

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

श्री एबी टी. वर्की, न्यायिक सदस्य एवं
सुश्री पद्मावती. एस., लेखा सदस्य के समक्ष

**BEFORE SHRI ABY T. VARKEY, JUDICIAL MEMBER AND
MS. PADMAVATHY. S, ACCOUNTANT MEMBER**

ITA No.2915/Chny/2025 & Cross-Objection No.90/Chny/2025
निर्धारणवर्ष/Assessment Year: 2017-18

The DCIT, Circle-2(1), Trichy stationed at Thanjavur.	v.	Sri Bhuvaneshwari Jewellery, 2628/1, East Main Street, Pudukkottai-622 001. [PAN: ABGFS 9374 L]
(अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent/Cross-Objector)
Department by	:	Ms.R. Anitha, Addl.CIT
Assessee by	:	Mr.Y. Sridhar, FCA
सुनवाईकीतारीख/Date of Hearing	:	03.02.2026
घोषणाकीतारीख /Date of Pronouncement	:	13.03.2026

आदेश / ORDER

PER ABY T. VARKEY, JM:

This is an appeal preferred by the Revenue and Cross-Objection filed by the assessee against the order of the Learned Commissioner of Income Tax (Appeals), (hereinafter referred to as "the Ld.CIT(A)"), Chennai-18, dated 12.08.2025 for the Assessment Year (hereinafter referred to as "AY") 2017-18.

2. The only grievance of the Revenue is against the action of the Ld.CIT(A) deleting the addition of ₹1,54,83,719/- made u/s.68 of the



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Income Tax Act, 1961 (hereinafter referred to as "the Act") towards cash/ Specified Bank Notes (SBNs) deposited during demonetization period.

3. The brief facts on the issue is that the assessee-Firm is in the business of manufacturing gold & silver ornaments and filed its return of income (RoI) for AY 2017-18 on 28.06.2017 admitting total income at ₹77,16,750/-. A survey u/s.133A of the Act was carried out on 18.01.2018 wherein cash-book of the assessee was impounded and the closing cash balance as on 08.11.2016 as per the cash book for the FY 2016-17 was noted to be ₹1,97,47,149/- and that the assessee had deposited SBNs into its bank account during demonetization period to the tune of ₹4,64,38,500/-. The AO asked the assessee to explain *the nature and source* of the SBN deposit, and pursuant to it, the assessee furnished its explanation, and AO is noted to have accepted the nature and source of SBN deposit of ₹2,84,51,781/- (closing cash balance as on 08.11.2016 & ₹1 Crore which assessee admitted under IDS). The AO gave show cause as to why the balance amount of ₹1,54,83,719/- should not be brought to tax as unexplained income. Pursuant to it the assessee explained the nature and source of ₹1,54,83,719/- as sale receipts from sale of gold & silver jewellery during the demonetization period. In order to support its *ibid* claim the assessee produced sale bills and books of accounts before the AO. And brought to the notice of AO that during the



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survey (in its premises on 18.01.2018), the assessee had produced details of its purchases, sales, and stock position, meaning it was not an afterthought. However, the AO rejected the explanation on the ground that the assessee should not have transacted/received SBNs during the demonetization period, and he drew adverse view against the assessee and made addition u/s.68 of the Act. Aggrieved, the assessee preferred an appeal before the Ld.CIT(A); and before him, the assessee is noted to have reiterated his submission made before the AO that the SBNs to the tune of ₹ ₹1,54,83,719/- was sale-proceeds from gold & silver jewellery which has been duly recorded in the books. The assessee asserted that cash sales are out of genuine sales supported by stock records, invoices, GST return and bank deposits. The assessee also brought to the notice of the Ld.CIT(A) that during the survey conducted u/s.133A of the Act it had duly explained its purchases, sales and stock position and no infirmity could be pointed out from it. And no infirmity could be pointed out in the audited books of accounts filed before AO. Hence, according to the assessee, when there was sufficient stock to make sales, and no defect could be pointed out in its sales and purchases, the action of the AO to make separate addition u/s.68 of the Act amount to double addition, since the impugned SBNs were included in its turn-over, and has been accepted by the AO. So, the impugned action of the AO to make separate addition u/s.68 of the Act tantamount to double addition. The Ld.CIT(A) is noted



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to have appreciated the contentions of the assessee and found that the assessee had produced the relevant documents to support its assertion that the SBNs to the tune of ₹1,54,83,719/- deposited during demonetization period was duly recorded in the books, which fact is supported by stock records, invoices, GST returns, as well as bank deposit. And since the SBNs deposited was out of genuine sales, the Ld.CIT(A) accepted the contention of the assessee that the nature and source of the same stands explained. The Ld.CIT(A) is also noted that the AO has rejected the explanation of the assessee merely on the ground that the sales were made in SBNs, which currencies were declared as 'no longer legal tender' from 08.11.2016. Hence according to Ld CIT(A) the AO impliedly accepted the nature and source of SBNs as sales receipt, and hence addition u/s 68 ₹1,54,83,719/- as unexplained is untenable. The Ld CIT(A) is noted to have not accepted the reasoning given by the AO to take adverse view by taking notice of the decision of this Tribunal in the case of Tamil Nadu State Marketing Corporation Ltd. v. ACIT reported in [2025] 170 taxmann.com 641 (Chennai-Tribunal) [07.10.2024] wherein the Tribunal has held as under:

