

आयकर अपीलीय अधिकरण, 'ए' न्यायपीठ, चेन्नई
IN THE INCOME TAX APPELLATE TRIBUNAL
'A' BENCH, CHENNAI

श्री जॉर्ज जॉर्ज के, उपाध्यक्ष एवं श्री एस.आर.रघुनाथा, लेखा सदस्य के समक्ष
BEFORE SHRI GEORGE GEORGE K, VICE PRESIDENT AND
SHRI S.R.RAGHUNATHA, ACCOUNTANT MEMBER

आयकर अपील सं./ITA No.:452/Chny/2025
निर्धारण वर्ष / Assessment Year: 2020-21

Royal Impex, New No. 77, Old No. 38, Acharappan Street, Parrys, Chennai – 600 001. Tamil Nadu.	vs.	DCIT, Central Circle – 2(4), Chennai – 600 034.
[PAN:AAXFR-0248-N] (अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से/Appellant by : Shri. Jai V.Vairav, CA.
प्रत्यर्थी की ओर से/Respondent by : Ms. Sita Krishnamoorthy, JCIT.

सुनवाई की तारीख/Date of Hearing : 10.06.2025
घोषणा की तारीख/Date of Pronouncement : 25.08.2025

आदेश / O R D E R

PER S. R. RAGHUNATHA, AM :

This appeal filed by the assessee is directed against the order passed by the learned Commissioner of Income Tax (Appeals), CIT(A), Chennai - 19, dated 31.12.2024 and pertains to assessment year 2020-21.

2. The grounds raised by the assessee are as follows:

- (i) *The Commissioner of Income Tax (Appeals) erred in sustaining the disallowance of Rs.32,95,300 under Section 40(a)(ia) of Income Tax Act, 1961 on account of non-filing of Form 26Q u/s.194C(7), despite the appellant having fully complied with Section 194C(6).*
- (ii) The appellant had obtained PANs from the transporters, thereby satisfying the substantive conditions of Section 194C(6) of the Act, which exempts the requirement of TDS deduction.

- (iii) The CIT(A) failed to appreciate that substantive compliance was met, and a mere procedural default cannot override the benefit granted u/s.194C(6).
- (iv) The transport expenses were genuine, fully supported by invoices, and paid through banking channels. The revenue has not disputed the authenticity of these expenses.
- (v) The disallowance is contrary to settled judicial precedents which hold that when the recipient's income is taxable, a procedural lapse in TDS compliance does not justify disallowance u/s.40(a)(ia).
- (vi) The CIT(A) has ignored the principle that substantive compliance prevails over procedural lapses, as held by various High Courts and ITATs.
- (vii) The Hon'ble Madras High Court in CIT vs. M/s. Sri Parameswari Spinning Mills Pvt. Ltd. (2019) has categorically held that failure to file Form 26Q under Section 194C(7) does not nullify the exemption u/s.194C(6) and that disallowance u/s.40(a)(ia) is unjustified in such cases.
- (viii) The Hon'ble ITAT Jaipur in ACIT vs. Arihant Trading Co. (2019) has ruled that Sections 194C(6) and 194C(7) operate independently, and non-compliance with Section 194C(7) is a procedural lapse that may attract penalties but does not warrant disallowance u/s.40(a)(ia).
- (ix). The appellant prays for the complete deletion of the disallowance of Rs.32,95,300 sustained u/s.40(a)(ia) of the Income Tax Act, 1961.
- (x). For the reasons stated above, along with any additional grounds and evidence that may be furnished at the time of hearing, the appellant prays that the disallowance made be quashed in full, the order of the CIT(A) be set aside, and justice be rendered in favor of the appellant.

3. The assessee has raised as many as 10 grounds of appeal. However, the sole substantive issue under dispute involved in all these grounds pertains to the disallowance of Rs.32,95,300/- being 30% of Rs.1,09,84,334/- u/s.40(a)(ia) of the Income Tax Act, 1961 (In short "the Act"). This amount of Rs.1,09,84,334/- comprises of Transport/Lorry /Freight expenses amounting to Rs.80,65,019/- and Fumigation Expenses amounting to Rs.29,19,315/-.

4. Brief facts of the case are that the assessee is a Partnership firm with PAN-AAXFR0248N. The assessee filed return of income for the A.Y.2020-21 on 31.10.2020 by declaring a total income of Rs.12,77,64,980/-.

5. The return of income was selected for scrutiny under CASS. The AO issued various statutory notices on various dates. The AO during the course of proceeding observed that assessee had claimed direct expenses amounting to Rs.60,92,36,684/-. The AO further observed that assessee has been claiming direct expenses without any bifurcation in the ITR or in the Trading, & Profit & Loss Account. The assessee firm submitted that these expenses are necessary for the assessee firm's operations and are claimed as allowable business expenses u/s.37 of the Act. All these aforesaid transactions were paid through banking channels and tax was duly deducted at source wherever applicable. The AO furthermore observed that the assessee had claimed its nature of business as "Whole of Agriculture Raw Material" in its ITR. However, this did not align with its bank statements, which showed that applicable GST had been paid on transactions, indicating that the assessee was not engaged in actual agricultural trading but in commodity trading. Since agriculture was exempt from GST, the nature of the assessee's transactions contradicted its declared business activity. Accordingly, the AO completed the assessment u/s.143(3) r.w.s144B of the Act on 23.09.2022 by disallowing the entire amount of expenditure of Rs.60,92,36,684/- and making an addition to the total income of the assessee firm for the A.Y. 2020-21.

