

आयकर अपीलीय न्यायाधिकरण में, हैदराबाद 'बी' बेंच, हैदराबाद
IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad "B" Bench, Hyderabad

श्री विजय पाल राव, माननीय उपाध्यक्ष एवं श्री मंजूनाथ जी, माननीय लेखा सदस्य
SHRI VIJAY PAL RAO, HON'BLE VICE PRESIDENT
AND
SHRI MANJUNATHA G, HON'BLE ACCOUNTANT MEMBER

आयकर अपील सं./I.T.A.No.1196/Hyd/2025
(निर्धारण वर्ष/ Assessment Year: 2017-18)

Naresh Samala, R/o. Warangal. PAN : CZCPS0399K. (अपीलार्थी/ Appellant)	Vs.	The Income Tax Officer, Ward-1, Warangal. (प्रत्यर्थी/ Respondent)
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करदाता का प्रतिनिधित्व/ Assessee Represented by	:	Shri S. Rama Rao, Advocate.
राजस्व का प्रतिनिधित्व/ Department Represented by	:	Ms. Kritika Jaiswal, Sr. A.R.
सुनवाई समाप्त होने की तिथि/ Date of Conclusion of Hearing	:	16.12.2025
घोषणा की तारीख/ Date of Pronouncement	:	09.01.2026

ORDER

PER MANJUNATHA G., A.M :

This appeal filed by the assessee is directed against the order of the learned Commissioner of Income Tax (Appeals), National Faceless Appeal Centre [in short "NFAC"], Delhi, dated 23.06.2025, pertaining to the assessment year 2017-18.

2. The brief facts of the case are that, the assessee is an individual and engaged in the business of running a restaurant and Bar under the name and style of “M/s. Kanaka Durga Wines”, filed his return of income for A.Y. 2017-18 on 07.11.2017, declaring total income of Rs. 18,39,150/-. The case was selected for scrutiny under CASS to examine the large cash deposits during the demonetization period and abnormal increase in sales with decrease in profitability as compared to previous years. During the course of assessment proceedings, the A.O. noticed that, the assessee has made cash deposits of Rs. 88,84,100/- into his bank account during the demonetization period. The A.O. called upon the assessee to file relevant details to explain the source for cash deposits. In response, the assessee furnished a reply and claimed that, the source for cash deposits into bank account are part of sale proceeds of liquor and other eateries, for which the assessee has furnished details of financial statements, etc. The A.O., after considering the submissions of the assessee, observed that, the assessee has not furnished any evidences for source of said cash deposits and nature of transaction including the details of currency deposited i.e. demonetized or non-

demonetized. In the absence of any documentary evidence, the A.O. treated the entire cash deposits of Rs. 88,84,100/- as unexplained cash and brought to tax under Section 68 of the Act read with Section 115BBE of the Income Tax Act, 1961.

3. Aggrieved by the assessment order, the assessee preferred an appeal before the Ld. CIT(A). Before the Ld. CIT(A), the assessee submitted that, he is into the business of running a restaurant and bar under the name and style of M/s. Kanakadurga Wines, and the source for cash deposits was out of sale proceeds of liquor and other eateries. The assessee has furnished relevant details, including financial statements, and claimed that, he has maintained regular books of account, and the books of account maintained by the assessee are audited under Section 44AB of the Act. The assessee has also furnished relevant details of cash deposits during the demonetization period and also claimed that, there is no abnormal variation in cash deposits during the demonetization period. The A.O., without appreciating the relevant facts, made addition towards cash deposits as unexplained cash credit under Section 68 of the Act.

4. The Ld. CIT(A), after considering the submissions of the assessee and also various facts, observed that, the assessee has failed to explain the source for cash deposits with supporting documentary evidences to corroborate his claim that, the source is out of sale proceeds of liquor and other eateries. The Ld. CIT(A) has discussed the issue in light of the financial statements filed by the assessee and observed that, the tax audit report submitted by the assessee for the current year shows fall in GP ratio from 17.4% in A.Y. 2016-17 to 13.69% in A.Y. 2017-18. The assessee has not cared to explain the reasons for drastic fall in profits. The only plausible inference that, can be drawn is that, the turnover was artificially inflated by recording fictitious sales in an attempt to have large cash in hand balance on 08.11.2016. Further, at the same time, bogus purchases and expenses may have been booked to avoid impact on the taxable income for the year. Therefore, the Ld. CIT(A) rejected the explanation of the assessee and sustained the addition made by the A.O. towards cash deposits into the bank account during the demonetization period under Section 68 of the Income-tax Act, 1961.

5. Aggrieved by the order of the Ld. CIT(A), the assessee is now in appeal before the Tribunal.

6. The learned counsel for the assessee, Shri S. Rama Rao, submitted that, the Ld. CIT(A) erred in sustaining the additions made by the A.O. towards cash deposits into bank account during the demonetization period, even though the assessee has explained before the A.O. with relevant details that, the cash deposits for the month of November, 2016 are not in excess of average cash deposits for the other months in the financial year. The learned counsel for the assessee, further referring to various evidences, including relevant details of purchases and sales, submitted that, the A.O. has not made out a case of cash deposits and cash withdrawals compared to earlier financial years. The assessee has furnished all the details including the relevant details of sales to prove the source for cash deposits out of sales made during the relevant period. Although the assessee has furnished relevant details, the A.O. has made the addition only on the basis of suspicion without even ascertaining the fact that, the cash deposits in the bank account are from old demonetized

currency or in the new currency. Therefore, he submitted that, the additions made by the A.O. should be deleted.

