

**IN THE HIGH COURT AT CALCUTTA
SPECIAL JURISDICTION (INCOME TAX)
ORIGINAL SIDE**

ITA 24 OF 2026

**SHYAM SEL AND POWER LIMITED
VS
PRINCIPAL COMMISSIONER OF INCOME TAX (CENTRAL),
KOLKATA – 1**

ITA 22 OF 2026

**SHYAM METALICS AND ENERGY LIMITED
VS
PRINCIPAL COMMISSIONER OF INCOME TAX (CENTRAL),
KOLKATA – 1**

ITA 27 OF 2026

**SHYAM METALICS AND ENERGY LIMITED
VS
PRINCIPAL COMMISSIONER OF INCOME TAX (CENTRAL),
KOLKATA – 1**

**BEFORE:
THE HON'BLE JUSTICE RAJARSHI BHARADWAJ
AND
THE HON'BLE JUSTICE UDAY KUMAR**

For the Appellant : *Mr. J.P. Khaitan, Ld. Sr. Adv.*
Mr. Sanjay Bhowmik, Ld. Adv.
Mr. Pratyush Jhunhunwala, Ld. Adv.
Ms. Sruti Dutta, Ld. Adv.
Ms. Sakshi Singhi, Ld. Adv.

For the Respondent : *Mr. Amit Sharma, Ld. Adv.*
Mr. A.K. Agrahari, Ld. Adv.

Hearing concluded on : 17.04.2026

Judgment on : 07.05.2026

Uday Kumar, J:-

I. INTRODUCTION

1. These three appeals, out of which ITA 24 of 2026 has been preferred by the Appellant-Assessee, M/s Shyam Sel and Power Limited and remaining two appeals have been preferred by Shyam Metalics and Energy Limited, under Section 260A of the Income Tax Act, 1961, calls into question the orders of the Learned Income Tax Appellate Tribunal "A" Bench, Kolkata, all dated August 13, 2025, passed in ITA No. 1018/KOL/2024 for the Assessment Year 2017-18, in ITA No. 1016/KOL/2024 for the Assessment Year 2017-18 and in ITA No. 1017/KOL/2024 for the Assessment Year 2018-19 respectively. By the impugned order, the Tribunal sustained a revisionary intervention by the Principal Commissioner of Income Tax (PCIT) under Section 263 for the Assessment Year 2017-18. At the heart of this forensic contest lies a perceived "investigative vacuum" in the Assessing Officer's scrutiny regarding the allocation of Head Office expenses, a vacuum which the Revenue decries as "erroneous and prejudicial," but which the Appellant defends as territory already fully occupied by the rigors of specialized audit and appellate scrutiny.

2. The factual narrative originates with the Appellant, an industrial house engaged in the manufacture of iron and steel, which established three Captive Power Plants (CPPs) at Mangalpur and Jamuria to achieve operational self-sufficiency. These plants, qualifying as "eligible businesses" under the fiscal incentive umbrella of Section 80-IA, were entitled to a cent per cent deduction of their profits for ten consecutive assessment years. However, as these units primarily served the Appellant's own manufacturing facilities, the inter-unit pricing mechanism became a matter of acute statutory significance; under Section 80-IA(8), such transfers must strictly correspond to "Market Value" a requirement that triggered the "Specified Domestic Transaction" (SDT) provisions of Chapter X.
3. A pivotal shift in the trajectory of the assessment occurred on January 17, 2019, following a search and seizure operation conducted upon the Shyam Sel Group. In the ensuing scrutiny, the Assessing Officer, mindful of the complexity inherent in internal power transfers, made a formal reference to the Transfer Pricing Officer (TPO) under Section 92CA for the determination of the Arm's Length Price (ALP). It is here that the facts take a critical turn as the TPO did not merely evaluate the revenue generated by the power units but specifically requisitioned details regarding the allocation of costs. In response, the Appellant submitted its Transfer Pricing Study Report, advocating for a "Direct Nexus" theory, contending that only expenses possessing a clear causal link to power generation should

be debited, while common Head Office costs should remain stayed with the non-eligible units.

