

**IN THE INCOME TAX APPELLATE TRIBUNAL,
AGRA BENCH, AGRA**

**BEFORE : SHRI M. BALAGANESH, ACCOUNTANT MEMBER
AND
SHRI SUNIL KUMAR SINGH, JUDICIAL MEMBER**

ITA No. 131/Agr/2025
Assessment Year: 2016-17

Marshal Security Services, 237, Daya Complex, Bye Pass Road, New Agra, Agra-282005.	Vs.	ACIT, Circle 2(1)(1), Agra.
PAN : AAKFM6583A		
(Appellant)		(Respondent)

Assessee by	Sh. Anurag Sinha, Advocate
Department by	Sh. Anil Kumar, Sr. DR

Date of hearing	19.08.2025
Date of pronouncement	28.10.2025

ORDER

PER : SUNIL KUMAR SINGH, JUDICIAL MEMBER:

This appeal has been preferred by assessee against the impugned order dated 15.01.2025 passed in Appeal No. CIT(Appeals) 2, Agra/10445/2018-19 by the Ld. Commissioner of Income-tax (Appeals), NFAC, Delhi u/s. 250 of the Income-tax Act, 1961 (hereinafter referred to as "the Act") for the assessment year 2016-17, wherein learned CIT(Appeals) has dismissed assessee's first appeal.

2. Brief facts state that the assessee e-filed return of income on 27.09.2016, declaring total income of Rs.21,55,530/-. Return was processed u/s. 143(1) of the Act. Thereafter, case was selected through CASS for limited

scrutiny. Statutory notices u/s. 143(2) and 142(1) of the Act were issued and served upon the assessee. However, assessee did not respond even to the final show cause notices u/s. 144 of the Act on various occasions. Learned Assessing Officer was, therefore, compelled to complete the assessment proceedings u/s. 144 of the Act on the basis of material available on record and added Rs. 1,53,70,347/- (@ 25% of various expenses amounting to Rs.6,14,81,388/-), in the total income of the assessee.

3. Aggrieved, assessee preferred an appeal before learned CIT(Appeals) , who called for the remand report from the Assessing Officer. Appellant assessee did not file any response before the Assessing Officer even during the remand proceedings. The remand report was received from Assessing Officer on 13.11.2024, affirming the original assessment order. After considering assessee's response against the remand report, learned CIT(Appeals) observed that during the appellate stage also, assessee failed to furnish any documentary evidence with regard to the expenses claimed by him as business expenses for verification and dismissed assessee's appeal, confirming the adhoc disallowance at an estimated rate of 25% amounting to Rs.1,53,70,347/-.

4. Assessee has preferred this second appeal on the following grounds :

"1. BECAUSE, the order passed by the authorities below is erroneous both on facts and in law.

2. BECAUSE, the Ld. CIT(A) was unjustified in not considering the case laws cited by observing that the case laws are not applicable in the present case as the underlying details of those cases are not similar.

3. BECAUSE, the Ld. CIT(A) grossly erred in not accepting that the 'AO' exceeded her jurisdiction in making the disallowance of Rs.1,53,70,347/- ignoring the fact that the case was selected Limited Scrutiny' on the ground of "whether contract receipts/fees have been correctly offered for tax "and not "whether contract Income is correctly offered for Tax". Therefore, the issue of Expenses was not a subject matter of Scrutiny.

4. BECAUSE, the Ld. CIT(A) was highly unjustified in confirming ad-hoc disallowance of Rs.1,53,70,347/- ignoring the legal position that ad-hoc disallowance has no approval in law.

5. BECAUSE, while making and confirming the disallowance the authorities below omitted to consider that ad-hoc disallowance was uncalled for as there is no allegation that either the expenses debited are bogus, or not incurred for the purpose of business. Books of Accounts of the 'appellant' are audited and 'appellant' has shown better profit in the year under consideration as compared to preceding years.

6. BECAUSE, on the facts and in the circumstances of the case, the authorities below were highly unjustified in making and confirming ad-hoc disallowance at an estimated rate of 25% amounting to Rs.1,53,70,347/ on account of Guard Expenses and Conveyance Expenses, Depreciation Expenses, Dress Expenses, Employee Provident Fund, Employee State insurance, Rebate & Discount, Rent Expenses, Staff Salaries Expenses.

7. BECAUSE, the Ld. "CIT(A)' before dismissing the appeal on the ground that appellant failed to furnish any documentary evidence with regard to the expenses claimed by him, ought to have provided opportunity of hearing to the appellant to put forth his case by issuing a notice to the appellant requiring for such specific documentation.

8. BECAUSE, the expenses were incurred wholly and exclusively for the purpose of business and duly reflected in the Audited books of account.

9 BECAUSE, in any case and in any view of the matter impugned additions/disallowances and impugned assessment order is bad in law, illegal, unjustified barred by limitation, contrary to facts and law based upon incorrect assumption of facts and further without allowing adequate opportunity of hearing in violation of principles of natural justice and therefore, the additions made deserves to be quashed.
.....”

5. Perused the records. Heard learned representative for assessee and learned Sr. DR for revenue.

6. Learned representative for assessee has submitted that the assessee's case was selected only for 'limited scrutiny' to verify the issue "whether contract receipts/fees have been correctly offered to tax". Further that the Assessing Officer had no jurisdiction to examine the following expenditure in assessee's case, which was selected only for a 'limited scrutiny' :

S.No.	Particulars	Amount	Disallowance @ 25%
1.	Guard Expenses	4,81,45,937/-	1,20,36,484/-
2.	Conveyance Expenses	1,26,809/-	31,702/-
3.	Depreciation Expenses	2,44,778/-	61,195/-
4.	Dress Expenses	1,99,408/-	49,852/-
5.	Employee Provident Fund	81,22,815/-	20,30,704/-
6.	Employee State Insurance	15,29,419/-	3,82,355/-
7.	Rebate & discount	2,35,195/-	58,799/-
8.	Rent Expenses	1,44,000/-	36,000/-
9.	Staff Salaries Expense	27,33,027/-	6,83,256/-
	Total	6,14,81,388/-	1,53,70,347/-

Learned AR has referred order dated 17.03.2025 passed by Jaipur Bench of the Tribunal in ITA No. 902/JPR/2024, Suchita Bhatia V. the DCIT in support of his arguments, praying to delete the addition and quash the impugned order.

7. Learned Sr. DR for the revenue has submitted that assessee did neither submit any documentary evidence before the Assessing Officer nor did it make any submission even during the remand proceedings before the

Assessing Officer. Learned DR supported the impugned order and prayed to dismiss assessee's appeal.

