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In the **February 2026 Edition** of the Luthra and Luthra Law Offices India – '**Direct Tax Monthly Newsletter**', we have covered some of the pertinent developments in the field of Direct Taxation Law recently.

INCOME TAX

IMPORTANT JUDGMENT PASSED BY HON'BLE SUPREME COURT IN THE CASE OF:

Income-tax Officer v. Amitkumar Chandulal Rajani dated 13.02.2026

The Revenue filed a Special Leave Petition ("**SLP**") against the High Court order quashing the reopening notices under Section 148 of the Income Tax Act, 1961 ("**the Act**") for Assessment Year ("**AY**") 2013-14 to 2015-16. The Assessing Officer ("**AO**") received information from DCIT that the search under Section 132 of the Act at NS's premises revealed that the assessee carried out substantial transactions through NS (who issued cheques/DDs against cash and delivered cash to beneficiaries deposited across locations). The AO reopened the assessment alleging unexplained transactions under Section 69A of the Act (unexplained money) that escaped assessment, as no return was filed. The High Court quashed the notices holding: (i) reasons recorded mechanically without reference to specific transactions by assessee; (ii) no documents, statements or material from NS linking assessee to escapement; (iii) affidavit-in-reply claimed material confidential, no tangible material supplied to assessee; (iv) no satisfaction or nexus between seized material and reasons, reopening based on surmises/conjectures, jurisdiction not validly assumed. The Hon'ble Supreme Court *inter alia* dismissed the SLP, declining to interfere. The Hon'ble High Court's order was upheld. Reopening under Section 147/148 of the Act is unsustainable in the absence of a direct nexus between the material and the reasons recorded; mechanical notices, without tangible evidence linking the assessee to escapement, are invalid. SLP dismissed in favour of the assessee.

Deputy Commissioner of Income-tax (TDS) v. District Mining Officer Dantewada Mining Office dated 27.01.2026

The Revenue challenged the Hon'ble High Court's order holding that no Tax collected at Source ("**TCS**") under Section 206C(1C) of the Act, is required on compounding fee/fine collected under Section 23A of the Mines and Minerals (Development and Regulation) Act, 1957, read with Rule 71(5) of Chhattisgarh Minor Mineral Rules, 2015, from illegal miners and transporters. A tax-deducted at source ("**TDS**") survey conducted at the District Mining Officer's office revealed non-collection of TCS on such penal amounts. The Hon'ble Supreme Court dismissed the SLP and declined to interfere. The Hon'ble High Court had ruled that Section 206C(1C) of the Act mandates TCS only from lease/license holders or parties with whom the collector enters a contract or transfers right/interest in mine/quarry. Illegal miners/transporters fall outside this scope due to the absence of any contractual nexus. The compounding fee/fine is penal in nature, not a royalty or consideration for mineral removal, and there is no legislative mandate to collect TCS on such receipts. The District Mining Officer was therefore not obliged to collect TCS on compounding fees/fines. The Hon'ble High Court's order upheld; SLP dismissed.



Income Tax Officer v. Mangla Gupta dated 27.01.2026

The Revenue issued a notice under Section 148A(b) of the Act for AY 2017-18 beyond three years from the end of the AY after obtaining approval from the Principal Commissioner. The Hon'ble High Court quashed the notice and order under Section 148A(d) of the Act on the ground that, in cases beyond three years, approval must be obtained from the specified authority under Section 151(ii) of the Act, and not under Section 151(i) of the Act. The Hon'ble Supreme Court dismissed the SLP filed by the Revenue, upholding the Hon'ble High Court's view that proper sanction under Section 151 of the Act is mandatory and jurisdictional.

RECENT JUDGMENTS PASSED BY DIFFERENT HON'BLE HIGH COURTS ("HC") IN THE CASES OF:

Mitra Biswas v. Income Tax Officer dated 03.02.2026 by the Hon'ble High Court of Bombay.

The assessee challenged the reassessment proceedings for AY 2015-16 initiated by a show-cause notice under Section 148A(b) of the Act on 28.03.2022 (alleging escapement via immovable property acquisition), an order under Section 148A(d) of the Act on 14.04.2022, and a consequent notice under Section 148 of the Act dated 14.04.2022, followed by an assessment under Section 147 of the Act read with Section 144/144B of the Act with additions under Section 69 of the Act (short-term capital gains) and recovery notices.

The Hon'ble Bombay High Court *inter alia* quashed the impugned Section 148 of the Act notice dated 14.04.2022, the assessment order, and all consequential proceedings/recovery notices. The Hon'ble Court relied on the Supreme Court's decision in *Union of India v. Rajeev Bansal [2024] 167 taxmann.com 70 / 469 ITR 46 / 301 Taxman 238 (SC)*, where the Revenue conceded that for AY 2015-16, all notices issued on or after 01.04.2021 must be dropped as they could not be completed within the extended period prescribed under TOLA (Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020). Since the notice was issued post 01.04.2021 (14.04.2022), it fell squarely within the concession. The delay in filing the writ was condoned, given the Revenue's unequivocal concession and the ongoing recovery proceedings based on the invalid notice, which render it unsustainable in law.

