

**IN THE INCOME TAX APPELLATE TRIBUNAL  
“A” BENCH, AHMEDABAD**

**BEFORE SHRI SANJAY GARG, JUDICIAL MEMBER  
& SMT. ANNAPURNA GUPTA, ACCOUNTANT MEMBER**

I.T.A. No. 2532/Ahd/2025  
(Assessment Year: 2017-18)

Arrow Clothing Pvt. Ltd., B/4, Shruti Apartments, 16, New Alkapuri Society, Nr. Govt. Ten Bunglows, Gulbai Tekra, Ambawadi, Ahmedabad-380015	Vs.	Income Tax Officer, Ward-1(1)(3), Ahmedabad
<b>[PAN No.AABCA3061D]</b>		
<b>(Appellant)</b>	..	<b>(Respondent)</b>

<b>Appellant by</b>	:	Shri Jignesh Parikh, AR
<b>Respondent by</b>	:	Shri Rajenkumar M Vasavda, Sr. DR

<b>Date of Hearing</b>	02.02.2026
<b>Date of Pronouncement</b>	27.02.2026

**ORDER**

**PER: ANNAPURNA GUPTA - AM:**

The present appeal has been filed by the assessee against the order of the Ld. Commissioner of Income Tax (Appeals), (hereinafter referred to as “CIT(A)”), National Faceless Appeal Centre (hereinafter referred to as “NFAC”), Delhi dated 24.10.2025 passed under Section 250 of the Income Tax Act, 1961 (hereinafter referred to as the “Act”) and relates to Assessment Year (A.Y.) 2017-18.

2. The Grounds of Appeal raised by the assessee are as under:

*“1. On the facts and in the circumstances of the case as well in law, the Ld National Faceless Appeal Centre, Delhi (hereinafter referred to as 'NFAC') has erred in law and in facts by making an addition of Rs. 30,84,500/- as cash deposited in the bank during the demonetization period U/s 68 treating the same as unexplained income and added the same to the income of the assessee inspite of the fact that the assessee company has explained the nature and source of cash so deposited.*

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2. *On the facts and in the circumstances of the case as well in law, the NFAC has erred in law and in facts by considering entire cash of Rs. 30,84,500/- deposited during the demonetization period as unexplained and adding the same to the total income of the assessee company U/s 68 whereas the fact is that the assessee company has made cash withdrawal of Rs. 11,25,000/- from the bank accounts of the company in the month of October, 2016 and the same was remaining in hand on the date of announcement of demonetization.*

3. *On the facts and in the circumstances of the case as well in law, the NFAC has erred in law and in facts by rejecting the books of accounts of the assessee by invoking provisions of section 145. However, the fact is that the Ld.AO as well as the NFAC has failed to point the defect in the books which leads to the rejection of books of accounts.*

4. *On the facts and in the circumstances of the case as well as in law, the NFAC has erred in law and in facts by making addition made under section 68 after rejection of books of accounts under section 145.*

5. *On the facts and in the circumstances of the case as well as in law, the Ld. AO has erred in law by taxing the alleged unexplained cash credit of Rs. 30,84,500/- @ 60% and levying surcharge at 25% which is not applicable on the above amount.*

6. *The appellant further reserves its right to add, alter, amend or modify any of the aforesaid grounds before or at the time of hearing of an appeal.”*

3. The solitary issue in the present appeal relates to addition made to the income of the assessee on account of cash found deposited in his bank account during demonetization period the source of which remained unexplained. The assessee is a company engaged in the business of industrial washing of various kinds of garments on job-work basis. The assessee had deposited cash of Rs. 30,84,500/- in the following bank accounts during demonetization period:

- (i) HDFC Bank – Rs. 19,60,500/-
- (ii) Kalapur Commercial Co-operative Bank – Rs. 11,24,000/-

4. The assessee attributed the source of the same to opening balance as on 01.10.2016, cash withdrawals, cash receipt from employees as cash

receipt from parties to whom sales had been made on account of sale of own machinery, sale of damaged garments and cash sales prior to demonetization immediately before demonetization from 01.04.2016 to 08.11.2016. The assessee submitted that the transactions were corroborated by entries in his books of accounts duly supported with vouchers and the books of accounts were duly audited. The Assessing Officer, however, rejected the assessee's explanation noting several anomalies in the same. He noted a sharp increase in cash sales in pre-demonetization period and abnormal increase in cash deposit during this period and further he found that the cash sales shown prior to the demonetization period was not duly supported with proper bills. He found the copies of invoices to mention incomplete description and the narration to be general in nature. The Assessing Officer, therefore, concluded the cash sales to have been inflated by the assessee to cover up the unaccounted money deposited during demonetization. He rejected the books of accounts of the assessee noting the above anomalies and added the entire cash deposited during demonetization period of Rs. 30,84,500/- to the income returned by the assessee as unexplained credit u/s 68 of the Act, subjecting it to tax at the special rate prescribed under Section 115BBE of the Act.

