UNIVERSITY OF DELHI

BUSINESS TAX PROCEDURES AND MANAGEMENT

DSE 5.8 | DSE 5.7

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 4 · PART B

UNDISCLOSED INCOME, AND SEARCH, SEIZURE AND SURVEY

Money Without an Explanation, and the Powers Used to Find It

Cash Credits • Unexplained Investment • 60% • Search • Seizure • Requisition • Survey

Sections 102 to 107 and 195; and Sections 247 to 253

read with the INCOME-TAX RULES, 2026

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

TAX YEAR 2026-27

1 April 2026 to 31 March 2027

Academic Year 2026-27

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The Prescribed Syllabus for this Part

> **UNIT 4: PENALTIES AND PROSECUTIONS (9 HOURS)**
>
> **"Penalties and Prosecutions; Provisions relating to undisclosed income/ investment; Search, seizure and survey."**

> **THE AUTHORITY FOR THIS SYLLABUS**
>
> **Resolution No. 4-1-15** — "Resolved that the Amendment to Income tax related papers for B.Com (H), B.Com (Prog), and B.A. (Commerce) papers (In the light of the Income Tax Act 2025 duly approved by the Govt of India) be accepted." — **Appendix-103**
>
> Placed before the **Executive Council of the University of Delhi, EC (1282) dated 29.04.2026**. The amended syllabus takes effect from the **Academic Year 2026-27**.
>
> The amendment is what makes this paper a paper on the **Income-tax Act, 2025**. Every section reference in this material is in the numbering of the new Act. The corresponding provisions of the Income-tax Act, 1961 have no application to Tax Year 2026-27.

This booklet completes Unit 4. Part A took the penalties and the prosecutions; this Part takes the two topics that supply most of the occasions for them.

Half of this Part	Content	Sections
Undisclosed income and investment *Chapters 1 to 3*	The five deemed income provisions, the special rate of tax, and the consequences	102 to 107 and 195
Search, seizure and survey *Chapters 4 to 7*	Search and seizure, requisition, the application and release of seized assets, and survey	247 to 251 and 253

> **HOW THE TWO HALVES FIT TOGETHER**
>
> The deemed income sections operate **whenever** an assessee cannot explain a credit, an investment, an asset, an expenditure or a borrowing. They do not require a search. But a search is the commonest way in which the unexplained item comes to light, and what follows a search is the **block assessment** of Unit 3 Part A, Chapter 11. The chain is —
>
> **Search or survey → unexplained credit or investment → section 102 to 106 → tax at 60% under section**
>
> **195 → misreporting penalty at 200% under section 439(11)(g) → prosecution under section 478**

A Word on the Numbering

Six well-known numbers have moved, and the group has been renumbered as a block.

Subject	Act of 1961	Act of 2025
Cash credits	**68**	**102**
Unexplained investments	69	103
Unexplained money, bullion, jewellery	69A	104
Unexplained expenditure	69C	105
Amount borrowed or repaid on a hundi	69D	106
Tax on such income at the special rate	115BBE	**195**
Search and seizure	**132**	**247**

Subject	Act of 1961	Act of 2025
Power to requisition	132A	248
Application of seized assets	132B	250
Power of survey	**133A**	**253**

Sections 69 and 69B of the old Act have been merged: **section 103** now covers an unrecorded investment and an investment recorded at less than its true amount, and **section 104** covers an asset owned but not recorded, or recorded at less than the amount expended.

CONTENTS

Page numbers refer to this booklet. Chapter headings are shown in bold.

The sources from which this material has been written

Source	What it settles in this Part
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections **102 to 107** and **195** (cash credits, unexplained money, investment and expenditure, and the rate of 60%); and sections **247 to 253** (search, seizure, requisition and survey)
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	The rate of tax on undisclosed income, and the amendments to the search and survey provisions
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	The rules made under the Income-tax Act, 2025 governing the retention of seized material and the release of assets

ABOUT THIS BOOKLET

This booklet has been prepared by **Artificial Intelligence — Claude Opus 5.0 (Anthropic)** — under the guidance and supervision of **Advocate Dr. S. B. Rathore** from the bare text of the **Income-tax Act, 2025** and the **Income-tax Rules, 2026** as downloaded from **incometaxindia.gov.in**.

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CONTENTS

Page numbers refer to this booklet. Chapter headings are shown in bold.

CHAPTER ONE

The Five Deemed Income Provisions

Sections 102 to 106 Five sections, one pattern — money that the assessee cannot explain is his income of that year, whatever its real source.

1.1 Cash credits [section 102]

Where **any sum is found credited in the books** of an assessee maintained for any tax year, and —

- **(a)** the assessee **offers no explanation** about the **nature and source** of the credit; or
- **(b)** the explanation offered **is not satisfactory in the opinion of the Assessing Officer**, the sum so credited **shall be charged to income-tax as the income of the assessee of that tax year**.

TWO SPECIAL RULES

- **102(2) — loans and borrowings.** Where the credit consists of a **loan or borrowing**, by whatever name called, the assessee's explanation is **deemed not to be satisfactory unless** — **(a)** the person **in whose**

name the credit is recorded also offers an explanation of the nature and source of the sum, and (b) that explanation is found satisfactory. The creditor's own source must therefore be proved.

- **102(3) — share capital of a closely held company.** Where the assessee is a **company in which the public**

are not substantially interested and the credit consists of share application money, share capital, share **premium or any such amount**, the same double requirement applies to the **resident shareholder**. The sub- section does not apply where the shareholder is a **venture capital fund or venture capital company** registered with the Securities and Exchange Board of India.

1.2 Unexplained investments [section 103]

Where in any tax year an investment has been made which is not recorded in the books, or the Assessing Officer finds that the amount of the investment exceeds the amount recorded, and the assessee offers no explanation of the **nature and source**, or the explanation is not satisfactory, the **value of the investment or the excess** is **deemed to be the income of the assessee of that tax year**.

The section merges the old sections 69 and 69B — the wholly unrecorded investment and the under-recorded one.

