



CNR: KAHC010456202026

NC: 2026:KHC:49200-DB
ITA No. 106 of 2026
C/W ITA No. 107 of 2026
ITA No. 110 of 2026

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 10TH DAY OF SEPTEMBER, 2026

PRESENT

THE HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE

AND

THE HON'BLE MRS. JUSTICE K.S. HEMALEKHA

INCOME TAX APPEAL NO. 106 OF 2026

C/W

INCOME TAX APPEAL NO. 107 OF 2026

INCOME TAX APPEAL NO. 110 OF 2026

IN ITA No. 106/2026

BETWEEN:

1. THE PR. COMMISSIONER OF INCOME TAX
5TH FLOOR, BMTC BUILDING
80 FEET ROAD
KORAMANGALA
BENGALURU - 560 095
2. THE DEPUTY COMMISSIONER OF INCOME TAX
CIRCLE-1(1)(1)
2ND FLOOR, BMTC BUILDING
80 FEET ROAD
KORMANGALA
BENGALURU - 560 095

...APPELLANTS

(BY SR RAVIRAJ Y.V., ADVOCATE)



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AND:

1. M/S. AUGUST JEWELLERY PVT. LTD.,
MELLORA, MEZZAMINE FLOOR, RBD
ICON BUILDING, NEXT TO ACM BALLET
DODDANEKUNDI MAIN ROAD
BENGALURU - 560 037, KARNATAKA

...RESPONDENT

THIS ITA IS FILED UNDER SECTION 260-A OF THE INCOME TAX ACT, PRAYING TO ALLOW THE APPEAL AND SET ASIDE THE ORDERS PASSED BY THE INCOME TAX APPELLATE TRIBUNAL, BENGALURU IN ITA NO.1457/Bang/2025 DATED 15.12.2025 FOR ASSESSMENT YEAR 2022-2023 ANNEXURE-A AND CONFIRM THE ORDER OF THE APPELLATE COMMISSIONER CONFIRMING THE ORDER PASSED BY THE DEPUTY COMMISSIONER OF INCOME TAX, CIRCILE-1(1)(1), BENGALURU & ETC.

IN ITA NO. 107/2026

BETWEEN:

1. THE PR. COMMISSIONER OF INCOME TAX-1
5TH FLOOR, BMTC BUILDING
80 FEET ROAD, KORAMANGALA
BENGALURU - 560 095
2. THE DEPUTY COMMISSIONER OF INCOME-TAX
CIRCLE-1(1)(1)
2ND FLOOR, BMTC BUILDING
80 FEET ROAD, KORMANGALA
BENGALURU - 560 095

...APPELLANTS

(BY SRI RAVIRAJ Y.V., ADVOCATE)



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DODDANEKKUNDI MAIN ROAD
BENGHALURU -560 037, KARNATAKA

...RESPONDENT

THIS ITA IS FILED UNDER SECTION 260-A OF THE INCOME TAX ACT, 1961 PRAYING TO ALLOW THE APPEAL AND SET ASIDE THE ORDERS PASSED BY THE INCOME TAX APPELLATE TRIBUNAL, BENGALURU IN ITA NO.1419/Bang/2025 DATED 15.12.2025 FOR ASSESSMENT YEAR 2022-2023 ANNEXURE-A AND CONFIRM THE ORDER OF THE APPELLATE COMMISSIONER CONFIRMING THE ORDER PASSED BY THE DEPUTY COMMISSIONER OF INCOME TAX, CIRCLE-1(1)(1), BENGALURU & ETC.

IN ITA NO. 110/2026

BETWEEN:

1. THE PR. COMMISSIONER OF INCOME-TAX-1,
5TH FLOOR, BMTC BUILDING
80 FEET ROAD, KORMANGALA
BENGALURU - 560 095
2. THE DEPUTY COMMISSIONER OF INCOME-TAX
CIRCLE-1(1)(1)
2ND FLOOR, BMTC BUILDING
80 FEET ROAD, KORMANGALA
BENGALURU - 560 095

...APPELLANTS

(BY SRI RAVIRAJ Y.V., ADVOCATE)



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BENGALURU - 560 037, KARNATAKA

...RESPONDENT

THIS ITA IS FILED UNDER SECTION 260-A OF THE INCOME TAX ACT, PRAYING TO ALLOW THE APPEAL AND SET ASIDE THE ORDER PASSED BY THE INCOME TAX APPELLATE TRIBUNAL, BENGALURU IN ITA NO.1420/Bang/2025 DATED 15.12.2025 FOR ASSESSMENT YEAR 2022-2023 ANNEXURE-A AND CONFIRM THE ORDER OF THE APPELLATE COMMISSIONER CONFIRMING THE ORDER PASSED BY THE DEPUTY COMMISSIONER OF INCOME TAX, CIRCLE-1(1)(1), BENGALURU & ETC.

THESE APPEALS, COMING ON FOR ORDERS, THIS DAY, JUDGMENT WAS DELIVERED THEREIN AS UNDER:

CORAM: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE
and
HON'BLE MRS. JUSTICE K.S. HEMALEKHA



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ORAL JUDGMENT

(PER: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE)

1. The Revenue has filed the present appeals under Section 260A of the Income Tax Act, 1961 [the '**Act**'] impugning an order dated 15.12.2025 passed by the learned Income Tax Appellate Tribunal [**Tribunal**].

