IN THE INCOME TAX APPELLATE TRIBUNAL
'A' BENCH, BANGALORE

BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI KESHAV DUBEY, JUDICIAL MEMBER

ITA No.399-410/Bang/2025
Assessment Year: 2013-14 - 2018-19

Bysani Adinarayaguptha Srinath, (ITA Nos.399 to 404) Bysani Srinath Mamatha, (ITA Nos.405-410) 75/11475/114, Surveyor Street, Basavanagudi, Bengaluru. **PAN – AELPS 7713 P** **ABTPM 6990 R**	Vs.	The Jt. Commissioner of Income Tax (OSD), Central Circle – 1(3), Bengaluru. .
APPELLANT		RESPONDENT

Assessee by	:	Shri Bharadwaj Sheshadri, CA & Ms. Riddhi Moghe, Advocate
Revenue by	:	Shri Shivanad Kalakeri, CIT (DR)

Date of hearing	:	22.07.2025
Date of Pronouncement	:	09.10.2025

O R D E R

PER WASEEM AHMED, ACCOUNTANT MEMBER:

All these appeals are filed by the assessees against the order passed by the CIT(11), Bengaluru vide order dated 30/12/2024 for the assessment year 2013-14 to 2018-19.

First, we take up ITA No. 400/Bang/2025, an appeal by the assessee Shri Bysani Adinarayaguptha Srinath for A.Y. 2014-15 as a lead case.

2. The assessee in the memo of appeal has raised as many as 9 Grounds of appeal which are interconnected and effectively only 2 issues raised therein. The first issue (G. Nos. 1 to 6) raised by the assessee is that the learned CIT(A) erred in confirming the addition made on account of cash purchases for Rs. 3,64,13,598/- only.

2.1 The relevant facts are that the assessee is an individual and running two proprietary concerns namely M/s Srinath Enterprise and M/s Aishwarya Trading Corporation. Likewise, the assessee wife of Smt. B.S. Mamtha is also running a proprietary concern in the name and style of M/s Sanjana Trading Corporation. The main business carried on by the assessee and his wife is the wholesale trading of Maize/corn. The assessee and her wife also incorporated a private company namely M/s Shree Gluco Biotech Pvt Ltd. which is into manufacturing of Starch Powder, Liquid Glucose, Maltodextrin, High Maltos Syrup etc.

2.3 A search under section 132 of the Act was carried out as on 20th February 2019 on the assessee in connection with search proceedings conducted in case of M/s Sri Bhagyalakshmi Group. Accordingly, assessment proceedings under section 153A of the Act were initiated for A.Ys. 2013-14 to 2018-19.

2.4 The AO during the search at the office premises of M/s ShreeGluco Biotech Pvt. Ltd. noticed that the purchase bill/vouchers related to M/s Aishwarya Trading Corporation and M/s Sanjana Trading Corporation (assessee wife Smt. BS Mamtha) were found and seized along with computer data. From the impugned document and data, it was revealed that the assessee has made huge cash payment towards

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purchases of Maize from unregistered dealer. To support the cash purchases only self-made vouchers were maintained by the assessee which only contained name and amount without any other details. When these facts were confronted to the assessee while recording his statement under section 132(4) of the Act, the assessee admitted the inflation of expenditure to the tune of 25% and agreed to the disallowances of Rs. 7,66,69,033/- and Rs. 15,09,89,853/- in case of M/s Aishwarya Trading Corporation (own case) and M/s Sanjana Trading Corporation (wife case) respectively for different financial years.

2.5 In the post search proceedings, the statement of the assessee was again recorded under section 131 of the Act as on 7th May 2019. At this time, the assessee provided the detail of cash purchases made in case of M/s Aishwarya Trading Corporation and M/s Sanjana Trading Corporation during the F.Y. 2012-13 to 2017-18. As per the detail provided, the cash purchases for the F.Y. 2012-13 to 2017-18 in the impugned proprietary concerns stand at Rs. 48,61,75,579/- and Rs. 63,61,79,887/- respectively. Further, the assessee admitted about 20% of purchases across these two concerns as non-genuine. The assessee explains that at the time of search non-genuine purchase was admitted at 25% but the same was based on unverified books and details. But after post search examination of books, the inflated purchases agreed at 20% which quantified at Rs. 9,72,35,114/- and Rs. 12,72,35,979/- respectively for M/s Aishwarya Trading Corporation and M/s Sanjana Trading Corporation for the F.Ys. 2012-13 to 2017-18.

2.6 However, the AO found that the admitted amount of non-genuine cash purchases was not offered by the assessee in the return of income filed under section 153A of the Act. The AO also noted that the assessee at the time of search admitted non-genuine purchases at 25% and in the

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post search proceedings substituted the same to 20%. However, the assessee's explanation for 20% of non-genuine purchase instead of 25% was not supported by the evidence. The AO also observed that the cash generated by the assessee from non-genuine purchases are utilised for giving cash loans and part of undisclosed income invested in jewellery.

2.7 Hence, the AO proposed to make addition on account of cash purchases at 25%. The AO worked the proposed amount of disallowance in case of assessee's proprietary concern (M/s Aishwarya Trading Corporation) for F.Y. 2012-13 to 2017-18 at Rs. 12,15,43,896/- and out of which Rs. 3,64,13,598/- pertains to the year under consideration i.e. A.Y. 2014-15.

In response, the assessee explained that the proposed disallowance of 25% of cash purchases is not correct either in facts or in law. Purchases of maize were paid in cash, but they were properly recorded in the books and supported by vouchers showing quantity and the amount. These purchases were agricultural produce, and the same were sold to well-known registered entities. The assessee also maintained stock records, VAT returns, and books of accounts which were all audited under section 44AB of the Act.