1.3 Unexplained money, bullion, jewellery and other assets [section 104]

Where in any tax year an asset is found to be owned by or belonging to the assessee which is not recorded in **the books**, or the amount expended in acquiring it **exceeds the amount recorded**, and the explanation is absent or unsatisfactory, the **value of the asset or the excess** is **deemed to be the income of the tax year in which the asset is found to be owned by, or belonging to, the assessee**.

"ASSET" INCLUDES A VIRTUAL DIGITAL ASSET

Section 104(2) defines "asset" to include money, bullion, jewellery, virtual digital asset or other valuable **article**. The express inclusion of a **virtual digital asset** is new to the Act of 2025 and should be stated in any answer on this section.

Note the difference of timing between sections 103 and 104. Section 103 taxes the investment in the year it is **made**; section 104 taxes the asset in the year it is **found to be owned**. The distinction matters where an asset is discovered in a search years after it was acquired.

1.4 Unexplained expenditure [section 105]

Where **any expenditure has been incurred** by the assessee in any tax year and he offers no explanation about the **source** of the expenditure, or the explanation is not satisfactory, the **amount covered by the expenditure** is **deemed to be the income** of that tax year.

105(2) — irrespective of any other provision, the amount so deemed shall not be allowed as a deduction under **any provision of the Act**. The assessee is taxed on the expenditure as income **and** denied it as an expense.

Note that section 105 speaks only of the **source** of the expenditure, not of its nature and source. The expenditure itself is admitted; what is unexplained is where the money came from.

1.5 Amount borrowed or repaid on a hundi [section 106]

Where any amount, including interest, is borrowed or repaid through a negotiable instrument or on a hundi, **otherwise than by an account payee cheque** or a mode specified by the Board, the amount so borrowed or repaid, including the interest, is **deemed to be the income of the person borrowing or repaying** for the tax year in which

it was borrowed or repaid.

106(2) prevents a double charge: where the amount borrowed has been deemed to be income, the same person **shall not be assessed again on its repayment**.

1.6 The five compared

Section	What is caught	What must be explained	Year of charge
102	A **sum credited in the books**	The **nature and source** of the credit — and, for a loan or share capital, the creditor's or shareholder's own source	The tax year of the credit
103	An **investment** not recorded, or recorded at less than its amount	The **nature and source** of the investment or excess	The tax year in which the investment is **made**
104	An **asset** owned but not recorded, or acquired for more than the amount recorded — including **money, bullion, jewellery and virtual digital assets**	The **nature and source of the acquisition**	The tax year in which the asset is **found to be owned**
105	**Expenditure** incurred	The **source** of the expenditure	The tax year of the expenditure
106	An amount **borrowed or repaid on a hundi** otherwise than by account payee cheque	Nothing — the charge is **automatic** on the mode of the transaction	The tax year of the borrowing or repayment

Section 106 stands apart. In the other four the charge depends on the **absence of a satisfactory explanation**; in section 106 it depends on nothing but the **mode of the transaction**, and no explanation will save it.

CHAPTER TWO

The Special Rate of Tax — Sections 107 and 195

Sections 107 and 195 · Section 3(4) of the Finance Act, 2026 Sixty per cent, plus a surcharge of twenty-five, plus cess — an effective seventy-eight per cent, with no deduction of any kind.

2.1 The charge at 60% [section 195(1)]

Section 107 provides that income referred to in sections 102, 103, 104, 105 and 106 **shall be charged to tax as per the provisions of section 195**. Section 195(1) then provides that where the total income of an assessee —

- **(a) includes** any such income **and it is reflected in the return** furnished under section 263; or
- **(b)** as **determined by the Assessing Officer** includes any such income **not covered by clause (a)**,

the income-tax payable shall be the aggregate of — **(i)** income-tax on that income **at the rate of 60%**; and **(ii)** the income-tax with which the assessee would have been chargeable had his total income been **reduced** by that income.

> **WHY CLAUSES (A) AND (B) ARE SEPARATED**
>
> The distinction is the hinge of the whole Unit. Where the assessee **himself discloses** the income in his return — clause (a) — he pays 60% and no more. Where the **Assessing Officer finds it** — clause (b) — three further consequences follow, set out in paragraph 2.4 below, of which the gravest is that the income is now **misreporting** under section 439(11)(g) and carries a penalty of **200%**.

2.2 No deduction, no allowance, no set off [section 195(2)]

"Irrespective of 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 sub-section (1)(a) and (b)." The prohibition is complete. No expenditure may be set against the deemed income; no depreciation or other allowance may be claimed; and no loss — of the same year or brought forward — may be set off against it. Nor is any deduction under Chapter VIII available, the deemed income not being part of the ordinary computation.

2.3 Surcharge and cess, and the effective rate

Income-tax under section 195(1)(i)	60%
Add: surcharge at **25%** — Finance Act, 2026, section 3(4), Table Sl. No. 8, applicable to **any assessee**	15%
Sub-total	75%
Add: health and education cess at 4%	3%
Effective rate	**78%**

The surcharge of 25% applies **whatever the total income** and **whoever the assessee** — the ordinary thresholds of ₹50 lakh and ₹1 crore have no application to this entry.

2.4 The three consequences that follow

> **WHERE THE ASSESSING OFFICER FINDS THE INCOME — SECTION 195(1)(B)**
>
> 1. **Tax at 78%** — the effective rate above, with no deduction, allowance or set off.
> 2. **Penalty at 200%** of the tax — the income being **misreporting** under **section 439(11)(g)**, the clause inserted by the Finance Act, 2026. Waiver under section 440 requires additional income-tax of **120%**, not 100%.
> 3. **Prosecution** for a wilful attempt to evade tax under **section 478**, on the three-tier scale in Unit 4 Part A.

> And note what has **gone**: **section 443**, which imposed a separate penalty of 10% of the tax on such income, was **omitted by the Finance Act, 2026**. Its work is now done by section 439(11)(g), at twenty times the rate.

