

आयकर अपीलीय अधिकरण, विशाखापटणम पीठ  
IN THE INCOME TAX APPELLATE TRIBUNAL  
Visakhapatnam Bench, Visakhapatnam

Before Shri Ravish Sood, Judicial Member  
and  
Shri Omkareshwar Chidara, Accountant Member

आ.अपी.सं /ITA No.545/Viz/2025  
(निर्धारण वर्ष/Assessment Year: 2021-22)

Globe Infraconstructions Pvt Ltd., Visakhapatnam. PAN: AAFCG5312B	Vs.	Deputy Commissioner of Income Tax, Circle-3(1), Visakhapatnam.
(Appellant)		(Respondent)
निर्धारिती द्वारा/Assessee by:	Shri GVN Hari, Advocate	
राजस्व द्वारा/Revenue by:	Shri Shahnawaz Ul Rahman, CIT-DR	
सुनवाई की तारीख/Date of Hearing:	06/05/2026	
घोषणा की तारीख/Date of Pronouncement:	22/05/2026	

आदेश / ORDER

**PER. RAVISH SOOD, JM:**

The present appeal filed by the assessee company is directed against the order passed by the Commissioner of Income Tax (Appeals), New Delhi (for short, "CIT(A)"), dated 29/08/2025, which in turn arises from the order passed by the Assessing Officer (for short, "AO") under section 143(3) r.w.s 144B of the Income Tax Act, 1961 (for

short “the Act”), dated 24/12/2022 for the Assessment Year (AY) 2021-22. The assessee company has assailed the impugned order on the following grounds of appeal before us:

1. The order of learned Commissioner of Income Tax (Appeals) is contrary to the facts and also the law applicable to the facts of the case.
2. The learned Commissioner of Income Tax (Appeals) is not justified in refusing to admit the additional evidence filed under Rule 46A of the Income Tax Rules, 1962.
3. The learned Commissioner of Income Tax (Appeals) is not justified in sustaining the addition of Rs.11,14,24,795 made by the assessing officer towards alleged bogus purchases.
4. The learned Commissioner of Income Tax (Appeals) is not justified in sustaining the addition of Rs.16,76,868 made by the assessing officer towards ad-hoc disallowance @ 50% of the labour charges claimed.
5. Any other ground that may be urged at the time of appeal hearing.”

2. Succinctly stated, the assessee company, which is engaged in the business of construction of infrastructure and commercial projects, had filed its return of income for AY 2021-22, declaring an income of Rs. 2,04,50,850/-. Thereafter, the case of the assessee company was selected for scrutiny assessment to verify substantial purchases made from suppliers who were either non-filers, or had filed non-business income tax returns, or had reported substantially low turnover in their respective returns of income.

3. During the course of the assessment proceedings, the AO observed that, as per the GSTR-1 data available with the department,

the assessee company had claimed to have made purchases from certain parties which had not filed their return of income for the year under consideration, as under:

S.No.	Party PAN	Party Name	Aggregated Transaction Value (Rs.)	Last ITR filed by Party
1.	AIFPN4159C	Nusum Satyanarayana Reddy	6544.44	
2.	FRQPD7239J	Roshni Devi	8989318.00	
3.	AAFCH6485C	Harsha Infra Projects Private Limited	6774688.00	
4.	DGDPA3803F	Lokesh Kumar Awana	5668985.00	
5.	AXWPS8203B	Dinesh Kumar Barman	4763500.00	
6.	BTJPM9406R	Deepak Kumar Mishra	40098112.00	
7.	CBOPA2938N	Anisa	5880811.75	
8.	DBZPA0743M	Arti	11122875.00	
9.	BMGPT7345N	Yash Tandon	7520535.00	
10.	HUCPK9963D	Kunal Kumar	11016444.00	
11.	BZLPG7630K	Ranjit Kumar Gupta	10087140.00	
12.	DPSPA6622E	Ankit	5117500.00	
13.	ATTPT4994N	Abishek Tiwari	500000.00	
14.	AAGFL4731R	LNBMCM	285000.00	2018-19
15.	AASCS6129F	Sai Ram Krishna Cars Private Limited	354580.65	2019-20
16.	AHNPK6704H	Krishnaarjuna Rao Ketineni	5980	2019-20
17.	AABC15973L	IGE Info Systems Private Limited	7470	2019-20
		Total	11,81,99,483.80	

4. The assessee company, on being queried about the aforementioned transactions, submitted that it was a newly established startup that was floated by a young foreign-educated entrepreneur, viz. Mr. Kosuru Lakshman Kumar (Managing Director) was in its nascent stage. It was submitted that, as the company was in its early years of business, it did not have much business. Elaborating further, it was

stated that the company, during the subject year, after strenuous efforts by Shri Kosuru Lakshman Kumar (supra), secured a tender floated by M/s Ultra Dimension Pvt Ltd (UDPL), i.e., a company that catered to the needs of the Ministry of Defense and some other commercial building contractors. The assessee company submitted that, pursuant to the aforesaid arrangement, it was able to procure a sub-contract from M/S UDPL, i.e., the main contractor, for all civil, mechanical, and electrical works.