4. By an order dated January 25, 2021, the TPO accepted this methodology of cost allocation but proposed a significant downward adjustment to the price of power, reducing the rate to 2.48 per unit. When the Assessing Officer passed the final assessment order on August 25, 2021, he acted in strict conformity with these specialized findings as mandated by Section 92 CA(4). The result was a mathematical inevitability of the eligible profits of the power plants were extinguished, the deduction under Section 80-IA was reduced to NIL, and the tax liability was correspondingly enhanced.
5. Seeking redress, the Appellant approached the CIT(Appeals), where a fresh calibration of grid rates resulted in a re-calculation of the eligible profit at ₹42,18,20,214 and directed the Assessing Officer to allow the deduction accordingly. While the Revenue challenged this before the Tribunal, the matter was remanded for the limited purpose of verifying these revised figures. It was at this precise juncture, while the quantum of the deduction was being distilled through the appellate and remand processes, that the PCIT invoked his revisionary powers.
6. On February 9, 2024, the PCIT issued a show-cause notice to the appellant alleging that the original assessment was "erroneous" for the AO's failure to ensure a proportionate distribution of Head Office expenses among the units. Despite the Appellant's vehement

objection that the issue had merged with the appellate decree and had already been scrutinized by the TPO, the PCIT persisted, setting aside the assessment on March 18, 2024. The Tribunal has since upheld this revision, viewing the "allocation of expenses" as a distinct, unexamined issue.

7. Against this backdrop of procedural friction, we are tasked with determining whether the law permits such a surgical intervention into a specific accounting component of a claim that has otherwise been adjudicated as a composite whole in appeal. To resolve this conflict between the finality of assessment and the Revenue's corrective mandate, we formulate the following Substantial Questions of Law:

II. Substantial Questions of Law

8. To resolve this conflict between the finality of assessment and the Revenue's corrective mandate, we formulate the following Substantial Questions of Law:
- i. Whether the PCIT possessed the requisite jurisdiction under Section 263 to revisit the quantum of a Section 80-IA deduction when the said deduction had already been the subject matter of an adjudication by the CIT(Appeals)?
 - ii. Whether the jurisdiction under Section 263 could be validly exercised to revisit cost-quantification after the same had

undergone the specialized rigor of Transfer Pricing proceedings under Section 92CA?

- iii. Whether the acceptance of the "Direct Nexus" theory by the Assessing Officer (AO) and Transfer Pricing Officer (TPO) constituted a "plausible view," thereby rendering the assessment immune to revision under the established parameters of Section 263?

III. SUBMISSIONS ON BEHALF OF THE APPELLANT-ASSESSEE

9. Assailing the revisionary order on a multi-layered jurisdictional foundation, Mr. J.P. Khaitan, the learned senior counsel for the Appellant-Assessee, contended that the PCIT's intervention is a product of jurisdictional overreach that overlooks the specialized architecture of Transfer Pricing and the finality of appellate decrees. He anchors his address in the proposition that the Revenue has failed to respect the statutory perimeter erected by the legislature through Chapter X. For the Assessment Year in question, the inter-unit transfer of power between the captive power plants (CPPs) and the manufacturing units exceeded the ₹20 crore threshold, thereby crystallizing these transactions as "Specified Domestic Transactions" (SDT) under Section 92BA(iii). Consequently, by the mandate of Section 92(2A), the determination of any allocation of cost or expense is governed exclusively by the provisions requiring such

computation to be made having regard to the Arm's Length Price (ALP).

- 10.** Mr. Khaitan emphasizes that once a formal reference was made to the Transfer Pricing Officer (TPO) under Section 92CA, the TPO's jurisdiction became not merely advisory but exclusive. The TPO specifically requisitioned the Transfer Pricing Study Report, wherein the Appellant defended its "Direct Nexus" theory, arguing that common Head Office expenses lacked a causal link to power generation. By accepting this methodology in his order dated January 25, 2021, the TPO effectively occupied the field of cost-allocation. Under Section 92CA (4), the Assessing Officer (AO) was statutorily bound by these findings. Mr. Khaitan argues that since Chapter X is a "complete code," any perceived error in the TPO's acceptance could only be corrected by a specialized Commissioner of Transfer Pricing; the jurisdictional PCIT cannot, through a general revision, "second-guess" the results of a specialized audit.
- 11.** Building upon this foundation, the Appellant mounted a secondary challenge based on the exhaustion of jurisdiction. It is argued that by the time the PCIT invoked Section 263, the original assessment order had already lost its independent existence, having merged into the superior decree of the CIT(Appeals) dated June 2, 2023. A claim for deduction under Section 80-IA is not a collection of disparate items but an integrated subject matter where income and expenses are two sides of the same fiscal coin. Since the CIT(Appeals) re-adjudicated