5. The Ld. CIT(A) found merit in the order passed by Assessing Officer including the rejection of books of accounts and the addition made on account of unexplained cash deposited during demonetization period. However, he noted that the cash deposits relating to cash sales made by the assessee were duly considered while computing the income returned by

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the assessee to tax. He therefore reduced the amount of cash deposits from the profits returned by the assessee and subjected the same to tax separately at the special rate prescribed under Section 115BBE of the Act.

6. Aggrieved by the same, the assessee has come up in appeal before us challenging:

(i) The rejection of books of accounts of the assessee.

(ii) The addition made under Section 68 of the Act on account of unexplained cash deposited during the demonetization period of Rs. 30.84 lakhs.

(iii) Levying tax on the addition so made of unexplained cash deposit in bank account, at the special rate prescribed under Section 115BBE of the Act.

7. We have heard both the parties.

8. Taking up first the aspect of rejection of books of accounts of the assessee, the Ld. CIT(A) has noted the following facts in his order relating to the infirmities in the explanation furnished by the assessee on account of source of cash deposits in the bank account being attributable to cash sales made by the assessee:

*“I have gone through the facts of the case, the assessment order and the submission of the appellant.*

*The AO has summarized his findings at Para 8.1 of the assessment order. He has brought out the facts that there was a sharp increase in cash sales in the pre-demonetization period i.e. between 1st April 2016 to 8th November 2016. During this period, the appellant has declared cash sales of Rs.27.93 lacs as compared to 1.90*

lacs for the period from 1st April 2015 to 8th November 2015. The AO also worked out that during the period of 1st April 2016 to 31st December 2016, cash deposit in bank was Rs.52.28 lacks, compared to Rs.4.44 lacks during the period from 1<sup>st</sup> April 2015 to 31<sup>st</sup> December 2015. The AO also found out that during the month of October 2016, cash sales declared by the appellant was an abnormal Rs.24.85,873,-. which is unusual considering the fact that there were consistent cash sales of much lower volumes in the preceding as well as succeeding months. The AO perused the sales data, stock register and the cash book and noticed that major cash sales were made to various persons where the sale bills were not properly prepared. The appellant contented that the customers of the company were fixed and orders for washing were finalized over telephonic talk and the rate of washing was fixed after communication of type of washing and kind of wash to be performed for the customers. The AO found that the copies of invoices mentioned incomplete description of goods like 'washing charges for adult pant', with no details regarding band/size of the cloth. The AO found the narrations as general in a nature. The abnormal increase in cash sales and cash deposit during the month of October 2016 only could not be substantiated by the appellant. The AO inferred that garment washing process is not something which is based on season, occasion or festival, justifying huge spike in a single month. The process is uniform and carried out evenly throughout the year. It is from this perspective that the AO concluded that cash sales have been inflated to cover up for the unaccounted money deposited during demonetization. The reason behind invoking provisions of section 145(3) was that the books of accounts did not portray a true and correct picture of the business of the appellant.

*The appellant on the other hand contented that its accounts were audited and the cash deposits have been reflected in the cash book and deposit into bank account during demonetization was out of the available cash in hand as on 08.11.2016."*

9. A perusal of the above would reveal that he noted **sharp increase in cash sales in the pre-demonetization period i.e. between 01.04.2016 to 08.11.2016**. The Assessing Officer has noted the facts relating to the same at the Para 8.1 (i) of his order as under:

(i) *Sharp increase in cash sales in pre-demonetization compared to previous year in same reporting period and compared to post-demonetization period, as under:*

Month	A.Y. 2016-17	A.Y. 2017-18	% increase
From 01 <sup>st</sup> April to 8 <sup>th</sup> November	1.90 lakhs	27.93 lakhs	928%

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9.1 **An abnormal increase of 928% has been noted in the cash sales in the pre-demonetization period compared to the previous year in the same reporting period.**

