

**IN THE INCOME TAX APPELLATE TRIBUNAL
'SMC' BENCH, BANGALORE**

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

ITA No.2413/Bang/2025
Assessment Year: 2017-18

Shri Veeresh Wali, No.41, I Floor, II Cross Okalipuram, Bengaluru – 560 010. PAN – ACEPW 5295 K	Vs.	The Income Tax Officer, Ward – 2(2)(2), Bengaluru.
APPELLANT		RESPONDENT

Assessee by	:	Shri Siva Prasad Reddy, ITP
Revenue by	:	Shri Ganesh R Ghale, Advocate – Standing Counsel for Revenue

Date of hearing	:	25.02.2026
Date of Pronouncement	:	05.03.2026

ORDER

PER WASEEM AHMED, ACCOUNTANT MEMBER:

The present appeal has been filed by the assessee against the order passed by the learned Commissioner of Income Tax (Appeals) under section 250 of the Act dated 03.09.2025 for the AY 2017-18.

2. The assessee, in its memorandum of appeal, has raised as many as six grounds. However, for the sake of brevity and convenience, we are not inclined to reproduce the same here.

3. The grounds of appeal raised by the assessee are interconnected and pertain to the addition made under section 69A of the Act to the extent of ₹4,96,000/- on account of alleged unexplained cash deposits.

4. The brief facts of the case are that the assessee, an individual, is engaged in the business of processing and sale of packaged drinking water. For the AY 2017-18, the assessee filed the return of income declaring a total loss of ₹6,22,789/- only. The case was selected for scrutiny and assessment under section 143(3) of the Act was completed by accepting the returned loss.

5. Subsequently, the Id. PCIT invoked the provisions of section 263 of the Act and revised the assessment order. In the revision order, the learned PCIT directed the AO to examine the issue of cash deposits made by the assessee during the relevant previous year, as the same had not been properly verified in the original assessment proceedings.

5.1 Pursuant to the directions issued under section 263 of the Act, the AO initiated fresh proceedings. During the course of such proceedings, notice under section 142(1) of the Act was issued to the assessee calling upon him to explain the nature and source of the cash deposits made during the demonetisation period and to clarify the reason for withdrawal of cash from the bank and subsequent redeposit of the same.

6. In response to the notice issued under section 142(1) of the Act, the assessee furnished the bank statements and cash book for the relevant AY. The assessee also produced a written statement of one Mr.

Krishnamurthy, who was working as a driver for the assessee's father and other family members. It was explained that Mr. Krishnamurthy had withdrawn cash on behalf of the assessee from his account maintained with Visvesvaraya Co-operative Bank.

6.1 The assessee submitted that Mr. Krishnamurthy had withdrawn cash aggregating to ₹9,00,000/- in three tranches. Further, one Mr. Ravi had withdrawn a sum of ₹1,00,000/- on behalf of the assessee. It was contended that the cash deposits under consideration were sourced out of these earlier cash withdrawals. Specifically, the assessee pointed out that a sum of ₹3,75,000/- was withdrawn on 14.07.2016 and additional sums of ₹9,00,000/- and ₹1,00,000/- were withdrawn through Mr. Krishnamurthy and Mr. Ravi respectively. Therefore, according to the assessee, the impugned cash deposits were duly explained as redeposit of earlier withdrawals and did not represent unexplained money.

7. The AO observed that the issue relating to cash deposits had already been examined during the proceedings pursuant to the revision under section 263 of the Act. The assessee had furnished explanations in response to notice issued under section 142(1) of the Act along with supporting documents. However, for the purpose of independent verification, the AO issued notice under section 133(6) of the Act to M/s. Visvesvaraya Co-operative Bank Ltd. calling for the bank statements and transaction details.

7.1 On perusal of the details furnished by the bank, the AO noted that the total cash deposits made during the demonetisation period, that is from 09.11.2016 to 30.12.2016, amounted to ₹8,71,500/ only.

7.2 The AO observed that, as proof of source, the assessee had merely furnished a statement of one Mr. Krishnamurthy written on plain paper stating that he was working as a driver for the assessee's father and had withdrawn cash on behalf of the assessee. According to the AO, such a statement could be made by anyone and could not be treated as reliable evidence to substantiate the claim of cash withdrawals. The AO further noted that the withdrawals in question were made through cheques and not by the assessee personally. It was also observed that since Mr. Krishnamurthy was employed by the assessee's father, his statement could not be considered independent or credible due to the employer-employee relationship.