the quantum of the deduction, arriving at a revised figure of ₹42,18,20,214, the appellate authority is deemed to have "considered" the profitability of the units in its entirety.

- 12.** Invoking the "surgical" restriction in Explanation 1(c) to Section 263(1), Mr. Khaitan submits that once the first appellate authority puts its seal of approval on the quantum of a deduction, every accounting component, including the allocation of expenses, stands merged. To hold otherwise would violate the doctrine of finality and administrative discipline, effectively permitting the PCIT to "reverse the clock" on a settled appellate decree.
- 13.** Transitioning to the merits, the Appellant submitted that the non-allocation of Head Office expenses was a deliberate adherence to the judicially sanctioned "Direct Nexus" theory. The AO adopted a legally sustainable view that only expenditures possessing a direct causal link to an industrial undertaking can be debited against its profits. Relying on settled precedents in *Zandu Pharmaceuticals Works Ltd vs. CIT* (350 ITR 366) and *CIT vs. Micr Electronics Ltd* (77 *taxmann.com* 67), Mr. Khaitan contended that common finance costs of a parent company cannot be arbitrarily loaded onto an eligible unit unless a direct benefit is demonstrated.
- 14.** The Appellant argued that the PCIT's intervention is merely an attempt to substitute a "preferable view" for a "plausible view," which the Apex Court in *CIT vs. Max India Ltd* (295 ITR 282) and this Court in *PCIT vs. Russel Credit Limited* (2026) have held to be jurisdictional

excess. Where an AO has conducted an inquiry and adopted a sustainable position, the revisionary power must remain dormant. The direction to "proportionately allocate" costs is characterized as a subjective accounting preference that ignores the functional reality of CPP operations, which require minimal head-office intervention.

- 15.** Finally, Mr. Khaitan emphasizes that since this assessment was framed under Section 153A following a search, the Revenue's power is strictly tethered to the discovery of "incriminating material." As the expense allocation was a routine accounting matter reflected in regular books, it remained beyond the reach of both the AO and the PCIT. Relying on *PCIT vs. Abhisar Buildwell P. Ltd. (2023)* and *CIT vs. Kabul Chawla (380 ITR 573)*, Mr. Khaitan argued that once an assessment reaches finality, it can only be reopened on the strength of tangible, incriminating evidence. In the absence of tangible, incriminating evidence, the AO's acceptance of the reported profits was the only legally sustainable course.
- 16.** To allow a revision on a purely "notional" basis of expense allocation would, in the Appellant's view, circumvent the rigorous protections provided to taxpayers under the search regime. Mr. Khaitan, therefore, prayed that the questions of law be answered in favor of the Assessee and the revisionary order be quashed as being *coram non judice*.

IV. SUBMISSIONS ON BEHALF OF THE RESPONDENT-REVENUE

- 17.** Countering these submissions, Mr. Amit Sharma, the learned Counsel for the Revenue characterized the assessment order as a manifest case of "absolute non-inquiry" resulting in a substantial loss to the exchequer. He submitted that the PCIT was statutorily obligated to intervene because the AO failed to act as an investigator, particularly regarding the "expense side" of the Section 80-IA claim.
- 18.** Regarding the Doctrine of Merger, the Revenue contended that the Appellant's reliance is jurisprudentially flawed. Under Explanation 1(c) to Section 263(1), revisionary power is only eclipsed on those specific "matters" actually considered and decided in appeal. Since "profit" is the numerical result of two distinct variables i.e., receipts and expenditure, a decision on the "receipt" variable (the rate of power) does not automatically adjudicate the "expenditure" variable. The CIT(Appeals) was exclusively occupied with valuation rates, leaving the allocation of common Head Office expenses entirely untouched. As this issue was never raised, questioned, or adjudicated upon, it remained a jurisdictional vacuum that the PCIT was entitled to fill.
- 19.** On the TPO's mandate, the Revenue submitted that the Appellant seeks to construct a "jurisdictional no-fly zone." Under Section 92CA, the TPO's role is confined to determining the Arm's Length Price. The allocation of costs to an "eligible unit" for the purpose of computing

"Net Profit" remains the primary, non-delegable duty of the AO. The TPO's silence on cost-allocation cannot be construed as a binding finding, as he was never tasked with adjudicating the internal accounting distribution of corporate overheads.

