SUPREME AUDIT INSTITUTION OF INDIA
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Report of the
Comptroller and Auditor General of India

Compliance Audit on
Taxation of Unexplained Transactions
Under the Income Tax Act, 1961

Union Government
Department of Revenue – Direct Taxes
Report No. 32 of 2026
(Compliance Audit – Civil)

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Laid on the table of Lok Sabha and Rajya Sabha on ……………………………

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Preface

This Report for the year ended March 2024 has been prepared for submission to the President under Article 151 of the Constitution of India.

The Report contains significant results of the compliance audit on application of provisions under Sections 68, 69, 69A, 69B, 69C and 69D read with Section 115BBE (Taxation of Unexplained Transactions under the Income Tax Act, 1961) in the assessments completed by the Income Tax Department, Department of Revenue - Union Government.

Initially a Subject Specific Compliance Audit (SSCA) was planned on the Taxation of Unexplained Transactions under the Income Tax Act, 1961, and accordingly, assessment data on the subject was requested from the Central Board of Direct Taxes (CBDT), in November 2022, for identification of cases as Audit Sample. However, due to the delayed receipt (January 2025) of the requisite data from the CBDT, Audit compiled (during the year 2024-25) the audit observations on the subject, involving significant tax impact, and which had already been raised and communicated to the Department during the regular compliance audits conducted from FY 2018-19 to 2022-23.

The audit has been conducted in conformity with the Auditing Standards, issued by the Comptroller and Auditor General of India.

Executive Summary

The Finance Act, 2012, inserted a new Section 115BBE, in the Income Tax Act, 1961 (the Act), with effect from 01/04/2013 (effective from AY 2013-14), which provides that in case total income of an assessee includes an income chargeable under Sections 68, 69, 69A, 69B, 69C or 69D of the Act, such income would be chargeable at the rate of 30 *per cent* without allowing deduction in respect of any expenditure or allowance to the assessee under any provision of the Act.

Further, following demonetization in 2016, the Finance Minister, while introducing the Taxation Laws (Second Amendment) Bill, 2016, in Parliament, stated that tax evasion deprives the nation of resources and also puts a disproportionate burden on honest taxpayers. Consequently, to prevent misuse of existing provisions of the Act for concealing black money, the provisions of Section 115BBE were *inter alia* amended by raising the tax rate from 30 *per cent* to 60 *per cent* and a flat surcharge of 25 *per cent* of tax, to ensure taxation at a higher rate on the defaulting assessees.

A significant increase in rates of tax and surcharge on such income would have a consequential effect in cess and interest, if any, chargeable under Sections 234A and 234B. Besides, no deduction in respect of any expenditure or allowance or set-off of any loss, including carry forward of losses, is allowed to the assessee from unexplained transactions added under the Sections 68, 69, 69A, 69B, 69C or 69D.

Audit noted that there were a significant number of discrepancies in the assessment orders as well as in the computation of tax/surcharge across the assessment charges in respect of income falling under the purview of Sections 68, 69, 69A, 69B, 69C or 69D read with Section 115BBE of the Act. Therefore, we initially decided to conduct a subject-specific compliance audit on the topic and sought the requisite data from the Central Board of Direct Taxes. Due to pending receipt of the data for more than two years, we finally decided to compile an Audit Report based on the audit observations relating to incorrect application of provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D, issued during the compliance audit conducted from FY 2018-19 to 2022-23 with the following objectives:

- To examine the extent of compliance with the existing provisions of the Act/Rules/Circulars/Instructions in making such assessments;
- To examine whether the provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D, i.e. provisions relating to taxation of unexplained credits, investments, money and expenditures,

etc., were invoked uniformly across the assessment charges of the Income Tax Department;

- To which extent the provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D was effective and successful in achieving the intended objective.

This report includes 1,902 audit observations, involving a total tax effect of ₹ 25,085 crore, raised during the compliance audit conducted from FY 2018-19 to 2022-23. The assessment cases in which discrepancies were noticed mostly pertained to the assessees, including non-filer assessees, in respect of whom the information of concealment of income was received/obtained from other sources and/or there were entries in the books of accounts/bank accounts which were either unexplained or not explained satisfactorily during the assessment proceedings. There were also cases where the assessees did not respond to the notices of the Income Tax Department (ITD/Department), which warranted a best judgment assessment under Section 144 of the Act. Furthermore, a significant number of these cases pertained to AY 2017-18, which was relevant to FY 2016-17, i.e., the year in which demonetization occurred and actions were taken by the Investigation Wing of the CBDT under the Operation Clean Money (OCM) Initiative.

Out of these 1,902 cases, 1,728 cases were related to under-assessment/ under-charge of tax of ₹ 23,769 crore and the remaining 174 cases were related to over-assessment/over-charge of tax of ₹ 1,316 crore.

Based on the nature of discrepancies in the assessment orders/ITNS, these observations were categorised into the following four categories:

- Incorrect application of tax rate and surcharge in violation of provisions of Section 115BBE in 926 cases, with tax effect of ₹ 4,707 crore.
- Income chargeable to tax under Section 115BBE was not accurately taken to the tax computation statement in 331 cases, with a tax effect of ₹ 1,230 crore.
- Incorrect set-off of losses from the additions made under Sections 68 to 69D in 56 assessment cases with a tax effect of ₹ 349 crore.
- Unexplained transactions falling under Sections 68, 69, 69A, 69B, 69C or 69D had escaped the assessment and levy of tax thereon as per Section 115BBE, in 589 cases with a tax effect of ₹18,799 crore.

Out of 1,902 observations, in 1,643 observations involving tax effect of ₹ 13,258 crore, the Ministry/Department accepted/rectified/initiated remedial action. In 39 cases involving tax effect of ₹ 2,349 crore, the Ministry/Department did not accept the observations/did not take remedial action. Further, the Ministry/Department did not provide a reply in 220 cases involving a tax effect of ₹ 9,478 crore.

The discrepancies in the assessment orders and/or tax computation statements (ITNS) suggest that the AOs did not exercise adequate due diligence in fulfilling their statutory duties.

A summary of significant audit findings is given below:

- Audit noticed 926 Audit observations relating to incorrect application of rate of tax/surcharge involving tax effect of ₹ 4,707 crore in 23 States. Out of 926 Audit observations, 889 observations involving tax effect of ₹ 4,384 crore, were pertaining to short levy of tax/surcharge, whereas 37 observations involving tax effect of ₹ 323 crore, were pertaining to excess levy of tax/surcharge.

(Paragraphs 3.1 and 4.1.2)

- Audit noticed that while computing the tax liability of the assessee after assessment, the assessed income was depicted twice/thrice or more times of the actual assessed income or less than the actual assessed income or zero, in ITNS, in 331 cases, involving a tax effect of ₹ 1,230 crore in 19 states.

(Paragraph 3.2 and 4.1.1)

- Audit noticed that while arriving at assessed income in assessment orders, the AOs incorrectly set off losses against additions made under Sections 68, 69, 69A, 69B, 69C or 69D, in 56 cases, involving a tax effect of ₹ 349 crore, in 12 States.

(Paragraph 3.3)

- Audit noticed in 589 cases, involving tax effect of ₹ 18,799 crore, in 20 States, where the AOs did not invoke the provisions of the Sections 68, 69, 69A, 69B, 69C or 69D of the Act uniformly despite the fact that the aforesaid transactions were bogus in nature or the source remained unexplained, which resulted in under assessment of income or income escaped assessment.

(Paragraphs 3.4 and 4.2)

- Audit noted, in 51 cases out of 1,902 cases, reported in this Report that the irregularities/inconsistencies, which were noticed in cases prior to the introduction of Section 115BBE, i.e., up to AY 2012-13, persisted even in cases processed post introduction of this Section.

(Paragraph 3.5)

- Audit noticed issues relating to the lack of monitoring of the selection of cases for internal audit. Audit noted that out of 1,902 cases incorporated in this report, 1,777 cases were not reviewed by Internal Audit. Further, the Audit noted 17 such instances out of 103 cases, where internal audit was conducted after the Receipt Audit (CAG Audit) had already been completed, which indicated that the prescribed procedure was not followed by the internal audit wing of the Department, and the concerned CIT/JCIT could not ensure the procedure as prescribed in the Audit Manual 2019 of the Income Tax Department.

(Paragraph 4.3.2)

Summary of Recommendations

- *While the Department has taken corrective measures in cases pointed out by Audit, it may be mentioned that these are only a few illustrative cases, test checked in the audit. Therefore, the CBDT, based on available manpower after doing the risk analysis and factoring in the monetary threshold, to be decided by the CBDT, may review potential assessment cases, where assessments include taxation of unexplained/undisclosed transactions, pertaining to the audit period to avoid revenue loss.*

- *The CBDT may consider identifying reasons for such errors and accordingly put in place a foolproof IT (Information Technology) system and internal control mechanism to avoid the recurrence of such errors in the future.*

- *The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and in the case of errors of commission, the ITD may ensure necessary action, including fixing responsibility as per law.*

- *CBDT may identify the reasons for computational errors and consider putting a mechanism in place to fix the issue on priority to avoid/minimise the scope of loss of revenue to the exchequer, litigation and harassment to the assessee.*

- *The CBDT may examine the reasons for variations in invoking the provisions of relevant Sections and additions made by the AOs and consider issuing SOPs/Guidelines, perhaps with illustrative examples, to ensure consistency in assessments, thereby reducing loss to the exchequer/scope of litigation.*

- *The CBDT may consider taking necessary actions for strengthening the internal control system and improving the functioning of the internal audit wing of the Department. The CBDT may also consider revisiting the criteria for selection of cases for internal audit so as to ensure the selection of potential cases.*

Chapter 1: Introduction and Audit Approach

1.1 Overview

The Government need resources to fulfil its obligations towards a welfare state by funding anti-poverty, other various developmental programmes, etc. Further, in Government resources direct tax revenue plays a significant role. The Finance Minister, in his Budget Speech in 2012, proposed a series of measures to deter the generation and use of unaccounted money, including taxation of unexplained money, credits, investments, and expenditures at the highest rate of 30 *per cent*, irrespective of the income slab. Consequently, through the Finance Act, 2012, a new Section 115BBE was introduced (effective from AY 2013-14) in the Income Tax Act, 1961 (The Act), to tax the unexplained amounts at the higher rate of 30 *per cent* (excluding surcharge and cess as applicable) and without allowing deduction in respect of any expenditure or allowance to the assessee under any provision of the Act.

Further, post-demonetisation in the year 2016, the Finance Minister, while introducing the Taxation Laws (Second Amendment) Bill, 2016 in Parliament, stated that evasion of taxes deprives the nation of critical resources that could enable the Government to undertake anti-poverty and development programmes. He further stated that it also places a disproportionate burden on honest taxpayers, who have to bear the brunt of higher taxes to compensate for the revenue leakage. Consequently, to prevent misuse of existing provisions of the Act for concealing black money, the provisions of Section 115BBE were *inter alia* amended by raising the tax rate from 30 *per cent* to 60 *per cent* and a flat surcharge of 25 *per cent* of tax, to ensure that defaulting assessees are subjected to tax at a higher rate.

1.2 Role of Income Tax Department (ITD)

1.2.1 All the assessees/taxpayers are required to file their income tax returns (ITRs), declaring their income correctly, digitally on the e-filing platform of the Income Tax Department (ITD). ITRs so filed are processed summarily at the Centralised Processing Centre (CPC), Bengaluru. Furthermore, based on the Computer Aided Scrutiny Selection (CASS), some of these summarily assessed cases are selected for detailed scrutiny assessment. Additionally, in some cases, including those of non-filers, persons are selected for income escaping assessments/re-assessments based on information available to the ITD through search and seizures and/or information collected through the Insight portal of the Income Tax Department.

1.2.2 In scrutiny assessments, the AO has to assess the income of the assessee and determine tax payable or amount refundable correctly in all cases, either in faceless assessments through the National E-Assessment Centre (NeAC) or through manual assessments in cases relating to Central Circles, Transfer Pricing Office and International Taxation charges.

1.2.3 While concluding assessments, the AO has to examine and bring to tax unexplained money, credits, investments and expenditures etc. of the assessee, as per the provisions of the Act.

1.3 Why we chose this topic

As Section 115BBE was introduced through the Finance Act, 2012 (effective from AY 2013-14), to deter the generation and use of unaccounted money and to prevent misuse of existing provisions of the Act for concealing black money, Audit wanted to ascertain whether the provisions of the Act were successfully implemented to achieve the intended objective of the legislature. Further, while conducting regular compliance audits, the Audit came across a number of discrepancies in assessments of income of the assessees comprising deemed income towards unexplained money, credits, investments and expenditures, etc. and computation of tax.

1.4 Audit Objectives

- To examine the extent of compliance with the existing provisions of the Act/Rules/Circulars/Instructions in making such assessments.
- To examine whether the provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D, i.e. provisions relating to taxation of unexplained credits, investments, money and expenditures, etc., were invoked uniformly across the assessment charges of the Income Tax Department.
- To which extent the provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D was effective and successful in achieving the intended objective.

1.5 Legal Provisions

Relevant provisions of the Income Tax Act, 1961, are given in ***Appendix 1.1***.

1.6 Audit Scope and Methodology

- The Audit had initially planned to conduct a Subject Specific Compliance Audit (SSCA) on the application of provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D, covering the assessments completed during the period from 2017-18 to 2021-22.

- Accordingly, requisite data on assessments completed during the aforesaid period was requested from the CBDT in November 2022. However, despite several reminders and follow-up meetings at different levels, the requisite data was not furnished by the CBDT in a timely manner.
- Pending receipt of requisite data from the CBDT, the Audit decided not to take up this SSCA. Subsequently, it was decided to compile the audit observations on the above subject, which involved a significant tax impact[1] and had already been raised and communicated to the Department during the regular compliance audits conducted from FY 2018-19 to 2022-23.
- The draft long paras were issued to the respective Chief Commissioners of Income tax (CCsIT)/Principal Chief Commissioners of Income tax (PCCsIT) for their comments on the respective audit observations.
- Replies/responses of the Department, wherever received, were appropriately incorporated in the draft report.
- The draft consolidated compliance audit report was issued to the Ministry/ CBDT on 30 December 2025, for their comments. Post receipt of the CBDT's response in 31 illustrated cases and six recommendations, an Exit Conference was held with the CBDT on 20 May 2026, to discuss audit findings and audit recommendations *vis-à-vis* their comments. The results of the discussion, the CBDT's comments, and the audit comments have been duly incorporated into the compliance audit report.

1.7 Constraints

The data on assessments involving application of provisions of Section 115BBE read with Sections 68, 69, 69A, 69B, 69C and 69D was required in a timely manner from the CBDT, for deriving audit sample and conducting a Subject Specific Compliance Audit (SSCA). The requisite data was sought from the CBDT in November 2022, and it was provided in January 2025, i.e., after more than two years. The inordinate delay in receiving the aforementioned data forced the Audit to postpone the commencement of the SSCA several times and eventually to drop the SSCA. Subsequently, based on the data/material available with the Audit on the said topic, in the form of audit observations raised during regular compliance audit, this report was compiled.

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[1] Audit observations having tax effect ₹ 10 lakh and above

1.8 Summary of Audit Findings

In this report, we compiled 1,902 high-value audit observations involving tax effect of ₹ 25,085 crore, relating to mistakes in application of Sections 68, 69, 69A, 69B, 69C and 69D read with Section 115BBE of the Act, noticed during the period 2018-19 to 2022-23 while conducting regular compliance audit of income tax assessments concluded by the ITD. The audit observations were mainly of four categories, *viz.* Incorrect application of rate of tax and surcharge; Incorrect adoption of assessed income in computation statement; Incorrect set-off of losses against additions made under Sections 68, 69, 69A, 69B, 69C and 69D; and Income escaping assessment relating to deemed income under Sections 68, 69, 69A, 69B, 69C and 69D.

Out of 1,902 audit observations, the Department replied in 1,682 cases as of May 2026. The Department accepted 1,643 (86.38 *per cent*) audit observations involving tax effect of ₹ 13,258 crore, whereas the Department did not accept 39 cases involving tax effect of ₹ 2,349 crore. In the remaining 220 cases, the Department did not furnish replies till May 2026.

Chapter 2: Statistical Analysis of Audit Observations

This chapter discusses the profile of audit observations, namely, region-wise, assessee status-wise, and category of observations raised during the compliance audit period from 2018-19 to 2022-23, including the tax effect involved. We also depicted the actions taken by the Department in response to these audit observations, the status of the internal audit of these cases, and the criteria applied by the Department for the selection of cases detailed Scrutiny assessments.

2.1 Profile of audit observations

A total of 1,902 observations, with a minimum threshold of ₹ 10.00 lakh for each observation, relating to mistakes in application of Sections 68, 69, 69A, 69B, 69C and 69D read with section 115BBE of the Income Tax Act, 1961, which were issued to 19 regions of the Department through local audit report, during the period 2018-19 to 2022-23, were incorporated in this report. The details of these audit observations were collected, and after consolidation, the same were analysed. Results of the analysis are summarised in the succeeding paragraphs.

2.1.1 Region-wise distribution of audit observations

With a view to ascertaining region-wise distribution of audit observations relating to mistakes in application of Sections 68, 69, 69A, 69B, 69C and 69D read with section 115BBE of the Income Tax Act, 1961, Audit analysed the data of 1,902 observations raised during the period 2018-19 to 2022-23. Audit analysis revealed that the Delhi region had the highest number of observations (629), followed by the Madhya Pradesh and Chhattisgarh regions (258), and the Andhra Pradesh and Telangana regions (144). The Region-wise distribution of observations raised during the period 2018-19 to 2022-23 is depicted in Chart 2.1 below:

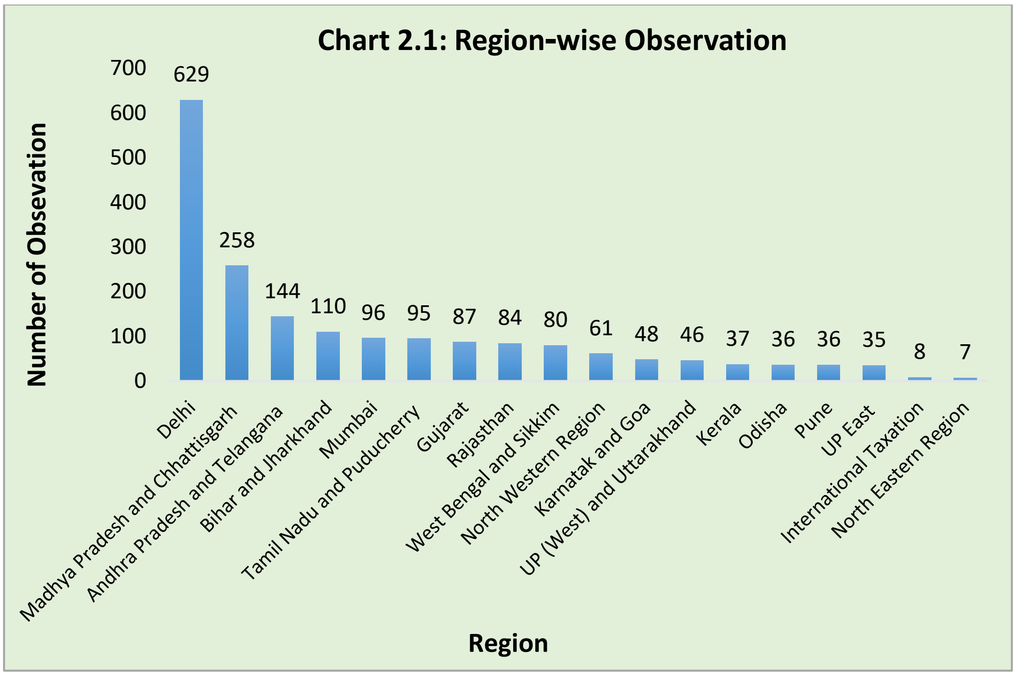


Chart 2.1: Region-wise Observation

2.1.2 Assessees category-wise observations

The Audit analysed the categories of assessees against whom observations were raised and found that, out of a total of 1,902 observations made by the Audit, the largest number of observations related to the category 'Individuals' (1,072), followed by 'Company' (481) and 'Firm' (249). The details are summarised in Table 2.1 below.

Table 2.1: Category of assessees

Region	Individual (1)	Company (2)	Firm (3)	AOP (4)	Trust (5)	HUF (6)	Artificial Judicial Person (7)	Local Authority (8)	Govt. (9)	Total
Andhra Pradesh and Telangana	90	23	17	4	9	1				**144**
Bihar and Jharkhand	77	14	12	1	4	1			1	**110**
Delhi	338	199	68	3	11	10				**629**
Gujarat	39	10	37			1				**87**
International Taxation	7	1								**8**
Karnataka and Goa	32	11	5							**48**
Kerala	25	7	4		1					**37**
Madhya Pradesh and Chhattisgarh	167	41	30	16	3	1				**258**
Mumbai	16	71	6	1	1	1				**96**
Nagpur	3	1	1							**5**
North Eastern Region	6		1							**7**
North Western Region	23	18	12	1	5	2				**61**
Odisha	28	3	1	1	1		1	1		**36**

Table 2.1: Category of assessees										
Region	**Individual (1)**	**Company (2)**	**Firm (3)**	**AOP (4)**	**Trust (5)**	**HUF (6)**	**Artificial Judicial Person (7)**	**Local Authority (8)**	**Govt. (9)**	**Total**
Pune	14	11	7	3	1					**36**
Rajasthan	60	5	11	7	1					**84**
Tamil Nadu and Puducherry	52	19	22	1	1					**95**
UP (East)	28	3	2	1	1					**35**
UP (West) and Uttarakhand	28	8	8			1	1			**46**
West Bengal and Sikkim	39	36	5							**80**
Grand Total	**1,072**	**481**	**249**	**39**	**39**	**18**	**2**	**1**	**1**	**1,902**

As seen from Table 2.1 above, the assessees' category-wise observations varied across different regions. In the 'Individual' category, the highest number of observations was noticed in Delhi (338), followed by Madhya Pradesh and Chhattisgarh (167), and Andhra Pradesh and Telangana (90). In the 'Company' category, the highest number of observations was noticed in Delhi (199), followed by Mumbai (71) and Madhya Pradesh and Chhattisgarh (41). In the 'Firm' category, the highest number of observations were noticed in Delhi (68), followed by Gujarat (37) and Madhya Pradesh and Chhattisgarh (30).

2.1.3 Region-wise distribution of observation Categories and corresponding tax effect

Observations raised during the audit are grouped into four categories, *viz.* Incorrect rate of tax/surcharge, Assessed income inaccurately taken in ITNS, Incorrect set-off of losses against addition made under Section(s) 68, 69, 69A, 69B, 69C and/or 69D (68 to 69D), and Unexplained income escaped tax demand under Section 68 to 69D. Audit analysed the region-wise distribution of observations in these four categories along with the corresponding tax effect, the result of which is given in Table 2.2 below:

Table 2.2: Category of observation (₹ in crore)								
Region	**Category of observations**							
	A-Incorrect rate of tax/surcharge		**B-Assessed income inaccurately taken in ITNS**		**C-Incorrect set off of losses against the addition made under Section 68 to 69D**		**D-Unexplained Income escaped tax demand under Section 68 to 69D**	
	No. of observations	**Tax effect**	**No. of observations**	**Tax effect**	**No. of observations**	**Tax effect**	**No. of observations**	**Tax effect**
Andhra Pradesh and Telangana	76	343	51	122	4	44	13	85
Bihar and Jharkhand	78	67	3	3			29	65
Delhi	233	2,299	114	596	17	80	265	13,764
Gujarat	53	72	7	15	1	1	26	265
International Taxation	6	30	2	1				

Table 2.2: Category of observation (₹ in crore)								
Region	**Category of observations**							
	A-Incorrect rate of tax/surcharge		**B-Assessed income inaccurately taken in ITNS**		**C-Incorrect set off of losses against the addition made under Section 68 to 69D**		**D-Unexplained Income escaped tax demand under Section 68 to 69D**	
	No. of observations	**Tax effect**	**No. of observations**	**Tax effect**	**No. of observations**	**Tax effect**	**No. of observations**	**Tax effect**
Karnataka and Goa	33	65	8	29	2	30	5	142
Kerala	18	34	5	7	1	4	13	25
Madhya Pradesh and Chhattisgarh	87	152	76	96	4	45	91	2,071
Mumbai	43	491	1	1	15	85	37	640
Nagpur	4	5					1	3
North Eastern Region	7	3						
North Western Region	23	176	15	184	3	49	20	412
Odisha	21	26	12	40	1	1	2	3
Pune	14	55	1	1	1	3	20	839
Rajasthan	56	52	20	25	4	2	4	3
Tamil Nadu and Puducherry	79	487	6	89	2	1	8	68
UP (East)	19	31	6	15			10	37
UP (West) and Uttarakhand	33	130	4	6			9	111
West Bengal and Sikkim	43	188			1	5	36	266
Grand Total	**926**	**4,706**	**331**	**1,230**	**56**	**349**	**589**	**18,799**

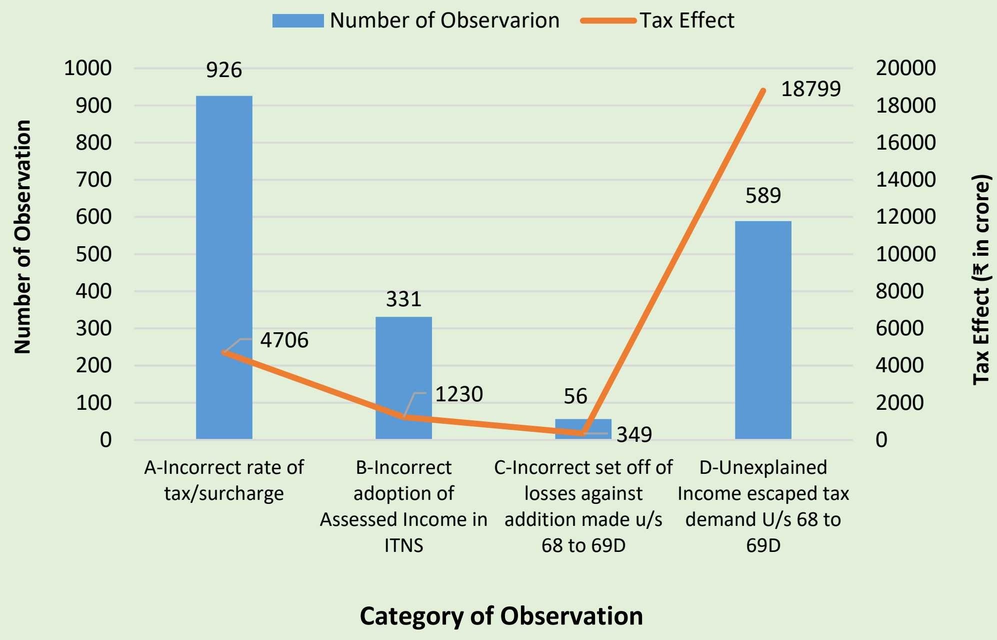
As seen from Table 2.2 above, out of the 1,902 assessments, the highest number of observations fell under "Category A – Incorrect rate of tax/surcharge", accounting for 926 observations, followed by "Category D – Unexplained income escaping tax under Section 68 to 69D", with 589 observations.

Within 'Category A', the Delhi region had the highest number of observations (233), followed by the Madhya Pradesh and Chhattisgarh regions (87) and in 'Category D', the Delhi region had the highest number of observations (265), followed by the Madhya Pradesh and Chhattisgarh regions (91).

2.1.4 Category-wise distribution of observations and Tax-effect

A total of 1,902 observations were raised across 19 regions of the Income Tax Department, with a cumulative tax effect of ₹ 25,085 crore. These observations have been grouped into four categories, *viz.* Incorrect rate of tax/surcharge, Assessed income inaccurately taken in ITNS, Incorrect set-off of losses against addition made under Section 68 to 69D and Unexplained income escaped tax demand under Section 68 to 69D. Chart 2.2 below depicts the category-wise distribution of observations along with the corresponding tax effect.

Chart 2.2: Category-wise distribution of Observations and Tax effect



As seen in Chart 2.2 above, a total of 926 observations were raised under Category A and 331 observations were raised under Category B, with a tax effect of ₹ 4,706 crore and ₹ 1,230 crore, respectively. Additionally, 56 and 589 observations were raised under Categories C and D, with corresponding tax effects of ₹ 349 crore and ₹ 18,799 crore, respectively.

2.1.5 Details of the distribution of observations with corresponding tax effect

In order to ascertain the distribution of observations by tax effect, the Audit analysed the observations raised during the audit (1,902) and categorised them into slabs based on the tax effect involved. Table 2.3 below shows the region-wise distribution of observations with the corresponding tax effect.