8. A very small issue that arises under appeal is, as to whether the revenue authorities were right in examining the 'expenses' claimed by the assessee, when the case was selected for only 'limited scrutiny' to the effect – *"whether contract receipts/fees have been correctly offered for tax"?*

9. In the identical fact situation, this issue was determined by the coordinate Bench of Jaipur Tribunal in the case of Suchita Bhatia (supra). The relevant paras of this order are reproduced as under :

"5. Before us, in respect of additional ground, the Id. A/R of the assessee submitted his written submissions as under :-

"This ground of appeal is about powers of Id. AO under limited scrutiny proceedings. The case of the assessee was taken up for limited scrutiny u/s 143(2) to examine the single issue whether contract receipts/fees have been correctly offered for tax (PB-10);and notice u/s 142(1) was issued on 16/07/2018 asking for the information and explanation about the contract receipts only(PB-12-13). The same was duly replied by the assessee (PB-17-21). The assessee fully reconciled the Contract receipts appearing in form 26AS and receipts shown in ITR form and the Id AO has not found any discrepancy in the receipts side.

Then the Id AO issued further show cause notices on 08/10/2018 and 23/10/2018 (PB 15-16) making enquiries about issues other than selected in limited scrutiny

Notice dated 08/10/2018

a. It is noted that you have claimed to have paid an amount of Rs. 10435000/- directly to dealers. In this regard kindly furnish the ledger account corroborating the same, along with relevant portion of your bank account statement.

Notice dated 23/10/2018

b. Kindly produce the ledger a/c of Vodafone M-pesa Limited from 1.4.2014 to 31.3.2016 in your books. Kindly also produce all bills & vouchers related to Mpaia Promotional Services a/c during the period.

c. You have claimed to have made payment of Rs. 10435000/- to dealers. Kindly provide name, PAN, Postal addresses of all the dealers along with their ledgers. Kindly explain why you have made payment to the dealers when no service has been provided by them to you.

d. Kindly state with proof whether TDS has been deducted by you on payment made to dealers amounting of Rs. 10435000/-. Kindly explain why the same should not be considered as your turnover when you have claimed TDS on the entire amount.

The above enquiries/queries were not about the issue of contract receipts under limited scrutiny and the disallowance u/s 37 of Rs. 1,04,35,000/-being payment made to Ganpati Communication by the assessee. The payments made to Ganpati Communications was not part of Contract receipts and hence the disallowance was outside the scope of issue in limited scrutiny. The question of TDS on payment of Rs. 1,04,35,000/- was also outside the scope of issue under limited scrutiny.

The CBDT has issued instruction no. 15/2015 dated 29/12/2015 (CLPB 12 to 14), 05/2016 dated 14/07/2016 (CLPB 14 to 15) and dated 30/11/2017 (CLPB-49) on limited scrutiny matters. The crux of the instructions is summarized as under-

i. The questionnaire u/s 142(1) shall be confined only to the issue of limited scrutiny.

ii. Approval of PCIT/CIT concern shall be obtained to convert the limited scrutiny to full scrutiny.

iii. PCIT/CIT concern shall grant approval in writing and after being satisfied on the merits of the case.

iv. Such cases shall be monitored by range head.

v. In limited scrutiny cases enquiry shall be restricted only on the issues of limited scrutiny.

vi. Only after conversion of case to complete scrutiny and after following the procedure outlined above the A.O. may examine the issues other than limited scrutiny issues.

v. The A.O. shall intimate the assessee regarding conducting complete scrutiny.

vi. The provisions of Sec. 144A should be invoked in suitable cases.

vii. To prevent the roving and fishing enquiries, such cases should be picked up for review and inspection by administrative authorities.

In my case, the Id AO has not converted the limited scrutiny to full scrutiny but made queries not related to issue in limited scrutiny and made disallowance.

The addition of Rs. 1,04,35,000/- needs to be deleted. There are number of judicial decisions deleting the additions made under limited scrutiny without following the mandatory instructions of the CBDT. We give below a list of few judgments-

i) *Principal Commissioner of Income-tax v. Weilburger Coatings (India) (P.) Ltd.* [2023] 155 taxmann.com 580 (Calcutta) HIGH COURT OF CALCUTTA (CLPB-1-4)

ii) *Sukhdham Infrastructures LLP v. Income-tax Officer** [2024] 165 taxmann.com 154 (Kolkata - Trib.) IN THE ITAT KOLKATA BENCH 'B' (CLPB 5-5)

iii) *VUDATHA VANI RAO v. Income-tax Officer** [2024] 159 taxmann.com 1394 (Visakhapatnam - Trib.) IN THE ITAT VISAKHAPATNAM BENCH 'SMC' (CLPB 6-8)

iv) *Urban Improvement Co Pvt Ltd vs. ITO ward 27(2)Delhi- ITAT Delhi ITA no. 7496/Del/2019 AY 2015-16* (CLPB 9-17)

v) *Weilburger Coatings (India) (P.) Ltd. v. Deputy Commissioner of Incometax** [2024] 165 taxmann.com 232 (Kolkata - Trib.) IN THE ITAT KOLKATA BENCH 'C' (CLPB 18-19)

vi) *Rajesh Jain v ITO Ward-1 Jind (2007) 162 Taxman 212* (Chandigarh) (CLPB 20-22)

vii) *Gurbachan Kaur v Dy CIT (2019) TaxPub(DT) 8127 (Jp-Trib.)* (CLPB 23-31)

viii) *Rajnikant S Bhalavat v ACIT Circle 5(1) Ahmedabad ITA no, 495/Ahd/2019 of AY 2015-16 dated 23/12/2022* (CLPB 32-38)

ix) *Smt Manju Kaushik v DCIT (2020) 113 taxmann.com 643* (Jaipur-Trib) 09/12/2019 (CLPB 39-48)

We pray the Hon'ble bench to direct the Id. AO to delete addition of Rs. 1,04,35,000/- under the facts and circumstances of the case and in view of judicial precedents."

The Id. A/R of the assessee further submitted his written submissions in respect of the additional ground on 08.01.2025 as under :-

"1. In continuation to our earlier submission we would like to make further submission about our additional ground of appeal which is about scope of limited scrutiny. We draw your honours kind attention towards certain facts about limited scrutiny and its scope w.r.t. assessee's case.

Additional Legal Ground about enhancing the scope of limited scrutiny

2.Preliminary observations on CBDT Instructions about limited scrutiny:-

At the outset we submit that circulars issued by CBDT are binding in nature on assessing officer. These are issued to ensure uniform and proper administration and application of Income Tax Act (UCO Bank Vs. CIT 1999 Tax Pub (DT) 1303(SC).Circulars and Instructions issued by the board on limited scrutiny clearly mentions that selection of limited scrutiny is based on specific issue(s)and the specific issue(s) is/are based on certain data received from AIR/26AS/CIB etc. The AO is duty bound to restrict his focus on that specific issue(s) only unless he forms a reasonable view and records his satisfaction and obtains permission from appropriate authority. Important outcomes of these instructions are as under:-

a) Scrutiny may be issue/subject/transaction/matter/information based and not on ledger based or book based or document based or statement based.(because audited and non audited, Salaried and non-salaried, agriculturist and non-agriculturist, Individual and firm or AOP or LLP or company can be scrutinized on different issues not on the basis of ledgers or books or statements or documents)In other words we can say it is based on information on some specific issue or transaction or item.

b) AO is duty bound to restrict his focus on that limited transaction/item/issue only i.e. matter is to be examined on 'standalone' basis.

c) If AO wants to verify any other issue(s) he must form a reasonable view and take prior permission from appropriate authority.

