

आयकर अपीलीय अधिकरण, चण्डीगढ़ न्यायपीठ "ए", चण्डीगढ़
IN THE INCOME TAX APPELLATE TRIBUNAL, CHANDIGARH BENCH "A", CHANDIGARH

HEARING THROUGH: PHYSICAL MODE

श्री ललित कुमार, न्यायिक सदस्य एवं श्री कृणवन्त सहाय, लेखा सदस्य
BEFORE: SHRI. LALIET KUMAR, JM & SHRI. KRINWANT SAHAY, AM

आयकर अपील सं. / ITA No. 388/Chd/ 2025

निर्धारण वर्ष / Assessment Year : 2022-23

The DCIT Circle-1(1), Chandigarh	बनाम	Frontier Agrotech Private Limited SCO 7A, Madhya Marg, Sector -7 C Chandigarh
स्थायी लेखा सं. / PAN NO: AACCF3772B		
अपीलार्थी/ Appellant		प्रत्यर्थी/ Respondent

निर्धारिती की ओर से/ Assessee by : Shri Tej Mohan Singh, Advocate

राजस्व की ओर से/ Revenue by : Shri Manav Bansal, CIT, DR

सुनवाई की तारीख/ Date of Hearing : 12/01/2026

उदघोषणा की तारीख/ Date of Pronouncement : 14/01/2026

आदेश/Order

PER LALIET KUMAR, J.M:

This is an appeal filed by the Revenue against the order of the Ld. CIT(A), NFAC, Delhi dt. 07/01/2025 pertaining to Assessment Year 2022-23.

2. In the present appeal Revenue has raised the following grounds:

i) Whether the Ld. CIT(A) was right in facts as well as in law in deleting the addition of Rs. 11,77,32,445/-j on account of abnormal variation of profit in the view of the fact that assessee failed to furnish any material evidence for the decreased profit during the assessment proceeding.

ii) Whether the Ld. CIT(A) was right in facts as well as in law in deleting the addition of Rs. 1,40,43,62,924/-on account of 'expenses payable dealer schemes' in the view of the fact that assessee failed to furnish the details about the schemes & discounts and necessary supporting evidences in respect of claim during the assessment proceedings.

iii) It is prayed that the order of the Ld. CIT(A) be revoked and that of the assessing officer may be restored.

iv) The appellant craves leave to add or amend any grounds of appeal before the appeal is heard or is disposed off.

3. Briefly the facts of the case are that The assessee, Frontier Agrotech Private Limited, a resident corporate engaged in the wholesale business of fertilizers and pesticides and acting as a super distributor for multinational agro-chemical companies, filed its return of income declaring a total income

of Rs.4,75,51,715/- for the relevant assessment year. The case was selected for complete scrutiny on account of several risk indicators flagged under CASS, including an abnormally reduced profit before depreciation, interest and tax (PBDIT) ratio, a substantial refund claim, large current liabilities reflected in the balance sheet, non-disclosure of adjustments under the Income Computation and Disclosure Standards, and a mismatch between stock reported in successive years. Notices under sections 143(2) and 142(1) were issued, and in response the assessee submitted books, ledgers, and explanations on multiple dates and sought a personal hearing through video conference.

3.1 Upon examination of financials, the Assessing Officer observed that the assessee's PBDIT percentage had fallen to 0.48% from 1.63% in the preceding assessment year. The AO held that the assessee had failed to produce documentary or commercial justification for such a drop and therefore attributed part of turnover as unreported profit, making an upward income adjustment of Rs.11,77,32,445/-.

3.2 Further scrutiny of the balance sheet revealed "expenses payable" totaling Rs.147,39,36,599/-, of which the AO accepted items like salaries, consultancy charges, audit fees, staff incentives, travel reimbursements, and miscellaneous accruals aggregating to Rs.6,95,73,675/-, after verification of invoices and subsequent payment proofs. However, the largest component, described as "dealer schemes payable" and amounting to Rs.140,43,62,924/- was disallowed in full on the ground that the assessee failed to furnish primary evidence such as beneficiary-wise workings, scheme terms, confirmations, or proof that the liability crystallized during the year. According to the AO, certain credit notes produced pertained to the subsequent year and therefore did not relate to the assessment year under consideration.