5. Coming to the issue in hand, i.e., the subject purchases that were claimed to have been made from the aforesaid parties, it was submitted that, as the assessee company, being a sub-contractor of M/s. UDPL had lower profit margins; therefore, it sought to reduce operating costs by cutting materials, labor, or overhead. Elaborating further on its contention, it was submitted that the assessee company was introduced to suppliers based in Delhi by some middlemen, who had offered to supply the required materials for executing the aforesaid sub-contract at a discounted and competitive price, i.e., 20% to 26% lower than the local market price. It was submitted that the assessee company, which was in its nascent stage and had inexperienced staff, had remained under a bona fide belief and had trusted the said arrangement carried out through the aforementioned middlemen. The assessee company

submitted that the middlemen had assured that the goods would be supplied for six months. It was further assured that the goods, which were lying in different stockyards and warehouses of the suppliers, would be dispatched subsequently. It was submitted that, as the assessee company had found the aforesaid arrangement very lucrative, with an expectation of a long-term association with M/s. UDPL., i.e., for another 2 to 3 years, therefore, based on its anticipated future business, entered into the subject deal to facilitate substantial savings/cost cutting, which would marginally reduce its cost and generate more profits. The assessee company submitted that it was unaware that it was falling in the trap of the said unscrupulous middlemen, wherein they had, though forwarded the invoices and assured to dispatch the material, but thereafter neither any such material was received from the said parties, nor did they respond to the follow-up carried out by the assessee company. The assessee company submitted that, upon learning of the foul play, it had canceled the purchases and had not claimed them as either an expenditure or purchases in its books of account. Also, it was stated that, as the aforesaid purchase transactions had not materialized, the assessee company, which had initially booked the purchase transactions in its books of account, thereafter reversed the entries and also returned the input GST claimed based on the said bills. It was the

assessee company's claim that the purchases, as queried by the AO, that had not materialized were not claimed as an expenditure in the books of account. Accordingly, the assessee company submitted before the AO that, now that the purchases aggregating to Rs. 11,07,65,220.75 (supra) had not been claimed as an expenditure, the disallowance of the same and the consequent addition in its hands did not arise.

6. Ostensibly, the assessee company had claimed that out of the total purchases of Rs. 11,81,99,483.80 referred by the AO in respect of 17 parties, there were genuine purchase transactions/expenditure incurred in respect of three parties, viz., (i) M/s. LNBC: Rs.2,85,000/-; (ii) M/s. Sai Ram Krishna Cars Pvt Ltd: Rs. 3,54,5880.65; and (iii) M/s. IGE Info System Pvt Ltd: Rs. 7,470/-.

7. The AO to verify the veracity of the claim of the assessee company with respect to purchases made from the aforementioned parties issued notices under Section 133(6) of the Act through the AO (Verification Unit) to the said supplier parties. As is discernible from the assessment order, one of the parties, viz. M/s. Harsha Infra Projects Pvt Ltd., filed a confirmation for the transactions and was also found to have filed its return of income, but the facts pertaining to the remaining 12 parties revealed a different story wherein either the said parties were not found

to be operating from the respective addresses or denied any financial transactions with the assessee company or were found to have not filed their returns of income for the last many years and had their GST registrations cancelled. Accordingly, the AO, based on the facts gathered by the AO (Verification Unit), though accepted the purchases of Rs. 67,74,688/- claimed by the assessee company to have been made from M/s. Harsh Infra Projects, but for the remaining parties, observed that the assessee company had claimed that, as no material was supplied by them, the entries initially made based on their respective invoices were reversed and nullified.

8. The AO, after necessary deliberations, concluded that out of the total purchases of Rs. 11,81,99,483/- that the assessee company had claimed to have made from 17 parties except for one party, i.e., M/s. Harsha Infra Projects, which had replied to the notice issued under section 133(6) of the Act, the purchases from the remaining parties aggregating to Rs. 11,14,24,795/- were bogus. Accordingly, the AO added the bogus purchases to the tune of Rs. 11,14,24,795/- to the assessee's returned income.