Thus it is clear that these instructions/ circulars/ notifications don't restrict the Assessing Officer rather they provide ample room to him to expand the scope of limited scrutiny to Complete Scrutiny. It is failure on the part of the AO if he does not follow the procedure verbatim and expand the scope of limited scrutiny arbitrarily without any authorization.

CBDT took serious views on Assessing Officers who are travelling beyond their jurisdiction while making assessments in Limited Scrutiny cases by initiating inquiries on new issues without complying with mandatory requirements of the relevant CBDT instructions dated 26.09.2014, 29.12.2015 and 14.07.2016. (Please refer Letter F.No. DGIT (Vig.)/HQ/SI/2017-18 dated 30.11.2017)Please see at page no. 19 and 20 of this submission.

3.History, Concept and Purpose of Limited Scrutiny:- Before proceeding further we would like to submit a detailed analysis on the history, concept and purpose of limited scrutiny.

a) Law prior to 1st June 2003: It is submitted that Limited Scrutiny was initially started for verification of Claim of Loss/exemption/deduction/allowance or relief made in the return.

Income-tax Officer, 1(2)(4), Mumbai VS Pericles Foods (P.)Ltd.[2007] 17 SOT 602 (MUM.)

In this case the issue was in limited scrutiny can the head of income be changed?

The ITAT held that the AO could either allow or disallow the deduction. He could not change the head of income.

Bholanath R. Shukla VS ITO WD 2(1) THANE 118 ITD 552 (Mumbai)

In this case the contention raised by the Department was that once notice was issued u/s 143(2)(i) the AO could then covert the assessment to full scrutiny by issue of notice u/s 143(2)(ii). The contention was rejected by the ITAT and held that the notice under 143(2)(i)/(ii) had to be issued within the period of 12 months from the end of assessment year.

b) CBDT Instruction No. 225/26/2006 dated 23.05.2007: Later on Information received through AIR became the basis for selection of cases and it is stated that scrutiny should be limited to that aspect only. However with the permission of ACIT/JCIT, AO may expand the scope/area of scrutiny.

c) F. No. 225/26/2006-ITA –II (Pt) 8th sept.2010: Scope of enquiry in the limited scrutiny cases is same. However monetary ceiling is imposed if AO wants to examine other areas with the approval of administrative commissioner. Notice u/s 143(2) should be clearly stamped with 'AIR CASE'. (Ref Para 3 above from AY 2006-07 onwards)

M/s. Nitin Killawala & Associates - Mumbai ITAT (ITA No. 1611/Mum/2013)

- The case was selected for scrutiny under CASS and notice under section 143(2) was issued to the assessee.
- The assessee was required to furnish the details/reconciliation of the items mentioned in the AIR information.
- The AO, however, widened the area of scrutiny of the assessment and added travelling and education expenses.
- No permission taken for widening of the scope of scrutiny and notice was issued on 20-8-09.
- Nothing brought on record to show that the permission was taken from JCIT/ADIT.
- Not following procedure laid down in circular - Assessment Null and Void.

d) Instruction No. 7/2014 dated 26.09.2014: Vide this instruction for FY 2014-15 CBDT on one hand accepted the harassment of the assessee and on another hand widened the scrutiny base i.e. data collected from CIB/26AS was also included.

It is important that the instruction was issued u/s 119 in suppression of all other instructions on this subject. The notice u/s 143(2) to specify that case is reopened for CASS/AIR information.

Monetary ceiling for complete scrutiny is modified and two categories were made for metro and non-metro & other cities. But more importantly CBDT in the

second para mentioned that “The scope of enquiry should be limited to verification of these particular aspects only”. Procedure is clearly mentioned for widening the scope of Limited scrutiny in para 4.

At this place it is important here to go by the meaning for the phrase “Particular Aspects”.

“A particular aspect is a specific feature or detail of something and it implies focusing on one element instead of considering the whole.”

(Source-Cambridge English Corpus)

e) Instruction no. 20/2015 came on 29.12.2015: This instruction was issued to clarify instruction no. 7/2014 and also to issue further instructions for CASS-2015. In this instructions it is clarified that reasons/issues will be communicated to assessee concerned and questionnaire under section 142(1) shall remain confined only to the specific reasons/issues for which case was picked up for scrutiny. Even Scope of enquiry is also restricted to the specific issue based enquiry only (para 2(iii) of the Instruction no. 20/2015).

Procedure for expanding the scope is elaborated in para (d) of the instruction and mentioned that after following the procedure for complete scrutiny Para (a) to (c) of point no. 3 will not be binding after conversion of limited scrutiny to complete scrutiny. It was further cleared by the CBDT that it was an SOP for handling the cases under limited scrutiny.

It is also submitted that the word “Specific” means ‘Relating to one thing and not others’. Specific Reason or Issue means ‘a particular problem subject or area that is fixed’. It also means focusing on one element only instead of considering the whole.

The Board further desired that in all cases under scrutiny, where the AO proposes to make additions or disallowances, the assessee would be given a fair opportunity to explain his position on the proposed additions/disallowances in accordance with the principle of natural justice.

f) Instruction no. 5/2016 dated 14th July, 2016: Vide this instruction CBDT further clarified that general scope of enquiry in scrutiny proceedings should be restricted to the relevant parameters which formed the basis for selecting the case for scrutiny. CBDT also stressed on revenue potential cases complete scrutiny can be conducted subject to approval of Pr. CIT/CIT/Pr. DIT/DIT.

General Scope of enquiry and Relevant parameters: are phrases of utmost importance. General scope of enquiry under limited scrutiny means, carefully watching the subjected issue and not more than that. Relevant parameter means a set of facts or range which describes and puts limits on how something should be done. It means that under limited scrutiny AO is duty bound not to spread wings beyond a certain range or limit.

Further to convert limited to complete scrutiny as per para 3(d) of earlier instruction 20/2015 (supra) is modified. AO shall be required to form a

reasonable view and para 3 of the instruction instructs AO how to form the reasonable view.

It is further clarified that “only upon conversion of case to ‘complete scrutiny’ after following the procedure outlined in para 2 and 3 of instruction AO may examine the additional issues besides the issue involved in ‘Limited Scrutiny’.