3.3 In addition, the AO disallowed a further claim of Rs.11,63,72,278/- under the head GST expense, after concluding that the assessee failed to provide the nature and value of goods returned, creditor-wise ledgers, reconciliation of input tax credit, or accounting treatment of corresponding purchase

returns. Holding that the expenditure was either unverifiable or unsubstantiated, and therefore not incurred wholly and exclusively for business purposes, the AO disallowed the disputed amounts, increased the income returned, and completed assessment under section 143(3) read with section 144B at a total income of Rs.168,60,19,367/-, while simultaneously initiating penalty proceedings for under-reporting of income.

4. Against the order of the AO the assessee went in appeal before the Ld. CIT(A). The Ld. CIT(A), upon a careful consideration of the assessment order, submissions filed during appeal proceedings, and the material placed on record, observed that the Assessing Officer made an estimated addition of Rs.11,77,32,445/-, solely on the ground that the profit rate for the impugned year was lower than the immediately preceding year, without invoking section 145(3) or rejecting the duly audited books of account. The Ld. CIT(A) recorded that all primary records in support of sales, purchases, stock figures, expenses and profitability were maintained in the regular course and duly audited, and that the AO did not demonstrate any defects, discrepancies, or unreliability in the books of account. The Ld. CIT(A) held that comparison with profit ratios of earlier years, in isolation, could not justify rejection of declared results, particularly when the assessee satisfactorily explained that adverse crop conditions, seasonal fluctuations in agrochemical demand and substantial product returns in AY 2022-23 depressed profitability. Consequently, the addition based merely on estimation was deleted.

4.1 With respect to the addition of Rs. 1,40,43,62,924/- relating to "Dealer Scheme Expenses", the Ld. CIT(A) noted that the assessee is engaged in distribution of agrochemicals through a network of dealers to whom annual performance rebates, discounts and turnover-based schemes are contractually offered, and that such liabilities accumulate and crystallize at the close of the financial year, becoming payable in subsequent months. It was further observed that a substantial amount of documentary evidence including scheme circulars, dealer-wise workings, ledger summaries, and proof of subsequent payment was placed on record. The Ld. CIT(A) found

that the AO summarily disregarded such evidence and disallowed the liability without pointing out any instance of falsity, non-accrual, or non crystallization. Since the liability had arisen during the year and was subsequently discharged in the normal course of business, the Ld. CIT(A) held that the disallowance was unsustainable, and deleted the addition.

4.2 Regarding the disallowance of Rs. 11,63,72,278/-, being GST expenses relating to purchase returns, the Ld. CIT(A) accepted the assessee's explanation that under Section 34(2) of the CGST Act, the input tax reversal can be claimed only if material is returned within the statutory cutoff period, and that returns made after 30 November of the following financial year render the GST component a cost to the assessee. The appellate authority noted that the assessee furnished invoice-wise and credit-note-wise details substantiating the claim and demonstrated that similar treatment was consistently applied in earlier and subsequent years. The Ld. CIT(A) held that once the GST element becomes an ascertained and unrecoverable cost under law, it constitutes an allowable business expenditure. In the absence of any rebuttal from the AO on the factual or legal premise, the disallowance was held erroneous and the addition was deleted.

4.3 Finally, the Ld. CIT(A) recorded that the AO's premise that additions were necessitated due to the absence of supporting documentation was factually incorrect, since the assessee had uploaded voluminous ledgers, vouchers, reconciliations and explanatory notes on the portal, and the AO failed to point out any specific defect or non-genuineness in these submissions. The CIT(A) therefore concluded that the entire assessed income enhancement lacked legal foundation and proceeded to delete the total additions made by the Assessing Officer, allowing the appeal in favour of the assessee.

5. Against the order of the Ld. CIT(A) the revenue preferred in appeal before the Tribunal.

6. The Ld. Departmental Representative (DR) vehemently supported the assessment order and submitted that the assessee has failed to substantiate its claims with any credible or contemporaneous evidence despite repeated and adequate opportunities granted during the assessment proceedings. It was contended that the additions made by the Assessing Officer are fully justified and based on material available on record.