Table 2.3: Region-wise distribution of observations with Tax effect

Region	Tax effect slab (₹ in crore)												Total observations	Total Tax Effect
	upto ₹ 50 Cr.		More than ₹ 50 Cr. and up to ₹ 200 Cr.		More than ₹ 200 Cr. and up to ₹ 400 Cr.		More than ₹ 400 Cr. and up to ₹ 700 Cr.		More than ₹ 700 Cr. and up to ₹ 1,000 Cr.		More than ₹ 1,000 Cr. and up to ₹ 1,400 Cr.			
	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect		
Andhra Pradesh and Telangana	142	449	2	144	0	0	0	0	0	0	0	0	**144**	**593**
Bihar and Jharkhand	110	136	0	0	0	0	0	0	0	0	0	0	**110**	**136**
Delhi	561	4,048	56	5,559	5	1,321	3	1,587	2	1,827	2	2,397	**629**	**16,739**
Gujarat	86	176	1	177	0	0	0	0	0	0	0	0	**87**	**353**
International Taxation	8	31	0	0	0	0	0	0	0	0	0	0	**8**	**31**

Table 2.3: Region-wise distribution of observations with Tax effect

Region	Tax effect slab								(₹ in crore)				Total observations	Total Tax Effect
	upto ₹ 50 Cr.		More than ₹ 50 Cr. and up to ₹ 200 Cr.		More than ₹ 200 Cr. and up to ₹ 400 Cr.		More than ₹ 400 Cr. and up to ₹ 700 Cr.		More than ₹ 700 Cr. and up to ₹ 1,000 Cr.		More than ₹ 1,000 Cr. and up to ₹ 1,400 Cr.			
	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect	No.	Tax Effect		
Karnataka and Goa	47	157	1	110	0	0	0	0	0	0	0	0	**48**	**267**
Kerala	37	70	0	0	0	0	0	0	0	0	0	0	**37**	**70**
Madhya Pradesh and Chhattisgarh	250	747	6	470	1	282	0	0	1	865	0	0	**258**	**2,364**
Mumbai	91	614	4	370	1	233	0	0	0	0	0	0	**96**	**1,217**
Nagpur	5	8	0	0	0	0	0	0	0	0	0	0	**5**	**8**
North Eastern Region	7	3	0	0	0	0	0	0	0	0	0	0	**7**	**3**
North Western Region	56	427	5	393	0	0	0	0	0	0	0	0	**61**	**820**
Odisha	36	70	0	0	0	0	0	0	0	0	0	0	**36**	**70**
Pune	33	134	1	57	1	277	1	429	0	0	0	0	**36**	**898**
Rajasthan	84	82	0	0	0	0	0	0	0	0	0	0	**84**	**82**
Tamil Nadu and Puducherry	93	504	2	142	0	0	0	0	0	0	0	0	**95**	**646**
UP (East)	35	82	0	0	0	0	0	0	0	0	0	0	**35**	**82**
UP (West) and Uttarakhand	46	247	0	0	0	0	0	0	0	0	0	0	**46**	**247**
West Bengal and Sikkim	78	342	2	117	0	0	0	0	0	0	0	0	**80**	**459**
Grand Total	**1,805**	**8,327**	**80**	**7,539**	**8**	**2,114**	**4**	**2,016**	**3**	**2,692**	**2**	**2,397**	**1,902**	**25,085**

As shown in Table 2.3 above, the Delhi region accounted for the highest cumulative tax-effect at ₹ 16,739 crore, followed by the Madhya Pradesh and Chhattisgarh regions with ₹ 2,364 crore, and the Mumbai region with ₹ 1,217 crore.

Further, as evident from the above Table, the highest number of audit observations have a tax effect of up to ₹ 50 crore, accounting for 95 *per cent* of the total 1,902 observations. Within this bracket, the highest number was in the Delhi region, with 561 audit observations involving a tax effect of ₹ 4,048 crore. This was followed by the Madhya Pradesh and Chhattisgarh region, with 250 audit observations involving a tax effect of ₹ 747 crore, and the Mumbai region, with 91 audit observations involving a tax effect of ₹ 614 crore.

Table 2.4 below provides a further distribution of region-wise observations having a tax effect of less than ₹ 50 crore.

Table 2.4: Region-wise distribution of observations with tax effect less than ₹ 50 crore												
	Tax effect slab								**(₹ in crore)**			
Region	**Upto ₹ 10 crore**		**More than ₹ 10 crore and upto ₹ 20 crore**		**More than ₹ 20 crore and upto ₹ 30 crore**		**More than ₹ 30 crore and upto ₹ 40 crore**		**More than ₹ 40 crore and upto ₹ 50 crore**		**Total observations**	**Total Tax Effect**
	No.	**Tax Effect**	**No.**	**Tax Effect**	**No.**	**Tax Effect**	**No.**	**Tax Effect**	**No.**	**Tax Effect**		
Andhra Pradesh and Telangana	135	287	3	46	2	51	2	65	0	0	142	449
Bihar and Jharkhand	107	97	3	39	0	0	0	0	0	0	110	136
Delhi	429	1045	57	852	47	1,154	22	739	6	258	561	4048
Gujarat	81	113	5	63	0	0	0	0	0	0	86	176
International Taxation	6	4	2	27	0	0	0	0	0	0	8	31
Karnataka and Goa	45	102	0	0	2	55	0	0	0	0	47	157
Kerala	36	59	1	11	0	0	0	0	0	0	37	70
Madhya Pradesh and Chhattisgarh	233	373	9	133	3	71	5	171	0	0	250	747
Mumbai	74	224	7	96	7	164	0	0	3	130	91	614
Nagpur	5	8	0	0	0	0	0	0	0	0	5	8
North Eastern Region	7	3	0	0	0	0	0	0	0	0	7	3
North Western Region	38	108	14	213	3	75	1	31	0	0	56	427
Odisha	35	50	1	20	0	0	0	0	0	0	36	70
Pune	30	70	2	22	0	0	0	0	1	42	33	134
Rajasthan	83	71	1	10	0	0	0	0	0	0	84	81
Tamil Nadu and Puducherry	76	226	14	182	2	50	0	0	1	46	93	504
UP (East)	34	69	1	13	0	0	0	0	0	0	35	82
UP (West) and Uttarakhand	39	71	3	37	1	20	2	75	1	44	46	247
West Bengal and Sikkim	71	144	2	31	3	80	0	0	2	87	78	342
Grand Total	**1,564**	**3,124**	**125**	**1,795**	**70**	**1,720**	**32**	**1,081**	**14**	**607**	**1,805**	**8,327**

As seen from Table 2.4 above, out of 1,805 observations having a tax effect of less than ₹ 50 crore, 1,564 observations (82 *per cent*) were issued where the tax effect was less than ₹ 10 crore. Further, within this bracket, i.e. audit observations having tax effect less than ₹ 10 crore, the highest number was in the Delhi region with 429 audit observations involving tax-effect of ₹ 1,045 crore, followed by the Madhya Pradesh and Chhattisgarh region with 233 audit observations involving tax effect of ₹ 373 crore, and Andhra Pradesh and Telangana region with 135 audit observations involving tax effect of ₹ 287 crore.

2.2 Region-wise status of action taken by the Department on the observations

To evaluate the performance of various regions of the ITD in responding to audit observations, the Audit analysed available data on remedial actions. Table 2.5 below presents the region-wise status of actions taken by the Department in response to audit observations issued during the period 2018-19 to 2022-23.

Table 2.5: Region-wise status of action taken by the Department on the audit observations

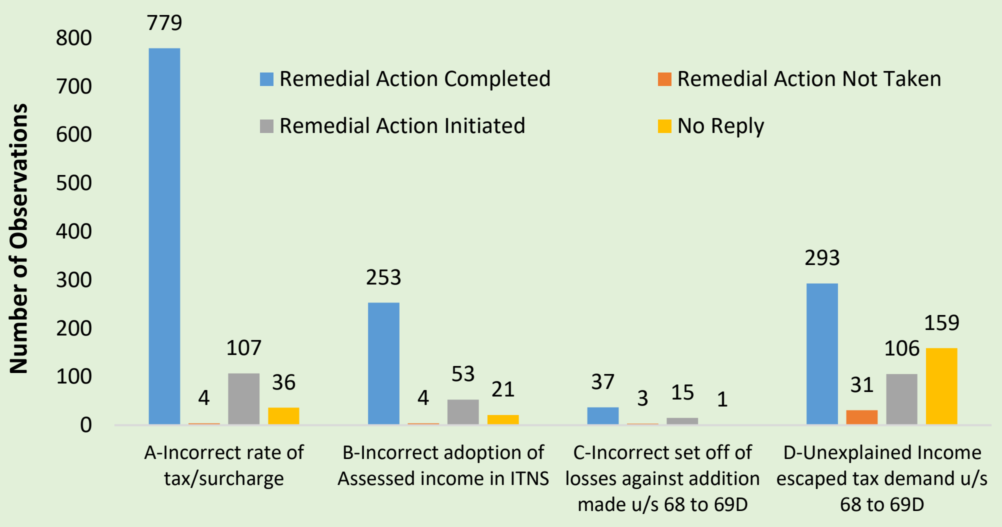
Region	Remedial Action Completed	Remedial Action Initiated	Remedial Action Not Taken	No Reply	Total
Andhra Pradesh and Telangana	116	9	1	18	144
Bihar and Jharkhand	91	19			110
Delhi	288	151	18	172	629
Gujarat	75	12			87
International Taxation	5	1		2	8
Karnataka and Goa	39	4	1	4	48
Kerala	31	2			33
Madhya Pradesh and Chhattisgarh	228	20	6	4	258
Mumbai	62	27	5	2	96
Nagpur	5	0			5
North Eastern Region	7	0			7
North Western Region	38	3	7	13	61
Odisha	19	17			36
Pune	23	9	1	3	36
Rajasthan	83	1			84
Tamil Nadu and Puducherry	96	3			99
UP (East)	34	1			35
UP (West) and Uttarakhand	46				46
West Bengal and Sikkim	76	2		2	80
Grand Total	**1,362**	**281**	**39**	**220**	**1,902**

Out of the total 1,902 observations, the Department has completed remedial action in 1,362 cases (71 *per cent*) and initiated remedial action in 281 cases (14 *per cent*). In 39 (two *per cent*) observations, no remedial action has been taken, while for the remaining 220 cases 11 *per cent*), no reply has been furnished by the Department (May 2026).

The highest number of cases (439 cases) where remedial actions were completed/initiated were in the Delhi region, followed by (248 cases) in the Madhya Pradesh and Chhattisgarh region. Whereas the number of observations where remedial action was not taken or no reply was furnished by the Department was also highest in the Delhi region (190 cases), followed by the Andhra Pradesh and Telangana region (19 cases).

Further, the action taken by the Department on the observations issued to them varied across all four categories of observations, *viz.* Incorrect rate of tax/surcharge, Assessed income inaccurately taken in ITNS, Incorrect set-off of losses against addition made under Section 68 to 69D and Unexplained income escaped tax demand under Section 68 to 69D as discussed in Chart 2.3 below.

Chart 2.3 Category-wise distribution of action taken by the Department



Audit analysis of the category-wise distribution of action taken by the Department is detailed below:

a) **Category A: Incorrect rate of tax/surcharge:** Audit noted that remedial action has been completed in 779 observations, whereas remedial action has been initiated in 107 observations. Further, no remedial action has been taken in four observations, and no reply has been furnished in 36 observations.

b) **Category B: Assessed income inaccurately taken in ITNS:** Audit found that remedial action has been completed in 253 observations, whereas remedial action has been initiated in 53 observations. However, no remedial action has been taken in four observations, and no reply has been furnished in 21 observations.

c) **Category C: Incorrect set off of losses against additions made under Section 68 to 69D:** Audit noted that remedial action has been completed in 37 observations, whereas remedial action has been initiated in 15 observations. Furthermore, no remedial action has been taken in three observations, and no reply has been furnished in one observation.

d) **Category D: Unexplained Income escaped tax demand under Section 68 to 69D:** Audit found that remedial action has been completed in 293 observations, whereas remedial action has been initiated in 106 observations. Moreover, no remedial action has been taken in 31 observations, and no reply has been furnished in 159 observations.

2.3 Details of Internal Audit conducted by the Department

Assessments completed by the Department each year are audited internally by the Internal Audit Party (IAP) of the Department based on the parameters decided by the Department. Table 2.6 below summarises the region-wise status of Internal Audit conducted by the Department for the assessments in which observations were raised by Audit in this report.

Table 2.6: Details of Internal Audit conducted by IAP

Region	Not Conducted	Conducted	Not Known	Total
Andhra Pradesh and Telangana	139	5		144
Bihar and Jharkhand	110			110
Delhi	540	89		629
Gujarat	87			87
International Taxation	8			8
Karnataka and Goa	48			48
Kerala	28	9		37
Madhya Pradesh and Chhattisgarh	236		22	258
Mumbai	96			96
Nagpur	5			5
North Eastern Region	7			7
North Western Region	61			61
Odisha	36			36
Pune	36			36
Rajasthan	84			84
Tamil Nadu and Puducherry	95			95
UP (East)	35			35
UP (West) and Uttarakhand	46			46
West Bengal and Sikkim	80			80
Grand Total	**1,777**	**103**	**22**	**1,902**

As seen in Table 2.6 above, 93 *per cent* (1,777) of the total 1,902 assessments where observations were raised were not audited by the IAP. Further, the region-wise breakup shows that the IAP audited assessments in only four regions, *viz.* Delhi, Kerala, Andhra Pradesh & Telangana, and Odisha were audited for 89, 9, 3, and 2 assessments, respectively, during 2018-19 to 2022-23, in cases where audit observations were raised.

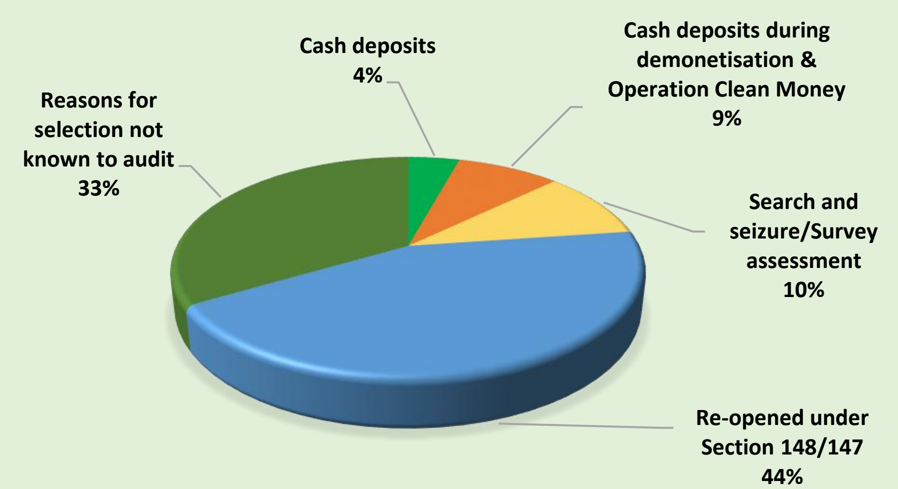
Additionally, Audit noted that IAP raised observations regarding certain issues in 17 assessments in the Delhi region, which had already been raised by Audit.

2.4 Reasons for the selection of cases for detailed scrutiny by the Department

The Income Tax Return (ITR) filed by the assessees is first processed in a summary manner in a fully automated environment at the Central Processing Centre (CPC) in Bengaluru. Subsequently, a small number of the aforesaid cases are selected for detailed scrutiny using an automated system called Computer Aided Scrutiny Selection (CASS). In some cases, these are selected manually by the Assessing Officers as per CBDT guidelines. In addition, cases are also selected for detailed scrutiny assessments (under Section 153A/153C) based on Survey/Search and Seizure. Further, based on inputs from various sources on escapement of income, cases are reopened under Section 148/147.

Audit attempted to analyse the reasons for which the cases, where audit observations were noticed, were selected by the Department for detailed scrutiny. For this analysis, Audit collected and analysed the aforesaid information from the assessment records, with respect to 1,902 observations raised during the Audit, results of which are depicted in Chart 2.4 below:

Chart 2.4: Reasons for selection of cases for detailed scrutiny



As seen from Chart 2.4 above, out of 1,902 cases, 836 cases (44 *per cent*) were those cases re-opened under Section 148/147, 191 cases (10 *per cent*) were of Search and Seizure/Survey assessment, 164 cases (nine *per cent*) were selected due to reason of 'cash deposits during demonetisation/Operation Clean Money', etc. Further, the Audit could not ascertain the reasons for the selection of cases for detailed scrutiny in 635 cases (33 *per cent*).

Chapter 3: Compliance Issues

This chapter discusses audit findings, broadly categorised in four categories, *viz.* Incorrect application of rate of tax and surcharge; incorrect adoption of assessed income in computation statement; Incorrect set-off of losses against additions made under Sections 68, 69, 69A, 69B, 69C and 69D and Income escaping assessment relating to deemed income under Sections 68, 69, 69A, 69B, 69C and 69D. A summary of category-wise audit observations is tabulated below:

Table 3.1: Category-wise audit observations

Category	Number of Audit Observations			Total Tax Effect (₹ in crore)		
	AY prior to 2013-14	AY 2013-14 onwards	Total	AY prior to 2013-14	AY 2013-14 onwards	Total
A. Incorrect application of the rate of tax/ surcharge	9	917	926	76	4,631	4,707
B. Incorrect adoption of assessed income in the computation statement (ITNS) or incorrect computation of tax on assessed income	2	329	331	2	1,228	1,230
C. Incorrect set-off of losses against additions made under Sections 68, 69, 69A, 69B, 69C and 69D	-	56	56	-	349	349
D. Income escaping assessment relating to deemed income under Sections 68, 69, 69A, 69B, 69C and 69D	40	549	589	1,868	16,931	18,799
Grand Total	**51**	**1,851**	**1,902**	**1,946**	**23,139**	**25,085**

Category-wise audit observations are discussed in the succeeding paragraphs.

3.1 Incorrect application of the rate of tax/ surcharge

We noticed 926 Audit observations relating to incorrect application of the rate of tax/surcharge involving a tax effect of ₹ 4,707 crore in 23 States[2]. Out of 926 Audit observations, 889 observations involving tax effect of ₹ 4,384 crore, were pertaining to short levy of tax/surcharge, whereas 37 observations involving tax effect of ₹ 323 crore, were pertaining to excess levy of tax/surcharge.

Provisions of Section 115BBE of the Act stipulate that where the total income of an assessee includes any income referred to in Sections 68, 69, 69A, 69B, 69C or Section 69D, the amount of income tax payable shall be calculated at the rate of sixty per cent on such income and surcharge on this tax at the rate of twenty five per cent with effect from 01/04/2017.

3.1.1 Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge

Out of 889 cases where the AO applied an incorrect rate of tax/surcharge resulting in short levy of tax/surcharge, the Ministry/Department completed/initiated remedial action in 850 cases. In the remaining 39 cases, either no action was taken by the Department or reply was awaited. Out of these 889 cases, 19 cases, from different charges, have been summarised below:

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)

Sl. No.	PCIT Charge	Name of Assessee/PAN/ Status/AY	Tax Effect (₹ in crore)	Gist of Audit Observation	Reply status/ Action taken by the Department
1.	PCIT (Central)-1, Delhi	M/s S1/ XXXXXXXXXX/ Company/ 2017-18	1,003.02	The AO made an addition of ₹ 1,669.09 crore under Section 68 and applied a rate of tax of 30 *per cent* and a surcharge of 12 *per cent* instead of the applicable rate of 60 *per cent* and a surcharge of 25 *per cent*. Further interest under Section 234A was incorrectly levied for two months instead of five months.	The Department accepted and rectified the error by passing a rectification order under Section 154/ 143(3) of the Act in April 2021. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).

[2] Andhra Pradesh, Assam, Bihar, Chandigarh, Chhattisgarh, Delhi, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand and West Bengal

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of Assessee/PAN/ Status/AY**	**Tax Effect (₹ in crore)**	**Gist of Audit Observation**	**Reply status/ Action taken by the Department**
2.	PCIT 6, Mumbai	M/s A13 Pvt. Ltd./ XXXXXXXXXX Company 2018-19	118.45	The AO made an addition of ₹ 177.30 crore under Section 68 and applied a rate of tax of 25 *per cent* and a surcharge of 12 *per cent* instead of the applicable rate of 60 *per cent* and a surcharge of 25 *per cent*.	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in August 2024. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
3.	PCIT (Central)-3, Delhi	M/s N4 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2017-18	85.55	The AO made an addition of ₹ 130.24 crore under Section 68/69 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*. Further, AO allowed a set off of loss of ₹ 20.45 crore of the current year against the additions made under Section 68/69. Furthermore, interest of ₹ 4.02 crore under Section 234A(3) was not levied, interest under Section 234B was incorrectly levied for 38 months instead of 33 months, and interest under Section 234D was not levied on the refund of ₹ 13.18 lakh, already issued.	The Department accepted and rectified the error by passing rectification order under Section 154 of the Act, in January 2022. However, while passing the rectification order under Section 154, interest under Section 234B was incorrectly levied for 38 months, which was required to be rectified. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
4	PCIT (Central)-1, Mumbai	M3 (HUF)/ XXXXXXXXXX/ HUF/ 2018-19	75.33	The AO made an addition of ₹ 104.02 crore under Section 68 and 69C and applied a normal rate of tax and	The Department accepted and rectified the error by passing a rectification order under Section 154 of

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of Assessee/PAN/ Status/AY**	**Tax Effect** (₹ in crore)	**Gist of Audit Observation**	**Reply status/ Action taken by the Department**
				surcharge instead of the applicable rate of 60 *per cent* and surcharge 25 *per cent*.	the Act in November 2022. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
5	PCIT-7, Delhi	M/s S3 Ltd./ XXXXXXXXXX/ Company/ 2017-18	70.69	The AO made an addition of ₹ 77.83 crore under Section 69A and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department, in its reply in July 2023, stated that remedial action on the issue of incorrect tax and calculation was being taken by the Department. Further details of remedial action were awaited. Reply of the Ministry is awaited (May 2026).
6	PCIT, Visakhapatnam	A9 Pvt. Ltd. / XXXXXXXXXX/ Company/ 2018-19	64.69	The AO made an addition of ₹ 108.36 crore under Section 68/69/69A and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge 25 *per cent.*	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in March 2023. However, recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
7	PCIT-1, Chandigarh	K5 / XXXXXXXXXX/ Firm/ 2017-18	53.64	The AO made an addition of ₹ 58.24 crore under Section 69A and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in March 2024. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
8	CIT-6, Delhi	M/s M7 Pvt. Ltd./	51.04	The AO made an addition of ₹ 90.00	The Department accepted and

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of Assessee/PAN/ Status/AY**	**Tax Effect** (₹ in crore)	**Gist of Audit Observation**	**Reply status/ Action taken by the Department**
		XXXXXXXXXX/ Company/ 2017-18		crore under Section 68 and applied a normal rate of tax at 30 *per cent* and surcharge at 12 *per cent* instead of the applicable rate of 60 *per cent* and surcharge at 25 *per cent*.	rectified the error by passing a rectification order under Section 154 of the Act in December 2021. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
9.	PCIT-8, Mumbai	M/s N3 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2018-19	44.95	The AO made addition of ₹ 72.33 crore under Section 69C and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge 25 *per cent*.	The Department accepted the error and stated (July 2023) that remedial action would be initiated under Section 154. Details of remedial action are awaited. Reply of the Ministry is awaited (May 2026).
10.	PCIT-1 Kanpur	B1/ XXXXXXXXXX/ Individual/ 2014-15 and 2015-16	43.54	The AO made additions of Rs. 15.57 crore and 31.66 crore under Section 69A for AY 2014-15 and 2015-16, respectively. Assessed income was correctly adopted in ITNS, but tax payable on the same was not computed.	The Department rectified the error by passing a rectification order under Section 154 of the Act in December 2022. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
11.	PCIT-1, Mumbai	M/s N1 Ltd./ XXXXXXXXXX/ Company/ 2017-18	42.74	The AO made an addition of ₹ 49.98 crore under Section 68 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in February 2024. However, the recovery status was awaited in Audit.

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of Assessee/PAN/ Status/AY**	**Tax Effect** (₹ in crore)	**Gist of Audit Observation**	**Reply status/ Action taken by the Department**
					Reply of the Ministry is awaited (May 2026).
12	CIT (Central)-1, Pune	G1 Industries/ XXXXXXXXXX/ Firm/ 2017-18	42.08	The AO made an addition of ₹ 30.69 crore under Section 68 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department stated (September 2022) that observation was prima facie acceptable and remedial action was being taken. Further reply was awaited. Reply of the Ministry is awaited (May 2026).
13.	PCIT-4, Chennai	M/s P4 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2017-18	29.37	The AO made an addition of ₹ 50.37 crore under Section 68 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department rectified the error by passing a rectification order under Section 154 of the Act in March 2024. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
14.	PCIT-5, Kolkata	M/s K3 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2017-18	24.25	The AO made an addition of ₹ 38.17 crore under Section 68 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in June 2022. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
15.	PCIT, Gandhinagar	M2/ XXXXXXXXXX/ Individual/ 2017-18	19.89	AO made an addition of ₹ 27.97 crore under Section 69A and applied a normal rate of tax and surcharge instead of the	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in November

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of Assessee/PAN/ Status/AY**	**Tax Effect** (₹ in crore)	**Gist of Audit Observation**	**Reply status/ Action taken by the Department**
				applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	2022. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
16.	PCIT-1 Indore	R4 / XXXXXXXXXX/ Individual/ 2017-18	15.90	The AO made an addition of ₹ 22.23 crore under Section 69A and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department rectified the error by passing a rectification order under Section 154 of the Act in August 2024. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
17.	PCIT, Ranchi	M/s R7 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2018-19	14.15	The AO made an addition of ₹ 21.12 crore under Section 68 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in September 2023. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
18.	PCIT, Agra	S6 / XXXXXXXXXX/ Individual/ 2017-18	13.18	The AO made an addition of ₹ 14.58 crore under Section 68 and applied a normal rate of tax and surcharge instead of the applicable rate of 60 *per cent* and surcharge of 25 *per cent*.	The Department rectified the error by passing a rectification order under Section 154 of the Act in March 2023. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
19.	PCIT-1, Hyderabad	U3 / XXXXXXXXXX/ Individual/	79.78	The AO, while computing tax liability of the	The Department accepted the audit objection and issued

Table 3.2: Incorrect application of rate of tax/ surcharge – Short levy of tax/surcharge – (cases where remedial action taken/initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of Assessee/PAN/ Status/AY**	**Tax Effect (₹ in crore)**	**Gist of Audit Observation**	**Reply status/ Action taken by the Department**
		2017-18		assessee, applied rate of tax at 20 *per cent,* i.e., the rate applicable to Long Term Capital Gain, on the addition of ₹ 93.10 crore made under Section 68, instead of the applicable rate of tax of 60 *per cent* applicable for income under Section 68 as per the provisions ibid. The omission resulted in a short levy of tax of ₹ 79.78 crore, including interests under Section 234A and 234B.	notice to the assessee for rectification under Section 154 in October 2022. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).

In addition, where the AOs applied an incorrect rate of tax/surcharge resulting in short levy of tax/surcharge, three cases from different charges have been discussed below, in detail:

3.1.1.1 CIT Charge : PCIT-2, Bengaluru
Assessee Name : M/s U1 Pvt. Ltd.
Assessment Year : 2017-18
Status : Company

The AO, while finalizing assessment under Section 147 read with Sections 144 and 144B in March 2022, determined income at ₹ 11.55 crore after making additions of ₹ 11.55 crore comprising of ₹ 1.97 lakh on account of unexplained expenditure under Section 69C, ₹ 80.93 lakh on account of unexplained investment under Section 69, ₹ 10.58 crore on account of unexplained expenditure under Section 69C and ₹ 14.09 lakh on account of unexplained money under Sections 69A of the Act. Audit examination revealed that the AO, while computing tax liability of the assessee, applied the normal rate of tax applicable to a foreign company on the aforesaid additions of ₹ 11.55 crore made under Section 69, 69A and 69C of the Act, instead of the special rate of tax at 60 *per cent* and surcharge at 25 *per cent,* as per the provisions of Section 115BBE, *ibid*. The error resulted in a short levy of tax of ₹ 8.36 crore, including interest.

The audit observation was issued to the Department in December 2022.

While accepting the audit observation, the Ministry stated (February 2026) that remedial action was taken by passing rectification order under Section 154 in February 2025.

3.1.1.2	**CIT Charge**	**: PCIT-7, Delhi**
	Assessee Name	**: M/s T2 Pvt. Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising assessment under Section 143(3) in June 2021 at an income of ₹ 50.85 crore, made additions of ₹ 13.94 crore on account of unexplained loans and advances and ₹ 36.92 crore on account of unexplained long-term borrowing to the returned loss of ₹ 0.91 lakh. The AO clearly stated that the assessed income will be taxed at a special rate under Section 115BBE. The audit examination revealed that the AO, while computing the tax liability of the assessee, applied a rate of tax of 30 *per cent* and a surcharge of 12 *per cent* on the unexplained income of ₹ 50.86 crore, instead of the applicable rates of 60 *per cent* and 25 *per cent*, as per the provisions *ibid.*

Further, the Audit noted that the addition made under Section 68/69 were set off against the current year loss of ₹ 0.91 lakh, which was not allowed to be set off as per the amended provision of Section 115BBE. The error resulted in a short levy of tax of ₹ 35.70 crore, including interest.

The audit observation was issued to the Department in April 2022.

While accepting the audit observation, the Ministry stated (February 2026) that remedial action was taken by passing a rectification order under Section 154 in November 2024.

3.1.1.3	**CIT Charge**	**: PCIT-4, Hyderabad**
	Assessee Name	**: M/s P1 Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising assessment under Section 143(3) read with Section 144B of the Act in May 2021, determined the income of ₹ 39.67 crore after making certain additions of ₹ 42.61 crore under Section 69A of the Act and ₹ 1.85 crore under normal income. Audit examination revealed that the AO, while computing the tax liability of the assessee, adjusted the returned loss of ₹ 4.78 crore against the normal income of ₹ 1.85 crore and the remaining loss of ₹ 2.93 crore against the addition made under section 69A. Further, tax on the remaining income of ₹ 39.67 crore (₹ 42.61 crore *minus* ₹ 2.93 crore) assessed under Section 69A was levied at normal rates. As per the amended provision of Section 115BBE, the set off of loss against income assessed under Section 69A is not allowed, and income assessed under Section 69A is chargeable to tax at a special rate of 60 *per cent*. The errors resulted in a short levy of tax of ₹ 30.93 crore, including interest.

The audit observation was issued to the Department in December 2021.

