

आयकर अपीलीय अधिकरण 'सी' न्यायपीठ, चेन्नई।
IN THE INCOME TAX APPELLATE TRIBUNAL
'C' BENCH: CHENNAI

माजनीय श्री मनु कुमार गिरि, न्यायिक सदस्य एवं
माजनीय श्री जगदीश, लेखासदस्य के समक्ष
BEFORE HON'BLE SHRI MANU KUMAR GIRI, JUDICIAL MEMBER AND
SHRI HON'BLE JAGADISH, ACCOUNTANT MEMBER

आयकर अपील सं./ ITA Nos.1881, 1882 & 1883/Chny/2025
निर्धारण वर्ष /Assessment Years: 2016-17, 2019-20 & 2022-23

Integrated Service Point Ltd.,
(Formerly Integrated Service Point
Pvt. Ltd.,)
6C, 6th Floor, Gaiety Palace I/L,
Blackers Road, Anna Road H.O.,
Chennai – 600 002.
PAN: AAACI 9527P

The Dy./Asst. Commissioner of
Income Tax,
Central Circle-2(4),
Chennai.

(अपीलार्थी/Appellant)

(प्रत्यर्थी/Respondent)

आयकर अपील सं./ ITA Nos.1874, 1876 & 1879/Chny/2025
निर्धारण वर्ष /Assessment Years: 2016-17, 2019-20 & 2022-23

The Dy./Asst. Commissioner of
Income Tax,
Central Circle-2(4),
Chennai.

Integrated Service Point Ltd.,
(Formerly Integrated Service Point
Pvt. Ltd.,)
Vs. 6C, 6th Floor, Gaiety Palace I/L,
Blackers Road, Anna Road H.O.,
Chennai – 600 002.
PAN: AAACI 9527P

(अपीलार्थी/Appellant)

(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से/ Assessee by
प्रत्यर्थी की ओर से /Revenue by

: Mr. Y. Sridhar, FCA
: Mr. Bipin C.N, CIT

सुनवाई की तारीख/Date of Hearing

: 13.10.2025

घोषणा की तारीख /Date of Pronouncement

: 30.12.2025



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आदेश / ORDER

PER BENCH:

These appeals are filed both by the Revenue and the Assessee against the orders of the Commissioner of Income-tax (Appeals), Chennai-19 for the assessment years 2016-17, 2019-20 both dated 11.04.2025 and 2022-23 dated 25.04.2025. The Order u/S 250 in the case of the appellant company was passed in all these three years partly allowing the grounds of appeal of the appellant and aggrieved by failure to extend complete relief, the assessee is on appeal for all the three years, while the Department is on appeal contesting such partial relief extended to the assessee.

2. For the assessment years 2019-20 and 2022-23, the basis of addition to total income, the relief sought and the grounds of appeal are symmetric. For the A.Y. 2016-17, the issues are identical to that of A.Y. 2019-20 and 2022-23 and additionally the legitimacy of jurisdiction assumed by the AO is also questioned. Therefore, all the three appeals are dealt together simultaneously.

Facts of the case

3. The assessee is a company operating in two major vertical segments, the first one being Export of Black Strap Molasses and the second being Bulk Supply of Agricultural Commodities viz. edible oils, pulses, sugar, and other products. An action u/s. 132 was undertaken in the case of the assessee on 23.11.2022 and the residential and office premises of the Directors were also simultaneously covered in the said action. The Search Action which commenced on 23.11.2022



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was temporarily concluded on 26.11.2022 to be revived once again and finally concluded on 19.01.2023. During the course of such action, the authorized officers had found and seized a hard disk (TOSHIBA 1TB HDD) from the residence of Shri Karlapatti Srikanth Apparao, Director of the company and this storage device contained particulars of activities undertaken by the company, which included the monetary transactions that were not recorded in the regular books of accounts. As a consequence, sworn statements were recorded from Directors, Employees and other persons and during the course of such enquiry, the contents of the Excel Sheet that was extracted from the old Hard Disk were subject to rigorous detailing.

3.1 A sworn statement recorded from one of the employees, Shri Stanley Babu, Deputy Manager, Accounts of the assessee company confirmed that a portion of contents of the transactions found in the excel sheet related to transactions outside the books of accounts. Shri Stanley Babu in the statement recorded u/S 132(4) that bills raised by certain transport providers are inflated and a portion of the purchase of goods made are bogus in nature. This deposition of Shri Stanley Babu was partially affirmed by the Director, Shri Karlapatti Srikanth Apparao. The seized material in the form of an excel sheet contained in the hard disk drive had entries which the DDIT (Inv.) Unit-3(4), Chennai could correspond to inflated transportation bills, bogus purchases, transactions of inflow and outflow of money outside the books of accounts, interest payments, on-money receipts on sale of land, etc. The authorized officers finally shown the statement recorded from Shri.Stanley Babu and Shri Karlpatti Shirkanth Apparoa and sought



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explanation from one of the director Shri.K.Ramnath Apparao. He had in his deposition u/S.134(4) clarified that all transactions in the excel sheets need not necessarily be income and includes loans which are liabilities and amount paid and while the amounts received as a result of the scheme described above, have been extended for business purposes only, the question of treating the entire credits to the excel sheet as income does not arise.

3.2 It is learnt that the company, subsequent to the conclusion of search proceedings in January 2023 and on obtaining the copies of seized materials and sworn statements, it had filed a letter before the DDIT(inv) dated 22.03.2023, in which it had covered all the issues of the search and the anomalies in the statement deposed by Stanley Babu were also highlighted. It was brought on record that the reply provided on the queries regarding the contents of the excel sheets, his answers regarding (a) establishment of a restaurant in the farm at Arakonam, (b) Mill expenses (c) transaction with Voora Properties and (d) Identification of vendors who are alleged to have raised bogus invoices were irrelevant and therefore the statement deposed by Shri Stanley Babu was requested to be discarded. It is also learnt that subsequently, Shri.Stanley Babu decided to leave the employment of the company and therefore filed a sworn affidavit before the AO in the month January 2024 in which he had re-iterated the above inconsistencies that was brought to the invoice of the investigation officer by the company vide its letter dated 22-03-2023. On the aspect of the operational requirement to spend expenses during transportation from lifting of materials to reaching the destination



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namely unloading incentives to labourers, expenses at the point of measurement, gate entries, weigh bridge, enroute expenses and speed money at ports on business expediency and other factors, it was stated by the assessee that the avenues to generate cash for such payment were created by way of inflated transportation bills, excess payment towards purchases, funds mobilization and repayment etc. The same were recorded in the excel sheet and the corresponding outflow towards such speed money was also recorded in the same seized documents.

3.3 The assessee in its letter 22.03.2023 filed before the DDIT (Inv.) had emphasized that though these entries were distinct from the entries in the regular books of accounts, as long as they are proven to have been expended for business purposes, the same needs to be allowed. It is also pleaded by the company that the rates paid to transactors are consolidated rate for transportation of goods and not to be termed as inflated rates. According to the assessee, it operates on two verticals being 'Export of Blackstrap Molasses' and 'Bulk Supply of Agricultural Commodities to Tamil Nadu Civil Supplies Corporation (TNCSC)'. The assessee claims to have emerged as a reliable business enterprise dealing in these products. The assessee states that the source of molasses is from sugar factories located in the interior parts of Maharashtra, Karnataka and Tamil Nadu. The rates of molasses are highly volatile and therefore the same has to be lifted, shifted, stored and exported in an expedient manner, and any delay or failure to lift the cargo from sugar factories will be detrimental to the interests of the company. Moreover, delay, if any, would result in



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exposure to huge cost of demurrage and dead freight, if the cargo does not reach within the specified time. Therefore, while the transport operators would not be as-much-keen as that of the assessee to ensure that the goods reach the ports in time, the assessee takes the responsibility and in order to overcome these impediments, addresses these issues directly. This exercise needs spending of money at various stages from sugar factories to the delivery point at port by 'incentivizing' personnel at documentation point, loading point, measurement, gate entries, weighbridge, enroute expenses, port entry, weighment, unloading at port, and pumping from tank to the cargo vessel. As per the version of the assessee, while the documentation in this sphere is sparse, the assessee was compelled to make the transporters bill it on the assessee and on its reimbursement to the assessee, the same was expended for the items detailed above. The same difficulty is faced by the assessee in handling the other vertical being 'Sourcing and Supply of Agricultural Commodities' from various points. Edible oil is imported on being purchased in bulk, cleared from ports, transported to refineries, packed and thereafter transported by road to 248 godowns of TNCSC located across the entire state of Tamil Nadu.

3.4 It is the case of the assessee that as in the case of transportation involving 'Blackstrap Molasses', the distribution of agricultural commodities and oil to various points of TNCSC is a mammoth exercise and unless incentivized by backdoor methods, the handling and distribution of goods in a timely manner would be complicated. The goods may get soiled and unfit for use by the customers and to



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overcome this challenge & handle the unorganized persons like porters, loaders and transporters at each station, the cash payments are made sourced out of the scheme by booking the transporters and excess payments to the seller of goods. While according to the assessee, it was able to illustrate that the cash received and entered in the excel sheet were without any distortion spent then and there for the purpose of business, more particularly the debits reflected in the same excel sheet affirms the same. However, in order to avoid prolonged and high-cost litigation and to bring a quietus to contentious issues, a voluntary offer was made in the letter filed before DDIT-Inv on 22.03.2023 to declare income on the total receipts from all the vendors based on a fair estimate. The contents of the seized record also exhibited cash inflows and outflows outside the books of accounts and receipts of on-money on sale of land at Palakol. All these transactions, according to the assessee, would not get wholly transformed into income and considering the same, the component of income comprised in it were volunteered to be disclosed as additional income. Based on these misgivings admitted by the assessee, the assessments for A.Yrs 2016-17 and 2019-20 were reopened by issue of notice u/ 148, regular assessment for AY 2022-23 were concluded by passing the orders u/s 147 and 143(2) respectively on 30.03.2024, the details of which are tabulated hereunder:

A.Y.	Returned Income u/S 139(1)	Revised Total Income u/S 148	Assessed Income
2016-17	1,75,96,950	4,12,56,380	15,80,88,793
2019-20	21,72,390	2,83,13,380	10,57,47,420
2022-23	22,77,52,561	*	26,56,58,571



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3.5 The assessee had offered additional income in response to notice issued u/s 148 for the AY 2016-17 and 2019-20 and a true and correct income for A.Y. 2022-23 by way of filing a revised statement of total income during the assessment proceedings as there is no opportunity to file a revised return for the said assessment year, being a regular assessment u/s. 143(2). * The amount of income admitted in revised total income after payment of taxes stands at Rs.1,01,62,445/- Further a revised statement of total income for all the above 3 years were also provided before the AO by admitting 8% of the total receipts from transportation / port service providers. The additional income was admitted taking into consideration certain deficiencies in accounting of revenue as compared to the information available in the seized electronic device. The additional income was computed on the quantum of alleged inflated expenditure, bogus purchases identified by the Department, income from sale of land at palakol and also income on account of peak cash flows. However, not being satisfied by this additional disclosure of total income, it is expressed by the AO that the computation applying a percentage on such inflated and bogus expenditure is faulty and the entire gross values were added to the total income.