6.1 On the issue of low profit, the Ld. DR submitted that the assessee declared an abnormally low PBDIT ratio during the year under consideration as compared to the immediately preceding year and failed to furnish any concrete evidence to justify such steep decline. The explanations offered were vague, self-serving and unsupported by verifiable data such as product-wise margins, party-wise sales returns or quantitative reconciliation. In the absence of reliable evidence, the Assessing Officer was justified in estimating income on a reasonable basis to arrive at the true profits of the assessee.

6.2 The Ld. DR further submitted that audit of books does not grant immunity from scrutiny, nor does it bar the Assessing Officer from drawing adverse inferences where the results declared are not commensurate with business realities. It was argued that the assessee's plea that books were not rejected is merely technical and cannot override the substantive failure to establish correctness of declared income.

6.3 With regard to the disallowance of dealer scheme expenses, the Ld. DR submitted that the assessee failed to place on record any documentary evidence to demonstrate crystallization of liability during the relevant year. No agreements, confirmations or party-wise workings were furnished. The liability shown was merely a book entry and rightly treated by the Assessing Officer as unascertained and contingent in nature.

6.4 In conclusion, the Ld. DR submitted that the Assessing Officer has passed a reasoned and lawful order after due application of mind and the assessee has failed to point out any perversity or legal infirmity therein. The

additions have been rightly made and deserve to be sustained. The Ld. DR accordingly prayed that the appeal of the assessee be dismissed.

7. Per contra the Ld. AR submitted that the Assessing Officer has made additions merely on surmises and conjectures without rejecting the books of account maintained by the assessee and duly audited under the provisions of the Act.

7.1 With regard to the addition made on account of alleged low profit, the Ld. AR submitted that the Assessing Officer has estimated profits solely on the basis of the results of the immediately preceding year, ignoring the peculiar facts and circumstances of the year under consideration.

7.2 It was argued that the assessee is engaged in the business of agrochemicals, which is highly seasonal in nature and dependent upon factors such as crop pattern, rainfall and market conditions. Due to adverse crop conditions during the relevant year, substantial sales returns were received, which adversely impacted the profitability. The Ld. AR emphasized that the results of A.Y. 2021-22 were exceptional and could not be treated as a benchmark for estimating profits of the current year. It was further submitted that the profit declared during the year under consideration is comparable with earlier years having similar turnover levels.

7.3 The Ld. AR further contended that the Assessing Officer has not invoked the provisions of section 145(3) of the Act and has accepted the sales, purchases, opening stock and closing stock as recorded in the books of account. In the absence of rejection of books of account, no estimation of income is permissible in law. Reliance was placed on various judicial precedents to submit that mere decline in profit rate, without any defect in the books of account, cannot be a ground for making an addition.

7.4 On the issue of addition made on account of alleged low profit, it was submitted that the Ld. CIT(A) has rightly deleted the estimated addition after recording a categorical finding that the Assessing Officer had not rejected

the books of account under section 145(3) of the Act. It was submitted that once the books of account are duly audited and no specific defect has been pointed out therein, the Assessing Officer cannot resort to estimation merely on the basis of lower profit as compared to the preceding year. The Ld. CIT(A) has correctly applied the settled legal position that estimation of income without rejection of books is impermissible in law.

7.5 It was further submitted that the Ld. CIT(A) has examined the factual explanation furnished by the assessee regarding the decline in profitability and has recorded a clear finding that the immediately preceding year was an exceptional year and could not be adopted as a benchmark. The reasons such as seasonal nature of business, adverse crop conditions and sales returns were duly considered and accepted on the basis of material placed on record. These findings are purely factual in nature and have not been controverted by the Revenue with any cogent evidence.

7.6 With respect to the disallowance of dealer scheme expenses, it was submitted that the Ld. CIT(A) has rightly held that the liability had crystallized during the relevant previous year as the schemes were directly linked to sales effected during the year. The Ld. CIT(A) has recorded a finding that the Assessing Officer failed to demonstrate that the liability was contingent or bogus. The findings of the Ld. CIT(A) being based on appreciation of evidence do not warrant any interference.