The Ministry, in its reply, stated (March 2026) that the audit objection was accepted and remedial action was initiated by issuing notice under Section 154 in September 2022. Further, it was stated that in response to the notice under Section 154, the assessee company filed a writ petition before the Hon'ble High Court, praying to grant a stay of all further proceedings, including the recovery of the disputed amount of tax. The Hon'ble High Court vide order dated 17/06/2021 granted an interim stay to the assessee of all further proceedings.

Audit will await for further outcome in the case.

3.1.2 Incorrect application of rate of tax/ surcharge – Excess levy of tax/surcharge

Out of 37 cases where the AO applied an incorrect rate of tax/surcharge resulting in excess levy of tax/surcharge, the Ministry/Department completed/initiated remedial action in 36 cases. In the remaining one case, reply is awaited from the Ministry/Department. Out of 36 cases, two significant cases, from different charges, have been summarised below:

Table 3.3: Incorrect application of rate of tax/ surcharge – Excess levy of tax/surcharge (cases where remedial action taken/initiated by the Department)

Sl. No.	PCIT Charge	Name of Assessee/ PAN/ Status/ AY	Tax Effect (₹ in crore)	Gist of Audit Observation	Reply status/ Action taken by the Department
1.	CIT (Central)-1, Delhi	M/s L1 Ltd./ XXXXXXXXXX/ Company/ 2016-17	75.13	AO made an addition of ₹ 105.22 crore under Section 68 and applied a rate of tax of 60 *per cent* and a surcharge of 25 *per cent* instead of the normal rate of tax, as a special rate of tax under Section 115BBE was applicable from AY 2017-18.	The Department rectified the error by passing rectification order under Section 154 of the Act, in June 2022 and May 2023. Reply of the Ministry is awaited (May 2026).
2.	PCIT (Central)-1, Chennai	M/s K9 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2013-14	45.75	AO made an addition of ₹ 66.45 crore under Section 69 and applied a rate of tax of 60 *per cent* and a surcharge of 25 *per cent* instead of the normal rate of tax, as a special rate of tax under Section 115BBE was applicable from AY 2017-18.	The Department rectified the error by passing a rectification order under Section 154 of the Act in January 2023. Reply of the Ministry is awaited (May 2026).

Further, the case, where reply is awaited from the Ministry/Department is discussed below:

3.1.2.1	**CIT Charge**	**: PCIT-I, Chandigarh**
	Assessee Name	**: M/s S9 Pvt. Ltd.**
	Assessment Year	**: 2013-14**
	Status	**: Company**

The AO, while finalising the assessment under Section 147 read with Section 144 and 144B in March 2022, determined an income of ₹ 2.05 crore after making an addition of ₹ 2.05 crore as an unexplained source of income under Section 69A. Audit examination revealed that the AO, while computing the tax liability of the assessee, had calculated the tax at the rate of 40 *per cent* instead of the applicable rate of 30 *per cent*. The error resulted in excess levy of tax of ₹ 0.61 crore, including interest under Sections 234A and 234B.

The audit observation was issued to the Department in October 2022.

Reply of the Ministry is awaited (May 2026).

3.2 Incorrect adoption of assessed income in the computation statement (ITNS) or incorrect computation of tax on assessed income

We noticed 331 Audit observations relating to Incorrect adoption of assessed income in computation statement (ITNS) or incorrect computation of tax on assessed income involving tax effect of ₹ 1,230.7 crore in 19 States[3]. Out of 331 Audit observations, 199 observations involving tax effect of ₹ 556 crore, were pertaining to short levy of tax, whereas 132 observations involving tax effect of ₹ 675 crore, were pertaining to excess levy of tax.

3.2.1 Incorrect adoption of assessed income in the computation statement (ITNS) or incorrect computation of tax on assessed income – Short levy of tax

Out of 199 cases where the AO incorrectly adopted the assessed income in the computation statement (ITNS) or incorrectly computed tax on assessed income, resulting in short levy of tax, the Ministry/Department completed/initiated remedial action in 182 cases. In the remaining 17 cases, either no action was taken by the Department or reply was awaited. Out of 199 cases, six cases from different charges have been summarised below:

[3] Andhra Pradesh, Chandigarh, Chhattisgarh, Delhi, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and Uttarakhand.

Table 3.4: Incorrect adoption of assessed income in computation statement (ITNS) or incorrect computation of tax on assessed income – Short levy of tax					
Sl. No.	**PCIT Charge**	**Name of assessee/ PAN/ Status/ AY**	**Tax Effect (₹ in crore)**	**Gist of Audit observation**	**Reply status/ Action taken by the Department**
1	PCIT-4, Chennai	D3/ XXXXXXXXXX/ Individual/ 2015-16	72.77	The AO made an addition of ₹ 90.00 crore as unexplained money under Section 69A. However, while computing tax liability, incorrectly adopted the assessed income at ₹ 9.00 crore instead of ₹ 90.00 crore.	The Department rectified the error by passing a rectification order under Section 154 of the Act in March 2024. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
2	PCIT, Sambalpur	M/s O2 Ltd./ XXXXXXXXXX/ Individual/ 2018-19	19.69	The AO added ₹ 18.51 crore towards unexplained cash credit under Section 68. However, while computing tax liability in the ITBA system, income under Section 68, which was to be taxed under Section 115BBE, was taken at ₹ 'Nil' instead of ₹ 18.51 crore.	The Department rectified the error by passing rectification order under Section 154 of the Act, in October 2022. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
3	CIT-7, Delhi	M/s P3 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2014-15	18.47	The AO made an addition of ₹ 26.25 crore as unexplained money under Section 69A. However, while computing the tax liability of the assessee, omitted to compute tax on the additions made under Section 69A	The Department rectified the error by passing a rectification order under Section 154 of the Act in January 2023. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
4	PCIT-1, Jaipur	S15/ XXXXXXXXXX/ Individual/ 2014-15	10.36	The AO, while computing the tax liability of the assessee, omitted to compute tax on the additions of ₹ 15.53 crore made under Section 69A.	The Department rectified the error by passing a rectification order under Section 147 r.w.s 154 of the Act in April 2024. However, the recovery status was awaited in Audit.

Table 3.4: Incorrect adoption of assessed income in computation statement (ITNS) or incorrect computation of tax on assessed income – Short levy of tax					
Sl. No.	**PCIT Charge**	**Name of assessee/ PAN/ Status/ AY**	**Tax Effect (₹ in crore)**	**Gist of Audit observation**	**Reply status/ Action taken by the Department**
					Reply of the Ministry is awaited (May 2026).
5	PCIT-3, Bengaluru	P5 / XXXXXXXXXX/ Individual/ 2018-19	9.13	The AO, while computing tax payable in the computation sheet, omitted to compute tax on the addition of ₹ 8.63 crore made under Section 68.	The Department accepted and rectified the error by passing rectification order under Section 154 of the Act, in August 2022. However, recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
6	PCIT Central, Surat	R3 / XXXXXXXXXX/ Individual/ 2020-21	5.98	The AO made an addition of ₹ 6.06 crore towards unexplained expenditure under Section 69C. However, while arriving at the assessed income omitted to add this amount to the income of the assessee.	The Department accepted and rectified the error by passing rectification order under Section 154 of the Act, in May 2022. However, recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).

In addition, where the AO incorrectly adopted the assessed income in the computation statement (ITNS) or incorrectly computed tax on assessed income, resulting in short levy of tax, three cases from different charges are discussed below, in detail:

3.2.1.1 CIT Charge : PCIT, Rohtak
Assessee Name : S5
Assessment Year : 2017-18
Status : Individual

The AO, while finalising the assessment under Section 147 read with Section 144B in March 2022, assessed the income of ₹ 44.80 crore after making an addition of ₹ 44.78 crore as unexplained cash credit under Section 69A. Audit examination revealed that the AO, while computing the tax liability of the assessee in the computation statement (ITNS), omitted to compute tax on the aforesaid addition of ₹ 44.78 crore. The error resulted in a short levy of tax of ₹ 71.26 crore, including interest under Sections 234A and 234B.

The audit observation was communicated to the Department in December 2022.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section 154 in November 2025.

3.2.1.2	**CIT Charge**	**: CIT-1, Chandigarh**
	Assessee Name	**: M/s S12 Construction**
	Assessment Year	**: 2017-18**
	Status	**: Firm**

The AO, while finalising the assessment under Section 147 read with Section 144 in March 2022, determined an income of ₹ 3.81 crore after making an addition of ₹ 3.81 crore as unexplained money under Section 69A. Audit examination revealed that the AO, while computing the tax liability of the assessee, omitted to compute tax on the additions made under Section 69A. The error resulted in a short levy of tax of ₹ 6.36 crore, including interest, under Sections 234A and 234B.

The audit observation was communicated to the Department in August 2022.

Reply from the Ministry is awaited (May 2026).

3.2.1.3	**CIT Charge**	**: PCIT-7, Hyderabad**
	Assessee Name	**: K6**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment under Section 147 read with Section 144 in March 2022, determined an income of ₹ 3.11 crore after making an addition of ₹ 3.09 crore as an unexplained source of income. Audit examination revealed that the AO, while computing the tax liability of the assessee, omitted to compute tax on the additions made as an unexplained source of income. The error resulted in a short levy of tax of ₹ 4.82 crore, including interest under Sections 234A and 234B.

The audit observation was communicated to the Department in July 2022.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section 154 in December 2024.

3.2.2 Incorrect adoption of assessed income in computation statement (ITNS) or incorrect computation of tax on assessed income – Excess levy of tax

Out of 132 cases where the AO incorrectly adopted the assessed income in the computation statement (ITNS) or incorrectly computed tax on assessed income, resulting in excess levy of tax, the Ministry/Department completed/initiated remedial action in 124 cases. In the remaining eight cases, the Ministry/Department either has not taken any action or reply is awaited. Out of these 132 cases, three cases from different charges are summarised below:

Table 3.5: Incorrect adoption of assessed income in computation statement (ITNS) or incorrect computation of tax on assessed income – Excess levy of tax (Cases where remedial action completed/initiated remedial action by the Department)

Sl. No.	PCIT Charge	Name of assessee/ PAN/ Status/ AY	Tax Effect (₹ in crore)	Gist of Audit observation	Reply status/ Action taken by the Department
1	PCIT-12, Delhi	J1/ XXXXXXXXXX/ Individual/ 2014-15	73.73	The AO made an addition of ₹ 75.32 crore taxable under the provision of 115BBE of the Act. However, while computing the tax liability of the assessee, wrongly adopted the assessed income at ₹ 150.64 crore instead of ₹ 75.32 crore	The Department rectified the error by passing rectification order under Section 154, in May 2024 Reply of the Ministry is awaited (May 2026).
2	PCIT-7, Delhi	M/s O1 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2018-19	51.89	The AO made an addition of ₹ 48.68 crore towards unexplained cash deposits under Section 69A. However, while computing the tax liability of the assessee, incorrectly adopted the assessed income at ₹ 97.35 crore instead of ₹ 48.68 crore	The Department rectified the error by passing rectification order under Section 154 of the Act, in November 2021. Reply of the Ministry is awaited (May 2026).
3	PCIT-1, Bhopal	J2 / XXXXXXXXXX/ Individual/ 2014-15	6.42	The AO made an addition of ₹ 6.56 crore under Section 69. However, while computing the tax liability of the assessee, incorrectly adopted the assessed income at ₹ 13.12 crore instead of ₹ 6.56 crore	The Department rectified the error by passing a rectification order under Section 154 of the Act in April 2023. Reply of the Ministry is awaited (May 2026).

In addition, where the AO incorrectly adopted the assessed income in the computation statement (ITNS) or incorrectly computed tax on assessed income, resulting in excess levy of tax, four cases from different charges are discussed below, in detail:

3.2.2.1	**Charge**	**: PCIT-1, Hyderabad**
	Assessee Name	**: M/s S14 Pvt. Ltd.**
	Assessment Year	**: 2016-17**
	Status	**: Company**

The AO, while finalising the assessment under Section 147 in March 2022, determined the income of ₹ 24.75 crore after making an addition of ₹ 24.75 crore towards unexplained money under Section 69A of the Act. Audit examination of the computation statement revealed that the AO, while computing the tax liability of the assessee, incorrectly adopted the assessed income at ₹ 49.50 crore instead of ₹ 24.75 crore. The error resulted in excess levy of tax of ₹ 15.67 crore, including interest under Section 234B.

The audit observation was communicated to the Department in October 2022.

While accepting the audit observation, the Ministry stated (March 2026) that remedial action was taken by passing an order under Section 154 read with Section 147 in December 2022.

3.2.2.2	**CIT Charge**	**: PCIT-20, Delhi**
	Assessee Name	**: A7**
	Assessment Year	**: 2013-14**
	Status	**: Individual**

The AO, while finalising the assessment under Section 147, read with Section 144 in March 2022, determined the income of ₹ 23.64 crore after making an addition of ₹ 23.64 crore taxable under the provisions of Section 115BBE of the Act. Audit examination of the computation statement revealed that the AO, while computing the tax liability of the assessee, wrongly adopted the assessed income at ₹ 47.28 crore instead of ₹ 23.64 crore. The error resulted in excess levy of tax of ₹ 22.74 crore, including interest under Sections 234A and 234B.

The audit observation was communicated to the Department in February 2023.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section 154, read with Section 147, in December 2024.

3.2.2.3	**CIT Charge**	**: PCIT-10, Delhi**
	Assessee Name	**: R8 Pvt. Ltd.**
	Assessment Year	**: 2015-16**
	Status	**: Firm**

The AO, while finalising the assessment under Section 147, read with Section 144 in March 2022, determined the income of ₹ 5.50 crore after making an addition of ₹ 5.50 crore taxable under the provision of 115BBE of the Act. Audit examination of the computation statement revealed that the AO, while computing the tax liability of the assessee, wrongly adopted the assessed income at ₹ 11.00 crore instead of ₹ 5.50 crore. The error resulted in excess levy of tax of ₹ 4.95 crore, including interest under Sections 234A and 234B. The audit observation was communicated to the Department in October 2022 followed by a reminder in April 2024.

Reply of the Ministry is awaited (May 2026).

3.2.2.4	**CIT Charge**	**: PCIT-10, Delhi**
	Assessee Name	**: K1**
	Assessment Year	**: 2015-16**
	Status	**: Firm**

The AO, while finalising the assessment under Section 147, read with Section 144 in March 2022, determined the income of ₹ 5.23 crore after making an addition of ₹ 5.23 crore taxable under the provision of Section 115BBE of the Act. Audit examination of the computation statement revealed that the AO, while computing the tax liability of the assessee, wrongly adopted the assessed income at ₹ 10.45 crore instead of ₹ 5.23 crore. The error resulted in excess levy of tax of ₹ 4.71 crore, including interest under Sections 234A and 234B.

The audit observation was communicated to the Department in October 2022 followed by a reminder in April 2024.

Reply of the Ministry is awaited (May 2026).

3.3 Incorrect set-off of losses against the additions made under Sections 68, 69, 69A, 69B, 69C and 69D

Provisions of Section 115BBE of the Act stipulate that where the total income of an assessee includes any income referred to in Sections 68, 69, 69A, 69B, 69C and 69D, the amount of income tax payable shall be calculated at the rate of sixty per cent on such income and surcharge on this tax at the rate of twenty-five per cent with effect from 01/04/2017. Further, no deduction in respect of any expenditure or allowance or set off of any loss shall be allowed to the assessee under any provision of this Act against the addition made under Sections *68, 69, 69A, 69B, 69C and 69D.*

We noticed 56 audit observations involving the tax effect of ₹ 349 crore in 12 States[4], relating to the Incorrect set-off of losses against additions made under Sections 68 to 69D, resulting in short levy of tax. Out of these 56 audit observations, the Ministry/Department completed/initiated remedial action in 52 cases. In the remaining four cases, the Ministry/Department either has not taken any action or reply is awaited. Out of 52 cases, eight cases from different charges have been summarised below:

Table 3.6: Incorrect set-off of losses against the additions made under Section 68/69 (Cases where remedial action completed /initiated by the Department)

Sl. No.	PCIT Charge	Name of assessee/ PAN/ Status/AY	Tax Effect (₹ in crore)	Gist of Audit observation	Reply status/ Action taken by the Department
1	PCIT-1 [Erstwhile PCIT-6] Hyderabad	M/s V6 Enterprises/ XXXXXXXXXX/ Firm/ 2017-18	33.99	The AO, while arriving at assessed income, set off a loss of ₹ 34.84 crore against the additions made under Section 68 and under Section 69C, which was not in order as per the provisions of Section 115BBE *ibid*	The Department rectified the error by passing rectification order under Section 154, in November 2021. However, in the rectification order, certain discrepancies, *viz.* irregular charge of tax on normal income, and non-allowance of carry forward of loss under normal provisions of the Act were noticed. *While accepting the audit observation, the Ministry stated (March 2026) that remedial action was taken by passing an order under Section 154 in November 2021.*
2	CIT (Central)-3, Delhi	M/s N5 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2017-18	32.68	The AO, while arriving at assessed income, allowed setting off losses of ₹ 30.88 crore against additions made under	The Department accepted and rectified the error by passing a rectification order under Section 154 of the Act in June 2022. However, the

[4] Delhi, Gujarat, Haryana, Karnataka, Kerala , Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Telangana and West Bengal,

Table 3.6: Incorrect set-off of losses against the additions made under Section 68/69 (Cases where remedial action completed /initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of assessee/ PAN/ Status/AY**	**Tax Effect (₹ in crore)**	**Gist of Audit observation**	**Reply status/ Action taken by the Department**
				Section 68/69, which was not in order as per the provisions of Section 115BBE, *ibid*.	recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
3	PCIT, Faridabad	M/s S11 Ltd./ XXXXXXXXXX/ Firm/ 2017-18	30.88	The AO, while computing the tax liability of the assessee, allowed set off of losses to the extent of ₹ 30.09 crore against the additions made under Section 68 of the Act, which was not in order as per the provisions of Section 115BBE *ibid*.	The Department rectified the error by passing a rectification order under Section 154 of the Act in March 2022. However, the recovery status was still awaited in Audit. Reply of the Ministry is awaited (May 2026).
4	PCIT-6 Mumbai	M/s A14 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2018-19	26.41	The AO, while arriving at assessed income, allowed set off losses of ₹ 30.88 crore against additions made under Section 68/69, which was not in order as per the provisions of Section 115BBE, *ibid*.	The Department accepted the audit objection and initiated remedial action by issuing notice under Section 148A(b) in August 2024. Further reply was awaited. Reply of the Ministry is awaited (May 2026).
5	PCIT-3 Bengaluru	M/s V4 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2018-19	25.73	The AO, while arriving at assessed income, allowed set off of losses of ₹ 18.98 crore against the additions made under Section 68, which was not in order as per the provisions of	The Department accepted and rectified the error by passing a rectification order under Section 154 in August 2022. However, while passing the rectification order, credit towards TDS

Table 3.6: Incorrect set-off of losses against the additions made under Section 68/69 (Cases where remedial action completed /initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of assessee/ PAN/ Status/AY**	**Tax Effect (₹ in crore)**	**Gist of Audit observation**	**Reply status/ Action taken by the Department**
				Section 115BBE *ibid*. Further, while computing the tax liability of the assessee, the AO computed tax payable on the assessed income at the normal rate instead of the special rate at 60 *per cent* and surcharge at the rate of 25 *per cent.*	and Advance tax was not allowed. Further, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
6	PCIT (Central), Bhopal	M/s M9 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2017-18	8.61	The AO, while arriving at assessed income, allowed set off of losses of ₹ 5.87 crore, out of which ₹ 4.62 crore was set off against additions under Sections 68/69A/69B/69C of the Act, which was not in order, as per the provisions of Section 115BBE, *ibid*. Further, the AO, while computing the tax liability of the assessee, applied a rate of tax on the above additions, at the normal rate instead of the special rate of 60 *per cent* and surcharge at 25 *per cent,* and levied interest	The Department rectified the error by passing a rectification order under Section 154 in June 2023. In the rectification order, certain discrepancies were noticed *viz.* incorrect adoption of assessed income at ₹ 9.54 crore instead of ₹ 9.56 crore and incorrect computation of interest under Section 234 A(3). Further, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).

Table 3.6: Incorrect set-off of losses against the additions made under Section 68/69 (Cases where remedial action completed /initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of assessee/ PAN/ Status/AY**	**Tax Effect (₹ in crore)**	**Gist of Audit observation**	**Reply status/ Action taken by the Department**
				under Section 234A for four months instead of leviable for three months.	
7	PCIT (Central), Bhopal	M/s M9 Pvt. Ltd./ XXXXXXXXXX/ Company/ 2018-19	31.97	The AO, while arriving at the assessed income, allowed set off of losses of ₹ 5.53 crore, out of which ₹ 4.33 crore was set off against additions under Section 68 of the Act, which was not in order, as per the provisions of Section 115BBE, *ibid.*	The Department rectified the error by passing a rectification order under Section 154 in June 2023. However, the recovery status was awaited in Audit. Reply of the Ministry is awaited (May 2026).
8	PCIT, Rohtak	M/s O3 Ltd./ XXXXXXXXXX/ Company/ 2017-18	16.14	The AO, while finalising the assessment, unexplained additions of ₹ 15.71 crore were adjusted against the returned loss of ₹ 104.42 crore, which was not in order as per the provisions of Section 115BBE, *ibid*. Further, the AO, while computing the total income, made an addition of ₹ 2.44 crore, i.e. 10 *per cent* of trade payables of ₹ 24.43 crore, for which the assessee did not furnish any	The Department replied (July 2024) that remedial action was initiated by issuing notice under Section 148A in March 2024. However, in the said notice, the issue regarding the addition of 10 *per cent* of Trade Payables had not been covered. Final reply was awaited. Reply of the Ministry is awaited (May 2026).

Table 3.6: Incorrect set-off of losses against the additions made under Section 68/69 (Cases where remedial action completed /initiated by the Department)					
Sl. No.	**PCIT Charge**	**Name of assessee/ PAN/ Status/AY**	**Tax Effect (₹ in crore)**	**Gist of Audit observation**	**Reply status/ Action taken by the Department**
				details. The Audit could not ascertain the basis for adding 10 *per cent* of trade payables in the absence of relevant documents, viz., schedules to the Balance Sheet.	

Further, out of four cases, where the Ministry/Department either has not taken any action or reply is awaited, two cases from different charges are discussed below, in detail:

3.3.1 CIT Charge : CIT-1, Delhi

Assessee Name : M/s E1 Pvt. Ltd.

Assessment Year : 2018-19

Status : Company

The AO, while finalizing assessment under Section 143(3) in May 2021 at a loss of ₹ 24.46 crore, made additions of ₹ 12.16 crore on account of unexplained/unsecured loan under Section 68. Audit examination revealed that the AO, while arriving at assessed income, set off losses of ₹ 12.16 crore against the addition made under Section 68, which was not in order as per the provisions of Section 115BBE *ibid.* The errors resulted in a short levy of tax of ₹ 13.06 crore, including interest. The Audit observation was issued to the Department in April, 2022.

Reply of the Ministry is awaited (May 2026).

3.3.2 CIT Charge : PCIT-1, Kolkata (Now PCIT (Central), Kanpur)

Assessee Name : M/s M1 Pvt. Ltd.

Assessment Year : 2017-18

Status : Company

The AO, while finalising assessment under Section 144 in December 2019 at an income of ₹ 55.87 crore, made additions of ₹ 3.09 crore as a bogus transaction under Section 68 and ₹ 57.65 crore as unexplained expenditure under Section 69. Audit examination revealed that the AO, while arriving at assessed income, set off losses of ₹ 4.87 crore against the additions made under Sections 68/69 of the Act, which was not in order as per the provisions of Section 115BBE *ibid.* The errors resulted in a short levy of tax of ₹ 4.99 crore, including interest under Section 234B. Audit observation was communicated to the Department in February 2021.

Reply of the Ministry is awaited (May 2026).

3.4 Income escaping assessment relating to deemed income under Sections 68, 69, 69A, 69B, 69C and 69D

We noticed 589 audit observations involving the tax effect of ₹ 18,799 crore in 20 States[5], relating unexplained transactions under Section 68 to 69D, which had escaped the assessment and levy of tax thereon as per Section 115BBE of the Act. Out of 589 cases, the Ministry/Department has completed/initiated remedial action in 399 cases. In the remaining 190 cases, either no action has been taken by the Department or reply is awaited. Section-wise unexplained transactions that had escaped the assessment, as pointed out in Audit, are discussed in the succeeding paragraphs:

3.4.1 Unexplained transactions falling under Section 68 which had escaped the assessment and levy of tax thereon as per Section 115BBE of the Act

3.4.1.1	**CIT Charge**	**: PCIT-1, Pune**
	Assessee Name	**: M/s A15 Pvt. Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising the assessment under Section 144 read with Section 144B in August 2021 at an income of ₹ 107.38 crore, made additions of ₹ 107.38 crore and rejected the loss claimed by the assessee.

Audit observed that the assessee had taken total long-term borrowings of ₹ 561.32 crore. Out of which ₹ 461.32 crore were taken from five entities, including borrowings of ₹ 12.00 crore and ₹ 240.88 crore from M/s D11 Pvt. Ltd. and M/s A16 Pvt. Ltd., respectively, by issuing Optionally Convertible Debentures (OCDs) to them. However, an audit examination of the assessment records of M/s D11 Pvt. Ltd., assessed in the same assessment charge, revealed that no such investment was made by M/s D11 Pvt. Ltd. in the assessee company. Further, it was noticed that M/s A16 Pvt. Ltd. had shown a loss of ₹ 0.90 lakh in AY 2017-18 and a loss of ₹ 2.44 lakh in AY 2018-19 and had shown

[5] Andhra Pradesh, Bihar, Chandigarh, Chhattisgarh, Delhi, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand and West Bengal

nil turnover in both the assessment years. Thus, the investment made by M/s A16 Pvt. Ltd. was not commensurate with its financial position.

Therefore, the AO was required to examine the veracity of the entire transactions of ₹ 461.32 crore in detail and brought to tax if required, which was not done, even though the assessee's case was selected for scrutiny on the issues related to Non- Furnishing of Quantitative Details, Investments/ Advances/ Loans, Business Loss, ICDS Compliance and Adjustment and Verification of Transactions. The possibility of routing of unaccounted money through the above transactions could not be ruled out.

The audit observation was communicated to the Department in July 2022.

In reply (February 2026), the Department accepted the audit observation and rectified the mistake by passing an order under Section 144 read with Section 263 and 144B in March 2025.

Reply of the Ministry is awaited (May 2026).

3.4.1.2	**CIT Charge**	**: PCIT-4, Mumbai**
	Assessee Name	**: M/s J3 Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

The AO finalised the assessment under Section 144 in December 2019 at an income of ₹ 149.46 crore.

Audit noted from Balance sheets of AY 2016-17 and AY 2017-18 that the assessee, during the year 2016-17, had received long-term borrowings/ loans/ advances of ₹ 218.85 crore from various related parties. Audit observed that the AO, while finalising the assessment, sought the requisite details pertaining to long-term borrowings/ loans/ advances, which were not provided by the assessee. As such, the AO could not verify the genuineness of the aforesaid transaction; the same should have been treated as deemed income of the assessee under Section 68 of the Act.

Further, during the course of audit, the audit attempted to check the veracity of this transaction and found from the records obtained from Register of Companies (ROC) that various related parties of the assessee company had stopped filing their annual accounts and other records with the ROC after 31 March 2015, and registration of these companies was struck off by the ROC and they ceased to be legal entities. This indicated that these related parties had become defunct. Hence, the unexplained loans credited in the books of accounts of the assessee were required to be added to the income of the company, which was not done by the AO. The omission resulted in under-assessment of income of ₹ 218.85 crore, involving short levy of tax of ₹ 233.31 crore.

On being pointed out by Audit, the Department took remedial action by passing an order under Section 147 read with Section 144, in March 2022, which was further rectified under Section 154 in March 2023.

Reply of the Ministry is awaited (May 2026).

3.4.1.3	**CIT Charge**	**: PCIT Central, Ahmedabad**
	Assessee Name	**: V3**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalizing the assessment under Section 147 read with Section 144 in March 2022 at an income of ₹ 267.23 crore, made additions of ₹ 267.23 crore towards unexplained credit, under Section 68 of the Act, which included ₹ 232.29 crore with respect to credit to Laxmi Vilas Bank. Audit examination revealed from the Bank statement of Laxmi Vilas Bank that there was a credit transaction to the extent of ₹ 99.68 crore only during the FY 2016-17, instead of ₹ 232.29 crore added by the AO. The error resulted in overassessment of the income of ₹ 132.61 crore, involving excess levy of tax of ₹ 177.23 crore, including interest.

While accepting the Audit observation, the Ministry stated (May 2026) that remedial action was taken by passing an order under Section 154 of the Act in March 2026.

3.4.1.4	**CIT Charge**	**: PCIT (Central), Gurugram**
	Assessee Name	**: M/s M6 Pvt. Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

The AO, while finalising assessment under Section 144 read with Section 153B(1)(b) in December 2018 at an income of ₹ 236.30 crore, made an addition of ₹ 261.54 crore to the returned loss of ₹ 25.24 crore.

Audit observed from the assessment records that out of the total addition of ₹ 261.54 crore, only ₹ 2.68 crore was added under Section 69C. As the entire transactions were either unexplained or treated as bogus purchases, etc., during assessment proceedings, the AO should have added the entire amount under Sections 68/69. Audit further observed that the AO, allowed adjustment of loss of ₹ 25.24 crore with these additions. It was also observed that surcharge was levied at the rate of 12 *per cent* on addition made under Section 69C instead of the applicable rate of 25 *per cent*. These omissions resulted in a short levy of tax of ₹ 144.39 crore.

While accepting the audit objection, the Ministry stated (May 2026) that, as per the order of Hon'ble ITAT dated 02/05/2025 in ITA no. 2833/DEL/2025, this case has been remitted back to the AO for fresh determination of the taxable income.