8.4 We have gone through the notifications issued by the RBI and Government of India, to deal with specified bank notes. The only premise of the Revenue is mainly on the issue of notification issued by the RBI to deal with the specified bank notes and argument is that the assessee is not one of the eligible person to accept or to deal with specified bank notes and thus, even if assessee furnish necessary evidence, the assessee cannot accept specified bank notes after demonetization and the explanation offered by the assessee cannot be accepted. No doubt specified bank notes of Rs. 500 & Rs. 1000 have been



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withdrawn from circulation from 09.11.2016 onwards. The Government of India and RBI has issued various notifications and SOP to deal with specified bank notes. Further, the RBI allowed certain category of persons to accept and to deal with specified bank notes up to 31.12.2016. Further, the specified bank notes (cessation of liability) Act, 2017, also stated that from the appointed date no person can receive or accept and transact specified bank notes, and appointed date has been stated as 31.12.2016. Therefore, there is no clarity on how to deal with demonetized currency from the date of demonetization and up to 31.12.2016. Therefore, under those circumstances, some persons continued to accept and transact the specified bank notes and deposited into bank accounts. Therefore, merely for the reason that there is a violation of certain notifications/GO issued by the Government in transacting with specified bank notes, the genuine explanation offered by the assessee towards source for cash deposit cannot be rejected, unless the AO makes out a case that the assessee has deposited unaccounted cash into bank account in specified bank notes.

8.5 We further noted that the Central Board of Direct Taxes had issued a circular for the guidance of the Revenue Officer to verify cash deposits during demonetization period in various categories of explanation offered by the assessee and as per the circular of the CBDT, examination of business cases, very important points needs to be considered is analysis of bank accounts, analysis of cash receipts and analysis of stock registers. From the circular issued by the CBDT, it is very clear that, in a case where cash deposit found in business cases, the AO needs to verify the explanation offered by the assessee with regard to realization of debtors where said debtors were outstanding in the previous year or credited during the year etc. Therefore, from the circular issued by the CBDT, it is very clear that, while making additions towards cash deposits in demonetized currency, the AO needs to analyze the business model of the assessee, its books of account and analysis of sales etc. In this case, if we go by analysis furnished by the assessee in respect of total sales, cash sales including the cash received in demonetized currency and cash deposits, there is negligible amount in demonetized currency. Therefore, we are of the considered view that when there is no significant change in cash deposits during demonetization period, then merely for the reason that the assessee has accepted specified bank notes in violation of circular/notification issued by Government of India and RBI, the source explained for cash deposits cannot be rejected. Simpliciter violation of certain notification issued by RBI or demonetization scheme announced by Government of India on 08.11.2016 will not entitle the Revenue to make addition u/s.69 or 69A of the Act. Because, the mandate of the provisions of Section 69 & u/s.69 or 69A of the Act. Because, the mandate of the provisions of Section 69 & 69A of the Act, i.e., unexplained investments and unexplained money etc., may be deemed to be the income of the assessee for the financial year relevant to assessment year concerned, in which the assessee is found to be the owner of such money, bullion, jewellery or valuable article or unexplained expenditure, if, the such expenditure or such money etc., are not recorded in the books of accounts, if any, maintained by assessee for any source of income and the assessee offers no explanation about the nature and source of such expenditure or acquisition of such money, etc., or the explanation offered by him, in the opinion of AO is not satisfactory. For violation of any RBI notification, etc., can have any civil or criminal liability and can be dealt with under any other provision of law by the concerned authority but for the purpose of bringing the amount under Income-tax, the provisions are very clear i.e., 69 & 69A of the Act. In our considered view, to bring any amount u/s. 69 or 69A of the Act, the nature and source of investment, needs to be examined. In case the assessee explains the nature and source of investment, then the question of making addition towards



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unexplained investment u/s. 69 of the Act does not arise. In this case, the source of deposits has not been disputed and has been created out of ordinary business sales which has been credited into books of accounts and profits has also been duly included in the return of income filed in relevant assessment year. Therefore, we are of the considered view that, additions cannot be made u/s. 69 of the Act and taxed u/s. 115BBE of the Act towards cash deposits made to bank account of demonetized cash in SBNs.

4. The Ld.CIT(A) relying on the decision of the Tribunal supra is noted to have deleted the additions made by the AO u/s.68 of the Act. Aggrieved, the Revenue is before us challenging the action of the Ld.CIT(A) deleting the addition made u/s.68 of the Act.