3.6 The assessee, aggrieved by the additions, had preferred an appeal before the LD.CIT(A)-19, Chennai for all the three years. While LD.CIT(A) deprecated the principle based on which the assessment orders were passed treating the gross values as income and however increased the estimated percentage margin to determine the additional



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income in respect of bogus purchases. As stated earlier, the Revenue is on appeal seeking restoration of the total income determined by the AO while the assessee insists that the percentage margin applied by the assessee in computing the additional income is based on decisions rendered by various judicial forums under identical context and situations and thus need not be interfered with. As is evident, the impugned issues arise out of search conducted by the Department in the case of the assessee group on 23.11.2022. The Ld. AR advanced arguments and supported the case of the assessee with various case laws and furnished various documents containing workings / computations etc. The Ld. CIT-DR also advanced arguments and supported the findings rendered by Ld. AO and likewise, relied on various case laws. Having heard the rival submissions and upon perusal of case records, our adjudication would be as under.

4. These appeals have been filed both by the Revenue and by the Assessee against the respective orders passed by the Commissioner of Income-tax (Appeals), Chennai-19, for the Assessment Years (A.Ys.) 2016-17, 2019-20 vide orders dated 11.04.2025 and for AY 2022-23 vide order dated 25.04.2025.

5. The impugned orders u/s. 250 of the Income-tax Act, 1961 ['Act' in short], in the case of the assessee company, resulted in partial allowance of the assessee's grounds of appeal for all the aforesaid assessment years. Aggrieved by the failure to grant complete relief, the assessee has preferred appeals for all three years. Correspondingly, the Revenue has also filed appeals challenging the partial relief granted by the Commissioner (Appeals).



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6. For A.Ys. 2019-20 and 2022-23, the basis of additions, the relief sought, and the grounds of appeal are identical. For A.Y. 2016-17, apart from issues common to the other two years, the assessee has additionally challenged the validity of jurisdiction assumed by the Assessing Officer (AO). Since the issues involved are common and interconnected, all three appeals are being disposed of together by this consolidated order.

7. Brief facts of the case are that the assessee is a company engaged in two principal business verticals viz; Export of Blackstrap Molasses, and Bulk supply of agricultural commodities, including edible oils, pulses, sugar, and allied products. A search and seizure operation u/s. 132 of the Act was conducted in the case of the assessee on 23.11.2022, covering both the business premises of the company and the residential and office premises of its Directors. The search action commenced on 23.11.2022, was temporarily concluded on 26.11.2022, and thereafter resumed and finally concluded on 19.01.2023. During the course of the search, the authorized officers seized a hard disk drive (TOSHIBA 1TB HDD) from the residence of Shri Karlapatti Srikanth Apparao, Director of the company. The said storage device contained data relating to the activities of the assessee company, including certain monetary transactions which were not recorded in the regular books of account. Consequent thereto, sworn statements were recorded from Directors, employees, and other related persons. The contents of an Excel sheet extracted from the seized hard disk were examined in detail during the course of investigation. A sworn statement was recorded from Shri Stanley



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Babu, Deputy Manager (Accounts) of the assessee company, wherein he stated that certain transactions reflected in the Excel sheet pertained to activities outside the books of account. He further deposed u/s. 132(4) that bills raised by certain transport providers were inflated and that some purchases recorded were bogus in nature. This statement was partly affirmed by the Director, Shri Karlapatti Srikanth Apparao. The seized Excel sheet contained entries which, according to the DDIT (Investigation), Unit-3(4), Chennai, related to inflated transportation bills, bogus purchases, unaccounted inflows and outflows of funds, interest payments, and receipt of on-money on sale of land, among others. The authorized officers confronted these statements to another Director, Shri K. Ramnath Apparao, who, in his deposition u/s. 132(4), clarified that all credits appearing in the Excel sheets did not necessarily represent income and that several entries related to loans and liabilities. He further submitted that the amounts received under the alleged scheme were utilized entirely for business purposes and, therefore, the entire credits could not be treated as income.

8. Subsequent to the conclusion of the search proceedings and upon obtaining copies of seized materials and statements, the assessee filed a detailed letter dated 22.03.2023 before the DDIT (Investigation). In the said letter, the assessee addressed all issues arising from the search and highlighted inconsistencies and inaccuracies in the statement recorded from Shri Stanley Babu. It was contended that his responses regarding establishment of a restaurant at the farm in Arakkonam, mill expenses, transactions with Voora



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Properties, and identification of vendors alleged to have issued bogus invoices, were irrelevant and factually incorrect. Accordingly, the assessee requested that the statement of Shri Stanley Babu be disregarded. It was further brought on record that Shri Stanley Babu subsequently resigned from the services of the company and, in January 2024, filed a sworn affidavit before the AO reiterating the inconsistencies earlier pointed out by the assessee in its letter dated 22.03.2023.

9. With regard to operational requirements, the assessee explained that substantial cash expenditure was unavoidable during transportation activities, including unloading incentives to labourers, expenses at measurement points, gate entries, weighbridges, en-route expenses, and facilitation payments at ports. According to the assessee, cash for such expenditures was generated through inflated transportation bills, excess purchase payments, fund mobilization, and repayments, all of which were recorded in the seized Excel sheet, along with corresponding cash outflows. The assessee emphasized that although such entries were not reflected in the regular books of account, the expenditures were incurred wholly and exclusively for business purposes and were duly evidenced by corresponding debit entries in the same seized records. It was further contended that transportation rates were paid on a consolidated basis and could not be characterized as inflated.

10. The assessee reiterated that its operations in both verticals viz; export of Blackstrap Molasses and bulk supply of agricultural commodities to the Tamil Nadu Civil Supplies Corporation (TNCSC)



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involved significant logistical complexities. Molasses were sourced from sugar factories located in interior regions of Maharashtra, Karnataka, and Tamil Nadu, where prices are highly volatile. Timely lifting, transportation, storage, and export were critical, as delays could result in substantial demurrage and dead freight costs. Since transport operators lacked adequate incentive to ensure timely delivery, the assessee assumed responsibility for resolving logistical impediments through direct intervention involving facilitation payments at various stages.

11. Similar challenges were faced in the sourcing and supply of agricultural commodities, including edible oils imported in bulk, cleared at ports, transported to refineries, packed, and distributed to approximately 248 TNCSC godowns across Tamil Nadu. To ensure timely handling and prevent spoilage, the assessee claimed that cash payments to unorganized labourers, porters, loaders, and transporters were unavoidable and were funded through the aforesaid scheme.

12. While maintaining that the cash inflows and outflows recorded in the Excel sheet did not entirely constitute income, and that corresponding business expenditure was duly evidenced, the assessee, in order to avoid protracted litigation, voluntarily offered additional income in its letter dated 22.03.2023, based on a fair estimation of total receipts from vendors.

13. The seized materials also revealed on-money receipts on sale of land at Palakol. Considering that not all such receipts would translate



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into taxable income, the assessee voluntarily disclosed the income component embedded therein.

14. Based on these disclosures, assessments for A.Ys. 2016-17 and 2019-20 were reopened by issuance of notices u/s. 148, while the assessment for A.Y. 2022-23 was completed u/s.143(3) pursuant to notice u/s. 143(2). The assessment orders were passed on 30.03.2024, with details as under:

AY	Returned Income u/s 139(1)	Revised / Returned Income	Assessed Income
2016-17	Rs.1,75,96,950/-	Rs.4,12,56,380/-	Rs.15,80,88,793/-
2019-20	Rs.21,72,390/-	Rs.2,83,13,380/-	Rs.10,57,47,420/-
2022-23	Rs.22,77,52,561/-	—	Rs.26,56,58,571/-

15. For A.Y. 2022-23, since no revised return was permissible, a revised statement of total income admitting additional income of Rs.1,01,62,445/- (after tax payment) was filed during assessment proceedings.

16. The assessee also furnished revised statements of income for all three years by offering 8% of total receipts from transportation and port service providers, considering alleged inflated expenditure, bogus purchases, on-money receipts, and peak cash flows.

17. However, the AO rejected this estimation and treated the entire gross amounts of alleged inflated expenditure and bogus purchases as income, resulting in substantial additions.

18. Aggrieved, the assessee preferred appeals before the Ld.CIT(A)-19, Chennai. The Ld.CIT(A) disapproved the approach of the AO in



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treating gross receipts as income but enhanced the estimated profit percentage in respect of bogus purchases.

19. Consequently, the Revenue is in appeal seeking restoration of the assessment orders, whereas the assessee contends that the percentage applied by it is in consonance with settled judicial precedents and does not warrant enhancement.

20. Before us, the Ld. AR supported the assessee's case by relying upon various judicial precedents and detailed computations. The Ld. CIT-DR supported the findings of the AO and relied on judicial authorities.

21. We have heard the rival submissions, perused the material on record, and considered the case laws relied upon by both sides. Our adjudication on the issues involved is set out hereinafter.

Assessment Year 2019-20: ITA No. 1876/CHNY/2025 (Revenue's Appeal)

22. We first take up the appeals pertaining to Assessment Year 2019–20, arising out of the order passed by the Commissioner of Income-tax (Appeals), Chennai–19, dated 11.04.2025, in relation to the assessment framed by the Assessing Officer (AO) u/s. 147 of the Income-tax Act, 1961, dated 30.03.2024.

23. The grounds as raised by the revenue are as under:

"1. The order of the learned Commissioner of IT (Appeals) is erroneous on facts and in law.

2. The Ld. LD.CIT(A) erred in not confirming the disallowance u/s 37 of the Act on account of inflated transportation expenses of Rs. 1,87,02,100/-; & Rs. 40,00,000/- Disallowance u/s 36 of the Act on



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account of Inflated handling charges at port of Rs. 75,00,000/-; Disallowance u/s 37 of the Act on account of Bogus purchases of Rs. 3,89,98,710/-, Unexplained money u/s 69A of the Act of Rs. 39,22,000/-, Unexplained expenditure u/s 69C of the Act for Source for interest payment of Rs. 42,30,000/-, Unexplained money u/s 69A of the Act on account of Miscellaneous receipt of Rs. 81,230/-.

3. The Ld. LD.CIT(A) erred in holding that the bogus purchases are in fact actual purchases, without any cogent or corroborative evidence, when the legal presumption under the Act clearly rests the burden of proof on the assessee u/s 132(4A) of the Act in view of the evidences gathered and sworn statements recorded during the course of search which clearly establish beyond doubt that the assessee company had booked bogus purchases in an arranged manner of convenience.

4. The Ld. LD.CIT(A) erred in holding that seized document is only secondary evidence and did not have any evidentiary value in respect of entries found therein without any corroborative evidence, without appreciating that the entries found in the seized materials were in the form maintained systematically mentioning the transactions and amounts and the author of the seized material, the assessee admitted the nature of transactions in his sworn statement u/s 132(4) which is under Oath.

5. The Ld. LD.CIT(A) erred in considering the net taxable income at a new percentage of gross turnover as it is clearly brought out in the assessment order that the assessee had never made purchases impugned, which are considered as bogus purchases & in view of the decision of the Hon'ble Bombay High Court in the case of PCIT v. Kanak Impex India Ltd [2025] 172 taxmann.com 283 (Bombay) where it has been held Assessing Officer was justified in making addition of entire amount of bogus purchases & held in favour of revenue.

6. The Ld. LD.CIT(A) erred in deleting the addition made on account of disallowances for Expenses without taking into consideration the fact that the expenses per se were bogus in nature

7. The Ld. LD.CIT(A) has not taken cognizance of the decision of the Hon'ble Madras High Court in the case of **Thiru. A. J. Ramesh Kumar v. Dy. CIT** (2022) 441 ITR 495 (Mad.) (HC)/ (2022) 139 taxmann.com 190 (Mad.), where it held that the mere fact that the appellant retracted the statement could not make the statement unacceptable. The Hon'ble High Court held that "the burden lay on the appellant to show that the admission made by him in the statement earlier at the time of survey was wrong. Such retraction, however, should be supported by strong evidence stating that the earlier statement was recorded under duress and coercion and this has to have certain definite evidence to come to the conclusion



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indicating that there was element of compulsion for the appellant to make such statement.”