9. Apart from that, the AO observed that the assessee company had in its Profit & Loss account claimed labor charges of Rs. 33,53,750/-.

The AO called upon the assessee company to furnish details of the labor charges, along with supporting documentary evidence, i.e., bills, vouchers, registers, etc. Also, the assessee company was called upon to provide PAN, Aadhaar cards, or identity cards of the laborers to whom payments were made, along with the labor charges paid to them per month/per day. The AO further called upon the assessee company to explain whether ESI/EPF was deducted on payments made to the laborers. In reply, the assessee company submitted the ledgers and cash vouchers regarding the labor charges, but failed to produce any material/documents which could reveal the identity of the laborers. Rather, the assessee company claimed that, as the laborers were picked up from local sites and sometimes from market yards, it was not possible to obtain their Aadhaar cards or other identity proofs. Also, it was submitted that, as the said laborers were illiterate, they did not hold any PAN and were not covered under ESI/EPF.

10. The AO, after necessary deliberations, did not find favor with the explanation of the assessee company. He observed that it was incomprehensible that the assessee company, for completing its project, would be dependent on market-yard laborers or laborers picked up daily from local sites. It was observed by him that, as the projects that were subcontracted to the assessee company had to be completed on a timely

basis, it was difficult to fathom that the assessee company, instead of having dedicated laborers for completing the projects, would have remained dependent on market yard laborers. Accordingly, the AO, by observing that the assessee company had failed to submit documentary evidence that would substantiate the veracity of its claim of having incurred labor charges, rejected its explanation and, to safeguard the interest of the revenue, allowed 50% of the assessee's claim for deduction of labor charges, i.e., of Rs. 16,76,868/-.

11. The AO, based on his aforesaid observations, vide his order under section 143(3) r.w.s 144B of the Act, dated 24/12/2022, determined the income of the assessee company at Rs. 13,35,52,513/-.

12. Aggrieved, the assessee company carried the matter in appeal before CIT(A) but failed on both issues. For the sake of clarity, the observations of the CIT(A) are culled out as under:

“7.1 In this case, the appellant has placed substantial reliance on documents, records, and submissions in its support. Accordingly, the appeal is adjudicated on merits based on materials available on record and submissions.

7.2.1 Ground No. 1: The appellant has raised a general ground that the order passed by the Assessing Officer is contrary to the facts of the case and to the law applicable thereto. It is claimed that the Assessing Officer ignored submissions and details filed during the assessment proceedings and wrongly concluded that the purchases and labour expenses were not genuine.

7.2.2 I have carefully considered the assessment order, the grounds of appeal, and the material available on record. This ground is general in nature and does not point out any specific factual error or legal infirmity in the assessment order. The Assessing Officer has completed the assessment after issuing statutory notices under sections 143(2) and 142(1), calling for details, and after considering the explanations and documents submitted by the appellant. The additions made are based on findings arising from independent verifications, including information gathered from third parties and analysis of the appellant's own submissions.

7.2.3 The appellant has not brought on record any cogent evidence to show that the Assessing Officer has either ignored relevant facts or misapplied the law. In the absence of any specific defect, contradiction, or legal infirmity being demonstrated, a and ingeneral plea that the order is contrary to facts and law cannot be sustained.

7.2.4 Accordingly, Ground No. 1 is held to be without merit and is dismissed.

7.3.1 Ground No. 2: The appellant has challenged the addition of Rs. 11,14,24,795/- made by the Assessing Officer on account of bogus purchases. It is amcontended that the purchases recorded from 11 parties were cancelled and reversed in the books of account since no goods were actually supplied, and consequently no claim of deduction was made in the Profit & Loss Account. It is further submitted that GST input credit pertaining to such purchases was also reversed, and that additional evidences in the form of ledgers, confirmations, and break-up details have now been filed before me under Rule 46A to substantiate the reversal entries.

7.3.2 The appellant has filed a petition under Rule 46A of the Income-tax Rules, 1962 seeking admission of additional evidence in the form of party-wise details of purchases, copies of ledger accounts of 83 suppliers, and confirmation letters covering purchases of Rs. 10.50 Crore. The appellant has explained that these documents could not be furnished during the course of assessment proceedings on account of time constraints and that the omission was neither deliberate nor intentional. It is further contended that the evidences go to the root of the matter and would demonstrate that purchases from 11 suppliers, aggregating to Rs. 11.07 Crore, were reversed in the books of account and not claimed as deduction in the Profit & Loss Account.