2.8 It was argued that the proposal to make an arbitrary disallowance of 25% has no basis in law. Treating 25% or 20% of the purchases as non-genuine lacks rationality for the reason that if 75% of the purchases are accepted as genuine, there is no reason to treat the balance as bogus. In support of the argument, the assessee relied on ruling in the case of *CIT v. Lakshmi Vilas Bank Ltd.*

2.9 The assessee relying on the decision of ITAT Delhi in the case of *ACIT v. Ganapati Enterprises Ltd. reported in 32 taxmann.com 262* and

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Hon'ble Supreme Court judgment in the case of *PCIT v. R.G. Buildwell Engineers Ltd* reported in 99 taxmann.com 284 along with other judicial precedents contended that ad-hoc disallowances cannot be made. The AO must point out specific unverifiable or non-genuine expenses before making any disallowance. Simply, applying an arbitrary percentage without pointing out specific defect and rejecting the books of account is not permitted.

2.10 The assessee further explained that all purchases and sales matched with stock records and there was no evidence of bogus transactions. Sales cannot take place without purchases, and reconciliation of stock showed that no part of purchases could be treated as unexplained. The allegation that 25% of cash purchases were invested in jewellery or cash loans was also incorrect. No such assets were found in the search, and the value of seized jewellery was much lower than the disallowance proposed.

2.11 It was also shown that if 25% of purchases are disallowed, the gross profit percentage becomes abnormally high and unrealistic, which is not possible in the trading of agricultural produce. The average purchase rates from the registered dealer and unregistered dealer were also nearly the same, proving genuineness. Even otherwise, settled law says that at most only the profit element can be added back, and not the entire amount of cash purchases.

2.12 In conclusion, the assessee requested that the proposal to disallow 25% of cash purchases be dropped, since the purchases are genuine, supported by records, and covered by statutory exemption under Rule 6DD of Income Tax Rules.

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2.13 However, the AO did not accept the assessee's argument and explanation. The AO found that during the course of search at the premises of M/s Shree Gluco Biotech Pvt. Ltd. on 20.02.2019, incriminating materials were seized, including purchase bills and vouchers of M/s Sanjana Trading Corporation (assessee's wife) and M/s Aishwarya Trading Corporation (assessee), as well as tally server backups. On analysis of these seized materials, it was found that the assessee had made large-scale cash purchases of maize from unregistered dealers and farmers through agents. The assessee was confronted with this evidence, and his sworn statement was recorded under section 132(4) of the Act, in which he admitted that such purchases were made, that part of the expenditure was inflated, and that about 25% of the cash purchases were non-genuine. The assessee further admitted that such inflation was done to reduce taxable profit. Subsequent to the search proceeding (3 months after search), the assessee in the statement recorded under section 131(1) of the Act, again confirmed the non-genuine cash purchases but reduced the ratio from 25% to 20% of cash purchases.

2.14 The assessee later attempted to retract the admission, but the retraction was made after a long delay of over 14 months and was not supported by any corroborative evidence. The AO found that statements recorded under section 132(4) carry strong evidentiary value, and retractions must be immediate and supported by proof of coercion or mistake. In this case, the assessee has not discharged his burden of proof to show that the admission was involuntary or incorrect. In support the AO placed reliance on the ruling of Hon'ble Supreme Court in the case of M/s Bannalal Jat Constructions Pvt. Ltd. v. ACIT (2019) 106 taxmann.com 128 and in case of Surjit Singh Chhabra 1 SCC 508/

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509 (1997) SC, Ruling of Hon'ble Rajasthan High Court in case of PCIT v. Roshan Lal Sancheti (172 DTR 313/306 CTR 140), (SC), and other binding precedents where it was held that belated and unsupported retractions are meaningless.

2.15 The AO further, on reconciliation of seized data with books of accounts, found that the assessee had recorded only self-generated cash vouchers, without names and complete details of parties from whom purchases were allegedly made. No independent evidence was furnished to substantiate purchases from unregistered dealers. The assessee himself admitted that such vouchers were only created internally to support inflated entries and that approximately 20–25% of cash purchases across the years were non-genuine. Even though the assessee later tried to reduce the disallowance percentage from 25% to 20%, the same is not acceptable since no documentary proof was provided. Accordingly, the AO in the absence of corroboration, relied upon the original admission made during search, and inflation of purchases was quantified at 25%.

2.16 The AO, from seized materials, in the case of M/s Aishwarya Trading Corporation, the total purchases over financial years 2012-13 to 2017-18 amounted to more than ₹139 crores, out of which undisclosed inflated purchases have been worked out year-wise. Similar findings were recorded for M/s Sanjana Trading Corporation, where inflated purchases were also admitted. On this basis, undisclosed income on account of inflated and non-genuine purchases has been computed at ₹3,64,13,598/-, details of which are set out in the assessment order.

2.17 The assessee's argument based on gross profit ratio over the years has also been considered but rejected, as such ratios are only drawn from accounted entries and cannot be relied upon to explain

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unaccounted purchases and inflation admitted in the sworn statement. The attempt of the assessee to reconcile figures over a three-month period post-search also resulted in higher totals, further confirming that purchases were inflated.

2.18 It is further noted that the Hon'ble Supreme Court in CST v. H.M. Esufali H.M. Abdulali (90 ITR 271) has upheld the validity of extrapolation in assessment proceedings. In this case, since the assessee failed to substantiate purchases and the seized material established both inflation and diversion of cash, extrapolation of inflation at 25% of purchases is reasonable. Accordingly, the addition of ₹3,64,13,598/- is made to the returned income of the assessee for the relevant assessment years on account of inflated and non-genuine purchases.

3. The aggrieved assessee preferred an appeal before the learned CIT(A).

3.1 Before the learned CIT(A), the assessee submitted that the addition made is based only on the statement recorded during the course of search. The assessee had admitted certain income in that statement, but later on, after properly reviewing the facts and legal position, it was found that such admission had no factual or legal basis. The assessee in support of his argument filed additional evidence in the form of an affidavit dated 12-03-2019. The date of affidavit is within a short span of time from the date of search (20th February 2019). In this affidavit, the assessee explained that the statement was signed under mental strain and stress after continuous questioning by the search party for long hours over several days, and therefore, the declaration was not voluntary. The affidavit also explained that all purchases were genuine and no bogus or unexplained expenditure was incurred. It was further stated that the admission of additional income was not correct and

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should not be relied upon, and that the correct position should be considered on the basis of books of account, records, and other supporting documents.