8. The Ld. LD.CIT(A) erred as Section 132(4A) r.w.s 292C of IT Act provide for a presumption that the contents of documents found during the course of search are true and though such presumption is rebuttable, the onus is on the assessee to furnish evidence or explanations to rebut the same with supportive corroborative evidences.

9. For these grounds and any other ground including amendment of grounds that may be raised during the course of appeal proceedings, the order of the Ld. LD.CIT(A) may be set aside and that of the Assessing Officer may be restored.”

24. During the course of the assessment proceedings for AY 2019-20, the AO, on the basis of the entries found in the seized Excel sheet and the sworn statements recorded during the search operation, issued a show-cause notice to the assessee proposing the following additions:

a. Disallowance of inflated transportation and port handling expenses:

- Inflated expenses under transportation: Rs.1,87,02,100/- and Rs.40,00,000/- (total Rs.2,27,02,100/-)*
- Port handling charges: Rs.75,00,000/-*
- Total proposed disallowance: Rs.3,02,02,100/-*

b. Alleged bogus purchases: Rs.4,43,24,430/-

c. Unexplained money under section 69A: Rs.39,22,000/- on account of amounts received from Shri B.S. Prasad

d. Unexplained expenditure under section 69C: Rs.42,30,000/- being interest paid to Shri B.S. Prasad

e. Addition on account of sale proceeds of land at Palakol: Rs.1,97,03,000/-

f. Miscellaneous receipts: Rs.11,93,500/-.

25. In response to the show-cause notice issued by the AO, the assessee submitted detailed objections to the proposed additions. The assessee provided a comprehensive explanation of its business verticals, operations, and other relevant aspects, highlighting the



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challenges faced in ensuring timely delivery of goods. The assessee also drew the AO's attention to an extensive submission filed on 22.03.2023 with the office of the Deputy Director of Income-tax, Investigations Unit-3(4), Chennai. This submission was made shortly after the conclusion of the search on 19.01.2023 and following the receipt of copies of sworn statements and seized materials, which were provided in phases until March 2023.

26. The assessee further submitted that the letter filed before the DDIT (Inv) addressed all issues and findings arising from the search. It also highlighted inconsistencies in the depositions made by Shri Stanley Babu under section 132(4) of the Act and requested that reliance not be placed on his statements. Additionally, reference was made to the deposition of Shri K Ramnath Apparao, Director of the assessee company, under section 132(4) of the Act, where he was asked to comment on the statements of Shri Stanley Babu and Shri K Srikanth Apparao, as well as the entries in the loose Excel sheet. Shri K Ramnath Apparao clarified that not all entries represented income. Many transactions reflected liabilities rather than income, and certain receipts and payments were made on behalf of other parties for business purposes. He therefore requested that the entire credits in the loose sheet not be treated as the assessee's income.

27. According to the assessee, the seized Excel sheets contained both receipts and payments, reflecting money spent for business purposes in the ordinary course of business and for commercial reasons. However, the assessee had agreed to offer income on an estimated basis at 12% of the total receipts from vendors as business



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income and also proposed to account for income arising from peak cash flows. A copy of the letter dated 22.03.2023 was also filed before the AO for reference. The assessee clarified that the income declared in the return filed under section 148 was based on this quantification made during the post-search proceedings. Furthermore, a revised statement of total income was submitted, admitting an estimated 8% of total receipts from transportation and port-handling vendors. Accordingly, the assessee requested the AO not to make the further additions proposed in the SCN.

28. On the issue of alleged inflation of expenses for the year under the head "Transportation / Port Handling" totaling Rs.3,02,02,100/-, the assessee submitted that these expenses were incurred solely for business exigencies. The AR stated that although these amounts were recorded as inflows in the loose sheets, the seized records demonstrate that the funds were not misappropriated and were fully utilized for legitimate business purposes.

29. The assessee further explained that such expenditures were unavoidable to ensure the timely transportation of blackstrap molasses from sugar factories to ports and the bulk movement of agricultural commodities from procurement and processing points to various TNCSC godowns across Tamil Nadu. The movement of goods involved unorganized labour, and to incentivize prompt action and maintain the steady flow of goods, cash payments were sometimes made, while strictly adhering to the statutory limits prescribed under the Act per individual.



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30. According to the assessee, the rates paid to transporters and port-handling service providers were all-inclusive, covering various en-route expenses and incentives to ensure speed from loading to delivery points. Due to the voluminous nature of such records and concerns that transport contractors might not disburse the amounts appropriately on the ground, the assessee had to retrieve portions of the funds from the contractors and directly utilize them for the intended purposes, as detailed above.

31. The assessee emphasized before the AO that, although the method of making such payments may deviate from standard accounting practices, this does not render the expenditures non-genuine, particularly when such spending is essential to maintain the business. It was further submitted that, since the same seized records also reflect the outflows towards these payments, ignoring them as debits would be incorrect, especially in cases conducted under section 132 of the Act.

32. The assessee stated that all funds recorded in the Excel sheets were genuinely spent for business purposes and not diverted elsewhere. Nevertheless, considering the long-standing litigation and the facts and circumstances of the case, the assessee voluntarily offered to declare income at the rate of 8% on the alleged transportation and port charges.

33. Regarding the addition on account of alleged bogus purchases totaling Rs. 4,43,24,430/-, the assessee clarified during the post-search proceedings that the scheme merely circumvented



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conventional accounting principles but did not affect the genuineness of the transactions. The assessee explained that certain goods, such as gunny bags, ropes, and other packing materials, had to be procured from micro and rural vendors operating in the highly unorganized sector or involved services from unorganized labor, making it difficult to obtain invoices adhering to standard industry formats. Nevertheless, these goods were genuinely consumed and services availed, and the assessee requested that the entire sum not be taxed, but only the additional income offered at 12% on an estimated gross profit basis.

34. The assessee further submitted that a cursory review of the receipts and payments in the loose Excel sheets shows that various expenditures were incurred for legitimate business purposes, including liaison expenses, handling charges, and incentives (“speed money”) at ports, all of which are supported by the seized material. This demonstrates that the funds generated from various sources, including transport and other vendors, were used exclusively for business purposes. Hence, the proposal to tax gross receipts is inconsistent with the principle of taxing actual income. The assessee also contended that the Department has not disputed that the payments recorded in the Excel sheets represent legitimate business expenses.

35. The assessee submitted that a holistic examination of the seized records reveals that the cash received from various parties was debited to the same accounts and utilized exclusively for business purposes. However, to avoid protracted litigation, the assessee voluntarily offered additional income computed at 12% on the alleged



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bogus purchases, amounting to Rs. 53,25,720, representing the income component of such purchases totaling Rs. 4,43,81,000/-.

36. The assessee further stated that the seized records also reflected other inflows and outflows unrelated to the aforementioned items. A portion of this related to on-money received from the sale of land at Palakol, amounting to Rs. 4,76,02,750/- over multiple years, of which Rs. 1,97,03,000/- pertained to the year under consideration. This sum was offered to tax and included as additional income in the return filed under section 148. Correspondingly, Rs. 67,500/- spent as expenses on the Palakol land was claimed, resulting in a net disclosure of Rs. 1,96,35,500/-.

37. With regard to other additions proposed under sections 69A and 69C, including receipt of a loan from Shri B S Prasad, payment of interest, and miscellaneous receipts of Rs. 39,22,000/-, Rs. 42,30,000/- and Rs. 11,93,500/- respectively, the assessee submitted that it had already quantified and offered income of Rs. 6,01,10,396/- (eventually admitted at Rs. 6,35,50,000/-) for all block assessment years on account of peak cash flows. These peak cash flows subsumed all the above transactions, thereby obviating the need for further additions. This quantification was submitted to the DDIT (Inv) during post-search proceedings on 22.03.2023.

38. Apart from inflated bills, purchases, and on-money receipts related to the Palakol land, the Excel sheets also reflected receipts under miscellaneous heads. The assessee explained that these sums represented funds mobilized for emergency requirements, including



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“speed money,” through withdrawals from banks, sale of minor items, etc. While preparing the returns, all receipts under the miscellaneous head, including on-money from Palakol land, were incorporated into the cash flow statement. Repayments, interest, and other business-related outgoings were similarly accounted for, and the peak credit balance was treated as additional income for the relevant assessment years.

39. The computation of peak credit balances resulted in additional income offered to tax as follows: Rs. 1,88,00,000/- for A.Y. 2014-15, Rs. 47,50,000/- for A.Y. 2016-17, Rs. 3,00,00,000/- for A.Y. 2020-21, and Rs. 1,00,00,000/- for A.Y. 2022-23, totaling Rs. 6,35,50,000/-. The assessee emphasized that these were not income-generating transactions but temporary cash flows mobilized at different points through intermediaries and directors to meet business exigencies. To ensure clarity and finality, the assessee voluntarily computed the peak cash flows from these circulating funds and offered them for taxation.

40 The peak cash balances for all relevant years, as worked out and submitted before the AO, are reproduced below. Based on these computations, the assessee offered additional income of Rs.6,01,10,396/- in the returns filed, which was subsequently enhanced to Rs. 6,35,50,000/-. This voluntary offer was made by the assessee company immediately following the search and was detailed in the letter submitted to the DDIT (Inv) on 22.03.2023.

<i>Annexure 2- Workings for Peak Credit-01.04.2013 to 31.03.2022</i>							
<i>Cash Peak</i>	<i>Date</i>	<i>Peak Cr Balance</i>	<i>Date</i>	<i>Peak Dr Balance</i>	<i>Incremental Cr</i>	<i>Incremental Dr</i>	<i>Total</i>
<i>FY 2013-14</i>	<i>21.03.2014</i>	<i>-1,43,29,904</i>	<i>04.04.2013</i>	<i>44,17,000</i>	<i>1,43,29,904</i>	<i>44,17,000</i>	<i>1,87,46,904</i>



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FY 2014-15	21.08.2014	-1,43,21,246	27.12.2014	27,63,450	-	-	-
FY 2015-16	23.01.2016	-1,43,19,855	19.03.2016	87,57,965	-	43,40,965	43,40,965
FY 2016-17	25.07.2016	-1,43,01,698	12.11.2016	8,35,812	-	-	-
FY 2017-18	12.04.2017	-1,37,05,854	31.03.2018	33,52,309	-	-	-
FY 2018-19	20.06.2018	-1,17,36,824	26.05.2018	8,54,366	-	-	-
FY 2019-20	10.02.2020	-1,64,22,528	20.11.2019	3,65,75,185	20,92,625	2,78,17,220	2,99,09,844
FY 2020-21	22.10.2020	-1,57,98,625	25.03.2021	3,14,89,618	-	-	-
FY 2021-22	08.07.2021	-89,45,699	05.07.2021	4,36,87,867	-	71,12,682	71,12,682
				Total	1,64,22,528	4,36,87,867	6,01,10,396

41. Based on the submissions and computations made, the assessee submitted that the income disclosed in the return filed in response to the notice under section 148—amounting to Rs. 2,83,13,380/- for A.Y. 2019-20—and the revised statement of total income, which included an additional amount of Rs. 3,05,83,113/- (incorporating Rs. 23,37,231/- on account of 8% of receipts from transportation/port service providers), did not warrant any further adjustment. The assessee also reiterated the necessity of incurring “speed money” for business exigencies before the AO.

42. The AO, however, did not accept the assessee’s contentions and passed the assessment order based on the quantifications in the SCN, which relied on the gross values reflected in the Excel sheet and the statements of Shri Stanley Babu, affirmed by Director Shri K. Srikanth Apparao. Consequently, additions of Rs. 3,02,92,100/- were made under section 37(1) as inflated payments and treated as unaccounted income.