- 20.** The Revenue forcefully rebutted the "Plausible View" defense, asserting that a view can only be "plausible" if it is born out of an inquiry. Learned Counsel characterized this as a case of "absolute non-inquiry" rather than "inadequate inquiry." Despite the glaring disparity between the massive administrative overheads in the consolidated Profit & Loss accounts and the "cost-free" nature of the Power units, the AO failed to record a solitary note to justify this lack of allocation. While the "Direct Nexus" theory is a valid legal concept, it is a factual claim that requires proof; by accepting it without verification, the AO failed to bridge the gap between the TPO's rate-valuation and the actual profitability of the unit.
- 21.** Finally, regarding the search assessment under Section 153A, the Revenue submitted that the "incriminating material" doctrine offers no sanctuary to the Appellant for AY 2018-19. As the assessment was "pending" or "abated" at the time of the search, the AO's jurisdiction was restored to its full, plenary strength to determine "total income" irrespective of whether specific seized material existed. The failure to examine the apportionment of common costs during this "reset" assessment was a jurisdictional lapse which the PCIT was entitled to rectify.

- 22.** In sum, the Revenue contended that the PCIT acted within the four corners of his mandate to prevent a leakage of revenue, ensuring that the total income for the search year is computed accurately and in accordance with the law.

V. JUDICIAL ANALYSIS AND DISCUSSION

A. ON THE DOCTRINE OF MERGER & SEARCH JURISDICTION (SQL NO. 1)

- 23.** Having delineated the factual matrix and the rival submissions, we proceed to resolve the first substantial question of law, is relating to 'Whether the Principal Commissioner's jurisdiction under Section 263 was eclipsed by the intervention of the first appellate authority.' This inquiry compels us to determine whether the Assessing Officer's order of August 25, 2021, retained an independent identity capable of revision, or whether it had undergone a total legal metamorphosis, merging into the superior decree of the CIT(Appeals).
- 24.** The Appellant invokes the Doctrine of Merger as an absolute jurisdictional shield, relying on the premise that a deduction under Section 80-IA is a "singular, integrated claim." Under this theory, once the CIT(Appeals) re-computed the deduction to arrive at a revised figure of ₹42,18,20,214, the entire "subject matter" of the unit's profitability stood adjudicated and, consequently, merged. The Revenue, however, seeks to pierce this protection by invoking the

specialized "carve-out" enshrined in Explanation 1(c) to Section 263(1).

- 25.** We find it necessary to distinguish the present matrix from the ratio in *Nirma Chemicals Works (P) Ltd.* In that instance, the dispute concerned the fundamental *eligibility* of the industrial undertaking, the very root of the claim. In the case before us, eligibility is a settled fact; the controversy centres on a distinct accounting variable: the allocation of common Head Office expenses. We observe that this specific component was never highlighted, debated, or touched upon during the appellate proceedings.
- 26.** The legislative intent behind Explanation 1(c) explicitly clarifies that the bar of merger is not a blanket immunity; it is "issue-specific" and restricted only to those "matters" that were actually considered and decided in appeal. This position is fortified by the Hon'ble Supreme Court in *CIT vs. Shri Amitabh Bachchan*, which holds that the Commissioner's revisionary power remains vibrant regarding issues that did not form the subject matter of the appellate challenge. The Appellant's reliance on *Smt. Renuka Phillip vs. ITO* is misplaced, as the issue revised in that case was the identical capital gains computation the CIT(A) had already scrutinized.
- 27.** This jurisdictional clarity is further amplified by the "search" status of the assessment. Since Assessment Year 2018-19 was in an "abated" status at the time of the search, the Assessing Officer's (AO) jurisdiction was restored to its full, plenary strength. In this "reset"

jurisdiction, the AO had a non-delegable duty to determine "total income" by scrutinizing both pillars of profitability: revenue and expenditure.