3.2 The assessee further submitted that even if any admission is made during the search proceeding, it is not conclusive. It can always be shown to be erroneous when supported by facts and evidence. The AO cannot make additions merely on the basis of admission without verifying the correctness of the same. In the present case, the alleged admission regarding purchases cannot stand, because all purchases are duly recorded in the books, reconciled with sales, and stocks are sold to reputed government and private sector parties without any doubt about their genuineness. Therefore, no part of the purchases can be treated as bogus. The legal position makes it clear that such admissions are not binding and cannot form the sole basis of addition.

3.3 Furthermore, the assessee reiterated that that the disallowance of 25% of cash purchases is unjustified both in fact and law. The purchases mainly consist of maize, an agricultural produce, paid for in cash to farmers. As per Rule 6DD(e)(i) of the Income Tax Rules, such payments are specifically exempt from disallowance under section 40A(3) of the Act. The purchases are properly recorded in the books, audited under section 44AB of the Act, disclosed in VAT returns, and supported by stock statements already filed with the AO. The transactions also attracted RMC cess, further confirming their genuineness. Sales have been made to reputed parties such as Karnataka Milk Federation, Venkateshwara Hatcheries, and Suguna Foods, and the proceeds are mostly received through cheque or bank transfer. Cash sales form only a small percentage of total sales (about 5% in ATC and 12% in STC),

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which means most cash purchases are matched against bank/cheque sales.

3.4 It is further argued that no defect has been pointed out in the stock records, and in fact, purchases are fully reconciled with sales. All the purchases made in the year were sold in the year itself and any quantity of closing stock remained in some years which is very small in quantity and same sold in next year. Thus, no part of the purchases can be termed as bogus. Therefore, the ad-hoc disallowance of 25% is arbitrary and without basis. Hon'ble Courts and tribunals have consistently held that such arbitrary disallowances are not permissible unless specific defects or unverifiable vouchers are identified, which is not the case here.

3.5 It is also shown that if 25% disallowance is sustained, the gross profit ratio shoots up to abnormal and unrealistic levels, which are impossible to achieve in the assessee's line of business where purchases are order-based and margins are low. This proves that the addition is commercially absurd. Further, the average price of registered and unregistered dealer purchases per quintal is almost the same, showing there is no inflation or suppression in recording of purchases.

3.6 In view of these facts, legal provisions, and judicial precedents, the assessee contends that the purchases are genuine, fully accounted for, and cannot be disallowed arbitrarily. Therefore, the addition made by the AO deserves to be deleted in full.

4. The learned CIT(A) forwarded the additional evidence being affidavit dated 12-03-2019 and argument of the assessee to the AO for remand report. The AO in the remand report dated 27th April 2023 submitted that the assessee had sufficient opportunities during the course of post-search and assessment proceedings to produce all

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relevant documents and evidence. However, the assessee failed to do so and only now filed an affidavit seeking retraction of the statement made under section 132(4) of the Act. Such additional evidence cannot be admitted as the assessee has not shown any sufficient cause for not producing it earlier.

4.1 The AO emphasizes that the statement recorded under section 132(4) of the Act has full evidentiary value. Once given voluntarily, it cannot be lightly retracted. The Hon'ble Courts and Tribunals have repeatedly held that the burden lies on the assessee to prove that the retraction is genuine and backed by convincing evidence. In this case, the affidavit is a self-serving document without any supporting proof, and hence it cannot be accepted.

4.2 The AO further notes that the assessee had, at the time of recording, confirmed that the statement was voluntary, given with full knowledge, without coercion or undue influence, and in the presence of witnesses. The answers were coherent and clear, showing that the assessee was in a fit state of mind. At the time of hearing also, no force or threat was alleged. Thus, the later claim of mental stress or coercion is an afterthought.

4.3 Relying on judicial precedents such as Bannalal Jat Constructions Pvt Ltd (supra), Avadh Kishore Das vs. Ram Gopal in AIR 1979 SC 861, Sudharshan Amin vs ACIT in [2013] 35 taxmann.com 370 (Gujarat), etc. submitted that such ruling makes it clear that retraction cannot be accepted unless supported by strong and contemporaneous evidence, which is absent in this case. Mere filing of an affidavit months/years after the search cannot displace the evidentiary value of a statement recorded under oath during search, especially when corroborative documents and seized materials support the additions.

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4.4 Therefore, the AO contends that the affidavit and retraction are devoid of merit, constitute an afterthought, and should be rejected. The additions made in the assessment order on the basis of the statement under section 132(4) of the Act together with corroborative evidence are correct and deserves to be sustained.

4.5 In rejoinder to the remand report, the assessee submit that the objections raised in the remand report are not sustainable. The affidavit dated 12.03.2019 was executed within 20 days of the search and was duly notarised. It was sought to be filed before the authority during the post search proceeding as well as before the AO during the assessment, but they dismissed it as a self-serving document and refused to accept it. This fact is clearly stated in the application for admission of additional evidence. The remand report does not dispute either the existence of the affidavit or the date of its execution.

4.6 The affidavit is consistent with the facts already placed before the search party, the AO, and also before the ld. CIT(A). The AO has himself dealt with the retraction in detail in his assessment order by relying on case laws, which shows that the department was aware of the retraction even at the time of assessment. Therefore, the affidavit cannot be treated as a new or afterthought document. Admission of this affidavit will not prejudice the department in any way as it forms part of the assessee's defence.

4.7 The case laws relied upon by the AO in the remand report are distinguishable. The legal position remains that an admission is not conclusive and can be shown to be erroneous. Admissions made under strained circumstances or during long and odd-hour questioning cannot be treated as voluntary, especially when retracted with supporting evidence. In the present case, there is no seizure or corroborative

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evidence against the assessee's explanation. Books of account, VAT returns, stock statements, and other records fully substantiate that the purchases and transactions are genuine.