7.3.3 The matter has been carefully considered. Rule 46A permits admission of additional evidence only in limited circumstances, such as where the Assessing Officer has refused to admit evidence which ought to have been admitted, or where the assessee was prevented by sufficient cause from producing the evidence before the Assessing Officer, or where the Assessing Officer made the order without giving

sufficient opportunity. In the present case, the assessment records clearly show that the Assessing Officer had issued multiple notices under sections 142(1) and 143(2) specifically calling for details of purchases, supporting evidences, and reconciliation of accounts. Despite such opportunities, the appellant failed to furnish the requisite documents during the assessment stage.

7.3.4 The reason advanced by the appellant, namely "time constraint, is vague and cannot be regarded as a sufficient cause for failure to comply with repeated statutory notices. No material has been placed on record to demonstrate that the appellant was prevented by circumstances beyond its control from producing the evidences earlier.

7.3.5 Accordingly, I hold that the conditions prescribed under Rule 46A for admission of additional evidence are not satisfied in this case. The petition for admission of additional evidence is therefore rejected. The matter is adjudicated on the basis of the material available on record.

7.3.6. In view of the above rejection of the petition under Rule 46A, the additional evidences filed by the appellant cannot be admitted at this stage. Consequently, the adjudication of Ground No. 2 is to be made only on the basis of the material available on record before the Assessing Officer and the submissions advanced during the appellate proceedings.

7.3.7 The matter has been carefully considered. The assessment records reveal that the Assessing Officer had issued notices and show cause letters seeking party-wise details of purchases, payments, and supporting evidences. Despite such opportunities, the appellant failed to provide the required information within the assessment proceedings. In particular, no reconciliation of purchases vis-à-vis books of account was furnished, nor were confirmations or credible documents substantiating the claim of reversal filed at that stage. The Assessing Officer, on the basis of independent verification, found that most of the suppliers were either non-filers, had their GST registrations cancelled, or out rightly denied having had dealings with the appellant. In these circumstances, the Assessing Officer rightly concluded that the transactions lacked genuineness.

7.3.8 The additional evidences now furnished under Rule 46A have been examined. However, the appellant has not demonstrated any sufficient cause for its failure to furnish such vital information at the assessment stage. The explanation of "time constraint is too general and does not justify withholding material evidence despite statutory notices issued over an extended period. Rule 46A is clear that additional evidence may be admitted only if the assessee was prevented by sufficient cause from producing the same before the Assessing Officer. In the present case, such condition is not satisfied, and hence, the additional evidences cannot be admitted.

7.3.9 Even otherwise, the additional documents produced do not conclusively establish that the reversal entries were genuine or contemporaneous. The mere recording of book entries, without independent corroboration such as supplier econfirmations, delivery challans, correspondence evidencing cancellation of orders, or contemporaneous resolutions, cannot by itself establish that the alleged reversals were in fact made during the relevant financial year. Further, the evidences fail to satisfactorily explain why no payments were ever made to the parties despite purported purchase commitments running into several crores. Even assuming arguendo that some payments had indeed been made, the appellant's contention would still not be acceptable in the absence of contemporaneous corroboration such as delivery records, transport documentation, or confirmations from suppliers. Moreover, no clear party-wise reconciliation has been furnished to link the alleged reversal entries with the amounts actually debited to or claimed in the Profit & Loss Account. In the absence of such credible and verifiable material, the documents filed at this stage cannot be relied upon to displace the findings of the Assessing Officer.

7.3.10 It is a settled principle that the onus lies upon the assessee to establish the genuineness of purchases recorded in its books of account. Mere book entries or subsequent reversals, unsupported by delivery challans, transport documents, supplier confirmations, or bank statements, cannot substantiate the reality of transactions of such magnitude. The explanation of reliance on middlemen is also unconvincing, since no agreements, correspondence, or particulars of such intermediaries have been produced. As discussed earlier mere book entries or subsequent reversals unsupported by delivery records, transport documentation, supplier confirmations, or bank statements cannot establish genuineness of transactions of this magnitude. Furthermore, the Directorate General of GST Intelligence's order dated 14.03.2024, relied upon by the appellant, does not alter the factual position emerging from the assessment records, namely that the purchases in question were never proved to be genuine.

7.3.11 In view of the above discussion, I hold that the Assessing Officer was justified in treating purchases of Rs. 11,14,24,795/- as non-genuine and making the corresponding addition. The appellant has failed to discharge its onus either at the assessment stage or during the appellate proceedings. Accordingly, Ground No. 2 of appeal is dismissed.