10. The assessee has also been noted to have deposited abnormally huge amount of cash in the impugned year from the 01.04.2016 to 31.12.2016 as compared to deposit in the same period of the preceding year. The Assessing Officer records the facts relating to the same at Para 8.1 (iii) as under:

(iii) *Irregular and unreliable pattern of cash deposit in pre & demonetization period. The same is depicted as under:*

Month	A.Y. 2016-17	A.Y. 2017-18	% increase
From 01 <sup>st</sup> April to 31 <sup>st</sup> December	4.44 lakhs	52.28 lakhs	1077%

10.1 As is evident from the above **cash deposited in the impugned year up to the demonetization period shows an abnormal increase of 1077% as compared to the cash deposited in the same period in the preceding year.**

11. The assessee has also been noted to have abnormally large cash in hand in the pre-demonetization period as compared to that in the same period of the preceding year. The Assessing Officer has noted facts relating to the same at para 8.1 (ii) of his order as under:

(ii) *Excess increase in cash in hand compared to previous year in pre-demonetization period. The same is discussed as under:*

Month	A.Y. 2016-17	A.Y. 2017-18	% increase
From 01 <sup>st</sup> April to 8 <sup>th</sup> November	12.77 lakhs	39.16 lakhs	206.65%

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11.1 As is evident the **cash in hand in the pre-demonetization period for the impugned year has shown an abnormal increase of 206.65% as compared to the cash in hand in the same period of the preceding year.**

12. Thus the data for the impugned year pertaining to the pre-demonetization period has shown abnormal increase in cash sale, cash in hand and also cash deposit as compared to the same period of the preceding year. All the above facts are uncontroverted.

13. The Ld. CIT(A) has further noted that the assessee explained the above abnormalities to be on primarily on account of increase in cash sales made but he found that the assessee was unable to substantiate his explanation with proper supporting bills. He found the invoices to contain incomplete description of goods and the narration to be general in nature. We have noted that para 7.10 of the assessment order records the fact that the cash sales are not authenticated with documentary evidences, bills, invoices, copies of ITR, bank statement of the parties with whom the cash sale was done during the relevant period. The Ld. CIT(A) has confirmed the rejection of books of accounts noting the above discrepancies and holding so at page 57 of his order as under:

*"I have considered the submission of the appellant and the findings of the A.O. I find that the issue of phenomenal rise in cash sales only during the month of October 2016 could not be properly explained by the appellant. The nature of business remained the same as in earlier years. It is not the fact that there were some exceptional occurrences which multiplied the quantum of cash sales only prior to the period of demonetization. The appellant has brought this money by preparing invoices which do not contain full particulars of the job undertaken by the appellant. Entries in the cash book have been made for cash sales with some make belief invoices and on the basis of that cash book, the P&L account and balance sheet has been prepared and eventually audited by an auditor. The point raised by the appellant is that no specific defect in the books of*

*accounts has been pointed out and, as such, rejection of books of accounts u/s 145(3) was unjustified.”*

14. Ld. Counsel for the assessee was unable to controvert any of the factual findings of the Ld. CIT(A) regarding the abnormal increase in the cash sales, the cash in hand with the assessee and the cash deposited in the bank account during the demonetization period of the impugned year as compared to the preceding year. He was also unable to controvert the fact that the cash sales were not supported with genuine and authenticated evidences.

14.1 Basis the above uncontroverted facts the Ld. CIT(A) found that the circumstantial evidences showed the steep rise in cash sale and cash to be without any logic and that he held was sufficient for the rejection of the books of accounts of the assessee and We see no reason to disagree with the Ld. CIT(A) in this regard. The rejection of the books of account of the assessee is accordingly upheld.

15. Taking the aspect of addition made on account of cash deposit pre-demonetization period, though we completely agree with the Ld. CIT(A) that the same cannot be attributed to the cash sales made by the assessee however, at the same time, we have noted that the assessee had opening cash in hand as on 01.10.2016 of Rs.1,40,079/- and the cash withdrawal from bank between 01.10.2016 to 08.11.2016 to the tune of Rs. 11,38,662/-. Since anomalies have been found only in the explanation of the cash deposits vis-à-vis the cash sales made by the assessee, and no anomalies have been recorded vis-à-vis opening cash balance as on

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01.10.2016 as also cash withdrawals from the bank during the demonetization period of Rs. 11.38 lakh, the assessee we hold is entitled to benefit of the said two amounts, approximating Rs. 12.70 lakhs, for the source of cash deposited in the bank account during the demonetization period. The remaining amount of cash deposited in the bank account, we hold, remains unexplained and addition to the said extent is confirmed by us.