7.3 The AO further examined the bank details and observed that the cash withdrawals were made on 02.07.2016, 05.07.2016 and 06.07.2016. According to the AO, successive withdrawals would not ordinarily be made unless there was immediate necessity for utilisation. It was reasoned that a person would not withdraw cash without purpose and retain the same at home for more than three months only to redeposit it during the demonetisation period. The AO also noted that the assessee had not furnished any convincing explanation regarding the purpose of withdrawal or the reason for keeping the cash idle for such a long period before redepositing it from 10.11.2016 onwards in piecemeal amounts. The AO was of the view that, if the source was genuine, the redeposit would have been made in one lump sum and not in instalments.

7.4 In view of the above reasoning, the AO rejected the explanation offered by the assessee and treated the cash deposits of ₹8,71,500/-

made during the demonetisation period as unexplained money under section 69A of the Act. The said amount was brought to tax under section 115BBE of the Act and added to the total income of the assessee.

8. Aggrieved by order of the AO, the assessee preferred an appeal before the Ld. CIT(A).

9. Before the learned Commissioner of Income Tax (Appeals), the assessee reiterated that the cash deposits made during the demonetisation period were out of earlier cash withdrawals from his bank account. It was submitted that such withdrawals were made by issuing bearer cheques in favour of Mr. Krishnamurthy and Mr. Ravi.

9.1 In support of this contention, the assessee furnished a certificate issued by the bank dated 15.07.2022 confirming that cash withdrawals had been made through bearer cheques issued in the name of Mr. Krishnamurthy. The assessee also filed a confirmatory letter dated 04.03.2022 from Mr. Krishnamurthy wherein he affirmed that he had withdrawn the cash through bearer cheques issued in his name on behalf of the assessee.

9.2 It was thus contended before the learned CIT(A) that the source of the cash deposits stood duly explained and that the addition made under section 69A was not justified.

9.3 The learned CIT(A), after considering the submissions of the assessee, observed that the cash deposits to the extent of ₹3,75,000/-

stood explained as the same were directly relatable to self-withdrawals made by the assessee. Accordingly, relief was granted to that extent.

9.4 However, with regard to the remaining cash deposits of ₹4,96,000/-, the learned CIT(A) held that the explanation of the assessee was not substantiated by cogent evidence. It was noted that the assessee had merely contended that withdrawals aggregating to ₹9,00,000/- were made through bearer cheques issued in the name of Mr. Krishnamurthy, who was an employee of the assessee's father. The learned CIT(A) observed that the assessee was not in a position to satisfactorily explain the source of the said cash deposits in a manner consistent with the test of human probabilities.

9.5 The learned CIT(A) further observed that the assessee failed to establish the necessity for making withdrawals through bearer cheques when sufficient cash of ₹3,75,000/- was already available with him. Even during the appellate proceedings, the assessee did not provide a convincing explanation as to why additional cash withdrawals were required or why the cash was kept idle for several months before being redeposited during the demonetisation period.

9.6 Placing reliance on the judgment of the Hon'ble Supreme Court in the case of CIT vs. Durga Prasad More (824 ITR 540), wherein it was held that the apparent must be considered in the light of human probabilities and that fanciful explanations can be disregarded, the learned CIT(A) held that the assessee's explanation in respect of ₹4,96,000/- did not inspire confidence. In view of the above discussion, the learned CIT(A) deleted the addition to the extent of ₹3,75,000/- and

confirmed the balance addition of ₹4,96,000/- made under section 69A of the Act. Accordingly, the appeal of the assessee was partly allowed. Aggrieved by the order of the Ld. CIT(A), the assessee preferred an appeal before us.

9.7 The Ld. AR before us submitted that during the relevant Assessment Year, the assessee was in the process of setting up a water purifier unit situated approximately 60 kilometres away from his residence in Bengaluru. Since his full-time presence was required at the project site, he had taken the assistance of his father's employees to attend to certain minimal banking-related tasks on his behalf. Accordingly, cash withdrawals were made by issuing bearer cheques in the name of Mr. Krishnamurthy.

9.8 In support of this contention, the learned AR placed reliance on a certificate issued by the bank confirming that the withdrawals were made through bearer cheques issued in the name of Mr. Krishnamurthy. A confirmatory letter from Mr. Krishnamurthy was also filed affirming that he had withdrawn cash on behalf of the assessee. Further, the learned AR produced a cash flow statement for the year showing detailed sources and utilisation of funds, including cash withdrawals, cash deposits, cash sales, cash expenses and purchase of assets in cash.

9.9 The learned AR contended that the learned CIT(A) failed to properly appreciate the material evidence placed on record, particularly the bank certificate evidencing withdrawals through bearer cheques. It was further submitted that the impugned cash deposits were duly recorded in the books of account and reflected in the cash book, which

had been furnished before the Assessing Officer. Therefore, once the withdrawals were established from the disclosed bank account and the cash movement was reflected in the books, the addition under section 69A of the Act was not justified.