4.8 However, the learned CIT(A) after considering the facts in totality found that the assessee's claim that the affidavit dated 12.03.2019 retracting the statement under section 132(4) was refused by the search party is not supported by any evidence. The affidavit only makes general statements that the purchases are genuine, the sales are recorded, and the income was wrongly admitted under pressure. No supporting material such as reconciliation of cash and non-cash purchases, sale agreements, or loan agreements were filed with it.

4.9 It is also seen that in the statement under section 132(4) of the Act, the assessee himself confirmed that the statement was voluntary and without coercion or threat. There is nothing on record to prove that the admission was made under pressure or duress. The burden of proof lies on the assessee to show that the admission was incorrect or forced, but no such proof has been given. Courts have held that retraction must be made with strong reasons, supported by evidence, and within a reasonable time. In this case, the affidavit is a self-serving document without corroboration.

4.10 Furthermore, the learned CIT(A) observed that statement under section 131(1) of the Act was also recorded as on 7th May 2019, where the assessee again admitted that except for self-made vouchers, no proof was available for purchases and that 20% of cash purchases were non-genuine. This was almost two months after the so-called affidavit retracting, creating a contradiction. Through the affidavit, the assessee tried to retract the admission made during search, but the assessee still conceded that 20% of cash purchases were non-genuine while recording

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the statement under section 131(1) of the Act, thus, creates contradiction in the assessee's claim. It is also noted that there was enough time to substantiate the retraction with facts and figures, but the assessee failed to do so. Therefore, the learned CIT(A) held that the retraction is without strong supporting evidence and hence, could not be accepted.

4.11 The learned CIT(A) further held that at one hand, the assessee claimed that all purchases were genuine and recorded, while on the other hand, he admitted that around 20–25% of the cash purchases were non-genuine. It was noted that the assessee increased the figure of cash purchases during the post search proceedings while recording the statement under section 131 of the Act claiming such figure arrived after verification of book but did not show how such verification was made. No documentary evidence or proper basis was provided either before the AO or during appellate proceedings to support the claim. The details filed showed that a significant portion of purchases in both ATC and STC were in cash, but these were supported only by self-made vouchers, which were unverifiable. The huge volume of such unverifiable purchases created practical difficulty in confirming their genuineness, especially as they were made from unregistered dealers.

4.12 The ld. CIT(A) observed that the assessee did not prove how the genuineness of cash purchases was established, and merely argued that if disallowance was to be made, it should be restricted to 20%. This argument was rejected since the assessee himself had contended earlier that all purchases were genuine, yet failed to prove them with verifiable evidence. The fact remained that the cash vouchers lacked sufficient details of sellers, quantities, or prices, making them non-verifiable. Considering seized material and the appellant's own admission, the ld.

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CIT(A) held that 25% of the cash purchases were non-genuine. The plea that only the profit embedded in such purchases should be added was not accepted, as no conclusive proof of genuineness was shown. Accordingly, the grounds of the assessee on this issue were dismissed.

5. Being aggrieved by the order of the learned CIT(A), the assessee is in appeal before us.

5.1 The learned AR before us submitted that the addition made by the AO is wholly untenable in law and on facts. He pointed out that the entire purchases, including the cash component, have been duly recorded in the books of account, supported by regular VAT returns, daily stock statements, audited financial statements, and quantitative reconciliations of purchases and sales. The AO has not rejected the books of account under section 145, nor has he pointed out any defects therein. In such circumstances, it is a settled principle, as laid down in *R.G. Buildwell Engineers* (Delhi High Court), *Diamond Food Products* (Kerala High Court), and *H.M. Esufali* (Supreme Court), that ad hoc disallowances are impermissible. Unless the books are first rejected, no estimation or disallowance can be made.

5.2 The learned AR further argued that the evidence on record clearly establishes the genuineness of the purchases. The quantitative details of stock, purchases, and sales tally with the audited books of account and financial statements. It was also demonstrated that sales were predominantly through non-cash modes, and the negligible portion of cash sales was fully reconciled with the corresponding purchases. This itself shows that no unaccounted purchases could have existed. Reliance was placed on *Nitin Lohia* (Bombay High Court), *Param Dairy* (Delhi High Court), and *Ramesh Exports* (ITAT Bangalore), where it was consistently

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held that once sales are accepted, corresponding purchases cannot be disallowed.

5.3 The AR submitted that the entire addition was based solely on an admission of Shri Srinath in his statement under section 132(4). That statement itself was contradictory, later retracted, and explained as having been made under mistaken facts during the stress of the search. It is well settled that an admission, unless supported by independent corroborative evidence, cannot be the sole basis of an addition. Reliance was placed on judicial pronouncement like *S. Kahder Khan* (Madras High Court 300 ITR 157), *M. Narayanan & Bros. 339 ITR 192 (Madras)*, and *Pramukh Builders* (Third Member decision of ITAT Ahmedabad, 112 ITD 179), which held that a retracted statement without corroboration has no evidentiary value.

5.4 The learned AR further pointed out that the AO himself adopted inconsistent stands—sometimes stating that alleged bogus purchases resulted in jewellery investments, and at other times alleging that they were used for cash loans. No such jewellery or loans were identified or seized. Even additions under the Wealth-tax Act had been partly deleted by the CIT(A), showing contradictions in the Revenue's case.

5.5 It was also argued that if the addition is sustained even partially, it would lead to absurd results. For example, in the year under consideration, the gross profit margin would artificially inflate to nearly 14% as against the normal 4%. In the line of agricultural trading where margins are very low and purchases are order-based, such a high profit margin is commercially impossible. The jurisdictional Karnataka High Court in *Madhu Solanki* 100 taxmann.com 266 (Karnataka-HC) has held that where the result of an addition is an abnormally high GP rate, the same cannot be sustained.

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5.6 The AR also argued that the AO adopted arbitrary percentages of disallowance—sometimes 25% and at other times 20%—without any basis. If 75% of the cash purchases are accepted as genuine, there is no logic to disallow the remaining 25%. Such selective reliance on part of a statement while rejecting the other part is impermissible. Reliance was placed on *Conor Granito 159 taxmann.com 1209* (ITAT Rajkot), which held that even in fixing a percentage for bogus purchases, there must be a rational basis, and it cannot be arbitrary.