2. The Tribunal had passed the impugned order in three separate appeals: ITA No.1419/Bang/2025, ITA No.1420/Bang/2025 and ITA No.1457/Bang/2025 in respect of the Assessment Year [**AY**] 2022-2023. The Assessee had filed the said appeals from the orders passed by the National Faceless Appeal Centre [**NFAC**].

3. ITA No.1419/Bang/2025 was filed by the Assessee against the Assessment Order dated 18.03.2024 under Section 143(3) of the Act, whereby the Assessment Officer [**AO**] made additions, including on account of a variation on account of loss of sale of assets and provisions for doubtful debts. The AO assessed the total income of the Assessee as loss of ₹17,36,92,212/- as against loss of ₹97,64,90,311/-. The Revenue's appeal, ITA No.107/2026,



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arises from the Tribunal's order in relation to ITA No.1419/Bang/2025.

4. The AO had also passed an order dated 01.07.2024 imposing a penalty of ₹3,77,67,303/- under Section 270A of the Act for non-reporting of income. The Assessee appealed the order before the NFAC, which dismissed it by an order dated 18.06.2025. The Assessee appealed the leaned NFAC's order before the Tribunal which was numbered as ITA No.1420/Bang/2025.

5. The AO had made an addition of ₹56,07,00,000/- under Section 68 of the Act read with Section 115BBE of the Act. In respect to the said addition, the AO had imposed a penalty of ₹4,37,34,600/- under Section 271AAC of the Act by an order dated 01.07.2024. The Assessee had appealed the said order before the NFAC. However, by an order dated 19.06.2025, NFAC rejected the appeal on the ground of delay. The said order was the subject matter of appeal before the Tribunal in ITA No.1457/Bang/2025, and the Tribunal's order in relation to the said appeal is impugned in ITA No.106/2026.



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6. Although ITA No.106/2026 and ITA No.110/2026 do not concern additions made on merits, the revenue has projected a common set of questions in all three appeals. The same are reproduced below:

- "1. Whether on the facts and in the circumstances of the case, the Tribunal erred in law in holding that conversion of compulsorily Debentures (CCDs) into Compulsorily Convertible Preference Shares (CCPs) does not attract the provisions of section 68, without appreciating that the underlying credits representing share premium remained unexplained and unverified?
2. Whether on the facts and in the circumstances of the case, the Tribunal erred in law in relying upon documents and evidences furnished for the first time at the appellate stage, without affording an opportunity to the assessing officer to examine the same, in violation of Rule 29 of the Appellate Tribunal Rules 1963?
3. Whether on the facts and in the circumstances of the case, the Tribunal was justified in deleting the penalty levied under section 271AAC(1) of the act solely on the basis of deletion of the quantum addition under section 68, when the said quantum issue itself is subject matter of further appeal?"

7. It would be necessary to examine the questions of law that relate to ITA No.107/2026, that is, the appeal arising from the Tribunal's order in respect of the merits of the addition made by the AO.



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8. The AO had made the following additions to the income returned by the Assessee;

(i) Variation in respect of addition on account of loss on sale of Assets and provision for doubtful debts	Rs.9,54,000/-
(ii) Variation in respect of addition on account of share premium U/s 68 of the Act r/w Section 115BBE of the Act	Rs.56,07,00,000/-
(iii) Variation in respect of disallowance of advertisement and business promotion expenses	Rs.24,06,60,000/-
(iv) Variation in respect of disallowance on expenses on employee-stock option scheme	Rs.4,00,000/-
(v) Variation in respect of disallowance interest on TDS	Rs.84.099/-

9. The first question of law which is projected by revenue relates to the applicability of Section 68 of the Act in respect of conversion of Compulsorily Convertible Debentures [**CCDs**] into Compulsorily Convertible Preference Shares[**CCPS**].

10. The AO had during the course of the assessment proceedings, noticed that an amount of ₹56,07,00,000/- was reflected as share premium on allotment of 9,403 CCPs during the previous year relevant to the AY 2022-23.



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11. The AO had sought details of the preference shareholders, which the AO found wanting, and accordingly made an addition of ₹56,07,00,000/-, which was reflected as share premium.

12. The Assessee reported that it had issued CCPS to persons in the financial year 2020-21, which were subsequently converted into preferential shares.