3.4.1.5	**CIT Charge**	**: CIT Central-1, Delhi**
	Assessee Name	**: M/s P2 Pvt. Ltd.**
	Assessment Year	**: 2019-20**
	Status	**: Company**

The AO, while finalising assessment under Section 144 in March 2021 at an income of ₹ 254.25 crore, made an addition of ₹ 254.13 crore, including an addition of ₹ 46.08 crore under Section 68C, towards non-current liabilities for which the genuineness and creditworthiness of transactions could not be established.

Audit examination of the assessment order revealed that the AO proposed to add back ₹ 208.05 crore under the normal provision of the Act, towards other liabilities on the ground that the assessee failed to explain the creditworthiness and genuineness of this amount. However, the addition of ₹ 208.05 crore being unexplained should have been added under Section 68 and taxed at a special rate, as was done for unexplained non-current liabilities of ₹ 46.08 crore by the AO. The omission resulted in a short levy of tax of ₹ 140.34 crore, including interest under Sections 243A and 234B.

On being pointed out by Audit, the Department accepted the audit observation (June 2022) and stated that the assessment order passed under Section 144 in March 2021 was set aside vide order under Section 263 in March 2023.

Reply of the Ministry is awaited (May 2026).

3.4.1.6	**CIT Charge**	**: PCIT-1, Delhi**
	Assessee Name	**: M/s D2 Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising scrutiny assessment under Section 143(3) in March 2021 at an income of ₹ 9.31 crore, made an addition of ₹ 9.35 crore under Section 68 of the Act.

Audit Scrutiny of assessment records revealed that while arriving at assessed income, the AO had wrongly allowed set off of the current year loss of ₹ 3.34 lakh from the addition of ₹ 9.35 crore made under Section 68 of the Act. Further, while computing the tax liability of the assessee, the applied rate of tax on the additions made under Section 68 was at the normal rate of tax instead of the special rate of 60 *per cent* and surcharge at 25 *per cent*.

Further, during the year, there was an increase in unsecured loans and advances of ₹ 123.02 crore over the previous year, and the assessee failed to explain the creditworthiness and genuineness of this increase. Also, it was noticed that the assessee did not derive any income and had also not incurred any construction expenses during the year. As such, in the absence of explanation from the assessee, the amount of ₹ 123.02 crore should have been treated as unexplained cash credit under Section 68 of the Act and brought to tax. Which was not done by the AO.

The above errors resulted in under-assessment of income of ₹ 123.02 crore, involving short levy of tax of ₹ 137.57 crore, including interest under Section 234A and 234B.

On being pointed out by Audit, the Department took remedial action under Section 154 in September 2022, with respect to issues relating to the set off of loss against additions made under Section 68 of the Act and the application of the rate of tax on additions of ₹ 9.35 crore made under Section 68. However, a reply on the issue relating to the addition of ₹ 123.02 crore under Section 68 was awaited.

Reply of the Ministry is awaited (May 2026).

3.4.1.7	**CIT Charge**	**: PCIT, Valsad**
	Assessee Name	**: M/s S4 Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising the assessment under Section 143(3) in April 2021, at an income of ₹ 3.09 crore, inter alia, made an addition of ₹ 2.64 crore towards disallowance under sundry creditors.

Audit observed from the assessment records that the AO, while finalising the assessment, sought details of sundry creditors found in the books of accounts, for which amounts payable were ₹ 25.00 lakh and above. The assessee provided a list of 12 such parties involving an amount payable of ₹ 11.74 crore. But out of these 12 parties, confirmation on only eight parties was provided by the assessee. The AO called for the necessary documents by issuing a notice under Section 133(6) to these eight parties to verify the genuineness of these transactions. But only six of them responded. Therefore, the AO added ₹ 2.64 crore under Section 68 of the Act, treating it as unexplained and bogus sundry creditors, pertaining to these two parties. However, in the assessment order, the AO neither discussed nor added back ₹ 7.27 crore to the total income, pertaining to the remaining four parties, though the same was required to be added back to the income of the assessee, on similar lines. The omission resulted in the escapement of unexplained income of ₹ 7.27 crore involving the short levy of tax of ₹ 7.71 crore, including interest.

While accepting the audit observation, the Ministry stated (May 2026) that remedial action was taken by passing an order under Section 263 of the Act in March 2024. Further progress is awaited (May 2026).

3.4.1.8	**CIT Charge**	**: PCIT-1, Kochi**
	Assessee Name	**: M/s I3 Pvt. Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

The AO, while finalising assessment under Section 143(3) in December 2019 at an income of ₹ 25.23 lakh, made additions of ₹ 45.85 lakh, including disallowance of ₹ 18.70 lakh for unproven sundry creditors.

Audit examination revealed that the AO, while concluding the assessment, asked the assessee to furnish a list of sundry creditors amounting to ₹ 4.09 crore, with a confirmation letter. Out of which the assessee proved the genuineness of credit worth ₹ 1.35 crore. AO added back only five *per cent* of unproved sundry credit instead of adding back entire unproved sundry credit. The error resulted in a short levy of tax of ₹ 2.70 crore, including interest.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section 143(3) read with Section 263 in March 2023.

3.4.2 Unexplained transactions falling under Section 69 which had escaped the assessment and levy of tax thereon as per Section 115BBE of the Act

3.4.2.1	**CIT Charge**	**: CIT (Central)-2, Delhi**
	Assessee Name	**: M/s E2 Ltd**.
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO finalised assessment under Section 144 in June 2021, at an income of ₹ 304.48 crore, as against the returned loss of ₹ 62.55 lakh.

Audit examination revealed that while concluding the assessment, the AO sought details from the assessee on related parties from whom the assessee made Loans and Advances of ₹ 299.82 crore. However, despite having been given adequate opportunities to be heard through various statutory notices during assessment proceedings, the assessee failed to reply/furnish details and documentary evidence of these transactions, which could establish the source of making such huge loans and advances. As such, this amount of

₹ 299.82 crore should have been treated as unexplained and brought to tax under Section 69 at a special rate of tax at 60 *per cent* and surcharge at 25 *per cent* as per the provisions of Section 115BBE. However, the AO added this amount to the total income of the assessee under the normal provision of the Act and taxed accordingly.

Further, the Audit observed that the AO made an addition of ₹ 5.29 crore, *viz.* 0.5 *per cent* of the average investment of ₹ 1,057.69 crore on account of disallowance under Section 14A read with Rule 8D instead of one *per cent* of the average investment, which worked out to ₹ 10.58 crore, as per the CBDT circular dated 02 June 2016.

The above mistakes resulted in an aggregate short levy of tax of ₹ 205.34 crore, including interest under Sections 234A and 234B. The Audit observation was issued to the Department in October 2021 followed by issuance of reminders in August 2022 and April 2023.

Reply from the Ministry is awaited (May 2026).

3.4.2.2	**CIT Charge**	**: CIT-10, Delhi**
	Assessee Name	**: I2**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising assessment under Section 147 read with Section 144 of the Act in March 2022, at an income of ₹ 23.44 crore, made additions of ₹ 22.98 crore towards purchase of immovable property, ₹ 42.72 lakh towards sale of immovable properties and ₹ 3.25 lakh on account of cash deposits etc.

The assessee had not filed the return of income for the aforesaid assessment year. Audit observed that the AO, though added a cash deposit of ₹ 3.25 lakh under Section 69A, tax was computed at normal rates instead of the applicable special rate of 60 *per ce*nt and surcharge of 25 *per cent*. Audit further observed that the AO made an addition of ₹ 22.98 crore under Section 56(2)(vii)(b) on account of the purchase of immovable property as income from other sources and ₹ 42.72 lakh under Section 45 of the Act as capital gain on account of the sale of immovable property. However, the same, being unexplained, were required to be made additions as per Section 69 of the Act and tax as per the provision of Section 115BBE of the Act, as the assessee neither filed a return of income nor complied with the notice issued under Section 148 of the Act. These errors resulted in a short levy of tax of ₹ 21.16 crore including interest.

On being pointed out by the Audit, the Department set aside the assessment order in question vide order under Section 263 of the Act in March 2024, directing the AO to make verification/enquiry and make addition as per Section 69 and tax the income as per the provision of Section 115BBE of the Act in *respect of the purchase of immovable property of ₹ 22.98 crore.* Further details of remedial action were awaited.

Reply of the Ministry is awaited (May 2026).

3.4.3 Unexplained transactions falling under Section 69A which had escaped the assessment and levy of tax thereon as per Section 115BBE of the Act

3.4.3.1 **CIT Charge : PCIT-10, Delhi**
Assessee Name : R9
Assessment Year : 2016-17 and 2017-18
Status : Firm

The AO, while concluding assessment under Section 147 read with Section 144 in March 2022, determined the income of ₹ 42.17 crore and ₹ 29.88 crore for AYs 2016-17 and 2017-18, respectively, after making an addition of eight *per cent* of the total export bills to the total income of the assessee. Audit examination (July 2022) of the tax computation sheet (ITNS) revealed that while computing the tax liability of the assessee, though the assessed income was correctly adopted in the computation sheet, tax was not computed thereon. This omission resulted in non-levy of tax of ₹ 35.02 crore for AY 2016-17 and ₹ 22.34 crore for AY 2017-18, including interest under Sections 234A and 234B.

On this being pointed out by Audit, the Department rectified the mistake by passing a rectification order in February 2023. However, the computation sheet of rectification orders was not furnished despite reminders. Since the discrepancies pointed out were in the computation of tax, and in the absence of a rectified computation sheet, the audit could not verify the correctness of the rectified computation of tax.

Audit subsequently observed (May 2024) from the tables of assessee's export transactions shown in both the assessment orders for the AY 2016-17 and 2017-18, that both the tables of these two AYs contains similar information including invoice date, import-export code, invoice currency in GBP (British pound sterling), FOB (Free on Board) value, duty drawback and invoice value for shipping bills for export transactions related to the FY 2014-15 falling under AY 2015-16. Therefore, these transactions, which are similar in terms of invoice date and FOB & invoice value totalling ₹ 372.28 crore, were to be assessed in AY, i.e. 2015-16. This discrepancy in both assessment orders remained unchecked by the AO during rectification without looking at his assessment afresh. This requires correction after due verification, as the income against the total assessed export value, which worked out to be ₹ 372.28 crore for

FY 2014-15, could have escaped the assessment for AY 2015-16. Also, as the table and facts mentioned in assessment orders for AY 2016-17 and AY 2017-18 are not related to these assessment years but for AY 2015-16, assessment orders of AY 2016-17 and 2017-18 need to be corrected by depicting the correct table and facts.

In two assessment orders, i.e. AY 2016-17 relevant to FY 2015-16 and AY 2017-18 relevant to FY 2016-17, the AO took ₹ 527.17 crore and ₹ 373.51 crore, respectively, as the value of import (should be export and require verification) bills for taxation purposes. As per the assessment order, the assessee remained non-compliant with various statutory notices issued during the assessment proceedings and neither submitted the ITR nor any other details. However, when the assessment was under finalisation, the assessee replied stating that the firm dissolved on 10/10/2011 and provided the dissolution deed and also provided documents regarding the amendment of the partnership to a proprietary concern in trade licenses and import/export code. As the physical verification report was not received by the AO from the Verification Unit, the AO decided to complete the assessment with material on hand, with no books of accounts and calculated the business income of the assessee as eight *per cent* of export transactions, citing the provisions of section 44AD in both assessment years 2016-17 and 2017-18. This action of the AO is not correct due to the following reasons:

(a) The AO could not get the satisfactory response from the assessee as regards to nature and source of these export transactions and for the fact that there is no ITR filing history for this assessee (as per 360 degree information provided by the AO to Audit), and there is no mention in these two assessment orders whether remittance against these export transaction were received in India in accordance with the provisions of relevant legislations and RBI guidelines. Therefore, full amount of ₹ 527.17 crore (AY 2016-17) and ₹ 373.51 crore (AY 2017-18) covering all unexplained export transactions originated outside books of accounts from this non-filer and non-compliant resident company assessee falls under section 69A and were to be added as such under Section 69A and were to be taxed at the rate prescribed under Section 115BBE which is 30 *per cent* for AY 2016-17 and for AY 2017-18 60 *per cent* plus surcharge at the rate of 25 *per cent*.

(b) Provisions of Section 44AD of the Act are applicable to Resident individual, HUF and partnership assessees, whereas this assessee under assessment is a resident company assessee. Further, the assessee using provisions of Section 44AD files ITR in respect of presumptive taxation for business having business turnover less than ₹ 1.00 crore for AY 2015-16, AY 2016-17 and AY 2017-18, whereas this assessee was a non-filer and alleged unexplained export turnover was for exceeding the prescribed threshold i.e. ₹ 527.17 crore (AY 2016-17) and ₹ 373.51 crore (AY 2017-18). Therefore, AO's decision to use Section 44AD to complete the assessment of this assessee was not judicious, not in line with the provisions of the Act and not in the interest of revenue.

In view of the above facts, total export bills of ₹ 372.28 crore for AY 2015-16, ₹ 527.17 crore for the AY 2016-17 and ₹ 373.51 crore for the AY 2017-18 were to be added under Section 69A and were to be taxed under the provisions of Section 115BBE of the Act. However, the AO added only eight *per cent* of unexplained and undisclosed total export bills as income of the assessee.

These inaccuracies in assessment orders of 2015-16, 2016-17 and 2017-18 resulted in a short levy of tax of ₹ 1,393.90 crore, including consequent short levy of interest under Section 234A and 234B, which requires fact verification and review of assessments at the appropriate level in the assessment charge. This was issued to the Department in May 2024, followed by a rejoinder in June 2024.

Reply from the Ministry is awaited (May 2026).

3.4.3.2	**CIT Charge**	**: PCIT Central, Bhopal**
	Assessee Name	**: M4**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment under Section 144 in December 2019, at an income of ₹ 20.80 crore, added ₹ 20.80 crore on account of three *per cent* of the credit entries of ₹ 693.46 crore found in Bank Accounts of the assessee. In the instant case, Audit initially noticed that the AO, while computing the tax liability of the assessee, did not levy a surcharge.

On being pointed out by Audit, the Department rectified the error under Section 154 in April 2022.

Meanwhile, the Audit observed that the assessee was a non-filer. Further, the assessee neither responded to the notice issued by the Department nor made any submission to the AO. Thus, the nature and source of the total credit/deposit of ₹ 693.46 crore in the bank account remained unexplained. As such, instead of making an addition of merely three *per cent* of the credit of ₹ 693.46 crore, the entire amount should have been brought to tax under the provisions of Section 69A and taxed as per Section 115BBE of the Act. Furthermore, the AO had not taken into cognisance ₹ 6.04 crore, which appeared in two other accounts of the assessee, which was also required to be included in the income of the assessee and taxed as per Section 115BBE of the

Act. The omission resulted in under-assessment of income of ₹ 678.70 crore, involving short levy of tax of ₹ 865.20 crore, including interest. This issue was communicated to the Department in January 2023.

In reply (May 2026), the Ministry did not accept the audit observation, stating the following reasons:

a. *A survey under Section 133A of the Act was conducted on 06/04/2016 and 09/11/2016. Accordingly, the case of the assessee was selected for compulsory scrutiny, and the assessment was completed under Section 144 in December 2019.*

b. *The assessee was engaged in business activities, which were confirmed from details and documents available on record, as well as the material impounded during the course of survey proceedings.*

c. *With regard to the application of a rate of profit of three per cent, it has rightly been adopted for the AY 2017-18 under consideration, on the basis of the profit shown by the assessee in the immediately preceding AY 2016-17, which is quite logical.*

d. *Perusal of the bank account in Axis Bank lying on records reveals that there was an opening balance as on 01/04/2026 at ₹ 17.63 lakh. There were credit and debit entries at regular intervals in the bank account. In most cases, credit entries were through the banking channel and not through cash, as such provisions of Section 69A were not invoked. Balance as on 31/03/2017 was shown at ₹ 10.08 lakh. The peak balance at any point was never in excess of the amount of net profit adopted by the AO at ₹ 20.80 crore. As such, looking to the involvement of the assessee in business activities, profit was calculated on credit entries in the bank account, and an addition was rightly made by the AO.*

e. *In this case, a search action was also conducted on 31/12/2015. During the course of assessment proceedings under Section 153A for AY 2010-11 to 2016-17, it was found that the assessee was engaged in certain business activities.*

The reply of the Ministry was not tenable in view of the following reasons:

a. In this case, the assessee was a non-filer, and there was no documentary evidence of business activities by the assessee available in the records. The assessee had not submitted Profit and Loss Account, Balance Sheet, Sale and Purchase registers and any other related documents. Further, as stated in the assessment order, the assessee was required to get his books of account audited, as the total receipts of the assessee were more than ₹ 1.00 crore, and to furnish the audit report to the AO, which was not done.

b. Further, the AO concluded that the assessee was involved in bogus transactions in the preceding assessment years and accordingly additions were made by the AO, which included unexplained cash receipts. Therefore, the assumption of the total credit entries as turnover of the assessee and the adoption of three *per cent* of credit entries as profit of the assessee for the AY 2017-18 by the AO was not justified.

c. For invoking the provisions of section 69A, mainly three conditions are to be fulfilled, i.e. money was found outside the books of account, the assessee is the owner of that money, and the nature and source of the acquisition of the money remains unexplained. The assessee failed to explain the nature and source of credits of ₹.699.50 crore in his Bank Accounts, despite having been given sufficient opportunity during the assessment proceedings. Therefore, the unexplained credits of ₹ 699.50 crore met the criteria for addition under Section 69A and to be taxed under Section 115BBE.

In view of the above, the Ministry may reconsider its reply.

3.4.3.3	**CIT Charge**	**: PCIT (Central)-1, Delhi**
	Assessee Name	**: A2**
	Assessment Year	**: 2013-14**
	Status	**: Individual**

The AO initially concluded the search assessment under Section 153A in December 2018, determining the income of ₹ five lakh. Subsequently, a case was opened for credit entries of ₹ 527.64 crore in the assessee's bank account, with a notice issued under Section 148 in May 2020, based on information received from the Investigation wing of the Department. The assessee did not comply with the notice. Consequently, the re-assessment was completed under Section 148/144 of the Act in March 2022, determining an income of ₹ 0.66 crore, including the addition of ₹ 0.61 crore as income under Section 69A (i.e. only 0.001 *per cent* of the total such unexplained credits, citing market norms of commission at the rate of 100 per lakh). As, the money was not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of acquisition of such money, full unexplained credits of ₹ 527.64 crore was required to be added under Section 69A of the Act and to be taxed at the rate of 30 *per cent* as prescribed under Section 115BBE. The omission resulted in a short levy of tax of ₹ 374.59 crore, including consequential interest.

On being pointed out by Audit, the Department took remedial action by passing an order under Section 263, read with Section 148/144, in May 2024. However, the Department, while passing the revision order, added unexplained bank credits of ₹ 527.38 crore under Section 69A of the Act to the earlier assessed income of ₹ 0.66 crore of the assessee, which already included bank credits of ₹0.61 crore. As a result, ₹ 0.61 crore was added to the income twice. Further interest was charged under Section 234A(3) for the period of 129 months instead of 22 months, and interest under Section 234B(3) was charged for the period of 134 months instead of 108 months. Moreover, the interest of ₹ 6.04 crore under Section 234C was levied, which was not chargeable as the assessee was a non-filer. These discrepancies were communicated to the Department in August 2024.

Reply of the Ministry is awaited (May 2026).

3.4.3.4	**CIT Charge**	**: CIT-10, Delhi**
	Assessee Name	**: D1**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment under Section 144 in December 2019, at an income of ₹ 22.06 crore, added ₹ 31.64 lakh under Section 69A of the Act on account of cash deposits, and ₹ 21.75 crore, being 10 *per cent* of the credit entries of ₹ 217.45 crore under normal income. Audit observed that the assessee was a non-filer, and the case was opened based on the information collected under 'Operation Clean Money'. The assessee was also non-compliant with various statutory notices issued during the assessment proceedings and did not submit any details of the bank credits. However, the AO, without any basis or material fact, assumed unexplained other bank credits (other than cash) of ₹ 217.45 crore found in the assessee's bank account as his business turnover and added ₹ 21.75 crore, 10 *per cent* of such cash credits, treating it as profit of the business.

As the assessee was a non-filer and had not submitted any such documents that could support that the credit entries were related to the business of the assessee, the AO should have added the entire amount of unexplained bank credits of ₹ 217.75 crore to the income of the assessee as unexplained money under Section 69A of the Act. The omission resulted in underassessment of the income of ₹ 195.70 crore, involving a short levy of tax of ₹ 260.04 crore, including interest under Sections 234A and 234B of the Act.

On being pointed out by Audit, the Department did not accept the audit observation, citing the following reasons:

(a) The Supreme Court in the case of Brij Bhushan Lal Parduman Kumar v CIT (1978) 115 ITR 524 (SC) held that the estimates must be honest and fair. Further, judgment of the Honourable Supreme Court in the case of State of Kerala v C Velukutty (1966) 60 ITR 239 (SC) also holds relevance, where it was stated that the best judgment assessment must have a reasonable nexus to the available material.

(b) The Current Account maintained by the assessee was opened on 10/03/2015, hence, two years preceding the financial year under scrutiny. Further, the bulk of the transactions indicated in the bank account statement of the assessee were entered into business entities only. Hence, it cannot be ruled out that the assessee has indeed carried on business during the Financial Year under reference. Hence, treating the entire credit amounting to ₹ 217.45 crore as income of the assessee is against the principle of natural justice since the documents on record indicate that the business was established two years prior to the financial year under scrutiny and continued during the financial year under scrutiny.

(c) It is evident that the material on record duly indicates that the business of the assessee was indeed existent. The Current Account statement on record indicates that indeed the business was established and that too was existent from the previous year. Significant receipts were noticed during the previous year, prior to the year under assessment. Further, the contention of the Audit that the Inspector Report shall be the basis of considering that the business of the assessee was not existent is incorrect and far from facts. It is worth mentioning that the financial year in which the existence of business was in question is Financial Year 2016-17 and the Inspector was deputed in Financial Year 2019-20. Hence, the same shall not be considered as a basis of considering that the business of the assessee was not in existence in financial year 2016-17.

(d) Further, the purpose of audit is to check on the accuracy of assessment both in term of technical term and arithmetical accuracy. It has been restated time and time again that the auditors cannot collide with the discretionary power of the assessment of the Assessing Officer.

The above replies of the AO to the audit observations were not acceptable due to the following reasons:

(i) During the assessment proceedings, the assessee failed to explain the nature and source of these bank credits despite being given ample opportunities to respond. The AO himself concluded that the whole amount of ₹ 217.45 crore is an unexplained bank credit from undisclosed sources.

(ii) It is held by the Supreme Court that the best judgment assessment must have a reasonable nexus to the available material. However, here in this case, the AO has made the assessment contrary to the available material on record such as consideration of unexplained bank credits of ₹ 217.45 crore as the business turnover of the assessee even when this non-filer assessee has failed to bring on record any evidence including Profit and Loss account, Balance Sheet, sales and purchase register, details/nature of such credits/debits and other related books of accounts to establish his claims that the deposits in the bank were connected with his business transactions. So, it was required to invoke the provisions of Section 69A. In the absence of any evidence/reply/submissions from the assessee, it was not justified on the part of the AO to assume the existence of the assessee's business activities with a gross turnover of ₹ 217.45 crore.

(iii) The AO added an unexplained cash deposit in full as not related to business operation. Therefore, it is not correct on the part of the AO to argue that the treatment of unexplained cash deposit entries should be different from unexplained non-cash transactions and that only unexplained cash deposit entries attract Section 69A. Section 69A of the Act does not make such a distinction.

(iv) Merely mentioning of nature of occupation as business in the bank records by the assessee does not mean that a non-compliant and non-filer had business activities in the relevant assessment year and for the same reason, such a huge amount undisclosed and unexplained bank transactions of ₹ 217.45 crore in the bank accounts of the assessee (non-filer individual) during the AY 2017-18 (in which demonetization period falls) could be assumed as business transactions.

(v) The argument that the inspector was deputed in FY 2019-20, three years after the year under consideration is flawed because any business with such a huge turnover will not out rightly shutdown within such a short period. Further, it was reported by the deputed Inspector that *"On further inquiry from the neighbours and shopkeepers nearby the address, it came to notice that no such person resides or was doing business in the aforesaid address".* So, this was not in conformity with the AO's assumption about the existence of a business operation with a turnover of ₹ 217.45 crore.

(vi) Audit does not intend to collide with the discretionary powers of the AO. But the discretion of the AO in assessing the case should flow from the material facts and records and should flow from the provisions of Section

69A of the Act. This is not the case in this assessment. Audit brought out the factual inaccuracies in the assessment order, as assuming the assessee's business turnover of ₹ 217.45 crore without any supporting evidence on record was not a rational decision.

In view of the facts stated above, the decision of the AO, taking 10 *per cent* of the unexplained non-cash bank deposits as income for assessment purposes, was arbitrary and lacked transparency. The rebuttal to the reply of the Department was issued in May 2024.

Reply of the Ministry is awaited (May 2026).

3.4.3.5	**CIT Charge**	**: CIT-10, Delhi**
	Assessee Name	**: U2**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment under Section 144 in December 2019 at an income of ₹ 20.83 crore, added ₹ 20.83 crore being 10 *per cent* of cash deposits and credit entries of ₹ 208.31 crore. Audit observed that the assessee was non filer and the case was opened based on the information collected under 'Operation Clean Money'. The assessee was an accommodation entry provider. The assessee was also non-compliant to various statutory notices issued during the assessment proceedings and did not submit any details of cash deposits/credit entries, including P&L account, Balance Sheet, sales and purchase register, details/nature and source of cash deposits and other related books of accounts. However, the AO, without any basis or material fact, assumed unexplained cash deposits/bank credits of ₹ 208.31 crore found in the assessee's bank account as his business turnover and added ₹ 20.83 crore, 10 *per cent* of such cash deposits/credits, treating it as profit of the business.

As the assessee was a non-filer and had not submitted any such documents that could support that the cash deposits/credit entries were related to the business of the assessee, the AO should have added the entire amount of unexplained bank deposits/credits of ₹ 208.31 crore to the income of the assessee as unexplained money under Section 69A of the Act. The omission resulted in underassessment of the income of ₹ 187.48 crore, involving a short levy of ₹ 234.62 crore, including interest under Sections 234A and 234B of the Act.

In response to the audit observations, the Assessing officer in his reply (July 2021, September 2021, December 2022 and January 2023) stated that the audit observation was not acceptable, citing mainly the following reasons:

(a) The bank account of the assessee was merely acting as a conduit for business transactions. A movement of money through bank accounts of the assessee cannot lead to the conclusion that the assessee was the owner of the money.

(b) Multiple credit and debit entries indicated that some kind of business transactions in the course of normal business were executed by the assessee. The assessee can earn some money in the form of profit or commission from such transactions in normal business, and in the absence of any submissions from the assessee, the AO could only make the best judgment of income in the form of profit/ commission from such transactions by using an appropriate Net Profit as a percentage of total turnover. This estimate of income is not covered by Section 69A of the Act, since the mischief of Section 69A catches an unaccounted asset in the form of money, bullion, etc., but makes no mention of income in the form of profit or commission.

(c) The treatment of such non-cash transactions is different from cash deposit entries, and only cash deposited in a bank account is in the nature of money and attracts Section 69A.

(d) The KYC documents of the bank accounts maintained by the assessee were obtained during the assessment proceedings. KYC documents on record indicate that the bank account was already in existence since the FY 2015-16, and the business premises were duly verified by the Federal Bank officials at the time of the current account of the assessee. The Delhi VAT Registration documents along with VAT Returns are placed in record. The bulk of the transactions indicated in the bank statement of the assessee were entered with the business entity only. Hence, it cannot be ruled out that the assessee has indeed carried on business during the financial year under reference. Hence treating the entire credits of ₹ 208.31 crore as income of the assessee is against the principle of natural justice since the documents on records indicate that assessee was indeed doing business during the financial year under reference.

Replies of the AO were not acceptable due to the following reasons.

(a) The discretionary power of the AO under the Best Judgement order should be a kind of speaking order with the reasons flowing from the material facts. The justifications and rationale given in the said replies to the audit are not part of the assessment order wherein he taxed the unexplained bank transactions to the extent of 10 *per cent* only instead of the full amount of undisclosed and unexplained credits. The assumption made by the AO that unexplained bank transactions are related to undisclosed business transactions is not supported by evidence.

(b) Only an owner/account holder of a bank account can transfer the amounts in the bank to others. When the AO concluded in the assessment order that unexplained deposits/credits (which include cash deposit of demonetization period) in assessee's bank are subsequently transferred by the assessee on the same day or very next day to others' accounts, then it would not be justified for the AO to state that such credits in the bank account of the assessee was not a proof of ownership of his money.

(c) There is a contradiction in the AO's arguments, in which, on one hand, he stated that the assessee is an entry provider, and the money found in the bank account of the assessee related to accommodation transactions. On the other hand, in his reply, he argued that the ₹ 208.31 crore found in his bank account is his business turnover from business transactions. Assuming that the assessee could be an accommodation entry provider, which means that an unexplained amount of ₹ 208.31 crore, including cash of ₹ 164.78 crore found in the assessee's bank account, could be related to accommodation transactions provided by the assessee to end-beneficiaries to convert their undisclosed money into white money or to reduce their business profit. However, it was incumbent on the part of the AO to identify the end-beneficiaries of these alleged accommodation transactions and then tax the same in their hands. This was, however, not done. Also, the assessee neither came forward to explain that the money found in his bank accounts did not belong to him nor had he named the end-beneficiaries who used his bank accounts to evade the tax on undisclosed income. Therefore, even in such a situation, in the absence of details of end-beneficiaries of money found in the assessee's bank account, the same was to be added under Section 69A in the assessment as unexplained income (on substantive basis or protective basis depending upon whether the assessee was an accommodation provider or beneficiary himself) and not as business income earned from business receipts of ₹ 208.31 crore.