Raj Rayon Industries Ltd. v. Principal Commissioner of Income-tax dated 03.02.2026 by the Hon'ble High Court of Bombay

The assessee, filed its return for A.Y. 2022-23 declaring a loss of INR 45.47 crores. The Centralized Processing Centre ("CPC") issued a notice under Section 139(9) of the Act, treating the return as defective on the ground that gross receipts exceeded INR 10 crores and an audit under Section 44AB of the Act was not conducted. The assessee contended that its turnover was below the prescribed threshold and that an audit was not mandatory. However, the CPC declared the return invalid. Aggrieved, the assessee filed a revision application under Section 264 of the Act. The Commissioner dismissed the application as not



maintainable, holding that a declaration under Section 139(9) of the Act was not an "order" revisable under Section 264 of the Act.

The Hon'ble Bombay High Court *inter alia* held that: (i) a declaration treating a return as invalid under Section 139(9) of the Act is clearly an order, being a mandate or authoritative direction; (ii) such an order is revisable under Section 264 of the Act; and (iii) the Commissioner misdirected himself in holding otherwise. The Court also relied on *TPL-HGIEPL Joint Venture v. Union of India [2025] 173 taxmann.com 540 (Bom)*, where it was accepted that a Section 139(9) of the Act declaration is revisable under Section 264 of the Act. Accordingly, the impugned order was quashed, and the revision application was restored for de novo consideration. Writ petition allowed

Chandrasekaran Joseph Vijay v. Deputy Commissioner of Income-tax dated 06.02.2026 by the Hon'ble High Court of Madras

The assessee, , admitted undisclosed cash income of INR 15 crores during search proceedings in September 2015 and included it in his return for AY 2016-17 filed on 29.07.2016. The assessment order dated 30.12.2017 made additions (including one linked to INR 2 crores of the admitted cash claimed as expenses) and initiated penalty proceedings under Section 271AAB of the Act. The assessee appealed to the Commissioner (Appeals), which partly allowed the appeal; the revenue's further appeal to the Tribunal was partly allowed, with the Tribunal order attaining finality on 22.12.2021. After a notice under Section 274 read with Section 271AAB of the Act issued on 11.12.2018 and objections considered, the penalty order dated 30.06.2022 imposed a 10% penalty (Rs. 1.5 crores) under Section 271AAB(1)(a) of the Act on the admitted undisclosed cash income. The assessee challenged the penalty order in writ, arguing it was time-barred under the residuary clause (c) of Section 275(1) of the Act.

The Hon'ble High Court dismissed the writ petition, holding the penalty order valid and within limitation under Section 275(1)(a) of the Act. Clause (c) is residuary ("in any other case") and applies only when clauses (a) or (b) do not. Clause (a) governs where penalty action originates in an appealed assessment order. Here, a penalty under Section 271AAB of the Act was initiated in the assessment order dated 30.12.2017, which the assessee and the revenue appealed, and one contested addition was directly linked to the admitted INR 15 crores in cash, creating a clear nexus between the assessment and penalty proceedings. All conditions for clause (a) were met, so clause (c) did not apply. Under clause (a), limitation runs six months from the end of the month in which the Tribunal order is received. The Tribunal order dated 22.12.2021 could not have been received earlier; the relevant month ended 31.12.2021, so the six-month period expired on 30.06.2022. The penalty order passed on 30.06.2022 was therefore timely. Clause (b) (revision) was inapplicable as the suo motu revision was quashed. The writ petition was dismissed, confirming that, for Section 271AAB of the Act, the penalty initiated in an appealed assessment order is governed by the appellate timeline under clause (a), not the residuary clause (c).



Bajaj Electricals Ltd. v. Assistant Commissioner of Income-tax dated 09.02.2026 by the Hon'ble High Court of Bombay

The assessee, filed its original return for AY 2023-24 on 31.10.2023, which was revised on 30.12.2023 to give effect to a demerger scheme. Pursuant to an NCLT-approved amalgamation of Nirlep Appliances Pvt. Ltd. with the assessee (order dated 01.03.2024), the assessee furnished a modified return under Section 170A of the Act on 16.09.2024. The revised return (30.12.2023) had already been selected for scrutiny (notice under Section 143(2) of the Act dated 19.06.2024). The assessee informed the AO of the modified return and requested an assessment based on it.

The Hon'ble Bombay High Court allowed the writ petition and *inter alia* quashed notices under Section 143(2) of the Act dated 24-06-2025 and under Section 142(1) of the Act dated 14.11.2025 issued to reassess the modified return. Since assessment proceedings were pending on the date of furnishing the modified return (16.09.2024), clause (b) of Section 170A(2) of the Act applied; the AO was obliged to assess/reassess total income in accordance with the business reorganisation order and taking the modified return into account. The AO had already scrutinised the revised return, examined amalgamation aspects, and passed an assessment order under Section 143(3) of the Act on 26.03.2025 (albeit using the original return income figure). Issuing fresh notices to scrutinise again the modified return was without jurisdiction and contrary to Section 170A(2)(b) of the Act.