5.7 Finally, the AR submitted that at the highest, if there were doubts about the genuineness of certain purchases, only the embedded profit could be brought to tax, not the entire amount. This principle has been upheld by the Bombay High Court in *Jakharia Fabrics 118 taxmann.com 406*, *Rishabhdev Technocable 115 taxmann.com 333*, *Rushail Pharmadin 163 taxmann.com*, and *Mohammad Haji Adam 103 taxmann.com 459*. The Delhi High Court in *Pushpa Saluja 174 taxmann.com 803* and the Gujarat High Court in *Bholanath Poly Fabs* 355 ITR 290 have also followed this principle. In conclusion, the AR strongly urged that the addition is excessive, based on suspicion and without evidence, and therefore deserves to be deleted in full.

6. On the other hand, the learned DR before us reiterated the findings contained in the assessment order and appellate order by supporting them.

7. We have heard the rival contention of both the parties and perused the material available on record. The core dispute is whether additions for "non-genuine" cash purchases of maize quantified at 25%

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of cash purchases can stand in the given facts and circumstances. The record shows:

(i) During search, purchase bills/vouchers and tally back-ups pertaining to the assessee's proprietary concern (ATC) and his spouse's concern (STC) were found;

(ii) In a sworn statement under section 132(4) of the Act, the assessee admitted that about 25% of cash purchases were non-genuine/inflated;

(iii) In a later statement under section 131(1) of the Act, he reiterated non-genuineness but sought to restrict the disallowance at 20%; and

(iv) An affidavit dated 12-03-2019 purporting to retract was filed allegedly without corroborating books-based reconciliation or third-party evidence.

7.1 The learned CIT(A) therefore rejected the retraction and sustained the 25% of the addition as made by the AO in the assessment order.

7.2 Before going to the issue, we find pertinent to discuss the evidentiary value of statements recorded during the search and during the post search proceeding. The Hon'ble Supreme Court in *Pullangode Rubber Produce Co. Ltd. v. State of Kerala* reported in 91 ITR 18 holds that an admission is a very important piece of evidence, but it is not conclusive; the maker can show it was incorrect. On the other hand, where a voluntary statement under oath is clear and later retraction is belated or unsupported, the statement shall be treated as reliable evidence as held by the several courts including Hon'ble Supreme Court in the case of *Bannalal Jat Constructions (P) Ltd. v. ACIT* (SC) reported in 106 taxmann.com 128, and Rajasthan High Court rulings in *PCIT v. Roshan Lal Sancheti* reported in [2023] 150 taxmann.com 227.

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7.3 Likewise, the Hon'ble Delhi High Court in *CIT* vs. *Harjeev Aggarwal* reported in [2016] 70 taxmann.com 95 *Ltd.* has clarified that a statement under section 132(4) of the Act, standing alone, does not by itself constitute "incriminating material" for making additions. As such the statement must be backed by some material found as a result of search. The Hon'ble Madras High Court in *CIT v. S. Khader Khan & Sons* reported in 300 ITR 157 (SLP dismissed by the Supreme Court) also cautions that additions cannot rest merely on a bare confession devoid of supporting material. Read together, these principles suggest that a statement under section 132(4) or section 131(1) on oath carry evidentiary value and can be acted upon but it is not conclusive and can be displaced with credible, contemporaneous, verifiable evidence and there must be incriminating material found in search corroborating the statement. Thus, it is settled position of law that the additions cannot rest only on a statement unless corroborated by incriminating material.

7.4 In the present case, self-made vouchers of cash purchases from farmers or unregistered dealers were found. These vouchers were duly recorded in the books of account, audited under section 44AB of the Act, disclosed in VAT returns, and matched with sales. Hence, these are part of regular books and not independent incriminating documents and such self-generated vouchers, being already part of accounted records, cannot be treated as incriminating material unless they reveal something unrecorded or false. The department has not shown that these vouchers were outside the books or that they represented fictitious entries.

7.5 It is also important to highlight that in wholesale agricultural trade, it is common to purchase maize from farmers or small dealers without formal invoices. The assessee-maintained vouchers for internal control, which were found during search. These vouchers were recorded

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in books, and corresponding sales were effected. Therefore, these self-made vouchers for cash purchases from farmers are far from being incriminating. As such these vouchers substantiate that purchases were made and accounted. Treating them as evidence of "non-genuineness" is contrary to commercial reality.

7.6 Therefore, in our considered opinion, there was no incriminating material found during the course of search to support the allegation of the bogus purchases. Hence entire basis of disallowing the certain portion (25%) of cash purchases as non-genuine is based on admission made in the statement recorded under section 132(4)/ 131 of the Act only. Hence, considering the judicial precedence as discussed in the preceding paragraph, we hold that such admission cannot be conclusive, and no addition can be made solely based on such statement without bringing corroborative material. The CBDT also vide circular No. No. 286/2/2003-IT (Inv. II), dated 10 March 2003 and Circular No. 286/98/2013-IT (Inv. II), dated 18 December 2014 discourage the AO not to make addition based on statement only. The CBDT underscores that no attempt should be made to obtain a confession of undisclosed income during search operations. Instead, the focus should be exclusively on collecting objective evidence or material of undisclosed income.

7.7 Furthermore, the assessee has retracted from the admission which has been acknowledged by the AO but not accepted for the reason that the retraction has been filed after a gap of 14 months and alleging that same is not supported by the evidence. We also note the assessee before the learned CIT(A) has filed an affidavit dated 12th March 2019 i.e. with-in 20 days from search, claiming the retraction from the statements. Hence, this fact coupled with the fact that no

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corroborative material found during the search, weaken the case of the AO to make addition on account of alleged bogus purchases.

7.8 Furthermore, the assessee has consistently argued that whatever maize was purchased, whether in cash or through banking channels, was fully sold to reputed buyers like Karnataka Milk Federation and Suguna Foods. The sales are not doubted, nor has any discrepancy in stock or quantitative tally been pointed out. We note that the argument of the assessee has not been controverted by the department. It is a basic principle that sales cannot exist without purchases, and where sales are accepted, the corresponding purchases cannot be disallowed arbitrarily.

