IN THE INCOME TAX APPELLATE TRIBUNAL "A" BENCH; MUMBAI

BEFORE SHRI VIKRAM SINGH YADAV, ACCOUNTANT MEMBER
AND
SHRI SIDDHARTHA NAUTIYAL, JUDICIAL MEMBER

ITA No. 3722/Mum/2026
(Assessment Year: 2017-18)

DCIT-221, Mumbai 417, 4th Floor, Aaykar Bhavan, Churchgate, Mumbai, Maharashtra, 400020.	vs.	**Leela Lace Holdings Private Limited** 1, Leela Baug, Andheri Kurla Road, J.B. Nagar, S.O Mumbai-400059. **PAN: AAACL0553A**
(Appellant)		(Respondent)

ITA Nos. 8090 & 8091/Mum/2026
(Assessment Year: 2017-18)

Leela Lace Holdings Private Limited 1, Leela Baug, Andheri Kurla Road, J.B. Nagar, S.O Mumbai-400059. **PAN: AAACL0553A**	vs.	**DCIT, Mumbai** 417, 4th Floor, Aaykar Bhavan, Churchgate, Mumbai, Maharashtra, 400020.
(Appellant)		(Respondent)

For Assessee :	Shri Prakash Jotwani, Advocate & Ms Shreya Kawade
For Revenue :	Shri Eknath Abhang, Sr.DR

Date of Hearing :	13.08.2026
Date of Pronouncement :	28.08.2026

O R D E R

PER VIKRAM SINGH YADAV, A.M :

This is an appeal filed by the Revenue against the order of the Learned Commissioner of Income Tax (Appeals)-National Faceless Appeal Centre (NFAC), Delhi ['Ld.CIT(A)'], dated 16.01.2026, and two appeals filed by the Assessee against the respective orders of the Learned Commissioner of Income Tax (Appeals) ADDL/JCIT(A)-1, Jaipur, both dated 13.07.2026, pertaining to Assessment Year (AY) 2017-18.

2. Since common issues are involved, all these cases were heard together and are being disposed of by way of this consolidated order. With the consent of both parties, the case of the Revenue in ITA No. 3722/Mum/2026, for A.Y. 2017-18 was taken as a lead case, wherein the Revenue has taken following grounds of appeal:

> *"1. Whether on the facts and in the circumstances of the case and in law, the Ld. CIT(A) erred in deleting the addition of Rs. 2,99,65,837/- assessed under the head "Income from Business or Profession", without appreciating that the said income formed part of the total income determined during processing of return under section 143(1) and subsequently adopted in the assessment order passed under-section 143(3) of the Income-tax Act, 1961?*
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> *2. Whether on the facts and in the circumstances of the case and in law, the Ld. CIT(A) erred in holding that the addition of Rs. 2,99,65,837/- was without merit merely on the ground that the assessment order did not contain elaborate discussion or reasoning, without examining the correctness of the computation of income and the material available on record?*
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> *3. Whether on the facts and in the circumstances of the case and in law, the Ld. CIT(A) erred in treating the assessed income as an apparent error arising from the intimation under section 143(1), ignoring the fact that the assessment was subsequently completed under section 143(3), whereby the earlier proceedings stood merged with the scrutiny assessment?*
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> *4. Whether on the facts and in the circumstances of the case and in law, the Ld. CIT(A) erred in granting relief based on the contention that rectification applications filed by the assessee were not disposed of, without appreciating that non-disposal of rectification applications cannot by itself render the assessed income erroneous or unsustainable?*
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> *5. Whether on the facts and in the circumstances of the case and in law, the Ld. CITIA) erred in providing relief to the assessee without properly appreciating the facts of the case and the statutory provisions governing determination of income under sections 143(1) and 143(3) of the Income-tax Act, 1961?*
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> *6. The appellant craves leave to add, amend, alter or withdraw any of the above grounds at the time of hearing."*

3. Briefly, the facts of the case are that the Assessee e-filed its return of income declaring total income of Rs. 3,92,00,550/- on 29.11.2017. The return was processed by CPC, Bengaluru, and in terms of intimation issued under Section 143(1) dated 16.03.2019, the total taxable income was determined at Rs. 6,91,66,390/-. In the interim, the case of the Assessee was selected for scrutiny, and a notice under Section 143(2) was issued on 09.08.2018. Thereafter, notices under Section 142(1) were issued calling for necessary information and documentation. Subsequently, the assessment proceedings were completed and order was passed under Section 143(3) dated 11.12.2019, wherein the Assessing Officer determined the assessed total income at Rs. 6,91,66,390/-, which is identical to the income determined as per the intimation under Section 143(1) of the Act.