2.5 Illustrations

ILLUSTRATION 2.1 — DISCLOSED BY THE ASSESSEE

Shri Ajay's return for Tax Year 2026-27 shows business income of ₹14,00,000 and, separately, ₹5,00,000 of cash credits which he is unable to explain and which he offers for tax under section 102. *Compute his tax.*

Tax on ₹5,00,000 at 60% [section 195(1)(i)]	3,00,000
Add: surcharge at 25%	75,000
Add: cess at 4% on ₹3,75,000	15,000
Tax on the deemed income	**3,90,000**
Add: tax on the balance of ₹14,00,000 at the ordinary rates in section 202(1), with cess	93,600
Total tax	**₹4,83,600**

*No penalty follows. The income was **reflected in the return**, so section 195(1)(a) applies and section 439(11)(g) — which speaks of income under section 195(1)(**b**) — is not attracted.*

ILLUSTRATION 2.2 — FOUND BY THE ASSESSING OFFICER

Take the same facts, but Shri Ajay did **not** disclose the ₹5,00,000, and the Assessing Officer added it on scrutiny. *What is the total cost?*

Tax on the deemed income, as above	3,90,000
Penalty at **200%** — misreporting under section 439(11)(g)	7,80,000
Total, before interest	**₹11,70,000**

On an unexplained credit of ₹5,00,000 the charge is **₹11,70,000** — more than twice the sum itself. He may reduce it by applying under **section 440**, paying **additional income-tax of 120%** of ₹3,90,000, that is

₹4,68,000, in place of the penalty of ₹7,80,000 — but only if he pays the tax and interest in time and files **no appeal**.

*He also faces prosecution under section 478 for a wilful attempt to evade tax. The tax involved being ₹3,90,000, the punishment falls in the bottom tier — **fine only** — under the Finance Act, 2026 scale.*

CHAPTER THREE

The Burden of Proof and the Explanation

Sections 102 to 105

The sections work by shifting the burden. Knowing exactly what the assessee must prove is the whole of the subject.

3.1 What the assessee must establish

> **THE THREE INGREDIENTS OF A SATISFACTORY EXPLANATION FOR A CREDIT**
>
> Where a sum is credited in the books, a settled body of decisions requires the assessee to establish three things —
>
> 1. the **identity** of the creditor; 2. the **creditworthiness** or capacity of the creditor to advance the sum; and
>
> **3. the genuineness of the transaction.**
>
> Proof of identity alone is not enough. A confirmation letter without evidence of the creditor's means, or a credit routed through a bank account into which cash was deposited immediately before, will not discharge the burden.

Once the assessee produces material on all three, the burden shifts to the Assessing Officer, who must give reasons for holding the explanation unsatisfactory. The words of the section — **"in the opinion of the Assessing Officer"** — do not confer an arbitrary discretion; the opinion must be formed judicially and on material.

3.2 The special rule for a closely held company [section 102(3)]

Where the assessee is a company in which the public are not substantially interested and the sum credited consists of share application money, share capital, share premium or any such amount, the explanation is deemed unsatisfactory unless the resident shareholder in whose name it is recorded also explains the nature and source of the sum, and that explanation is found satisfactory.

The sub-section does not apply where the shareholder is a **venture capital fund or venture capital company** registered with the Securities and Exchange Board of India — recognised sources of legitimate share capital.

3.3 Illustrations

ILLUSTRATION 3.1 — THE LOAN THAT FAILED ON CREDITWORTHINESS

Bharti Traders shows a credit of ₹18,00,000 as a loan from Shri Kamal. It files his confirmation, his PAN and a copy of his bank statement showing the transfer. The statement also shows a cash deposit of ₹18,00,000 into Shri Kamal's account two days before the transfer. Shri Kamal's returned income for the year is ₹3,10,000. *Is the explanation satisfactory?*

No. The firm has established **identity** and, on the face of it, the movement of money. It has not established **creditworthiness** — a person returning ₹3,10,000 cannot ordinarily lend ₹18,00,000 — nor the **genuineness** of the transaction, the immediately preceding cash deposit being unexplained. Section 102(2) requires **the creditor himself** to explain the nature and source of the sum, and that has not been done.

The ₹18,00,000 is therefore charged as the firm's income of that tax year, at **78%** under section 195, with a penalty of **200%** under section 439(11)(g) if it is the Assessing Officer who makes the addition.

ILLUSTRATION 3.2 — WHICH SECTION APPLIES?

Facts	Section
(a) A credit of ₹4,00,000 in the cash book described as "sundry receipts", unexplained	**102** — a sum credited in the books
(b) A flat purchased for ₹60,00,000, of which only ₹40,00,000 appears in the books	**103** — the excess of ₹20,00,000, being an investment recorded at less than its amount
(c) Gold jewellery worth ₹28,00,000 found in a locker during a search, not recorded anywhere	**104** — an asset found to be owned but not recorded; taxed in the year it is **found**

Facts	Section
(d) A wedding at which ₹35,00,000 was demonstrably spent, the source not explained	**105** — unexplained expenditure; and it is **not allowed as a deduction** [section 105(2)]
(e) ₹9,00,000 borrowed on a hundi and repaid in cash	**106** — both the borrowing and the repayment are deemed income, no explanation being available
(f) Bitcoin worth ₹15,00,000 held in a wallet and not recorded in the books	**104** — "asset" expressly includes a **virtual digital asset** [section 104(2)]

CHAPTER FOUR

Search and Seizure — Section 247

Section 247

The gravest power in the Act. It is hedged about with conditions at every stage, and each of them is examinable.

4.1 The two grounds and the authorising officer [section 247(1)]

The power arises only where the competent authority, in consequence of information in his possession, has reason to believe that —

Clause	Ground
(a)	A person to whom a **summons under section 246(1) or a notice under section 268(1)** (or their equivalents under the repealed Act) — **(I)** was issued to produce books, documents or information, **has omitted or failed to produce** them; or **(II)** has been or might be issued such a summons or notice, and **will not produce** them
(b)	A person **is in possession of any asset, or of information in relation to any asset**, which represents wholly or partly **income or property which has not been, or would not be, disclosed** — the **undisclosed income or property**

WHO AUTHORISES, AND WHO SEARCHES

The approving authority may authorise a Joint Director, Joint Commissioner, Assistant Director, Assistant Commissioner or Income-tax Officer; and a Joint Director or Joint Commissioner so authorised may in turn authorise an Assistant Director, Assistant Commissioner or Income-tax Officer. The officer so authorised is the authorised officer.