7.9 Here, it is also very important to mention that the assessee also produced a price analysis of cash purchases and purchases through banking channel, available at pages 391–392 of the paper book. On perusal, we note that the average price of maize purchased through cash and bank transactions is broadly similar. For instance, the average cost of cash purchases per quintal exceeded that of bank purchases only by ₹40, ₹30, and ₹27 in A.Y. 2013-14, 2016-17, and 2017-18 respectively, while in A.Y. 2014-15 and 2015-16 the average cost of cash purchases was actually lower by ₹39 and ₹49. Although a larger difference of ₹319 is seen in A.Y. 2018-19, the cash purchases then were only 3,474 quintals as against 1,03,427 quintals through banking channels. Hence, in our considered view these variations are nominal and not significant enough to treat 20% or 25% of cash purchases as bogus. In view of the above detailed discussion, facts and judicial pronouncements, we hold that addition made solely based on statement without having corroborative materials cannot be sustained. Therefore, we hereby set aside the finding of the learned CIT(A) and direct the AO

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to delete the addition made by him. Hence, the ground of appeal of the assessee is hereby allowed.

8. The second issue raised by the assessee through ground Nos. 7 & 8 is that the learned CIT(A) erred in confirming the addition of Rs. 17,84,893/- as interest income.

8.1 The relevant facts are that during the search proceeding at the residence of the assessee certain documents were found marked as page 103, 104 & 105 of the annexure A/SBS/B-4/18-19/01 suggesting that the assessee has advanced cash loan to various parties on interest at the rate of 12-15% per annum compounded every 3 months. The search team confronted the impugned seized materials to which the assessee admitted that he has given cash loan of Rs. 64,37,775/- to various person during the financial year 2011-12 to 2013-14 and earned undisclosed income of Rs. 18,65,704/- out of such undisclosed loan by way of interest thereon.

8.2 During the post search proceedings, the assessee was again questioned regarding the cash loan as discussed above while recording his statement under section 131(1) of the Act. The assessee in reply to the questions stated the sources of the impugned cash loan was gift received from various person including father and wife, personal saving etc. The assessee also admitted that on the impugned loan and advance, an interest for the period from December 2011 to February 2014 was receivable for Rs. 19,77,064/- and he received such interest amount of Rs. 19,77,064/- during the F.Y. 2013-14. However, from F.Y. 2013-14 onwards, he neither received interest nor received back the principal amount. The assessee admitted that he did not remember the person to whom such loans were advanced for reason that considerable period of 8 years has been elapsed.

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8.3 The AO noticed that the undisclosed interest income as admitted has not been offered to the tax in the return filed under section 153A of the Act. Hence, the AO issued show cause notice to the assessee proposing to make addition of undisclosed interest income of Rs. 19,77,064/- to the total income of the assessee for the year under consideration i.e. A.Y. 2014-15.

8.4 In response, the assessee explained that during the search an unsigned handwritten loose sheet was found, which contained two columns being "date" and "amount" with figures ranging from ₹3,000 to ₹40,000 but without having titles or description, and beneath it was a noted mentioning "for every three months – 12% p.a." with another unclear note. The totals of these figures came to ₹61,37,775/- only. However, the search officials prepared their own computer printout of this data in a different format, added their own titles and calculations of interest, and got his signature on the same. The assessee claimed that this computer printout was not seized during the search but was prepared later by the officials, though it was relied upon in the notice.

8.5 The assessee also pointed out variations between the handwritten sheet and the computer printout, especially in dates and amounts. The handwritten sheet showed a total of ₹61,37,775, whereas the computer printout reflected ₹64,37,775/- and in another place ₹55,37,275/-. Thus, there were clear mismatches in figures.

8.6 Based on these facts, the assessee stressed that this printout is neither comparable to the handwritten loose sheet found during the search nor prepared by him and therefore, the same cannot be relied upon for assessing income. The assessee also pointed out that the nature of the transaction is unclear due to the passage of time. It is claimed that in the statements recorded earlier, he had only admitted to

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have made payment of interest at 12% without recollecting the other party involved. Thus, the assumption of interest received by him based on computer printout is factually and legally incorrect.

8.7 Further, the assessee highlighted that even if the matter were treated as a loan transaction, his statements confirmed that neither the principal nor interest had been received after FY 2013-14, making it clear that no accrual of interest or repayment occurred. When the principal itself is not repaid, the question of taxing interest does not arise. It was further argued that the handwritten sheet was not part of the books of account, had no names or clear description, and even if considered, would not be corroborative in nature unless independent evidence to establish liability is brought on record.

8.8 The assessee also referred to the Hon'ble Supreme Court's decision in *V.C. Shukla's case*, emphasizing that loose papers cannot by themselves be the sole basis of addition unless corroborated by independent material. He contended that the computer printout shows total interest of ₹ 18,65,704/- whereas the correct total of impugned computer printout is of ₹16,06,951/-. Thus, there is no basis for taxing ₹19,77,064/- as relied upon in the show cause notice. It was further pointed out that assessments under section 153A can only cover six preceding assessment years from the year of search (AY 2013-14 to AY 2018-19 and AY 2019-20), and therefore additions for AY 2012-13 or unrelated years cannot be made.

8.9 Finally, the assessee argued that section 269SS/269ST of the Act also cannot be invoked since the alleged transaction was not proved to be a loan in cash, nor was he the borrower. Moreover, as there was no evidence of repayment, section 269T of the Act also had no application.

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Therefore, the proceedings proposed in the SCN had no legal basis, and the alleged amount was not taxable in his hands.

