Environment & Ecology · GS - III

Examine the role of Section 69C of the Income-tax Act in addressing unexplained expenditure. How can tax authorities balance revenue protection with fairness to taxpayers?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 21/10/2026	GS - III	Environment & Ecology

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Unexplained expenditure, burden of explanation, documentary evidence, tax compliance, procedural fairness, natural justice, reasoned assessment, appeal mechanisms.

Model Answer

Introduction

Tax authorities must ensure that taxable income is properly reported and that unexplained expenditure does not become a means of concealing income. Section 69C of the Income-tax Act, 1961, addresses expenditure for which the assessee cannot satisfactorily explain the source.

Role of Section 69C

- **Revenue protection:** It enables authorities to treat qualifying unexplained expenditure as deemed income, subject to statutory requirements.
- **Evidence-based assessment:** Bank statements, income records, loan documents, gifts and other legitimate sources can help establish the origin of funds.
- **Deterrence:** The provision discourages tax evasion and strengthens compliance.

Balancing enforcement and fairness

A high-value purchase or insurance policy may justify scrutiny, but it does not by itself prove tax evasion. Authorities should examine the taxpayer's complete financial circumstances, provide a reasonable opportunity to respond and issue reasoned orders. Taxpayers must retain relevant records and may challenge additions through statutory appeal mechanisms.

Conclusion

Section 69C is an important instrument against unexplained expenditure. Its effective implementation requires evidence-based decisions, consistent application of the law and safeguards that protect taxpayers from arbitrary additions.

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