Three requirements are cumulative and each has been the subject of litigation — there must be **information**; that information must give rise to a **reason to believe**, not a mere suspicion; and the belief must be that of the **competent authority** and must be recorded.

4.2 The seven powers of the authorised officer

Item	Power
(i)	**Enter and search** any building, place, vessel, vehicle or aircraft where he has reason to suspect that assets, books, documents or information on a computer system are kept
(ii)	Require a person in possession or control of records in **electronic form** to afford **reasonable technical and other assistance, including the access code**, to enable inspection
(iii)	**Break open** the lock of any door, box, locker, safe or almirah, **or override the access code** to a computer system, where the keys or the access are not available
(iv)	**Search any person** who has got out of, is about to get into, or is in the place searched, if he has reason to suspect that the person has **secreted about his person** any books, documents, information or asset
(v)	**Place marks of identification** on books or documents and **make extracts or copies**, including from a computer system
(vi)	Make a **note or inventory** of any asset and of the **stock-in-trade** found
(vii)	**Seize** any such books, documents, computer systems or asset — **other than stock-in-trade of the business**

The exclusion of **stock-in-trade** from item (vii) is a standing examination point. Stock may be **inventoried** under item (vi) but it may **not be seized**.

4.3 Search of another place, and the deemed seizure [section 247(2) to (4)]

- **247(2)** — where the place is within an authority's area but he has **no jurisdiction over the person**, he may nevertheless exercise the power if he has reason to believe that **delay in obtaining authorisation** from the authority having jurisdiction **may be prejudicial to the interests of the revenue**.
- **247(3)** — where, during a search, there is **reason to suspect** that books, documents or assets are kept in **a place not mentioned in the authorisation**, the Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner may authorise action in respect of that place also.
- **247(4)(a) — deemed seizure.** Where it is **not possible or practicable to take physical possession** of a valuable article or thing (other than stock-in-trade) and remove it, **because of its volume, weight, other physical characteristics or dangerous nature**, the authorised officer may serve an order on the owner or person in possession **not to remove, part with or deal with it** without his permission; and that **is deemed to be a seizure**.
- **247(4)(b) — restraint order.** Where it is impracticable to seize **for any other reason**, a similar order may be served — but it **shall not remain in force for more than sixty days**, and **serving it is not a seizure**.

The distinction between clause (a) and clause (b) is a favourite question. A **deemed seizure** under (a) is confined to a valuable article that **cannot physically be removed**; a **restraint order** under (b) covers anything else, lasts sixty days, and is not a seizure at all. Contravention of an order under section 247(4) is an **offence under section 473**.

4.4 Assistance, examination on oath and the presumptions [section 247(5) to (7)]

- **247(5)** — the authorised officer may **requisition the services of any police officer or officer of the Central Government**, or of an approved person or entity, and it is **their duty to comply**.
- **247(6)** — he may **examine on oath** any person found in possession or control of books, documents, assets or a computer system, or any other person present. The statement **may be used in evidence**, and the examination **is not confined to the material found** but extends to **all matters relevant to any investigation**.

> **THE FIVE PRESUMPTIONS [SECTION 247(7)]**
>
> Where a person is found in possession or control of books, documents, assets or a computer system, **it may be presumed —**
>
> - **(a)** that they **belong to that person**;
> - **(b)** that their **contents are true**;
> - **(c)** that the **signature and handwriting** are those of the person they purport to be;
> - **(d)** that a document stamped, executed or attested was **duly stamped and executed or attested**; and
> - **(e)** that information in electronic form **purporting to have been exchanged between parties was so exchanged.**
>
> The word is "**may**", not "shall" — the presumptions are rebuttable, and the burden of rebutting them is on the person from whose possession the material was taken.

4.5 Provisional attachment and valuation [section 247(8) and (9)]

- **247(8)** — the authorised officer may, **by order in writing, provisionally attach any property** of the assessee during the search or **within sixty days from the execution of the last of the authorisations**. The attachment

must be made **after recording reasons in writing**, on satisfaction that it is necessary in the interests of the revenue, and **with the prior approval of the Principal Director General, Director General, Principal**

Director or Director; and it is **valid for six months** from the end of the month of the order.

- **247(9)** — the authorised officer may **refer the valuation** of any property to a Valuation Officer, who reports within the prescribed period.

CHAPTER FIVE

Requisition, Reasons and Seized Assets — Sections 248 to 251

Sections 248 to 251

What happens to what has been taken, and the timetable that governs it.

5.1 Power to requisition [section 248]

Where the approving authority, in consequence of information in his possession, has reason to believe that books

of account, documents or assets have been taken into custody by any officer or authority under any other law

— typically the police or a customs authority — and that they **ought not to be returned** to the person from whom they were taken, he may authorise an officer to **require the delivery of those books, documents or assets** to him.

A requisition is not a search. It is an order to another authority to hand over what it already holds, and the consequences that follow — abatement, block assessment, the application of seized assets — are the same as for a search.

5.2 Reasons not to be disclosed [section 249]

"The **reason to believe or reason to suspect**, as referred to in section 247 or 248, recorded by the income-tax authority **shall not be disclosed to any person or any authority or the Appellate Tribunal**."

The section is short and absolute. It does not, however, prevent a **High Court in writ proceedings** from calling for the record to satisfy itself that the reasons exist and have a rational connection with the belief.

5.3 Application of seized or requisitioned assets [section 250]

Sub-section	What it provides
250(1)	The seized assets may be applied against — **(a)** any **existing liability** (other than advance tax) under this Act, the repealed Act or the Black Money Act, in respect of which the person is in default; **(b)** the liability **determined on completion of the assessment**, or of the **block assessment**, including penalty and interest; and **(c)** a liability arising on a Settlement application
250(2)	The Assessing Officer **may release** the assets, or a part, to the person from whose custody they were seized, on an application made **within thirty days from the end of the month in which the asset was seized**, and on — **(a)** being satisfied that the **nature and source of acquisition is explained**; **(b)** recovering any existing liability out of them; and **(c)** obtaining the **prior approval of the Principal Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner**
250(3)	The assets shall be **released within one hundred and twenty days** from the date on which the **last of the authorisations** was executed
250(4) and (5)	Where the assets consist of **money**, it may be applied directly in discharge of the liabilities, and the assessee is discharged to that extent; **assets other than money** may also be applied, and are deemed to be under distraint for that purpose

5.4 Copying, retention and release [section 251]

- **251(1)** — where the authorised officer **has no jurisdiction** over the person, the seized assets and material shall be **handed over to the Assessing Officer having jurisdiction within one hundred and eighty days** from the initiation of the search or the making of the requisition.

- **251(2) —** on an application, the person from whose custody the material was seized shall be **allowed to make copies or take extracts**, in the presence of the officer, at such place and time as he appoints.
- **251(3) —** the authorised officer may retain the material **up to one month from the end of the quarter in which the order of assessment, reassessment or block assessment is made**; and **beyond that only after recording reasons in writing and obtaining the approval of the approving authority**.
- **251(4) —** the approving authority **shall not allow retention beyond thirty days** from the date on which all the proceedings for the relevant years are completed.

CHAPTER SIX

Survey — Section 253

Section 253

A lesser power than search, exercised in daylight at a place of business, and with one thing it may never do.

6.1 The power of entry [section 253(1) to (3)]

An income-tax authority may enter any place at which a business or profession, or an activity for charitable purpose, is carried on — whether or not it is the principal place — where the place is **(a)** within the area assigned to him; **(b)** occupied by a person over whom he exercises jurisdiction; or **(c)** one for which he is authorised by the authority who has the area or the person.

On entry he may require any proprietor, trustee, employee or other person attending to or helping in the business —

- **(i)** to provide the **necessary technical and other assistance, including the access code**, to enable inspection of books, documents or information in electronic form;
- **(ii)** to provide the facility to **check or verify the asset or stock**; and
- **(iii)** to furnish **such information** as may be useful for or relevant to any proceeding.

> **THE EXTENDED PLACE, AND THE HOURS [SECTION 253(2) AND (3)]**
>
> **253(2)** — the place includes **any other place**, whether or not a business is carried on there, in which the person **states** that his books, cash, stock, valuable articles or computer system relating to the business are kept.
>
> **253(3) — the authority may enter a place of business only during the hours at which it is open for business;**
>
> **and any other place only after sunrise and before sunset.**

6.2 The special survey for tax deducted at source [section 253(4) and (6)]

For the purpose of verifying that tax has been deducted or collected at source under Chapter XIX-B, an income-tax authority may, **after sunrise and before sunset**, enter any office or place of business within his area, or any place for which he is authorised, and require the deductor, collector or any person attending to that work — **(i)** to provide the technical assistance including the access code, and **(ii)** to furnish the information required.

253(6) — an authority acting under sub-section (4) may **only** place marks of identification and take copies [section 253(5)(a)] and **record statements** [section 253(5)(b)]. It may **not impound** books, and it may **not make an inventory** of stock.

This limited survey is also the one carved out of the bar on an updated return: section 263(6)(d)(ii) disqualifies a person on whom a survey has been conducted "**other than under sub-section (4) of section 253**".

6.3 What the authority may do [section 253(5)]

Clause	Power
(a)	**Place marks of identification** on the books or documents inspected, and **make extracts or copies**, including from a computer system
(b)	**Record the statement of any person on oath** which may be useful for or relevant to any proceeding
(c)	**Impound**, **after recording reasons**, any books, documents or computer system inspected, and **retain them for up to fifteen days (exclusive of holidays)** — or **beyond fifteen days with the prior approval of the approving authority**
(d)	**Make an inventory** of any asset or stock checked or verified

6.4 What it may not do [section 253(7)]

> **"An income-tax authority acting under this section shall, on no account, remove or cause to be removed from the place wherein it has entered, any asset or stock."**

This is the single most important line in the section and the clearest point of distinction from a search. In a **survey** the authority may **inventory** cash, stock and valuables but may **never seize or remove** them. In a **search** it may **seize** assets — though not stock-in-trade.

6.5 Survey of expenditure on a function or ceremony [section 253(8)]

Having regard to the nature and scale of expenditure incurred in connection with any function, ceremony or

event, the authority may — **after the function** — **(a)** require the person who incurred the expenditure, or any person likely to have information about it, to **furnish information**; **(b) record statements on oath**; and **(c)** use those statements **in evidence** in any proceeding.

Note the words "**after such function, ceremony or event**". The power cannot be used to enter and question during a wedding; it operates afterwards. It links directly to **section 105** — unexplained expenditure — in Chapter 1.

6.6 Refusal, approval and who may act [section 253(9) to (11)]

- **253(9)** — if a person **refuses or evades** to provide the facility, to allow verification, to furnish information or to have his statement recorded, the authority has **all the powers under section 246(1)** — the powers of a civil court — to enforce compliance.
- **253(10)** — action under the section requires the **prior approval of the Principal Director General, Director**

General, Principal Chief Commissioner or Chief Commissioner.

- **253(11)(A)** — "income-tax authority" for the section means a **Principal Commissioner or Commissioner,**

Principal Director or Director, Joint Commissioner or Joint Director, Assistant or Deputy Director,
Assessing Officer or Tax Recovery Officer; and includes an Inspector of Income-tax only for the purposes of

sub-sections (1)(i), (5)(a) and (8) — that is, to seek assistance, to place identification marks and take copies, and to act on a function or ceremony. An **Inspector may not record a statement on oath, impound anything, or make an inventory**.

Search and Survey Compared

Sections 247 and 253 Twelve points of comparison, and every one of them decides a case.

Point	Search — section 247	Survey — section 253
Precondition	**Information** in possession giving rise to a **reason to believe** in one of the two grounds in section 247(1)	**No** reason to believe is required — only the **prior approval** of the Principal Director General or Principal Chief Commissioner [section 253(10)]
Who authorises	The **approving authority**, who authorises a named officer	The authority acts himself, with prior approval
Where	**Any building, place, vessel, vehicle or aircraft** — including a residence	Only a **place of business or profession or charitable activity**, and a place stated to hold the books or stock
When	At any time; a search once begun may continue	**Only during business hours**; any other place only **after sunrise and before sunset**
Breaking open	**Permitted** — locks may be broken and access codes overridden [section 247(1)(iii)]	**Not permitted**
Personal search	**Permitted** [section 247(1)(iv)]	**Not permitted**
Seizure of assets	**Permitted**, except **stock-in-trade** [section 247(1) (vii)]	**Never** — nothing may be removed [section 253(7)]
Impounding books	Permitted as part of seizure	Permitted, **after recording reasons**, for **fifteen days**, or longer with approval [section 253(5)(c)]
Statement on oath	**Permitted**, and not confined to the material found [section 247(6)]	**Permitted** [section 253(5)(b)]
Presumptions	**Five presumptions** apply [section 247(7)]	**None**
Consequence	**Block assessment** of the block period under section 292; pending proceedings **abate**	**No block assessment.** The material becomes "information" for a reopening under section 280(6)(f)
Updated return	**Barred** for the year of the search and every preceding year [section 263(6)(d)(i)]	**Barred**, except where the survey is the limited one under **section 253(4)** [section 263(6)(d)(ii)]

CHAPTER EIGHT

Practical Problems with Solutions

Seven problems in the form in which the University of Delhi has set them.

PROBLEM 1 — THE FULL COST OF AN UNEXPLAINED CREDIT

On scrutiny of Ganesh Traders for Tax Year 2026-27, the Assessing Officer added ₹25,00,000 as an unexplained cash credit under section 102, the firm having failed to establish the creditworthiness of the creditors. The firm's other income was assessed at ₹30,00,000. *Compute the tax and the penalty, and state the other consequences.*

Tax on ₹25,00,000 at 60% — section 195(1)(i)	15,00,000
Add: surcharge at 25%	3,75,000
Add: cess at 4% on ₹18,75,000	75,000
Tax on the deemed income	**19,50,000**
Penalty at **200%** — misreporting under section 439(11)(g), the income falling under section 195(1) (b)	39,00,000
Tax and penalty on the ₹25,00,000	**₹58,50,000**

The other income of ₹30,00,000 is taxed separately at the ordinary rates [section 195(1)(ii)]. **No expenditure, allowance or set off of loss** may be claimed against the ₹25,00,000 [section 195(2)].

*Further consequences — **prosecution** under section 478 for a wilful attempt to evade tax, the tax exceeding ₹10,00,000 but not ₹50,00,000, so simple imprisonment up to six months, or fine, or both. And relief under **section 440** would cost additional income-tax of **120%** of ₹19,50,000, that is ₹23,40,000, in place of the penalty of ₹39,00,000.*

PROBLEM 2 — DISCLOSED AGAINST UNDISCLOSED

Take the facts of Problem 1, but assume the firm itself offered the ₹25,00,000 for tax in its return under section 102. *What changes?*

- The **tax is the same** — ₹19,50,000. Section 195(1)(a) charges the disclosed income at exactly the same rate.
- There is **no penalty**. Section 439(11)(g) speaks of income under section 195(1)(**b**) — income determined by the Assessing Officer. Income reflected in the return falls under clause (a).
- There is **no prosecution**, there having been no wilful attempt to evade.

*The difference between disclosing and not disclosing is therefore **₹39,00,000** on these figures. That is the single most useful practical point in this Unit.*

PROBLEM 3 — WHICH DEEMED INCOME SECTION?

State the section, the amount and the year of charge in each case, for a search conducted in December 2026.

Facts	Answer
(a) Cash of ₹14,00,000 found in a locker, not recorded in the books	**Section 104** — an asset owned but not recorded; “asset” includes **money**. Taxed in **Tax Year 2026-27**, the year it is **found**
(b) A plot purchased in 2023 for ₹80,00,000, the books showing ₹50,00,000	**Section 103** — an investment recorded at less than its amount. The **excess of ₹30,00,000** is taxed in the year the **investment was made**
(c) A credit of ₹7,00,000 in the books described as a loan, the lender untraceable	**Section 102**, read with section 102(2) — the lender must himself explain the source. Taxed in the year of the **credit**
(d) A daughter's wedding on which ₹40,00,000 is shown to have been spent, no source shown	**Section 105** — unexplained expenditure, taxed in the year it was **incurred**; and **not allowed as a deduction** [section 105(2)]. The material may have been gathered under **section 253(8)**

Facts	Answer
(e) ₹6,00,000 borrowed on a hundi and repaid in cash	**Section 106** — **both** the borrowing and the repayment are deemed income, in the respective years; no explanation is admissible

PROBLEM 4 — WHAT MAY BE SEIZED, AND WHAT MAY NOT

During a search at the premises of Hind Jewellers the authorised officer finds — (a) gold ornaments held as **stock-in-trade** worth ₹1.8 crore; (b) gold ornaments belonging to the proprietor's family worth ₹40,00,000, not recorded anywhere; (c) cash of ₹22,00,000; (d) a laptop, the password to which the proprietor refuses to disclose; and (e) a heavy safe embedded in the wall which cannot be removed. *Advise the officer.*

Item	Answer
(a)	**Cannot be seized.** Section 247(1)(vii) excludes **stock-in-trade of the business**. He may only make a **note or inventory** of it under section 247(1)(vi)
(b)	**May be seized** — it is not stock-in-trade. It is also unexplained, so section 104 applies
(c)	**May be seized**; "asset" includes money
(d)	He may **require the proprietor to provide the access code** [section 247(1)(ii)] and, if it is not given, may **override the access code** [section 247(1)(iii)]. Refusal to afford the facility is an **offence under section 474** — simple imprisonment up to six months, or fine, or both
(e)	Physical possession being impracticable by reason of its **weight and physical characteristics**, he may serve an order under **section 247(4)(a)** not to deal with it — and that **is deemed to be a seizure**. Contravention of the order is an **offence under section 473**

PROBLEM 5 — THE SURVEY THAT WENT TOO FAR

During a survey at the business premises of Indus Fabrics at 11 a.m., the income-tax authority — (i) verified the stock and prepared an inventory; (ii) recorded the proprietor's statement on oath; (iii) impounded the ledgers, recording his reasons, and retained them for forty days without any approval; (iv) took away cash of ₹9,00,000 found in the till; and (v) proceeded at 8 p.m. to the proprietor's residence and searched it. *Comment on each act.*

Act	Comment
(i)	**Valid** — section 253(5)(d) permits an inventory of any asset or stock checked or verified
(ii)	**Valid** — section 253(5)(b)
(iii)	**Invalid beyond fifteen days.** Section 253(5)(c) permits retention for **fifteen days exclusive of holidays**, and beyond that **only with the prior approval of the approving authority**
(iv)	**Wholly invalid.** Section 253(7) provides that the authority shall **on no account remove any asset or stock** from the place. Cash may be inventoried; it may never be taken
(v)	**Wholly invalid** on two counts. A survey may be conducted only at a **place of business** [section 253(1)], and any other place only **after sunrise and before sunset** [section 253(3)]. A residence may be entered only under a **search** authorised under section 247

PROBLEM 6 — RELEASE OF SEIZED ASSETS

A search at the premises of Shri Jatin was concluded, the last authorisation being executed on **18 January 2027**. Cash of ₹30,00,000 and jewellery worth ₹45,00,000 were seized. On **26 February 2027** he applied for release of the jewellery, explaining its source. *Advise.*

- The application is **in time**. Section 250(2) requires it to be made **within thirty days from the end of the month in which the asset was seized** — the seizure being in January 2027, the last date is **2 March 2027**.
- The Assessing Officer may release the jewellery if he is satisfied that the **nature and source of acquisition is explained**, after **recovering any existing liability** out of it, and with the **prior approval** of the Principal

Chief Commissioner, Chief Commissioner, Principal Commissioner or Commissioner.

- The release must be effected **within one hundred and twenty days from 18 January 2027** — that is, by **18 May 2027** [section 250(3)].
- The **cash** may be applied directly by the Assessing Officer in discharge of the liabilities in section 250(1), and Shri Jatin is discharged to that extent [section 250(4)].

PROBLEM 7 — THE PRESUMPTIONS

During a search at the office of Kamal & Co., a diary was found in the possession of the manager recording unaccounted sales of ₹62,00,000 in what appears to be the proprietor's handwriting. The proprietor denies that the diary is his and denies the correctness of the entries. *What is the position?*

Section 247(7) permits the Assessing Officer to **presume — (a)** that the diary **belongs to** the person in whose possession it was found; **(b)** that its **contents are true**; and **(c)** that the **handwriting** is that of the person it purports to be.

But the word in the section is "**may be presumed**", not "shall". The presumptions are **rebuttable**, and the burden of rebutting them lies on the assessee. A bare denial will not discharge it; he must produce material — a handwriting comparison, evidence that the manager maintained the diary for his own purposes, or reconciliation of the entries with recorded transactions.

If the presumptions stand, the ₹62,00,000 is undisclosed income of the block period, assessed under section 292, and the material is also "information" founding a reopening under section 280(6) for any year outside the block.

CHAPTER NINE

Revision, Ready Reckoner and Question Bank

Everything in this Part reduced to tables that can be revised in an hour.

9.1 Old section to new section

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Cash credits	**68**	**102**
Unexplained investments	**69 and 69B**	**103**
Unexplained money, bullion, jewellery — and now virtual digital assets	69A	104
Unexplained expenditure	69C	105
Amount borrowed or repaid on a hundi	69D	106
Charge of such income	—	107
Tax at the special rate of 60%	**115BBE**	**195**
Penalty on such income	271AAC	**Omitted** — now misreporting under 439(11)(g)
Search and seizure	**132**	**247**
Power to requisition	132A	248
Reasons not to be disclosed	132(1) proviso / 132(8A)	249
Application of seized assets	132B	250
Retention and release of seized material	132(8) to (10)	251
Power of survey	**133A**	**253**
Power to collect certain information	133B	254 *(Unit 2)*
Block assessment on search	158BA / 153A	292 *(Unit 3 Part A)*
Contravention of a search order	275A	473 *(Part A)*
Failure to afford facility for inspection	275B	474 *(Part A)*

9.2 Objective questions

A. State whether True or False, with reasons

1. An unexplained cash credit is taxed at the assessee's ordinary slab rate.

False. It is taxed at **60%** under section 195, with a surcharge of 25% and cess — an effective **78%**.

2. Business expenditure may be set off against income deemed under section 102.

False. Section 195(2) forbids any deduction, allowance or set off of loss against such income.

3. Where a credit is a loan, it is enough for the assessee to identify the lender.

False. Section 102(2) deems the explanation unsatisfactory unless the **lender himself** explains the nature and source of the sum, and that explanation is found satisfactory.

4. An unexplained asset is taxed in the year it was acquired.

False. Section 104 taxes it in the year in which it is **found to be owned by** the assessee. It is section 103 that taxes an investment in the year it is **made**.

5. Unexplained expenditure is taxed as income and is also allowed as a deduction.

False. Section 105(2) expressly denies the deduction.

6. An amount borrowed on a hundi may be explained.

False. Section 106 charges it on the mode of the transaction alone; no explanation is admissible.

7. A search may be authorised on suspicion.

False. Section 247(1) requires **information in possession** giving rise to a **reason to believe** in one of the two specified grounds.

8. Stock-in-trade found in a search may be seized.

False. Section 247(1)(vii) expressly excludes it; it may only be inventoried.

9. The presumptions in section 247(7) are conclusive.

False. The section says "**may be presumed**"; they are rebuttable.

10. A restraint order under section 247(4)(b) amounts to a seizure.

False. Sub-clause (iii) says it shall **not** be deemed to be a seizure; and it lapses after **sixty days**. It is only the order under clause (a), where physical possession is impracticable, that is deemed a seizure.

11. An income-tax authority may impound cash during a survey.

False. Section 253(7) forbids the removal of any asset or stock. Only books, documents and computer systems may be impounded, under section 253(5)(c).

12. An Inspector of Income-tax may record a statement on oath during a survey.

False. Section 253(11)(A)(b) includes an Inspector only for sub-sections (1)(i), (5)(a) and (8).

B. Multiple choice

1. Unexplained cash credits are charged under —

(a) section 68 (b) **section 102** (c) section 104 (d) section 195 *Answer: (b)*

2. The rate of tax on income under sections 102 to 106 is —

(a) 30% (b) 40% (c) **60%** (d) 78% *Answer: (c), section 195(1)(i) — 78% is the effective rate*

3. The surcharge on that tax is —

(a) 10% (b) 15% (c) **25%** (d) 37% *Answer: (c)*

4. Unexplained jewellery found in a search is charged under —

(a) section 102 (b) section 103 (c) **section 104** (d) section 105 *Answer: (c)*

5. An amount borrowed on a hundi otherwise than by account payee cheque is charged under —

(a) section 103 (b) section 105 (c) **section 106** (d) section 107 *Answer: (c)*

6. A search is authorised under —

(a) section 132 (b) **section 247** (c) section 248 (d) section 253 *Answer: (b)*

7. A restraint order under section 247(4)(b) remains in force for not more than —

(a) 30 days (b) **60 days** (c) 90 days (d) 180 days *Answer: (b)*

8. An application for release of a seized asset must be made within —

(a) 15 days (b) **30 days from the end of the month of seizure** (c) 60 days (d) 120 days *Answer: (b), section 250(2)*

9. Seized assets must be released within —

(a) 60 days (b) 90 days (c) **120 days from the execution of the last authorisation** (d) 180 days *Answer: (c), section 250(3)*

10. Books impounded in a survey may be retained without approval for —

(a) 7 days (b) **15 days exclusive of holidays** (c) 30 days (d) 60 days *Answer: (b), section 253(5)(c)*

11. A place other than a place of business may be entered in a survey —

(a) at any time (b) during business hours (c) **after sunrise and before sunset** (d) never *Answer: (c), section 253(3)*

12. The number of presumptions available under section 247(7) is —

(a) three (b) four (c) **five** (d) seven *Answer: (c)*

9.3 Fill in the blanks

1. Unexplained cash credits are charged under section __. — *102*

2. Where the credit is a loan, the explanation is deemed unsatisfactory unless the __ also explains the nature and source. — *creditor* [section 102(2)]

3. An unexplained asset is taxed in the year in which it is __ to be owned by the assessee. — *found* [section 104]

4. "Asset" under section 104 includes money, bullion, jewellery, a __ and other valuable article. — *virtual digital asset* 5. Unexplained expenditure shall not be allowed as a __ under any provision of the Act. — *deduction* [section 105(2)] 6. Income under sections 102 to 106 is taxed at __%, with a surcharge of __%. — *60; 25* 7. No __, allowance or set off of loss is allowed against such income. — *deduction* [section 195(2)] 8. A search may not result in the seizure of __. — *stock-in-trade* [section 247(1)(vii)] 9. An order under section 247(4)(b) shall not remain in force for more than __ days. — *sixty* 10. Seized assets must be released within __ days from the execution of the last of the authorisations. — *one hundred and twenty* [section 250(3)] 11. In a survey an authority shall on no account __ any asset or stock from the place. — *remove* [section 253(7)] 12. The reason to believe recorded under section 247 shall not be disclosed to any person, authority or the __. — *Appellate Tribunal* [section 249]

9.4 Short answer questions

1. Explain the provisions relating to cash credits under section 102, including the special rules for loans and for share capital of a closely held company. 2. Distinguish between section 103 and section 104, with particular reference to the year of charge. 3. Explain the treatment of unexplained expenditure under section 105. 4. Why is section 106 different from the other four deemed income provisions? 5. State the rate of tax on income under sections 102 to 106 and the consequences that follow. 6. What must an assessee prove to explain a cash credit satisfactorily? 7. State the two grounds on which a search may be authorised under section 247. 8. Enumerate the powers of an authorised officer during a search. 9. Distinguish between a deemed seizure under section 247(4)(a) and a restraint order under section 247(4)(b). 10. State the presumptions available under section 247(7) and their nature. 11. Explain the provisions relating to the application and release of seized assets. 12. State what an income-tax authority may and may not do during a survey.

9.5 Long answer questions

1. Explain the provisions relating to undisclosed income and investment under sections 102 to 106, and the manner in which such income is taxed under section 195. 2. "The deemed income provisions work by shifting the burden of proof." Discuss, with reference to what an assessee must establish and to the special rules in section 102(2) and (3). 3. Describe the powers of an authorised officer in the course of a search under section 247, and the safeguards which the section provides. 4. Explain the presumptions under section 247(7) and their effect, and state the consequences of a search for the assessment of the years covered. 5. Explain the provisions relating to requisition under section 248 and to the application, retention and release of seized or requisitioned assets under sections 250 and 251. 6. Describe the power of survey under section 253, distinguishing the ordinary survey from the survey for verifying tax deducted at source and from the survey of expenditure on a function or ceremony. 7. Compare and contrast a search under section 247 with a survey under section 253. 8. Trace the consequences that follow the discovery of unexplained income in a search, from the deemed income provisions to the prosecution. 9. An assessee is found in a search to be in possession of unrecorded jewellery worth ₹35,00,000 and a diary recording unaccounted sales. Advise him on the tax, the penalty and the prosecution he faces, and on the relief

available. 10. Examine the changes made by the Finance Act, 2026 in the treatment of undisclosed income, with particular reference to the omission of section 443 and the insertion of clause (g) in section 439(11).

End of Unit 4. Parts A and B together cover penalties and prosecutions; the provisions relating to undisclosed income and investment; and search, seizure and survey.