(d) Audit also noted from the Department's record that this assessee had neither filed ITR for AY 2017-18 nor for any previous AYs. Therefore, in the absence of any submission from the assessee to explain such undisclosed transactions, there were no material facts available to the AO to assume in his best judgement assessment that the credit/debit entries in the bank account were normal business transactions of the assessee.

(e) As per the reply of the AO dated January 2023, the assessee opened the bank account in FY 2015-16, just a year preceding the relevant AY. Mention of business in the bank records and VAT records by themselves does not mean that a non-compliant and non-filler assessee had business activities in the relevant assessment year and for the same reason, undisclosed and unexplained bank transactions of ₹ 208.31 crore which includes cash deposits of ₹ 164.78 crore (including cash deposited during demonetization period) in the assessee bank accounts could not be assumed as coming from business transactions. This is more so for an assessee who never filed his ITR for any AYs. Further, the question of natural justice is already addressed because the AO herself stated that the assessee was given enough opportunity to reply/present his case during the assessment proceedings.

(f) Section 69A of the Act states that "Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or other valuable article is not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the money, bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year." Thus, Section 69A deals with unexplained money that was found to be in the bank statements of the assessee in this case. Being a non-filer, the assessee had failed to disclose such money and had also failed to explain during the assessment. Moreover, Section 69A does not make a distinction between unexplained and undisclosed cash credits and unexplained and undisclosed non-cash credits.

Therefore, based on all the material facts, all undisclosed and unexplained credits of ₹ 208.31 crore noted in the bank statements fall within the purview of Section 69A, and the decision of the AO of taking only 10 *per cent* of such unexplained credits (₹ 20.83 crore) as income for assessment purposes was arbitrary, lacked transparency and was unjustified. The rebuttal to the reply of the Department was issued in August 2022.

Reply of the Ministry is awaited (May 2026).

3.4.3.6	**CIT Charge**	**: CIT-10, Delhi**
	Assessee Name	**: A11**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment of the assessee under Section 147 read with Section 144 of the Act in March 2022 at Nil income, stated that as the case was at brink of getting time barred and also following the path of natural justice, the case was being disposed of now without taking any adverse view. The AO further stated that remedial measures, as deemed fit as per law, would be taken.

Audit observed that the assessee was a non-filer and the case was opened based on the Annual Information Return (AIR) that the assessee made cash deposits of ₹ 88.47 crore during AY 2017-18, relevant to FY 2016-17. The assessee was non-compliant to the notices issued by the Assessing Officer and did not submit his ITR either. Thus, cash deposits of ₹ 88.47 crore made by the assessee remained unexplained and attracted the provisions of Section 69A read with Section 115BBE of the Act. But the AO did not examine/assess the aforesaid unexplained cash credit. The omission resulted in underassessment of income of ₹ 88.47 crore, involving short levy of tax of ₹ 147.63 crore, including interest.

On being pointed out by Audit, the Addl. CIT, Range-46, New Delhi stated (May 2024) that the order under Section 263 was passed by PCIT-10, Delhi, in March 2024 by setting aside the assessment order and directing the AO to make verification/enquiry and make addition as per Section 69A of the Act and tax the income as per the provision of Section 115BBE. Further, the order giving effect to the order under Section 263, was passed in March 2025, wherein audit observation was taken care of.

Reply of the Ministry is awaited (May 2026).

3.4.3.7	**CIT Charge**	**: PCIT (Central)-3, Mumbai**
	Assessee Name	**: M/s F1 Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

The AO, while finalising the assessment of the assessee under Section 143(3) read with Section 144 of the Act in January 2020, at an income of ₹ 1697.89 crore, added ₹ 203.86 crore towards bogus purchase and computed tax liability on the normal rate. Audit noted that a search and seizure was carried out in January 2017 in the case of the assessee, M/s F1 Ltd., being part of the N4 Group. Audit observed from the assessment order that the AO, while making an addition of ₹ 203.86 crore, established that the assessee had not purchased anything from the respective parties. Hence, this bogus purchase shown in the books of the assessee, being unexplained, attracted the provisions of Section 69A read with Section 115BBE of the Act, but the AO did not invoke the same.

However, in another case, M/s C2 Pvt. Ltd. a group company of N4 Group, the same AO while assessing income under Section 153C read with Section 144 of the Act for the AY 2017-18 had added similar bogus purchase of ₹ 20.40 crore by invoking provisions of Section 69C of the Act and levied tax at the rate of sixty *per cent* as per section 115BBE of the Act.

Omission to assess the bogus purchase by invoking the provisions of Section 69C read with Section 115BBE of the Act resulted in short levy of tax of ₹ 116.49 crore, including interest under Section 234B of the Act.

On being pointed out by the Audit (September 2022), the Department had accepted the audit observation (June 2023) and stated that the remedial action would be taken in due course.

Reply of the Ministry is awaited (May 2026).

3.4.3.8	**CIT Charge**	**: PCIT-2, Kolkata**
	Assessee Name	**: M/s M5 Pvt. Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

Audit observed that the AO, while finalising the assessment under Section 144 read with Section 143(3A & 3B) in April 2021 at an income of ₹ 1.59 crore, added only ₹ 2.83 crore, i.e. five *per cent* of the purchases of ₹ 56.56 crore, treating it unexplained. As the assessee did not reply to any of the notices and also did not provide any documentary proof or clarification/explanation of the said transaction, the entire purchase amount should have been added under Section 69C and taxed under the provisions of 115BBE of the Act, which was not done. The omission resulted in under-assessment of income of ₹ 53.73 crore, involving tax effect of ₹ 61.85 crore, including interest under Sections 234A and 234B.

On being pointed out by Audit, the Department set aside the assessment by passing an order under Section 263 of the Act in March 2024 and directed the AO to redo the assessment, after allowing a proper opportunity of hearing to the assessee and making enquiries on his submissions. The Effect Order under Section 144 read with Section 263 was passed in March 2025, wherein the Department partially accepted the audit observation and added eight per cent of the total turnover of ₹ 60.08 crore, i.e. ₹ 4.81 crore, as the net taxable income of the assessee.

The Ministry did not accept the audit para and stated that the assessee was engaged in a wholesale trading business and had purchases of ₹ 26.65 crore, ₹ 30.75 crore and ₹ 56.56 crore for AYs 2016-17, 2017-18 and 2018-19, respectively. During assessment proceedings, the AO had seen the 360° view and estimated gross profit at the rate of five per cent. Later, Pr.CIT-2, Kolkata reviewed the assessment and directed the AO to redo the assessment. During assessment proceedings under Section 144 read with Section 263, the assesse did not make any compliance, and after invoking Section 145(3), the AO rejected the books of accounts and determined gross profit at the rate of *eight per cent of total turnover, as per the nature of business. Accordingly, ₹ 4.81 crore was determined as the net income of the assesse.*

The reply of the Ministry is not tenable, as the order under Section 263 was passed in March 2024 at the instance of Audit (June 2022), wherein addition was considered at eight *per cent* of the turnover in place of five *per cent,* originally considered by the AO in the assessment order passed in April 2021.

In view of this, the Ministry may reconsider its reply.

3.4.3.9	**CIT Charge**	**: PCIT (Central), Hyderabad**
	Assessee Name	**: A1**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

A search and seizure operation was conducted in the case of the assessee in February 2021 and assessment was completed under Section 153A of the Act in March 2022 determining income of ₹ 45.38 crore after making additions of ₹ 38.48 crore towards sub-contract income and ₹ 1.50 lakh towards cash expenditure, to the income of ₹ 6.89 crore already assessed under Section 143(3) in December 2019.

Audit noticed that income of ₹ 6.89 crore assessed under Section 143(3) included ₹ 3.28 crore comprising unexplained expenditure of ₹ 2.34 crore assessed under Section 69C and unexplained cash deposits ₹ 0.93 crore assessed under Section 68. However, tax was levied at normal rates instead of the rates prescribed under Section 115BBE. The error involving tax effect of ₹ 2.48 crore including interest was communicated to the Department, which was accepted and rectified by the Department by passing order under Section 154 in November 2022.

Further, on detailed examination of the assessment order under Section 153A passed in March 2022, Audit noted that a search was conducted in the premises of M/s A17*,* a sole proprietorship firm owned by assessee in February 2021 and the assessee was a contractor deriving income from M/s M10 Pvt. Ltd., and other concerns. It was further noted that the assessee had contract receipts of ₹ 38.48 crore for the previous year relevant to AY 2017-18, and the sub-contract works were claimed to have been given to various sub-contractors. However, AO found that no work was executed, and the sub-contractors were bogus, and that the amounts were withdrawn in cash and passed on to the main contractor. As a result, the AO disallowed sub-contract expenditure, treating it as bogus expenditure in the hands of the concerns on a substantive basis and the expenditure was brought to tax in the hands of the assessee on a protective basis. Accordingly, the sub-contractor expenditure of ₹ 38.48 crore was added to the income of the assessee on a protective basis.

As the contract receipts pertain to bogus contracts and did not involve execution of any work, the amount should have been assessed as unexplained money under Section 69A and taxed under Section 115BBE, which was not done. These discrepancies resulted in a total short demand of ₹ 28.22 crore, including interest under Section 234A and 234B. This issue was communicated to the Department in August 2024.

While not accepting the audit observation, the Ministry stated (May 2026) that on perusal of the Form 26AS and details available in the assessment order, it is observed that the assessee is in receipt of contract receipts mainly from two parties, i.e. M/s M10 Pvt. Ltd. of ₹ 20.83 crore and M/s H1 Pvt. Ltd. of ₹ 17.61 crore. On para 18 to 25 of the assessment order under Section *153A, it was elaborately discussed that Principal contractors, M/s M11, M/s M10 Pvt. Ltd., M/s H1 Pvt. Ltd. have claimed subcontract expenses in the name of M/s A17 but no evidences were found in support of neither at premises of M/s M11 nor at the premises of the M/s A17. Further, during the search and seizure operation in the case of assessee, some of the sub-contractors of M/s A17 were found to be non-existent.*

From the above, it can be inferred that the assessee is not the owner of the money, i.e. sub-contract receipts, but he has only provided accommodation entries in the name of sub-contractors.

The term 'bogus' relates to the genuineness of a transaction, whereas 'unexplained' under Sections 68 to 69D relates to the source of funds; both operate in distinct legal fields and cannot be used interchangeably. In this case, it is clearly evident that the assessee has passed on the money to principal contractors by the name of subcontractors. "Bogus" refers to the lack of genuineness of a transaction, but cannot be treated as unexplained in this instant case.

In view of the above, the AO has correctly disallowed the subcontract expenses of ₹ 38.48 crore as the work has not been done and added back to the total income of the assessee under normal provisions.

The provisions of the Section 69A of the Act are applicable only when (i) where in the financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and (ii) such money, bullion, jewellery or valuable article is not recorded in the books of account, if any, maintained by him for any source of income and (iii) the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion *of the Assessing Officer, satisfactory, the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year.*

In the present case, it is an undisputed fact that the impugned amount has been duly recorded in the regular books of account as contract receipts. Once the amount stands recorded in the books, foundation for invoking Section 69A ceases to exist.

Reply of the Ministry is not tenable for the following reasons:

The assessee is an accommodation entry provider and not involved in any business activity. Therefore, treatment of bogus receipt/expenditure in the hands of the assessee should have not been the same as in the case of bonafide assessee. Further, if the search had not taken place, substantive disallowance of bogus expenditure in the hands of principal contractors would have not been done. As such, the disallowance of aforesaid expenditure should have been taxed as per the provisions of Section 115BBE.

In view of the above, the Ministry may reconsider its reply.

3.4.3.10	**CIT Charge**	**: CIT-10, Delhi**
	Assessee Name	**: V2**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment under Section 144 in December 2019 at an income of ₹ 7.15 crore, added ₹ 4.88 crore under Section 69A on account of cash deposits and ₹ 2.27 crore, being 10 *per cent* of the credit entries of ₹ 22.67 crore. Audit observed that the assessee was a non-filer and the case was opened based on the information collected under 'Operation Clean Money'. The assessee was also non-compliant to various statutory notices issued during the assessment proceedings and did not submit any details of the bank credits. However, the AO, without any basis or material fact, assumed unexplained other bank credits (other than cash) of ₹ 22.67 crore found in the assessee's bank account as his business turnover and added ₹ 2.27 crore, 10 *per cent* of such cash credits, treating it as profit of the business.

This action of AO seemed to be arbitrary as the assessee was a non-filer and had not submitted any such documents which could support that the credit entries were related to the business of the assessee. Thus, the AO should have added the entire amount of unexplained bank credits of ₹ 22.67 crore to the income of the assessee as unexplained money under Section 69A of the Act. The omission resulted in underassessment of the income of ₹ 20.40 crore, involving a short levy of ₹ 27.10 crore, including interest under Sections 234A and 234 B of the Act.

The Department did not accept the audit observations (July 2021, September 2021 and December 2022), citing mainly the following reasons:

(a) These entries are in the nature of business transactions made by the assessee in any normal business. These are moving transactions where money received in a bank account through one credit entry was moved to another bank account through a debit entry. The bank account of the assessee was merely acting as a conduit for business transactions, but such movement of capital through one bank account is not proof of ownership of such money.

(b) The treatment of such non-cash transactions is different from cash deposit entries, and only cash deposited in a bank account is in the nature of money and attracts the provisions of Section 69A.

(c) Any business activity is presumed to yield some income to the assessee, and in the absence of any submissions from the assessee, the income from such business activity is charged by using an appropriate Net Profit as a percentage of total turnover.

(d) Since, assessee did not file any submission in the assessment proceedings; therefore, the AO could only make the best judgement of income in the form of profit/ commission from such transactions. The turnover was calculated by taking into account all non-cash credit entries in bank statement of the assessee. This estimate of income is not covered by Section 69A of the Act, since the mischief of Section 69A catches an unaccounted asset in the form of money, bullion, etc. but makes no mention of income in the form of profit or commission.

(e) The KYC documents of the bank accounts and indirect Tax Registration Certificate documents shows the assesses as business entity. The bulks to the transactions indicated in the bank statement of the assessee were entered with business entity only. Hence, it cannot be ruled out that the assessee has indeed carried on business during the financial year under reference.

(f) Hence treating the entire credits of ₹ 22.67 crore as income of the assessee is against the principle of natural justices since the documents on records indicate that assessee was indeed doing business during the financial year under reference.

(g) Further, the purpose of audit is to check on the accuracy of assessment both in term of technical term and arithmetic accuracy. It has been restated time and time again that the auditors cannot collide with the discretionary power of the assessment of the Assessing Officer.

The replies of the Department are not tenable for the following reasons:

(a) The Justifications and rationale given by the Department are not entirely part of the assessment order. Further, to attract the provisions of Section 69A of the Act, broadly, three conditions are to be fulfilled, namely, the assessee is found to be in possession of money which was not recorded in his books of accounts, and the assessee has failed to bring on record any evidence to establish his claims that the deposits in the bank were out of receipts connected with his business transactions. In the instant case, the assessee was a non-filer of ITR in the relevant AY, and he was found to be in possession of ₹ 27.55 crore in his bank accounts that was not found recorded in his books of accounts. Despite having been given sufficient opportunities, the assessee failed to bring on record any evidence, like P&L account, Balance Sheet, sales and purchase register, details/nature of such credits/debits and other related books of accounts to establish his claims that the credits and debits in the bank statements were connected with his business transactions. So, it was required to invoke the provisions of Section 69A.

(b) In the absence of any information as to the existence of business operation or on the debits in the bank statements as business expenditure or any other contrary evidence/reply/submissions from the assessee, it was not justified on the part of the AO to himself assume the existence of assessee's business activities with a gross turnover of ₹ 22.67 crore.

(c) It is not correct on the part of the AO to argue that the treatment of unexplained cash deposit entries should be different from unexplained non-cash transactions, and only unexplained cash deposit entries attract Section 69A. Section 69A of the Act does not make such a distinction.

(d) The assessee is an individual assessee. Unexplained credits were found in his bank accounts, and unexplained debits signifying transfer/withdrawal of money from these banks could not have been possible without the assessee's signature/authorisation. Therefore, it is also not right on the part of the AO to argue that the assessee was not the owner of the transactions noted in his bank statements.

(e) As per the 360-degree page screenshot taken in August 2023 from the ITBA system available to the AO, it was also found out that the assessee did not file the ITRs even in the previous Assessment Year, i.e. 2016-17 and in subsequent Assessment Years of 2018-19, 2019-20 and 2020-21. The last ITR filed by the assessee was for AY 2015-16, for presumptive business income tax. As per this ITR, the total business receipts declared by the assessee were ₹ 14.19 lakh only. Assuming unexplained bank credit of ₹ 22.67 crore as business receipt of this non-filer assessee for AY 2017-18, whose whereabouts and location of his business operation were also not traceable, is thus not in sync with the known business facts available with the AO.

(f) The assessee did not file the ITR for AY 2017-18 under consideration of this audit. As per the last available ITR filed by the assessee for AY 2015-16, the assessee had disclosed (a mandatory requirement to disclose all bank account details) only one bank account, a current account with HDFC in respect of his business operations. But an unexplained cash deposit of ₹ 4.88 crore and other credits of ₹ 22.67 crore noted by the AO were in undisclosed bank accounts of the assessee, i.e., PNB and ICICI Bank. Therefore, assuming unexplained credit of ₹ 22.67 crore as a business receipt is not based on known facts.

(g) In a real business environment, these debits and credits cannot be termed as payments for purchases & expenses or receipts for sales, particularly when the assessee has not filed ITR, and he did not furnish any purchase and sales details, vouchers/invoices, etc. during the course of assessment proceedings. Therefore, assuming the unexplained credits of ₹ 22.67 crore found in assessee's bank account as business receipts without any supporting evidence on record is not right. Moreover, there is no mention in the assessment order whether the AO verified these debits/credits coming from the business entities or whether the AO obtained the details under Section 133 (6) to check the creditworthiness and genuineness of these alleged business entities.

(h) KYC verified accounts with the bank and mentioning of occupation as business in the Bank Accounts and Indirect Tax registration documents by themselves do not mean that the assessee had business operation in the assessment year 2017-18 and had business receipts of ₹ 22.67 crore in the financial year 2016-17.

(i) Audit does not intend to collide with the discretionary powers of the AO. Audit only brought out the factual inaccuracies in the assessment order, as assuming the assessee's business turnover of ₹ 22.67 crore without any supporting evidence on record was not a rational decision. Moreover, the Assessing Officer's discretionary power should flow from the facts and the provisions of the Income Tax Act. This was not the case with this assessment order.

In view of the facts stated above, the decision of the AO, taking 10 *per cent* of the unexplained non-cash bank deposits as income for assessment purposes, was arbitrary and lacked transparency. The rebuttal to the Department's reply was communicated in September 2023.

Reply of the Ministry is awaited (May 2026).

3.4.3.11	**CIT Charge**	**: PCIT - 1, Patna**
	Assessee Name	**: A4**
	Assessment Year	**: 2018-19**
	Status	**: Individual**

Audit observed that the AO, while finalising the assessment under Section 144 of the Act in May 2021, at an income of ₹ 1.11 crore, added eight *per cent* of the total credit of ₹ 13.90 crore in the assessee's bank account to the income of the assessee under normal provisions. However, the assessee did not provide any evidence in support of his claim of being a commission agent of the State Bank of India customer service point. Also, the TDS claimed by the assessee was not deducted by the State Bank of India. Audit further observed that the AO, while computing the tax liability of the assessee, applied the normal rate of tax instead of the special rate of tax under Section 115BBE. As the source of the aforesaid credit being unexplained, the entire credit amount should have been added to the income of the assessee under Section 69A of the Act instead of ₹ 12.82 crore only, and accordingly, tax was required to be computed, which was not done. These errors resulted in under-assessment of the income of ₹ 12.82 crore, involving a tax effect of ₹ 14.30 crore.

On being pointed out by Audit in July 2022, the Department stated that the rectification order was passed under Section 154 of the Act in May 2023. However, in the rectification order, only a special rate of tax was levied on the additions made by the AO during assessment under Section 144 of the Act.

Reply of the Ministry is awaited (May 2026).

3.4.4 Unexplained transactions falling under Section 69C which had escaped the assessment and levy of tax thereon as per Section 115BBE of the Act

3.4.4.1	**CIT Charge**	**: CIT (Central)-1, Delhi**
	Assessee Name	**: M/s L1 Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising the assessment under Section 144 of the Act in April 2021 at an income of ₹ 1,370.07 crore, made additions of ₹ 157.13 crore (₹ 153.38 crore *plus* ₹ 3.75 crore) under Section 68 of the Act, which was to be charged at special rates under Section 115BBE of the Act. Audit observed that the AO, while computing tax liability of the assessee, incorrectly adopted additions of ₹ 153.38 crore instead of ₹ 157.13 crore under Section 68 and applied a special rate of 60 *per cent*.

Audit further observed from the assessment order that the expenses of ₹ 1,173.52 crore pertaining to sale proceeds, purchase, business promotion expense, advances given to a subsidiary of the assessee and cash sale of scrap, etc., were not genuine, bogus, genuineness of transactions not proved, undisclosed/unexplained.

As the aforesaid expenses were bogus/not genuine, unexplained/undisclosed, the AO should have added them under Sections 69C/68 and taxed by invoking the provisions of Section 115BBE, which was not done. These omissions resulted in a short levy of tax of ₹ 843.38 crore, including the interest of ₹ 155.62 crore and ₹ 185.74 crore under Section 234A and 234B of the Act, respectively.

On being pointed out by Audit, the Department stated (February 2022) that audit observations pertaining to the addition of expenses of ₹ 1,173.52 crore under Section 69C/68 were not communicated initially. Further, the Department stated that these disallowances were correctly made as normal additions as they did not fall under the provisions of Section 69C/68 for charging a higher rate of tax and surcharge.

Reply of the Department is not tenable as the AO himself mentioned in the assessment order that these transactions were bogus, not genuine, unexplained/undisclosed, etc., the AO should have invoked provisions of Section 115BBE read with Section 69C/68. Further, the Supreme Court in the case of NK Proteins Ltd Vs CIT had held that the entire undisclosed income generated out of bogus transactions deserves to be added to the total income under Section 69C of the Act. Moreover, PCIT (Central) Delhi-1, while setting aside the assessment order of AY 2019-20 of the same assessee, cited the above decision and asked him to make a fresh assessment by invoking the provisions of Section 69A and Section 115BBE of the Act.

The Department further replied (April 2024) that the order under Section 263 was passed in March 2024 by setting aside the assessment order passed under Section 144 of the Act in April 2021 and directed the AO to make assessment taxing the amount of ₹ 887.20 crore under Section 68 of the Act on account of unexplained cash credit and invoking provision of section 115BBE of the Act 1961 after giving the due opportunity to the assessee. Further progress is awaited (May 2026).

Reply of the Ministry is awaited (May 2026).

3.4.4.2	**CIT Charge**	**: CIT (Central)-2, Delhi**
	Assessee Name	**: M/s A8 Pvt. Ltd.**
	Assessment Year	**: 2018-19**
	Status	**: Company**

The AO, while finalising the assessment under Section 144 in April 2021 at an income of ₹ 731.48 crore, added back ₹ 818.12 crore, treating it as a bogus purchase and taxed at the normal rate of tax. Further, the AO, though added ₹ 2.85 crore treating it as an undisclosed source of income, as the assessee failed to furnish any supporting documentary evidence to establish a source of funds invested in FDR, but omitted to tax it in the tax computation sheet. As the AO himself treated them as bogus purchases and the assessee failed to furnish any supporting documentary evidence to establish the source of funds, the same was required to be added back under Sections 69C/69 of the Act and accordingly, levied a higher tax rate of 60 *per cent* and surcharge at the rate of 25 *per cent* under Section 115BBE.

Further, as the assessee filed its return of income after the due date for filing of return, the assessee was liable to pay interest of ₹ 12.68 crore under Section 234A for 2 months, the same was not levied by the Department.

These discrepancies resulted in a short levy of tax of ₹ 536.07 crore, including cess and interest.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section 154, read with Section 144, in January 2023.

3.4.4.3	**CIT Charge**	**: PCIT-1, Thane**
	Assessee Name	**: A3 Pvt. Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

Audit observed that the AO, while finalising the assessment under Section 143(3) in April 2021 at an income of ₹ 647.33 crore, added ₹ 641.39 crore towards bogus purchase taxable at normal rate and ₹ 5.81 crore under Section 68 of the Act, towards unverified creditors taxable at special rate.

Audit further observed that the AO himself concluded that the assessee had not given any confirmation letter/ledger accounts, the seller of goods had not confirmed the purchases, and the assessee had not submitted the requisite bank statement for verification of transactions, etc., and treated the purchases as bogus, which should have been disallowed under Section 69C as unexplained expenses. Accordingly, the amount of ₹ 641.39 crore should have been taxed at the special rate by invoking the provisions of Section 115BBE of the Act instead of the normal tax. Omission to do the same resulted in a short levy of tax of ₹ 428.52 crore.

Further, it was observed that the Department, while computing tax liability of the assessee, levied tax at the rate of 25 *per cent* on the income of

₹ 641.51 crore whereas a concessional rate of tax of 25 *per cent* is applicable only in cases where the turnover or gross receipt of the company does not exceed ₹ 50.00 crore as per the Finance Act 2017. In this case, the assessee had a gross sale of ₹ 691.49 crore.

While accepting the audit observation, the Ministry stated (May 2026) that remedial action was taken by passing an order under Section 144 read with Section 263 and 144B of the Act in March 2025.

3.4.4.4	**CIT Charge**	**: CIT (Central)-1, Delhi**
	Assessee Name	**: M/s L1 Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

The AO, while finalising the assessment under Section 144/153A of the Act in April 2021 at an income of ₹ 662.30 crore, made additions of ₹ 552.28 crore, including an addition of ₹ 173.98 crore under Section 68 of the Act, which was to be charged at special rates under Section 115BBE of the Act. Audit observed that the AO, while computing tax liability of the assessee, levied the normal rate of tax, i.e. 30 *per cent*, instead of the special rate of 60 *per cent* on additions of ₹ 173.98 crore.

Audit further observed that a search and seizure operation was carried out in the case of the assessee in February 2018, and subsequently, a survey was also carried out at the business premises of the assessee. The assessee was non-compliant to the notices issued by the Department. The AO in the assessment order established that the assessee's purchase of ₹ 213.93 crore from a shell company was not genuine and hence treated the purchases as bogus as the assessee had not provided even a single document to support the genuineness of the purchases. Thus, the AO should have invoked provisions of Section 69C in the aforesaid addition and taxed as per provisions of Section 115BBE of the Act, which was not done.

Similarly, the purchase of ₹ 42.99 crore, treated as bogus, was required to be added back under Section 69C and taxed at a special rate under Section 115BBE of the Act instead of the normal rate of tax.

Furthermore, expenses of ₹ 1.77 crore towards business promotion, being unexplained/ unverified, were also required to be added back under Section 69C to the income of the assessee and taxed at a special rate as per Section 115BBE of the Act instead of the normal rate of tax. In addition, there was also an error in levying interest under Sections 234B and 234C.

These discrepancies resulted in a short levy of tax of ₹ 166.60 crore, including short levy of interest under Section 234B and excess levy of interest under Section 234C of the Act.

On being pointed out by Audit in October 2021, the Department accepted audit observation in respect of excess levy of interest under Section 234C whereas, did not accept the audit observation in respect of the non-addition of the bogus purchases of ₹ 213.93 crore and ₹ 42.99 crore under Section 69C of the Act citing that these purchases were bogus in nature and had been used to increase the turnover of the company hence liable to be disallowed which was done by the AO.

The reply of the Department was not acceptable on the grounds that:

(a) to attract additions under Section 69C of the Act, broadly two conditions are to be fulfilled namely, the taxpayer has incurred any expenditure and he offers no explanation about the source of such expenditure or part thereof, or the explanation, if any, offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the amount covered by such expenditure or part thereof, as the case may be, may be deemed to be the income of the taxpayer for such year. In the instant case, the assessee did not offer any explanation about it and the AO himself considered these expenditures as bogus transactions. Furthermore, despite having been given sufficient opportunities, the assessee failed to prove the genuineness of the purchases/expenses. So, it attracts the provisions of Section 69C.

(b) As the AO himself concluded in the assessment order that the purchases of ₹ 213.93 crore and ₹ 42.99 crore, made by the assesse from shell companies, were bogus in nature and the transactions were done only to reduce the profitability of the business by claiming these bogus purchases.

(c) Further, the AO himself added ₹ 173.98 crore under Section 68 (should be 69C) for unexplained purchases, citing similar reasons as cited for bogus purchases made from these shell companies. Besides this assessee, M/s F11 (PAN:AAACF0437B) was another beneficiary of entries provided by these shell companies and in the assessment order of M/s F11 for AY 2017-18, the AO added ₹ 132.96 crore and ₹ 419.51 crore under Section 69C against bogus purchases from these two shell companies, respectively and also taxed it at the rates prescribed under Section 115BBE. Therefore, on similar lines, these additions of ₹ 213.93 crore and ₹ 42.99 crore should have been made under Section 69C and taxed in accordance with Section 115BBE of the Act.

(d) The Supreme Court in the case of NK Proteins Ltd Vs CIT had held that the entire undisclosed income generated out of bogus transactions deserves to be added to the total income under Section 69C of the Act. This case had been cited by PCIT (Central) Delhi1 in the case of the same assessee for AY 2019-20, while setting aside the assessment order of the AO, asking him to make a fresh assessment by invoking the provisions of Section 69A read with Section 115BBE of the Act. The issue was communicated to the Department in August 2023.