4. The Assessee thereafter carried the matter in appeal before the ld. CIT(A). Before the CIT(A), it was submitted that while passing the assessment order, the Assessing Officer has computed "income from Business and Profession" at Rs. 2,99,65,837/- as per the intimation under Section 143(1). It was submitted that CPC, Bengaluru had wrongly assessed business income at Rs. 2,99,65,837/- under the head "Business and Profession" as against NIL income filed by the Assessee and therefore, the assessee is aggrieved with the said action on the part of the Assessing Officer, who has taken the income as per the intimation under Section 143(1) and necessary relief was sought from the Ld. CIT(A).

5. The Ld. CIT(A), thereafter referring to the documents on record including the ITR-6 acknowledgment, detailed computation of income, and the assessment order, stated that on verification of the assessee's return of income and computation of income, it shows and confirms that the return shows NIL income from "Business and Profession" whereas, the assessment order reveals "income from business and profession" at

Rs. 2,99,65,837/- however, the order provides no discussion, reasoning, or justification for this figure. The Assessing Officer had merely adopted the figure in terms of the intimation under Section 143(1) of the Act. It was held that given that the assessee's primary documents clearly showed NIL business income, and the AO has failed to provide any basis for assessment of Rs. 2,99,65,837/-, under the head "Business Income", the addition was without merit and a clear/apparent error originating from Section 143(1) intimation that was wrongly taken into consideration by the Assessing Officer while completing the assessment under Section 143(3) of the Act. Accordingly, the addition of Rs. 2,99,65,837/- was held not sustainable, and the Assessing Officer was directed to re-compute the assessee's income in accordance with the returned income, subject to any other valid adjustments made in the assessment order. Against the said order of the Ld. CIT(A), the Revenue is in appeal before us.

6. During the course of the hearing, the ld. DR submitted that the Ld. CIT(A) has erred in deleting the addition of Rs. 2,99,65,837/- assessed under the head "Income from Business or Profession", without appreciating that the said income forms part of the total income determined during processing of return under Section 143(1) and subsequently adopted in the assessment order passed under Section 143(3) of the Act. It was submitted that since the Assessee failed to file any appeal against the intimation under Section 143(1) of the Act, the Assessee cannot be allowed to press the said grounds in terms of proceedings under Section 143(3) of the Act. Therefore, the ld. CIT(A) has erred in granting the relief to the Assessee.

7. In his submissions, the ld. AR takes us to the sequence of events. It was submitted that return of income was filed on 29.11.2017. Thereafter, on 21.05.2018, CPC, Bengaluru issued a communication proposing a disallowance of Rs. 1,85,836/- under Section 43B of the Act and in response, the Assessee filed its objections to the proposed adjustment in terms of its letter dated 22.05.2018. However, there was no further communication from CPC Bengaluru and thereafter, the assessee received the notice under Section 143(2) from the Assessing Officer on 09.08.2018. It was submitted that the assessment proceedings were initiated by issuance of notice u/s. 143(2) well before the passing of receipt of any intimation under Section 143(1) of the Act. It was submitted that it was only during the course of the scrutiny assessment proceedings that the intimation was issued by CPC under Section 143(1) on 16.03.2019, wherein an addition of Rs. 2,99,65,837/- was made without assigning any reasons. Thereafter, the assessment proceedings were continued by the Assessing Officer and notices u/s. 142(1) were issued, from time to time to which the assessee filed its necessary submissions and thereafter, the assessment order under Section 143(3) was passed, wherein the Assessing Officer made the addition of Rs. 2,99,65,837/- which was identical to the adjustment made under Section 143(1) of the Act. It was submitted that the Assessee immediately moved a rectification application under Section 154 against the intimation under Section 143(1) on 12.12.2019, which was rejected vide order dated 19.12.2019. Thereafter, the Assessee filed a fresh rectification application under Section 154 against the intimation under Section 143(1) on 20.02.2020, which was again rejected vide order dated 22.02.2020. It was accordingly submitted that the assessee took all the necessary steps and inspite of that, no relief was granted and thereafter, the assessee filed the appeal before the ld. CIT(A) against the order passed Section 143(3) on 04.10.2024, and the ld. CIT(A) finally allowed the necessary relief to the assessee vide his order dated 16.01.2026.

8. It was submitted that in light of the aforesaid factual matrix of the case, it can be appreciated that firstly, the intimation under Section 143(1) was received subsequent to the initiation of scrutiny proceedings. Therefore, the Assessee could not have filed any appeal against the intimation order and once the assessment proceedings were initiated, the Assessee was hopeful that the Assessing Officer will appreciate the mistakes while processing the return of income, however, the Assessing Officer, didn't make any adjustment in the body of the assessment order, at the same time, has taken the figure as per the intimation under Section 143(1) of the Act. There again, the Assessee moved rectification applications not once but twice which were again rejected and left with no option and being aggrieved with the order so passed by the Assessing Officer under Section 143(3) wherein, the income from business and profession was wrongly taken at Rs. 2,99,65,837/- as against the NIL income, the Assessee moved a specific ground of appeal before the Ld. CIT(A), who after appreciating the whole matrix of the case has granted the necessary relief to the assessee.

