

आयकरअपीलीयअधिकरण 'ए' न्यायपीठ, चेन्नई
IN THE INCOME TAX APPELLATE TRIBUNAL
'A' BENCH: CHENNAI

श्रीमनुकुमारगिरि, न्यायिकसदस्य एवं श्रीएस. आर. रघुनाथालेखासदस्य
BEFORE SHRI MANU KUMAR GIRI, JUDICIAL MEMBER AND
SHRIS.R.RAGHUNATHA, ACCOUNTANT MEMBER

आयकरअपीलसं./ITA No 2315/Chny/2025

निर्धारणवर्ष/**Assessment Year: 2017-18**

Rajendran Sharmila
1/66 Main Road, Kariagoundanur
Vadakkalur Post, Coimbatore,
Tamil Nadu-641653

[**PAN: BICPS 3272 D**]

(अपीलार्थी/**Appellant**)

v. ITO Non Corporate Ward
3(2), CBE

(प्रत्यर्थी/**Respondent**)

अपीलार्थीकीओरसे/ Assessee by

: Mr. K. Muthukumar, CA

प्रत्यर्थीकीओरसे /Respondent by

: Mr. C. Sivakumar, Addl.CIT

सुनवाईकीतारीख/Date of Hearing

: 08.01.2026

घोषणाकीतारीख /Date of

: 16.02.2026

Pronouncement

आदेश / ORDER

PER MANU KUMAR GIRI, JM:

This appeal by the assessee is directed against the order of the Commissioner of Income Tax (Appeals) [CIT(A)] dated 07.07.2025 for the Assessment Year 2017-18, confirming the addition of Rs.70,50,000/- made by the AO u/s. 69A of the Income Tax Act, 1961 ("the Act").



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2. The brief facts giving rise to the present matter are that the assessee filed his Return of Income on 20.09.2017 declaring a total income of Rs.7,24,610/-. Subsequently, the case was selected for Limited Scrutiny under the Computer Assisted Scrutiny Selection (CASS) mechanism. The specific reason for such selection was verification of "cash deposits during the year."As per the information available with the Department, the assessee deposited a sum of Rs.70,50,000/- in cash in Bank Account No.1628223000000 maintained with KVB Bank during the demonetization period, i.e., between 12.11.2016 and 02.12.2016, spanning 21 days. During assessment proceedings, statutory notices, reminders, and show cause notices were duly issued to the assessee.A notice u/s. 143(2) of the Income-tax Act, 1961 (hereinafter referred to as "the Act") dated 28.05.2018 was issued and duly served upon the assessee. Thereafter, a notice u/s. 142(1) of the Act dated 28.05.2019 was also issued, calling upon the assessee to furnish requisite details and documentary evidence. A final show cause notice dated 24.12.2019 was subsequently issued, in response to which the assessee submitted a reply. However, the AO (AO) found the explanation furnished by the assessee to be unsatisfactory and lacking in plausibility.Consequently, after considering the facts, circumstances, and material available on record, the AO passed an assessment order u/s. 143(3) of the Act on 27.12.2019, determining the total assessed income at Rs.77,74,610/- after making certain additions.



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3. Aggrieved, assessee preferred an appeal before the CIT(A), who after perusal and examination of the assessment order and the submissions made by the assessee, he noted the facts as narrated by the AO that the assessee is engaged in the business of trading in edible oil. For the Assessment Year 2017-18, the Department recorded that the assessee had deposited cash amounting to Rs.70,50,000/- in the aforementioned bank account during the demonetization period from 12.11.2016 to 02.12.2016. The case was accordingly selected for scrutiny through CASS. During the assessment proceedings, statutory notices and show cause notices were issued by the AO. He noted that the AO rejected the assessee's explanation on the grounds that although the assessee had been regularly filing VAT returns up to August 2017, the VAT returns for the period from September 2016 to March 2017 were not filed within the prescribed time. The AO further observed a substantial and disproportionate increase in cash sales during November and December 2016, which was inconsistent with the pattern of sales in the pre-demonetization as well as post-demonetization periods. Additionally, scrutiny of the monthly cash ledger revealed a significant escalation in cash-in-hand balances from the end of August 2016 through October 2016. Following the demonetization period, there was an abrupt and substantial reduction in the cash-in-hand balance. The assessee failed to provide satisfactory justification for holding unusually large cash balances immediately prior to demonetization. He also noted that the assessee failed to furnish purchase bills, sale invoices, stock registers, or other corroborative documentary evidence in support of



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the alleged cash sales and the corresponding stock position. In view of the foregoing, the delayed filing of VAT returns for the relevant period adversely affects the credibility of the declared turnover. The abnormal surge in cash sales during November–December 2016, without a corresponding increase in stock purchases or any cogent explanation, raises serious doubts regarding the genuineness of the transactions. In the absence of credible documentary evidence, the explanation furnished by the assessee remains unsubstantiated. Accordingly, the addition made by the AOu/s. 69A of the Income-tax Act, 1961, treating the impugned amount as unexplained money, is found to be legally justified.