In response to the above, the Department passed an order under Section 263 of the Act by setting aside the assessment order and directing the AO to make a fresh assessment taxing the amount of ₹ 213.93 crore and ₹ 42.99 crore under Section 69C read with Section 115BBE of the Act after giving due opportunity to the assessees. Effect order, by the jurisdictional AO, to this order is awaited from the Department.

Reply of the Ministry is awaited (May 2026).

3.4.4.5	**CIT Charge**	**: PCIT-2, Kanpur**
	Assessee Name	**: B2**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

The AO, while finalising the assessment under Section 144 read with Section 153A of the Act in September 2021, at an income of ₹ 17.02 crore, added a sum of ₹ 28.46 lakh under Section 69A of the Act on account of cash deposits/credit entries. However, the total cash deposits/credit entries were of ₹ 15.88 crore. As no explanation was furnished by the assessee, the entire amount should have been added under Section 69A of the Act and taxed under Section 115BBE, which was not done by the Department. This resulted in under assessment of the income of ₹ 15.60 crore, involving short levy of tax of ₹ 39.61 crore, including interest under Section 234A and 234B.

While accepting the audit observation, the Ministry stated (May 2026) that the remedial action was taken by passing an order under Section 154 in July 2025.

However, on examination of the rectification order passed under Section 154 in July 2025, it was noticed that though the Department added back the remaining credit entries to the total income, the Department omitted to apply the special rate of the tax and surcharge prescribed as per Section 115BBE, which needed to be rectified.

In view of the above, the Ministry may re-consider its reply.

3.4.4.6	**CIT Charge**	**: PCIT, Patiala**
	Assessee Name	**: S7**
	Assessment Year	**: 2017-18**
	Status	**: Firm**

Audit observed that the assessee was a non-filer and had credit entries of ₹ 3.62 crore in the bank account. The AO, while finalising the assessment under Section 147 read with Section 144 in March 2022 at ₹ 44.30 lakh, added eight *per cent* on these credit entries of ₹ 3.62 crore by treating it as total sales/turnover. However, the assessee neither responded to the notice issued by the Department nor furnished any information/audit report as per the provisions of Section 44AB of the Act. In view of no response from the assessee, the entire credit entries were required to be treated as unexplained income under Section 69A, which was not done. The omission resulted in under assessment of income by ₹ 3.33 crore, involving a tax effect of ₹ 5.85 crore.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section 147/144 read with Section 263 in March 2024.

3.5 Cases pertaining to the period prior to AY 2013-14, i.e. before the introduction of Section 115BBE, wherein audit observations were made relating to unexplained transactions under Sections 68, 69, 69A, 69B, 69C, and 69D

Prior to the introduction of 115BBE, with effect from 01/04/2013 (applicable from AY 2013-14), vide the Finance Act, 2012, there were no special tax rates prescribed for unexplained incomes referred to under Sections 68, 69, 69A, 69B, 69C and 69D and were taxed at normal tax rates, as prescribed in the relevant Finance Act. Further, there were no restrictions in claiming/allowing deductions, including set off of losses against the aforesaid unexplained incomes, under Sections 68, 69, 69A, 69B, 69C and 69D.

Section 115BBE was implemented with effect from 01/04/2013 (applicable from AY 2013-14). To make a comparison in taxation of unexplained transactions prior to and post implementation of Section 115BBE, the audit also included in this report cases pertaining to the period prior to AY 2013-14, which are discussed in this paragraph.

Out of 1,902 cases reported in this Report, 51 cases, in six States[6], involving tax impact of ₹ 1,946.19 crore, pertained to the period, prior to AY 2013-14, which relates to the incorrect application of the rate of tax/surcharge, incorrect adoption of assessed income in the computation statement (ITNS), and income escaping assessment relating to deemed income under Sections 68, 69, 69A, 69B, 69C and 69D.

[6] Delhi, Jharkhand, Madhya Pradesh, Maharashtra, Tamil Nadu and Telangana

Out of the 51 cases, the Department completed/initiated remedial action in 22 cases, did not accept the audit objection in five cases, and in the remaining 24 cases, the reply from the Department is awaited. Out of these 51 cases, six cases from different charges have been discussed below:

3.5.1	**CIT Charge**	**: CIT-4, Delhi**
	Assessee Name	**: M/s K8 Pvt. Ltd**.
	Assessment Year	**: 2012-13**
	Status	**: Company**

The assessee company filed its return of income for AY 2012-13 on 30 September 2012 at an income of ₹ 15.54 lakh. Scrutiny assessment was initially completed under Section 143(3) in March 2015, determining income of ₹ 16.89 lakh. Thereafter, based on the information received from the Investigation Unit of the Department about the debits of ₹ 947.29 crore and credits of ₹ 947.18 crore in the bank account of the assessee, the AO issued a notice under Section 148 to the assessee on 18 March 2019, requiring the assessee to file a return of the income within 30 days for the AY 2012-13. There was no compliance and submissions from the assessee during the assessment proceedings. The AO had completed the assessment of the assessee for the AY 2012- 13 after scrutiny under Section 144 read with Section 147 of the Act in November 2019, determining an income of ₹ 4.89 crore and a tax liability of ₹ 1.59 crore thereon.

(i) The audit initially, in January 2021, had pointed out short levy of interest under Section 234A (3) for a delay of 08 months from April 2019 onwards i.e. after the expiry of notice period till the date of assessment order, a short levy of interest under Section 234B(3) i.e. interest levied for 57 months instead of 92 months and non-levy of interest under Section 234C of the Act. The AO rectified these discrepancies vide order under Section 154 dated 31 March 2022. Further, Audit reviewed this rectification order and other clarification/records called from the assessing office along with the assessment order passed under Section 144/147 in November 2019, and audit made further observations, which are discussed in the succeeding paragraphs.

(ii) The AO in his order under Section 144/147 made the additions to the returned income of ₹ 15.54 lakh of the assessee instead of adding the same to the income of ₹ 16.89 lakh assessed under Section 143(3) in March 2015. This remained unnoticed/unrectified in the rectification order dated 31 March 2022, passed under Section 154. Thus, there was an underassessment of ₹ 1.35 lakh. Further, as per the Individual Transaction Statement of the Income Tax Department, the assessee earned interest income of ₹ 25.98 lakh from the bank, against which TDS at the rate of 10 *per cent*, amounting to ₹ 2.60 lakh, was also deducted by the bank. In ITR, the assessee, however, disclosed only

₹ 12.99 lakh and claimed TDS of ₹ 1.29 lakh. Thus, the assessee short- disclosed income of ₹ 12.99 lakh. The AO, however, did not bring this undisclosed income to tax in the assessment order passed under Section 143(3) in March 2015, and failed to do so in subsequent orders passed under Section 144/147 in December 2019 and under Section 154 in March 2022. As a result, there was an underassessment of the income of ₹ 12.99 lakh.

(iii) Assessment order dated 5 November 2019 passed by the AO under Section 144 read with Section 147 stated that besides the information received from the Investigation Unit about debits and credits in assese's ICICI bank account, the AO also obtained the assessee's bank statements for FY 2011-12 and FY 2012-13 from ICICI bank, HDFC Bank and Oriental Bank of Commerce by using power under Section 133(6) of the Act. From the information so received, the AO found that the assessee was operating a bank account with ICICI Bank opened on 25 September 2010, and the transaction pattern shows account credits mainly through cash deposits and debits mainly towards foreign remittance. The AO further noted that in the span of three days alone from 24/11/2011 to 26/11/2011:

(a) There were credits of ₹ 947.18 crore and debits of ₹ 947.29 crore in this ICICI bank account of the assessee.

(b) These credits of ₹ 947.18 crore include ₹ 930.08 crore comprising of ₹ 691.72 crore credited through cash deposits alone, and out of the remaining credits, ₹ 238.36 crore was through transfers mainly from Dazzle Exim Pvt. Ltd. and

(c) There were debits of ₹ 947.29 crore, including ₹ 930.59 crore comprising ₹ 789.30 crore debited by foreign remittances mainly to Oracle General Trading in the UAE in USD, and ₹ 141.29 crore debited through transfer mainly from D12 Pvt. Ltd.

(iv) After failure of the assessee to comply/respond to the Notices 148 and 142(1) issued during March 2019 and October 2019 respectively, including show cause notice through speed post/emails for submission of information/ explanation/ hearing, the AO in his best judgement assessment assumed these unexplained credits of ₹ 947.29 crore in the assessee's ICICI bank account (It should be ₹ 947.18 crore and which included in the above referred cash deposits ₹ 691.72 crore) as the assessee's turnover from contract receipts and assessed 0.5 *per cent* of this contract receipt as the average commission rate (i.e. ₹ 4.74 crore being 0.5 *per cent* of ₹ 947.29 crore though mentioned as 10 *per cent* at page 2 of the assessment order) as escaped income of the asssessee for taxation purpose. The Best Judgement Assessment made by the AO under Section 144/147 of the Act to assess only 0.5 *per cent* of unexplained credits was not as per the provisions of the Act and was also not in the interest of the revenue as the assumption made in the assessment order were not supported by material facts brought on records during the assessment proceedings and there were other discrepancies in the assessment order as commented below:

(a) The assessee company disclosed Oriental Bank of Commerce (OBC) as its banker in its ITR. The details of bank accounts held with ICICI Bank opened in September 2010 were concealed by the assessee company, in which the AO found ₹ 947.18 crore credited in a span of three days, including cash deposits of ₹ 691.72 crore. There were unexplained debits of ₹ 947.29 crore within a span of three days in this undisclosed bank account, including ₹ 930.59 crore signifying foreign remittance to the UAE in USD. As per the bank statement of OBC, these credits/debits in ICICI bank account had no link with assessee's disclosed bank account with OBC. So, such huge unexplained credits/debits noted in the assessee's undisclosed bank accounts cannot be linked with the disclosed business transactions of the assessee. In fact, such suspicious transactions involving huge cash deposits and foreign remittances should have been referred to investigation authorities like the Enforcement Directorate and CBI, which was not done, as appeared from the fact that the AO accepted the same as resulting from business transactions without the material facts to support such an assumption. Moreover, the 360-degree Screen of the Department shows that the assessee did not file an ITR after AY 2013-14.

(b) The AO considered the debits and credits relating to three days period from 24/11/2011 to 26 /11/2011 in this undisclosed ICICI bank account and did not discuss the debits and credits of the other dates of FY 2011-12. The AO did not provide the assessee's bank statements obtained from the ICICI bank to the audit despite reminders, the AO also obtained the assessee's undisclosed bank statement with HDFC which was opened on 02/03/2012 with only one deposit transaction of ₹ 10.00 lakh in FY 2011-12. However, there were total debits of ₹ 442.81 crore and credits of ₹ 442.72 crore in this HDFC account in the succeeding FY 2012-13 (AY 2013-2014). Audit noted that the assessee did not disclose the existence of ICICI Bank and HDFC Bank accounts in its ITR filed for the subsequent AY 2013-14. Despite having found suspicious transactions of such a magnitude in HDFC, but not in sync with transactions disclosed in the ITR filed by the assessee, assessment of succeeding AY 2013-14 was not opened, as appeared from the 360-degree view screen of the department IT system.

(c) Such a huge inflow of unexplained money in the bank within a period of three days, which also included ₹ 691.72 crore of cash deposits, cannot be termed/assumed as contract receipts arising from a diamond business that was started by the assessee during the FY under consideration. {Para 8(b) of Part B of the Form 3CD in which the Tax Auditor stated for a change in the nature of business that the assessee had started dealing in rough diamonds and stones. Moreover, TDS on contract receipts at the rate of two *per cent*, being the recipient company, was to be deducted by the Payers under Section 194C(1) of the Act as applicable to the AY 2012-13. But as per Form 26AS, there is no evidence of TDS deducted on such huge receipts. Moreover, such receipts cannot also be logically termed as retail sales or retail cash sales of three days. Therefore, it was not right for the AO to assume the unexplained credits of ₹ 947.18 crore, which also included ₹ 691.72 crore of cash deposits, as the assessee's business receipts in the form of contract receipts for taxation purposes.

(d) Thus, these suspicious credits intimated by the Investigation Unit of the Department remained unexplained as the assessee was non-compliant to various statutory notices issued to submit the required information and explanation, and the assessee also did not participate in the assessment proceedings in any manner. Best Judgement assessment was expected to be kind of speaking order for conclusion drawn therein. In two-page assessment order, the AO did not write reasons for assuming unexplained credits of ₹ 947.18 crore in span of three days found in the bank account of the assessee, which also consisted of cash deposits of ₹ 691.72 crore, as business turnover from contract receipts and also, there was no explanation in the assessment order that these receipts related to commission business and average commission rate was 0.5 *per cent*.

(e) In the preceding assessment order of AY 2011-12 dated 05 December 2018, it was also mentioned that the total credits and debits of ₹ 947.18 crore (including cash deposits of ₹ 691.72 crore) and ₹ 947.18 crore respectively were found in the bank accounts between 24/11/2010 and 26/11/2011. This period fell between two FYs and consequently two AYs, i.e. 2011-12 and 2012-13. But these credits were assessed in AY 2011-12, wherein the AO made an addition of ₹ 4.74 crore (0.5 *per cent* of ₹ 947.18 crore) to the returned income of ₹ 15.09 lakh. However, as mentioned in the above paragraphs, the same credits and debits amount were discussed in the assessment order for AY 2012-13 dated 05 November 2019, wherein it was mentioned that the said credits and debits took place between 24/11/2011 to 26/11/2011 and the addition of the ₹ 4.74 crore (0.5 *per cent* of ₹ 947.18 crore) was made to the returned income of ₹ 15.54 lakh. However, the same amount with similar details cannot be assessed in two different AYs. Therefore, this

Office had sought breakdown/clarification regarding credits of the assessee with respect to AY 2011-12 and AY 2012-13 through various letters; however, the same has not yet been provided. Therefore, this discrepancy remained unresolved.

(v) Given the above facts and for the fact that the AO herself concluded such credits from undisclosed transactions as unexplained, the same fulfils the criteria of Section 69A, i.e. credits found outside the books of account and remain unexplained. Therefore, the full amount of unexplained bank credits, ₹ 947.18 crore, which included cash deposits of ₹ 691.72 crore, should have been assessed as deemed income of the assessee under Section 69A for reasons stated above. Moreover, assessing only 0.5 *per cent* of the unexplained credits means not only legalising the remaining 99.5 *per cent* of unexplained credit receipts of ₹ 942.44 crore (₹ 947.18 crore - ₹ 4.74 crore) into White Money, but also, in some way, amounts to incentivising the assessee to remain non-compliant in the assessment proceedings.

(vi) The above discrepancies in assessment order resulted in a short assessment of income of at least ₹ 942.59 crore and a short levy of tax of ₹ 612.31 crore, including consequent short levy of interest under Sections 234A(3), 234B(3) and 234C. Considering the above discrepancies, including assessment of a similar amount with similar details in two AYs and a significant tax effect, this requires review at the appropriate assessment charge level. Further, credits of ₹ 442.72 crore noted in the HDFC account in the succeeding FY 2012-13 (AY 2013-14), as mentioned above, are to be examined to bring it to the assessment, as mentioned above.

(vii) A clarificatory letter pointing out discrepancies in the assessment order passed for AY 2012-13 and 2011-12 was also issued to CIT-4 Assessment charge vide this office DO letter dated 9 June 2023.

(viii) In reply dated 10/10/2023 of the AO addressed to Addl. CIT, Range-13, which was forwarded to this office on 21/10/2024, the AO has not accepted the audit observations citing the following reasons:

(a) Under Section 69A of the Act, the onus lies upon the Assessing Officer to prove that all the money in the form of unexplained credits in the bank belongs to the assessed company. It is apparent that the funds in the assessee's bank account did not remain with the assessee, and the assessee had acted as a conduit for providing bogus entries. In any hawala transaction, the operator or conduit entity is not the owner of the money. They merely earn a certain percentage of commission on the quantum of arranged transactions. As per the letter dated 20/02/2018 sent by DDIT(Inv.), Unit-6(4), Mumbai, the AO was informed that these entities

(K10 Pvt. Ltd. and K8 Pvt. Ltd.) were not doing any genuine business but were involved in providing cheque entries. The persons controlling these entities admitted in the statement on oath that they were managing various entities to facilitate arranged transactions.

(b) The reasons recorded for reopening of the cases mentioned the escapement of income in the form of "commission" earned by the assessed in lieu of the accommodation entries given though bank transactions. In the case of K10 Pvt. Ltd., Ld. CIT(A) had deleted even the addition or commission at the rate of 0.5 *per cent*, holding that the sale/purchase was genuine. Against the same, Revenue filed the appeal before the Hon'ble ITAT. Hon’ble ITAT vide order dated 07/09/2022 in ITA No. 8341/DEL/2019 partly allowed the Revenue's appeal. In its order, Hon'ble ITAT did not give any finding to confirm the decision of the Ld. CIT(A). Apparently, Hon'ble ITAT did not find any fault with the observation of the AO to add only the commission at the rate of 0.5 *per cent* of the bank credits /claimed turnover. Therefore, the objection raised by Revenue Audit is not in the spirit of the decision of Hon'ble ITAT.

(c) Revenue Audit had pointed out the non-compliance / non-attendance on the part of the assessee company during the course of re-assessment proceedings. It had been pointed out that in the absence of any explanation, the whole amount was required to be assessed in the hands of the assessee. Hypothetically observed, the assessee would have offered an explanation claiming the transaction entries as its sale/purchase/loan transactions or at most, it would have repeated its claim of earning commission as was admitted in the statement recorded before the Investigation Wing. In that scenario, also, to avoid a high-pitched assessment order, a similar addition would have been made. Therefore, this contention of the Revenue was considered not tenable.

(d) Without prejudice, it was noted that the initial Audit observation dated 31/01/2020 titled "the avoidable errors in computation of income tax/interest" pointed out the short levy of tax and interest of ₹ 69.23 lakh for AY 2011-12. Subsequently, through correspondence dated 08/05/2021, the Audit pointed out calculation errors of interest under Section 234C in the rectification order under Section 154/148 dated 08/07/2021, which was passed due to the Audit observation dated 31/01/2020. Similarly, the Audit observation for the AY 2012-13 pointed out that tax and interest were short-charged by an amount of ₹ 69.21 lakh. This error was rectified vide order under Section 154 dated 08/04/2022.

(e) The observations subsequently made vide letter dated 23 February 2023 are titled as "Discrepancies in assessment of Income' pointing out the alleged default of not assessing the whole credits in the hands of the assessee as income for the year under Section 69A. This additional observation/objection has been given by Revenue Audit more than two years after the original Audit observation was issued in January 2020. There was no change in the material facts and no new documents/evidence during this intervening period of two years, and Revenue Audit had the same information at the time of the audit in January 2020. Therefore, the subsequent observations made by Audit in February 2023 were additional observations/objections raised at a time when the limitation date for remedial action had already elapsed.

(ix) The above reply of the AO to the audit observations was not tenable for the facts already stated in paragraphs (iii) to (viii) above, and additionally, due to the following reasons:

(a) The justifications given in replies dated 10/10/2023 received with the letter dated 21/10/2024 were not discussed in the two-page assessment order of the AO, which involved unexplained bank credits of hundreds of crores, i.e. ₹ 947.18 crore, including cash of ₹ 691.72 crore found deposited in the bank account of the assessee within the span of three days. This showed a casual approach to assessment involving such high-value unexplained transactions.

(b) Further, it was beyond any logic and support of facts that similar unexplained credits with similar details had been assessed in two different AYs, i.e. 2011-12 & 2012-13. These discrepancies were pointed out by audit vide letter dated 30/05/2023, 09/06/2023 and 26/07/2023. But there was no reply from the Assessing Officer in this respect, nor any rectification to correct such obvious glaring discrepancies involving two assessment years.

(c) As per the assessment order, debits in the bank account of the assessee signifying foreign remittance of ₹ 789.30 crore were made to the Oracle General Trading of the UAE. As per the AO letter dated 10/10/2023 addressed to Addl. CIT, Range-13, this UAE firm was a suspected Hawala operator. This letter, dated 10/10/2023, also stated that the assessee was not doing any genuine business but was involved in providing accommodation entries. It also stated that the Hawala operators were not the owners of the money, and the persons controlling these entities were managing various entities to facilitate arranged transactions.

(d) If the AO at this stage considered these unexplained bank credits running into several hundred crores, including cash deposits of ₹ 691.72 crore in a span of three days as related to accommodation entry transactions, then the AO was to establish whether this assessee was an accommodation entry provider, or the assessee was a beneficiary of these accommodation transactions involving several hundred crores. If the AO considers this assessee as a beneficiary of these accommodation transactions, then unexplained bank credits are to be added under Section 69A in the assessment of this assessee. If the assessee was considered as an accommodation entry provider and end-beneficiaries had not been determined, then these unexplained bank entries in full are to be added in its hand under Section 69A on a protective basis to protect the interest of the revenue, until end-beneficiaries are identified and assessed. This position was supported by the provisions of Section 69A, practice being followed in several other assessments in the interest of revenue and various case laws (Example- CIT Appeal-19, New Delhi order dated 23 Nov. 2021 in case of M/s Pragaya Multi Traders Pvt Limited - AY 2017-18). The Audit observed that the AO in his two-page assessment order had not made any determination of end-beneficiaries of these transactions to bring them to tax for their undisclosed financial transactions. Thus, ₹ 942.59 crore, which was alleged by the AO himself as related to Hawala transactions, remained outside the tax net.

(e) The audit findings were being processed for inclusion in the CAG's Audit report, and therefore, for the sake of accuracy and completeness, and considering obvious and significant discrepancies in the assessment, this assessment was reviewed afresh. A statement of facts was issued to the CIT assessment charge on 23 February 2023, followed by a DO letter and a follow-up seeking the attention of the appropriate authority in the assessment charge. Moreover, this is the responsibility of the assessment charge to complete the assessment with adequate diligence, free from errors/discrepancies, as per provisions of the Income Tax Act (Section 69A in this case) and in the interest of revenue. This was not done in this case. Further, considering the nature of unexplained transactions, which included cash deposits of ₹ 691.72 crore, the assessment charge was expected to refer this case to other agencies responsible for investigation under other laws. But there is no evidence that the AO did this. Therefore, it is incumbent on the part of the appropriate office within CBDT formation to review the case considering significant tax implications to the revenue, as there was at least a short levy of ₹ 612.31 crore as stated above.

The above-mentioned rebuttal was issued to the Pr. CIT-4/ITO Ward-14(3) New Delhi, in November 2024.

Reply of the Ministry is awaited (May 2026).

3.5.2	**CIT Charge**	**: PCIT (Central)-I, Chennai**
	Assessee Name	**: M/s K9 Pvt. Ltd.**
	Assessment Year	**: 2010-11**
	Status	**: Company**

The AO has completed the assessment of the assessee for AY 2010-11 under Section 143(3) read with Section 153C of the Income Tax Act, in March 2022, determining income of ₹ 63.90 crore and a tax liability of ₹ 122.46 crore. The assessee had filed the ITR, admitting an income of ₹ 0.14 lakh.

The AO made an addition of ₹ 63.90 crore as unexplained Cash credits under Section 68 of the Act, to be taxed at the rate of 30 *per cent* as prescribed in the Act. However, while computing tax liability in the computation sheet (ITNS), the AO levied the tax at a special rate of 60 *per cent* and surcharge at 25 *per cent,* as prescribed under Section 115BBE of the Act, which was not applicable in the instant case.

The incorrect application of the rate of tax and surcharge resulted in excess levy of tax of ₹ 68.78 crore, including interest under Section 234B and 234C. In reply, the Department completed rectification by passing an order under Section 154 in January 2023.

Reply of the Ministry is awaited (May 2026).

3.5.3	**CIT Charge**	**: PCIT-10, Delhi**
	Assessee Name	**: R5**
	Assessment Year	**: 2012-13**
	Status	**: Individual**

The case was reopened under Section 147 on the basis of information available with the Department that the assesse had made total credits of ₹ 248.08 crore (cash and other inward credits) in his two bank accounts: (i) Account maintained with Bank of Baroda (cash deposit ₹ 137.42 lakh). (ii) Account maintained with State Bank of India (cash and other credits ₹ 246.70 crore). The assessee had also earned interest of ₹ 0.85 lakh. The assesse did not file its return of income in response to notice served under Section 148, and also remained non-compliant to various notices issued during the assessment proceeding. The assessment was concluded under Section 147 read with Section 144, in December 2019, by determining income at ₹ 22.34 crore.

The AO completed the assessment by adding the full amount of the unexplained cash deposit of ₹ 137.42 lakh as his normal income. Further, the AO treated the unexplained credits of ₹ 246.71 crore found in the assessee's bank account as the assessee's business turnover and added ₹ 20.97 crore, being gross profit at an assumed rate of 8.5 *per cent,* as income.

Considering unexplained credit of ₹ 246.71 crore found in the bank account (other than cash deposit) as business turnover by the AO and adopting 8.5 *per cent* of it as income, instead of treating the entire amount of ₹ 246.71 crore as deemed income, under Section 69A, is not found correct due to the following reasons:

a. Despite having been given sufficient opportunities, the assessee failed to bring on record any evidence, like Profit and Loss account, Balance Sheet, sales and purchase register, details/nature of such credits/debits and other related books of accounts to establish his claims that the credits and debits in the bank statements were connected with his business transactions. So, in the absence of any information as to the existence of a business operation or on the debits in the bank statements as business expenditure or any other contrary evidence/ reply/submissions from the assessee, it was not in order on the part of the AO to assume an unexplained bank credit of ₹ 246.71 crore, found in assessee's bank account as assessee's business turnover.

b. The audit reviewed ITR for AY 2012-13 and found that the assessee stated to have been running a business as trading proprietary activities. As per the ITR, the assessee had declared a sales turnover and other income of ₹ 18.38 crore only. Therefore, assuming unexplained bank credits of ₹ 246.71 crore (13.5 times the declared sales turnover), as the assessee's business turnover is not in sync with the turnover reported by the assessee. Further, as per this ITR, all major heads generally necessary for running a business have nil balance in the balance sheet, including secured and unsecured loans (including from banks), fixed assets, investments and inventory (debits) had nil balance. Other major balances were sundry debtors of ₹ 11.81 crore and sundry creditors of ₹ 11.75 crore, which remained unverified during the assessment proceeding. In P & L A/c, there are nil expenses under most heads, including Power and fuel, Contribution to provident fund, Insurance, Sales promotion, Advertisement, Commission, Bad debts and Depreciation. These expenses are routinely incurred in all kinds of businesses. Salaries and wages of ₹ 9.02 lakh, other expenses of ₹ 3.87 lakh are the only heads with expenses of more than ₹ one lakh. Thus, even the expenses and assets/liabilities profile of this assessee is not in sync with ₹ 246.71 crore assumed by the AO as the assessee's business turnover.

c. Furthermore, Audit reviewed the ITR of this assessee for subsequent AYs 2013-14, 2014-15 and 2015-16. For AY 2013-14, total sales turnover/other income and purchase were ₹ 20.35 lakh and 'nil' respectively, for AY 2014-15, total sales turnover/other income and purchase were ₹ 13.37 crore and ₹ 13.12 crore respectively, and for AY 2015-16, total sales turnover/other income and purchases were ₹ 13.19 crore and ₹ 12.99 crore respectively. Thus, financial figures of subsequent AYs are not in sync with the business profile of the assessee’s unexplained bank transaction found in the assessee’s bank account in respect of AY 2012-13.

d. The assessee had disclosed in ITR his bank account with Delhi State Co-operative Bank Ltd, Delhi, for AY 2012-13 and AY 2014-15, IDBI Bank branch, Muradabad, for AY 2013-14 and for AY 2015-16, PNB, HDFC and Delhi State Co-operative Bank Ltd. But unexplained cash/other bank credits of ₹ 248.08 crore noted by the AO for AY 2012-13 were in an undisclosed bank account of the assessee, i.e. State Bank of India & Bank of Baroda. Moreover, Section 69A does not make any distinction between unexplained cash bank credits and other bank credits. Therefore, assuming unexplained bank credit of ₹ 246.71 crore (credit entries of ₹ 246.70 crore + interest income of 0.85 lakh) as business receipt is not based on known facts.

e. With the above given facts in ITR available with the AO and reasons given about assuming unexplained bank credits of ₹ 246.71 crore as the assessee’s business receipts and then taxing only 8.5 *per cent* of ₹ 246.71 crore (i.e. ₹ 20.97 crore) as assessee’s undisclosed normal business income is incorrect, not in line with the provision of section 69A and also not in sync with the known facts stated in ITR filed by the assessee. Considering the above facts, the unexplained amount of ₹ 246.71 crore meets the requirements of Section 69A. Thus, the AO should have added the whole amount of such unexplained bank credits of ₹ 246.71 crore under Section 69A. Moreover, assuming unexplained bank credit of ₹ 246.71 crore and then taxing only 8.5 *per cent* of this amount as business income means that this assessment allowed conversion of the remaining unexplained amount of ₹ 225.74 crore (91.5 *per cent*) into white money. This unexplained bank credit requires further investigation under other economic offence legislation.

The above indiscretion on the part of the AO has resulted in underassessment of income by ₹ 225.74 crore. This resulted in a short levy of tax of ₹ 141.31 crore, including consequent short levy of surcharge, education cess and interest under Sections 234A and 234B.

Reply from the Ministry is awaited (May 2026).

3.5.4	**CIT Charge**	**: PCIT-10, Delhi**
	Assessee Name	**: S13**
	Assessment Year	**: 2012-13**
	Status	**: Individual**

The AO had made an addition of ₹ 202.83 lakh on account of unexplained income under Section 68 to the returned income of ₹ 89.10 lakh. However, while making the computation of tax in ITNS-150 of the assessment order, the AO taxed the returned income of ₹ 89.10 lakh instead of the assessed income of ₹ 291.93 lakh, resulting in an unde]r-assessment of income to the tune of ₹ 202.83 lakh.