Principal Commissioner of Income-tax v. NTPC Ltd. dated 09.02.2026 by the Hon'ble High Court of Delhi.

The assessee, a power generation company, had claimed deduction under Section 80-IA of the Act for A.Ys. 2011-12 and 2012-13. In the original assessment under Section 143(3) of the Act, the AO conducted a detailed inquiry into the allowability of the deduction, including issues of carry-forward losses and the eligibility of Combined Cycle Gas Power Plants, and disallowed the exemption on certain grounds. Subsequently, based solely on an audit party objection alleging improper allocation/add-back of corporate expenses, the AO initiated reassessment proceedings under Sections 147/148 of the Act and passed a reassessment order. The Tribunal held that reopening was based on a mere change of opinion.

The Hon'ble Delhi High Court upheld the Tribunal's order and *inter alia* held that: (i) no new tangible material was brought on record; (ii) the issue under Section 80-IA of the Act had already been examined threadbare in original assessment; (iii) an audit objection is merely an opinion (expert opinion at best) and cannot form "reason to believe"; and (iv) reopening on the same material amounts to change of opinion, which is impermissible in law. The Hon'ble Court further observed that, if at all, the Revenue could have examined recourse under Section 263 of the Act, subject to statutory limitations. Still, the invocation of Sections 147/148 of the Act was invalid. Reassessment was quashed and Revenue's appeals was dismissed.



Vibhavari Bharat Bhatt v. Income-tax Officer (International Taxation) dated 09.02.2026 by the Hon'ble High Court of Bombay

The assessee, challenged the reassessment proceedings initiated by notice under Section 148A(b) of the Act dated 29.03.2023, order under Section 148A(d) of the Act dated 04.05.2023, notice under Section 148 of the Act dated 04.05.2023 issued by Jurisdictional Assessing Officer ("JAO"), DRP directions under Section 144C(5) of the Act dated 30.12.2025, reassessment order under Section 147 read with 144C(13) dated 23-01-2026, and demand under Section 156 of the Act. The Hon'ble Bombay High Court allowed the writ petition and quashed all impugned notices/orders. The notice under Section 148 of the Act was issued after 29.03.2022 by the JAO instead of the Faceless Assessing Officer ("FAO"), constituting a jurisdictional defect under the scheme under Section 151A (Faceless Assessment). The Hon'ble High Court followed its binding decision in *Hexaware Technologies Ltd. v. ACIT [2024] 162 taxmann.com 225 / 464 ITR 430 (Bom.)*, holding that post 29.03.2022 notices must be issued by FAO only. DRP ignored this binding precedent, wrongly treating the defect as a procedural irregularity and relying on Hon'ble Gujarat HC decisions (non-jurisdictional). The Court *inter alia* held: (i) issuance by JAO vitiated the entire reassessment; (ii) DRP bound by jurisdictional High Court ruling, cannot deviate or rely on other High Courts; (iii) non-compliance with Section 151A scheme is jurisdictional, not procedural. All notices/orders quashed. Authorities are cautioned to follow HC orders within their jurisdiction; otherwise, contempt proceedings may follow.

Commissioner of Income-tax, Exemption v. Kush Innovative Foundation dated 12.02.2026 by the Hon'ble High Court of Delhi.

The assessee a charitable trust with provisional registration under Section 12AB for over two years, applied for regular registration under Section 12A(1)(ac)(iii) (covered by Section 12AB(1)(b)) and approval under Section 80G of the Act. The Commissioner of Income Tax Exemptions ("CIT") rejected the application for non-furnishing of called-for documents despite multiple opportunities. The Hon'ble Delhi High Court allowed Revenue's appeal and set aside the ITAT order directing CIT (Exemption) to grant registration under Section 12AB and approval under Section 80G of the Act. The Tribunal gave a sweeping direction without recording findings on the genuineness of activities or compliance with other laws material for achieving objects, as required under Section 12AB(1)(b). When provisional registration exists, and an application is for regular registration under Section 12AB(1)(b), proper inquiry into genuineness and statutory compliance is mandatory. For Section 80G approval, genuineness is mandatory (50% deduction benefit to donors). ITAT's reliance on the Mata Parvati Educational case (first-time registration) is misplaced. The Court remanded the application to CIT (Exemption) for fresh adjudication in accordance with law, directing an inquiry into the trust's activities within the parameters of Sections 12AB and 80G of the Act. No comment made on the merits/entitlement of the trust. Appeals was disposed of accordingly.