7.7 As regards the GST expenses, it was submitted that the Ld. CIT(A) has examined the statutory framework under section 34(2) of the CGST Act, 2017 and has rightly held that where purchase returns occur after the statutory cut-off date, the GST component becomes a cost to the assessee. The Ld. CIT(A) has adopted a balanced approach by directing the Assessing Officer to verify the dates of credit notes and allow the claim if found in accordance with law. Such a direction is reasonable, lawful and within the powers of the first appellate authority. The Ld. DR submitted that the Revenue has not brought on record any perversity, factual error or misapplication of law in the impugned appellate order. It is settled law that findings of fact recorded by

the Ld. CIT(A), being the final fact-finding authority, cannot be disturbed in the absence of contrary material.

8. We have carefully considered the rival submissions, perused the assessment order, the impugned order of the Ld. CIT(A) and the material available on record. We find no infirmity in the well-reasoned and speaking order passed by the Ld. CIT(A), who has examined the issues threadbare both on facts and in law.

Addition on Account of Alleged Low Profit

9. It is an admitted position on record that the assessee has maintained regular books of account, which are duly audited under the provisions of the Act. The Assessing Officer has accepted the sales, purchases, opening stock and closing stock as recorded in the books and has not invoked the provisions of section 145(3) of the Act. The addition has been made merely by comparing the profit ratio of the year under consideration with that of the immediately preceding assessment year and by estimating profits on that basis.

10. We find that the Ld. CIT(A), after examining the assessment record and the detailed submissions supported by documentary evidence placed by the assessee before the Assessing Officer, has recorded a categorical finding that no specific defect in the books of account was pointed out by the AO. The Ld. CIT(A) has also taken note of the comparative financial statements, audit reports and quantitative details produced during the assessment proceedings and has rightly held that estimation of income without rejection of books of account is impermissible in law.

11. The Ld. CIT(A) has further appreciated the explanation furnished by the assessee regarding the decline in profitability, namely, the seasonal nature of the agrochemical business, adverse crop conditions, the increase in sales returns and the fact that the immediately preceding year was an exceptional year with abnormally high margins. These explanations were

supported by comparative turnover and profit statements, audit reports and industry-related data, all of which were already placed on record before the AO. The Revenue has not brought any material on record to controvert these factual findings. In the absence of any material to show that the books of account were unreliable or that the declared profits were incorrect, we see no reason to interfere with the deletion of the estimated addition.

Disallowance of Dealer Scheme Expenses

12. In this regard, the Assessing Officer made an addition of Rs.140,43,62,924/- on the ground that the assessee failed to furnish necessary details in respect of dealer schemes and discounts along with supporting evidence. During the appellate proceedings before the Ld. CIT(A), the assessee explained that it had incurred total expenditure of Rs.165,54,86,874/- on account of dealer schemes during the relevant previous year. It was submitted that the details of such schemes were duly disclosed in Note 17 at page 27 of the Paper Book. The assessee further explained that out of the aforesaid amount, a sum of Rs.140,43,62,924/- was outstanding and payable as on 31.03.2022. The assessee furnished complete details of the expenses/rebates before the Ld. CIT(A), categorized into three segments, which have been duly captured by the Ld. CIT(A) at pages 35 and 36 of the appellate order.

13. The Ld. CIT(A) has recorded a categorical finding that the Assessing Officer was factually incorrect in observing that the credit notes did not pertain to the year under consideration and were prepared in December 2022. In this regard, the Ld. AR drew attention to pages 88 to 247 of the Paper Book. On perusal of the rebate details furnished through credit notes, it is evident that the credit notes were issued commencing from 05.04.2022 and continued up to February 2023. Thus, the observation of the Assessing Officer that the credit notes did not relate to the relevant assessment year is factually erroneous. In view of the documentary evidence placed on record, which substantiates the assessee's claim, the findings recorded by the Assessing Officer are unsustainable and have been rightly rejected by the Ld. CIT(A).

14 The second mode, as reflected in the tabulation, pertains to the provision of travel benefits to dealers through third parties in the form of online gifts/cards. In this regard, the Ld. CIT(A), in paragraph 8.10 of the impugned order, has noted that the sole basis for the disallowance by the Assessing Officer was the alleged failure of the assessee to furnish the customer-wise list along with ledger break-up.

