order.

9. In the rejoinder Ld. AR submitted that assessee also deals in diamond trading and it purchases from the market and exports the diamonds without processing. Therefore, the case of the Pr.CIT *v.* M/s. Mohommad Haji Adam & Co. (supra) is applicable in the assessee's case.

10. Considered the rival submissions and material placed on record, perused the orders of the authorities below. Assessing Officer treated profit margin @5% of alleged bogus purchases made from various concerns which appeared as hawala dealers and the Ld.CIT(A) restricted the same to 4% of the alleged bogus purchases. The Hon'ble Bombay High Court in the case of Pr.CIT *v.* M/s. Mohommad Haji Adam & Co. (supra) held that the Tribunal correctly restricted the addition limited to the extent of bringing the Gross Profit rate on purchases at the same rate of other genuine purchases. While holding so, the Hon'ble High Court observed as under:

All these appeals arise out of common Judgment of the Income Tax Appellate Tribunal. The facts in all these appeals being

same, we make it from ITXA No. 1004 of 2016. The revenue - appellant has raised following questions for our consideration

"(a) Whether on the facts and in the circumstances of the case and in law, the Hon'ble ITAT was justified in not confirming the addition made by the Assessing Officer on account of bogus purchases shown to have been made through hawala transactions from certain parties who were only providing accommodation sale bills?

(b) Whether on the facts and in the circumstances of the case and in law, where evidently no purchases were made from these parties who were issuing only bogus accommodation bills and this finding has been accepted by the CIT(A) and the ITAT, the ITAT, without any evidence, was justified in presuming that there must have been purchases and thereupon giving huge relief to the assessee?

(c) Whether on the facts and in the circumstances of the case and in law, the order of the Hon'ble ITAT is perverse as no reasonable person acting judicially and properly instructed in the relevant law could arrive at such a finding on the evidence on record?"

2 The issues relate to the Assessment Year ("A.Y." for short) concerning the respondent - assessee who is a trader of fabrics. During the survey operations in case of the entities from whom the assessee had claimed to have made purchases, the department collected information suggesting that such purchases were not genuine. The Assessing Officer ("A.O." for short) noticed that the assessee had shown purchases of fabrics worth Rs.29.41 Lacs (rounded off) from three group concerns, namely, M/s Manoj Mills, M/s Astha Silk Industries and M/s Shri Ram Sales & Synthetics. On the basis of the statement recorded during such survey operations, the A.O. concluded that the selling parties were engaged only in supplying the bogus bills, that the goods in question were never supplied to the assessee, and therefore, the purchases were bogus. He, therefore, added the entire sum in the hands of the assessee as its additional income.

3 The assessee carried the matter in the appeal before the Commissioner of Appeals who accepted the factum of purchases being bogus. However, he compared the purchases and sales

statement of the assessee and observed that the department had accepted the sale, and therefore, there was no reason to reject the purchases, because without purchases there cannot be sales. He, therefore, held that under these circumstances A.O. was not correct in adding the entire amount of purchases as the assessee's income. He, therefore, deleted the addition refreshing it to 10% of the purchase amount. He also directed the A.O. to make addition to the extent of difference between the gross profit rate as per the books of accounts on undisputed purchases and gross profit on sales relating to the purchases made from the said three parties.

4 *The assessee carried the matter before the Tribunal. The Revenue also carried the issue before the Tribunal. The Tribunal in the impugned Judgment allowed the appeal of the assessee partly and dismissed that of the Revenue. The Tribunal noted that the CIT(A) had not given any reasons for retaining 10% of the purchases by way of ad hoc additions. The Tribunal, therefore, deleted such additions, but retained the portion of the order of the CIT(A) to that extent he permitted the A.O. to tax the assessee on the basis of difference in the GP rates.*

5 *Learned counsel Mr Chhotaray for the Revenue strenuously contended that the CIT(A) and the Tribunal committed serious error. In the present case when it was established that the purchases are bogus, the entire amount should have been added to the income of the assessee. There is no question of granting any relief in the facts of the case. In this context he relied on a decision of the Division Bench of Gujrat High Court in the case of N.K. Industries Ltd. Vs Dy. C.I.T. in Tax Appeal No. 240 of 2003 and connected appeals decided on 20th June, 2016. In such judgment the Court had observed as under –*

