

**IN THE INCOME TAX APPELLATE TRIBUNAL
“A” BENCH : BANGALORE**

**BEFORE SHRI N. V. VASUDEVAN, VICE PRESIDENT AND
SHRI JASON P. BOAZ, ACCOUNTANT MEMBER**

ITA No.16/Bang/2019
Assessment Years : 2008-09

M/s. Rajesh Enterprises, Narmada Building, Mangalwar Peth, Hubli – 580 020. PAN : AADFR 4941 C	Vs.	Income-Tax Officer, Ward - 3(3), Hubli .
APPELLANT		RESPONDENT

Assessee by	:	Shri. C. V. Ravishankar, Advocate
Revenue by	:	Shri. Vikas Suryavamshi, Addl. CIT

Date of hearing	:	11.07.2019
Date of Pronouncement	:	02.08.2019

ORDER

Per Jason P. Boaz, A.M.

This is an appeal by the assessee directed against the order dated 25.10.2018 of CIT(A), Hubli, relating to Assessment Year 2008-09 whereby the CIT(A) confirmed the order of the Assessing Officer (AO) dated 26.03.2018 imposing penalty of Rs.4,79,920/- on the assessee under section 271(1)(c) of the Income Tax Act, 1961 (in short ‘the Act’) for concealment of particulars of its income.

2. Briefly stated, the facts relevant for disposal of this appeal are as under:-

2.1 The assessee firm was engaged in business as retail traders in food articles, essence and colouring items, etc. No return of income was filed for Assessment Year 2008-09 within the specified date i.e., 30.09.2008. Notice under section 142(1) of the Act dated 22.01.2009 was issued to the assessee requiring it to file return of income for this Assessment Year as the Assessing Officer (AO) had information in his possession that the assessee had effected turnover in excess of Rs.40 lakhs from VAT Department. Since there was no response to the many notices issued by the AO, the assessment was completed ex-parte under section 144 of the Act vide order dated 26.11.2010 wherein the assessee's income was determined at Rs.18,97,038/- and penalty proceedings were simultaneously issued by issue of notice under section 274 r.w.s. 271 of the Act dated 26.10.2010. The assessee's appeal was dismissed by the CIT(A), Hubli.

2.2 Subsequent thereto, the AO took up the penalty proceedings under section 271(1)(c) of the Act and issued notices to the assessee to which there was no response. In that view of the matter, the AO passed an ex-parte order dated 26.03.2018 levying penalty of Rs.4,79,920/- under section 271(1)(c) of the Act for furnishing of inaccurate particulars of income. The assessee's appeal was partly allowed by the CIT(A)-Hubli vide order dated 25.10.2018 reducing the levy of penalty under section 271(1)(c) of the Act on the assessee to 100% of the tax sought to be evaded in accordance with decision of the Co-ordinate Bench in the assessee's own case in ITA No.1599/Bang/2016 dated 25.05.2018 wherein the Tribunal had restricted the estimation of the assessee's income from 8% to 5% of its turnover.

3.1 Aggrieved by the order of CIT(A), Hubli, dated 25.10.2018, partly upholding the AO's action in levying penalty under section 271(1)(c) of the Act for Assessment Year 2008-09, the assessee has filed this appeal wherein it has raised the following grounds:

1. The order passed by the learned assessing officer, under section 271(1)(c) of the Act, is opposed to law, weight of evidence, natural justice, probabilities, facts and circumstances of the Appellant's case.
2. The Appellant denies itself liable to the penalty as reduced by the CIT(A) under section 271(1)(c) of the Act on the facts and circumstances of case.
3. The authorities below were not justified in appreciating that the income was estimated due to reasons which were beyond the control of the appellant, and hence the explanation three of section 271 of the Act, was not applicable to the appellant, on the facts and circumstances of the case.
4. The authorities below were not justified in law, in appreciating that the appellant has not concealed income or furnishing inaccurate particulars of income, on the facts and circumstances of the case.
5. The authorities below were not justified in law in appreciating that the appellant has estimated its income and that the income offered was without making a claim of expenditure, which has resulted in a higher income, on the facts and circumstances of the case.
6. The authorities below were not justified in appreciating that no penalty was leviable on estimated income and it is not disputed that the income assessed is an estimate, on the facts and circumstances of the case.

7. Without prejudice to the above, the penalty levied is highly excessive and liable to reduced substantially.
8. The appellant craves leave of this Hon'ble Tribunal, to add, alter, delete, amend or substitute any or all of the above grounds of appeal as may be necessary at the time of hearing.
9. For these and other grounds that may be urged at the time of hearing of appeal, the appellant prays that the appeal may be allowed for the advancement of substantial cause of justice and equity.