15. The Ld. CIT(A) examined the documentary evidence placed on record at pages 264 to 268 of the Paper Book, wherein the requisite customer-wise and transaction-wise details were available. Further, sample invoices substantiating the claim were placed at page 292 onwards of the Paper Book. Upon thorough examination of the evidence produced, the Ld. CIT(A) recorded a clear finding that there existed a direct and proximate nexus between the sales effected by the assessee and the travel benefits extended to the dealers.

16. Before us, the Ld. DR was unable to point out any discrepancy, defect or perversity in the findings recorded by the Ld. CIT(A) so as to warrant interference by the Tribunal. It is evident from the record that the assessee had placed before both the Assessing Officer and the Ld. CIT(A) detailed workings demonstrating the linkage of the dealer schemes with sales effected during the relevant previous year, along with evidence of subsequent discharge of the corresponding liability. In the absence of any contrary material brought on record by the Revenue, we find no reason to interfere with the well-reasoned findings of the Ld. CIT(A).

17. The last component relates to the reversal of discount payable on account of sales returns. In this regard, the Ld. AR submitted that in certain cases, customers returned the goods sold during A.Y. 2022-23 in the subsequent financial year. Consequently, the assessee reversed the corresponding discount payable and recognized the same as income in A.Y. 2023-24. It was submitted that the complete list of such reversals was placed at pages 301 to 325 of the Paper Book. Further, sample credit notes, customer-wise ledger extracts and corresponding accounting vouchers

evidencing such reversals were placed at pages 326 to 359 of the Paper Book.

18. The Ld. CIT(A) has noted that the Assessing Officer, in the assessment order, observed that the assessee had failed to furnish ledger break-ups and confirmations from the customers. In response, the assessee drew the attention of the Ld. CIT(A), as well as before us, to pages 300 to 325 of the Paper Book, wherein the complete details of reversal of dealer schemes and rebates were placed on record. We have examined the said material and find that confirmations from three major parties, namely, Hindustan Sales Corporation, Standard Chemicals and Modern Pesticides Supply Limited, are available at pages 327, 335 and 353 of the Paper Book respectively, clearly confirming the reversal of benefits.

19. We further observe that the details of the invoices originally raised and the corresponding credit notes issued for reversal are fully reconcilable. The batch numbers and invoice numbers mentioned in the reversal entries tally with the original invoices raised by the assessee, and no discrepancy or variation has been pointed out by the Revenue. Thus, the accounting treatment adopted by the assessee is found to be consistent, transparent and duly supported by documentary evidence.

20. In view of the above, we are of the considered opinion that the method followed by the assessee cannot be faulted. The Assessing Officer was therefore not justified in making the impugned addition, particularly when the assessee had duly explained the entries with supporting documents placed before the Assessing Officer, which were thereafter examined and accepted by the Ld. CIT(A).

21. In view of the above, the additions made in the hands of the assessee are not sustainable and the appeal of the Revenue is required to be dismissed.

22. In view of the above discussion, we hold that the Ld. CIT(A) has passed a reasoned order after due consideration of the material placed before the Assessing Officer and has recorded findings of fact which have not been rebutted by the Revenue with any contrary evidence. No perversity or error in appreciation of facts or application of law has been demonstrated before us.

23. Accordingly, we uphold the order of the Ld. CIT(A) and dismiss the grounds raised by the Revenue.

Order pronounced in the open Court on 14/01/2026.

Sd/-

कृणवन्त सहाय
(KRINWANT SAHAY)
लेखा सदस्य/ ACCOUNTANT MEMBER

Sd/-

ललित कुमार
(LALIET KUMAR)
न्यायिक सदस्य / JUDICIAL MEMBER

AG

आदेश की प्रतिलिपि अग्रेषित/ Copy of the order forwarded to :

1. अपीलार्थी/ The Appellant
2. प्रत्यर्थी/ The Respondent
3. आयकर आयुक्त/ CIT
4. आयकर आयुक्त (अपील) / The CIT(A)
5. विभागीय प्रतिनिधि, आयकर अपीलीय आधिकरण, चण्डीगढ़/ DR, ITAT, CHANDIGARH
6. गार्ड फाईल/ Guard File

आदेशानुसार/ By order,
सहायक पंजीकार/ Assistant Registrar