After conversion from limited to complete scrutiny AO can deal with any issue. It was also suggested that provision of section 144A of the Act may be invoked in suitable cases.

g) Circular No. F.No.225/162/2016/ITA.II dated 11-7-2016: CBDT with the approval of Revenue Secretary decided that there will be three type of notices i.e. 1) Limited Scrutiny, 2) Complete Scrutiny and 3) Manual scrutiny and provided the formats of the notices. It was also urged that henceforth notices will be provided in these revised formats.

h) Now we would like to summarize the entire discussion:-

(i) Scrutiny selection under CASS is based on parameters of AIR/CIB/26AS data.

(ii) Limited scrutiny is based only on specific issue or say on a particular or on a specific aspect or on a fixed issue and according to instructions there is no room for diversion or say elasticity in application of that instruction.

We strongly submit that limited scrutiny is issue based scrutiny and not ledger based or book based or statement based scrutiny. Any further issue emanates from the selected issue is not covered in the limited scrutiny. This rigidity in the CBDT instructions are essential to maintain the sanctity of the phrase “Limited Scrutiny”. Otherwise there is no meaning of the word Limited Scrutiny.

Here it is important to note that to maintain the sanctity of the phrase “limited scrutiny”, CBDT directed the AOs that the questionnaire u/s 142 (1) shall remain confined only to the specific reasons/ issues for which case has been picked up for scrutiny.

(iii) To overcome this issue of elasticity in application of instruction, CBDT made certain provisions. To prevent revenue leakage, AOs are allowed to convert limited scrutiny to complete scrutiny and this power is allowed to them after following certain procedures which includes forming reasonable view or recording of his satisfaction, prior approval from competent authorities etc. It means that rules and instructions favour AO only after following the procedure as enumerated in the instructions issued by CBDT.

(iv) It is further submitted that the CBDT views it seriously Please refer CBDT letter F.No. DGIT(Vig.)/HQ/SI/2017-18 dated 30.11.2017 at page no.19 of this submission.

(v) Interpretation of taxing Statutes-Statutes imposing taxes or monetary burdens are to be strictly construed. The logic behind this principle is that imposition of taxes is also a kind of imposition of penalty which can only be

imposed if the language of the statute unambiguously imposes the obligation without straining itself. Intention of the legislature to tax must be gathered from the natural meaning of the words by which it has expressed itself. Any kind of intendment or presumption as to tax does not exist. Nothing can be drawn by implication. The language must be explicit. If the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be, in other words, if there be admissible, in an statute, what is called an equitable construction, certainly such a construction is not admissible in a taxing statute, where you simply adhere to the words of the statute. If the words of a taxing statute are clear, effect must be given to them irrespective of the consequence. Statutes imposing pecuniary burdens are interpreted strictly in favour of those on whom the burden is desired to be imposed. Whether a particular conclusion is desirable or not can be the guiding factor in reaching a decision while construing a taxing statute. Neither can be language of a taxing legislation be so stretched as to do favour to the State nor can it be so narrowed as to benefit the person sought to be taxed. If the language used in a fiscal statute is so wide as to include within it a large number of cases which perhaps were not intended to be covered, the Court has no option but so give effect to it. If the words in taxing enactment are capable of two reasonable interpretations without doing violence to the language used, the interpretation which favours the person sought to be taxed has to be accepted. A taxing enactment does not apply by implication, and a logical extensions are prohibited. Equitable considerations cannot be taken into account while construing a taxing statute.

We place reliance on judgment of Hon'ble Rajasthan High Court in the case of Chaturbhuj Gattani &Anr v. ITO 2024 TaxPub(DT) 134 (2024) 468 ITR 0295 where in para 24 it is confirmed by court that-

“It is settled that the words used in the provisions of taxing statute are required to be given their plain meaning and nothing can be implied from or read into it.”

4. In the case of the assessee issue of limited scrutiny was –

“Whether contract receipts/Fees have been correctly offered for tax has been correctly shown in the return of income during the year.”

Two possible replies were there, one yes and one no is under first option and one more yes and no is under second option. First one is covered under limited scrutiny and other one is covered under complete scrutiny.

The first possible reply is either yes or no on the specific issue given such as it is shown and offered correctly hence no addition or it is not shown or not offered correctly hence the proposed addition.

The second possible reply is yes shown and offered correctly but expenses are doubtful or identified some issues

5. In the instant case the question was based on receipt or fees and not on Income or expenditure.

Receipt or fees is seen at gross and Income is seen at net of expenses.

Expenditures are independent to receipt and income even if recorded in the same ledger of receipt. For example in cash book, payments and receipts both are recorded in the same page or sheet but if the instruction is issued for verification of cash deposits into the bank, payments cannot be verified by AO without recording of satisfaction and obtaining the permission of appropriate authority(ies). Similarly a bank statement contains deposits and withdrawals on the same page or sheet, but if the issue is of cash deposit, AO cannot verify the withdrawals without following the procedure. It is because of the fact that CBDT instructions do not permit to go beyond the issues.

Receipt minus expenses is income and all three are independent issues.

Learned AO was empowered to see at contract receipt or fees at gross level under limited scrutiny and if she wanted to go on net of receipt or on expenses she must take the authority by following the procedure under CBDT instruction.

When there is no simple reply in yes or no and a "but" is used in answer, or a new issue is raised, it is complete scrutiny and not limited scrutiny.

Thus it is clear that learned AO crossed the limit while passing the order and jumped to complete scrutiny without obtaining prior permission and authority from the Higher Authorities hence this addition is null and void.

6. Case Laws: To support our views we submit some case laws for your kind consideration and perusal:-

a) Vudatha Vani Rao v. ITO (ITAT Visakhapatnam) [2024] 159 taxmann.com 1394:-

Issue:The issue was "to examine the cash deposit during demonetization period."

Order passed by AO: AO added cash deposited in the income during the period from 05.11.2016 to 17.12.2016 as unexplained cash.

Contention of the Assessee: Rs. 100000/- was deposited on 04.11.2016 and 400000/- was deposited on 08.11.2016 was outside the purview of demonetization and by doing so AO exceeded the limit.

Held: Allowed the relief to that extent.

Conclusion:- ITAT did not permit AO to go beyond the direction despite the fact that the entries of cash deposits reflected in the same bank statement.

b) Urban Improvement Co. Pvt. Ltd. v ITO WD 27(2) Delhi ITA no. 7496/Del/2019

Issue:- Real Estate business with high closing stock (verify whether assessee has adopted percentage completion method)

Order Passed by AO:- AO found that assessee company sold some plots below circle rate and made addition accordingly u/s 43CA.

Contention of the Assessee: Assessee took objection for not following the CBDT instruction for conversion of scrutiny from limited to complete scrutiny.