4. Aggrieved, assessee further challenged the order of the CIT(A) before this Tribunal.

5. The Id.AR for the assessee submitted that the assessee is engaged in the business of trading in edible oil and food grains, which are inherently perishable commodities. By the very nature of the trade, such goods cannot be stored for prolonged periods without deterioration in quality, which would adversely affect both the marketability of the products and the goodwill of the business. Ordinarily, stock is rotated within a period of two to three months, and older inventory is liquidated to accommodate fresh stock. During the period of demonetisation, the assessee anticipated market volatility and liquidity constraints. In view thereof, the assessee proceeded to liquidate existing stock. There was significant demand from retail customers who sought to utilise Rs.500/- and Rs.1,000/- denomination notes. In the ordinary course of business, the assessee accepted such currency notes as sale consideration and



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subsequently deposited the cash collections into the bank. It is submitted that all such transactions were duly recorded in the regular books of account maintained in the course of business, and the return of income was filed on the basis of such duly recorded entries. The AO has not disputed the factum of sales nor the declared turnover. On the contrary, the returned income and turnover have been accepted as correct. However, while accepting the sales as genuine, the AO has sought to treat the sale consideration received therefrom as unexplained money. He submitted that once the sales and turnover have been accepted, the corresponding sale proceeds cannot be disregarded. The approach adopted by the AO effectively results in the same income being subjected to tax twice, which is impermissible in law. The Id.AR further contended that the AO has held that the monthly VAT returns filed with the State Government for the period September 2016 to March 2017 were belated and, on that basis, has treated them as unreliable. The Id.AR in counter submitted that the delay in filing the VAT returns was not attributable to the demonetisation period alone. The delay commenced with the return for September 2016 due to administrative lapses on the part of the accountant and continued for subsequent months. Therefore, the delay cannot be correlated to demonetisation, which was announced only in November 2016. He submitted that a belated return does not render the return invalid or unreliable per se. U/s. 42(4) of the TNVAT Act, a dealer filing a return after the prescribed period is liable to pay interest on the tax payable; the statute does not declare such belated returns as void. The legislative intent is clear that delayed



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filing invites interest liability, not invalidation. U/s. 25(1) of the TNVAT Act, where no return is filed, or where the return appears incomplete or incorrect, the assessing authority may determine tax to the best of its judgment after granting reasonable opportunity to the dealer. In the assessee's case, the Commercial Tax Department accepted the returns and did not initiate any proceedings to reject them as incomplete or incorrect. Further, u/s. 64(4) of the TNVAT Act, the Commissioner is empowered to order an audit in specified circumstances, including delayed filing or doubts regarding correctness of returns. In the assessee's case, no such audit was ordered, and the returns were accepted as filed. This evidences that the competent authority under the VAT law did not find the returns unreliable. Accordingly, Id. AR submitted that the sales reported in the VAT returns and the Income-tax return are true and correct, and there is no legal basis to treat them as non-genuine solely on account of delayed filing. The Id. AR vehemently pleaded that the AO has relied upon certain notifications to contend that the assessee ought not to have transacted in Specified Bank Notes (SBNs) during the demonetisation period. It has been further alleged that acceptance of SBNs as consideration for sale is opposed to public policy and renders the underlying contract void ab initio u/s. 23 of the Indian Contract Act, 1872. The Id. AR for the assessee submitted that the sales effected were neither forbidden by law, nor fraudulent, nor injurious to public interest, nor immoral. The transactions were bona fide business transactions conducted in the ordinary course of trade. U/s. 5 of the Specified Bank Notes (Cessation of Liabilities) Act, 2017, the prohibition on holding,