- 28.** We find that the CIT(Appeals) was engaged exclusively in a valuation exercise concerning receipts (the "grid rate" of power). It did not conduct a comprehensive audit of the consolidated corporate expenses. To accept the Appellant's theory that "Net Profit" is a monolithic whole would allow an assessee to strategically immunize an investigative lapse by filing an appeal on a minor peripheral point. Such an interpretation would render the remedial purpose of Section 263 illusory.
- 29.** In the context of an abated search assessment, where the AO's power of inquiry is at its zenith, the failure to verify the "expense side" of the ledger creates a jurisdictional void. Since this void was not addressed by the appellate authority, no merger occurred. The AO's order, therefore, retained its independent identity regarding the un-probed costs, leaving it open to the PCIT's corrective intervention.
- 30.** Furthermore, we must address the "Plausible View" defence. As observed in *PCIT vs. Russel Credit Limited*, revision is barred if the AO adopts one of two possible views. However, a "view" is a product of active deliberation; it requires the visible application of mind to a contested fact. In the present record, the AO's order is characterized by a "desert of silence" regarding the proportionate distribution of

Finance Costs and Personnel Expenses. Silence is not the exercise of a choice; it is the abdication of a duty.

- 31.** We find the Revenue's reliance on *CIT vs. Maithan International* to be particularly germane. This Court has held that where an AO fails to undertake an inquiry on a point that "provokes an inquiry," the resulting order is inherently erroneous and prejudicial. Here, the AO's passive adoption of the TPO's valuation of revenue, while ignoring the expense side of the ledger, created a jurisdictional vacuum that the PCIT was not only entitled but obligated to fill.
- 32.** Consequently, we hold that the issue of "Head Office expense allocation" was a distinct matter that remained un-adjudicated and un-considered by the CIT(Appeals). The Doctrine of Merger, therefore, does not operate as a jurisdictional bar. The "carve-out" in Explanation 1(c) is squarely attracted, preserving the PCIT's mandate to rectify an investigative void.
- 33.** Accordingly, the first Substantial Question of Law is answered in the affirmative, in favour of the Revenue and against the Assessee. We conclude that the Principal Commissioner possessed the requisite jurisdiction to invoke Section 263, as the specific issue of expense apportionment had not lost its identity through the process of appellate merger.

B. ON JURISDICTIONAL EXCLUSIVITY & TRANSFER PRICING (SQL NO. 2)

- 34.** Having confirmed that the appellate decree did not extinguish the Principal Commissioner's jurisdiction, we turn to the second limb of the challenge: Whether the specialized regime of Transfer Pricing under Chapter X divests the PCIT of his revisionary powers. The Appellant's defence is anchored in the "Doctrine of Jurisdictional Exclusivity," contending that because the inter-unit power transfers were Specified Domestic Transactions (SDT), the entirety of the Section 80-IA deduction, including the "allocation of any cost or expense," passed into the exclusive and binding mandate of the Transfer Pricing Officer (TPO).
- 35.** We have meticulously analyzed the statutory architecture of Section 92CA. The Appellant suggests that since the TPO requisitioned the Transfer Pricing Study Report and subsequently proposed adjustments only on the "income side," his silence on the "expenditure side" must be interpreted as a tacit but binding approval of the cost-allocation methodology. Under this theory, the Assessing Officer (AO) was merely a conduit for the TPO's findings, mandated by Section 92CA(4) to adopt the resulting figures without further question.
- 36.** However, we find this interpretation to be an impermissible overextension of the TPO's functional role. The TPO is a specialized

authority tasked with valuation, specifically the determination of the Arm's Length Price (ALP) of a transaction to prevent price distortion. His mandate, however, does not encompass the holistic computation of "Net Profit" required for a tax holiday under Section 80-IA. The duty to ensure that an "eligible undertaking" is debited with its fair share of corporate overheads, thereby preventing the artificial shifting of profits from taxable manufacturing units to non-taxable power units, remains the primary, non-delegable duty of the Assessing Officer.

