

IN THE INCOME TAX APPELLATE TRIBUNAL "C" BENCH : KOLKATA

[Before Hon'ble Sri N.V.Vasudevan, JM & Shri Waseem Ahmed, AM]

I.T.A No. 930/Kol/2013

Assessment Year : 2004-05

Kartik Mehra
Kolkata
[PAN : AIDPM 7054 M]
(Appellant)

-vs.-

D.C.I.T., Central Circle-XVIII,
Kolkata
(Respondent)

For the Appellant : Ms.Varsha Jalan, AR

For the Respondent : Shri Debasish Banerjee, JCIT,Sr.DR

Date of Hearing :20.07.2016.

Date of Pronouncement : 03.08.2016.

ORDER

Per N.V.Vasudevan, JM

This is an appeal by the Assessee against the order dated 25.2.2013 of Commissioner of Income Tax(Appeals) (hereinafter referred to as CIT(A), Central-II, Kolkata, relating to AY 2004-05.

2. In this appeal the Assessee has challenged the order of the CIT(A) whereby the CIT(A) has confirmed the order of the Assessing Officer (AO), imposing penalty on the Assessee u/s.271(1)(c) of the Income Tax Act, 1961 (Act).

3. The facts of the case are that the search operation u/s 132 of the Act was conducted in "Kaushalya Group of cases" on 26.03.2009 at various business premises and the residential premises of the directors and associates. During the course of search incriminating documents were found and seized relating to various assesseees of the group which revealed the fact that they had earned the undisclosed income in different assessment years. The group made total disclosure of Rs.6 crore in the hands of various assesseees of the group. In the case of instant assessee i.e. Shri Kartik Mehra disclosure

of additional income of Rs.7,96,291/- was made for A.Y. 2004-05 to A.Y. 2007-08. For the year under consideration the assessee made disclosure of Rs.4,00,000/-. The assessee filed his return of income for the year declaring total income of Rs.4,25,402/- which includes the additional income of Rs.4,00,000/-. The original return of income was filed on 06.12.2004 wherein the aforesaid additional income was not declared. The assessment was completed on 31.12.2010 at the assessed income of Rs.4,25,402/-. While completing the assessment, the AO initiated penalty proceedings u/s 271(1)(c) of the Act for not disclosing the income of Rs.4,00,000/- in the original return. During the course of penalty proceedings it was submitted before the AO that no penalty is leviable in his case because the additional income of Rs.4 lakh was declared in the course of search and same was considered in the return filed by him and tax was paid. It was contended that there was no difference in the returned income and the assessed income. It was argued before the AO that it is a very well settled law that mere disallowance of a claim per se cannot mean that the assessee has furnished incorrect particulars of his income. Since, concealment involves penal action, it has to be proved as a conscious act. In other words, the mere fact that certain amounts claimed by the assessee have been disallowed and treated as income does not necessarily lead to the conclusion that the assessee is guilty of fraud or willful neglect. It was submitted by the assessee that the fact that the explanation to section 271(1)(c) requires the assessee to show that there was no fraud or willful negligence does not in any way enable the revenue to contend that there is a presumption of fraud or willful negligence without adducing any evidence whatever to substantiate such assertion. Thus, no penalty u/s 271(1)(c) can be imposed in such case. The reliance is placed on the decision in the case of *K.C. Builders vs. CIT 135 Tax man 461 (SC)*. However, the contention of the assessee was not accepted by the AO for the reason that the additional income disclosed as a result of search was not declared in the original return of income filed u/s 139. Therefore, he imposed the penalty of Rs.92,001/-.

4. On appeal by the Assessee, the CIT(A) confirmed the order of the AO. Hence this appeal by the Assessee before the Tribunal.

