
(2007) 01 MAD CK 0075
In the Madras High Court
Case No : T.C. (A) No. 2689 of 2006

Commissioner of Income Tax

APPELLANT

Vs

NEPC Textiles Ltd.

RESPONDENT

Date of Decision : 02-01-2007

Acts Referred:

Income Tax Act, 1961 — Section 271(1)

Citation : (2007) 291 ITR 460

Hon'ble Judges : P.D. Dinakaran, J;Chitra Venkataraman, J

Bench : Division Bench

Advocate : Pushya Sitaraman, for the Appellant;

Judgement

P.D. Dinakaran, J.—The above tax case appeal is directed against the order of the Income Tax Appellate Tribunal dated May 12, 2006, made in I.T.A. No. 1673/Mds/2002 for the assessment year 1996-97.

2. The Revenue is the appellant. The issue raised in this appeal relates to the assessment year 1996-97. The assessee-company filed its return of income disclosing a loss of Rs. 3.59 crores. On completion of the assessment, the Assessing Officer reduced the loss to Rs. 87.93 lakhs and treated the reduction of loss being difference arising on account of undisclosed income. The Assessing Officer also passed an order u/s 271(1)(c) of the Act levying penalty of Rs. 89.64 lakhs for concealment of income. Aggrieved by the order imposing penalty, the assessee filed an appeal before the Commissioner of Income Tax (Appeals), who cancelled the penalty and allowed the assessee's appeal. On appeal at the instance of the Revenue, the Income Tax Appellate Tribunal dismissed the appeal by holding that penalty cannot be levied u/s 271(1)(c) where the assessed income was loss. Hence, this appeal by the Revenue raising the following question of law:

Whether, on the facts and circumstances of the case, the Tribunal was right in cancelling the penalty u/s 271(1)(c) of the Income Tax Act, 1961 on the ground

that the total assessed income of the assessee was only a loss ?

3. Mrs. Pushya Sitaraman, learned senior standing counsel appearing for the appellant fairly concedes that the issue raised in this appeal are already decided by this court in Commissioner of Income Tax Vs. A. Hariraman, .

4. It is trite law that the loss cannot be taken into account in computing penalty. Similarly, the amount representing unexplained credit cannot be treated as concealed income for levying penalty, vide Commissioner of Income Tax Vs. C.R. Niranjan, .

5. This court in Commissioner of Income Tax Vs. A. Hariraman, , following the decision of the apex court in Commissioner of Income Tax Vs. Prithipal Singh and Co., , whereunder the apex court affirmed the view of the Punjab and Haryana High Court in the same case reported in Commissioner of Income Tax Vs. Prithipal Singh and Co., while considering the scope of the words "income" and "in addition to tax, if any, payable by him", employed in Section 271(1)(c) of the Act, observed as hereunder (headnote):

The word "income" occurring in Clauses (c) and (iii) of Section 271(1) of the Income Tax Act, 1961, refers to positive income only and not a loss. Penalty could be imposed only in addition to the tax payable. A plain reading of Clauses (ii) and (iii) in Section 271(1)(c) of the Act, particularly in the context of the words "in addition to tax, if any payable to him" employed in Sub-clauses (ii) and (iii) would make it clear that the penalty contemplated in all the above clauses is a measure of tax payable by the assessee. In other words, if no tax is payable by the assessee, there would be no penalty which could be levied on the assessee. The penal provisions of Section 271(1)(c) are attracted only in the case of an assessee having positive income and not loss as the question of concealment of income to avoid payment of tax would arise only in the former case.

6. That apart, this court in Ramnath Goenka (Decd. by L. Rs.) Vs. Commissioner of Income Tax, , following the decisions cited above, held that penalty is imposable only in cases where tax has been levied and that no penalty can be levied when the result of the computation made by the Assessing Officer is a loss. In other words, penalty is not leviable when the assessment did not show any taxable income, but net loss.

7. In view of the settled proposition, finding no substantial question of law that arises for our consideration in this appeal, the same is dismissed. No costs.