43 The AO rejected the assessee’s approach of offering estimated gross profit margins on the turnover corresponding to transport and



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port-handling expenses, treating the entire gross receipts of Rs. 3.02 crores as income. The AO noted that the offer of income at 8% was made only in the revised statement of income and therefore could not be considered.

44. Regarding the alleged bogus purchases involving Zaheer Abbas and Sreedhar, the AO observed that these invoices were not supported by corresponding transportation bills and therefore treated them as bogus, unlike genuine purchases where transport bills were available. The assessee's claim that rerouted funds were used to purchase items from the unorganized sector at competitive rates and for part of speed money was not accepted. Based on the sworn statements of Shri Stanley Babu and Shri K. Srikanth Apparao, the gross payment of Rs. 4,43,24,430/- was treated as bogus expenditure. The income already disclosed in the return under section 148 of Rs. 53,25,720/- was considered, and the remaining balance of Rs. 3,89,98,710/- was brought to tax under section 37(1).

45. The seized Excel sheet also reflected a cash transaction of Rs. 39,22,000/- in the name of Shri B. Sivaprasad (B.S. Prasad). With respect to the proposed addition under section 69A, the assessee clarified that these funds were mobilized through Shri B.S. Prasad and were not a personal loan granted by him. Shri B.S. Prasad acted merely as a facilitator or mediator to mobilize funds due to business exigencies. The assessee further drew attention to the deposition of Shri B.S. Prasad recorded under section 132(4) of the Act, which confirmed this fact.



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46. The assessee company further submitted that, on several occasions, funds were mobilized through mediators, employees, and acquaintances based on references, and such funds were continuously rotated. The persons maintaining the Excel records may have recorded names based on their own understanding; however, the underlying fact remains that the funds were sourced from various persons at different points in time and were rotated accordingly. It was explained that the amounts mobilized from these parties were subsequently settled through rotational adjustments or onward payments as per their instructions, details of which are available in the seized material. All such receipts and payments, including the amount of Rs. 39,22,000/-, formed part of the overall cash inflows and outflows reflected in the seized Excel sheets. As stated earlier, the assessee had already offered additional income of Rs. 6.01 crores under the peak cash flow method to cover all such inflows and outflows.

47. According to the assessee, the amount of Rs. 39,22,000/- was not offered as income for the year under consideration in isolation, but was incorporated into the consolidated fund flow statement covering ten assessment years. The peak value of such circulating funds, aggregating to Rs. 6.01 crores over the ten-year period, had already been offered to tax. Therefore, once the amount had been subsumed in the peak cash flow computation, the addition made by the AO was contended to be a clear case of duplication.

48. The assessee further submitted that while the additional income offered under the peak balance concept, ultimately quantified at Rs. 6.35 crores, was accepted, the AO was specifically apprised that



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making a separate addition of Rs. 39,22,000/- as unexplained money under section 69A was unwarranted. However, rejecting the assessee's submissions, the AO proceeded to bring the said amount to tax under section 69A read with section 115BBE of the Act.

49. Similarly, under identical circumstances, the assessee explained that the funds mobilized through Shri B.S. Prasad were serviced by way of interest and repayments, and during the financial year 2019-20, a sum of Rs. 42,30,000/- was paid, which was duly incorporated in the cash flow statement. The assessee contended that the source of these payments was the additional income of Rs. 6.35 crores already offered to tax under the peak balance concept and, therefore, requested that no further addition be made by treating the payment as unexplained expenditure under section 69C.

50. However, the AO, on the ground that the source of the loans was not satisfactorily explained and that the repayments were made in cash, rejected the assessee's explanation and brought the interest payment of Rs. 42,30,000/- to tax under section 69C read with section 115BBE of the Act.

51. With respect to the Palakol land transactions, the receipt disclosed by the assessee amounting to Rs. 1,97,03,000/- was accepted by the AO without any modification. However, the assessee's claim for deduction of the related expenditure of Rs. 67,500/-, though reflected in the same seized records, was not accepted, and the gross receipt of Rs. 1,97,03,000/- as admitted by the assessee was taken into account.



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52. Under the head “Miscellaneous Receipts,” the AO observed a shortfall of Rs. 81,230/-, holding that the income to be disclosed under this head ought to have been Rs. 11,93,500/- instead of Rs. 11,12,270/-. Accordingly, the differential amount of Rs. 81,230/- was brought to tax under section 69A read with section 115BBE of the Act.

53. Consequently, the taxable income of the assessee for A.Y. 2019-20 was determined at Rs. 10,57,47,420/-, as against the revised income of Rs. 3,05,83,111/- voluntarily offered by the assessee. The respective components of the income assessed and the income disclosed by the assessee are tabulated below.

<i>Particulars</i>	<i>Amt in Rs. – Additional disclosure for A.Y. 2019-20</i>	<i>Additions made in the assessment</i>	<i>Amt. in Rs. – assessed income A.Y. 2019-20</i>
<i>Disallowance u/S 37(1) - Inflated transport & freight charges and undisclosed income of port handling charges- *this amount was admitted in revised statement of total income</i>	<i>*See note below</i>	<i>3,02,02,100</i>	<i>3,02,02,100</i>
<i>Disallowance u/S 37(1) - Bogus purchases</i>	<i>53,25,720</i>	<i>3,89,98,710</i>	<i>4,43,24,430</i>
<i>Unexplained money u/S 69A and unexplained expenditure u/S 69C</i>	<i>Nil</i>	<i>39,22,000 42,30,000</i>	<i>39,22,000 42,30,000</i>
<i>Income on account of Palakol land sale</i>	<i>1,97,03,000</i>	<i>Nil</i>	<i>1,97,03,000</i>
<i>Misc. income on sale of scrap, car, candy and pulp</i>	<i>11,12,270</i>	<i>81,230</i>	<i>11,93,500</i>
<i>Total</i>	<i>2,61,40,990</i>	<i>7,74,34,040</i>	<i>10,35,75,030</i>
<i>Add: Returned income u/S 139(5)</i>	<i>21,72,390</i>		<i>21,72,390</i>
<i>Income returned u/S 148</i>	<i>2,83,13,380</i>	<i>7,74,34,040</i>	<i>10,57,47,420</i>



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*Note : amount offered @8% on transportation bills in revised statement of total income	23,37,231	Nil	Nil
Less: Amount claimed towards Palakol expenses in revised statement of total income	(67,500)		
Total income	3,05,83,111		10,57,47,420

First Appellate Proceeding

54. Aggrieved by the additions aggregating to Rs. 7,74,34,040/-, the assessee preferred an appeal. Upon considering the Grounds of Appeal and the Statement of Facts, the Commissioner of Income Tax (Appeals)-19, Chennai, vide order passed under section 250(6) dated 11.04.2025 (DIN & Order No. ITBA/APL/S/250/2025-26/1075602764(1)), granted relief to the assessee and, accordingly, treated the appeal for A.Y. 2019-20 as partly allowed.

55. The entire factual matrix, including the business compulsions that necessitated the adoption of the impugned payment mechanism to meet certain expenses in the nature of “speed money,” which had earlier been explained before the AO, was reiterated before the Id. CIT(A) through the Statement of Facts, Grounds of Appeal, and an elaborate written submission.

56. The assessee also brought on record the lack of credibility of the statement given by Shri Stanley Babu, emphasizing that the same was subsequently retracted and that the Director’s statement had specifically pointed out the discrepancies in the original deposition



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recorded under section 132(4). It was further contended that the seized electronic records lacked evidentiary value, as they did not comply with the mandatory requirements of section 65B of the Evidence Act, 1872.

57. The Id. CIT(A), after considering all the grounds raised, adjudicated the appeal by specifically addressing each of the additions made in the assessment order, in the manner set out below.

58. The Id. CIT(A) noted that, at the very initial stage, when the Director was confronted with the sworn statement of Shri Stanley Babu, Shri K. Ramnath Apparao, Director of the assessee company, had categorically stated that not all entries in the seized Excel sheets represented income. The inconsistencies in Shri Stanley Babu's original deposition were highlighted by the assessee in its letter dated 22.03.2023, filed immediately after the conclusion of the search and upon receipt of copies of the sworn statements and seized material. The Id. CIT(A) observed that the said letter, addressed to the DDIT (Inv), was filed within a short span of time and, therefore, could not be construed as an afterthought. Consequently, the affidavit subsequently filed by Shri Stanley Babu in January 2024 at the time of cessation of his employment—reiterating the contents of the letter dated 22.03.2023—was held to be a crucial piece of evidence that effectively clarified and resolved the issues raised during the course of the search. Accordingly, the Id. CIT(A) accepted the sworn affidavit as a valid retraction.



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59. On the issue of non-compliance with the mandatory requirements of section 65B of the Evidence Act, 1872, the Id. CIT(A), while appreciating the AO's observation that the transactions reflected in the seized Excel sheets had a clear nexus with the regularly maintained books of account, rejected the appellant's ground as being devoid of merit. By dismissing this ground, the seized Excel sheets were held to possess evidentiary value.

60. The next issue in dispute pertained to the alleged inflation of transportation expenses, comprising payments made to M/s. Pranay Logistics, M/s. Sree Balaji Transport, and port-handling charges paid to M/s. Hari & Company, aggregating to Rs.3,02,02,100/-. The assessee consistently emphasized the business necessity of incurring "speed money" to ensure swift movement of goods and contended that the entire expenditure of Rs. 3,02,02,100/- was allowable. According to the assessee, while the method adopted may have deviated from conventional accounting practices, the commercial necessity of such expenditure had not been disproved.

61. It was further contended before the Id. CIT(A) that the entire expenditure of Rs. 3.02 crores ought to be allowed, particularly when the same seized records—on the basis of which the expenses were characterized as inflated—treated the amounts as inflows and simultaneously reflected the corresponding outflows towards speed money. The assessee submitted that the seized Excel sheets contained both receipts and payments, all of which were incurred solely for business purposes. Accordingly, the assessee requested



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that the additions be restricted only to the extent of the estimated income already offered by it.

62. On the issue of alleged non-compliance with the mandatory requirements of section 65B of the Evidence Act, 1872, the Id. CIT(A), after appreciating the AO's finding that the transactions recorded in the seized Excel sheets had a clear nexus with the regularly maintained books of account, rejected the ground raised by the appellant as being devoid of merit. Consequently, the seized Excel sheets were held to possess evidentiary value.

63. The next issue in dispute pertained to the alleged inflation of transportation expenses, comprising payments made to M/s. Pranay Logistics, M/s. Sree Balaji Transport, and port-handling charges paid to M/s. Hari & Company, aggregating to Rs. 3,02,02,100/-. The assessee consistently emphasized the business necessity of incurring "speed money" to ensure the swift movement of goods and contended that the entire expenditure of Rs. 3,02,02,100/- was allowable. According to the assessee, while the manner of accounting may have deviated from conventional practices, the commercial necessity of such expenditure had not been disproved.

64. It was further contended before the Id. CIT(A) that the entire expenditure of Rs. 3.02 crores ought to be allowed, particularly when the same seized records—on the basis of which the expenses were characterized as inflated—treated the amounts as inflows and simultaneously reflected the corresponding outflows towards speed money. The assessee submitted that the seized Excel sheets



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contained both receipts and payments, all of which were incurred solely for business purposes, and therefore requested that the additions be restricted only to the extent of the estimated income already offered by the assessee.