Held: Assessing Officer can widen the scope of scrutiny even the case is selected for limited scrutiny under CASS, however, the condition precedent for such widening of the scope is that the assessing officer has to seek prior approval of the authorities mentioned. Further held that addition is beyond the scope of limited scrutiny.

Conclusion:-To verify closing stock, verification of opening stock, sales and purchases may be part of the instruction but addition could only be made on the specific issue of valuation of stock only. In the instant case assessee informed that percentage completion method was not applicable on it despite this AO without obtaining prior approval from authorities made the addition u/s 43CA and exceeded the limit hence ITAT did not allow to cross the limit.

c) Gurbachan Kaur v Dy. CIT (2019) TaxPub (DT) 8127 (Jp-Trib.)

Issue:- order passed u/s 154- Invocation of Jurisdiction under section 154 as regards issue which was beyond the scope of limited scrutiny. Issue under limited scrutiny was on three issues:-

1. Large deduction claimed under section 54B, 54C, 54D, 54G, 54GA
2. Large value sale of consideration of property in ITR is less than sale consideration of property.
3. Large cash deposits in savings bank account and assessee has also transferred one or more property(ies) during the year

Order passed by A.O:-AO passed the order u/s 154 and made addition on the issue of long term capital gain on the basis of report of DVO.

Contention of the Assessee:The order passed by the AO u/s 154 is invalid as the same is beyond the scope of Limited Scrutiny undertaken by the AO.

Held: Without converting the scrutiny from limited to complete by AO, the rectification order passed by AO will be nullity as beyond his jurisdiction.

Conclusion:-Deduction claimed under given sections shows that definitely there will be a capital gain. Also verification of properties sale transaction was also the issue. Still this bench did not allow crossing the limit without obtaining prior permission.

d) Sukhdham Infrastructure LLP v. Income Tax Officer (2024) 165 Taxmann.com 154 (Kolkata Trib.)

Issue:-There were four issues to verify (i) Interest Expenses (ii) Income from real Estate Business (iii) Sales Turnover Mismatch, and (iv) other expenses claimed in the P&L account

Order passed by A.O:- AO added unsecured loans of Rs. 8000000.00 as unexplained cash credit under section 68 of the Act. AO converted limited scrutiny to complete scrutiny on 14.12.2017 and framed order on 28.12.2017.

Contention of the Assessee: Assessee submitted that AO enquired on unsecured loans prior to 14.12.2017, whereas he got approval on 14.12.2017 and it is against the provision of the ACT.

Held:That the assessing officer has exceeded his jurisdiction in enquiring into those issues beyond the scope of limited scrutiny even prior to the date of conversion which is in clear violation of mandate given by the CBDT vide circular no. 5/2016.

Conclusion:-CBDT circulars/Instructions are to be followed strictly by AO's. Circulars are not meant for the purpose of permitting unscrupulous assesseees from evading tax. Even assuming, that to be so, it cannot be said that the department, which is state, can be permitted to selectively apply the standards set by themselves for their own conduct. If this type of deviation is permitted, the consequence will be that floodgate of corruption will be opened which is not desirable to encourage.

e) Instel Services P Ltd. v. DCIT Circle 12(2) ITA 8196/Del/2019and ACIT Circle 12(2) ITA no. 8505/Del/2019

Issue:- The notice was issued on the basis of following reasons (i) High ratio of refund to TDS (ii) Substantial increase in share capital in a year and (iii) Large International Transactions

Order passed by A.O:-Disallowance on account of legal Exp. Rs. 5719037.00, Business promotion Expenses 14290200.00 and Professional Expenses Rs. 1807142.00. CIT Appeal allowed relief of Rs. 5719037.00 and 14290200.00. Both revenue and assessee was in appeal.

Contention of the Assessee:without mandatory approval for expanding the scope converted the case to complete scrutiny. There was no ground of scrutiny to examine the professional expenses but Ld. AO travelled beyond the scope of limited scrutiny and tried to cover it under the head "High Ratio of Refund to TDS". CIT appeal also frustrated the intention of Limited scrutiny by giving misinterpretation.

Held: The bench held that when the tax authorities are scrutinizing the claim of High ratio of refund to TDS, the substantial question involved should be the examination of those head of receipts wherein TDS credit is sought to be adjusted against the income and refund claim. If the arguments of revenue is sustained that scrutiny for high ratio of refund to TDS entitles even examination of expenditures, which have no relationship with the TDS, then that will in a way give arbitrary powers to the Assessing Officers to do complete scrutiny

and thus circumvent the provision of ACT, which require mandatory approval of competent authority to convert limited scrutiny to complete scrutiny.

Conclusion:- under limited scrutiny Assessing Officer has very little scope and he must abide by the provision of the Act. He can only touch first layer which is directly connected with the reason. He is not empowered to touch second/third layer without getting approval from competent authority.

f) Alishan Steels Pvt. Ltd. Vs DCIT Circle(1) Kolkata ITA No. 1000/KOL/2023

Issue:Examination of service tax return

Order passed by A.O:- AO recomputed the loss to be carried forward and rejected brought forward loss to the tune off Rs. 72,68,669.00

Contention of the Assessee: AO surpassed his jurisdiction by recomputing the carried forward loss.

Held:In the opinion of the bench the In our opinionAO has no power to touch upon any issue which is not the subject matter of limited scrutiny (page-2 para3-4th line)

Conclusion:-Limited scrutiny is issue based and AO can only touch the subjected issue.

g) Mahendra Singh Dhankhar HUF Vs. The ACIT, Circle, Jhunjhnu ITA No. 265/JP/2020

Issue: Revision order of Limited Scrutiny Case by PCIT by saying that certain matters were not examined by the AO. Issues before the AO were (i) Sale Consideration in property is less than sale consideration reported in CIB (ii) Mismatch in sale turnover reported in Audit report and ITR, and (iii) Value of property transferred as reported in AIR is higher than the value of property transferred as reported in return of income. PCIT in revision raised the issues (i) Taking the cost of complete project while calculating profit for the year under consideration instead of cost debited till the date of Balance sheet. (ii) Taking the agriculture income in the capital account and not in the computation of income.

Order passed by A.O:- In the instant case AO passed an order and made addition on account of LTCG of Rs. 383990/-. However PCIT passed the revision order against the assessee.

Contention of the Assessee: Objections cannot be raised by PCIT on the issues outside the scope of limited scrutiny.

Held:Matters which are not part of the reasonsfor which the case was selected for limited scrutiny and are not even remotely connected, therefore, no fault lie on the part of AO resulting in order being held as erroneous and prejudicial to the interest of revenue. In the given case determination of correct sales turnover is concerned for which the matter was selected for limited scrutiny, the same can be determined on a standalone basis on examination of sale deeds

and related documents for sale of flats and is not connected with determination and examination of cost of construction and work in process (page-18 and para-21).