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transferring, or receiving SBNs operates from the "appointed day," defined u/s. 2(1) as 31st December 2016. Until such appointed day, receipt and deposit of SBNs were permissible within the framework notified by the Government. The assessee did not receive, hold, or transfer SBNs beyond the appointed day and deposited the amounts within the time permitted by law. All remittances were made strictly in accordance with statutory provisions. It is a settled principle that executive notifications and circulars cannot override statutory enactments. Therefore, the contention that the sales transactions were void ab initio u/s. 23 of the Contract Act is untenable in law. The AR furthermore submitted that the AO has treated the cash deposit of Rs.70,50,000/- made during the demonetisation period as unexplained money u/s. 69A of the Income-tax Act, 1961, and subjected the same to tax u/s. 115BBE. Section 69A applies only where the assessee is found to be the owner of money which is not recorded in the books of account maintained by him. In the present case, the assessee has duly recorded all sales transactions and corresponding cash receipts in the regular books of account. The deposits made in the bank represent business receipts already accounted for. Since the impugned cash was duly reflected in the books of account, the essential condition for invoking Section 69A, namely, that the money is not recorded in the books is not satisfied. Consequently, he prayed that the addition made u/s. 69A is contrary to law and liable to be deleted.



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6. Per contra, Id.DR for the revenue fully relied upon the orders of the authorities below and pleaded for the affirmation of the impugned order.

7. We have carefully considered the rival submissions and perused the material available on record. We also gone through the orders of the co-ordinate bench in the case of Viswa and Devji Diamonds Pvt. Ltd [2025] 171 taxmann.com 474 (Chennai Trib.) and Tamil Nadu State Marketing Cooperation Ltd. Vs. ACIT [2025] 170 taxmann.com 641. The assessee has maintained complete and regular books of account including cash book, sales register, purchase register, and Bank statements, all of which were furnished before the AO. It is an undisputed fact that the assessee is engaged in trading business. The sales reflected during the demonetisation period have been recorded in the books of account. The AO has not rejected the books of account u/s. 145 of the Act. The turnover declared by the assessee has not been disturbed. The returned income has been accepted except for the impugned addition. The addition has been made u/s. 69A of the Act. For invoking Section 69A, it is a sine qua non that the assessee is found to be the owner of money and such money is not recorded in the books of account maintained by him. In the present case, the cash deposits represent sale proceeds admittedly recorded in the regular books of account. The Revenue has not demonstrated that the impugned cash was outside the books. Once the sales have been accepted as genuine and turnover has not been rejected, the corresponding sale consideration cannot be isolated and treated as unexplained money. If the Revenue doubted the genuineness of sales, the proper course would have



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been to reject the books of account u/s. 145 and estimate income. Without rejecting the books, selective disbelief of sale proceeds is legally unsustainable. The reasoning of the lower authorities is primarily based on delay in filing VAT returns and increase in cash sales during demonetisation and variation in cash-in-hand balances. However, delayed filing of VAT returns by itself does not render the transactions non-genuine, particularly when the Commercial Tax Authorities have not rejected the returns nor initiated audit proceedings. Suspicion, however strong, cannot take the place of evidence. Further, during the demonetisation period, increase in cash sales cannot, by itself, be considered abnormal in the absence of contrary material establishing that such sales were fictitious. The AO has not brought on record any evidence to show that the sales were bogus or that the stock position was manipulated. We also note that the AO has accepted the sales but treated the receipts as unexplained. Such an approach results in taxing the same business receipts twice, once as business income embedded in turnover and again as unexplained money which is impermissible under law. With regard to the applicability of Section 69A, since the impugned cash deposits are reflected in the books of account, the foundational requirement of the section is not satisfied. Therefore, the invocation of Section 69A and consequential taxation u/s. 115BBE is unsustainable. In view of the foregoing discussion and case law cited supra, we hold that the addition of Rs.70,50,000/- made u/s. 69A of the Act is not justified either on facts or in law. The same is hereby directed to be deleted. Accordingly, the appeal of the assessee is allowed.



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8. In the result, appeal of the assessee is allowed.

Order pronounced on the 16th day of February 2026, in Chennai.

Sd/-
(एस. आर. रघुनाथा)
(S.R.RAGHUNATHA)
लेखा सदस्य/**ACCOUNTANT MEMBER**

Sd/-
(मनु कुमार गिरि)
(MANU KUMAR GIRI)
न्यायिक सदस्य/**JUDICIAL MEMBER**

चेन्नई/Chennai,

दिनांक/Dated: 16th February, 2026.

SNDP, Sr. PS

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकरआयुक्त/CIT, Chennai / Madurai / Salem / Coimbatore.
4. विभागीयप्रतिनिधि/DR
5. गार्डफाईल/GF