

आयकर अपीलीय अधिकरण, कोलकाता पीठ, कोलकाता

IN THE INCOME TAX APPELLATE TRIBUNAL "B" BENCH KOLKATA

**Before Shri Manunatha G, Accountant Member and
Shri Sonjoy Sarma, Judicial Member**

I.T.A. No.318/Kol/2025

Assessment Year: 2018-19

Kasturi Medical Centre Pvt. Ltd.....Appellant

5, Diamond Harbour Road,
3A Bus Stand, Joka, Thakurpukur,
W.B – 700104.

[PAN: AACCK1872F]

vs.

ACIT, NFAC, Delhi.....Respondent

Appearances by:

Shri Indernil Banerjee, FCA, appeared on behalf of the revenue.

Shri Soumitra Ghosh, Sr. DR, appeared on behalf of the assessee.

Date of concluding the hearing : September 16, 2025

Date of pronouncing the order : December 12, 2025

ORDER

Per Sonjoy Sarma, Judicial Member:

This appeal is filed by the assessee against the order of the learned CIT(A) passed for the assessment year 2018–19, whereby the addition of ₹85,40,911 made by the Assessing Officer on estimated basis after rejection of books of account under section 145(3) of the Income-tax Act, 1961 was confirmed.

2. Brief facts of the case are that the assessee filed its return of income for AY 2018–19 declaring total income of ₹2,05,59,220. The case was selected for complete scrutiny under the Scrutiny Assessment Scheme, 2019, primarily on the issue of large refund claimed out of advance tax. Accordingly, notices under section 143(2) and section 142(1) of the Act along with questionnaires were duly issued and served.

In response, the assessee furnished details as called for. During assessment proceedings, the Assessing Officer observed that the assessee had claimed housekeeping charges of ₹86,06,550 paid to Reliable Facility Services Pvt. Ltd. The assessee was specifically asked to furnish ledger account of Reliable Facility Services Pvt. Ltd., Nature of housekeeping services rendered, and reasons for substantial increase in housekeeping expenses as compared to the immediately preceding year. In reply, the assessee submitted that earlier housekeeping services were performed in-house and during the relevant year, the services were outsourced to an ISO-certified agency to meet NABH/NABL sanitation and hygiene standards. The increase in expenditure was due to enhanced manpower, stricter hygiene protocols, and improved quality standards required for accreditation and competitive survival in the healthcare sector. Such expenditure had long-term benefits in terms of public image, compliance, and operational efficiency. The assessee also furnished the work order issued to Reliable Facility Services Pvt. Ltd., which covered FYs 2017-18 and 2018-19 (from 01.01.2017 to 30.03.2019). As per the work order housekeeping staff: ₹8,650 per person per month (maximum 80 staff), Supervisor: ₹10,700 per person per month (maximum 3 supervisors). The Assessing Officer observed that as per the work order, the maximum monthly payment should have been ₹6,92,000 for staff and ₹32,100 for supervisors. However, ledger entries reflected monthly payments of ₹7,07,957 for staff and ₹32,936 for supervisors, allegedly exceeding the contractual ceiling. For the A.Y 2016-17, total expenses claimed for housekeeping was ₹15,79,754 whereas during F.Y 2017-18, the assessee has claimed ₹91,63,769, which was a six-fold increase in housekeeping expenses as compared to the preceding year. Further assessee's P/L A/c shows increase in professional fees of Rs.3,02,68,589/- has been claimed during F.Y 2017-18 whereas during the

during F.Y 2016-17, it was only Rs.1,17,76,081/- whereas revenue has been increased Rs.59,45,546/-. On these grounds, the Assessing Officer held that the assessee failed to satisfactorily justify the increase of expenses. Books of account were not reliable, Books were rejected under section 145(3), Net profit was estimated at 17% of gross receipts, relying on earlier years' net profit ratios. Accordingly, the total income was recomputed, resulting in an addition of ₹85,40,911.

3. The learned CIT(A) dismissed the appeal and sustained the addition, concurring with the Assessing Officer that the expenditure appeared inflated. The contractual limits were exceeded, Estimation of income at 17% was reasonable considering earlier years' net profit ratios.

4. Aggrieved by the above order, assessee preferred an appeal before this tribunal challenging the order of the Ld. CIT(A). At the time of the hearing, Ld. AR submitted that the entire expenditure was genuine, audited, and supported by work orders and bills. The apparent excess over contractual limits was solely due to GST component, which was wrongly ignored by the Assessing Officer. On reconciliation, the payments exactly matched the contractual terms inclusive of GST. No defect was pointed out in vouchers, books, or audit reports. There was substantial increase in turnover from approximately ₹13.17 crores to ₹14.39 crores. The Assessing Officer substituted his own commercial judgment, which is impermissible in law. Once business expediency and genuineness are established, the Department cannot question the wisdom of the expenditure. The AR relied on settled principles that commercial expediency is to be judged from the assessee's perspective, and estimation without rejection of specific defects is invalid.