Conclusion:-Transactions have a common thread in terms of impacting the financial position of the assessee and for tax purpose, in determination of net taxable income (page-17 and para 21. But in case of limited scrutiny, the AO is duty bound to restrict himself to examine the matters for which matter was selected for limited scrutiny and where the AO takes a view and forms a reasonable belief that some other matters are required to be examined, the same will in effect be traversing beyond the scope of limited scrutiny which is not permissible unless the matter is converted into complete scrutiny. In Limited scrutiny Issue is to be examined on a standalone basis.

h) ShriRadhaGovindLashkari Vs. PCIT, Jaipur-2, ITA No. 32/JP/2021

Issue: Case was selected for the reasons (i) High Interest Expenditure against new capital added in WIP or addition made to the fixed assets. (ii) Substantial increase in capital in a year. AO agreed on the subjected issues. However, PCIT did not agree to this assessment and ordered for revision u/s 263 to verify fresh inflow of unsecured loans and interest thereon claimed as business expenses and added fresh capital.

Order passed by AO &PCIT:-AO verified the issue and pass the order but PCIT did not agree to assessee's submission that the subjected issue is fully verified by AO and passed the order against the assessee.

Contention of the Assessee:The issue of loan creditors was not there in the limited scrutiny issue and secondly interest expenses was verified by the AO and not claimed as business expense and had produced the detail and had claimed u/s 57 of the IT Act.

Held:The AO, after taking into consideration of all the issues, passed the order of limited scrutiny. However, observations of PCIT are beyond the points mentioned for limited scrutiny; hence order of PCIT is quashed.

Conclusion:-Issue of interest does not permit to investigate the loan creditors. Any further issue emanates from the selected issue is not covered in the limited scrutiny

i) ShriArun Kumar Palawat Vs. PCIT, Jaipur-1, ITA No. 144/JP/2022

Issue: The issue was“Deduction against Income from other sources.” AO enquired the issue and passed the order. PCIT did not agree to this and passed revision notice in respect of following issues:- (a) Utilization of loan raised (b) Rate of interest on loan received and advanced (c) Nexus between loan taken and loan advanced and (d) Reason of excess interest paid to the extent of Rs. 2270883/-over interest earned.

Order passed by AO &PCIT:- AO passed order at the returned income. PCIT disagreed to order passed by AO and passed the order against the assessee.

Contention of the Assessee: Scope of enquiry is limited to the issue in the case of limited scrutiny and PCIT has exceeded the limit.

Held: The issue was Deduction against Income from Other Sources. Therefore the issue of activity of taking loans, i.e. how the amount is utilized, what is the rate of interest paid, what is the rate of interest charged, which are held by the PCIT as matters not being examined by the AO, are matters which are not part of the reasons for which the case was selected for limited scrutiny, therefore, no fault lie on the part of the AO resulting in order being held as erroneous and prejudicial to the interest of revenue. The order of PCIT is set aside

Conclusion: The bench clearly held in para 6.5 that "In case of Limited Scrutiny, the AO is duty bound to restrict himself to examine the matters for which matter was selected for limited scrutiny and where the AO takes a view and forms a reasonable belief that some other matters are required to be examined, the same will in effect be traversing beyond the scope of limited scrutiny which is not permissible unless the matter is converted into complete scrutiny..."(page-35 and 36 para 6.5)

j) BaljeetYadav vs. The PCIT, Jaipur-1 ITA No. 120/JP/2022

Issue:"Cash deposit made in the Bank during demonetization period." AO enquired the case on this issue and accepted returned income. PCIT, however, found that an amount of Rs. 32,26,129/- on account of unsecured loans remained unexplained and unverified Agriculture income of Rs. 501200/- and issued notice u/s 263.

Order passed by AO &PCIT:-After being satisfied from the submission AO has accepted the returned income. PCIT however passed the order against the assessee.

Contention of the Assessee:That we have furnished all the details and AO passed the order after seeing all the details. AO has adopted one view on an issue having two divergent views and relied on certain case laws. Here it is important to note that A/R of the assessee did not raise the issue of exceeding jurisdiction by PCIT as the case was that of limited scrutiny.

Held:"It is evident from the assessment order and impugned order that assessee's case was selected for Scrutiny under CASS for examination of cash deposits made in the bank during the demonetization period. It is prima facie not clear whether it was a limited scrutiny case or a detailed scrutiny case with the approval of competent authority. To our understanding, it was a limited scrutiny case being selected under CASS for examination of cash deposit during the period of demonetization only. By expanding the scope of scrutiny beyond the issue of cash deposits during demonetization period, amounts to exceeding the jurisdiction by the Id. PCIT without following the prescribed procedures and the administrative guidelines under the law." Bench after discussion on this issue allowed the appeal of the assessee.

Conclusion: In view of Hon'ble ITAT the issue of agriculture income and unsecured loans were not parameters of selection of the case for scrutiny under CASS (Page-8 Para 6.2 Bottom six lines).

k) ManjuKaushik vs. DCIT- Range-7, Jaipur, ITA No. 1419/JP/2019

Issue: The issue was "Increase in Capital". AO converted the case of complete scrutiny and accordingly AO issued notice on 25.11.2016. A/R stated that department issued notice prior to conversion of case from Limited to Complete and according to him permission was granted on 28.11.2016 and conveyed to AO on 29.11.2016 and produced the letter. D/R said that approval date is 24.11.2016 and A/R contented that it is after thought.

Order passed by AO:AO reduced deduction u/s 54B and also made addition towards share application money.

Contention of the Assessee: Assessee contended that without following the procedure AO issued the notice u/s 142(1) on dated 25.11.2016. Permission was granted on 28.11.2016 and produced the letter of PCIT before the bench. CBDT instruction does not permit this lapse.

Held: AO has initiated the proceeding for full/complete/comprehensive scrutiny in an anticipation of approval to be accorded by the Pr. CIT. It is also mandated by CBDT instruction that competent authority has to grant approval only by satisfying itself about the requirements of complete scrutiny of the case. Further the AO is also required to intimate the assessee regarding conversion of limited scrutiny to the complete scrutiny in such cases. It is a serious violation of the instructions issued by the CBDT. The bench allowed the appeal of assessee.

Conclusion: AO must comply with the CBDT instructions. It is a mandatory requirement and it is to be followed verbatim only and AO is not permitted to make his own interpretation.

7. Now we would like to go back again on the case of the assessee.

Brief History of the case:- The case of the assessee was selected under limited scrutiny through CASS. The return was filed on 17.10.2016 declaring a total income of Rs. 1554620.00. Notice u/s 143(2) was issued on 17.07.2017 and it was duly served. Assessee is engaged in service sector.

Issue: The issue selected was (i) Whether contract receipts/fees have been correctly offered for tax, has been correctly shown in the return of income have been correctly shown in the return of income during the year.