65. The assessee placed reliance on the judgment of the Hon'ble Jurisdictional Madras High Court in *CIT v. South India Corporation Agencies Ltd.* [2007] 164 Taxman 249 (Mad.), along with other judicial precedents, which recognized the concept of "speed money" and held such expenditure to be allowable when incurred to expedite business operations and to avoid demurrage and related charges. The assessee also relied on several decisions of the Karnataka High Court and the Mumbai Bench of the ITAT to support its contentions. Simultaneously, in a gesture of bona fides and to avoid prolonged litigation, and without prejudice to its primary arguments, the assessee voluntarily offered a disallowance of Rs. 23,37,231/-, computed at 8% of the disputed amount, by filing a revised statement of income before the AO.

66. However, the AO disregarded these submissions and proceeded to disallow the entire expenditure by categorizing the payments as non-genuine and inflated, invoking section 37(1) of the Act, without considering the additional income admitted in the revised computation. The assessee strongly contended that the expenses were incurred wholly and exclusively for business purposes and that the AO's reliance solely on the statement of Shri Stanley Babu—which was subsequently retracted—was inappropriate and unsupported by corroborative evidence.



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67. While adjudicating the issue of inflated transportation and port-handling charges, the Id. CIT(A) accepted the assessee's contention that the transport and handling charges paid to vendors were negotiated as all-inclusive rates, covering both routine and incidental expenses necessary for ensuring timely delivery. These included loading and unloading incentives, documentation charges, weighbridge fees, port entry charges, en-route expenses, and labour facilitation costs, particularly in time-sensitive and logistically complex operations such as transportation of molasses from interior regions to ports and large-scale distribution of agricultural commodities across Tamil Nadu. The Id. CIT(A) held that such facilitation expenses, commonly referred to as "speed money," incurred purely out of business expediency, are not prohibited by law.

68. The Id. CIT(A) further held that the sworn statement recorded from an employee of the assessee could not be relied upon, particularly when it was obtained under coercive circumstances and subsequently retracted, and in the absence of any independent corroborative material. Upon examining the inconsistencies highlighted by the assessee, the Id. CIT(A) recorded a categorical finding that it was undisputed that the assessee had availed transportation and logistics services from the relevant vendors. Given that movement of goods formed an integral part of the assessee's large-scale business operations, the legitimacy of the expenses incurred for such services could not be questioned. Consequently, the proposal to tax the gross receipts was held to be contrary to the settled principle of taxing real income.



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69. The Id. CIT(A) also observed that the AO had failed to bring on record any material evidence to controvert the assessee's claim that the expenses were incurred for business purposes. While the AO had merely stated that the income admitted at 8% was inadequate, no cogent reasoning or adverse finding was recorded to justify such a conclusion. Accordingly, the Id. CIT(A) sustained the estimation of income at 8% on the disputed transportation expenses of Rs. 3,02,02,100/-, resulting in an addition of Rs. 24,16,168/-, and directed deletion of the balance addition made by treating the gross receipts as income.

70. On similar reasoning, the Id. CIT(A) also accepted the assessee's contention regarding alleged bogus purchases, wherein payments made to vendors were rerouted and subsequently expended for business purposes after receipt of cash. Relying on settled judicial principles that only the profit element embedded in such purchases can be brought to tax, the Id. CIT(A) agreed with the assessee on the applicability of estimation but found the rate of 12% adopted by the assessee to be inadequate. Accordingly, the Id. CIT(A) substituted the rate with 20% and held that out of total purchases of Rs. 4,43,24,430/- made through Shri Zaheer Abbas and Shri Sridhar, a sum of Rs. 88,64,886/- represented the profit element liable to tax. After giving credit for the amount of Rs. 53,25,720/- already offered by the assessee at 12%, the balance sum of Rs. 35,39,166/- was sustained as additional income, and the remaining amount of Rs. 3,54,55,544/- was directed to be deleted.



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71. With respect to the addition of Rs. 39,22,000/- treated as unexplained money under section 69A read with section 115BBE, the Id. CIT(A) accepted the assessee's submission that the said amount was already subsumed in the consolidated cash flow statement prepared for A.Ys. 2014-15 to 2022-23. The Id. CIT(A) noted that the peak balances of Rs. 6,35,50,000/- and Rs. 4,82,47,050/-, aggregating to Rs. 11,17,90,750/-, already brought to tax, had absorbed this amount as well. Accordingly, once the AO had accepted the peak cash balance concept, a separate addition of Rs. 39,22,000/- was held to be unwarranted and was directed to be deleted.

72. On identical reasoning, the addition of Rs. 42,30,000/- made under section 69C read with section 115BBE on account of alleged unexplained interest expenditure was also deleted, as the same stood debited in the cash flow statement and could not be treated as unexplained once the peak balance had already been subjected to tax.

73. Regarding the claim for adjustment of expenditure of Rs.67,500/- against the income declared from the sale of Palakol land amounting to Rs.1,97,03,000/-, the Id. CIT(A) held that since the expenditure had not been claimed in the return of income, the AO had no authority to allow the claim during assessment proceedings. Accordingly, this ground was dismissed.

74. Finally, with respect to the minor addition of Rs. 81,230/- made under section 69A read with section 115BBE under the head "miscellaneous receipts," the Id. CIT(A) observed that the AO had failed to record any clear finding to establish that the entries in the



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Excel sheet represented taxable income. The addition was found to be based merely on presumption, lacking factual or legal foundation, and was therefore directed to be deleted.

75. In view of the above findings, the appeal filed by the assessee was partly allowed.

76. According to the Department, all the additions made by the AO were fair, reasonable, and duly supported by evidences gathered from the seized records, and therefore deserved to be sustained in full. The relief granted by the Id. CIT(A), which substantially accepted the quantification of additional income made by the assessee, was not acceptable to the Department. Consequently, the Department preferred an appeal seeking restoration of the disallowance of transportation expenses and bogus purchases amounting to Rs. 3,02,02,100/- and Rs. 4,43,24,430/- respectively under section 37, the addition of unexplained money of Rs. 39,22,000/- under section 69A, the addition of unexplained expenditure of Rs. 42,30,000/- under section 69C, and the minor addition of Rs.81,230/-, all of which were made in the assessment order.

77. Simultaneously, the assessee also preferred an appeal, raising a solitary ground that the enhancement of estimated income on the alleged bogus purchases from 12% to 20% by the Id. CIT(A) was without any rational basis. Accordingly, the assessee sought deletion of the resultant addition of Rs.35,39,166/-.



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78. Aggrieved by the relief granted by the Id. CIT(A), the Revenue raised nine grounds of appeal. Ground Nos. 1 and 9 were general in nature and did not call for any specific adjudication. Ground No. 2, though not purely generic, was also non-specific, merely asserting that all additions made by the AO ought to be sustained; therefore, the same was dealt with in a composite manner. Ground Nos. 4, 7, and 8 were technical in nature, whereas Ground Nos. 3, 5, and 6 challenged the findings of the Id. CIT(A) on factual and legal merits.

79. We consider it appropriate to first address the technical grounds of appeal, which are summarized hereunder:

Ground No. 4 – The Ld. LD.CIT(A) erred in holding that seized document is only secondary evidence and did not have any evidentiary value in respect of entries found therein without any corroborative evidence, without appreciating that the entries found in the seized materials were in the form maintained systematically mentioning the transactions and amounts and the author of the seized material, the assessee admitted the nature of transactions in his sworn statement u/s 132(4) which is under Oath.

Ground No. 7 – The Ld. LD.CIT(A) has not taken cognizance of the decision of the Hon'ble Madras High Court in the case of Thiru. A. J. Ramesh Kumar v. Dy. CIT (2022) 441 ITR 495 (Mad.) (HC)/(2022) 139 taxmann.com 190 (Mad.), where it held that the mere fact that the appellant retracted the statement could not make the statement unacceptable. The Hon'ble High Court held that "the burden lay on the appellant to show that the admission made by him in the statement earlier at the time of survey was wrong. Such retraction, however, should be supported by strong evidence stating that the earlier statement was recorded under duress and coercion and this has to have certain definite evidence to come to the conclusion indicating that there was element of compulsion for the appellant to make such statement."

Ground No. 8 – The Ld. LD.CIT(A) erred as Section 132(4A) r.w.s 292C of IT Act provide for a presumption that the contents of documents found during the course of search are true and though such presumption is rebuttable, the onus is on the assessee to furnish evidence or explanations to rebut the same with supportive corroborative evidences.



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We have duly considered the aforesaid grounds raised by the Revenue.

80. With respect to the contention raised in Ground No. 4, we are of the considered view that the seized document constitutes a strong piece of evidence and does possess evidentiary value. Likewise, in relation to Ground No. 8, the Revenue's contention that the contents of the documents found during the course of search are presumed to be true also merits acceptance.

81. Section 132(4A) of the Act, read with section 292C, creates a statutory presumption in cases of search, whereby it may be presumed that any document found during the course of search from the possession or control of the person searched belongs to such person and that the contents thereof are true.

82. In the present case, it is an undisputed fact that the HDD containing the loose Excel sheets—reflecting the financial affairs conducted outside the regular books of account—was found and seized during the course of search at the residence of the Director. At no point in time was the ownership of the said seized material disowned by the assessee or its Directors, nor was it claimed to belong to any third party.

83. Further, the entries recorded in the Excel sheets establish a direct nexus with the transactions carried out by the assessee company, and the nomenclature used therein clearly indicates that the entries pertain exclusively to the business affairs of the assessee. Accordingly, in terms of section 132(4A) read with section 292C, the



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seized material undoubtedly carries evidentiary value, particularly when the very same material formed the basis for the assessee's disclosure of additional income.

84. The real issue arising from these grounds, however, is whether the Id. CIT(A), in the order passed under section 250(6), had held the seized records to be unreliable. It is evident that the seized material constituted the fulcrum of the assessee's disclosure, which was entirely based on the contents of the Excel sheets. Likewise, the assessee's claim for deductions against the gross receipts reflected therein also rests upon the evidentiary value of the same seized material and forms the subject matter of dispute.

85. Although the assessee had raised a controversy regarding the evidentiary value of the seized records both during the assessment proceedings and before the Id. CIT(A), no merit was found in such contention. A perusal of the appellate order makes it abundantly clear that the Id. CIT(A) has placed complete reliance on the seized material and has nowhere characterized it as a "secondary piece of evidence."

86. It is also noted that, in Ground No. 5 of the grounds of appeal before the Id. CIT(A), the assessee had contended that the seized record was a "dumb document" and that reliance thereon was impermissible under the Evidence Act, 1872. Rejecting this contention, the Id. CIT(A), in paragraph 6.3.2 of the order, held as under:

"6.3.2. The Undersigned has carefully examined the issue raised by the appellant. As evident in the assessment order, it can be seen that the AO has brought out the nexus between the transactions narrated in the seized excel sheet with the books of accounts.



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*Further, the AO in the assessment order had dealt with the issue about the fulfilment of the requirement provided u/s 65B of the Evidence Act, 1872. In view of this, the undersigned is of the view that the ground raised by the appellant is devoid of merit and therefore the same is hereby treated as **dismissed**.”*

87. Thus, while the Id. CIT(A) had declined to accept the assessee's contention challenging the evidentiary value of the seized records, the corresponding grounds raised by the Revenue are found to be wholly misconceived, lacking proper application of mind, and based on an incorrect appreciation of the appellate order. Accordingly, Ground Nos. 4 and 8 raised by the Revenue are rendered infructuous and are hereby dismissed.

88. The next technical ground raised by the Revenue pertains to the contention that the statement deposed u/s. 132(4) of the Act by Shri Stanley Babu, Deputy Manager (Accounts), is an incontrovertible piece of evidence.