6. Aggrieved by the order of the AO, the assessee carried the matter in appeal before Id.CIT(A) – 19, Chennai. On perusal of the written submissions, additional evidences, of the assessee, Remand Report from the AO dated 16.12.2024, the Id.CIT(A) held that the out of the disallowance of Rs.60,92,36,684/- a sum of Rs.32,95,300/- is sustained which was disallowed by the AO by invoking the provisions of section 40(a)(ia) of the Act, as disallowance of 30% of expenses

amounting to Rs.1,09,84,334/-, which consisted of Transport/Lorry/Freight expenses of Rs.80,65,019/- and Fumigation expenses of Rs.29,19,315/- and allowed the balance amount of expenditure as admissible expenses. Aggrieved, the assessee is in appeal before us.

7. The Id.AR for the assessee submitted that the Id.CIT(A) has erred in confirming the addition made by the AO without considering the submission made by the assessee during the course of remand proceedings. The Id.AR stated that the assessee incurred transportation expenses by engaging transport operators, each owing less than 10 goods carriages. The declarations along with PAN of the respective transporters were duly obtained and recorded in compliance with the provisions of section 194C(6) of the Act. The documents along with the explanation were furnished to the AO during the course of remand proceedings vide letter dated 28.11.2024. Further, the Id. AR stated that the disallowance u/s.40(a)(ia) of the Act was sustained by the Id. CIT(A) on the ground that the assessee did not furnish the prescribed statement as required u/s.194C(7) of the Act. The Ld. AR filed written submissions dated 04.06.2025 and also placed reliance on the decision of the Hon'ble Madras High Court in the case of CIT v Parameswari Spinning Mills Pvt Ltd in TCA no 601 of 2018 dated 01.07.2019.

8. Per contra, the Id.DR strongly supported the order passed by the AO and that of Ld.CIT(A).

9. We have heard both the sides, perused the material available on record and gone through the orders of the lower authorities. In this case, the assessment was completed by the AO by disallowing the entire direct expenses amounting to Rs.60,92,36,684/- which was claimed by the assessee. The Id. CIT(A) based on

the remand report of the AO dated 16.12.2024 has restricted the disallowance to 30% of transportation expenses of Rs.80,65,019/- and fumigation expenses of Rs.29,19,315/-, aggregating to Rs.1,09,84,334/, resulting in a disallowance of Rs.32,95,300/-. The Id.AR on page 66 of the written submissions filed on 04.06.2025 before us, is not pressing the disallowance of fumigation expenses amounting to Rs.29,19,315/-. Though the assessee had furnished various details in respect of transportation expenses amounting to Rs.80,65,109/- before the AO during the course of remand proceedings vide letter dated 28.11.2024, the Id. CIT(A) has passed the appellate order dated 31.12.2024 by still confirming the disallowance u/s.40(a)(ia) of the Act. Further, the Id. AR has placed reliance on the decision of the Hon'ble Madras High Court in the case of *CIT v Parameswari Spinning Mills Pvt Ltd in TCA no 601 of 2018 dated 01.07.2019*. It has been pointed out that in the above case, section 194C(7) does not override or nullify the substantive compliance achieved u/s.194C(6) of the Act.

10. Relevant portion of the order is reproduced below:

"In the said decision it has been held that Section 194C(6) & (7) are independent of each other and cannot read together to attract disallowance under Section 40(a)(ia) read with Section 194C of the Act. 11. In the result we find that there is no substantial question of law arising for consideration, accordingly, the appeal filed by the Revenue fails and the same is dismissed."

11. Considering the above facts and circumstances of the case and decision of the Hon'ble Madras High Court in the case of *CIT v Parameswari Spinning Mills Pvt Ltd in TCA no 601 of 2018 dated 01.07.2019*, in the interest of justice, we deem it proper to remand the matter to the file of the AO for limited purpose to verify the claim of transportation charges amounting to Rs.80,65,019/- after considering all the documentary evidence as may be filed by the assessee and

decide the claim of the assessee in accordance with law. The assessee is at liberty of filing evidence in support of its claim. Thus, the grounds raised by the assessee are allowed.

12. In the result the appeal of the assessee allowed for statistical purposes.

Order pronounced in the court on 25th August, 2025 at Chennai.

Sd/-
(जॉर्ज जॉर्ज के)
(GEORGE GEORGE K)
उपाध्यक्ष /VICE PRESIDENT

Sd/-
(एस. आर. रघुनाथा)
(S. R. RAGHUNATHA)
लेखा सदस्य/ACCOUNTANT MEMBER

चेन्नई/Chennai,

दिनांक/Dated, the 25th August, 2025

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आदेश की प्रतिलिपि अग्रेषित/Copy to:

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