7. The learned Senior A.R. for the Revenue, Krithia Jaiswal, on the other hand, supporting the order of the Ld. CIT(A), submitted that, the assessee has not furnished any details, including cash book, to explain the source for cash deposits into bank account out of sales. Further, the assessee has also not furnished any details, including the relevant details of purchases and sales to the A.O. which are evident from the observations of the A.O., where the A.O. noted that, the assessee has failed to furnish the basic details of purchases and sales. Further, there is an abnormal increase in cash deposits for the month of November, 2016 when compared to the earlier financial period. The A.O., after considering the relevant facts, has rightly treated the cash deposits into the bank account as unexplained cash credit. The Ld. CIT(A) has rightly sustained the additions made by the A.O. Therefore, she submitted that, the additions made by the A.O. should be upheld.

8. We have heard both parties, perused the material available on record, and had gone through the orders of the authorities below. The A.O. has made addition of Rs.88,84,100/- under Section 68 of the Act, towards cash deposits into the bank account during the demonetization period on the ground that, the assessee, although explained the source out of sales made during the relevant period, but failed to file relevant details, including supporting evidences, to substantiate the claim. The A.O. further observed that, the assessee has even failed to file basic details as to whether the cash deposited into the bank account is in demonetized currency or new currency notes. In the absence of relevant details, the A.O. has made addition treating the cash deposits as unexplained cash credit of the assessee. It was the argument of the learned counsel for the assessee that, the source for cash deposits into the bank account is out of sale of liquor and other eateries made during the relevant period, for which the assessee has filed extract of sales with corresponding cash deposits into bank account and claimed that, there is no abnormal variation or increase in cash deposits for the month of November, 2016 when compared to earlier period or subsequent period. The learned counsel for the

assessee further contended that, the A.O. made addition towards cash deposits separately under Section 68 of the Act, and also considered the sales declared by the assessee for equal amount of cash deposits which amounts to double addition, which is not permissible under law.

9. We have given our thoughtful consideration to the reasons given by the A.O. in the light of various arguments of the learned counsel for the assessee and find that, the A.O. has even failed to make out a case that the cash deposits into bank account during the demonetization period are out of demonetized currency which was available with the assessee as on 08.11.2016 or out of cash receipts from sales of liquor and other eateries after the demonetization period. Further, the A.O. has also failed to consider the opening cash balance available with the assessee as on 08.11.2016 i.e. before the date of demonetization, which anyway cannot be treated as unexplained cash deposits, if such opening cash balance is available with the assessee out of sale proceeds. Therefore, to this extent, we cannot appreciate the reasons given by the A.O. to make addition towards cash deposits under Section 68 of the Act. However, fact remains that the

assessee has not furnished any details, including cash book to the A.O. for his verification. The assessee has filed the extract of cash book from 01.04.2016 to 31.03.2017, which is available at page Nos. 82 to 86 of the paper book filed by the assessee. We have gone through the cash book filed by the assessee, and more particularly for the month of November, 2016. Although the assessee claims that, the cash deposits into the bank account is out of sale proceeds of liquor and eateries, but fact remains that on perusal of the relevant cash book, we find certain cash receipts in the name of individuals, namely, Sambaraju Naresh, Ranadeep Raj on various dates, and the same have not been explained by the assessee. We further note that, these cash receipts from the above parties are not there before the demonetization period and after the demonetization period. From the above, it is very clear that, the explanation of the assessee that, the source for cash deposits is only out of sale proceeds of liquor and other eateries is devoid of merit and cannot be accepted.

10. Since there are other credits/receipts in the cash book, more particularly from 10.11.2016 to 30.11.2016, and further, the cash book was not made available to the A.O. to verify the veracity of

the claim of the assessee with regard to the source for cash deposits, in our considered view, the matter needs to be set aside to the file of the A.O. for further verification. Thus, we set aside the order of the Ld. CIT(A) and restore the issue back to the file of the A.O. The A.O. is directed to verify the claim of the assessee, in the light of the cash book filed by the assessee to claim source for cash deposits out of sale proceeds. The A.O. is also directed to consider the opening cash balance as on 08.11.2016, and to that extent, the additions made by the A.O. stand explained and the same should be deleted. Insofar as the balance cash deposits are concerned, the A.O. is directed to verify the claim of the assessee in the light of various cash receipts in the name of few individuals and also the cash sales claimed by the assessee, in the light of any evidences that may be filed in support of his case.

11. In the result, the appeal filed by the assessee is allowed for statistical purposes.

Order pronounced in the Open Court on 9th January, 2026.

Sd/- श्री विजय पाल राव (VIJAY PAL RAO) उपाध्यक्ष /VICE PRESIDENT	Sd/- (मंजूनाथ जी) (MANJUNATHA G.) लेखा सदस्य/ACCOUNTANT MEMBER
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Hyderabad, dated 09.01.2026.
TYNM/sps

आदेशकी प्रतिलिपि अग्रेषित/ Copy of the order forwarded to:-

1.	निर्धारिती/The Assessee	:	Naresh Samala, R/o. 10-13-199, Laxmipuram, Giramjipet, Warangal, Hyderabad – 506002.
2.	राजस्व/ The Revenue	:	The Income Tax Officer, Ward – 1, Warangal.
3.	The Principal Commissioner of Income Tax, Hyderabad.		
4.	विभागीयप्रतिनिधि, आयकर अपीलीय अधिकरण, हैदराबाद / DR, ITAT, Hyderabad		
5.	गार्डफ़ाईल / Guard file		

आदेशानुसार / BY ORDER

Sr. Private Secretary
ITAT, Hyderabad