These obvious inaccuracies in the computation of income and tax resulted in a short levy of tax of ₹ 121.10 lakh, including interest of ₹ 58.35 lakh and ₹ 0.04 lakh under Sections 234B(3) and 234C, respectively.

Audit observation was communicated to the Department in March 2021, followed by reminders in June 2021, February 2022, May 2022, October 2022 and April 2023.

Reply from the Ministry is awaited (May 2026).

3.5.5	**CIT Charge**	**: PCIT-6, Mumbai**
	Assessee Name	**: M/s S2 Pvt. Ltd.**
	Assessment Year	**: 2011-12**
	Status	**: Company**

The assessment of the assessee, for AY 2011-12, was completed under Section 144 read with Section 147 in November 2018, determining the total income at ₹ 1.45 crore. Audit scrutiny revealed that an amount of ₹ 28.69 crore was credited in various bank accounts. There was no response from the assessee to any of the notices issued by the Department. Hence, the nature and sources of the above credits remained unexplained. As such, the amount of ₹ 28.69 crore was required to be added back under Section 68. However, it was seen that the AO had added only ₹ 1.43 crore, being five *per cent* of the credits of ₹ 28.69 crore, which was not in order.

This resulted in under-assessment of the differential income of ₹ 27.26 crore, involving a short levy of tax of ₹ 9.05 crore, excluding interest under Section 234B.

The audit observation was issued to the Department in July 2019.

The Department, while accepting the audit observation, stated (September 2022) that the remedial action was taken by passing the order under Section 144 read with Section 263 in March 2022.

Reply from the Ministry is awaited (May 2026).

Conclusion:

The types of errors *viz.* errors in adoption of assessed income in the computation statement; incorrect application of rate of tax and surcharge; irregularity in set-off of losses against the additions made under Sections 68 to 69D and escaped assessment with respect to unexplained transactions, discussed in this chapter, not only indicated lapses on the part of AO, while finalizing assessment/computing tax liability but also pointed weaknesses in the internal controls in the ITD and deficiency in check/validation in the ITD system.

Further, the Audit noted that the irregularities/inconsistencies, which were noticed in cases prior to the introduction of Section 115BBE, persisted even in cases processed post-introduction of this Section.

These errors might result not only in loss to the exchequer but also in an increase in cases under litigation as well as harassment to the assessee.

Recommendation 1:

While the Department has taken corrective measures in cases pointed out by Audit, it may be mentioned that these are only a few illustrative cases, test checked in the audit. Therefore, CBDT is required to examine entire cases, pertaining to the audit period, where assessments include taxation of unexplained/undisclosed transactions, as the possibility of occurrence of such errors cannot be ruled out in the remaining cases.

The Ministry stated (April 2026) that the selection of assessment cases for Internal Audit is based on various aspects, viz., high risk factor, availability of human resources, etc. Further, stated that it will not be feasible and practical to subject all the assessments relating to the application of provisions of Section 68, 69A/B/C/D, read with Section 115BBE, to Internal Audit.

Audit acknowledged that selection of all the cases pertaining to Sections 68, 69A/B/C/D is not feasible by the Internal Audit wing of the ITD. Accordingly, the recommendation has been modified as under:

While the Department has taken corrective measures in cases pointed out by Audit, it may be mentioned that these are only a few illustrative cases, test checked in the audit. Therefore, the CBDT, based on available manpower after doing the risk analysis and factoring in the monetary threshold, to be decided by the CBDT, may review potential assessment

cases, where assessments include taxation of unexplained/undisclosed transactions, pertaining to the audit period to avoid revenue loss.

Recommendation 2:

The CBDT may consider identifying reasons for such errors and, accordingly, put in place a foolproof IT system and internal control mechanism to avoid the recurrence of such errors in the future.

The Ministry/CBDT stated (May 2026) that the issues of Sections 68, 69A, 69B, 69C, and 69D read with Section 115BBE have arisen due to discrepancies observed during the computation process at CPC. Such discrepancies may occur either due to system-related issues at CPC or due to inaccuracies in input data.

Further, in cases where the issue is attributed to CPC, the same is validated internally and necessary corrections are implemented post-fix, the changes are subjected to testing in the UAT environment to ensure accuracy and prevent recurrence, and subsequently deployed in production after successful validation. Where the issue pertains to input data, the matter is conveyed to the ITBA team for verification and necessary rectification. Appropriate guidance is also provided to the AO for corrective action.

Furthermore, in the existing setup, computation results are share with AO. Upon checking computation results, if AO is not satisfied, same is communicated back to CPC via ticket, highlighting the discrepancy. If the results are acceptable to the AO, he proceeds to final accounting.

The Ministry's reply is acceptable. However, the current framework lacks accountability for ensuring data integrity at the source. Without stronger validation checks at the point of data entry, rectification will remain reactive rather than preventive. A more robust, preventive, and accountable framework is essential to ensure reliable computational outcomes.

Recommendation 3:

The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and in the case of errors of commission, the ITD may ensure necessary action, including fixing responsibility as per law.

The Ministry/CBDT replied (April 2026) that:

- *Handling of revenue audit objections and instances of errors therein is guided by Instruction No. 3 of 2024 dated 17/09/2024 issued by the CBDT. Reports from field authorities are obtained in standard format prescribed in the Instruction for every draft para in Compliance Audit and illustrative case in Performance Audit /SSCA.*

- *Proforma Report-A is obtained for every draft para. If the objection is accepted, remedial action is taken* under Section *148, 154 or 263 of the Income-tax Act, 1961.*
- *Further, the field authority concerned furnishes comments in Proforma Report-B on the instances of error if the objection is accepted, including whether the error is bonafide or malafide, after examining the facts of the case and obtaining the explanation of the concerned officer, if warranted.*
- *No case has so far come to the notice of CBDT with respect to Compliance Audit on Application of Provisions under Sections 68 to 69D, read with Section 115BBE, in which the mistake was found to be mala fide.*

Audit is of the view that though these mistakes were not found to be mala fide, these irregularities indicated that the concerned officers did not exercise due diligence, resulting in loss to the exchequer. Therefore, the Ministry may issue necessary instructions/SOP to sensitise officers to avoid recurrence of such lapses and ensure greater accountability in handling such assessments.

Chapter 4: Systemic Issues

This chapter discusses deficiencies in the ITD systems in conducting assessments and determining demand/refund thereon, involving additions to the total income of the assessee under Sections 68, 69, 69A, 69B, 69C and 69D read with Section 115BBE of the Act. Further, the Audit also attempted to ascertain the issues/ambiguity in provoking the provisions of Sections 68 to 69D, read with Section 115BBE of the Act, while finalising assessments. The adequacy of internal audit/monitoring of internal audit and assessments completed in respect of special schemes, *viz.*, Operation Clean Money, etc., has also been examined in the audit. The issues observed during the course of audit are discussed in the succeeding paragraphs.

4.1 IT System deficiency – non-provision of auto-population of assessed income in CPC-ITR for computation of tax demand/refunds

As per the existing provisions, the AO is required to input the requisite details to CPC-ITR for the computation of tax demand/refund after the completion of the assessment. The income determined/finalised by the AO is entered in the ITBA and transmitted to CPC-ITR for computation of tax.

During the course of the Compliance audit conducted from 2018-19 to 2022-23, Audit came across discrepancies in the adoption of assessed income and incorrect depiction of assessed income in the ITNS or while computing tax liability application of incorrect rate of tax and surcharge, etc., in 1,257 cases involving tax effect of ₹ 5,936 crore in 23 States.

These discrepancies are categorised into the following two categories:

(i) Cases where assessed income was depicted either twice/thrice or more than the actual assessed income, or less than the actual assessed income, or zero

(ii) Cases where assessed income was depicted erroneously in the relevant category, *viz.*, special income in place of normal income and incorrect application of rate of tax and surcharge, etc.

4.1.1 Cases where assessed income was depicted either twice/thrice or more times than the actual assessed income, or less than the actual assessed income or zero

Audit noticed that while computing the tax liability of the assessee, the assessed income was depicted twice/thrice or more times than the actual assessed income or less than the actual assessed income or zero, in ITNS, in 331 cases involving a tax effect of ₹ 1,230 crore in 19 states[7]. State-wise summary of such cases is given below in Table 4.1:

Table 4.1: Cases relating to incorrect adoption of assessed income				
States	**No. of cases**	**Cases in percentage**	**Tax Effect (₹ in crore)**	**Tax Effect in percentage**
Andhra Pradesh	19	5.7	39.45	3.2
Chandigarh	9	2.7	47.58	3.9
Chhattisgarh	8	2.4	6.69	0.5
Delhi	116	35.0	597.19	48.5
GOA	1	0.3	0.11	0.0
Gujarat	7	2.1	14.58	1.2
Haryana	3	0.9	116.63	9.5
Jharkhand	3	0.9	3.41	0.3
Karnataka	7	2.1	29.02	2.4
Kerala	5	1.5	7.40	0.6
Madhya Pradesh	68	20.5	89.65	7.3
Maharashtra	2	0.6	1.69	0.1
Odisha	14	4.2	47.71	3.9
Punjab	3	0.9	20.13	1.6
Rajasthan	20	6.0	25.21	2.0
Tamil Nadu	6	1.8	88.96	7.2
Telangana	30	9.1	74.74	6.1
Uttar Pradesh	9	2.7	20.01	1.6
Uttarakhand	1	0.3	0.24	0.0
Grand Total	**331**	**100.0**	**1,230.40**	**100.0**

As shown in Table 4.1 above, in terms of the number of cases, the largest discrepancies were observed in Delhi (35.0 *per cent*), followed by Madhya Pradesh (20.5 *per cent*). Further, in terms of tax impact, the highest discrepancies were in Delhi (48.5 *per cent*), followed by Haryana (9.5 *per cent*) and Tamil Nadu (7.2 *per cent*).

[7] Andhra Pradesh, Chandigarh, Chhattisgarh, Delhi, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and Uttarakhand

Further, cases falling under this category have been discussed in detail in Chapter 3 (refer to para 3.2) of this report. However, three such cases are illustrated below:

Case I: CIT Charge : PCIT-7, Delhi
Assessee Name : M/s R6 Pvt. Ltd.
Assessment Year : 2017-18
Status : Company

The AO, while concluding assessment under Section 143(3) in December 2019, assessed an income of ₹ 8.49 crore after making additions of ₹ 8.00 crore under Section 68. However, Audit noticed from ITNS that the addition made as special income under Section 68 was wrongly adopted at ₹ 32.00 crore instead of ₹ 8.00 crore, i.e. four times the actual addition. This resulted in an over-assessment of income by ₹ 24.00 crore, involving an excess charge of tax of ₹ 25.57 crore, including interest.

The ITO, Ward-21(1), Delhi, in its reply (February 2022), stated that the error in this case was due to the technical problem of computation by the CPC-ITR, wherein the addition was taken four times, i.e., ₹ 32.00 crore, whereas the addition as per the assessment order was ₹ 8.00 crore. Further stated that the necessary rectification order under Section 154 of the Act was passed in August 2021.

The contention of the ITO, Ward-21(1), Delhi is not acceptable for the reason that, though the computation error was due to a technical problem, the AO, before finalising the assessment, including the computation of tax, should have ensured the correctness of the computation of tax.

While accepting the audit observation, the Ministry stated (April 2026) that remedial action was taken by passing an order under Section *154 in August 2021.*

Case II: CIT Charge : PCIT-10, Delhi
Assessee Name : M/s A6 Enterprises
Assessment Year : 2015-16
Status : Firm

The AO, while concluding assessment under Section 147 read with Section 144 in March 2022, assessed an income of ₹ 55. 61 crore after making additions of ₹ 55.61 crore under Section 69A. Audit noticed from the ITNS to the assessment order that the assessed income was wrongly depicted at ₹ 111.22 crore, twice the assessed income of ₹ 55.61 crore. This mistake resulted in over-assessment of the income of ₹ 55.61 crore, involving a tax impact of ₹ 50.09 crore, including an excess charge of interest. On this being pointed out, the Department rectified the error by passing a rectification order under Section 154 in June 2023.

Reply of the Ministry is awaited (May 2026).

Case III: CIT Charge : PCIT-4, Hyderabad
Assessee Name : N2
Assessment Year : 2013-14
Status : Individual

The AO, while concluding assessment under Section 147 read with Section 144 in March 2022, at an income of ₹ 1.29 crore, made an addition of ₹ 1.25 crore under Section 69A. Audit scrutiny revealed from the computation sheet that instead of ₹ 1.29 crore, 'nil' assessed income was adopted in the tax computation sheet, and accordingly, 'nil' demand was determined. The error resulted in a short demand of ₹ 1.22 crore, including interest. The audit observation was communicated to the Department in July 2022.

While accepting the audit observation, the Ministry stated (March 2026) that remedial action was taken by passing an order under Section 154 in June 2024.

4.1.2 Cases where assessed income was depicted erroneously in the non-relevant category, *viz.*, special income in place of normal income, thereby causing incorrect application of rate of tax and surcharge, etc.

Audit noticed that while computing the tax liability of the assessee after assessment, the assessed income was not depicted in the relevant category of income in the ITNS, in 926 cases involving a tax effect of ₹ 4,707 crore in 23 states. State-wise summary of such cases is given below in Table 4.2:

Table 4.2: Cases where assessed income was depicted erroneously in the non-relevant category in ITNS

States	No. of cases	Cases in percentage	Tax Effect (₹ in crore)	Tax Effect in percentage
Andhra Pradesh	18	1.9	89	1.9
Assam	6	0.6	2	0.0
Bihar	49	5.3	31	0.7
Chandigarh	7	0.8	65	1.4
Chhattisgarh	4	0.4	9	0.2
Delhi	238	25.7	2,328	49.1
GOA	3	0.3	2	0.0
Gujarat	53	5.7	72	1.5
Haryana	12	1.3	90	1.9
Jharkhand	29	3.1	36	0.8
Karnataka	30	3.2	63	1.3
Kerala	18	1.9	34	0.7
Madhya Pradesh	83	9.0	144	3.0

Table 4.2: Cases where assessed income was depicted erroneously in the non-relevant category in ITNS				
States	**No. of cases**	**Cases in percentage**	**Tax Effect (₹ in crore)**	**Tax Effect in percentage**
Maharashtra	61	6.6	551	11.6
Meghalaya	1	0.1	1	0.0
Odisha	31	3.3	55	1.2
Punjab	4	0.4	21	0.4
Rajasthan	56	6.0	52	1.1
Tamil Nadu	79	8.5	487	10.3
Telangana	48	5.2	225	4.7
Uttar Pradesh	47	5.1	147	3.1
Uttarakhand	6	0.6	14	0.3
West Bengal	43	4.6	188	4.0
Grand Total	**926**	**100.0**	**4,707**	**100.0**

It can be seen from the above Table 4.2 that, in terms of number, the highest discrepancies were noticed in Delhi (25.7 *per cent*), followed by Madhya Pradesh (9.0 *per cent*) and Tamil Nadu (8.5 *per cent*). Further, in terms of tax impact, the highest discrepancies were in Delhi (49.4 *per cent*), followed by Maharashtra (11.7 *per cent*) and Tamil Nadu (10.3 *per cent*).

Further, cases falling under this category have been discussed in detail in Chapter 3 (refer to para 3.1) of this report. However, two such cases are illustrated below:

Case I: CIT Charge : PCIT-10, Delhi
Assessee Name : A12
Assessment Year : 2017-18
Status : Individual

The AO, while completing assessment under Section 147 read with Section 144 in March 2022, determined an income of ₹ 22.70 crore after making an addition of ₹ 22.70 crore under Section 69, as an unexplained investment. Audit noticed from the computation sheet (ITNS) (March 2022) that the additions made under Section 69 were depicted in the incorrect field 'Income chargeable to tax at special rate other than 115BBE including Section 111A, 112 etc.' instead of the correct field 'Income chargeable to tax at Special Rate under Section 115BBE'. As a result, tax was charged at a lower rate of 20 *per cent* plus surcharge at the rate of 15 *per cent* instead of 60 *per cent* plus surcharge at the rate of 25 *per cent*. This eventually resulted in a short levy of tax of ₹ 26.27 crore, including interest.

The Department accepted the audit observation and rectified it by passing the order under Section 154 in April 2024.

Reply of the Ministry is awaited (May 2026).

Case II: CIT Charge	**: CIT-7, Delhi**
Assessee Name	**: M/s T2 Pvt. Ltd.**
Assessment Year	**: 2018-19**
Status	**: Company**

The AO, while concluding assessment under Section 143(3) in June 2021, determined an income of ₹ 50.85 crore after making an addition of ₹ 13.94 crore on account of unexplained loan and advances and ₹ 36.92 crore on account of unexplained long-term borrowing, to be taxed at a special rate under Section 115BBE. Audit noticed from the computation sheet (ITNS) (June 2021) that the additions made towards unexplained transactions were incorrectly depicted in the field meant for income to be taxed at the normal rate instead of the special rate under Section 115BBE. As a result, tax was charged at the normal rate instead of the special rate at 60 *per cent* plus a surcharge at 25 *per cent*. This eventually resulted in a short levy of tax of ₹ 35.70 crore, including interest.

While accepting the audit observation, the Ministry (February 2026) stated that remedial action was taken by passing an order under Section 154 in November 2024.

As evident from the above illustrations, these errors in the computation of tax occurred due to incorrect depiction of the figure of assessed income as well as depiction of assessed income/additions in the non-relevant field in the ITNS, which led to either loss to the exchequer or causing litigation/harassment to the assessee. These discrepancies indicated that there was a lack of adequate checks/data validation in the ITD system. Therefore, the ITD systems are required to be streamlined by the CBDT to make them more robust and error-free. Further, the possibility of computational error that occurred due to manual intervention in transmitting assessment data to the CPC-ITR for computation of tax can be eliminated by removing/minimizing such manual intervention between the process of assessment by AOs and computation of tax by the CPC-ITR.

<u>Recommendation 4:</u>

CBDT may identify the reasons for computational errors and consider putting a mechanism in place to fix the issue on priority to avoid/minimise the scope of loss of revenue to the exchequer, litigation and harassment to the assessee.

The Ministry/CBDT stated (May 2026) that:

- *Based on the case scenarios, the following issues and common computational errors have been identified:*
    - *Incorrect carry forward of losses*
    - *Mistake in the computation of the book profit*
    - *Tax levied under normal provisions instead of special provisions*
- *CPC has taken the following steps in this regard to address computation errors:*
    - *The issue of irregular refund has been identified and fixed in production to prevent such occurrences in future. ITBA front has done a fix as a warning message to the user.*
    - *Carry forward loss issue have been examined and necessary steps have been initiated to identify the root cause. Appropriate corrective actions are being taken by validating system rules at 'CPC' and addressing any data-related discrepancies in coordination with the ITBA team.*
- *Validation and control mechanisms in the present setup are being strengthened. Further, necessary guidance is being provided to the AO to re-initiate the computation after resolution. These measures help in minimising revenue loss, reducing litigation, and avoiding inconvenience to the assessee.*

Audit would await further progress made in this regard.

4.2 Inconsistent approach in the treatment of various entries in the books of the assessee

The Act provides that where, any sum is found credited in the books of an assessee maintained for any previous year, or any investment made and not recorded in the books of account or incurred any expenditure during the year, and the assessee offers no explanation about the nature and source thereof or explanation offered by the assessee is not found satisfactory by the AO, the sum so credited/investments/expenditure may be charged to Income tax as the income of the assessee.

Audit noticed that during assessment proceedings, AO called for details/ explanation from the assessee for sundry creditors, unsecured loan, cash receipts, closing stock, purchase, etc., as shown in the books of accounts of the assessee, also for cash found in the bank account of the assessee. Audit further noticed that in certain cases, the assessee failed to provide the requisite explanation/details regarding the aforesaid entries and thus the same remained unexplained. However, the AO either did not add the amount relating to the aforesaid entries or added it partially under Sections 68, 69, 69A, 69B, 69C and 69D of the Act.

Audit noticed in 589 cases in 20 States, where the AOs did not invoke the provisions of Sections 68, 69, 69A, 69B, 69C and 69D of the Act uniformly despite the fact that the aforesaid transactions were bogus in nature or the source remained unexplained, which resulted in under-assessment of income or income escaped assessment.

State-wise details of such cases are summarised in Table 4.3 below:

Table 4.3: Cases where the AOs did not invoke the provisions of Sections 68, 69, 69A, 69B, 69C and 69D of the Act uniformly

State	No. of cases	Cases in percentage	Tax Effect (₹ in crore)	Tax Effect in percentage
Andhra Pradesh	1	0.2	1	0.0
Bihar	11	1.9	41	0.2
Chandigarh	3	0.5	42	0.2
Chhattisgarh	7	1.2	25	0.1
Delhi	265	45.0	13,764	73.2
Gujarat	26	4.4	265	1.4
Haryana	10	1.7	277	1.5
Jharkhand	18	3.1	25	0.1
Karnataka	5	0.8	142	0.8
Kerala	13	2.2	25	0.1
Madhya Pradesh	84	14.3	2,045	10.9
Maharashtra	58	9.8	1,482	7.9
Odisha	4	0.7	6	0.0
Punjab	7	1.2	93	0.5
Rajasthan	4	0.7	3	0.0
Tamil Nadu	8	1.4	68	0.4
Telangana	10	1.7	81	0.4
Uttar Pradesh	17	2.9	147	0.8
Uttarakhand	2	0.3	1	0.0
West Bengal	36	6.1	266	1.4
Grand Total	**589**	**100.0**	**18,799**	**100.0**

It can be seen from Table 4.3 above that, in terms of the number of cases, discrepancies were highest in Delhi (45.0 *per cent*), followed by Madhya Pradesh (14.3 *per cent*) and Maharashtra (9.8 *per cent*). Further, in terms of tax impact, discrepancies were highest in Delhi (73.2 *per cent*), followed by Madhya Pradesh (10.9 *per cent*) and Maharashtra (7.9 *per cent)*. These cases are included in detail in Chapter 3 of the Report. However, issue-wise inconsistent approach by the AO has been discussed in the succeeding paragraphs along with illustrations:

4.2.1 Inconsistent treatment of unexplained credit entries

The Central Board of Direct Taxes has issued a standard operating procedure (SOP) and a guidance note for assessing officers, scrutinising cases selected on account of large cash deposits. The guidance note specifies the enquiries to be conducted, the checks to be exercised, and the methodology to be adopted while verifying cash-deposit transactions for each class of the assessee.

Audit noticed that the AO, while finalising the assessment, adopted a non-uniform stand in treating the issue related to undisclosed/unexplained cash credit entries.

4.2.1.1 Inconsistent treatment of undisclosed/unexplained cash credit entries relating to the demonetization period and other than the demonetization period

The AOs wrongly made a distinction between undisclosed/unexplained cash credit entries relating to the demonetization period (AY 2017-18) and periods other than the demonetization period, and only undisclosed/unexplained cash credit entries pertaining to the demonetization period were added as special income under Section 69A for taxing the same at a higher rate under Section 115BBE of the Act. Whereas, unexplained credits of periods other than the demonetization period were either not verified/not brought to tax or taxed at a lower rate as a normal income. However, the relevant provisions of the Act, do not make such a distinction in the treatment of unexplained income and thus attract the provisions of Section 69A of the Act and tax accordingly. Two such illustrations are given below:

Case I: CIT Charge : PCIT-8, Mumbai
Assessee Name : T1 Pvt. Ltd.
Assessment Year : 2017-18
Status : Company

In the instant case, it was noticed that the assessee had deposited cash into its bank accounts during the demonetization period and had not filed its Income Tax Return (ITR). During the assessment proceedings under Section 144 in

December 2019, the AO noted cash deposits and other credit entries in the assessee's bank accounts, which the assessee failed to explain. Consequently, the AO added the total credit entries, including the cash deposits, under Section 69A of the Act.

Case II: CIT Charge	**: PCIT (Exemption), Mumbai**
Assessee Name	**: I4 Trust**
Assessment Year	**: 2017–18**
Status	**: Trust**

In the instant case, Audit observed that the assessee had credit entries in his bank account, including cash deposits, which remained unexplained. The AO, while finalizing the assessment order under Section 144 in December 2019, had added the cash deposits as unexplained money under Section 69A of the Act, whereas other credits were treated as business receipts of the assessee and added to the total normal income and taxed at the normal rate instead of being added under Section 69A and taxed at the special rate under Section 115BBE.

Thus, it can be seen from the above two instances that in Case-I, both unexplained cash deposits and other credit entries in the assessee's bank accounts were added to the income of the assessee under Section 69A, whereas in Case-II, only the unexplained cash deposit was added under Section 69A, but unexplained credit entries were taxed as normal business receipts.

Ministry, in its reply to Case-I above, while not accepting the audit objection, stated (April 2026) that in the present case, there was no audit objection.

The reply of the Ministry was not addressing the audit contention, as the audit had pointed out that in Case-I, both unexplained cash deposits and other credit entries in the assessee's bank accounts were added to the income of the assessee under Section 69A, whereas, in Case-II, only the unexplained cash deposit was added under Section 69A, but unexplained credit entries were taxed as normal business receipts. Therefore, the reason for such different treatment for a similar nature of transaction was required to be intimated to Audit.

In view of the above, the Ministry may reconsider its reply.

4.2.1.2 Inconsistent treatment of undisclosed/unexplained cash credit entries and non-cash credit entries found in the bank account of the assessee

The AOs wrongly made a distinction between undisclosed/unexplained cash credit entries and unexplained/undisclosed non-cash credit entries found in the bank account of the assessee, including undisclosed bank accounts, and only undisclosed/unexplained cash credit entries were added as special income under Section 69A for taxing the same at a higher rate under Section 115BBE of the Act. But the unexplained non-cash credits were either not brought to tax or taxed at a lower rate as a normal income. Such differential treatment of unexplained income/credits/receipts was not permissible under Section 69A, as the provision of the Section does not make any such distinction. Therefore, all unexplained cash and non-cash credit entries not recorded in the books of account were to be charged to tax under Section 69A, read with Section 115BBE.

Two such cases are illustrated below:

Case I: CIT Charge : PCIT-15, Delhi
Assessee Name : K4
Assessment Year : 2017-18
Status : Individual

In the instant case, Audit observed that the assessee did not file a return for the year under consideration. On perusal of bank statements, it was found that the assessee had cash deposits and non-cash credit transactions which remained unexplained. The AO, while finalising the assessment under Section 144 in December 2019, added to the income of the assessee only cash deposits as unexplained money under Section 69A of the Act, whereas non-cash credit transactions were not brought to tax. The audit observation was communicated to the Department in April 2022.

Case II:CIT Charge : PCIT-10, Delhi
Assessee Name : A10
Assessment Year : 2017-18
Status : Individual

In the instant case, Audit observed that the assessee did not file return for the year under consideration. On perusal of bank statements, it was found that the assessee had cash deposits and non-cash credit transactions which remained unexplained. The AO, while finalising the assessment under Section 144 in December 2019, added the cash deposits as unexplained money under Section 69A of the Act, whereas it treated the other credits as assessee's business receipts and added 10 *per cent* of those credits as undisclosed income instead of adding 100 *per cent*. The audit observation was communicated to the Department in November 2021.

Thus, it can be seen from the above two instances that, though in Case-I, only cash deposits were added to total income as unexplained money under Section 69A of the Act. and non-cash credit transactions were not brought to tax, whereas in Case-II, cash deposits were added to total income as unexplained money under Section 69A of the Act, and 10 *per cent* of the other credits was brought to tax as business income.

Reply of the Ministry is awaited (May 2026).

4.2.1.3 Inconsistent approach in the treatment of unexplained credit entries found in the bank account of the assessee

Audit noticed that in certain cases, undisclosed/unexplained credits were noted in the bank statements, obtained under Section 133 (6) from the banks of the assessee, which attracted the provision of Section 69A of the Act. However, the AOs, without a reasonable basis, assumed such unexplained credits as business turnover and accordingly, a certain percentage of such unexplained credits being profit (ranging from 0.5 to 10 *per cent*) of the business was brought to tax under Section 69A read with Section 115BBE. Further, in some cases, even such profit was assumed as normal business profit and was taxed at the normal rate. Two such illustrations are discussed below:

Case I:	**CIT Charge**	**: PCIT-15, Delhi**
	Assessee Name	**: R2**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

In the instant case, Audit observed that the assessee had deposited cash and other than cash into its bank accounts during the assessment year and had not filed its Income Tax Return (ITR). During the assessment proceedings under Section 144 in December 2019, the AO noted that cash deposits and other credit entries existed in the assessee’s bank accounts, which the assessee failed to explain. Accordingly, the AO added entire cash deposits under Section 69A and for other than cash credits added only eight *per cent* of other than cash credits under Section 69A of the Act, considering it business income and taxed under special provisions. The audit observation was communicated to the Department in December 2021.

Case II:CIT Charge : PCIT-20, Delhi
Assessee Name : R1
Assessment Year : 2017-18
Status : Individual

In this case, Audit observed that the assessee had deposited cash and other than cash into its bank accounts during the assessment year and had not filed its Income Tax Return (ITR). During the assessment proceedings under Section 144 in November 2019, the AO noted that cash deposits and other credit entries existed in the assessee's bank accounts, which the assessee failed to explain. The AO added entire cash deposits under Section 69A; however, for other than cash credits, added only eight *per cent* of the amount, considering it business income and taxed under normal provisions. The audit observation was communicated to the Department in March 2021.

Thus, it can be seen from the above two instances that, though in Case-I, a certain percentage of unexplained entries other than cash credit entries was added to total income under Section 69A of the Act and taxed under special provisions of the Act, whereas in Case-II, certain percentage of this unexplained other than cash deposits were added to total income and taxed under normal provisions of the Act.