Sapphire Foods India Ltd. v. Assistant Commissioner of Income-tax (OSD) dated 16.02.2026 by the Hon'ble High Court of Delhi

The assessee, filed its return for AY 2016-17 declaring a loss of INR 10.24 crores. The case was selected for scrutiny, and the assessment under Section 143(3) of the Act was completed on 09.12.2018. During the scrutiny proceedings, the AO specifically asked for and obtained full details of salary, remuneration, and legal/professional expenses. This included the Employment Agreement with the Managing Director, covering INR 8.90 crores, and the Consulting Agreement with a shareholder, covering INR 90.81 lakhs. All relevant documents were duly furnished, though the final assessment order did not record any specific findings on these items. In March 2023, the AO issued a notice under Section 148A(b) of the Act based on objections raised by the local audit party, alleging that income had escaped assessment due to the incorrect allowance of these expenses (aggregating to INR 9.81 crores) and share premium (INR. 5.43 crores). After considering the assessee's reply, the AO dropped the share premium objection but sustained the expenses issue, passed an order under Section 148A(d) of the Act, and issued notice under Section 148 on 31.03.2023.

The Hon'ble High Court *inter alia* quashed the reassessment proceedings on two independent grounds. Firstly, reopening the assessment solely on audit objections regarding the same material (Employment Agreement and Consulting Agreement) already specifically called for, furnished, and available during the original scrutiny assessment under Section 143(3) amounts to an impermissible review of the completed assessment or a mere change of opinion. The Court drew a clear distinction: where the assessee failed to disclose material facts, audit objections could justify reopening; but where full disclosure was made, and the AO had the material in possession (even without recording specific findings in the order), audit objections do not constitute fresh "information" suggesting escapement of income. Reconsidering the same facts to reach a different view is not permitted. While Explanation 1(ii) to Section 148 (as amended) allows reopening on audit objections, it cannot convert the power into a review mechanism. Secondly, independently, the notice under Section 148 of the Act dated 31.03.2023 was time-barred. For AY 2016-17, where the return was filed and full material facts were disclosed, the first proviso to Section 147 read with pre 01.4.2021 Section 149 of the Act restricted reopening to four years from the end of the assessment year (i.e., up to 31.03.2021) in the absence of failure on the assessee's part to disclose fully and truly all material facts necessary for assessment. The extended six-year period under Section 149(1)(b) of the Act was not available.

Manjulaben Mafatlal Shah v. Tax Recovery Officer-3, Ahmedabad, dated 17.02.2026 by the Hon'ble High Court of Bombay

The petitioner, the spouse of a director of Shri Ram Tubes Pvt. Ltd., challenged the notice under Section 226(3) of the Act that attached her sole bank account to recover the company's tax dues. She contended that she had no role as a director, shareholder, or employee and no connection to the company's affairs. The Hon'ble Bombay High Court quashed the impugned notice under Section 226(3) of the Act and attachment. Revenue did not dispute that the petitioner was never a director or liable for the company's dues. Attachment solely to the marital relationship is impermissible. While Revenue may proceed against her husband under Section 179 (liability of directors for company tax defaults), Section 179 of the Act is



wholly inapplicable to the petitioner. Attachment without jurisdiction; notice was set aside; bank account were directed to be de-frozen/released immediately.

RECENT JUDGEMENTS PASSED BY THE HON'BLE INCOME TAX APPELLATE TRIBUNAL ("ITAT") IN THE CASES OF:

Mrs. Suneeta Sekhri v. Deputy Commissioner of Income-tax dated 02.02.2026 by the Hon'ble ITAT Mumbai

The assessee filed her return for AY 2018-19 declaring INR 2.48 crores, including exempt Long term capital gains ("LTCG") under Section 10(38) from the sale of shares of FIL. The case was selected under CASS for bogus transactions. Reassessment was completed under Section 147 read with 144B on 28 February 2023, following a detailed enquiry (demat/bank statements and contract notes submitted). The AO treated the LTCG as bogus, denied exemption under Section 10(38), added INR 24.39 lakhs, and assessed total income at INR 2.72 crores. The quantum of appeal against this addition is pending before CIT(A). PCIT invoked revision under Section 263, observing that the AO should have treated the alleged bogus LTCG as unexplained cash credit under Section 68 and taxed it at special rates under Section 115BBE (short levy INR 59.94 lakhs), making the order erroneous and prejudicial to revenue. PCIT set aside the reassessment and directed fresh proceedings. The PCIT revised the order under Section 263, stating that the AO should have treated the amount as unexplained cash credit under Section 68 and taxed it at the special rates under Section 115BBE (short-term levy of Rs. 59.94 lakhs). The ITAT quashed the revision order. The AO had made a detailed enquiry before adding the amount; PCIT himself noted this in the revision order so it was just a change of opinion on how to tax it. There was a proper enquiry, so Explanation 2 to Section 263 did not apply. A coordinate bench had deleted a similar addition on the same script. The issue was debatable, and the AO's view was reasonable. As per Malabar Industries (SC), both conditions for Section 263 (erroneous + prejudicial to revenue) were not satisfied; no lack of enquiry or non-application of mind. The revision was invalid and was quashed by the tribunal.

