

आयकरअपीलीयअधिकरण 'बी' न्यायपीठ,चेन्नई। IN THE INCOME TAX APPELLATE TRIBUNAL 'B' BENCH: CHENNAI		
श्री इंतूरी रामा राव लेखासदस्य एवं श्री मनु कुमार गिरि, न्यायिक सदस्य BEFORE SHRI INTURI RAMA RAO, ACCOUNTANT MEMBER AND SHRI MANU KUMAR GIRI, JUDICIAL MEMBER		
आयकर अपील सं./ITA No 4001/Chny/2025 निर्धारण वर्ष/Assessment Year: 2017-18		
Sai Granites and Tiles, 523/4, Sathy Road, Kurumbapalayam, S S Kulam, Coimbatore-641107	v.	The Income Tax Officer, Central Circle-2, Coimbatore-641018
[PAN:ACLFS 3114 N]		
(अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)
अपीलार्थी की ओर से/ Assessee/Appellant by	:	Mr. P.N. RAJAN, Advocate
प्रत्यर्थी की ओर से /Respondent by	:	Ms. Gouthami Manivasagam, Addl.CIT
सुनवाई की तारीख/Date of Hearing	:	06.05.2026
घोषणा की तारीख /Date of Pronouncement	:	03.06.2026

आदेश / ORDER

PER MANU KUMAR GIRI, JM:

The captioned appeal filed by the Assessee is directed against the order of the Ld. Commissioner of Income Tax (Appeals), NFAC, Delhi, [CIT(A)] dated 18.08.2025 for Assessment Year 2017-18.

2. In the instant appeal, the registry has noted the delay of 56 days in filing the captioned appeal. We have gone through the condonation petition along with affidavit filed, we find that the reasons given by the assessee are sufficient cause for delay in filing



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the captioned appeals. Hence, we condone the delay and admit the appeals for adjudication.

2.1 Facts of the case are that the assessee is a partnership firm engaged in the business of granite and tiles. The return of income for Assessment Year 2017-18 was filed on 31.03.2018 declaring total income of Rs.46,18,256/- and taxes due thereon were duly paid.

2.2 A survey action was conducted in the business premises of the assessee during which certain loose sheets and a diary were impounded. Based on the impounded materials and statements recorded from the partners u/s. 131 of the Income-tax Act, 1961, the Assessing Officer (AO) completed the assessment by making two additions:

(i) Addition u/s. 69B towards alleged unexplained investment in construction of shed/building; and

(ii) Addition u/s. 69C towards alleged unexplained expenditure representing interest paid to partners outside the books of account.

2.3 The AO treated the alleged cost of construction as Rs.77,38,424/- based on an impounded loose sheet and after reducing the amount disclosed by the assessee made addition u/s. 69B. Further, relying upon entries found in an impounded diary and the statement recorded from one partner, the AO concluded that interest of Rs.44,41,740/- had been paid to partners as against Rs.16,84,371/- recorded in the books and consequently added Rs.27,57,369/- u/s. 69C.



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3. On appeal, the Id.CIT(A) partly allowed the appeal. In respect of addition u/s. 69B, the Id.CIT(A) held that the impounded document itself reflected total construction cost of Rs.62,38,424/- and not Rs.77,38,424/- as adopted by the AO. After granting credit for discount of Rs.1,50,000/-, the Id.CIT(A) determined the total investment at Rs.60,88,424/- and sustained an addition of Rs.15,88,424/- u/s. 69B.

In respect of addition u/s. 69C, the Id.CIT(A) confirmed the addition of Rs.27,57,369/- holding that the diary entries coupled with the statement recorded from one partner constituted sufficient evidence of payment of interest to partners outside the books of account.

Aggrieved, the assessee is in appeal before the Tribunal.

4. The Id. Authorised Representative (AR) submitted that the additions are based entirely on loose sheets and diary entries which do not possess any evidentiary value in the absence of corroborative evidence. Regarding the addition u/s. 69B, he submitted that:

- (a) The impounded sheet was merely an estimate and not evidence of actual expenditure.
- (b) The assessee had produced books of account, bills, vouchers, purchase invoices and engineer's estimate demonstrating that the shed was constructed at substantially lower cost.
- (c) No reference was made to the Departmental Valuation Officer.
- (d) No defects were found in the books of account.
- (e) No material evidencing payment of any amount over and above the recorded expenditure was discovered.
- (f) The statement recorded during survey could not by itself constitute conclusive evidence, particularly when subsequently explained with supporting records.



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Regarding addition u/s. 69C, the Id.AR submitted that:

- (a) The diary entries do not mention the word "interest", rate of interest, principal amount, period or mode of payment.
- (b) The entries do not bear signatures of recipients.
- (c) No evidence of cash withdrawal or generation of undisclosed income was found.
- (d) No suppression of sales or inflation of expenditure was detected.
- (e) The addition has been made merely on assumptions and presumptions.
- (f) In the case of partner Shri Subbaiyan Rathinakumar, addition made on the basis of the very same diary entries was deleted by the first appellate authority.
- (g) The burden cast upon the Revenue u/s.s 69B and 69C was never discharged.