89. The record shows that Shri Stanley Babu's initial deposition was made during the course of the search in November 2022. Shortly thereafter, the assessee company, upon receipt of copies of the sworn statements and seized materials, submitted a detailed letter dated 22.03.2023 to the office of DDIT(Inv), highlighting numerous inconsistencies in the deposition of Shri Stanley Babu. The discrepancies pointed out related to transactions at Arakonam, Voora properties, mill expenses, and the identification of various vendors allegedly providing bogus services. The assessee explicitly requested that the deposition of Shri Stanley Babu be disregarded in light of these inconsistencies. These facts are undisputed.



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90. Further, Shri Stanley Babu, upon leaving the employment of the assessee company in January 2024, submitted an affidavit reiterating the inconsistencies highlighted in the letter of 22.03.2023. Notably, the Department neither confronted the deponent by cross-examination to challenge the retraction nor produced any evidence to establish that the retraction lacked basis, contrary to the principle laid down by the Hon'ble Supreme Court in *M/s. Mehta Parikh (1956) 30 ITR 181*.

91. While a deposition under Section 132(4) is an important piece of evidence, its evidentiary value is limited to the extent it is corroborated by other material. In the present case, the LD.CIT(A) correctly appreciated that the affidavit filed by Shri Stanley Babu was merely a reiteration of the letter dated 22.03.2023 and therefore could not be treated as an afterthought. The LD.CIT(A) also noted that the AO failed to address the inconsistencies pointed out by the assessee in either the post-search proceedings or the assessment order. The Revenue has not disputed these inconsistencies, nor has it placed any material on record to rebut the assessee's submissions.

92. It is well-settled that a statement made during a search under Section 132(4) can be retracted to the extent it is incorrect or involuntary, especially if the retraction is supported by credible evidence. In the instant case, aspects of the deposition that were inconsistent with the contents of the seized records have been proven to be incorrect. Therefore, complete reliance cannot be placed on Shri Stanley Babu's statement, and it can only be relied upon to the extent it finds support in the seized records.



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93. Accordingly, while Sections 132(4), 132(4A), and 292C operate in conjunction, the retraction to the extent it is corroborated by the seized records is valid. The contention of the Revenue that the statement under Section 132(4) is final and wholly persuasive is, therefore, unsustainable. Ground No. 7 of the Revenue is dismissed.

Ground No. 2:

94. Ground No. 2, in a combined manner, challenges all the relief granted by the Ld. CIT(A) and relates to the addition of inflated transportation expenses amounting to Rs. 2,28,02,100/- and unaccounted income of Rs. 75,00,000/- arising from inflated payments made to a port handling service provider. It is not disputed that these amounts were indeed paid as transportation and port handling charges to the respective service providers, later received back, and recorded in an Excel sheet maintained on the seized hard disk. It is also an undisputed fact that these are legitimate service providers who rendered actual transportation and port handling services, and are not, by themselves, fictitious parties.

95. The AO held that the full amount of the inflated transportation expenses is not deductible under section 37(1) of the Act, as the seized records demonstrate that these funds were diverted from the service providers and ultimately ended up in the company's accounts.

96. On the other hand, the assessee argues that after making payments to the service providers, the amounts were returned and credited to an account maintained in Excel format, intended solely for



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business contingencies and facilitation payments. Since the corresponding outflows are also reflected in the same seized records, the AO is obliged to treat these amounts as allowable business expenditure.

97. According to the assessee, the rates charged by the service providers were consolidated to cover all expenses necessary for the timely completion of their services. However, if the service providers had managed these services themselves, it would have been detrimental to the company's interests due to a lack of dedication and the risk of misappropriation of en route expenses or facilitation payments. Therefore, the assessee had to assume the role of the service providers and manage these expenses on their behalf. As long as the amounts were genuinely spent and the required services were effectively obtained, there is no legal bar to treating them as allowable business expenses.

98. The assessee explained the rationale for adopting the scheme at various levels, stating that although the procedure may deviate from standard accounting practices, given the facts and circumstances, expenditures made solely for business purposes should be allowed. The assessee further noted that, even though there was no additional income to declare, to avoid disputes, an amount estimated at 8% of the gross receipts was voluntarily offered for taxation, as it was proven that the entire receipt had been used for business purposes.

99. Therefore, regarding the inflated transportation expenses and port handling charges, the only remaining issue is whether the full



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gross amount should be treated as additional income, or only a portion, as proposed by the assessee and accepted by the Ld. CIT(A), should be treated as taxable income.

100. Upon careful examination of the facts and the materials before the lower authorities, it is evident that the seized Excel sheet records both receipts from the service providers and various payments made for the assessee's business purposes. The funds were received back solely by the assessee company and were not misappropriated by its directors for other purposes. The AO has neither disputed this nor produced any reliable evidence to show that the debits recorded in the Excel sheet were used for purposes unrelated to the business.

101. Given the nature of the assessee's business, expenditures such as facilitation payments ("speed money") were necessary, and the AO has not contested that the smooth movement of goods could have been achieved without these payments. Moreover, the claimed expenses do not contravene any other legal provisions. The search did not uncover any undisclosed investments or unexplained expenditures by the assessee or its directors that could be linked to these transactions. Considering all these facts, the assessee's claim that these amounts were genuinely spent for business purposes cannot be rejected.

102. The seized Excel sheet records all inflows received in the revenue account, including money and miscellaneous receipts, funds mobilized for urgent business needs, and amounts received through diversions such as inflated expenses or purchases. Based on an



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analysis of this statement, the assessee disclosed income from various sources, including the sale of Palakol land, estimated disallowances on bogus purchases, transportation and port handling charges, and income arising from peak cash flows. Simultaneously, the same Excel sheet records outflows for “speed money,” repayment of mobilized funds, interest payments, and other incidental business expenses, showing a clear correspondence between inflows and outflows.

103. Therefore, when the seized records demonstrate that the amounts received through diversion were used exclusively for business exigencies and related expenses, they should be treated as allowable business expenditures rather than inflated expenses.

104. In this regard, the Hon'ble Supreme Court in *S.A. Builders v. CIT (2007) 288 ITR 1 (SC)* held that commercial expediency must be assessed from the businessman's standpoint. If expenditures are recorded to suppliers but cash is subsequently returned, that cash cannot be treated as income, nor can the original expenditure be disallowed, unless the AO proves that the funds were misappropriated for personal use. In reality, business requirements often necessitate receiving cash against inflated bills and utilizing it for legitimate business expenses not recorded in the regular books.

105. Consequently, neither addition as income nor disallowance of expenditure is warranted merely because cash was returned from suppliers, unless the AO demonstrates that the expenditure was fictitious or the cash was diverted for non-business or personal



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purposes. Mere rotation of funds within the business, even if handled in cash, does not give rise to taxable income.

106. Income must reflect a real gain—something that genuinely increases the assessee’s wealth. If the same funds are subsequently spent for business purposes, even if not recorded in the regular books, they cannot be disallowed as expenditure or treated as income, provided it is proven that there is no enrichment of the assessee.

107. To disallow a booked expenditure, the AO must establish its falsity—for example, by showing that no goods or services were actually received or that the invoices were fabricated. In the present case, the AO has not demonstrated that the services in question were nonexistent. Accordingly, neither disallowances under sections 37(1) or 36 nor addition of unaccounted income can be justified merely because the payment cycle involved cash returns.

108. The assessee has shown that the sums received back were spent solely as “speed money.” Supporting this, the Jurisdictional Madras High Court in *CIT v. South India Corporation Agencies Ltd.* [2007] 164 TAXMAN 249 (Mad.) held that payments which are neither illegal nor prohibited by law, but incurred to expedite business operations and avoid demurrage charges, are allowable.

109. Expenses that are proven to have been actually incurred for business purposes must be allowed and cannot be treated as income if the seized records substantiate this claim. Consequently, the issue



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at hand is fundamentally based on the principles of evidence and the values reflected in the seized records, and nothing beyond that.

110. It is apparent from the assessment order that the Assessing Officer selectively considered certain entries or credits in the Excel sheet as income, while disregarding the corresponding expenditures recorded in the same seized material. In this context, it is pertinent to refer to the decision of the Pune Bench of this Tribunal in *Dhanvarsha Builders and Developers P. Ltd. v. DCIT* [2007] 289 ITR (AT) 50, where it was held that evidence must be considered in its entirety, and the AO cannot treat receipts of unaccounted money as income while ignoring the expenditures reflected in the same documents. This principle was also upheld by the Hon'ble Delhi High Court in *CIT v. Indeo Airways (P.) Ltd.* [2012] 26 Taxmann.com 244 (Delhi), which reinforced that the records must be read as a whole before drawing any conclusions regarding income or expenditure. Aforesaid judgment reads as under:

*“Where receipts recorded in searched documents are believed to be income, entries of expenditure recorded therein are also to be believed **without asking for more evidence for such expenditure**”*

111. The contents of a seized document must be considered in their entirety. The AO cannot selectively pick portions of the document that indicate unaccounted receipts while disregarding entries showing corresponding expenditures or other relevant information. Tax authorities cannot rely on parts of a document that support their case while ignoring portions that corroborate the assessee's explanation.



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112. If the assessee admits certain entries in a seized document as income but asserts that related entries represent legitimate expenses, the AO cannot dismiss those expense entries without valid justification. The law requires that the entire context be evaluated.

113. This judicial principle ensures that tax assessments are fair and based on a complete understanding of the seized material, preventing arbitrary additions to the assessee's income. In particular, search assessments must adhere to the real income theory, and ignoring a holistic approach to seized records is arbitrary and legally impermissible.

114. The Gujarat High Court in the case **Navjivan Oil Mills v. CIT reported in [2002] 124 Taxman 392 (Gujarat)** held that:

“ Seized material has to be read and accepted as a whole and it is not permissible to pick and choose or make further estimates therefrom unless and until there is cogent material in support of undertaking such an exercise”

115. In the present case, the AO has not indicated in the assessment order that the recorded outflows were fictitious or not actually incurred. Consequently, it is clear that biased reliance on, or selective reading of, the seized documents is impermissible. The entire document must be evaluated in its entirety, and the AO cannot consider only the incriminating portions while ignoring explanatory or neutral entries.

116. Viewed from this perspective, since the Assessing Officer has not alleged that the diverted funds were misappropriated by the directors for personal use, or that the amounts received on diversion



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were utilized for purposes other than business, the gross receipts cannot be taxed as income.

117. However, while the gross receipts cannot be treated as additional income in full, the income declared by the assessee on an estimated basis—applying a gross profit rate of 8% on such gross receipts—cannot be regarded as inadequate. This is especially so in the absence of any finding by the AO that the net receipts, after deducting necessary outflows as reflected in the seized records, exceed 8%.

118. As argued by the Ld. AR, and in agreement with this view, it is noted that all entities of the Group, including the residences of the Directors and employees, were subject to action under section 132. Consequently, the Department had full visibility of the entire financial affairs of the companies in the Group and their Directors. It is observed that the search did not reveal any assets or unexplained expenditures that were disproportionate to the income reflected in the cash flow statements.

119. Taxation of the income as determined by the AO would only be warranted if the search had revealed that the assessee possessed assets proportional to the quantum of income claimed by the AO.

120. On the contrary, the assessee, through inputs in the cash flow statement—such as on-money received from the sale of Palakol land, miscellaneous income, and mobilized funds—demonstrated that expenditures made outside the books of accounts were fully explained



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as being met from these receipts. The quantum of unrecorded expenditure is accounted for entirely by these three items, excluding the estimated profit percentage offered for taxation on inflated transportation costs and purportedly bogus purchases.