9. It was submitted that it is a settled legal proposition that the once the assessment is completed under Section 143(3), the earlier proceedings in terms of intimation under Section 143(1) get merged with the scrutiny assessment proceedings. It was submitted that in fact, the Revenue in its Ground No. 3 has accepted the said legal proposition and inspite of that, has filed the present appeal which is clearly unwarranted and cannot be sustained in the eyes of law.

10. Further, reliance was placed on the decision of Coordinate Mumbai Benches in case of *Geecee Ventures Ltd. vs. DCIT. ITA No. 3975/Mum/2024*, wherein the similar objection was raised by the Revenue and the Coordinate Bench has held that this would merely result in multiplicity of proceedings and would not serve any meaningful resolution. Further, reference was drawn to the decision of Coordinate Mumbai Benches in case of *Innovsources Services Pvt. Ltd. vs. DCIT in ITA No. 3424/Mum/2024, dated 29.01.2025,* wherein it was held that where the issue of deduction is identical in both the order under Section 143(1) and order under Section 143(3), the former order effectively merges with the latter. Further, reference was drawn to the decision of Hon'ble Gujarat High Court in case of *Gujrat Poly-Avx Electronics Ltd. vs. DCIT (1996) 135 CTR (Guj) 141*, wherein the Hon'ble Gujarat High Court has held that after issuance of notice under section 143(2), it is not open to the Assessing Officer to make adjustment or to pass order under section 143(1) but has to make assessment in accordance with law under section 143(3) of the Act. It was submitted that in the instant case as well, the intimation has been issued subsequent to the issuance of notice under section 143(1) of the Act and even on this account, the adjustment so made by CPC, Bangalore cannot be sustained in law and cannot be subject matter of adjustment as so done by CPC and the addition done in the hands of the assessee in terms of section 143(3) of the Act. Further, reference was drawn to the decision of Coordinate Mumbai Benches *in case of National Stock Exchange of India Ltd vs. DCIT in ITA No. 732/Mum/2023,* wherein, again it was held that where the case of the assessee was scrutinized under section 143(2) and assessment order under section 143(3) was passed, technically the doctrine of merger comes into picture. Therefore, the adjustment done by CPC gets merged into order passed under section 143(3) and order passed under section 143(3) only survives. It was accordingly submitted that there is no infirmity in the order so passed by the ld. CIT(A) and same be confirmed and the appeal of the Revenue should be dismissed.

11. It was submitted that in any case, where it is decided that the ld. CIT(A) has erred in granting necessary relief to the assessee, the assessee has separately moved an appeal against the intimation under section 143(1) and also against the rejection of its application under Section 154 of the Act and therefore, the assessee deserves the necessary relief so granted by the ld. CIT(A) either in terms of the quantum proceedings under section 143(3) or in terms of intimation under section 143(1) or in terms of rectification under section 154 of the Act.

12. We have heard the rival contentions and perused the material available on record. We find that the income under the head 'income from business/profession" has been reported at Nil by the assessee which has wrongly been processed by CPC at Rs 2,99,65,837/- without any show-cause to the assessee, the same has thereafter been taken by default by the Assessing officer while computing the income while passing the order u/s 143(3) and thereafter, the ld CIT(A) after verifying the same has held that the addition of Rs. 2,99,65,837/- was not sustainable, and the Assessing Officer was directed to re-compute the assessee's income in accordance with the returned income, subject to any other valid adjustments made in the assessment order. The subject matter of adjustment u/s 143(1) and the addition while computing the income u/s 143(3), being the same, the former intimation merges with the latter and where the assessee felt aggrieved with such adjustment and order so passed by the AO u/s 143(3), moved in an appeal before the ld CIT(A), the ld CIT(A) was correct in exercising his jurisdiction and after due examination allowing relief to the assessee. Various decisions quoted at the Bar lays down a similar proposition and supports the case of the assessee. We find no legal and factual infirmity in the order so passed by the ld CIT(A) and the same is hereby confirmed and the appeal of the Revenue is dismissed.

13. In light of the aforesaid, the appeals filed by the assessee have become infructuous and the same are dismissed as infructuous.

14. In the result, the appeal filed by the Revenue is dismissed and the appeals filed by the assessee are dismissed as infructuous.

Order pronounced on 28.08.2026

Sd/-	**Sd/-**
SIDDHARTHA NAUTIYAL	**VIKRAM SINGH YADAV**
(JUDICIAL MEMBER)	**(ACCOUNTANT MEMBER)**

Mumbai, Dated: 28.08.2026
Karishma J. Pawar, SR. PS

Copy to :

1) The Appellant
2) The Respondent
3) The CIT concerned
4) The D.R, ITAT, Mumbai
5) Guard file

By Order

Dy./Asst. Registrar
I.T.A.T, Mumbai