

आयकर अपीलीय अधिकरण, 'डी' न्यायपीठ, चेन्नई  
**IN THE INCOME TAX APPELLATE TRIBUNAL  
'D' 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.:1601 & 1602/Chny/2025  
निर्धारण वर्ष / Assessment Year: 2017-18 & 2016-17

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| <b>Pyung HWA India Private Limited</b><br>L11 & L12, SIPCOT Industrial Estate,<br>Phase II, Mambakkam,<br>Kancheepuram- 602 106.<br>Tamil Nadu | vs. | <b>DCIT,</b><br>Corporate Circle 5(2)<br>Chennai. |
| <b>[PAN:AADCP-8042-R]</b><br>(अपीलार्थी/Appellant)   |     | (प्रत्यर्थी/Respondent)                           |

अपीलार्थी की ओर से/Appellant by : Shri. Chikkars Srikanth, Advocate.  
प्रत्यर्थी की ओर से/Respondent by : Mr. ARV Sreenivasan, CIT.

सुनवाई की तारीख/Date of Hearing : 23.07.2025  
घोषणा की तारीख/Date of Pronouncement : 25.08.2025

**आदेश / O R D E R**

**PER S. R. RAGHUNATHA, AM :**

These two appeals filed by the assessee are directed against separate orders passed by the learned Commissioner of Income Tax, Appeal, NFAC, New Delhi vide both orders dated 31.03.2025 for assessment years 2017-18 and 2016-17 respectively.

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

**ITA. No.1601/Chny/2025:**

1. The Ld. AO was incorrect in law and on facts to disallow Rs.83,00,088/- from Repairs and Maintenance expenses on an arbitrary and ad hoc basis without any specific evidence of disallowable expenditure.

2. *The Ld. AO failed to consider that Repairs and Maintenance expenses are not necessarily proportionate to sales, as such expenses depend primarily on the wear and tear of machinery and business exigencies rather than sales turnover.*
3. *The Ld. AO erred in disregarding the audited financial statements, tax audit reports, and detailed books of accounts which were duly submitted, and which reflected the Repairs and Maintenance and Sundry Expenses correctly.*
4. *The disallowance made on the ground of disproportionate increase in Repairs and Maintenance expenses vis-à-vis sales is unjustified and not supported by any cogent material or evidence.*
5. *The Ld. AO erred in disallowing Rs.23,12,388/- under Sundry Expenses on the same ground, ignoring the fact that these expenses were incurred wholly and exclusively for the purpose of business.*
6. *The addition made is contrary to the principles of natural justice as no opportunity was provided to explain or justify the increase in expenses, nor were any specific defects or irregularities pointed out by the assessing officer nor issued any questioner to the appellant to clarify discrepancy, if any, found from the documentary evidences furnished.*
7. *The Ld. AO failed to appreciate that no bills, vouchers, or documents were shown to be fabricated or invalid, and hence, the disallowance is based purely on presumptions and conjectures.*
8. *The Ld. AO erred in stating that a prudent businessman would prefer to incur capital expenditure to replace machinery rather than bear disproportionate Repairs and Maintenance expenses over a long period, thus, intruding the wisdom of the appellant in doing the business.*
9. *The Ld. AO's approach amounts to penalizing the assessee on ad hoc estimates, which is impermissible under the Income Tax Act and established judicial precedents.*
10. *The Ld. AO ignored the principle that business expenses are to be allowed unless proved otherwise beyond reasonable doubt as per the provision of sections 30 to 37 of IT Act.*
11. *The appellant therefore prays that the additions of Rs. 83,00,088/- (Repairs and Maintenance) and Rs. 23,12,388/- (Sundry Expenses) be deleted, and ordered accordingly.*
12. *The appellant reserves the right to add, amend, or alter grounds at the time*