- 37.** The record reveals a significant "Mandate Gap." The TPO's order of January 25, 2021, contained an explicit disclaimer: his findings were confined to the valuation of the power rate. He did not, and legally could not, adjudicate upon the internal accounting distribution of Head Office Finance Costs or Employee Benefit Expenses. By adopting the TPO's revenue valuation while failing to bridge the gap regarding expense allocation, the Assessing Officer allowed an investigative vacuum to persist in the final assessment.
- 38.** We must reject the Appellant's contention that the AO was "bound" by the TPO's silence. In the realm of fiscal jurisprudence, an officer is bound by a positive determination; he cannot be bound by an omission. If the TPO did not adjudicate the allocation of Head Office expenses because it fell outside the scope of the ALP determination, there was no "finding" to bind the AO. As we observed in *CIT vs. Maithan International*, the AO is an investigator who cannot remain

passive when a return "provokes an inquiry." The failure to question why the Power units remained "expense-light" despite a massive corporate infrastructure is a failure of general assessment, not a failure of transfer pricing.

- 39.** Furthermore, the specialized revisionary mechanism provided in Circular No. 23 of 2022 for Transfer Pricing orders does not divest the jurisdictional PCIT of his power under Section 263. While the TPO determines the fairness of the price, the AO remains the guardian of the completeness of the Profit & Loss account. Where the AO fails to reconcile these two distinct variables, the resulting order is both "erroneous" and "prejudicial."
- 40.** Accordingly, the second Substantial Question of Law is answered in the affirmative, in favour of the Revenue and against the Assessee. We hold that the specialized mandate of Chapter X does not provide a "jurisdictional immunity" to the Assessing Officer for investigative lapses in the general computation of tax-exempt profits

C. ON THE "PLAUSIBLE VIEW" DOCTRINE (SQL NO. 3)

- 41.** We now address the third bastion of the Appellant's defence: Whether the acceptance of the "Direct Nexus" theory constituted a "plausible view," thereby rendering the assessment immune to revision. The learned counsel for the Assessee contends that the decision to accept the non-allocation of Head Office (HO) expenses was not a lapse of duty, but a conscious choice rooted in a judicially

sanctioned accounting methodology. They rely upon the "Direct Nexus" theory, as articulated in *Zandu Pharmaceuticals Works Ltd vs. CIT*, suggesting that for an expense to be loaded onto an industrial undertaking, there must be a visible, causal link.

- 42.** However, we must scrutinize this contention through the lens of modern corporate reality and the specific mandate of Section 80-IA(8). The Appellant's argument rests on a "Myth of Operational Isolation," the notion that a captive power plant, producing energy worth crores, can exist in a state of administrative and financial vacuum. In reality, the Head Office functions as the nerve centre, providing the essential infrastructure, finance, human resource management, and strategic oversight that sustain the eligible unit.
- 43.** To suggest that these common overheads have no nexus with the profitable units is an accounting fiction that the law cannot endorse without verification. While the "Direct Nexus" theory is a valid legal principle, its application is not an automatic right; it requires a forensic examination of facts rather than a passive acceptance of an assessee's assertions.
- 44.** The Appellant seeks sanctuary in the "Plausible View" doctrine, as established in *Max India Ltd* and *Russel Credit Limited*, which protects an Assessing Officer's choice between two legally sustainable positions. Yet, we must distinguish a deliberate "choice" from an investigative "void." For a view to be characterized as "plausible," it must be the result of a visible application of mind to a contested fact.

In the present record, we find an investigative silence that borders on the absolute. The AO adopted the TPO's valuation of revenue but failed to ask a single question regarding the massive Finance Costs or Personnel Expenses appearing in the consolidated books but conspicuously absent from the power unit's accounts.