8.10 However, the AO rejected the assessee's arguments and held that the seized documents clearly showed that the assessee was engaged in giving cash loans and earning interest. It was noted that the assessee admitted in his sworn statement that he had advanced loans amounting to ₹64,37,775/- during financial years 2011-12 to 2013-14 at an interest rate of 12% per annum compounded every three months. The AO observed that the assessee also admitted undisclosed income of ₹18,65,704/- towards interest on such loans. Since the materials were found from the possession of the assessee, the presumption under section 132(4A) of the Act is applied, and the assessee failed to disprove it. The AO further held that the assessee's claim that the computer printout was not part of seized documents was not acceptable, as the materials were supported by his own statements under oath.

8.11 The AO also found that the reliance placed by the assessee on *V.C. Shukla's case* was misplaced, because in this case the loose sheets were corroborated by statements and other evidence, including unexplained gold seized during the search. The AO rejected the assessee's contention that the handwritten sheet was a dumb document, observing that the loan amounts and interest calculations were meaningful and related to financial transactions.

8.12 Accordingly, the AO concluded that the assessee had given cash loans and earned interest which was not disclosed to the department. The total undisclosed interest income of ₹19,77,064/- for financial years 2011-12 to 2013-14 was computed and added to the returned income in the hands of the assessee.

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9. The aggrieved assessee preferred an appeal before the learned CIT(A). The assessee before the learned CIT(A) made identical submission as made during the assessment proceedings.

9.1 The learned CIT(A) after considering the facts in totality confirmed the addition made by the AO in part by observing as under:

> *10.5 I have perused the assessment order and the written submissions of the appellant. The computer printout and the handwritten seized document was also perused. The handwritten document contains various amounts with a handwritten narration of 12% per annum. The contents of the documents are clear from the replies submitted by the appellant to the questions posed while recording the sworn statements. The appellant had submitted that these were amounts advanced by him to various persons whose names he does not remember, and he charged 12–15% interest per annum which will be compounded every 3 months.*
> *10.6 The appellant has not been able to substantiate the sources for advancing such amounts. The replies given in the sworn statements regarding the source are contradictory. Hence the AO has correctly brought the undisclosed interest income to tax.*
> *10.7 The computer printout which formed the basis of the addition is based on the seized handwritten document. The computer printout contains the details of the principal amounts as well as the interest calculated at 12% per annum and compounded every 3 months. Scanned copy of the seized handwritten document and the computer printout is as under:*
> *======extract of seized paper and computer printout ====intentionally left out ==========*
> *10.8 The appellant's contention that it is not a seized document cannot be accepted as it is based on the handwritten seized documents. The raiding officials had, for the sake of calculating the undisclosed interest for various AYs, prepared this computer printout with interest computed. Hence the allegation that it is not a seized document cannot be accepted. As the seized document was found in the possession of the appellant, the presumption as per section 132(4A) is that it belongs to the appellant and the onus to prove otherwise is on the appellant. As regards the difference in the amounts as per the computer printout and the handwritten document, the AO is directed to adopt the correct figures as per the seized handwritten document and compute the interest at 12% per annum and compounded every 3 months.*
> *10.9 Further, with regards to the interest computed for the AY 2012-13, it is seen that this AY falls beyond the 6 AYs preceding the year of search and hence no addition can be made beyond the 6th year as per the provisions of section 153A(1)(b). Accordingly, the undisclosed interest income computed for the AY 2012-13 is directed to be deleted. The interest income for the other two AYs 2013-14 and 2014-15 arose in respective years and were received in the AY 2014-15 as per appellant's reply in the sworn statement. Hence the addition made on account of undisclosed interest income is confirmed for these two AYs. Ground No. 10 and 12 for the AY 2014-15 are partly allowed.*

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10. Being aggrieved by the order of the learned CIT(A), the assessee is in appeal before us.

10.1 The learned AR before us argued that no addition on account of alleged undisclosed interest could be sustained. He submitted that the statements of Shri Srinath were inconsistent and did not establish that any taxable interest income was earned. At one place it was said to be "interest paid" and elsewhere "interest received," and in many answers there was an outright denial of receiving any interest. Such contradictions, according to the AR, destroy the credibility of the statement.

10.2 It was further argued that the only material relied upon was a loose sheet and a computerised printout prepared by the search team. The loose sheet itself did not contain particulars of any party, loan, or interest and was not part of the books of account. Even assuming the loose sheet at face value, the figures were odd and uncorroborated, and therefore could not form the basis of an addition. Reliance was placed on judicial precedents such as *Nagarjuna Construction 23 taxmann.com 239 (Hyderabad ITAT)*, *Katrina Turcotte 87 taxmann.com 116 (Mumbai)*, and *Mudduveerappa & Sons 45 ITD 12 (Bangalore)*, which have held that loose papers without independent corroboration are "dumb documents" and cannot justify an addition.

10.3 The ld. AR also pointed out that there was no evidence of actual receipt or utilisation of any alleged interest income. The Revenue had not found any asset or investment corresponding to the alleged income. On the contrary, the retraction affidavit and subsequent returns showed that no such income was received. Even if loans were assumed to have been advanced, interest thereon could not be said to have accrued when neither the loans nor the interest were recovered, relying on *Motor*

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Credit Company 127 ITR 572 (Madras). In sum and substance, the ld. AR contended that the addition was based purely on suspicion, contradictory statements, and unsubstantiated documents. As there was no real evidence of interest income, the entire addition deserved to be deleted.

11. On the other hand, the learned DR before us reiterated the findings contained in the assessment order and appellate order by supporting them.

12. We have heard the rival contentions of both the parties and perused the materials available on record. The controversy in the present case revolves around an unsigned handwritten loose sheet containing only two columns of "date" and "amount," with a note beneath stating "12% p.a. for every three months." It is undisputed that this document does not bear the name, signature, title, or description of any party, nor does it identify the nature of the underlying transaction. The Department relied upon this sheet, along with a computer printout subsequently generated by the search officials, to bring the alleged undisclosed interest income to tax.

12.1 The assessee has explained that in his statement recorded during search, he admitted to the payment of interest at 12% and not to the receipt of such interest. It is also his case that the so-called computer printout was not a seized material but a document prepared by the officers by inserting columns, titles, and compounding calculations, which cannot form the basis of addition under section 153A of the Act. He has further contended that even if it is treated as a loan transaction,

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there was no receipt of either principal or interest after FY 2013-14, and therefore no accrual of income could arise.