3.2.1 The assessee has also filed the following additional grounds of appeal on 19.12.2018 accompanied by a prayer seeking their admission for adjudication:-

1. The notice issued under section 271(1)(c) of the Act, is bad in law, on the facts and circumstances of the case.
2. The learned CIT(A) was not justified in appreciating that the AO has not assumed proper jurisdiction, as the mandatory conditions for invoking the provisions of section 271(1)(c) of the Act has not been complied with under the facts and circumstances of the case.
3. The learned CIT(A) was not justified in appreciating that the issue of penalty notices under section 274 of the Act, permit the AO to assume jurisdiction over the appellant and was not a mere formality, to be divested with, nor was a curable defect, on the facts and circumstances of the case.
4. The learned CIT(A) was not justified in law and on facts in appreciating that the levy of penalty under section 271(1)(c) of the Act is not automatic and the learned assessing officer ought to have dropped the penalty proceedings under the facts and circumstances of the case.

5. The learned CIT(A) was not justified in not appreciating that the penalty proceedings are independent with that of the assessment proceedings and ought to have considered the submissions made by the appellant as regard to the merits of the matter under the facts and circumstances of the case.
6. The authorities below failed to appreciate that the appellant has neither concealed any income nor furnished inaccurate particulars of income to warrant levy of penalty and therefore the penalty levied under section 271(1)(c) of the Act requires to be cancelled.
7. The authorities below failed to appreciate the fact that mere additions and disallowances made in the assessment proceedings does not automatically warrant the levy of penalty under section 271(1)(c) of the Act, under the facts and circumstances of the case.
8. The appellant craves leave of this Hon'ble Tribunal, to add, alter, delete, amend or substitute any or all of the above grounds of appeal as may be necessary at the time of hearing.
9. For these and other grounds that may be urged at the time of hearing of appeal, the appellant prays that the appeal may be allowed for the advancement of substantial cause of justice and equity.

3.2.2 We have considered the rival contentions in the matter and carefully perused the material on record; including the judicial precedents in this regard. We are of the view that since the additional grounds are purely legal in nature, do not involve the investigation of any facts otherwise than those on the records of the Department and go to the very root of the matter of jurisdiction; the additional grounds are to be admitted for consideration and adjudication. In coming to this finding, we drew support, *inter alia*, from the decision of the Hon'ble Apex Court in the case of NTPC Ltd., Vs. CIT in (229 ITR 383) (SC).

4. Additional Grounds of Appeal

4.1 In support of these additional grounds (supra) raised before the Tribunal, the learned Counsel for the assessee contended that the CIT(A) failed to follow the binding decision of Hon'ble Karnataka High Court in the case of Manjunatha Cotton & Ginning Factory 359 ITR 565 (Kar). It was submitted that since the notice issued under section 274 r.w.s 271(1)(c) of the Act dated 26.11.2010 for initiating proceedings for imposing penalty under section 271(1)(c) of the Act was not in accordance with law, based on these additional grounds, the order imposing penalty should be quashed. The learned Counsel for the assessee also drew out attention to the show cause notice issued under section 271(1)(c) of the Act for initiating penalty proceedings dated 26.11.2010 and submitted that the said notice does not specify as to whether the assessee is guilty of having "furnished inaccurate particulars of income" or of having "concealed particulars of such income". He pointed out that in the show cause notice, the AO does not strike out the irrelevant portion viz., "furnished inaccurate particulars of income" or "concealed particulars of such income". He drew our attention to a decision of the Hon'ble Karnataka High Court in the case of CIT Vs. Manjunatha Cotton & Ginning Factory 359 ITR 565 (Karn); wherein it was held that if the show cause notice under section 271(1)(c) of the Act does not specify as to the exact charge viz., whether the charge is that the assessee has "furnished inaccurate particulars of income" or "concealed particulars of income" by striking out the irrelevant portion of printed show cause notice, then the imposition of penalty on the basis of such invalid show cause notice cannot be sustained.

5. We have also perused the show-cause notice issued under section 274 r.w.s. 271(1)(c) of the Act for the Assessment Year 2008-09 dated 26.11.2010. The AO, in the said show cause notice, has not struck off the irrelevant portion

as to whether the charge against the assessee is “concealing particulars of income” or “furnishing of inaccurate particulars of income”.