Ministry, in its reply to Case-I above, while not accepting the audit observation, stated (May 2026) that the assessee had filed ITR-4 declaring business income for AY 2014-15 to 2016-17, and the assessee got his books of account audited and filed the audit report in Form 3CB/3CD electronically. Therefore, the credit entries in bank accounts during the FY 2016-17 relevant to AY 2017-18 were considered business receipts. The decision of the AO in connection with taking eight per cent of the unexplained non-cash credits as business income for assessment was correct.

Reply of the Ministry was not addressing the audit objection, as audit had pointed out that though in Case-I, certain percentage of unexplained other than cash credit entries was added to total income under Section 69A of the Act and taxed under special provisions of the Act, in Case-II, certain percentage of this unexplained other than cash deposits were added to total income and taxed under normal provisions of the Act.

In view of this, the Ministry may reconsider its reply.

4.2.2 Issues related to Bogus purchase/Accommodation entries

Audit noticed that there was no consistency across assessments in additions made towards bogus purchases. Audit noted that there is no guidelines/SOP for treatment of bogus purchases in the assessments. In the absence of any

Standard Operating Procedure (SOP), instruction or guideline from the CBDT for assessments relating to deemed income under Sections 68 to 69D, the AOs have completed assessments based solely on their own estimation or discretion. Audit noticed that accommodation entry providers, scrutinised by the ITD, got away lightly by the mere addition of 0.5 *per cent* to 5 *per cent* of the turnover of the accommodation invoices in their taxable income. In many cases, the accommodation entry providers did not file their returns and no action was taken.

The provisions of the Income Tax Act do not legitimise the accommodation entries used for money laundering and tax evasion exercises. Audit noted in some cases that the AOs invoked the provisions of the income-deeming sections related to bogus purchase/accommodation entries. However, in some cases, instead of bringing such unexplained and illegitimate transactions to the purview of the Income Deeming Section of 68/69 in full, charged only a certain percentage (mostly 0.5 to 2 *per cent*) of such accommodation entries/ expenditure/receipts, etc. as income/commission of the assessees without recording proper justification/sufficient evidence in support of their action.

Two such illustrations are given below:

Illustration 1:

Case I: CIT Charge : PCIT (Central Circle), Thane
Assessee Name : A5 Developers
Assessment Year : 2018-19
Status : Company

In the instant case, Audit observed that Bestway Consultants Pvt. Ltd. had provided an accommodation entry to the assessee company. From the documents submitted by the assessee, it was noted that the creditworthiness of the lender was not established, as the lender had reported a returned income of only ₹ 1.71 lakh for AY 2019–20 and ₹ 1.50 lakh for AY 2020-21. Accordingly, the AO, while finalising the assessment under Section 143(3) in September 2021, added the entire amount of the accommodation entry of ₹ 1.00 crore to the income of the assessee and taxed it under Section 115BBE of the Act.

Case II: CIT Charge : PCIT (Central)-3, Mumbai
Assessee Name : M/s F1 Ltd.
Assessment Year : 2017-18
Status : Company

In the instant case, Audit observed from the assessment records that the assessee had made bogus purchases from M/s J2 Pvt. Ltd. and M/s S16 Pvt. Ltd., engaged in providing accommodation entries. The AO, while finalizing the assessment under Section 144 in January 2020, added the entire amount of the bogus purchase of ₹ 203.86 crore to the income of the assessee without invoking the provisions of Section 69C of the Act, despite the assessee's failure to disclose and substantiate the genuineness of the transactions.

Thus, it can be seen from the above two instances that, though in Case-I, entire amount of the accommodation entry of ₹ 1.00 crore was added to the income of the assessee and taxed under Section 115BBE of the Act, whereas in Case-II, entire amount of bogus purchase of ₹ 203.86 crore was added to the income of the assessee without invoking provisions of Section 69C of the Act.

Ministry, in its reply to Case-I above, stated (May 2026) that the AO had considered the entire amount of accommodation entry of ₹ 1.00 crore as income and subjected the same to taxation under the provisions of Section 115BBE of the Act. Further, stated that it was only an audit observation, not an audit objection.

Reply of the Ministry was not addressing the audit objection, as audit had pointed out that while in Case-I, entire amount of the accommodation entry of ₹ 1.00 crore was added to the income of the assessee and taxed under Section 115BBE of the Act, in Case-II, entire amount of bogus purchase of ₹ 203.86 crore was added to the income of the assessee without invoking provisions of Section 69C of the Act. Therefore, the reason for such different treatment for a similar nature of transaction was required to be intimated to Audit.

In view of this, the Ministry may reconsider its reply.

Illustration 2:

Case I:	**CIT Charge**	**: PCIT, Patiala**
	Assessee Name	**: V5**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

In the instant case, information received from the REIC indicated that the assessee, through his proprietorship firm, had made accommodation entries reflecting bogus sales. Consequently, the case was reopened under Section 147 of the Act in March 2022. The assessee did not file an income tax return for the year under consideration and failed to respond to the notices or upload any relevant details. Accordingly, the AO added the entire amount of bogus sales under Section 69A to the income of the assessee.

Case II:	**CIT Charge**	**: PCIT Central, Gurugram**
	Assessee Name	**: M/s S10 Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

In the instant case, the assessee made bogus purchases. Audit examination also revealed that though the assessee had taken accommodation entries from several companies during the FY 2016-17, the AO, while finalising the assessment under Section 144 in December 2018, added these amounts to the normal income of the assessee and taxed them at the normal rate instead of the special rate under Section 115BBE.

Thus, it can be seen from the above two instances that, though in Case-I, the amount of bogus sales was added to the income of the assessee under Section 69A and taxed as per the provisions of Section 115BBE, whereas in Case-II, the entire amount of bogus purchase was brought to tax under the normal provisions of the Act.

Ministry, in its reply to Case-I above, stated (April 2026) that the audit objection was accepted and remedial action was taken by passing an order under Section 154 in February 2023.

However, the reply of the Ministry did not address the audit contention, as audit had pointed out that in Case-I, the amount of bogus sales was added to the income of the assessee under Section 69A and taxed as per the provisions of Section 115BBE, whereas in Case-II, the entire amount of bogus purchase was brought to tax under the normal provisions of the Act. Therefore, the reason for such different treatment for a similar nature of transaction may be intimated to Audit.

In view of the above, the Ministry may reconsider its reply.

4.2.3 Issues related to Unsecured loans/sundry creditors

The AO, while finalising the assessment, took different stands in addition to making unsecured loans/sundry creditors, resulting in incorrect application of the rate of tax. Two such illustrations are given below:

Illustration 1

Case I:	**CIT Charge**	**: PCIT Central-2, Chennai**
	Assessee Name	**: V1**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

In the instant case, the AO, while finalising the search assessment order passed under Section 143(3) read with Section 153A in December 2019, disallowed the entire unsecured loan, as the assessee failed to furnish any corroborative evidence/details to establish the genuineness of the transaction, creditworthiness of the lenders etc., and added it to the total income under Section 68 of the Act and taxed it as per the provisions of Section 115BBE of the Act.

Case II:	**CIT Charge**	**: PCIT-3, Chennai**
	Assessee Name	**: K2**
	Assessment Year	**: 2017-18**
	Status	**: Individual**

In the instant case, the AO, while finalising the assessment under Section 143(3) of the Act in December 2019, added unsecured loans as income from other sources and was taxed at 30 *per cent* even though the assessee failed to produce confirmation letters from the creditors. As the creditworthiness of the transaction was not proved with the corroborative evidence, unsecured loans should have been treated as unexplained credit under Section 68 and taxed at a special rate under Section 115BBE.

Thus, it can be seen from the above two instances that, though in Case-I, the entire unexplained unsecured loan was added to the total income under Section 68 and taxed as per provisions of Section 115BBE of the Act, whereas in Case-II, unexplained unsecured loans were treated as income from other sources and taxed under the normal rate of 30 *per cent.*

The Ministry, in its reply to Case-II, while not accepting the audit objection, stated (May 2026) that in the assessment order dated 29/04/2024, the AO addressed audit issues and accepted the returned income after considering submissions of the assessee with the following observations:

a) The assessee received four crore from his father-in-law, Shri T. Narayanan, in April 2015 as a hand loan via Axis Bank, which was deposited into the assessee's account with Tamilnad Mercantile Bank Ltd. In FY 2016-17, the amount was stated to be converted into a gift with mutual consent, supported by written confirmation and bank statements.

b) Regarding immovable property, the assessee sold certain assets without offering capital gains. The assessee clarified that Property No.129 was jointly owned with his wife, and he excluded her 50 per cent share from his books to reflect it in her accounts. Therefore, the audit objection is not accepted in this case.

The reply of the Ministry is not tenable as the assessee failed to produce any such confirmation during the assessment proceedings under Section 143(3) of the Act in December 2019, as stated in the assessment order, thereby resulting in addition on account of unsecured loan and taxed at normal rate. As the aforesaid unsecured loan remained unexplained, Audit is of the opinion that the aforesaid addition should have been treated as unexplained income and taxed as per provisions of Section 115BBE, which was not done by the AO.

Further, the Ministry referred in its reply the assessment order dated 29 April 2024, whereas the audit objection was raised in the assessment order under Section 143(3) of the Act passed in December 2019. Thus, the Ministry is citing an order which was passed post audit observations. Further, the Ministry has not provided any relevant documents in support of the fact brought out now in the order dated 29 April 2024. .

Thus, the audit contention, regarding different stand taken by the Department on the similar transactions in case of two different assessees remained to be addressed.

In view of the above, the Ministry may reconsider its reply.

Illustration 2

Case I:	**CIT Charge**	**: PCIT-12, Delhi**
	Assessee Name	**: M/s I1 Exports**
	Assessment Year	**: 2017-18**
	Status	**: Firm**

In the instant case, the AO issued notices to the assessee during the assessment proceedings to seek explanation/details/documents/evidence, including details of the sundry creditors, but the assessee failed to prove the genuineness of the creditors. The AO, while finalising the assessment under Section 143(3) in December 2019, disallowed the amount towards these sundry creditors and added it to the normal income, which attracts the lower tax rate, i.e. at the rate of 30 *per cent* plus surcharge at the rate of 12 *per cent*.

Case II:	**CIT Charge**	**: PCIT-4, Delhi**
	Assessee Name	**: M/s K7 Pvt. Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

In the instant case, the AO, while finalising the assessment under Section 144 of the Act in December 2019, added the entire amount of sundry creditors under Section 68 and taxed it at a special rate under Section 115BBE of the Act.

Thus, it can be seen from the above two instances that, though in Case-I, an unexplained amount towards sundry creditors was added to the normal income and taxed at a normal rate of 30 *per cent* plus surcharge at 12 *per cent*, whereas in Case-II, entire unexplained amount of sundry creditors was added under Section 68 and taxed at special rate under Section 115BBE of the Act.

Ministry it its reply to Case-II above, while not accepting the audit objection, stated (February 2026) that the present illustrative case does not contain any objection. The related recommendation in the policy paragraph shall be responded to separately.

The reply of the Ministry was not addressing the audit contention, as audit had pointed out that though in Case-I, unexplained amount towards sundry creditors was added to the normal income and taxed at normal rate of 30 *per cent* plus surcharge at 12 *per cent*, whereas in Case-II, entire unexplained amount of sundry creditors was added under Section 68 and taxed at special rate under Section 115BBE of the Act. Therefore, the reason for such different treatment for a similar nature of transaction was required to be intimated to Audit.

In view of the above, the Ministry may reconsider its reply.

Conclusion:

As evident from these illustrated cases, there was a lack of uniformity in the treatment of cases relating to undisclosed credit entries in bank accounts/bogus purchase/, unsecured loans/sundry creditors in the books of the assessee. The AOs were taking different stands in similar circumstances and even in the same charge, even though the genuineness of the transaction could not be established. This might lead to litigation with an inherent risk of non-sustainability of additions at the appellate stage. Further, such arbitrary action by the AOs not only resulted in up to 90 to 99.5 *per cent* of unexplained income escaping assessment but also legitimised such unexplained amounts as white money.

<u>Recommendation 5</u>:

The CBDT may examine the reasons for such variations in invoking the provisions of relevant Sections and additions made by the AOs and consider issuing SOPs/Guidelines, perhaps with illustrative examples, to ensure consistency in assessments, thereby reducing loss to the exchequer/scope of litigation.

Ministry in its reply stated (May 2026) that the recommendation regarding the issue of SOPs/Guidelines by the CBDT is under consideration.

Audit would await further progress made to finalise and circulate SOPs/Guidelines, which are essential to strengthen the system and prevent recurrence of discrepancies.

Audit noted that the CBDT issued a set of guidelines/directions to the ITD field formation, in this regard, on 29/05/2026.

4.3 Inadequacy of internal controls/Monitoring mechanism

4.3.1 Cases may become time-barred due to non-initiation of timely action

The Act does not provide for the reopening of a case after the expiry of the prescribed period by virtue of time limitation.

Out of 1,902 cases included in this report, remedial action/replies are still pending for more than 220 cases, where the Department did not even furnish their response to the audit observation/statement of facts, even after lapse of substantial period. Non-initiation of timely action may result in cases becoming time-barred, potentially resulting in loss of revenue to the exchequer.

This indicated that there was a lack of follow-up action by the Department, especially in respect of receipt audit observation. Though the ITD has a mechanism in place for scrutinising cases to prevent them from becoming time-barred, the reason for not taking actions in 220 cases, which were likely to become time barred, could not be ascertained by the audit.

Reply from the Ministry is awaited (May 2026).

4.3.2 Effectiveness of Internal Audit

Internal Audit in the ITD was introduced in the year 1954 to provide a second check of assessments, particularly on arithmetical accuracy, completed by the AO. Subsequently, its scope was expanded in the year 1960 to align with Receipt Audit (erstwhile Revenue Audit). After that, this was revamped several times by issuing instructions/clarifications. Further, post CAG's Performance Audit Report on Functioning of Internal Audit in Income Tax Department, a new application, Income Tax Business Application (ITBA), was rolled out in ITD. Accordingly, CBDT issued a fresh instruction, i.e. Instruction No. 06 of 2017, in July 2017, superseding all its earlier instructions to streamline the internal audit system of the ITD. The circular was issued with the aim of Internal Audit to contribute to improve the quality of assessments by reducing the errors and also prevent detection of mistakes by the Revenue Audit and defining the scope *viz.* (a) The arithmetical inaccuracy; (b) Non-application or wrong application of relevant legal provisions; (c) Orders passed, not in conformity with the binding judicial pronouncements/precedence; (d) Order passed, not in conformity with Circulars & Instructions issued by CBDT, of internal audit of the Department.

a. Detection of mistakes by the Receipt Audit (CAG Audit) in cases checked by Internal Audit

According to paragraph 1.2 of the Audit Manual, 2019, the objectives of Internal Audit are to detect the mistakes and errors committed during the work of assessment and recovery of demand by AOs and TROs so that prompt and appropriate remedial actions can be taken to retrieve the loss caused to revenue or to allow relief to the assessee in case of overassessment/ overcharge. Internal Audit is also a mechanism for the prevention of mistakes, having both deterrent and reformative effects. The ultimate aim is to ensure that proper procedures and laws have been followed, thereby improving the quality of assessments, so as to prevent the detection of mistakes by the 'Receipt Audit'.

Further, the concerned CIT may call for an explanation from the Internal Audit Officer, in appropriate cases of accepted Major Receipt Audit objections, where the same were raised, subsequent to internal audit and the Internal Audit Officer had failed to raise such objections, and may take suitable action as deemed fit.

Audit observed that out of 1,902 audit observations, incorporated in this report, assessments with respect to 103 cases were checked by the internal audit of the Department, whereas in 22 cases, information on internal audit was not made available to Audit. Further, out of aforesaid 103 cases, 17 cases were audited by the internal audit, after audit was conducted by the Receipt Audit and in 73 cases date of internal audit was not made available to Audit.

In the remaining 13 cases in two States[8], mistakes were detected in the assessments by the Receipt Audit, although these cases were examined by the Internal Audit. Two such cases are illustrated below:

[8] Andhra Pradesh & Telangana and Kerala

Case I: CIT Charge : PCIT-1, Hyderabad
Assessee Name : M/s V6 Enterprises
Assessment Year : 2017-18
Status : Firm

In the case of the above firm, the assessment was completed in a best judgement manner, under Section 144 of the Act in November 2019 at an income of ₹ 3.38 crore after making an addition of ₹ 34.84 crore under Sections 68 and 69C of the Act and ₹ 345.52 lakh towards disallowances under normal provisions to the loss of ₹ 3491.98 lakh declared in the return of income.

Audit examination revealed that the AO, while arriving at the total income, the returned loss of ₹ 34.92 crore was set off against the addition made under Sections 68/69C aggregating to ₹ 34.84 crore. However, the set off of income assessed under Sections 68/69C of the Act is not permitted under Section 115BBE. The omission resulted in a short demand of tax by ₹ 33.99 crore, including interest under Sections 234A and 234B.

Audit further noticed that this case was reviewed by the internal audit wing of the Department (January 2021), even though the mistake was not pointed out.

The audit observation was communicated to the Department in February 2021.

While accepting the Audit objection, the Ministry, in its reply, stated (April 2026) that remedial action was taken by passing an order under Section *154 in November 2021.* However, the Ministry did not comment on the lack of due diligence on the part of the Internal Audit Wing of the Department.

Case II:CIT Charge : PCIT-1, Visakhapatnam
Assessee Name : C1
Assessment Year : 2017-18
Status : Individual

In the case of the above individual, the assessment was completed after scrutiny, under Section 143(3) of the Act, in December 2019 at an income of ₹ 6.77 crore after making an addition of ₹ 6.31 crore under Sections 68 and 69C of the Act and ₹ 41.42 lakh towards disallowances under normal provisions to the returned income of ₹4.80 lakh.

Audit noticed from the ITBA computation sheet that the tax was erroneously computed at a special rate under Section 115BBE on income of ₹ 5.30 crore, instead of ₹ 6.31 crore, and at normal rates on income of ₹ 1.47 crore, instead of ₹ 46.22 lakh. The omission resulted in a short demand of tax of ₹ 56.04 lakh, including interest under Section 234B of the Act.

The audit further noted that this case was reviewed by the Department's internal audit wing (February 2021), even though the mistake was not pointed out.

The audit observation was communicated to the Department in March 2021.

While accepting the Audit objection, the Ministry, in its reply, stated (February 2026) that remedial action was taken by passing an order under Section *154 in January 2022.* However, the Ministry did not comment on the lack of due diligence on the part of the Internal Audit Wing of the Department.

As is evident from the above illustrations, though these cases have been checked by the internal audit wing of the Department, the errors were not pointed out by the Internal Audit. This clearly indicates lapses on the part of the concerned officers. Audit could not ascertain whether the concerned CIT called for an explanation from the Internal Audit Officer in these cases and took suitable action as required by the Audit Manual 2019 of the Income Tax Department.

b. Non selection of potential cases for examination in Internal Audit

As per para 2.1.1 of Audit Manual, 2019, for selection of high risk auditable cases, where likelihood of mistake is more, are taken up for audit, a universal criterion has been devised, taking into account various relevant factors. For this purpose, the generation of a list by the ITBA for internal audit would be based on 'Audit Potential Index' (API), which shall be worked out based on certain parameters. Further, as per para 2.2.1 of Audit Manual, 2019, which was clarified by CBDT vide F.No. 246/15/219 A&PAC-II dated 20/08/2019 states that there is no bar to audit the maximum number of cases available with the Auditor.

Audit noted that out of 1,902 cases incorporated in this report, 1,777 cases (93 *per cent*) were not reviewed by Internal Audit. Despite the availability of various Information Technology tools, such as the Statement of Financial Transactions (SFT), Insight Portal, and the Non-filers Monitoring System (NMS), within the Department and no bar to audit the maximum number of cases, these potential cases were not selected for examination by internal audit. As a result, a number of potential cases might escape examination by the Internal Audit, which could lead to loss of revenue to the exchequer.

Reply from the Ministry is awaited (May 2026).

c. Non-adherence to the Audit manual procedure

As per para 7.5 of the Audit Manual 2019, it is mandated that the Commissioner of Income Tax (Audit) or Joint Commissioner of Income Tax (Audit) must ensure that the Internal Audit of those assessment units is carried out on priority before Receipt Audit, where the audit program of compliance audit by the Local Audit Party (LAP) has been received

Audit noted 17 such instances out of 103 cases, where internal audit was conducted after the Receipt Audit had already been completed. This indicated that the prescribed procedure was not followed by the internal audit wing of the Department, and the concerned CIT/JCIT could not ensure the procedure as prescribed in the Audit Manual 2019. Two such cases are illustrated below:

Case I:	**CIT Charge**	**: PCIT-4, Delhi**
	Assessee Name	**: M/s M8 Ltd.**
	Assessment Year	**: 2017-18**
	Status	**: Company**

In the case of a company, for the aforesaid assessment year, assessed by the AO, Circle 16(1) under Pr. CIT-4, Delhi charge, Audit noted that the AO had completed the assessment after scrutiny, under Section 143(3) of the Act in December 2019, determining an income of ₹ 1.66 crore and a tax of ₹ 45.66 lakh thereon. Audit observed that the AO, while assessing the income, incorrectly set off the long-term capital loss of ₹ 4.39 crore with the income of the assessee. As a result, the income was assessed at ₹ 1.66 crore instead of ₹ 6.05 crore after setting off only unabsorbed depreciation of ₹ 27.82 lakh and was to be allowed carry forward of capital loss of ₹ 4.39 crore. Further, the AO had made additions in respect of unexplained advances of ₹ 1.55 crore, received from the customers, and ₹ 2.89 crore in respect of unexplained trade payables, as the same were unverified and the assessee could not produce any documentary evidence in support of these balances. The AO, however, had made these additions as normal income instead of adding under Section 68 of the Act, respectively, as unexplained credits, which were to be taxed under the special provisions of the Act under Section 115BBE of the Act.

Furthermore, the AO had made the addition on account of an unexplained non-current investment of ₹ 1.03 crore, and it remained unverified as the assessee failed to bring on record to prove that the investment was made out of its fund. The assessee could not correlate the entries of investment made with the funds available in the bank and the investments made. The AO had made these additions as normal income instead of adding under Section 69 of the Act as unexplained investment under the special provisions of the Act under Section 115BBE of the Act.

These observations were communicated to the Department through a statement of facts in January 2023. Audit noted that the internal audit of this case was completed in March 2024, wherein the Internal Audit merely reiterated the observations relating to unexplained advances of ₹ 1.55 crore received from the customers that had already been raised by the Receipt Audit Party.

The Department stated (November 2024) that the case was reopened by issuing notice under Section 148 in March 2024, and the audit observation was shared with the faceless assessment unit for necessary action.

Reply from the Ministry is awaited (May 2026).

Case II:	**CIT Charge**	**: CIT Central-1, Delhi**
	Assessee Name	**: S8 Trust**
	Assessment Year	**: 2017-18**
	Status	**: Trust**

In the case of the above trust, for the aforesaid assessment year, assessed by the AO, Central Circle 6 under CIT (Central-1), Delhi charge, Audit noted that the AO had completed the assessment after scrutiny, under Section 143(3) of the Act in December 2019, determining an income of ₹ 39.84 crore and a tax of ₹ 28.31 crore thereon.

Audit noted that as per the assessment order, the AO had made an addition of ₹ 39.84 crore as undisclosed income under Section 69A of the Act, which was required to be taxed at special rates. However, the AO, while computing tax liability in the tax computation sheet, levied a surcharge at the rate of 15 *per cent* instead of the applicable rate of 25 *per cent*.

Audit observation was communicated to the Department in September 2020. The Department rectified the mistake under Section 154 of the Act in February 2021.

Audit noted that the internal audit of this case was completed in July 2023, wherein the Internal Audit merely reiterated the observations as pointed out by the Receipt Audit Party. Audit could not ascertain as to why and how the internal audit party did not take cognisance of the rectification order, which was already passed in response to the Receipt Audit Observation.

Reply of the Ministry is awaited (May 2026).

This indicated that there was a lack of monitoring of the selection of cases for internal audit. Further, raising observation by the internal audit party on the issue that was already settled was a major concern and required examination to find out the reasons for such an incident.

Recommendation 6:

The CBDT may consider taking necessary action for strengthening the internal control system and improving the functioning of the internal audit wing of the Department. The CBDT may also consider revisiting the criteria for selection of cases for internal audit, so as to ensure the selection of potential cases.

Ministry/CBDT in its reply (April 2026), stated that:

- *Internal control mechanism of the Department includes Instruction No. 2/2024 relating to Internal Audit, regular Systems check & Updating of ITBA, and Instructions Nos 15 and 16 of 2008 relating to Inspection of Assessing officers and review of assessment orders by their controlling officer or concerned PCIT. All these are aimed at ensuring error-free assessments.*
- *CBDT has already adopted a dynamic risk-based Audit Potential Index (API) with around 27 factors affecting the determination of taxable income, as against the earlier static API based on around mere 4 factors from FY 2024-25.*
- *Presently, the selection of assessment cases for Internal Audit is based on an objective, data-driven and risk-based criteria of Audit Potential Index (API), which is run through the ITBA to ensure that cases with high risk factors have a better chance of getting selected for Internal Audit with an ultimate aim of protecting the interest of Revenue.*
- *In this regard every assessment order is given an API which is a numerical value between 0.1 to 1.0 wherein API of 1.0 has the highest risk value and API of 0.1 is with the lowest risk value.*
- *Hence, this recommendation of C&AG is already being implemented in letter and spirit by the CBDT.*

The impact of adopting a dynamic risk based Audit Potential Index (API) will be assessed by Audit in future years, as it was implemented from FY 2024-25 onwards.

New Delhi **(Monika Verma)**
Dated: 05 August 2026 **Director General (Direct Taxes)**

Countersigned

New Delhi **(K. Sanjay Murthy)**
Dated: 05 August 2026 **Comptroller and Auditor General of India**

Appendix

Appendix 1.1

Legal Provisions

(Refer para 1.5)

Section of the Act	Provision of the Act
Section 68	Where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the sum so credited may be charged to income-tax as the income of the assessee of that previous year.
Section 69	Where, in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of the investments or the explanation offered by him is not, in the opinion of the AO, satisfactory, the value of the investments may be deemed to be the income of the assessee for such financial year.
Section 69A	Where, in any year, the taxpayer is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or valuable article is not recorded in the books of account, if any, maintained by him for any source of income, and the taxpayer offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the taxpayer for such year.
Section 69B	Where, in any year, the taxpayer has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and the Assessing Officer finds that the amount expended on making such investments or in acquiring such bullion, jewellery or other valuable article exceeds the amount recorded in this behalf in the books of account maintained by the taxpayer for any source of income, and the taxpayer offers no explanation about such excess amount or

Section of the Act	Provision of the Act
	the explanation offered by him is not, in the opinion of the AO, satisfactory, then the excess amount may be deemed to be the income of the taxpayer for such year.
Section 69C	Where, in any year, the taxpayer has incurred any expenditure and he offers no explanation about the source of such expenditure or part thereof, or the explanation, if any, offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the amount covered by such expenditure or part thereof, as the case may be, may be deemed to be the income of the taxpayer for such year. This unexplained expenditure, deemed to be the income of the taxpayer by virtue of section 69C, shall not be allowed as a deduction under any head of income.
Section 69D	Where, any amount is borrowed on a hundi from, or any amount due thereon is repaid to, any person otherwise than through an account- payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying such amount. It will be treated as income for the year in which it was borrowed or repaid.
Section 115BBE	**1.** Where the total income of an assessee, (a) includes any income referred to in Section 68, Section 69, Section 69A, Section 69B, Section 69C or Section 69D and reflected in the return of income furnished under Section 139; or (b) determined by the Assessing Officer includes any income referred to in Section 68, Section 69, Section 69A, Section 69B, Section 69C or Section 69D, the income-tax payable shall be the aggregate of — (i) the amount of income-tax calculated on the aforesaid income, at the rate of sixty *per cent*.; and (ii) the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the amount of income referred to in clause (i).” **2.** Notwithstanding anything contained in this Act, no deduction in respect of any expenditure or allowance or set off of any loss shall be allowed to the assessee under any provision of this Act in computing his income referred to in clause (a) and clause (b) of sub-section (1).

Abbreviations	
ACIT	Assistant Commissioner of Income Tax
Act	The Income Tax Act, 1961
AI	Assessed Income
AIR	Annual Information Return
ALP	Arm's Length Price
AO	Assessing Officer
AOP	Association of Person
AST	Assessment Information System
AY	Assessment Year
CASS	Computer Aided Scrutiny Selection
CBDT	Central Board of Direct Taxes
CCIT	Chief Commissioner of Income Tax
CIT	Commissioner of Income Tax
CIT(A)	Commissioner of Income Tax (Appeals)
CPC-ITR	Centralized Processing Centre – Income Tax Return
CPC-TDS	Centralized Processing Centre – Tax Deducted at Source
CT	Corporation Tax
DCIT	Deputy Commissioner of Income Tax
DGIT (Systems)	Director General of Income Tax (Systems)
DOR	Department of Revenue
DT	Direct Taxes
FY	Financial Year
IT	Income Tax
ITAT	Income Tax Appellate Tribunal
ITBA	Income Tax Business Application
ITD/Department	Income Tax Department
ITO	Income Tax Officer
ITR/Return	Income Tax Return
JCIT	Joint Commissioner of Income Tax
LTCG	Long term capital Gain
PAN	Permanent Account Number
Pr. CCIT	Principal Chief Commissioner of Income Tax
MAT	Minimum Alternate Tax
NSDL	National Securities Depository Limited
OLTAS	Online Tax Accounting System
Pr. DGIT	Principal Director General of Income Tax
Rules	The Income Tax Rules, 1962
TCS	Tax Collected at Source
TE	Tax Effect
TDS	Tax Deducted at Source
TP	Transfer Pricing
TPO	Transfer Pricing Officer

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