5. Before us a preliminary objection was raised by the Id. Counsel for the assessee. The Id. Counsel for the assessee brought to our notice the show cause notice u/s 271(1)(c) of the Act dated 31.12.2010 issued by the AO before imposing the penalty u/s 271(1)(c) of the Act. In the said show cause notice the AO has not even ticked as to whether proposal for imposing penalty for concealing particulars of income or furnishing inaccurate particulars of income. The Id. Counsel placed reliance on the decision of ITAT, Kolkata Bench in the case of Suvapasanna Bhattacharya vs ACIT vide ITA No.1303/Kol/2010 order dated 06.11.2015 wherein this Tribunal took the view that in the absence of proper indication in the show cause notice as to the ground on which penalty is sought to be imposed the order imposing penalty is liable to be held as bad in law and liable to be cancelled. The Id. DR on the other hand submitted that the assessee had not raised this ground before the first appellate authority or WTO and the assessee has also not raised a specific ground of appeal in this regard before the Tribunal. He relied on the order of CIT(A).

6. We have considered the rival submissions. In ground no.1 the assessee has submitted that the order of the CIT(A) was bad in law. This ground, in our opinion, is sufficient to raise the plea that the show cause notice u/s 274 of the Act being defective and the consequent imposing of penalty is not legal. So far as the merits of the submissions made by the Id. Counsel for the assessee is concerned we find from the show cause notice that the AO has not even indicated the section under which penalty is sought to be levied on the assessee. The show cause notice also does not indicate as to whether penalty was sought to be levied on the assessee for concealing or furnishing inaccurate particulars of net wealth. The show cause notice is given as an annexure to this order. This Tribunal in the case of Suvapasanna Bhattacharya vs ACIT (supra) took the following view on valid point of penalty when the show cause notice contains similar defect. The following were the relevant observations :-

“8. The next argument that the show cause notice u/s.274 of the Act which is in a printed form does not strike out as to whether the penalty is sought to be levied on the for “furnishing inaccurate particulars of income” or “concealing particulars of such income”. On this aspect we find that in the show cause notice u/s.274 of the Act the AO has not struck out the irrelevant part. It is therefore not spelt out as to whether the penalty proceedings are sought to be levied for “furnishing inaccurate particulars of income” or “concealing particulars of such income”.

8.1 The Hon’ble Karnataka High Court in the case of CIT & Anr. v. Manjunatha Cotton and Ginning Factory, 359 ITR 565 (Karn), has held that notice u/s. 274 of the Act should specifically state as to whether penalty is being proposed to be imposed for concealment of particulars of income or for furnishing inaccurate particulars of income. The Hon’ble High court has further laid down that certain printed form where all the grounds given in section 271 are given would not satisfy the requirement of law. The Court has also held that initiating penalty proceedings on one limb and find the assessee guilty in another limb is bad in law. It was submitted that in the present case, the aforesaid decision will squarely apply and all the orders imposing penalty have to be held as bad in law and liable to be quashed.

8.2 The Hon’ble Karnataka High Court in the case of CIT & Anr. v. Manjunatha Cotton and Ginning Factory (supra) has laid down the following principles to be followed in the matter of imposing penalty u/s.271(1)(c) of the Act.

“NOTICE UNDER SECTION 274

59. As the provision stands, the penalty proceedings can be initiated on various ground set out therein. If the order passed by the Authority categorically records a finding regarding the existence of any said grounds mentioned therein and then penalty proceedings is initiated, in the notice to be issued under Section 274, they could conveniently refer to the said order which contains the satisfaction of the authority which has passed the order. However, if the existence of the conditions could not be discerned from the said order and if it is a case of relying on deeming provision contained in Explanation-1 or in Explanation-1(B), then though penalty proceedings are in the nature of civil liability, in fact, it is penal in nature. In either event, the person who is accused of the conditions mentioned in Section 271 should be made known about the grounds on which they intend imposing penalty on him as the Section 274 makes it clear that assessee has a right to contest such proceedings and should have full opportunity to meet the case of the Department and show that the conditions stipulated in Section 271(1)(c) do not exist as such he is not liable to pay penalty. The practice of the Department sending a printed farm where all the ground mentioned in Section 271 are mentioned would not satisfy requirement of law when the consequences of the assessee not rebutting the initial presumption is serious in nature and he had to pay penalty from 100% to 300% of the tax liability. As the said provisions have to be held to be strictly construed, notice issued under Section 274 should satisfy the grounds which he has to meet specifically. Otherwise, principles of natural justice is offended if the show cause notice is vague. **On the basis of such proceedings, no penalty could be imposed on the assessee.**