13. The tabular statements indicating the details of the CCDs, dates of issue, and conversion into preference shares as reproduced by the Tribunal in the impugned order, is set out below:

Table A-Details of issue of CCD and date on which funds received in AY 2021-2022

Sl.	Name of the Investors	No. of CCD held	Amount received	Date receipt of funds	Date of allotment of CCD
1.	JJ Family Office LLP (Who sold it to Beeline Impex Private Limited)	108	75,00,000	17/07/2020	20-Jul-20
2.	Cowdry Associates	144	1,00,00,000	23/07/2020	26-Jun-20
3.	Faisal Mohammed A Ababtain	296	2,05,55,259	05/06/2020	6-Jun-20
4.	Shantaram Jonnalagadda	162	1,12,50,000	04/06/2020	6-Jun-20
5.	Shadows Holdings Pvt. Ltd.	8,344	49,17,64,500	14/09/2020	16-Sep-20
6.	Gopinath Ambadithody	349	1,50,00,000	11/09/2020	16-Sep-20
7.	Total	9403	56,16,53,509		



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Table B-Details of conversion of CCD to CCPS in AY 2022-2023

Sl.	Name of the Investors	No. of CCD held	No. of series C4 CCPS allotted upon conversion	Date of conversion of CCD to CCPS
1.	Beeline Impex Private Limited (who had purchased it from JJ Family Office LLP)	108	108	13/01/2022
2	Cowdry Associates	144	144	13/01/2022
3	Faisal Mohammed A Ababtain	296	296	13/01/2022
4	Shantaram Jonnalagadda	162	162	13/01/2022
5	Shadows Holdings Pvt. Ltd.	8,344	8,344	13/01/2022
6	Gopinath Ambadithody	349	349	13/01/2022
7	Total	9403	9403	

14. There is no dispute that the Assessee had not received any funds during the previous year 2021-2022, relevant to AY 2022-23, and the share premium was created by a book entry, converting the CCDs to CCPS.

15. Undisputedly, the said entries relating to allotment of preference shares did not represent credit of any sum received by the Assessee during the previous year relevant to AY 2022-23.



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16. In this view, the learned Tribunal held that no addition could be made in the assessment year in question (AY 2022-23) as the allotment of shares did not reflect the receipt of any sum, and there was a book entry whereby CCDs were converted to preferential shares.

17. Section 68 of the Act reads as under:

"Cash credits.

68. Where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the sum so credited may be charged to income-tax as the income of the assessee of that previous year :

Provided that where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by such assessee shall be deemed to be not satisfactory, unless,—

- (a) the person in whose name such credit is recorded in the books of such assessee also offers an explanation about the nature and source of such sum so credited; and
- (b) such explanation in the opinion of the Assessing Officer aforesaid has been found to be satisfactory;

Provided further that where the assessee is a company (not being a company in which the public are substantially interested), and the sum so credited consists of share application money, share capital, share premium or any such amount by whatever



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name called, any explanation offered by such assessee-company shall be deemed to be not satisfactory, unless—

- (a) the person, being a resident in whose name such credit is recorded in the books of such company also offers an explanation about the nature and source of such sum so credited; and
- (b) such explanation in the opinion of the Assessing Officer aforesaid has been found to be satisfactory:

Provided also that nothing contained in the first proviso or second proviso shall apply if the person, in whose name the sum referred to therein is recorded, is a venture capital fund or a venture capital company as referred to in clause (23FB) of Section 10."

18. Concededly, the expression "any sum found in the books of credit" refers to an amount received by an assessee during the previous year. Since no amount was received by the Assessee during the previous year, no addition on account of premium could be made under Section 68 in the relevant assessment year. In this view, the first question as projected by the Tribunal does not arise

19. In this view, no substantial question of law arises in the context of the said addition.

20. The learned Tribunal had set aside the additions made on account of disallowance of expenses to the extent of



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₹24,06,60,000/-, being 20% of the advertisement and business promotion expenses. The AO made the addition solely on the basis that the advertisement and business promotion expenses had increased compared to the prior year.

21. The Assessee had explained that there was a significant increase in the turnover and in fact the advertisement to sales ratio had reduced from 55.37% to 33.08%. The learned Tribunal found no basis for making an *ad hoc* addition. The Revenue has not projected any question of law in this regard. Thus, this Court is not called upon to examine the same.

22. As to the other additions, the learned Tribunal remanded the matter for consideration. No question of law has been raised in this regard as well.

23. In this view, no substantial question of law arises in ITA No.107/2026.

24. Insofar as ITA No.106/2026 is concerned, as noted herein before, the same relates to the levy of penalty under Section 271AAC(1) of the Act, which is premised solely on the addition



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made under Section 68 of the Act, in relation to the share premium amount. Since the said addition has been set aside, the order imposing penalty under Section 271AAC(1) would not survive. No questions of law arises in respect to the levy of penalty in ITA No.106/2026 as well.

25. Insofar as ITA No.110/2026 is concerned, the same arises from an order levying penalty under Section 270A of the Act. The said penalty is premised on the additions made. The main additions – addition of a sum of ₹56,07,00,000/- on account of share premium and an addition of ₹24,06,60,000/- on disallowance of advertisement expenses – have been set aside; therefore, the penalty under Section 270A in respect of those additions would not arise.

26. In respect of the other additions, the learned Tribunal has remanded the matter to the AO to consider the same. The question of penalty would arise if the additions are reiterated.

27. We find that no substantial questions of law arise in this appeal as well.



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28. The appeals are, accordingly, dismissed.

Sd/-
(VIBHU BAKHRU)
CHIEF JUSTICE

Sd/-
(K.S. HEMALEKHA)
JUDGE

KMV
List No.: 2 Sl No.: 5