6. The learned DR relied on the order of the CIT(A). He placed reliance on the decision of the Hon'ble ITAT Bangalore Bench in the case of Shri P.M.Abdulla Vs. ITO ITA No.1223 & 1224/Bang/2012 order dated 17.10.2016 taking a view that absence of specific mention in the show cause notice under section 274 of the Act about the charge under section 271(1)(c) of the Act is not fatal to levy of penalty under section 271(1)(c) of the Act. In coming to the aforesaid conclusion, the Bench followed decision of Hon'ble Karnataka High Court in the case of CIT Vs. Sri Durga Enterprises (2014) Taxmann.com 442 (Karnataka). A Co-ordinate bench in the case of Shri A Nagarju (ITA No.2196/Bang/2016 dated 6/4/2018), has considered the decision cited by the learned DR in the case of P.M.Abdullah (supra) and has held that the same is contrary to the decision of Hon'ble Karnataka High Court in the case of Manjunatha Cotton & Ginning Factory Ltd., (supra) and therefore cannot be followed. The decision rendered in the case of Sri Durga Enterprises (supra) was in a totally different context of defect in notice issued under section 148 of the Act wherein the AY was not mentioned and period within which the return was to be filed was not mentioned. The defect was held to be curable under section 292B of the Act. The same reasoning cannot be applied in the context of show cause notice under section 271(1)(c) of the Act. Similarly the decision of Hon'ble Supreme Court in the case of Skylight Hospitality LLP Vs. ACIT (2018) 92 taxmann.com 93(SC) was rendered in the context of Section 148 of the Act wherein the name of the erstwhile company which got converted into an LLP was mentioned. The defect was held to be curable and falling within the mischief of Section 292B of the Act. This decision, rendered in

the context of Section 148 of the Act, in our view is not relevant in the case on hand.

7. The learned DR relied on the decision of Mumbai ITAT in the case of Earthmoving Equipment Service Corporation Vs. DCIT 22(2), Mumbai, (2017) 84 taxmann.com 51. In this case the ITAT Mumbai did not follow the decision rendered in the case of Manjunatha Cotton & Ginning Factory (supra) for the reason that penalty in that case was deleted for so many reasons and not solely on the basis of defect in show cause notice under section 274 of the Act. This decision is also contrary to the decision of Hon'ble Karnataka High Court which is the jurisdictional High Court as far as the Bangalore Benches of ITAT are concerned and is therefore not binding.

8. 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 under section 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 holding the Assessee guilty on another limb of Section 271(1)(c) of the Act is not valid. 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 under section 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 form 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.

6.1 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 proforma without striking of the relevant clauses will lead to an inference as to non-application of mind.'

9. 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(I)(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 bonafide. an order imposing penalty could be passed.

- m) If the explanation offered, even though not substantiated by the assessee. but is found to be bonafide 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)

10. It is clear from the aforesaid decision that, on the facts of the case on hand, evidently the show cause notice issued u/s. 274 r.w.s 271(1)(c) of the Act dated 26.11.2010 is defective as it does not spell out the grounds on which the penalty is sought to be imposed. The Hon'ble Karnataka High Court in the case of CIT vs. SSA's Emerald Meadows in ITA No.380 of 2015 dated 23.11.2015 wherein the Hon'ble Court following its own decision in the case of CIT vs Manjunatha Cotton and Ginning factory (2013) 359 ITR 565 took a view that imposing of penalty u/s 271(1)(c) of the Act is bad in law and invalid for the reason that the show cause notice u/s 274 of the Act does not specify the charge against the assessee as to whether it is for concealment of particulars of income or furnishing of inaccurate particulars of income. The Id. Counsel further brought to our notice that as against the decision of the Hon'ble Karnataka High Court the revenue preferred an appeal in SLP in CC No.11485 of 2016 and the Hon'ble Supreme Court by its order dated 05.08.2016 dismissed the SLP preferred by the department.

11. We have already observed that the show cause notices issued in the case on hand issued under section 274 r.w.s. 271(1)(c) of the Act dated 26.11.2010 does not specify the charge against the assessee as to

whether it is for “concealing particulars of income” or “furnishing inaccurate particulars of income”. The impugned show cause notice under section 274 r.w.s. 271(1)(c) of the Act shows the AO has not struck out the inappropriate words. In these circumstances, we are of the view that imposition of penalty cannot be sustained. The plea of the Id. Counsel for the assessee which is based on the decisions referred to in the earlier part of this order has to be accepted. We therefore hold that imposition of penalty in the case on hand cannot be sustained and the same is directed to be cancelled.

12. In the result, the assessee’s appeals for Assessment Year 2006-07 is allowed.

Pronounced in the open court on 02nd August, 2019.

Sd/-
(N. V. VASUDEVAN)
VICE PRESIDENT

Sd/-
(JASON P. BOAZ)
Accountant Member

Bangalore.

Dated: 02nd August, 2019.

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| 1. Appellants | 2. Respondent |
| 3. CIT | 4. CIT(A) |
| 5. DR, ITAT, Bangalore. | 6. Guard file |

By order

Assistant Registrar,
ITAT, Bangalore.