5. The Id. Departmental Representative (DR) relied upon the orders of the Assessing Officer and the CIT(A). It was submitted that the impounded documents were recovered from the assessee's premises and therefore carried evidentiary value. It was further contended that one of the partners had admitted during the statement recorded u/s. 131 that the entries represented interest payments and therefore the additions were rightly sustained.

6. We have carefully considered the rival submissions and perused the material available on record. The entire addition u/s. 69B rests upon an impounded loose sheet allegedly reflecting the cost of construction of a temporary shed/building. The Id.CIT(A) himself has recorded a categorical finding that the AO incorrectly adopted the figure of Rs.77,38,424/- whereas the impounded document reflected only Rs.62,38,424/-. Thus, the very foundation on which the AO proceeded stood disproved by the first appellate authority. Even otherwise, we find that neither the AO nor the Id.CIT(A) has brought any independent evidence on record to establish that the



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assessee actually incurred expenditure in excess of what was recorded in its books of account. No enquiry was conducted with the contractor. No statement of the contractor was recorded. No bills, vouchers or payment records evidencing extra investment were brought on record. No valuation was obtained from the Departmental Valuation Officer. No defect was pointed out in the books of account maintained by the assessee. It is settled law that additions u/s. 69B cannot be sustained merely on the basis of estimates, assumptions or rough notings found in loose papers unless supported by cogent and corroborative evidence demonstrating actual investment outside the books of account. The impounded paper relied upon by the Revenue does not establish actual expenditure incurred by the assessee. At best, it may create suspicion. However, suspicion, howsoever strong, cannot take the place of legal proof. We further note that the assessee had voluntarily offered additional income of Rs.15,59,491/- while filing the return and paid taxes thereon. The Revenue has not demonstrated with credible evidence that any amount over and above what stood disclosed and recorded was actually invested. In the absence of any corroborative material establishing unexplained investment, the addition sustained by the Id.CIT(A) u/s. 69B amounting to Rs.15,88,424/- cannot be upheld. Accordingly, the addition of Rs.15,88,424/- is deleted.

7. The next issue concerns addition of Rs.27,57,369/- u/s. 69C. The addition is based on entries found in a diary allegedly indicating payment of interest to two partners. On perusal of the diary entries, we find that they do not specify:



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- (i) principal amount on which interest was calculated;
- (ii) rate of interest;
- (iii) period for which interest was computed;
- (iv) mode of payment;
- (v) acknowledgement by recipients;
- (vi) corresponding source from which such payments were allegedly made.

8. Significantly, no evidence has been brought on record to show that the assessee generated undisclosed income or possessed unaccounted funds capable of making such payments. The AO has not found any suppression of turnover, inflation of expenditure, unrecorded sales, unexplained cash deposits or any other source from which the alleged payments could have been made. Section 69C can be invoked only when the Revenue first establishes that expenditure has in fact been incurred and thereafter the assessee fails to explain the source thereof. In the present case, the very factum of expenditure remains unproved. The Revenue seeks to rely heavily upon the statement of one partner recorded during survey proceedings. However, it is a settled proposition that an addition cannot be sustained solely on the basis of a statement when the same is not supported by independent corroborative evidence. The statement itself does not establish actual payment. It merely constitutes a piece of evidence requiring corroboration. We further note that the very same diary entries formed the basis of proceedings in the hands of one of the partners and the addition made therein was deleted. Though that order may not operate as *res judicata*, it certainly weakens the Revenue's contention that the diary entries conclusively establish receipt of interest by partners. The diary entries are in the nature of dumb documents. They do not reveal the nature of transaction with certainty. The Revenue has attempted to infer interest payments merely from surrounding



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circumstances. Such inference, unsupported by evidence, cannot justify an addition u/s. 69C. The burden of proving unexplained expenditure rests initially upon the Revenue. Such burden has not been discharged in the present case. Accordingly, the addition of Rs.27,57,369/- sustained by the CIT(A) u/s. 69C is directed to be deleted. We therefore hold that both additions sustained by the CIT(A) are liable to be deleted.

9. In the result, the order of the Id.CIT(A) is set aside. The additions of Rs.15,88,424/- u/s. 69B and Rs.27,57,369/- u/s. 69C are deleted.

10. In the result, the appeal filed by the assessee is allowed.

Order pronounced in the open court on the 03rd day of June 2026, in Chennai.

Sd/-
(इंतूरी रामा राव)
(INTURI RAMA RAO)
लेखा सदस्य/**ACCOUNTANT MEMBER**

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

चेन्नई/Chennai,

दिनांक/Dated: 03rd June, 2026.

SNDP, Sr. PS

आदेश की प्रतिलिपि अग्रेषित/Copy to:

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