5. We have heard both the parties and perused the material placed before us. The admitted and uncontroverted facts before us are that, the assessee is engaged in the business of trading in jewellery. During the relevant year the assessee had achieved sales turnover in this business of ₹16,45,47,342/- which, inter-alia, comprised of receipts of ₹1,54,83,719/- from sales made during demonetization. These sales are found recorded in the sales register, stock register, cash book etc. The impugned sum also formed part of the overall sales credited in the P&L A/c and offered for taxation under the 'Business Income'. Perusal of the stock register along with sales register shows that the movement of stock fully reconciles with the reported sale proceeds on the day of demonetization. The Ld. DR was also unable to controvert the fact that the AO had accepted the sales and the stocks in as much as he had not invoked provisions of Section 145(3) of the Act and rejected the book



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results. Thus, the AO is noted to have accepted the profits derived from these sales which inter alia included the sale proceeds of ₹1,54,83,719/- received during demonetization. The Ld. DR although emphasized that assessee ought not have received SBNs in violation of Government order making SBNs as illegal tender during demonetization period, which cannot be the reason to make addition u/s 68 as held by this Tribunal in the case of Tamil Nadu State Marketing Corporation Ltd. v. ACIT supra. Anyway, as noted the AO did not reject in the books of accounts and trading account, P&L account and the financial statements and also accepted the business profits derived from such sales as declared by assessee in its ITR. We therefore agree with the Ld. AR that, once the book results and inter alia the sale proceeds of ₹1,54,83,719/- had been accepted by the AO as assessee's business income, it was unjustified on AO's part to again assess the same by way of unexplained cash credit. Once, sales and purchases are duly recorded in books of accounts and the copy of sales register and purchase register were produced before AO and all transactions of purchases/sales are recorded in stock register and there is no discrepancy in quantity and copy of stock register was available with assessee even at the time of survey in January 2017, and when the purchases and sales are matching with inflow and the outflow of stock, there is no reason to disbelieve the sales. And the AO has not disturbed the closing stock which has direct nexus with the sales. And the



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movement of stock is directly linked to the purchase and the sales. The reduction of stock is matching with the corresponding sales. Further as noted the profits as disclosed by the assessee have also been accepted by the A.O. According to us, the sale proceeds cannot be taxed u/s. 68 of the Act. The receipts of sale proceeds from the parties were not in the form of credits or loans at any given point of time. Therefore, cash received against sale cannot be treated as cash credit within the meaning of section 68 of the Act. Further in number of cases it is held that the Cash received adjusted against sales could not be added u/s.68 of the Act treating the same as unexplained. Sales to all the customers were in the nature of counter sale. If such sale proceeds are permitted to tax u/s.68 of the Act then all the transactions where amounts are received against sale will be taxed and will result into absurdity. The AO misunderstood the meaning of income and cash credit. Sales which the assessee has shown which AO has accepted as income, later was considering as unexplained cash credit clearly goes against the accounting principles and taxation law. The Ld.CIT(A) is noted to have appreciated the aforesaid facts and position of law and has rightly deleted the addition made u/s 68 of the SBNs deposited to the tune of ₹1,54,83,719/-, which we confirm. Further, the Ld CIT(A) took note of the comparative turnover figure for the period from AY 2016-17 to AY 2020-21, for giving relief to the assessee, which is noted as under:



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Assessment Year	Annual Turnover	Out of which Cash Sales	Average monthly turnover
2016-17	5.21	2.54	0.43
2017-18	15.70	8.69	1.30
2018-19	27.98	20.31	2.33
2019-20	29.53	20.70	2.46
2020-21	29.17	15.97	2.43

6. From a perusal of the above comparative turnover chart, it is noted that there are no abnormal sales as evident from the chart itself. And the Ld.CIT(A) has rightly relied upon the decision of this Tribunal in the case of Tamil Nadu State Marketing Corporation Ltd supra to find that the AO erred in making addition merely on the ground that there was violation of certain notification/GO issued by the Government in transacting in the SBNs. Further, according to us, the genuine explanation offered by the assessee towards source of cash deposits can't be rejected unless the AO makes out a case, that the assessee has deposited its unaccounted cash/SBNs into bank account, which in this case the AO failed to prove, hence for the foregoing reasons, the Ld CIT(A)'s action is upheld.

7. In the result, appeal filed by the Revenue is dismissed.

8. Coming to the Cross-Objection filed by the assessee, the Ld.AR of the assessee has not pressed the grounds raised by the assessee and



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therefore, Cross-Objection of the assessee stands dismissed as not pressed.

9. In the result, appeal filed by the Revenue & Cross-Objection filed by the assessee are dismissed.

Order pronounced on the 13th day of March, 2026, in Chennai.

Sd/-
(पद्मावती .एस)
(PADMAVATHY. S)

लेखा सदस्य/**ACCOUNTANT MEMBER**

चेन्नई/Chennai,

दिनांक/Dated: 13th March, 2026.

TLN

Sd/-
(एबी टी. वर्की)
(ABY T. VARKEY)

न्यायिक सदस्य/**JUDICIAL MEMBER**

आदेश की प्रतिलिपि अग्रेषित/Copy to:

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