*of hearing.*

- 13. The relevant learned information Ld. AO erred in ignoring the fact that the appellant had furnished all and documents called for during the assessment proceedings Maintenance and no specific objection was raised regarding the authenticity of Repairs & or Sundry Expenses.*
- 14. The Ld. assessing officer's reliance on mere proportionality between sales and expenses without considering the nature and business context of the expenditure is arbitrary and unsustainable in law as per the provision of Sec 37 of the IT act.*
- 15. The Ld. AO failed to consider that Repairs & Maintenance and Sundry Expenses are inherently irregular and non-linear expenses, affected by several operational factors like machinery age, unforeseen breakdowns, and maintenance schedules, and therefore, cannot be rigidly linked to sales figures.*
- 16. The Ld. assessing officer did not call for any additional evidence before arriving at the decision nor issued any show cause notice with the proposed addition as per the provisions of the act, thereby violating the principles of natural justice and fair hearing.*
- 17. The Ld. AO as well as the Ld. CIT(A) failed to appreciate the fact that the appellant's business involves significant capital investment and use of machinery, which inevitably results in fluctuating maintenance costs independent of sales fluctuations.*
- 18. The Ld. AO's disallowance is based on an incorrect and incomplete appreciation of facts, without giving due weightage to the appellant's submission, audit reports, and business rationale.*
- 19. The Ld. assessing officer erred in presuming that increased Repairs & Maintenance expenses should be replaced by capital expenditure amounts to questioning the wisdom of the appellant's business prudence.*
- 20. The additions made are in violation of the provisions of section 37(1) of the Income Tax Act, which allow expenditure incurred wholly and exclusively for the purpose of business.*
- 21. The Ld. assessing officer failed to apply the provisions of Section 145(3) of the Income Tax Act regarding estimated income/disallowances, as there was no justification or valid basis to arrive at such estimate.*

*22. That the Ld. CIT(A) failed to apply the decision as laid down in numerous Supreme Court rulings including the decision rendered in the case of "PCIT-7 vs. R.G. Buildwell Engineers Ltd SLP (CIVIL) Diary No(s). 34335/2018" and instead concluded the assessment /appeal based on hypothetical conditions.*

*23. The disallowance made is excessive, arbitrary, and unreasoned, resulting unjust enrichment of the revenue at the cost of the appellant.*

3. Since facts are identical and issues are common, for the sake of convenience, these appeals filed by the assessee are heard together and disposed of by this consolidated order. For the purposes of this adjudication, the facts and figures for AY-2017-18 have been taken. The decision for AY-2017-18 shall apply mutatis mutandis for appeal in AY.2016-17.

4. Brief facts of the case are that assessee is a Private Limited Company, assessed to tax by the Deputy Commissioner of Income Tax, Corporate Circle 5(2), Chennai. The assessee is in the business of manufacturing automobile parts. The assessee filed its return of income for the A.Y.2017-18 on 28.11.2017 by admitting Rs.Nil income after setting off past years' losses in normal computing and Rs.Nil under MAT. The case was selected for scrutiny under CASS and various statutory notices along with detailed questionnaires which were issued and duly served on the assessee. During the course of assessment proceedings, the AO observed that on perusal of the financials, the sales had gone up by 5%. However, the increase in repair and maintenance expenses was disproportionate to sales, considering the increase in sales and was not reasonable for the purpose of business. Therefore, the excess of repair and maintenance amounting to Rs.83,00,088/- was disallowed. Further, the AO, considering the increase in sales, also disallowed the excess of sundry expenses amounting to Rs.23,12,388/- on an adhoc basis.

5. Aggrieved by the order of the AO, the assessee carried the matter in appeal before Id.CIT(A), NFAC, Delhi. Before the Id.CIT(A), it was canvassed that all the

details pursuant to a questionnaire were made available before the AO. It was further stated that the AO completed the assessment without calling for further details. It was contended that the quantum of repairs and maintenance and sundry expenses was not commensurate with the increase in sales, as such expenses are inherently dependent on the wear and tear of machinery, which is essential for the uninterrupted and efficient functioning of the plant. The Id.CIT(A) confirmed the addition affirming the order of the AO and held that a prudent businessman upon observing a disproportionate increase in repair and maintenance expenses as well as sundry expenses, would reasonably consider replacing the machinery through capital expenditure, rather than continuing to incur expenses under the head repair and maintenance expenses and sundry expenses. Aggrieved, the assessee is in appeal before us.