- 45.** As this Court held in *CIT vs. Maithan International*, an AO is not a mere tax collector but an investigator whose duty is triggered the moment a return "provokes an inquiry." The absence of any allocation of HO expenses in the Form 10CCB, contrasted with the heavy corporate overheads in the main P&L account, was a "red flag" that demanded a bridge of logic. By ignoring this disparity, the AO did not take a "view"; he simply failed to see.
- 46.** We find the argument regarding "test-checking" to be unpersuasive. Verifying the validity of individual vouchers is a routine audit function; it is not a substitute for the statutory duty under Section 80-IA(8), which requires the profits of the undertaking to be computed as if it were a separate, standalone entity. A standalone entity would necessarily bear its own administrative and financial burden. By allowing the units to remain "expense-light," the AO permitted an artificial inflation of tax-exempt profits. This passivity does not constitute a "plausible view"; it constitutes a manifest failure to protect the interests of the Revenue.
- 47.** As established in *Malabar Industrial Co. Ltd.*, an assessment order passed without supporting material or inquiry is inherently erroneous

and prejudicial. The "Plausible View" doctrine cannot be used as a shield for non-inquiry. A view can only be legally sustainable if it is born out of an audit of facts; it cannot be born out of investigative silence.

- 48.** Accordingly, the third Substantial Question of Law is answered in the negative, in favour of the Revenue and against the Assessee. We conclude that the AO's failure to challenge the "Direct Nexus" theory in the face of patent accounting anomalies rendered the assessment order liable to revision.

VI. THE JURISDICTIONAL INTEGRITY OF SEARCH ASSESSMENTS

- 49.** Having resolved the substantive questions of law, we find it imperative to address the specialized "search" status of the assessment under Section 153A. The Appellant has sought to invoke the restrictive shield of the Hon'ble Supreme Court's ratio in *PCIT vs. Abhisar Buildwell P. Ltd.*, contending that in the absence of tangible seized evidence or "incriminating material" discovered during the search, the Revenue is precluded from disturbing the reported income.
- 50.** We must clarify the specialized "status" of the assessment year in question. The ratio in *Abhisar Buildwell* establishes that for "completed" or "unabated" assessments, the Assessing Officer's jurisdiction is indeed tethered to incriminating material. However, the law carves out a distinct path for "pending" or "abated" years. In the

present matrix, the search was conducted on January 17, 2019; consequently, the Assessment Year 2018-19 was in an "abated" status by operation of the second proviso to Section 153A(1).

- 51.** The legal effect of "abatement" is the total restoration of the Assessing Officer's plenary powers. For an abated year, the AO's jurisdiction is not a narrow, evidence-centric window, but a wide, all-encompassing door, co-extensive with a regular scrutiny under Section 143(3). In this "reset" jurisdiction, the AO is mandated to determine the "total income" of the assessee from all sources. This mandate exists independently of whether specific components of that income—such as the internal allocation of corporate overheads—were reflected in seized documents.
- 52.** It follows, therefore, that the "search" status of the assessment offered no jurisdictional immunity for AY 2018-19. On the contrary, it vested the AO with a heightened mandate to verify the legitimacy of the Section 80-IA deduction and the accuracy of the underlying cost-allocation. By failing to exercise this plenary power to investigate patent accounting anomalies, the AO passed an order that was both erroneous and prejudicial. The absence of specific "incriminating material" regarding Head Office expenses offered no sanctuary against the rectification of this investigative vacuum.
- 53.** Where the AO's jurisdiction is restored to its full strength under the search regime, the PCIT's revisionary power under Section 263 follows suit. The Principal Commissioner was well within his mandate

to identify the lack of inquiry into the "expense side" of the profitability equation, as this was a vital component of the "total income" that remained unverified during the search-assessment

VII. JUDICIAL CONCLUSIONS

- 54.** In view of the exhaustive deliberations conducted herein, we conclude that the resolution of this appeal rests upon a foundational pillar of fiscal law: a tax holiday under Section 80-IA is not an unconditional entitlement but a statutory bounty predicated on the mathematically accurate computation of "Net Profit." Our analysis of the substantial questions of law reveals that the Assessing Officer's failure to scrutinize the "expense side" of the profitability equation created a manifest jurisdictional error. By passively adopting the Transfer Pricing Officer's valuation of revenue while ignoring the non-allocation of common Head Office expenses, specifically Finance Costs, Personnel Expenses, and Administrative Overheads, the Assessing Officer permitted an artificial inflation of eligible profits. This investigative silence cannot be shielded by the "Plausible View" doctrine; a view is legally sustainable only if it is born out of an active application of mind. Where there is no inquiry, there can be no view, only an investigative void.
- 55.** Furthermore, we determine that the procedural defences regarding the Doctrine of Merger and Transfer Pricing Exclusivity are jurisprudentially flawed. Under Explanation 1(c) to Section 263(1),