7.4.1 Ground No. 3: The appellant has contested the disallowance of Rs. 16,76,868/-, being 50% of the labour charges of Rs. 33.53 Lakh claimed during the year. It has been submitted that the nature of business of the appellant involves execution of construction projects which necessarily require deployment of a large number of casual

labourers. The appellant explained that payments were made to daily-wage workers, most of whom were illiterate and without PAN or formal identification, and that vouchers and ledger accounts were maintained. It is contended that absence of PF, ESI or wage registers should not result in disallowance when the expenditure is genuine and supported by vouchers.

7.4.2 The matter has been carefully examined. The assessment record shows that while ledger extracts and self-prepared vouchers were produced, no cogent evidence such as muster rolls, attendance registers, wage sheets, PF/ ESI returns, or bank payment records were furnished to substantiate the genuineness of such substantial cash outgo. The payments are stated to have been made in cash without verifiable details of the recipients. The Assessing Officer has rightly observed that no prudent contractor executing large-scale infrastructure projects would rely entirely on unverifiable casual labour without maintaining basic supporting records.

7.4.3 It is a settled position that the burden of proof lies on the assessee to establish with credible evidence that the expenditure claimed is wholly and exclusively incurred for business. Mere vouchers prepared internally and unsupported by third-party or statutory records cannot be treated as sufficient evidence. In the present case, the absence of independent corroboration justifies the conclusion that the claim was inflated and unverifiable. The Assessing Officer, taking a reasonable view, disallowed only 50% of the claim rather than the entire amount, thereby giving partial relief to the appellant.

7.4.4 It is further noted that in cases where the Assessing Officer is unable to fully verify the genuineness of an expenditure due to lack of adequate supporting records, it is settled law that a reasonable estimate may be made based on the facts and circumstances of the case. In the present case, instead of disallowing the entire claim, the Assessing Officer restricted the disallowance to 50% of the labour charges. This approach is fair, balanced, and based on reasonable estimation, particularly given the appellant's failure to maintain statutory registers or independent corroborative evidence. Hence, the disallowance sustained cannot be said to be arbitrary or excessive.

7.4.5 Considering the facts and circumstances, I find no infirmity in the action of the Assessing Officer in disallowing Rs. 16,76,868/- out of labour charges. The appellant has failed to bring any additional evidence or convincing material to rebut the findings of the Assessing Officer. Accordingly, Ground No. 3 of appeal is dismissed.

7.5.1 Ground No. 4: The appellant has challenged the levy of interest of Rs. 68,67,336/- under section 234B and Rs. 28,536/- under section 234C of the Act.

7.5.2 I have considered the assessment order, the grounds raised, and the settled legal position. The levy of interest under sections 2348 and 234C is mandatory and consequential in nature. Such interest is computed automatically with reference to the assessed income and shortfall in advance tax as per the statutory provisions of the Act. The Assessing Officer has no discretion to waive or modify the same except in cases specifically provided under the Act or notified by the CBDT.

7.5.3 Since the assessed income has been enhanced due to additions made in the ART assessment and the appellant has not demonstrated any computational error in the working of interest, the levy of interest under sections 2348 and 234C is upheld. Accordingly, Ground No. 4 is dismissed.

7.6.1 Ground No. 5: The appellant has raised a general ground seeking liberty to urge additional grounds at the time of hearing.

7.6.2 During the course of appellate proceedings, no additional or fresh grounds have been filed, nor has any specific relief been sought under this ground. Hence, this ground is merely general in nature and does not call for separate adjudication. Accordingly, Ground No. 5 is treated as infructuous and dismissed.

8.1 In view of the foregoing discussion and findings on various grounds of appeal, it is clear that the appellant has not been able to substantiate its claims either with documentary evidences or with convincing explanations. The additions made by the A

Assessing Officer on account of bogus purchases and disallowance of labour charges have been found justified. The levy of interest under sections 2348 and 234C is consequential and mandatory. The general ground raised does not survive independently.

8.2 Accordingly, all the grounds of appeal raised by the appellant are dismissed.

8.3 In the result, the appeal is dismissed.”

13. The assessee company, aggrieved with the order of the CIT(A), has carried the matter in appeal before us.

14. We have heard the Learned Authorized Representatives of both parties, perused the orders of the authorities below, and the material available on record.