Facts: Assessee showed the receipts completely. Assessee also provided the reconciliation. However, assessee by way of a transfer entry debited the expenditures at the yearend in receipt ledger and took net income in profit and loss account. Here it is important to note that because of this netting of income her case came in limited scrutiny to verify whether she declared the receipts correctly or not.

According to learned AO (please refer second para of point 2 of the order and heading of para 3 which is reproduced hereunder)

“... Details pertaining to the issues were called for from the assessee and examined as per record. Based on the submission, verification and factual position as per record, the following issues have been identified.

3.Issue of non business expenses/payment”

It alone shows that no procedure has been followed by Ld. AO to convert the scrutiny from limited to complete. We have already submitted that:-

a) In the instant case learned AO herself accepted that she had identified a different issue[issue which is altogether different from which was informed to assessee vide notice u/s 143(2)]without forming a reasonable view and recording the satisfaction and obtaining prior approval which is absolutely against the CBDT instructions issued from time to time. Ld. AO herself mentioned in the assessment order that “following issues have been identified.”

b) CBDT instructions are to be read as verbatim and not by own interpretation.

c) Ld. AO must restrict herself to examine the matters for which matter was selected for limited scrutiny.

d) Limited scrutiny is always issue based and AOs can only touch the subjected issue.

e) The law is very much clear and says that AO is duty bound to restrict himself/herself to examine the matters for which case was selected for limited scrutiny.

f) Where the AO takes a view and forms a reasonable belief that some other matters are required to be examined, the same will in effect be traversing beyond the scope of limited scrutiny which is not permissible unless the matter is converted into complete scrutiny.

g) CBDT instructions do not permit AOs to go beyond the direction despite the fact that the entries of cash deposits reflected in the same bank statement.

h) CBDT instructions do not allow crossing the limit without obtaining prior permission.

i) Receipt or fees is seen at gross and Income is seen at net.

j) Expenditures are independent to receipt and income.

k) Receipt minus expenses is income and all (all three including h) & i) above) are independent issues.

l) In Limited scrutiny, issue is to be examined on a standalone basis.

m) Matters which are not part of the reasons cannot be scrutinized.

n) AO cannot scrutinize new issues without obtaining prior approval from competent authorities. In the instant case AO identified fresh issues and started scrutiny without any approval from competent authority.

CBDT took serious views on Assessing Officers who are travelling beyond their jurisdiction while making assessments in Limited Scrutiny cases by initiating inquiries on new issues without complying with mandatory requirements of the relevant CBDT instructions dated 26.09.2014, 29.12.2015 and 14.07.2016. (Please refer Letter F.No. DGIT (Vig.)/HQ/SI/2017-18 dated 30.11.2017)

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Thus it is clear that CBDT instructions had not been followed by learned AO." At the end, the Id. A/R sought the following relief :-

a) " Since the Id. AO has exceeded the jurisdiction and failed to make proper entries in order sheet and thus the assessment order is not in conformity of the CBDT instructions deserves to be quashed.

b) Direct the Id. AO to delete the addition of Rs. 1,04,35,000/- being arbitrary and made without understanding the correct factual position."

6. On the other hand, the Id. D/R supported the orders of the lower authorities. The Id. D/R vide his letter dated 12.11.2024 further submitted the report of the AO dated 16.10.2024 addressed to Addl. CIT (Sr. DR)-II, ITAT Jaipur, for consideration, which are reproduced hereunder :-

" In this connection, it is submitted that ground number 1 to 3 are similar to the grounds taken by the assessee before Id. CIT (A) which is regarding the disallowance of Rs. 1,04,35,000/- claimed by the assessee as business expense. The Id.AO in its assessment order disallowed the expenses and established that these are not business expenses and is basically application of income. This addition was upheld by Id. CIT (A) in its order. Assessee gave similar submission before AO & Id. CIT (A) which have been countered in the assessment order and appellate order by Id. CIT (A). The assessee has submitted similar submission before Hon'ble ITAT which has already been duly countered through proper arguments by AO & Id. CIT (A) in view of law of facts. Thus, counter submission regarding the above three grounds and submission by the assessee before Hon'ble ITAT can be noted from there to strengthen the case for effective representation.

Further, the assessee has taken one additional grounds of appeal before Hon'ble ITAT which is as under :-

" The Id. AO erred in law and on the facts in making addition which were not covered under the scope of Limited Scrutiny assessment."

This ground of appeal may not be accepted at all by Hon'ble ITAT at this stage as the assessee neither raised the issue before AO nor before the Id. CIT (A) and facts of the case also does not support to create additional ground at this stage which are being discussed hereinafter. It is further submitted that the case of assessee was selected for limited scrutiny on the issue of examination of " whether contractual receipts/fees have been correctly offered for tax", the

assessee tried to reduce its income by claiming payment made to M/s. Ganpati Communication as business expense which was basically application of income out of contractual receipts/fees. The payment of contractual receipts to M/s. Ganpati Communication is out of contractual receipts shown by the assessee whereas receipts and payments out of receipts are integral part of contractual business. The ground of limited scrutiny signifies that the Id.AO was required to verify that contractual receipts of assessee were correctly offered for taxation. The Id. AO in its order has clearly mentioned that the payment made to M/s. Ganpati Communication is not expense and is application of income which should be added to the total income of the assessee being integral part of contractual receipts to compute the correct tax liability of the assessee from the contractual receipts of the assessee.”

7. We have heard the rival submissions, perused the material on record, gone through the orders of the lower authorities and the case laws cited before us. There is no dispute that the case of the assessee was selected for limited scrutiny under CASS on account of mismatch of contract receipts as reported in 26AS by third parties u/s 194C and 194J and in ITR by the assessee. The A.O. issued notice u/s 143(2) on 17/07/2017 and conducted detailed enquiries about the mismatch/differences. The assessee submitted the reconciliation between Contract receipts as per form 26AS and as reported in ITR and Financial Statements alongwith documentary evidences which has also been placed in the paper book before us. The A.O. has not disputed the Contract receipts during the entire assessment proceedings and there is no adverse finding about this issue in the assessment order. The A.O. further issued query cum show cause notices dated 08.10.2018 and 23.10.2018 and made detailed enquiry on the basis of documents submitted by the assessee, about claim of expenditure of Rs. 1,04,35,000/- and ultimately disallowed Rs. 1,04,35,000/- u/s 37 holding the same to be without any business purpose.