60. Clause (c) deals with two specific offences, that is to say, concealing particulars of income or furnishing inaccurate particulars of income. No doubt, the facts of some cases may attract both the offences and in some cases there may be overlapping of the two

offences but in such cases the initiation of the penalty proceedings also must be for both the offences. But drawing up penalty proceedings for one offence and finding the assessee guilty of another offence or finding him guilty for either the one or the other cannot be sustained in law. It is needless to point out satisfaction of the existence of the grounds mentioned in Section 271(1)(c) when it is a *sine qua non* for initiation or proceedings, the penalty proceedings should be confined only to those grounds and the said grounds have to be specifically stated so that the assessee would have the opportunity to meet those grounds. After, he places his version and tries to substantiate his claim, if at all, penalty is to be imposed, it should be imposed only on the grounds on which he is called upon to answer. It is not open to the authority, at the time of imposing penalty to impose penalty on the grounds other than what assessee was called upon to meet. Otherwise though the initiation of penalty proceedings may be valid and legal, the final order imposing penalty would offend principles of natural justice and cannot be sustained. **Thus once the proceedings are initiated on one ground, the penalty should also be imposed on the same ground. Where the basis of the initiation of penalty proceedings is not identical with the ground on which the penalty was imposed, the imposition of penalty is not valid. The validity of the order of penalty must be determined with reference to the information, facts and materials in the hands of the authority imposing the penalty at the time the order was passed and further discovery of facts subsequent to the imposition of penalty cannot validate the order of penalty which, when passed, was not sustainable.**

61. The Assessing Officer is empowered under the Act to initiate penalty proceedings once he is satisfied in the course of any proceedings that there is concealment of income or furnishing of inaccurate particulars of total income under clause (c). Concealment, furnishing inaccurate particulars of income are different. Thus the Assessing Officer while issuing notice has to come to the conclusion that whether is it a case of concealment of income or is it a case of furnishing of inaccurate particulars. The Apex Court in the case of Ashok Pai reported in 292 ITR 11 at page 19 has held that concealment of income and furnishing inaccurate particulars of income carry different connotations. The Gujarat High Court in the case of MANU ENGINEERING reported in 122 ITR 306 and the Delhi High Court in the case of VIRGO MARKETING reported in 171 Taxman 156, has held that levy of penalty has to be clear as to the limb for which it is levied and the position being unclear penalty is not sustainable. Therefore, when the Assessing Officer proposes to invoke the first limb being concealment, then the notice has to be appropriately marked. Similar is the case for furnishing inaccurate particulars of income. The standard pro forma without striking of the relevant clauses will lead to an inference as to non-application of mind.”

The final conclusion of the Hon'ble Court was as follows:-

“63. In the light of what is stated above, what emerges is as under:

- a) Penalty under Section 271(1)(c) is a civil liability.
- b) Mens rea is not an essential element for imposing penalty for breach of civil obligations or liabilities.
- c) Willful concealment is not an essential ingredient for attracting civil liability.
- d) Existence of conditions stipulated in Section 271(1)(c) is a *sine qua non* for initiation of penalty proceedings under Section 271.