16. As to the aspect of applicability of tax rate prescribed under Section 115BBE of the Act on the addition confirmed we see no reason to differ with the Ld. CIT(A). The Division Bench of the Hon'ble Kerala High Court has in a writ petition filed before it in the case of Maruthi Babu Rao Jadav vs. ACIT W.A. No. 984 of 2019 dated 23.09.2020 categorically held the tax rates under Section 115BBE of the Act are applicable for the assessment year i.e. A.Y. 2017-18. The relevant findings of the Hon'ble High court at para 11-13 of its order is as under:

*“11. Before we look at the amendments carried out, on facts, there were two seizures of cash made on 02.08.2016 and 03.11.2016 respectively of Rs.1,05,03,500/- and Rs. 1,24,68,750/- both in the F.Y 2016-2017. The persons from whom the cash was seized as also the appellant herein admitted that it belonged to the appellant who carries on trading in gold bullion. The appellant not having produced any books of accounts or cash flow statements failed to establish the source of the money seized; which was included in the total income under Section 69A of the IT Act. The writ petition or the appeal does not challenge such inclusion. On the said amounts tax was imposed @60% under Section 115BBE and surcharge @25%. The amendments to the Finance Act were by the 2nd Amendment Act dated 15.12.2016. The enhancement of tax under Section 115BBE was made effective only from 01.04.2017; the commencement of the assessment year 2017-2018, in which the assessments of the previous year are carried out.*

*12. The assessee contends that the seizures were made prior to the amendment. The affidavits admitting the ownership of amounts seized were also submitted prior to the amendment. The assessee was not aware of the enhanced tax liability when the admissions were made before the authorities. The assessee has also made an attempt to relate the amendments to the demonetization of the specified currencies announced on 08.11.2016 which contention we reject at the outset. The subject amendments which are relevant for*

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our consideration have no direct link with the demonetization introduced or the taxation and investment regime of Pradhan Mantri Garib Kalyan Yojana 2016 brought in under Chapter IX A of the 2nd amendment Act. The 2nd amendment Act as is clear from the Statements of Objects and Reasons, was to curb, evasion of tax and black money as also plug loopholes in the IT Act and to ensure that defaulting assesseees are subjected to higher tax and stringent penalty provision. Both the measures spoken of herein were to further the said objects and there cannot be any nexus assumed nor is it discernible.

13. Section 115 BBE was inserted by Finance Act 2012 w.e.f 01.04.2013. As on 01.04.2016 the financial year in which the subject seizures occurred Section 155BBE provided for 30% tax on income referred to in Sections 68, 69, 69A, 69B, 69C and 69D. The same was amended by the 2nd Amendment Act; w.e.f. 01.04.2017, enhancing the rate to 60%. Hence there was no new liability created and the rate of tax merely stood enhanced which is applicable to the assessments carried on in that year. The enhanced rate applies from the commencement of the assessment year, which relates to the previous financial year.”

17. In view of the above we see no reason to disagree with the LD.CIT(A) confirming the applicability of tax rate as prescribed under Section 115BBE of the Act in the impugned year, A.Y. 2017-18, on the addition confirmed under Section 68 of the Act.

18. Since all the grounds raised before us by the assessee stand dealt with as above, the appeal of the assessee is partly allowed in above terms.

**This Order pronounced in Open Court on**

**27/02/2026**

Sd/-

**(SANJAY GARG)**

**JUDICIAL MEMBER**

Ahmedabad; Dated 27/02/2026

TANMAY, Sr. PS

**TRUE COPY**

**आदेश की प्रतिलिपि अग्रेषित/Copy of the Order forwarded to :**

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / Concerned CIT
4. आयकर आयुक्त(अपील) / The CIT(A)-
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, अहमदाबाद / DR, ITAT, Ahmedabad
6. गार्ड फाईल / Guard file.

Sd/-

**(ANNAPURNA GUPTA)**

**ACCOUNTANT MEMBER**

आदेशानुसार/ BY ORDER,

उप/सहायक पंजीकार (Dy./Asstt. Registrar)  
आयकर अपीलीय अधिकरण, अहमदाबाद / ITAT, Ahmedabad