7.1 The assessee has challenged the jurisdiction of the A.O. of examining the expenditure part under limited scrutiny. The basic argument of the assessee is that the case was selected to examine the pre-identified issue of 'Whether Contract receipts have been correctly offered to for tax' and the A.O. does not have jurisdiction to identify and enquire into other issues. The assessee has placed before us Board circulars/instruction nos. 7/2014 dated 26.09.2014, 20/2015 dated 29.12.2015 and 5/2016 dated 14.07.2016 and various judgments to support his contention where the Board and Judicial Authorities have clearly restricted the jurisdiction of the AO to the issues pre-identified for examination. On the contrary the Id. D.R. relied on the report of the A.O. dated 16/10/2024 and order of Id. CIT(Appeals). He further argued that since payment of Rs. 1,04,35,000/- was made out of contract receipts, the examination of the same is within the jurisdiction of the A.O. under limited scrutiny being integral part of the contractual business.

7.2 There is no dispute that scope of enquiry in case of limited scrutiny is only to the extent of the issues for which case was selected for scrutiny under CASS. The CBDT has issued instructions from time to time in this respect and has specifically instructed the taxing authorities that scope of enquiry should be limited to verification of all the particulars for which limited scrutiny was taken up under CASS. However, in case during the assessment proceeding if the AO is of the view that substantial verification of other issue is also required then the case may be taken up for comprehensive scrutiny with the approval of the Pr.CIT/DIT concerned. It is also instructed that such an approval shall be accorded by the Pr.CIT/DIT in writing after being satisfied about the merits of the issue(s) necessitating wider and detailed scrutiny in the case. In the latest Instruction No. 5/ 2016 dated 14-07-2016, CBDT has again instructed the taxing authorities in para 2 to 4 as under:-

“2. In order to ensure that maximum objectivity is maintained in converting a case falling under ‘Limited Scrutiny’ into a ‘Complete Scrutiny’ case, the matter has been further examined and in partial modification to Para 3(d) of the earlier order dated 29.12.2015, Board hereby lays down that while proposing to take up ‘Complete Scrutiny’ in a case which was originally earmarked for ‘Limited Scrutiny’, the Assessing Officer (‘AO’) shall be required to form a reasonable view that there is possibility of under assessment of income if the case is not examined under ‘Complete Scrutiny’. In this regard, the monetary limits and requirement of administrative approval from Pr. CIT/CIT/Pr. DIT/DIT, as prescribed in Para 3(d) of earlier Instruction dated 29.12.2015, shall continue to remain applicable.

3. Further, while forming the reasonable view, the Assessing Officer would ensure that:

a. there exists credible material or information available on record for forming such view;

b. this reasonable view should not be based on mere suspicion, conjecture or unreliable source; and

c. there must be a direct nexus between the available material and formation of such view.

4. It is further clarified that in cases under ‘Limited Scrutiny’, the scrutiny assessment proceedings would initially be confined only to issues under ‘Limited Scrutiny’ and questionnaires, enquiry, investigation etc. would be restricted to such issues. Only upon conversion of case to ‘Complete Scrutiny’ after following the procedure outlined above, the AO may examine the additional issues besides the issue(s) involved in ‘Limited Scrutiny’. The AO shall also expeditiously concerned regarding conducting ‘Complete Scrutiny’ in such cases.”

7.3. Thus the AO is duty bound to follow the instructions in case limited scrutiny assessment proceeding are proposed to be converted into complete scrutiny and without following said procedure and necessary approval of the competent authority conducting an enquiry on the issue which is outside the limited scrutiny would be beyond the jurisdiction of the AO. A contention which has been raised by the Id. DR. that since payment of Rs. 1,04,35,000/- was made out of contract receipts, the examination of the same is within the jurisdiction of the A.O. under limited scrutiny being integral part of the contractual business. In the instant case, we find that the assessee, being in business of providing manpower services has prepared its financial statements as per prevailing accounting standards and contract receipts are subject to complete verification. In our view, the transactions reflected in the financial statements are sum total of various independent transactions undertaken during the year, and the balance sheet represent a consolidated picture of the financial position of the assessee at the end of the year and similarly, the profit/loss account represent the consolidated position of revenues and costs and net profit during the financial year. It is likely that some of the transactions are directly connected and some are indirectly connected, however, they all have a common thread in terms of impacting the financial position of the assessee and for tax purposes, in determination of net taxable income. Therefore, the reasoning adopted by the Id. DR that transactions of expenses will have an effect on the determination of net taxable income is no doubt correct but as far as determination of correct Contractual receipts is concerned for which the matter was selected for limited scrutiny, the same can be determined on a standalone basis on examination of reconciliation and related documents. By no stretch of imagination it can be held that expenses are integral part of contract receipts for the purpose of examination under limited scrutiny cases. We agree with the findings of the various case laws in respect of jurisdiction of the AO in limited scrutiny cases (relied upon by the assessee) viz. Vudatha Vani Rao v. ITO (ITAT Visakhapatnam) [2024] 159 taxmann.com 1394 and other judgments (supra).

7.4 As we have discussed above, in case of limited scrutiny, the AO is duty bound to restrict himself to examine the matters for which matter was selected for limited scrutiny and where the AO takes a view and forms a reasonable belief that some other matters are required to be examined, the same will in effect be traversing beyond the scope of limited scrutiny which is not permissible unless the matter is converted into complete scrutiny and which has not happened during the course of present assessment proceedings. Therefore, the issue of expenditure is matter, which is not part of the reasons for which the case was selected for limited scrutiny and are not even remotely connected. As far as matters for which case was selected for limited scrutiny in terms of mismatch of Contract receipts, the same has been duly examined by the

AO and she has not recorded any adverse findings. In light of aforesaid discussions and considering the judicial pronouncements, the order of the Id. CIT (A) is quashed.

8. Since we have decided the additional ground (ground no. 5) and quashed the order of the Id. CIT (A), the other grounds challenging the addition on merit are not being adjudicated being academic in nature.

In the result, this appeal of the assessee is allowed.”

10. The facts and issue involved in the instant case are identical to the issue involved in the above referred case decided by the Jaipur Bench of the Tribunal. Admittedly, assessee’s case was selected for ‘limited scrutiny’ to the extent of examination of contract receipts/fees only. The Assessing Officer was not right to include the issue of ‘expenses’ without following the procedure illustrated herein before. We respectfully agree with the finding arrived at in Suchita Bhatia (supra) and hold that the approach of revenue authorities was not right in including the issue of ‘expenses’ when the case was selected only for ‘limited scrutiny’. The aforesaid issue is accordingly determined in favour of the assessee and against the revenue. The appeal is thus liable to be allowed.

11. In the result, the appeal is allowed.

Order pronounced in the open court on 28.10.2025.

**Sd/-
(M. BALAGANESH)
ACCOUNTANT MEMBER**

**Sd/-
(SUNIL KUMAR SINGH)
JUDICIAL MEMBER**

Dated: 28.10.2025

*aks/-

Copy forwarded to:

1. Appellant
2. Respondent
3. CIT
4. CIT(A)
5. DR

Asst. Registrar, ITAT, Agra