Bhaumik Jewellers (P.) Ltd. v. ITO dated 03.02.2026 by the Hon'ble ITAT Ahmedabad Bench

The assessee, engaged in trading in bullion and jewellery, deposited cash in bank accounts during the demonetisation period and explained it as arising from cash advances against genuine cash sales of jewellery/bullion, duly recorded in the books of account. The AO rejected the explanation, treated deposits as unexplained cash credits under Section 68 read with 115BBE, and added the amount as income from undisclosed sources. CIT(A) confirmed the addition. The Tribunal allowed the assessee's appeal and deleted the addition under Section 68. The Tribunal *inter alia* held that the assessee successfully explained the source of cash deposits as sales/advances recorded in the books. Comparative sales data showed cash sales during the corresponding period in the previous year were much higher; the allegation of "abnormal" cash sales during demonetisation fell flat. No discrepancy in stock register; assessee possessed the requisite stock for sales. Purchases made through banking channels are accounted for in receipts/income. Notices under Section 133(6) largely complied with. The AO's suspicion of the genuineness of sales is unsupported by concrete evidence and contradicted by comparative data. Even if cash advances are accepted in demonetised currency, they at most violate the RBI notification but do not render the receipts



unexplained income under Section 68. Taxing gross receipts again would amount to double taxation (profit already offered) addition unsustainable.

Anil Kapoor v. Income-tax Officer dated 04.02.2026 by the Hon'ble ITAT Delhi Bench.

The assessee's case for AY 2015-16 was reopened under Section 147 on information alleging escapement of income of INR 52.49 lakhs, comprising sale of immovable property (INR 18 lakhs + INR 33.33 lakhs) and interest income INR 1.16 lakhs) during FY 2014-15. During reassessment, multiple notices under Section 142(1) and show-cause notices proposing best judgment assessment under Section 144 were issued. Still, the assessee largely failed to comply, providing only a partial response without supporting documents to the final show-cause notice. The AO passed an ex parte order under Section 144 read with Section 147, making additions of INR 51.33 lakhs (unexplained sale proceeds) and INR 1.46 lakhs (interest income). The appeal to the Commissioner (Appeals) was dismissed ex parte for non-response to the hearing notices. Before the Tribunal, the assessee submitted that non-compliance at both stages resulted from notices being sent to the wrong email address and prayed for restoration to the AO for fresh adjudication with the opportunity of hearing. The revenue did not object. The Hon'ble ITAT *inter alia* allowed the appeal for statistical purposes and remanded the matter to the AO. In the interest of justice, the ex parte orders of the AO and CIT(A) were set aside, and the case was restored to the AO for fresh decision in accordance with law after affording the assessee a reasonable opportunity of being heard and to produce evidence.

DCIT v. Cyberwalk Tech Park (P.) Ltd. dated 06.02.2026 by the Hon'ble ITAT Delhi Bench

The assessee, a builder-developer, was allotted land by HSIIDC for IT/ITES development with a small residential/commercial component. During AY 2012-13, it converted 50% of the land from a capital asset to stock-in-trade, constructed Towers, sold substantial portions, and declared profits under the percentage-of-completion method (90.6% and 93.3% completion). The AO invoked section 45(2), reworked LTCG at fair market value (FMV) on conversion date (INR 7.35 crores on INR 9.32 crores of land), and added it as capital gains. However, while computing business profits on the sale of stock-in-trade, the AO used the assessee's book value rather than the same FMV as the cost of acquisition. The Tribunal *inter alia* upheld CIT(A)'s order deleting the anomaly. When AO applies section 45(2) and adopts FMV at conversion for computing LTCG on transfer from capital to stock-in-trade, the same FMV must be adopted as the cost of acquisition for computing business profits under Section 28(i) on subsequent sale. Failure to do so was a mistake apparent on record. CIT(A) correctly granted relief under Section 251(1) by directing consistent treatment. Revenue's plea to remit to AO rejected; CIT(A)'s reasoned order sustained.

Sumanth Badiga v. Deputy Commissioner of Income-tax dated 06.02.2026 by the Hon'ble ITAT Hyderabad Bench

The assessee, an NRI individual, filed a return claiming a deduction under Section 54F on LTCG from the transfer of a capital asset. The AO completed scrutiny assessment under Section 143(3), read with 144B, accepting the returned income and the 54F claim without modification. The PCIT invoked revision



under Section 263, observing that the assessee owned multiple residential houses (including one in Dubai and one in the USA) on the date of transfer, which violated the proviso to Section 54F(1) restricting exemption where the assessee owns more than one residential house (other than the new asset). The AO had issued general queries on the allowability of 54F but made no specific enquiry or verification into the ownership of multiple houses (domestic or foreign), nor did it record any finding on this condition in the assessment order, rendering it cryptic, lacking application of mind, erroneous, and prejudicial to revenue.

The Tribunal *inter alia* upheld the Section 263 revision but modified the PCIT's order to the extent of remanding the matter to the AO for fresh adjudication. The Tribunal *inter alia* held that a complete lack of enquiry or application of mind to the key condition under the proviso to Section 54F(1) (ownership of more than one residential house) rendered the assessment order erroneous and prejudicial to revenue, thereby justifying Section 263 jurisdiction. Though the issue (whether foreign houses trigger the restriction) is debatable with differing Tribunal views, the absence of an enquiry itself sustained revision. PCIT's findings on merits were not endorsed; the matter was set aside to the AO for proper enquiry and decision on the 54F eligibility without being influenced by PCIT's observations.