15. Shri GVN Hari, Advocate, the Learned Authorized Representative (for short, "Ld. AR") for the assessee company, at the threshold of hearing of the appeal, submitted that both the authorities below had grossly erred in misconstruing the facts which had resulted in the impugned addition in the hands of the assessee company. Elaborating on his contention, the Ld. AR submitted that though it has been the claim of the assessee company since inception that the impugned purchases of Rs.11,07,65,220.75 (out of Rs.11,14,24,795.19) which based on the invoices received from the aforementioned 11 parties were initially debited to its "Profit & Loss account", but thereafter, when no goods were received from them the said respective parties, the said entries were reversed, and, thus, no claim for deduction of the impugned purchases was raised in the "Profit & Loss account" that was filed by the assessee company along with its return of income for the year under consideration. To sum up, the Ld. AR submitted that, as the impugned purchases of Rs. 11.07 crores (approx.) had never been claimed by the assessee company as a deduction, there was no justification for the authorities below to have disallowed them. The Ld. AR submitted that both the lower

authorities had failed to address the issue at hand based on the aforementioned facts, and had, without giving any cogent and plausible reason, arbitrarily made an addition/disallowance of Rs. 11.07 crores in the hands of the assessee company.

16. Apropos, the balance addition/disallowance of purchases of Rs. 6,59,574/-, the Ld. AR submitted that the assessee company had substantiated the purchases made from the aforementioned 4 parties, viz., (i) M/s. Harsha Infra Projects Pvt Ltd (the said party had filed the acknowledgment of its return of income); (ii) M/s. LNBC (the purchases made from the said party were substantiated by furnishing supporting bills, and payments were made for the subject purchases both in the present and succeeding year); (iii) M/s. Sai Ram Krishna Cares Pvt Ltd (the purchase bills of the subject party had been placed on record and payments for the subject purchases had been made); and (iv) IGE Info System Pvt Ltd (petty expenses were paid to the said concern). Accordingly, the Ld. AR submitted that as the impugned purchases of Rs.11,07,65,220.75 (supra) were never debited/claimed by the assessee company as an expenditure in its "Profit & Loss account", while for the genuineness of the purchases/expenses of Rs. 6,53,030.65 (supra) pertaining to the aforementioned 4 parties were duly substantiated, there was no justification for the authorities below to have

drawn adverse inferences and disallowed/added the value of the subject purchases in the hands of the assessee company.

17. Per contra, Shri Shahnawaz UI Rahman, Ld. CIT-DR relied upon the orders of the authorities below. The Ld. CIT-DR submitted that the conduct of the assessee company, wherein it had debited purchases of Rs. 11.07 crores (supra), but thereafter allegedly reversed the same and also refunded the GST credit (as claimed), raises serious doubts regarding the veracity of the subject purchase transactions. The Ld. CIT-DR submitted that, as the assessee company had raised a wrong claim for purchases of Rs. 11.14 crores (supra), both the authorities below have rightly made/sustained the addition of the bogus purchases. The Ld. CIT-DR submitted that it is incomprehensible that the assessee company would book purchases of a substantial amount of Rs. 11.14 crores (supra) without any actual receipt of goods, and thereafter reverse the same in its books of accounts. It was further submitted by him that the fact that the bogus purchases of Rs. 11.14 crores (supra) are debited either under the purchases head or as an expenditure under any other nomenclature disclosed by the assessee company in its "Profit & Loss account" for the subject year cannot be ruled out.

18. Apropos, the disallowance of 50% of labor charges of Rs. 16,76,868/- by the AO, the Ld. CIT-DR submitted that as the assessee company had failed to lead any evidence/material to substantiate the authenticity of the aforesaid claim for expenditure, therefore, both the lower authorities had rightly made/sustained the disallowance of 50% of its claim for deduction of the labor charges. The Ld. CIT-DR submitted that the assessee company's claim that it had engaged daily laborers who were picked up from local sites, wherever available, for the completion of the project procured from M/s. UDPL was beyond comprehension. Elaborating on his contention, the Ld. CIT-DR submitted that, as the assessee company would be required to complete the subject project within the stipulated period, it is difficult to fathom that it would have remained dependent on daily wage laborers to do so. Also, the Ld. CIT-DR submitted that as the assessee company had failed to lead any evidence which would irrefutably evidence the incurring of the substantial amount of labor charges of Rs. 33.53 lakhs (approx.), the AO had, in all fairness and in the interest of justice, disallowed only 50% of the said expenditure.

19. We have thoughtfully considered the contentions advanced by the Learned Authorized Representatives of both parties in the backdrop of the orders of the authorities below.

20. As observed by us herein above, it is the claim of the assessee company that it being in the nascent stage of its business had with an intent to carry out cost cutting in materials etc., fallen in the trap of certain middlemen who had assured supply of material to the assessee company at a discounted value, i.e., 20% to 26% lower than the rates prevailing in the local market. The assessee company had claimed that though it had booked the purchases based on the invoices of the aforementioned parties, which were supplied by them, but as the same was not followed by any supply of goods, therefore, on learning that it was trapped by a middleman and had fallen prey to foul play, cancelled the purchases and reversed the entries in its books of account. Ostensibly, the assessee company claimed that, upon cancellation of the purchases, the corresponding purchases/expenses debited in its books of account were reversed and nullified, and the GST credit, which it had claimed based on the said invoices, along with the interest, was refunded to the department. The Ld. AR to fortify his aforesaid contention had taken us through the reconciliation statement of its turnover as per Form-26AS and GST returns. Also, the Ld. AR had drawn our attention to the summary of the reversed entries recorded in the assessee company's books of account.