121. Even though the inflated transportation costs and bogus purchases were utilized solely for legitimate business purposes, the assessee voluntarily offered income calculated at 8% on an estimated basis for these inflated costs. Therefore, such disclosure cannot be considered inadequate.

122. As noted earlier, the AO has not produced any evidence to challenge that the estimated income offered for taxation is appropriate and commensurate with the assessee's line of business. The Assessing Officer has failed to recognize this fundamental principle as upheld by the courts.

123. Accordingly, we are of the view that the income voluntarily disclosed by the assessee, calculated on an estimated basis at 8% of the gross receipts, is both adequate and reasonable. We therefore concur with the findings of the Ld. CIT(A) in this regard. Consequently, the corresponding ground of appeal raised by the Revenue is dismissed.

124. The adjudication now proceeds to address the grounds relating to other factual aspects of the case. These grounds are outlined below:

Ground No. 3 – The Ld. LD.CIT(A) erred in holding that the bogus purchases are in fact actual purchases, without any cogent or corroborative evidence, when the legal presumption under the Act clearly rests the burden of proof on the assessee u/s 132(4A) of



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the Act in view of the evidences gathered and sworn statements recorded during the course of search which clearly establish beyond doubt that the assessee company had booked bogus purchases in an arranged manner of convenience.

Ground No. 5 – The Ld. LD.CIT(A) erred in considering the net taxable income at a new percentage of gross turnover as it is clearly brought out in the assessment order that the assessee had never made purchases impugned, which are considered as bogus purchases & in view of the decision of the Hon'ble Bombay High Court in the case of PCIT v. Kanak Impex India Ltd [2025] 172 taxmann.com 283 (Bombay) where it has been held Assessing Officer was justified in making addition of entire amount of bogus purchases & held in favour of revenue.

Ground No. 6 – The Ld. LD.CIT(A) erred in deleting the addition made on account of disallowances for Expenses without taking into consideration the fact that the expenses per se were bogus in nature.

125. The detailed discussion above regarding inflated transportation expenses is equally applicable to the purchases identified by the AO as bogus. While the AO sought to tax the entire gross receipts, the assessee voluntarily offered 12% of such gross receipts as additional income on an estimated basis.

126. The Ld. CIT(A), considering the unique facts and circumstances of the assessee's case—where a large volume of cargo was handled and expenditures for emergency needs such as packing material and other incidental expenses were unavoidable—disagreed with the AO's approach of taxing the entire amount. However, the Ld. CIT(A) enhanced the profit percentage to compute the additional income, substituting a rate of 20% in place of the 12% estimated by the assessee.



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127. The features of this claim of expenditure are identical to those of inflated transportation costs, particularly with regard to the fact that the funds diverted through the claim of bogus purchases were credited to the Excel sheet account and subsequently spent solely for business purposes. This fact is undisputed, and as in the case of transportation costs, the AO has not challenged the assessee's claim. However, since the invoices arranged by Shri Zaheer Abbas and Shri Sreedhar were not accompanied by supporting documents such as transportation bills, the AO treated the entire outflow toward these purchases as expenditure not incurred for business purposes and disallowed it under section 37(1).

128. Applying the same principles of evidence under section 132(4A) read with section 292C, and supported by decisions in *Navjivan Oil Mills* (supra) and *Indeo Airways (P.) Ltd.* (supra), and considering that the seized records confirm the money received back from the vendors was used exclusively for business purposes due to exigent circumstances, the AO's approach of treating the gross receipts as income is unsustainable.

129. During the hearing, the Ld. CIT(DR) submitted that the entire gross receipts corresponding to bogus purchases should be taxed, relying on the decision of the Bombay High Court in *Principal Commissioner of Income-tax vs. Kanak Impex (India) Ltd.* [2025] 172 Taxmann.com 283 (Bombay). In that case, the Court upheld the addition of the full amount of bogus purchases made through hawala operators because the assessee failed to prove the authenticity of



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those purchases. The Special Leave Petition against this judgment was also dismissed by the Hon'ble Supreme Court.

130. However, this decision is distinguishable from the facts of the present case. In *Kanak Impex*, the assessee could not demonstrate that payments to hawala operators were matched by the supply of goods or services. In contrast, in the present case, the seized records clearly show that the cash received back from the vendors was utilized solely for business purposes.

131. Here, the issue is not bogus purchases but actual business expenditure structured in the form of purchases. The Rule of Evidence is central, particularly in a search assessment, and the seized records substantiate that the funds received back from vendors were used exclusively for business purposes—a fact not disputed by the AO. Therefore, comparing the present case with *Kanak Impex* is misplaced.

132. Consequently, the *Kanak Impex* decision is not applicable to the facts of the assessee's case. Instead, the ruling of the Delhi High Court in *Indeo Airways* (supra) is more relevant, and the CIT(DR)'s argument that these purchases are wholly bogus and should be disallowed is rejected.

Additions under Sections 69A and 69C:

133. Regarding the additions made under sections 69A and 69C, the assessee has demonstrated that all such amounts are fully explained in the cash flow statement. All heads of income, other than the



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estimated profits offered for taxation, which surfaced as a result of the search—including funds mobilized through various persons, including Shri B.S. Prasad—have been treated as income in the assessee's cash flow statement.

134. The peak value of credit balances reflected in the cash flow statement across the entire block of assessment years has been offered for taxation, totaling Rs. 6,35,50,000/-. Specifically, the assessee quantified this offer at Rs. 6.01 crores in submissions made to the DDIT(Inv) dated 22.03.2023, immediately after the conclusion of the search.

135. It is evident that the assessee acknowledged all credits in the Excel sheet account, and the peak credit balances, as reflected through the cash flow statement, were offered for tax in the respective years when they reached their highest levels. The Assessing Officer has not disputed this method of revenue recognition. Accordingly, the quantum of income offered in the relevant assessment years A.Y. 2014-15, A.Y. 2016-17, A.Y. 2020-21, and A.Y. 2022-23 has been accepted without modification.

136. Therefore, any additions made by the Assessing Officer under sections 69A or 69C would be justified only if it is established that certain amounts, such as funds mobilized through Shri B.S. Prasad of Rs.39,22,000/- under section 69A, interest payments on these funds of Rs.42,30,000/- under section 69C, and unexplained money of Rs.81,230/- under section 69A are not reflected in the cash flow statement.



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137. Under the law, the Assessing Officer cannot simultaneously rely on the peak credit balance method and make independent additions for the same amounts. If income has already been offered and accounted for based on the peak credit balance, independent additions for the same amounts in the relevant assessment year are not permissible.

138. The computation of additional income by determining the peak credit balances in the cash flow statement is a widely accepted and reliable method of recognizing revenue. This principle is supported by the decision of the Hon'ble Andhra Pradesh High Court in *CIT v. Purushottam Jhawar* [2013] 40 Taxmann.com 533 (Andhra Pradesh), which held as follows:

“[Peak credit theory] Block period 1989-90 to 1999-2000 - Whether application of principle of peak credit method in quantifying undisclosed income is one of accepted methods of accounting principles for purposes of computing real profit - Held, yes –

Whether where lower authority came to fact finding that peak credit concept had to be applied and method adopted by lower authority was not contrary to provisions of Act, same was to be accepted - Held, yes –

Whether when peak credit concept is followed, there was no need to make any separate addition, particularly where assessee had explained sources for repayment - Held, yes [Paras 3 & 13] [In favour of assessee]”

139. All the department's contentions on this issue, and the correctness of the method adopted by the assessee, are fully addressed by the aforementioned decision.

140. This principle was also followed by the Coordinate Bench of the ITAT in *Shri A. Anbukkannan* (ITA Nos. 1731/Mds/2014 and



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1871/Mds/2014 for A.Y. 2010-11) vide order dated 05.04.2014, which was subsequently affirmed by the Jurisdictional Madras High Court in *Logamaheshwara v. Income-tax Officer* [2024] 167 Taxmann.com 320 (Madras) [02-09-2024].

141. Furthermore, the additions made under sections 69A and 69C are already reflected in the income offered under the concept of 'Peak Credit Balance'—Rs.6,35,50,000/- for all assessment years from A.Y. 2014-15 to A.Y. 2022-23, together with Rs.4,82,40,750/- offered on account of the Palakol land sale totalling Rs.11,17,90,750/-. Therefore, separate additions under these sections for the year under consideration would result in double taxation of the same income, which is not permissible under law.

142. The Ld. CIT(A) has elaborately discussed this aspect in paras 6.6.4 to 6.6.7 of his order. Accordingly, the deletion of the additions made under section 69A of Rs. 39,22,000, section 69C of Rs. 42,30,000, and Rs. 81,230 under section 69A is upheld, and the corresponding grounds of appeal filed by the Revenue are dismissed.

143. In conclusion, the grounds of appeal of the Revenue for A.Y. 2019-20 are dismissed.

Assessment Year 2019-20 in ITA No. 1882/CHNY/2025 (Assessee's Appeal)

144. For the same assessment year, the assessee has filed an appeal challenging the action of the Ld. CIT(A) in enhancing the profit



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percentage applied to the alleged bogus purchases from 12% to 20%, contending that such enhancement is arbitrary and contrary to law.

145. The grounds of appeal of the assessee are as under:

1. The Order of the Commissioner of Income Tax (Appeals)-19, Chennai is arbitrary and is against to law in so far prejudicial to the interest of the appellant company.

2. Adjudication of disallowance at 20% of alleged bogus purchases as against appellant's voluntary disallowance of 12% in ROI u/s 148.

2.1 On facts and under the circumstances of the case, the learned Commissioner of Income Tax (Appeals) – 19, Chennai erred in adjudicating the disallowances at 20% of the alleged bogus purchases, which is over and above the disallowances of 12% on alleged bogus purchases voluntarily returned by the appellant in ROI u/s. 148 for the impugned AY 2019-20.

2.2 On the facts and circumstances of the case, the learned Commissioner of Income Tax (Appeals) – 19, Chennai erred in enhancing the disallowances over and above the voluntary disallowance, without appreciating the fact that the search did not result in unearthing of any excess/unexplained cash or assets or investments or expenditure or payments for non-business purposes or any other incriminating evidences.

146. It is evident from the Appellate Order that the enhancement of the profit percentage by the Ld. CIT(A) was carried out without reference to any specific factor emerging from the examination of the seized records at the appellate stage.

147. It is an undisputed fact that, as a result of the search, the Department did not identify any assets or expenditures that were disproportionate to the income voluntarily disclosed by the assessee, excluding those items offered on an estimated basis.

148. Therefore, when the income offered on an estimated basis is not shown to be inadequate, and the seized records do not suggest otherwise, any enhancement could only be justified with supporting



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evidence or reasoning by the Ld. CIT(A). In the present case, no such examination or justification was undertaken, and the Ld. CIT(A) arbitrarily increased the estimated profit percentage from 12% to 20%, which is unwarranted given the facts and circumstances.

149. In the absence of such justification, the assessee's contention that the enhancement was arbitrary is well-founded. Accordingly, the action of the Ld. CIT(A) is inappropriate, and the corresponding ground of appeal of the assessee is allowed.

150. As a result, the appeal of the assessee is allowed.

Assessment Year 2016-17 in ITA No. 1881/CHNY/2025 (Assessee's Appeal):

151. For the assessment year 2016-17, the assessee has filed an appeal challenging the action of the Ld. CIT(A) on two grounds:

i) Upholding the correctness of the assumption of jurisdiction to reopen the assessment for A.Y. 2016-17 based on the approval granted by the Member (Inv.), CBDT, New Delhi, instead of the Pr. CCIT, Chennai.

ii) Enhancement of the profit percentage applied to the quantum of alleged bogus purchases from 12% to 20%, which the assessee contends is arbitrary and contrary to law.