"The Tribunal in the case of Vijay Proteins Ltd. Vs. CIT had observed that it would be just and proper to direct the Assessing Officer to restrict the addition in respect of the undisclosed income relating to the purchases to 25 % of the total purchases. The said decision was confirmed by this Court as well. On consideration of the matter, we find that the facts of the present case are identical to those of M/s Indian Woolen Carpet Factory (supra) or M/s Vijay Proteins Ltd. In the present case the Tribunal has categorically observed that the assessee had shown bogus purchases amounting to

Rs.2,92,93,288/- and taxing only 25 % of these bogus claim goes against the principles of Sections 68 and 69C of the Income Tax Act. The entire purchases shown on the basis of fictitious invoices have been debited in the trading account since the transaction has been found to be bogus. The Tribunal having once come to a categorical finding that the amount of Rs.2,92,93,288/- represented alleged purchases from bogus suppliers it was not incumbent on it to restrict the disallowance to only Rs.73,23,322/”

6 *Counsel pointed out that the S.L.P. against such decision was dismissed by the Supreme Court.*

7 *On the other hand, Ms Khan learned counsel for the assessee opposed the appeals contending that the Tribunal has given proper reasons. The assessee was a trader. Even if the purchases are found to be bogus, entire purchase amount cannot be added by way of assessee's income.*

8 *In the present case, as noted above, the assessee was a trader of fabrics. The A.O. found three entities who were indulging in bogus billing activities. A.O. found that the purchases made by the assessee from these entities were bogus. This being a finding of fact, we have proceeded on such basis. Despite this, the question arises whether the Revenue is correct in contending that the entire purchase amount should be added by way of assessee's additional income or the assessee is correct in contending that such logic cannot be applied. The finding of the CIT(A) and the Tribunal would suggest that the department had not disputed the assessee's sales. There was no discrepancy between the purchases shown by the assessee and the sales declared. That being the position, the Tribunal was correct in coming to the conclusion that the purchases cannot be rejected without disturbing the sales in case of a trader. The Tribunal, therefore, correctly restricted the additions limited to the extent of bringing the G.P. rate on purchases at the same rate of other genuine purchases. The decision of the Gujarat High Court in the case of N.K. Industries Ltd. (supra) cannot be applied without reference to the facts. In fact in paragraph 8 of the same Judgment the Court held and observed as under-*

“So far as the question regarding addition of Rs.3,70,78,125/- as gross profit on sales of Rs.37.08 Crores made by the Assessing Officer despite the fact that the said sales had

admittedly been recorded in the regular books during Financial Year 1997-98 is concerned, we are of the view that the assessee cannot be punished since sale price is accepted by the revenue. Therefore, even if 6% gross profit is taken into account, the corresponding cost price is required to be deducted and tax cannot be levied on the same price. We have to reduce the selling price accordingly as a result of which profit comes to 5.66 %. Therefore, considering 5.66 % of Rs.3,70,78,125/- which comes to Rs.20,98,621.88 we think it fit to direct the revenue to add Rs.20,98,621.88 as gross profit and make necessary deductions accordingly. Accordingly, the said question is answered partially in favour of the assessee and partially in favour of the revenue."

9. In these circumstances, no question of law, therefore, arises. All Income Tax Appeals are dismissed, accordingly. No order as to costs.

11. Following the decision of the Hon'ble Bombay High Court (supra), we direct the Assessing Officer to restrict the addition/disallowance only to the extent of bringing the Gross Profit rate on alleged bogus purchases at the same rate of the other genuine purchases declared by the assessee. We observe that assessee has submitted that it has earned Gross Profit of 10.76% in the transaction involving alleged bogus purchases. Therefore, Assessing Officer is directed to restrict the addition/disallowance to the extent of 1.74% (12.50% - 10.76%) of the alleged bogus purchases. In the result, appeal filed by the assessee is partly allowed.

12. Coming to the appeals relating to A.Ys. 2011-12, 2012-13 & 2014-15, since facts in these cases are mutatis mutandis, therefore the decision taken in A.Y.2009-10 is applicable to these Assessment Years also. Accordingly, these appeals are also partly allowed.

13. In the result, appeals of the assessee are allowed.

Order pronounced in the open court on 23rd May, 2022

Sd/-
(VIKAS AWASTHY)
JUDICIAL MEMBER
Mumbai / Dated 23/05/2022
Giridhar, Sr.PS

Sd/-
(S. RIFAUR RAHMAN)
ACCOUNTANT MEMBER

Copy of the Order forwarded to:

1. The Appellant
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