Nakoda Developers v. Deputy Commissioner of Income-tax dated 09.02.2026 by the Hon'ble ITAT Mumbai Bench

The assessee, a partnership firm engaged in real estate development, purchased immovable property (land and two structures) for INR 1.75 crores under a conveyance deed. Subsequently, a supplementary deed revised and fixed the total consideration at INR 3.25 crores. The Sub-Registrar valued the property at INR 4.39 crores for stamp duty purposes. The AO invoked section 56(2)(x) and added INR 1.14 crores (difference between stamp duty value and revised consideration) as income from other sources. Matter referred to DVO; assessment completed pending report with remark for future adjustment under Section 155(15). CIT(A) received a preliminary DVO report valuing the property at INR 3.56 crores and reduced the addition to INR 28.66 lakhs. The Tribunal allowed the assessee's appeal and deleted the addition. The Tribunal *inter alia* held that the difference between the stamp duty value (INR 4.39 crores) and the revised consideration (INR 3.25 crores) was less than 10%. The third proviso to section 50C (applicable via reference in proviso to section 56(2)(x)) provides that where value adopted/assessed by Stamp Valuation Authority does not exceed 10% of actual consideration, such stamp value shall be deemed full value of consideration i.e., no addition under Section 56(2)(x)(b)(B) if difference $\leq 10\%$. Though the 10% tolerance was statutorily introduced in AY 2019-20, judicial precedents treat it as beneficial and apply it retrospectively. Accordingly, no addition sustainable under section 56(2)(x); CIT(A)'s residual addition deleted.

Buckeye Trust v. Principal Commissioner of Income-tax dated 12.02.2026 by the Hon'ble ITAT Bangalore

The assessee, a private discretionary trust created under a deed dated 23.01.2018, filed a *nil* return for AY 2018-19. Settlor transferred assets, including an interest in partnership firms/unlisted shares (INR 669.27 crores). AO completed scrutiny assessment under Section 143(3) read with 143(3A)/(3B) of the Act on 07.04.2021 without addition after accepting explanations. PCIT invoked revision under Section



263, noting trust deed clause 1.6 (beneficiaries: settlor, spouse, children, remoter issue) and clause 6 (empowering trustee to add any person/class/charity) meant trust not solely for the benefit of relatives, disqualifying exclusion under proviso (v) to Section 56(2)(x). Interest (INR. 669 crores) taxable as income from other sources under Section 56(2)(x) of the Act. The AO failed to inquire/verify despite scrutiny on investments; order cryptic, unreasoned, erroneous & prejudicial to revenue.

The Tribunal dismissed the appeal and *inter alia* upheld the Section 263 revision. AO's mechanical acceptance without application of mind or enquiry on Section 56(2)(x) applicability/exclusion clause (wide beneficiary addition power) rendered the order an invalid supplementary deed (13.05.2025), restricting beneficiaries' post-revision irrelevant to the original non-enquiry. The AO must investigate obvious issues; failure to do so invites revision. Matter remanded for fresh assessment; merits open for assessee to explain/evidence.

Aptara Technologies (P.) Ltd. v. Deputy Commissioner of Income-tax dated 17.02.2026 by the Hon'ble ITAT Pune Bench

The assessee, a wholly owned subsidiary of a US holding company engaged in IT-enabled services, amalgamated another group subsidiary under a High Court-sanctioned scheme effective 01.04.2014. Shareholders of MLPL received 60.72 shares of the assessee for each share held; the merger consideration was INR 6.07 crores, of which INR 5.97 crores were recorded as goodwill (after adjusting INR 10 lakhs of share capital), on which depreciation of INR 1.49 crores at 25% was claimed under Section 32 of the Act. AO disallowed depreciation, treating goodwill as an artificial creation in intra-group amalgamation under common control with no real business acquisition, no new business added, and no commercial substance (post-amalgamation, MLPL business discontinued; no banking transaction except share issuance). CIT(A) upheld the disallowance as a colourable device to inflate share value and claim depreciation. The tribunal dismissed the appeal, upholding the disallowance. The amalgamation between two subsidiaries of the same holding company lacked the genuineness of an unrelated-party transaction; the creation of INR 5.97 crores of goodwill was artificial, lacking real business synergy or a commercial rationale. No intangible asset existed; goodwill was a colourable device to evade tax by claiming depreciation on a fictitious asset. Depreciation under Section 32 of the Act is disallowed. In the connected issue, the assessee bought back 12.73 lakh unlisted shares from the holding company at INR 39.27/share (total 5 crores). For buy-back tax under Section 115QA, the assessee computed "distributed income" as negative by adopting INR 39.76/share as the "amount received for issue of shares" (based on MLPL's net assets, including goodwill). The AO rejected, holding that the amount received meant the actual issue price (face value INR 10/share); computed positive distributed income of INR 4.98 crores and levied 20% tax of INR 99.57 lakhs. CIT(A) confirmed as a colourable arrangement linked to artificial goodwill. The Tribunal upheld the levy and *inter alia* held that since goodwill was an artificial/colourable device to evade tax, "amount received for issue of such shares" under Section 115QA excluded the inflated goodwill figure, computed at face value INR 10/share (INR 2.09 lakhs). Distributed income positive; buy-back tax valid. Arrangement viewed as a tax-evasion tool (buy-back instead of dividend). Appeal was dismissed.



Pratibha Singh v. ACIT dated 25.02.2026 by the Hon'ble ITAT Chandigarh

The assessee filed a return declaring a total of INR 4.81 lakhs. Information from LIC revealed an investment of INR 50 lakhs in a life insurance policy during AY 2009-10, disproportionate to the returned income. Reassessment was initiated under Section 147 of the Act. The assessee claimed the investment was made by HUF (of which she was a coparcener) out of agricultural income through an LIC agent under an alleged MOU dated 15.06.2008. The AO rejected the explanation, noting transactions in the agent's bank account predated the MOU, no original/copy of the MOU was produced, and no books of account, sale records of agricultural produce, cash book, or cash flow statement were furnished to prove the availability of INR 50 lakhs with HUF. The policy stood in the assessee's name, with her as the life assured and beneficiary. The AO treated INR 50 lakhs as an unexplained investment under Section 69 of the Act in her hands and made an addition on a substantive basis. CIT(A) confirmed the said addition.

The Tribunal dismissed the appeal and *inter alia held* that the investment belonged to HUF and was funded by agricultural income remained a bald assertion unsupported by documentary evidence. No proof of source, possession, or transfer of funds from HUF was produced. Pre-MOU transactions undermined the genuineness of the alleged arrangement. The policy's contractual nature (proposal form, medical examination, etc.) tied it to the individual assessee, not HUF. In the absence of credible evidence rebutting the Section 69 of the Act presumption, the addition as an unexplained investment under Section 69 was upheld. Plea for protective assessment was rejected: protective addition arises only where AO himself doubts ownership and taxes the same income in alternative hands to protect revenue. Here, the AO reached a categorical finding that the investment belonged to the assessee after the enquiry; no uncertainty existed to justify protective treatment. The addition was substantive and valid. Appeal dismissed.

RECENT NOTIFICATIONS, CIRCULARS, AND OFFICE MEMORANDUMS:

Key aspects of Union Budget 2026-27

The Union Budget 2026–27 continues the Government's focus on fiscal consolidation, simplification of direct tax laws, and enhancement of digital tax administration. With the impending implementation of the Income Tax Act, 2025, from 1 April 2026, this Budget primarily aims to streamline existing provisions, rationalise exemptions, and provide stability in corporate taxation while encouraging investment and manufacturing growth.

Set out below is a comprehensive summary of the key proposals, including tax rates, substantive amendments, exemptions, and reversals of judicial precedents, as contained in the Bill.

A. TAX RATES

1. Companies

- a. Domestic Companies – No change in headline tax rates
 - i. Companies opting for the concessional tax regime:
 - o 22% (Section 115BAA equivalent).



- 15% for eligible new manufacturing companies.
 - Surcharge: 10% in both cases.
 - ii. Companies not opting for concessional regimes:
 - 25% where turnover \leq INR 4,000 million.
 - 30% where turnover $>$ INR 4,000 million.
 - iii. Surcharge:
 - 7% where total income exceeds INR 10 million but \leq INR 100 million.
 - 12% where total income exceeds INR 100 million.
- b. Foreign Companies
 - Tax rate: 35%.
 - Surcharge:
 - 2% where income exceeds INR 10 million but \leq INR 100 million.
 - 5% where income exceeds INR 100 million.
- c. Individuals
 - The rebate under Section 87A remains unchanged:
 - 100% rebate for resident individuals with income up to INR 1.2 million.
 - Maximum rebate amount remains INR 60,000.

2. Co-operative Societies, Firms and Local Authorities: No change in tax rates or surcharge structure for Tax Year 2026–27.

3. Securities Transaction Tax (STT)

- Revised STT rates applicable from 1 April 2026:

Transaction	Existing Rate	Proposed Rate
Equity delivery (buy/sell)	0.1%	0.1%
Equity intraday	0.025%	0.025%
Sale of an option	0.1%	0.15%
Sale of exercised option	0.125%	0.15%
Sale of futures	0.02%	0.05%

- The increase is intended to curb excessive speculation in derivatives markets.

B. KEY UPDATES

1. Buy-Back Taxation

- a. The 2024 framework taxing buy-back proceeds as deemed dividends is rolled back.
- b. Buy-back consideration is restored to capital gains treatment, allowing deduction of the cost of acquisition.
- c. Promoter-specific additional tax introduced:
 - Promoters (including persons holding $>10%$ in unlisted companies) are subject to:



- Normal capital gains tax plus.
 - An additional tax, varying by:
 - Short-term vs long-term gains.
 - Resident vs non-resident promoter.
- d. Key concerns:
- Arbitrary 10% threshold.
 - No clarity on indirect holdings or on a fully diluted basis.
 - Fact-intensive promoter determination likely to increase disputes.

For non-resident shareholders, restoration of capital gains treatment may revive limited treaty-based relief, subject to anti-avoidance provisions.

2. Revamp of Minimum Alternate Tax ("MAT")

For companies not opting for the concessional regime:

- MAT rate reduced from 15% to 14%.
- From Tax Year 2026–27, MAT becomes the final tax.
- No fresh MAT credit generation.
- Accumulated MAT credit lapses unless the company later opts for a concessional regime.

For companies opting for the concessional regime:

- MAT credit accumulated up to 31 March 2026 may be carried forward.
- Utilisation capped at 25% of tax payable per year.
- Balance credit continues within the original 15-year limit.

Foreign companies:

- MAT rate reduced to 14%.
- MAT treated as final tax.
- Full set-off of brought-forward MAT credit allowed (no 25% cap).

Overall, MAT is intended to be phased out gradually, though the treatment of accumulated credits raises legitimate concerns.

3. Exemptions for Eligible Non-Residents

- a. Electronics Contract Manufacturing
- Exemption for income of foreign companies arising from providing capital equipment to Indian contract manufacturers in customs-bonded areas.
 - Ownership retained by a foreign company.
 - Applicable up to Tax Year 2030–31.
- b. A safe harbour of 2% margin proposed for component warehousing in bonded warehouses.
- c. Foreign Individuals Visiting India under Notified Scheme
- Exemption for foreign-sourced income for up to five consecutive tax years.
 - Applies to individuals visiting India under a government-notified scheme.
 - Significant interaction issues with tax treaties remain unresolved.



4. Clarity for Global Cloud Service Providers

- Exemption proposed for the income of foreign companies arising from procuring data centre services from specified Indian data centres.
- Conditions include:
 - No ownership or operation of infrastructure
 - Indian sales routed through Indian reseller..
 - Furnishing prescribed information.
- Exemption available until 31 March 2047.
- A safe harbour margin of 15% for Indian data centre providers is also proposed.
- Drafting ambiguities remain regarding the scope of exempt income and PE risks through resellers.

5. Clarification on DRP Timelines vis-à-vis Limitation (Section 144C)

- The Bill addresses the long-standing controversy on whether the timelines prescribed under **Section 144C** for DRP proceedings operate **within** or **independently** of the assessment limitation period under **Section 153**.
- The amendment clarifies that the timelines under Section 144C apply **notwithstanding anything contained in Section 153**.
- Once a **draft assessment order** is issued within the limitation period, the completion of the DRP process and the passing of the **final assessment order** may validly occur **even beyond the Section 153 timeline**.
- The clarification is proposed to apply **retrospectively from 1 April 2009**.
- This amendment seeks to nullify taxpayer-favourable rulings that held that assessments lapse if the final order is passed beyond the Section 153 limitation, and is expected to render much of the pending litigation on this issue infructuous.

6. Reversal of Key Judicial Rulings

- a. TPO Limitation – Section 92CA
 - Retrospective insertion of fixed outer dates for TPO orders (effective from 1 June 2007).
 - Statutorily overrides taxpayer-favourable rulings on "60 days before" computation.
- b. JAO vs FAO
 - New Section 147A clarifies that JAO alone is empowered to issue notices under Sections 148/148A.
 - Retrospective effect from 1 April 2021.
 - Validates thousands of reassessment notices.
- c. DIN Defects
 - New Section 292BA inserted retrospectively from 1 October 2019.
 - Assessments not invalid merely due to DIN quoting defects if otherwise traceable.



7. Transfer Pricing Certainty for IT / ITeS

- Unified category covering: Software development, IT-enabled services, KPO, Contract R&D.
- Safe harbour margin: 15.5%.
- Threshold increased to INR 20 billion.
- Safe harbour valid for 5 consecutive years.
- Unilateral APAs to be concluded within 2 years (extendable by 6 months).

8. Integration of Assessment and Penalty Proceedings

- Penalty under Section 270A to be integrated into the assessment order.
- Applicable to assessments made on or after 1 April 2027.
- Separate show-cause notice to continue.
- Interest on penalty deferred until disposal of first appeal.

This materially accelerates crystallisation of penalty exposure while offering limited interest relief.

While the Finance Bill, 2026, introduces several operational simplifications and industry-specific incentives, it also reflects a broader legislative trend of retrospectively neutralising taxpayer-favourable judicial outcomes. The absence of grandfathering in several areas, particularly where vested rights and settled expectations exist, is likely to remain a concern for long-term investors.



This newsletter is for general informational purposes only, and nothing in this edition could constitute legal advice (which can only be given after being formally engaged and familiarizing ourselves with all relevant facts). However, should you have any queries, require any assistance, or clarifications about anything contained in this newsletter (or Direct Tax in general), please feel free to contact Rubal Bansal at the coordinates mentioned below.

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