

AO cannot reject books of accounts merely for producing photocopies or for drop in NP: ITAT

Blue Stampings & Forgings Ltd. (I.T.A No.1155/DEL/2020)

Facts:

1. The Assessing Officer (AO) had invoked the provisions of Section 145(3) and rejected the books of the account without showing any defect in the audited books of account.
2. The AO's reasons for applying Section 145(3) were that the assessee's declared net profit rate is 6.15%, compared to 6.52% net profit cloaked in the immediately preceding year, and that photocopies of vouchers relating to expenses were produced instead of original bills.
3. The assessee contended that simply because some bills presented to the Assessing Officer were photocopies would not raise any doubts about the completeness of books, ignoring tangible facts such as the availability of audited accounts and transactions. There is no marked difference in the net profit ratio, and on the contrary, the gross profit ratio is higher than the ratio shown in the previous year on a comparative basis.

ITAT Delhi held as below:

1. The AO in the present case has not shown how the audited books of account maintained by the assessee are incorrect or otherwise incomplete, which is likely to vitiate the true profits of the assessee.
2. No specific instance has been provided in order to appreciate how much delinquency on the part of the assessee has resulted in the unreliability of books per se.
3. Admittedly, the photocopies of bills and vouchers were duly produced, but the AO has not made any independent inquiry on the correctness of the bills from third parties.
4. The appeal of the assessee is allowed.