21. We have thoughtfully considered the contentions advanced by the Ld. Authorized Representatives of both parties in respect of the disallowance of the purchases of Rs. 11.07 crores (supra) made by the AO, which thereafter had been sustained by the CIT(A).

22. In our view, the conduct of the assessee company of having refunded the GST along with interest as per order of the Joint Director of Directorate of GST (Intelligence), dated 14/03/2024, and reversed the purchase entries aggregating to Rs.11.07 crores (supra) w.r.t purchases claimed to have been made from the aforementioned parties after selection of its case for scrutiny assessment vide notice issued under Section 143(2) of the Act, dated 28/06/2022 raises serious doubts about the genuineness of its said claim. In our view, it is incomprehensible that the assessee company would have debited purchases to the value of Rs. 11.07 crores based on invoices received from the subject 11 parties without any actual supply of goods, and thereafter, on learning that the same were bogus parties, reversed the corresponding purchase entries. At the same time, we principally concur with the Ld. AR that if the amount of the impugned purchases of Rs.11.07 crores (supra) pertaining to the aforementioned 11 parties that was initially debited in its books of accounts had thereafter been reversed and thus, not claimed as a deduction in its books of accounts, there could be no justification for the

AO to have made the impugned disallowance of an expenditure/deduction which was never claimed by the assessee company while computing its total income. We find that, though the assessee company had raised the aforesaid claim since inception, but it had not been addressed by the authorities below. In our view, if there is any grain of truth in the claim of the assessee company that the impugned purchases of Rs.11.07 crores (supra) had not been claimed as a deduction by debiting the same either under the head purchases or as an expenditure under any other head in its "Profit & Loss account" for the year under consideration, then, there can be no basis for making the impugned addition/disallowance of the said amount or any part thereof. However, we find substance in Ld. CIT-DR's contention that it is incomprehensible that the assessee company would have debited the purchases of Rs. 11.07 crores claimed to have been made from the aforementioned 11 parties, merely based on their invoices and thereafter on non-receipt of goods from them, reversed the said purchase entries. Although we concur with the Ld. CIT-DR that the conduct of the assessee company is under serious doubt, but at the same time cannot lose sight of the fact that, in case the impugned purchases had not been claimed as a deduction by the assessee company in its books of

account, then the same could not have been disallowed and added to its returned income.

23. In our view, both the authorities below had failed to address the issue from the right perspective. We are of firm conviction that as it has been the claim of the assessee company that the purchases of Rs.11.07 crores do not form part of its total purchases of Rs.12.57 crores (approx.) debited in its "Trading, Profit & Loss account" for the subject year, i.e., year ended 31/03/2021, therefore, the AO ought to have verified the said factual position by calling upon the assessee company to furnish the complete details of the purchases debited in its books of accounts for the year under consideration.

24. We, thus, in terms of our aforesaid observations, are of the view that the matter requires to be set aside to the file of the AO, who is directed to verify the purchases of Rs. 12,57,37,534/- debited by the assessee company under the head "cost of material consumed" during the subject year. Also, the assessee company is directed to substantiate the purchase of Rs. 12.57 crores (supra) by placing on record the confirmations of the respective parties. In case the claim of the assessee company that the purchases of Rs. 11.07 crores (supra) do not form part of the purchases of Rs. 12.57 crores (supra), debited in its Trading, Profit

& Loss account for the year under consideration or under any other head of expenditure, then, the AO shall vacate the impugned addition made by him. We say so because, if it is established that the assessee company had not claimed a deduction of Rs. 11.07 crores (supra) either under the head purchases or under any other head of expenditure, there can be no justification for disallowing the said amount, which had never been claimed as a deduction. Also, we direct the AO to carry out further verifications, which he may deem fit, to his satisfaction, in order to arrive at the correct factual position.

25. Apropos, the purchases of Rs. 6,53,030/- (supra), which the assessee had claimed to have genuinely made from the aforementioned parties, we are of the view that after considering the totality of the facts involved in the case before us, which undeniably raises a serious doubt about the conduct of the assessee company, the same would also require verification. Accordingly, we direct the AO to verify the assessee company's claim of having made genuine purchases of Rs. 6,53,030/- from the aforementioned 4 parties and to carry out any such verification as he may deem fit. The **Ground of appeal No.3** raised by the revenue is partly allowed for statistical purposes in terms of our aforesaid observations.