- e) *The existence of such conditions should be discernible from the Assessment Order or order of the Appellate Authority or Revisional Authority.*
- f) *Even if there is no specific finding regarding the existence of the conditions mentioned in Section 271(1)(c), at least the facts set out in Explanation 1(A) & (B) it should be discernible from the said order which would by a legal fiction constitute concealment because of deeming provision.*
- g) *Even if these conditions do not exist in the assessment order passed, at least, a direction to initiate proceedings under Section 271(1)(c) is a sine qua non for the Assessment Officer to initiate the proceedings because of the deeming provision contained in Section 1(B).*
- h) *The said deeming provisions are not applicable to the orders passed by the Commissioner of Appeals and the Commissioner.*
- i) *The imposition of penalty is not automatic.*
- j) *Imposition of penalty even if the tax liability is admitted is not automatic.*
- k) *Even if the assessee has not challenged the order of assessment levying tax and interest and has paid tax and interest that by itself would not be sufficient for the authorities either to initiate penalty proceedings or impose penalty, unless it is discernible from the assessment order that, it is on account of such unearthing or enquiry concluded by authorities it has resulted in payment of such tax or such tax liability came to be admitted and if not it would have escaped from tax net and as opined by the assessing officer in the assessment order.*
- l) *Only when no explanation is offered or the explanation offered is found to be false or when the assessee fails to prove that the explanation offered is not bona fide, an order imposing penalty could be passed.*
- m) *If the explanation offered, even though not substantiated by the assessee, but is found to be bona fide and all facts relating to the same and material to the computation of his total income have been disclosed by him, no penalty could be imposed.*
- n) *The direction referred to in Explanation IB to Section 271 of the Act should be clear and without any ambiguity.*
- o) *If the Assessing Officer has not recorded any satisfaction or has not issued any direction to initiate penalty proceedings, in appeal, if the appellate authority records satisfaction, then the penalty proceedings have to be initiated by the appellate authority and not the Assessing Authority.*
- p) *Notice under Section 274 of the Act should specifically state the grounds mentioned in Section 271(1)(c), i.e., whether it is for concealment of income or for furnishing of incorrect particulars of income*
- q) *Sending printed form where all the ground mentioned in Section 271 are mentioned would not satisfy requirement of law.*
- r) *The assessee should know the grounds which he has to meet specifically. Otherwise, principles of natural justice is offended. On the basis of such proceedings, no penalty could be imposed to the assessee.*
- s) *Taking up of penalty proceedings on one limb and finding the assessee guilty of another limb is bad in law.*
- t) *The penalty proceedings are distinct from the assessment proceedings. The proceedings for imposition of penalty though emanate from proceedings of assessment, it is independent and separate aspect of the proceedings.*

u) The findings recorded in the assessment proceedings in so far as "concealment of income" and "furnishing of incorrect particulars" would not operate as res judicata in the penalty proceedings. It is open to the assessee to contest the said proceedings on merits. However, the validity of the assessment or reassessment in pursuance of which penalty is levied, cannot be the subject matter of penalty proceedings. The assessment or reassessment cannot be declared as invalid in the penalty proceedings."(emphasis supplied)

7. It is clear from the aforesaid decision that on the facts of the present case that the show cause notice u/s. 274 of the Act is defective as it does not spell out the grounds on which the penalty is sought to be imposed. Following the decision of the Hon'ble Karnataka High Court, we hold that the order imposing penalty has to be held as invalid and consequently penalty imposed is cancelled.

8. In view of the above conclusions we are not dealing with the other aspects on merits of the imposition of penalty.

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

Order pronounced in the Court on 03.08.2016.

Sd/-
[Waseem Ahmed]
Accountant Member

Sd/-
[N.V.Vasudevan]
Judicial Member

Dated : 03.08.2016.

[RG PS]

Copy of the order forwarded to:

1. Kartik Mehra, 69, Girish Park (North), Kolkata-700006.
2. D.C.I.T., Central Circle-XVII, Kolkata.
3. CIT(A)-Central-II, Kolkata. 4. CIT-Central-II, Kolkata.
5. CIT(DR), Kolkata Benches, Kolkata.

True copy

By Order

Asstt.Registrar, ITAT, Kolkata Benches