10. The learned Departmental Representative (DR), on the other hand, supported the orders of the Assessing Officer as well as the learned CIT(A). It was submitted that the explanation offered by the assessee regarding redeposit of earlier withdrawals does not inspire confidence and fails the test of human probabilities, particularly when substantial cash withdrawn in July 2016 was redeposited during the demonetisation period in instalments.

10.1 The learned DR placed reliance on the decision of the Delhi Bench of the Tribunal in the case of Dy. CIT vs. Smt. Phoolwati Devi (122 TTJ 502), wherein it was held that when surrounding circumstances indicate suspicious features and the explanation offered is not supported by credible evidence, the addition under the relevant provisions of the Act is justified. It was contended that in cases involving cash transactions, the authorities are entitled to examine the genuineness of the explanation in light of surrounding circumstances and human conduct.

11. We have carefully considered the rival submissions of both the parties and perused the materials available on record. The only issue for our consideration is whether the addition of ₹4,96,000/- sustained by the learned CIT(A) under section 69A of the Act is justified in the facts of the present case.

11.1 It is an undisputed fact that the impugned cash deposits were made in the assessee's own bank account. It is also not in dispute that prior to the demonetisation period, the assessee had effected cash withdrawals from the same disclosed bank account. The withdrawals are evidenced by the bank statements and further supported by a certificate issued by the bank confirming that the withdrawals were made through bearer cheques issued in the name of Mr. Krishnamurthy. The assessee has also placed on record a confirmatory letter from the said person. Importantly, the cash flow statement and cash book for the year reflect the withdrawals as well as the subsequent deposits. The Revenue has not rejected the books of account nor recorded any finding that the cash balance as per books was insufficient to cover the deposits.

11.2 The addition has been sustained primarily on the reasoning that it does not accord with human probabilities that cash withdrawn in July 2016 would be kept idle and redeposited during November 2016 in instalments. In our considered view, such reasoning rests on presumption rather than evidence. There is no material brought on record by the Assessing Officer to demonstrate that the withdrawn cash was utilised elsewhere. There is also no evidence to show that the cash balance reflected in the books is incorrect. In the absence of any contrary material, the mere time gap between withdrawal and redeposit cannot, by itself, does not justify an addition under section 69A of the Act.

11.3 The learned DR has placed reliance on the decision of the Delhi Bench of the Tribunal in Dy. CIT v. Smt. Phoolwati Devi (122 TTJ 502). We find that the said decision was rendered in the context of section 68

involving alleged loan credits from third parties. In that case, the Tribunal found uniform and suspicious features such as immediate cash deposits in the creditors' accounts preceding the issuance of drafts, absence of creditworthiness, lack of regular banking activity, and other surrounding circumstances indicating accommodation entries. The documentary evidence in that case was found unreliable when tested against the surrounding facts and human conduct.

11.4 The facts of the present case stand on an entirely different footing. Here, we are not dealing with third-party cash credits or issues of creditworthiness. The source of the deposits is stated to be earlier withdrawals from the assessee's own disclosed bank account. The withdrawals are not disputed. They are evidenced by bank records and supported by a bank certificate. There is no finding that the funds originated from any unexplained source or that the banking channel was used to create artificial credits. Therefore, the ratio of Phoolwati Devi, which is based on suspicious third-party loan transactions, is not applicable to the present factual matrix.

11.5 The principle laid down by the Hon'ble Supreme Court in Durga Prasad More and Sumati Dayal undoubtedly permits authorities to examine surrounding circumstances. However, that principle cannot be invoked in the absence of tangible adverse material. Human probability cannot replace evidence. In the present case, the surrounding circumstances do not demonstrate any sham or colourable device. On the contrary, the transactions are traceable to disclosed bank withdrawals and are reflected in the regular books of account.

11.6 In view of the above discussion, we hold that the assessee has satisfactorily explained the nature and source of the cash deposits of ₹4,96,000/-. The addition sustained by the learned CIT(A) under section 69A of the Act is not sustainable and is directed to be deleted. Hence, the ground of appeal of the assessee is allowed.

12. In the result, the appeal of the assessee is hereby allowed.

Order pronounced in court on 5th day of March, 2026

Sd/-

(KESHAV DUBEY)
Judicial Member

Sd/-

(WASEEM AHMED)
Accountant Member

Bangalore
Dated, 5th March, 2026

/ vms /

Copy to:

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

By order

Asst. Registrar, ITAT, Bangalore