6. The Id.AR for the assessee submitted that the Id.CIT(A) has erred in confirming both the addition made by the AO on adhoc basis amounting to Rs.1,06,12,476/- under the head repair and maintenance of Rs.83,00,088/- and sundry expenses of Rs.23,12,388/-. The Id.AR submitted that the impugned expenses, being in the nature of revenue expenditure, were incurred wholly and exclusively for the purpose of the business of the assessee. It was contended that these expenses were not correlated to increase in sales but were necessitated by the wear and tear of machinery and were essential to ensure the smooth and uninterrupted functioning of the plant operations. During the relevant AY 2017-18, the assessee incurred repair & maintenance expenditure amounting to Rs.2,71,13,633/- and sundry expenses of Rs.49,50,664/-. It was his stand that when all necessary facts and figures were available before the AO and despite that if the AO fails to point out any specific defect and chooses to saddle the assessee with additions based on suspicion there is no reason available under law to justify the

addition made by the AO. It was his argument that the AO has made the disallowance in a mechanical manner and such additions needs to be deleted. Reliance was placed upon the decision of the Tribunal in the case of *DCIT vs. Norma India Limited in ITA. 4562/Del/2010 (Del)*.

7. Per contra, the Id.DR strongly supported the order passed by the Ld.CIT(A), NFAC, Delhi.

8. We have heard both the parties, perused the material available on record and gone through the orders of the lower authorities. In the case on hand, the assessment was completed by adhoc disallowance of expenditure amounting to Rs.1,06,12,476/- on account of 'repair and maintenance' of Rs.83,00,088/- and 'sundry expenses' of Rs.23,12,388/-. The AO disallowed the impugned expenses for the reason that these expenses were disproportionate, considering the increase in sales and was not reasonable for the purpose of business. It is seen that neither the AO nor the Id.CIT(A) has made out the case that full facts and particulars were not disclosed by the assessee. The books of accounts of the assessee admittedly have not been rejected. No steps have been taken by the AO to show that the impugned expenses are not genuine. It is a settled legal position that it is not for the department to dictate 'what amount of expenditure' the assessee should incur as reasonable for its business. If in the opinion of the AO an expenditure is high, then he should have called the assessee for further details and explanations before drawing any adverse inference, rather than making a disallowance on adhoc basis merely on presumption. There are ample powers with the AO to cross check the genuineness. We do not find any such effort was exercised by the AO on record. In our considered opinion the suspicion backed by no evidence cannot be a cogent reason for disallowance of impugned expenses. Further, we find that the AO has not doubted the claim of expenditure but has merely made general observation while

making an adhoc disallowance of impugned expenses on an estimated basis without rejecting the books of accounts of the assessee. In these peculiar facts, the AO was not justified in estimating the impugned disallowance to be made as apart from general suspicion there is no material or fact on record. Further, the Courts have repeatedly held that the reasoning for conclusion is imperative as without reasoning the conclusion arrived at is open to the allegations of arbitrariness which cannot be upheld.

9. Therefore, in the afore mentioned peculiar facts and circumstances of the case, keeping in view the provisions of the Act, and the position of law, we are of the considered view that the AO as well as the Id.CIT(A) have erred in disallowing the impugned expenditure. Hence, we are inclined to set aside the order of Id.CIT(A) and direct the AO to delete the disallowance amounting to Rs.1,06,12,476/- under the head repair and maintenance of Rs.83,00,088/- and sundry expenses of Rs.23,12,388/- by allowing the grounds of the assessee.

10. We find the issue in A.Y.2017-18 are similar to the facts and circumstances relevant to A.Y.2016-17 in ITA No.1602/CHNY/2025, wherein, we have set aside the order of Id.CIT(A) and directed the AO to delete the disallowance hereinabove at para 8. Therefore, we hold our reasonings and findings would be applicable mutatis mutandis to the assessment year under consideration. Thus, the ground raised by the assessee for AY 2016-17 is allowed.

11. In the result, both the appeals of the assessee for the A.Y. 2016-17 and 2017-18 are allowed.

Order pronounced in the court on 25<sup>th</sup> 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 25<sup>th</sup> 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