152. The grounds of appeal raised by the assessee are outlined as follows:

1. The Order of the Commissioner of Income Tax (Appeals)-19, Chennai is arbitrary and is against to law in so far prejudicial to the interest of the appellant company.

2. On facts and under the circumstances of the case and in law, the learned Commissioner of Income Tax (Appeals) – 19, Chennai erred in not adjudicating and dismissing the ground on the legal validity of the notice issued u/s 148 of the Act, which lacks jurisdiction, as the prescribe authority, as specified u/s 151 of the Act did not approve the same.



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3. *Adjudication of disallowance at 20% of alleged bogus purchases as against appellant's voluntary disallowance of 12% in ROI u/s 148.*

3.1 *On facts and under the circumstances of the case, the learned Commissioner of Income Tax (Appeals)-19, Chennai erred in adjudicating the disallowances at 20% of the alleged bogus purchases, which is over and above the disallowances of 12% on alleged bogus purchases voluntarily returned by the appellant in ROI u/s. 148 for the impugned AY 2019-20.*

3.2 *On the facts and circumstances of the case, the learned Commissioner of Income Tax (Appeals)-19, Chennai erred in enhancing the disallowances over and above the voluntary disallowance, without appreciating the fact that the search did not result in unearthing of any excess/unexplained cash or assets or investments or expenditure or payments for non-business purposes or any other incriminating evidences.*

Ground No. 2 for A.Y. 2016-17

153. Ground No. 2 is specific to A.Y. 2016-17 and is considered separately from the other assessment years dealt with in this common order, namely A.Y. 2019-20 and A.Y. 2022-23.

154. For A.Y. 2016-17, the assessment was reopened through the issuance of a notice under section 148 on 31.03.2023. As per the contents of the notice, placed in the paper book, it was issued after obtaining prior approval from the Member (Inv.) of the CBDT, as accorded on 30.03.2023 via Reference No. C.N. 2748/C_2/2022-23//Vol-VI.

155. The assessee challenged both the assumption of jurisdiction by the AO and the validity of the assessment before the Ld. CIT(A)-19, Chennai, contending that the sanction for issuing the notice under section 151 was not properly obtained, and therefore, the consequent assessment order was without jurisdiction.



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156. It was submitted that, as per the provisions of section 151(ii) prior to the amendment effective from 01.04.2023, the Pr. CCIT alone is the competent authority to grant such approval. Approval granted by an authority other than the Pr. CCIT, even if higher, is therefore void ab initio, rendering the assessment order for A.Y. 2016-17 invalid.

157. The assessee relied on the decision of the Jurisdictional Madras High Court in *FIVES India Engineering & Projects (P) Ltd. v. ITO* 464 ITR 760 (Madras) dated 27.02.2024, which held that when more than three years have elapsed, approval must be granted by the Pr. CCIT only, as specified under clause (ii) of section 151, and any notice issued in violation of this mandate is liable to be quashed.

158. As per the appellate order, it is observed that this ground of the assessee was dismissed by the Ld. CIT(A), who rejected the relevant grounds of appeal that challenged the legality of the proceedings in a general manner. In paragraph 6.10.2, on page 82 of the order passed under section 250(6), the Ld. CIT(A) held that:

“6.10.2 The undersigned has carefully examined the detailed submission made by the appellant and the various judicial decisions relied by the AR regarding the issuance of notice u/s 148 of the Act for the year under consideration. The undersigned has dealt the various grounds upon merits and the additions(s)/ disallowance(s). In this background, any further discussion and decision upon grounds raised upon the legality can only be academic. Therefore, the ground raised by the appellant upon legality is hereby treated as dismissed.”

159. Aggrieved by the Ld. CIT(A)'s omission to properly adjudicate this ground and dismissing it summarily, the assessee has raised Ground No. 2 on appeal.



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160. The issues raised by the assessee relate to the fundamental powers and jurisdiction of a tax authority. Such jurisdictional defects are substantive and go to the root of the matter; they cannot be treated as mere technicalities or “academic” points. Any order or assessment passed without proper jurisdiction is null and void in law, regardless of the merits of the case. Therefore, when the validity of a notice issued under section 148 is challenged, it is essential for the appellate authority to examine the issue before considering other aspects.

161. Ground No. 2 concerns the correctness of the AO’s assumption of jurisdiction in passing the assessment under section 147, flowing from the notice issued with the approval of the Member (Inv.), CBDT. The notice dated 31.03.2023 mentions approval by the “MEMBER(INV) AS PCCIT.” For the notice to be valid, the following conditions must be cumulatively satisfied:

- a) *The Member of the CBDT must be a competent authority under section 151(ii) of the Act, empowered to accord final approval.*
- b) *The Member must be equivalent in power, control, and authority to the Principal Chief Commissioner of Income Tax (Pr. CCIT).*
- c) *Even if not equivalent, the law must permit the transference of power to a higher authority.*

162. Before the amendment effective from 01.04.2023, section 151(ii) specifically identified the Pr. CCIT as the sole competent authority for granting final approval for notices issued after three years. Therefore, approval granted by the Member (Inv.) is prohibited, and the Revenue fails the first test of competence.

163. The hierarchy of Income Tax authorities is enumerated in section 116 of the Act. Members of the CBDT are classified under section



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116(a), while Principal Directors General of Income Tax and Principal Chief Commissioners are under section 116(aa). This clearly indicates that a Member is not equivalent to a Pr. CCIT but holds a higher position in authority. Section 117 further supports this observation.

164. Under section 119, the Board has the power to issue instructions to subordinate authorities and delegate certain powers. Orders passed under section 119(2)(b) delegating powers to the Pr. CCIT confirm that the Pr. CCIT is subordinate to the Member of the CBDT, not equivalent.

165. For example, CBDT Circular No. 11 dated 01.10.2024 authorizes various authorities to handle refund claims and set-off applications:

- *Pr. CIT/CIT: claims up to Rs. 1 crore per assessment year*
- *CCIT: claims between Rs. 1 crore and Rs. 3 crores per assessment year*
- *Pr. CCIT: claims exceeding Rs. 3 crores per assessment year*

166. Sections 116, 117, and 119, as further clarified by the above circular, establish that the Pr. CCIT and the Member of CBDT are not equal in authority. Thus, the Revenue fails the second test of equivalence.

167. The final test concerns whether, despite the Member being higher in hierarchy but not equivalent, the law permits shifting of power to a higher authority and whether the notice can still be considered valid.



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168. In this context, reliance is placed on the decision of the Hon'ble Bombay High Court in *Ghanshyam K. Khabrani vs. ACIT*, reported in 346 ITR 443, dated 12 March 2012, which held that:

“When the statute mandates the satisfaction of a particular functionary for the exercise of a power, the satisfaction must be of that authority. Where a statute requires something to be done in a particular manner, it has to be done in that manner”

169. Under circumstances closely similar to the present case, the Delhi High Court in *Commissioner of Income Tax vs. SPL'S Siddhartha Ltd.* (ITA No. 836 of 2011) dated 14 September 2011, held that:

“Powers which are conferred upon a particular authority have to be exercised by that authority and the satisfaction which the statute mandates of a distinct authority cannot be substituted by the satisfaction of another.”

170. To further reinforce the points discussed above, and supported by the various decisions cited earlier, reliance is placed on the decision of the Hon'ble Supreme Court in *Union of India v. Rajeev Bansal & Ors.* [2024] 167 taxmann.com 70 (SC). In paragraph 30 of the said judgment, it was specifically held that:

*“If a statute expressly confers a power or imposes a duty on a particular authority, then such power or duty must be exercised or performed by that authority itself...
...Further, when a statute vests certain power in an authority to be exercised in a particular manner, then that authority has to exercise its power following the prescribed manner...
...Any exercise of power by statutory authorities inconsistent with the statutory prescription is invalid...”*

171. As per section 151(ii) of the Income Tax Act, prior to the amendment effective from 01.04.2023, the Pr. CCIT is the sole competent authority to grant final approval. The Ld. CIT(A)'s rejection



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of this contention violates the law as laid down by the Hon'ble Madras High Court in *FIVES India Engineering & Projects (P) Ltd. v. ITO*, 464 ITR 760 (Madras), which held that where more than three years have elapsed, only the Pr. CCIT can grant approval under section 151(ii).

172. This principle was also affirmed by the Coordinate Bench of the Chennai ITAT in *Sridhar Kumari vs. ACIT*, ITA No. 398/Chny/2025, dated 17.06.2025, for A.Y. 2016-17, and the Ld. CIT(A) is bound by the same rule.

173. Therefore, as the notice under section 148 was issued with the approval of the Member of CBDT and fails all three tests of competence, it is void and invalid. Consequently, the assessment order passed under section 147 is without legal standing and is hereby quashed. Accordingly, Ground No. 2 of the assessee succeeds.

174. Having invalidated the assessment order on the grounds of legality and assumption of jurisdiction, the Bench need not examine the other grounds of this appeal on their merits. However, since Ground No. 2 has already been decided in favor of the assessee in ITA No. 1882/Chny/2025, and the facts of the assessee's appeal in ITA No. 1881/Chny/2025 for A.Y. 2016-17 are identical to those in ITA No. 1882/Chny/2025, following the reasoning adopted for A.Y. 2019-20, Ground No. 3 of the assessee's appeal for ITA No. 1881/Chny/2025 is also allowed.



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175. Accordingly, based on both the procedural infirmity and the merits of the issue, the appeal of the assessee is allowed.

Assessment Years 2016-17 and 2022-23 – Department Appeals (ITA Nos. 1874, 1879/CHNY/2025)

176. Except for the differences in the quantum of additions in the assessment orders for A.Y. 2016-17 and A.Y. 2022-23, all other aspects are identical to those of A.Y. 2019-20, as discussed in the preceding paragraphs. The evidence on which the additions were made, the assessee's arguments, the assessing officer's counter submissions, the heads of addition, the basis for addition, and the grounds of appeal before the LD.CIT(A), as well as the discussion by the LD.CIT(A) granting relief, are all substantially the same. The grounds of appeal of the Revenue before the ITAT are reproduced verbatim for all the years.

177. Since the facts of the Revenue's appeals in ITA Nos. 1874/CHNY/2025 (A.Y. 2016-17) and 1879/CHNY/2025 (A.Y. 2022-23) are identical to those in ITA No. 1876/CHNY/2025, the Revenue's appeals for these years are also dismissed.

Assessment Year 2022-23 – Assessee's Appeal (ITA No. 1883/CHNY/2025)

178. The facts of the assessee's appeal in ITA No. 1883/CHNY/2025 for A.Y. 2022-23 are identical to those in ITA No. 1882/CHNY/2025. Following the reasoning applied for A.Y. 2019-20, the appeal of the assessee for ITA No. 1883/CHNY/2025 is allowed.



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Conclusion:

179. Accordingly, the assessee's appeals in ITA Nos. 1881, 1882, and 1883/Chny/2025 for A.Ys. 2016-17, 2019-20, and 2022-23 are allowed. Conversely, the Revenue's appeals in ITA Nos. 1874, 1876, and 1879/Chny/2025 for the same assessment years are dismissed.

Order pronounced on 30th day of December, 2025 at Chennai.

Sd/-
(जगदीश)
(Jagadish)

लेखा सदस्य / Accountant Member

Sd/-
(मनु कुमार गिरि)
(Manu Kumar Giri)

न्यायिक सदस्य / Judicial Member

चेन्नई/Chennai, दिनांक/Dated: 30th December, 2025.

EDN, Sr. P.S

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT, Chennai /Madurai/Coimbatore/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF