


# Unexplained Cash Credits, Investments, Assets and Expenditure under the Income-tax Act, 2025: Sections 102 to 107 and Tax at 30% (Tax Year 2026-27)

## Description

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**Quick summary**

- Sections 102 to 106 of the Income-tax Act, 2025 (old sections 68, 69, 69A, 69B, 69C and 69D) treat an unexplained credit in the books, unrecorded investment, unexplained asset, unexplained expenditure and an amount borrowed or repaid through a negotiable instrument or hundi, otherwise than by account payee cheque, as the assessee's income.
- The tax on this income is a flat 30% from 01/04/2026 (section 195(1), which Finance Act 2026 reduced from 60%), with no deduction for any expenditure or allowance and no set-off of loss (section 195(2)); section 107 sends all of it to section 195.
- For a loan or credit, the lender or the person in whose name the credit stands must also explain it (section 102(2)); for share capital of a company in which the public is not substantially interested, a resident subscriber must explain it (section 102(3)).
- Penalty for under-reporting or misreporting can follow under section 439, and the misreporting limbs include failure to record investments or receipts in the books.

When a taxpayer cannot explain where money came from, or where it went, the law treats it as income and taxes it at a special rate. These rules are in **sections 102 to 107** of the Income-tax Act, 2025 (from 01/04/2026), with the tax in **section 195**. They replace the old sections 68 to 69D and 115BBE.

## The five deeming provisions

| Section | Old section | Trigger | Deemed income |
|---|---|---|---|
| 102 | 68 | A sum is found credited in the books, and the assessee gives no explanation or an unsatisfactory one | The sum credited, of that tax year |

| Section | Old section | Trigger | Deemed income |
|---|---|---|---|
| 103 | 69 | An investment made in the year is not recorded in the books (or exceeds the recorded amount), and there is no satisfactory explanation | The investment, orthe excess |
| 104 | 69A, 69B | An asset (money, bullion, jewellery, virtual digital asset, other valuable article) is owned but not recorded, or the amount spent on acquiring it exceeds the recorded amount, without a satisfactory explanation | The value, or the excess, in the year the asset is found |
| 105 | 69C | Expenditure incurred in the year with no explanation or an unsatisfactory one on its source | The amount of the expenditure |
| 106 | 69D | An amount (with interest) borrowed or repaid through a negotiable instrument or hundi otherwise than by account payee cheque or another mode specified by the Board | The amount, in the year of borrowing or repayment |

## Section 102: credits in the books

If a sum is found credited in the books for a tax year and the assessee offers **no explanation** about its **nature and source**, or the explanation is **not satisfactory** in the opinion of the Assessing Officer, the sum is charged as income of that year (section 102(1)).

- **Loans and borrowings:** the explanation is **deemed unsatisfactory unless** the person in whose name the credit is recorded also explains the nature and source of the sum, and the explanation is found satisfactory (section 102(2)).
- **Private company share capital:** for a company in which the public are not substantially interested, share application money, share capital, share premium or similar amounts must be explained by the **resident** in whose name the credit stands, and the explanation must be satisfactory (section 102(3)).
- **Venture capital:** the extra requirements in sub-sections (2) and (3) do not apply if the person is a venture capital fund or company in Schedule V (section 102(4)).

## Section 105: no deduction of the expense

An amount treated as income as unexplained expenditure is **not allowed as a deduction** under any provision (section 105(2)).

## Section 106: cash or hundi borrowing

If an amount is borrowed or repaid through a negotiable instrument or hundi, other than an account payee cheque or a mode specified by the Board, the amount including interest is deemed to be the income of the person borrowing or repaying in the year of borrowing or repayment. If it was taxed on borrowing, the person is not assessed again on repayment (section 106(2)).

## Tax on this income (sections 107 and 195)

| Item | Rule |
|---|---|
| Rate | **30%** on the income in sections 102 to 106 (section 195(1)(i)). Finance Act 2026 substituted 30% for 60% from 01/04/2026 |
| Rest of the income | Taxed as if the total income were reduced by the unexplained income (section 195(1)(ii)) |
| Deductions and losses | **No** deduction of any expenditure or allowance, **no** set-off of any loss against this income (section 195(2)) |
| Where it applies | Income included in the return, or determined by the Assessing Officer (section 195(1)(a) and (b)) |

**Example.** An assessment adds an unexplained credit of ?10,00,000 to a person who has other taxable income of ?15,00,000. The tax on the ?10,00,000 is 30%, which is ?3,00,000, with no deduction. The ?15,00,000 is taxed at the normal rates. Before 01/04/2026 the rate on the unexplained part was 60%.

## Penalty and prosecution risk

Unexplained income is usually assessed with a penalty under section 439. Failure to record investments in the books, recording false entries and failure to record a receipt that bears on total income are **misreporting** cases (section 439(11)), where the penalty is 200% of the tax on the under-reported income. The Finance Act 2026 waiver scheme (section 440) allows waiver of the penalty and immunity from prosecution on payment of additional income-tax of 100% (or 120%) of the tax on the under-reported income and on not appealing; read the conditions before relying on it.

## How to protect yourself

1. **Keep proof of source** for every large deposit, loan and share subscription: bank statements, loan agreements, the lender’s return and capital account, and the identity of the investor.
2. **Use banking channels.** Loans of ?20,000 or more by cash breach section 185, and cash receipts of ?2,00,000 or more breach section 186 (see the post on cash transaction limits).
3. **Record every investment and asset** in the books of account, with the source of funds.
4. **Answer the Assessing Officer’s notices in time** and explain the source in the way the section requires: for a loan, include the lender’s explanation.
5. **Consider the 60% to 30% change.** For tax years from 2026-27 the rate is lower, but the penalty and disallowance rules still apply, so the cost of an unexplained credit is still high.

## How CSM & Co LLP can help

We prepare source-of-funds evidence, reply to notices on cash credits and unexplained investments and appear in assessment and appeal proceedings. Please reach out to our team and we will be happy to assist.

# Frequently asked questions

### Which sections replace 68, 69, 69A, 69B, 69C and 69D?

Section 102 (unexplained credits, old 68), section 103 (unexplained investment, old 69), section 104 (unexplained asset, old 69A and 69B), section 105 (unexplained expenditure, old 69C) and section 106 (amount borrowed or repaid through a negotiable instrument or hundi, old 69D). Section 107 and section 195 deal with the tax.

### What is the tax rate on unexplained income?

30% on the income referred to in sections 102 to 106 (section 195(1)(i)), as substituted by Finance Act 2026 from 01/04/2026; the earlier rate was 60%. The balance of the total income is taxed in the usual way, and no deduction of expenditure or allowance and no set-off of loss is allowed against the unexplained income (section 195(1)(ii) and (2)).

### What must I show to explain a credit in my books?

The nature and source of the credit. If the credit is a loan or borrowing, the person in whose name it is recorded must also offer an explanation that the Assessing Officer finds satisfactory (section 102(2)). For share application money, share capital or share premium of a company in which the public are not substantially interested, a resident in whose name it is recorded must offer an explanation (section 102(3)). This is not required where the contributor is a venture capital fund or company in Schedule V (section 102(4)).

### What counts as an “asset” for the unexplained asset rule?

Money, bullion, jewellery, a virtual digital asset or any other valuable article (section 104(2)). If an asset is owned but not recorded in the books, or the amount spent on it is more than the amount recorded, and there is no satisfactory explanation, its value or the excess is the income of the year in which it was found (section 104(1)).

### Can a loan taken by cash or hundi be income?

Where an 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), it is deemed to be the income of the person borrowing or repaying in the year of borrowing or repayment (section 106). Cash loans of ?20,000 or more also attract section 185 and a penalty equal to the amount (section 450).

### Is a penalty also possible?

Yes. Under-reporting attracts 50% of the tax and misreporting 200% of the tax (section 439). Failure to

record investments, recording false entries and failure to record receipts are misreporting (section 439(11)). The waiver scheme in section 440 can apply on payment of additional income-tax and no appeal.

## Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 102 to 107, 185, 195, 439, 440)

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