12.2 We find merit in the submissions of the assessee. The provision of section 132(4A) of the Act raises only a rebuttable presumption regarding ownership of documents found, but the burden still lies on the Revenue to prove that such entries represent actual taxable income. The loose paper in question does not disclose the names of the parties, nature of the transaction, or any confirmatory evidence of receipt. In the absence of such material, the sheet is at best a dumb document. The Hon'ble Supreme Court in CIT v. V.C. Shukla (1998) 3 SCC 410 has held that loose sheets by themselves, without corroboration, cannot be treated as substantive evidence of undisclosed income. This principle has been followed consistently in several rulings, including Common Cause v. Union of India (394 ITR 220, SC) and various Hon'ble High Courts.

12.3 On the other hand, the Department's reliance on the assessee's statement is misplaced. It is trite law that an admission during search must be read as a whole. Here, the assessee clarified that the 12% referred to was interest paid by him and not interest received. The Hon'ble Supreme Court in Pullangode Rubber Produce Co. Ltd. v. State of Kerala (91 ITR 18) has held that an admission is an important piece of evidence but not conclusive, and it is open to the assessee to explain or rebut the same. In this case, the assessee's explanation is consistent with the absence of corroborative evidence on record.

12.4 Further, the addition of interest income on a notional basis is contrary to the settled principle that income must accrue or arise with reasonable certainty. The Hon'ble Supreme Court in E.D. Sassoon & Co. Ltd. v. CIT (26 ITR 27) has held that income accrues only when the

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assessee acquires a right to receive it. The relevant observation of Hon'ble supreme court is extracted as under:

> *Income may accrue to an assessee without the actual receipt of the same. If the assessee acquires a right to receive the income, the income can be said to have accrued to him though it may be received later on its being ascertained. The basic conception is that he must have acquired a right to receive the income. There must be a debt owed to him by somebody. There must be as is otherwise expressed* debitum *in* praesenti*,* solvendum *in* futuro*. Unless and until there is created in favour of the assessee a debt due by somebody it cannot be said that he has acquired a right to receive the income or that income has accrued to him.*

12.5 Similarly, in CIT v. Excel Industries Ltd. (358 ITR 295, SC), it was reiterated that hypothetical or contingent income cannot be brought to tax. Where even the principal of the alleged loans has not been received back, there can be no enforceable right to receive interest. We also note that the AO computed interest by compounding every three months on the loose sheet totals, but such working is entirely an inference by the Department. In the absence of a written agreement, identifiable parties, or independent evidence, such estimation is arbitrary and unsustainable In view of the above discussion, we hold that the seized loose paper does not constitute incriminating material evidencing undisclosed income in the hands of the assessee. The reliance on the unsigned sheet and the computer-generated statement prepared by the search official without corroboration is legally untenable. Therefore, the addition of ₹19,77,064/- on account of alleged undisclosed interest income is therefore directed to be deleted. Hence, the ground of appeal of the assessee is hereby allowed.

13. In the result appeal of the assessee is hereby allowed.

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Coming to ITA Nos. 399 & 401 to 404/Bang2025 in case of assessee Shri Bysani Adinarayaguptha Srinath for the AYs 2013-14 and 2015-16 to 2018-19.

14. The issue raised in captioned appeal are interconnected and pertains to the disallowance of 25% of cash purchases by the treating the same as non-genuine.

15. At the outset, we note that the issues raised by the assessee in its grounds of appeal for the AY 2013-14 & 2015-16 to 2018-19 are identical to the issue raised by the assessee in ITA No. 400/Bang/2015 for the assessment year 2014-15. Therefore, the findings given in ITA No. 400/Bang/2015 shall also be applicable for the assessment years AYs 2013-14 & 2015-16 to 2018-19. The appeal of the assessee for the A.Y. 2014-15 in ITA No. 400/Bang/2015 has been decided by us vide paragraph No. 7 of this order in favour of the assessee. The learned AR and the DR also agreed that whatever will be the findings for A.Y. 2014-15 shall also be applied for other captioned appeals for the assessment years 2013-14 & 2015-16 to 2018-19. Hence, the ground of appeal filed by the assessee is hereby allowed.

16. In the result, the appeals of the assessee for Assessment Years 2013-14 & 2015-16 to 2018-19 are hereby allowed.

Coming to ITA Nos. 405 to 410/Bang/2025 in case of assessee, Smt. B.S. Mamatha for A.Y. 2013-14 to 2018-19.

17. The issues raised in captioned appeals are interconnected and pertain to the disallowance of 25% of cash purchases by the treating the same as non-genuine.

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18. At the outset, we note that the issues raised by the assessee in its grounds of appeal for the AY 2013-14 to 2018-19 are identical to the issue raised by the assessee's husband ***Shri Bysani Adinarayaguptha Srinath*** in ITA No. 400/Bang/2015 for the assessment year 2014-15. Therefore, the findings given in ITA No. 400/Bang/2015 shall also be applicable for the assessee's appeal for assessment years AY 2013-14 to 2018-19. The appeal of the assessee's husband for the A.Y. 2014-15 in ITA No. 400/Bang/2015 has been decided by us vide paragraph No. 7 of this order in favour of the assessee. The learned AR and the DR also agreed that whatever will be the findings for assessee's husband appeal for A.Y. 2014-15 shall also be applied for other captioned appeals of the assessee for the assessment years 2013-14 to 2018-19. Hence, the ground of appeal filed by the assessee for A.Y. 2013-14 to 2018-19 are hereby allowed.

19. In the result, all the appeals of the assessee for A.Ys. 2013-14 to 2018-19 are hereby allowed.

20. In the combined result, all the appeals filed by both the assessee are hereby allowed.

Order pronounced in court on 9th day of October, 2025

Sd/-	Sd/-
(KESHAV DUBEY)	**(WASEEM AHMED)**
Judicial Member	Accountant Member

Bangalore
Dated, 9th October, 2025

Vms

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Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore

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