the jurisdiction of the PCIT remains intact for matters not specifically "considered and decided" by the appellate authority. Since the CIT(Appeals) was exclusively occupied with the "rate" of power (the receipt side) and not the "apportionment" of costs (the expense side), the two variables remained legally distinct, preventing a merger of the subject matter under revision. Similarly, the TPO's mandate is restricted to the valuation of transactions; it does not divest the Assessing Officer of the primary duty to audit the Profit & Loss account to ensure the "eligible unit" bears its fair share of corporate costs.

- 56.** Finally, this Court clarifies that the "search" status of the assessment offers no sanctuary for the year in question. As Assessment Year 2018-19 was in an "abated" status at the time of the search, the Assessing Officer possessed plenary powers to determine "total income" beyond the scope of specific seized material. The failure to exercise this power to verify a substantial tax claim resulted in an order that was both erroneous and prejudicial to the interests of the Revenue, squarely inviting the PCIT's revisionary intervention.

VIII. LEGAL PRINCIPLES EVOLVED FROM THE DISCUSSION

- 57.** Through the analysis of these facts and the application of cited precedents, we deduce the following four principles of law, which are hereby crystallized:

- I. The Doctrine of Merger under Explanation 1(c) to Section 263 is "surgical" and "issue-specific." A profit-linked deduction rests on two independent pillars: income valuation and expense apportionment. An appellate decision on one does not result in the merger of the other, leaving the unadjudicated vacuum open for revisionary intervention.
- II. The TPO is an authority on valuation, whereas the AO is the primary authority on computation. The TPO's silence on internal cost-allocation does not constitute a "finding." The AO cannot delegate the duty to audit the Profit & Loss account; any failure to verify the "Net Profit" computation remains a revisable error regardless of TPO clearance.
- III. A "Plausible View" requires a prior "Application of Mind" and is unavailable in cases of non-inquiry. Where patent "red flags" exist, such as massive unallocated corporate overheads in a tax-holiday unit, investigative silence is a jurisdictional defect that renders an order *per se* erroneous and prejudicial.
- IV. In abated search assessments under Section 153A, the AO's investigative powers are as wide as a regular scrutiny and are not restricted to "incriminating material." The absence of specific seized material regarding a particular expense does not immunize the AO's failure to verify a substantial tax claim.

IX. FINAL DECREE AND CONSEQUENTIAL DIRECTIONS

60. The cycle of our judicial inquiry is completed. All legal paths, be they the Doctrine of Merger, the exclusivity of Transfer Pricing, or the limits of Search Assessments, lead to the same destination: the assessment order was a product of a "lack of inquiry" on a vital accounting component of a profit-linked deduction.

61. Therefore, we passed the following orders:-

- (i) The appeals, ITA 24 of 2026, ITA 22 of 2026 and ITA 27 of 2026, filed by the Appellant-Assessee are hereby dismissed.
- (ii) The order of the Learned Tribunal sustaining the revision under Section 263, is affirmed.
- (iii) The Assessing Officer is directed to carry out a fresh assessment for Assessment Year 2018-19, strictly confined to the proportionate allocation of common Head Office expenses (including Finance Costs, Employee Benefits, and Administrative Overheads) to the eligible units.
- (iv) During the remand proceedings, the AO shall grant the Assessee a fair opportunity to substantiate its "Direct Nexus" theory with evidence and shall pass a speaking order concluding the proceedings within six months from the date of receipt of this order.
- (v) The pending applications, if any, stands disposed of.
- (vi) Interim order/ orders, if any, stands vacated.

- 62.** Parties are directed to bear their own costs.
- 63.** Urgent photostat certified copy of this judgment, if applied for, be supplied to the parties upon compliance with all requisite formalities.

I AGREE

(RAJARSHI BHARADWAJ, J.)

(UDAY KUMAR, J.)

(Judgment signed and pronounced in Open Court)