4.1 The ld. AR submitted that all expenses are audited with no suppression or bogus claim and expenditure is read and incurred for

business purposes and commercial exigency and no defect or ingenuity has proved by the Department. It is a settled law that once expenditure is shown to be genuine and incurred wholly for business, the Income Tax Department cannot substitute its own commercial judgment or make the business decision an issue, unless there is proof of lack of nexus between the expenditure and the assessee's business, which has held by Hon'ble Suprmee Court in the case of Sattoon J. David & Co. Pvt. Lad x CIT, 118 ITR 261 (SC)). The ld. AR also submitted that contractual ceilings of ₹6,92,000 (ward staff) and 232,100 (supervisors) were never breached and the so-called "excess" of ₹7,07,957 and 32,936 arose purely due to payment of GST of ₹1,07,994 and 5,024 respectively and no ingenuity or sham expenditure has been established and Assessing Officer passed the assessment order on conjecture and surmises without properly verifying the evidences submitted by the assessee. The Hon'ble Supreme Court in CIT Walchand & Co. (P) Ltd (1967) 65 ITR 381 (SC), J.K. Woollen Manufacturers CIT (1969) 72 ITR 612 (SC) and CIT v Panipat Woollen & General Mills Co. Lal (1976) 103 ITR 66 (SC) held that so long as the expenditure is real and incurred for business purposes, the Department cannot substitute its own wisdom to determine what is "reasonable." This doctrine has been reaffirmed in SA. Builders Laid. v. CIT (Appeals) (2007) 288 ITR 1 (SC) and Hero Cycles (P) Lal x CIT (2015) 379 ITR 347 (SC), where it was emphasised that once nexus with business purpose is shown, no disallowance is permissible merely because the Revenue perceives the quantum as excessive. Most recently, the Supreme Court in Shiv Raj Gupta v. CIT (2020) 425 ITR 420 (SC) reiterated that the perception of the Assessing Officer cannot override the commercial realities as assessed by the assessee, and that the Revenue cannot second-guess or re-characterise a bona fide transaction negotiated at arm's length. Accordingly, any attempt by the Assessing

Officer to question the necessity or magnitude of a bona fide outlay amounts to an impermissible substitution of business judgment, squarely barred by these binding precedents. Therefore, the action of the AO in treating the entire bank credits as business receipts and consequently rejecting the books under section 145(3) is unsustainable and the addition of ₹85,40,911 made by the Assessing Officer may be deleted.

5. On the other hand Ld. DR supported the order of the authority below.

6. We after considering rival submissions and examining the material on record, we find that no specific defect in books of account has been pointed out by the Assessing Officer. The entire housekeeping expenditure is supported by Work orders, Ledger accounts, Bills, Audit reports. The so-called excess payment is explained by GST inclusion, which was not properly appreciated by the lower authorities. Merely because expenditure increased substantially does not justify rejection of books unless inflation or non-genuineness is proved, which is absent here. The assessee's decision to outsource housekeeping services to meet accreditation standards is a commercial decision, beyond the scope of the Assessing Officer's interference. The primary reason for the increase was to win the competition from local hospitals and for maintenance of volume of business in the highly competitive private health care sector. It was a prudent business strategy decided by the management as the OPD consulting doctors are the drivers of business of all unbranded private healthcare service providers i.e. hospitals and nursing homes. It was doctors who brought or introduced the patients for treatment in the hospital of the assessee company -, and this is true for almost all units operating in private healthcare sector throughout India. The revenue

from operations earned by the assessee company was Rs. 14.39 crores, as compared to Rs. 13.79 crores in the immediately preceding previous year. Apparently there had been an increase by Rs. 0.60 crores (60 lakhs). This scenario would not have been possible had the fees paid to consulting doctors were not hiked or increased to a material extent. So, it was a prudent business strategy ensuring survival, growth and liquidity (could be evidenced from the cash flow statement submitted already). Estimation of income after rejection of books, without valid grounds under section 145(3), is unsustainable in law. It is a settled position that the Income-tax Department cannot step into the shoes of the businessman and decide how business should be conducted. In view of the above facts and legal position, we hold that rejection of books of account under section 145(3) was unjustified, estimation of income at 17% was arbitrary, The addition of ₹85,40,911 is unsustainable. Accordingly, the addition is deleted, and the appeal of the assessee is allowed.

7. In the result the appeal of the assessee is allowed.

Kolkata, the 12th December, 2025.

Sd/-
[Manjunatha G]
Accountant Member

Sd/-
[Sonjoy Sarma]
Judicial Member

Dated: 12.12.2025.

RS

Copy of the order forwarded to:

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

//True copy//

By order

Assistant Registrar, Kolkata Benches