26. Coming to the disallowance of the assessee's claim for deduction of labor charges of Rs. 16,76,868/- (i.e., 50% of Rs. 33.53 lakhs), we find no infirmity in the view taken by the authorities below. We say so because the assessee company's claim that it had procured daily wage laborers from local sites or market yards to complete the work sub-contracted to it by M/s UDIL, which was rendering its services as a contractor to the Ministry of Defense and on other commercial building contracts, is found by us to be incomprehensible. As observed by the AO, and rightly so, the assessee company would not have been naive to have engaged daily wage laborers to complete the project, which would undoubtedly have been time-bound.

27. Be that as it may, we find that the assessee company, except for submitting the copies of the ledger accounts and cash vouchers, had failed to lead any material based on which the authenticity of the labor charges could be established beyond doubt, i.e., had failed to prove the identity of the laborers by producing their Aadhar cards or identity cards, etc. In our view, even if the assessee company's version is to be believed that it engaged market yard laborers/laborers picked up from local sites to complete its project, the said claim for deduction of labor charges ought to have been supported by irrefutable documentary evidence. We find that, though the assessee company failed to substantiate the labor

charges it claimed to have incurred/paid during the subject year, the AO, in all fairness, restricted the disallowance to 50% and worked it out to Rs. 16,76,868/-. We thus find no infirmity in the view taken by the AO, who, adopting a liberal approach, had already restricted the disallowance of labor charges to only Rs. 16,76,868/- and uphold the same. The **Ground of appeal No.4** raised by the revenue is allowed.

28. The **Grounds of appeal Nos. 1 and 5** raised by the revenue, being general, are dismissed as not pressed.

29. Resultantly, the appeal filed by the assessee company is partly allowed for statistical purposes in terms of our aforesaid observations.

Order pronounced in the open court on 22<sup>nd</sup> May, 2026.

<del>(OMKARESHWAR CHIDARA) ACCOUNTANT MEMBER</del>	<b>Sd/- (RAVISH SOOD) JUDICIAL MEMBER</b>
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Hyderabad,  
Dated 22<sup>nd</sup> May, 2026  
**\*\*OKK / SPS**

**PER OMKARESHWAR CHIDARA, AM :**

1. While concurring with the detailed order of erudite observations of Hon'ble JM, my observations are as under:

(a) The Ld.AO is directed to take action as per law with reference to the following also :

(i) If any "penalty"/interest was levied by GST authorities, by whatever name it is called, and paid by appellant company may be disallowed u/s 37(1) Explanation 1 and 3 of Income Tax Act. (Admittedly, after investigation by the GST authorities, the appellant reversed the entries of "purchases" of Rs.11 crore plus and paid back GST/Input Tax Credit.

(ii) Any expenditure claimed and debited in the P&L account relating to the alleged "Purchases" which were subsequently reversed by appellant company should be disallowed because the "purchases" never took place. The appellant company reversed these entries only after the investigation by GST authorities who had proved that there are no such "sellers" of goods to the appellant company.

(iii) It is observed from the assessment order/CIT(A) order that the “purchases” claimed by appellant never took place and only “invoices” were raised.

(iv) The appellant’s claim that no “consideration” was paid for the alleged purchases which were reversed subsequently may be examined.

(v) The appellant’s claim is that he is sub-contractor of an entity to which Ministry of Defence has given the contract. Generally, there will be a clause in the contracts awarded by Ministry of Defence, that the work should not be entrusted for sub-contract without the written prior approval of Ministry. The appellant may be requested to file a copy of contract and examine the clauses while passing order.

2. Resultantly, the appeal filed by the assessee company is partly allowed for statistical purposes in terms of our aforesaid observations.

Order pronounced in the open court on 22<sup>nd</sup> May, 2026

<b>Sd/-</b> (ओम्कारेश्वर चिदारा) (OMKARESHWAR CHIDARA) लेखा सदस्य/ACCOUNTANT MEMBER	<del>(रविश सूद) (RAVISH SOOD) न्यायिक सदस्य/JUDICIAL MEMBER</del>
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ITAT, Visakhapatnam  
Dated 22<sup>nd</sup> May, 2026

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2	Income Tax Officer, Infinity Tower, Shankaramatham Road, Santhipuram, Visakhapatnam, Andhra Pradesh-530016.
3	The Pr. Commissioner of Income Tax, Visakhapatnam.
4	The DR, ITAT, Visakhapatnam Bench
5	Guard File

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