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DIRECT TAXATION UPDATES
INCOME TAX LAW

Newsletter - July 2026 Edition



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RECENT JUDGMENTS PASSED BY HON'BLE HIGH COURT

- **DBS Technology Services India Private Limited v. Assistant Commissioner of Income Tax, W.P. No. 19502 of 2025, dated 03.07.2026 passed by Hon'ble High Court of Telangana**
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- **Fujifilm India Private Limited v. Assessing Officer, ITA No. 3446/Del/2024, dated 20.07.2026 passed by Hon'ble Income Tax Appellate Tribunal, Delhi Bench**

In **July 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

RECENT LEGISLATIVE DEVELOPMENTS

Income-tax (Amendment) Bill, 2026 (to replace the June Ordinance)

Ref: Ministry of Parliamentary Affairs, Legislative & Financial Business Agenda, Monsoon Session, tabled July 20, 2026

The government listed the Income-tax (Amendment) Bill, 2026 for introduction in the Monsoon Session (July 20-August 13, 2026) to replace the Income-tax (Amendment) Ordinance, 2026 (Ordinance No. 2 of 2026), which exempted FIIs and BIS from tax on interest and capital gains from government securities. The official agenda describes the Bill as seeking to deepen India's sovereign debt market, attract stable global capital inflows, and enhance liquidity amid volatile global macroeconomic conditions. Formal enactment converts the exemption under Schedule IV entries 13D/13E from an ordinance-based measure into a Parliament-ratified amendment, removing the sunset risk that otherwise attaches to ordinances.

Cost Inflation Index for FY 2026-27

Ref: CBDT Notification No. 85/2026, S.O. 3889(E), dated July 15, 2026

CBDT notified the Cost Inflation Index **(CII)** for FY 2026-27 at 384, notified under Section 72 of the Income-tax Act, 2025, applicable from April 1, 2026 for Tax Year 2026-27 and subsequent tax years, up from 376 for FY 2025-26. The revised CII is relevant for indexed cost of acquisition/improvement computations in the (now narrower, post-July 2024) category of long-term capital gains transactions still eligible for indexation benefit.

Income-tax (Second Amendment) Rules, 2026 - "Specified Fund" definition widened

Ref: CBDT Notification No. 94/2026, dated July 21, 2026 (issued under Sections 533 and 262 of the Income-tax Act, 2025)

CBDT substituted Rule 157(5)(c) of the Income-tax Rules, 2026, revising the definition of "specified fund." A specified fund now includes a fund set up in India as a trust, company, LLP or body corporate if registered as a Category I or Category II Alternative Investment Fund under SEBI **(AIF)** Regulations, 2012 or IFSCA (Fund Management) Regulations, 2022, with IFSCA-regulated funds treated as specified funds if located in an IFSC. This is relevant to concessional tax treatment available to specified funds under the 2025 Act and builds on the GAAR grandfathering clarification issued earlier in the year under Rule 128 (pre-April 2017 investments excluded from GAAR).

Income-tax (Third Amendment) Rules, 2026 - New ITR-BN for block assessment cases

Ref: CBDT Notification No. 97/2026, G.S.R. 656(E), dated July 24, 2026 (issued under Sections 294 and 533 of the Income-tax Act, 2025)

CBDT notified a dedicated return form, ITR-BN, for filing returns of income in block assessment cases involving search and seizure proceedings under Chapter XVI-B of the Income-tax Act, 2025, amending Rule 332 and inserting Appendix IV. The rules apply to every case where a search is initiated under Section 247 or a requisition made under Section 248 on or after April 1, 2026, and are deemed to have come into force from that date; the notification records that no person is adversely affected by this retrospective operation. References in ITR-BN to a tax year commencing April 1, 2025 or earlier are to be read as references to the corresponding previous year under the Income-tax Act, 1961.

Revised CBDT Guidance Note on FATCA/CRS Reporting

Ref: CBDT Guidance Note, released July 24, 2026

CBDT released a revised Guidance Note to assist Reporting Financial Institutions **(RFIs)** in complying with reporting obligations under Section 508 of the Income-tax Act, 2025 and Rules 238–240 and Form 166 of the Income-tax Rules, 2026. Given that CRS is developed jointly by participating jurisdictions including India in coordination with the OECD, the Guidance Note also cites OECD CRS Commentary for RFI reference. This follows CBDT's earlier enablement of AEOI/foreign-asset information display on the AIS portal.

RECENT JUDGMENTS PASSED BY HON'BLE SUPREME COURT:

The Commissioner of Income Tax-04 v. M/S HCL Infosystems Ltd., Petition(s) for Special Leave to Appeal (C) No(s). 31399/2016, dated July 13, 2026 passed by the Hon'ble Supreme Court of India

HCL received ₹60.81 crore as compensation upon termination of its 1991 joint venture with Hewlett-Packard, which had granted it various commercial rights, including use of the HP brand, technology, know-how, and exclusivity arrangements. The Revenue sought to tax the amount as capital gains on the ground that termination of the JVA amounted to transfer/extinguishment of these rights. While the compensation was held to be a capital receipt, the ITAT and Delhi High Court ruled that, for AY 1998-99, the Income-tax Act did not provide a mechanism to determine the cost of acquisition of such intangible commercial rights, making capital gains taxation impossible. The Hon'ble Supreme Court declined to interfere with this view, while keeping the legal issue open for consideration in an appropriate future case. The ruling reinforces the principle that a capital gains charge cannot be sustained in the absence of a workable computation machinery under the Act.

Assistant Commissioner of Income Tax v. M/S Atlantic Global Shipping Pvt. Ltd., Diary No. 25162-2026, dated July 15, 2026 passed by the Hon'ble Supreme Court of India

The Hon'ble Supreme Court has issued notice in the Revenue's appeal against the Gujarat High Court ruling that granted ST Shipping Pte Ltd, Singapore, the benefit of Article 8 of the India-Singapore DTAA, under which profits from the operation of ships in international traffic are taxable only in the state where the enterprise's place of effective management is situated. The High Court had held that the assessee's shipping profits were not taxable in India. Challenging this, the Revenue argued that the place of effective management had not been adequately examined. A Bench of Hon'ble Justices P.S. Narasimha and Alok Aradhe has admitted the appeal and listed the matter for final hearing without expressing any view on the merits. The case is significant for shipping and logistics businesses using Singapore structures, as the final outcome could clarify the extent to which Indian tax authorities can attribute shipping income to Indian operations notwithstanding treaty protection.

The Director of Income Tax, (International Taxation) v. M/S Star Cruises (India) P. Ltd., Civil Appeal No(s). 3334-3336 of 2012, dated July 30, 2026 passed by the Hon'ble Supreme Court of India

The Hon'ble Supreme Court has upheld the Bombay High Court's ruling that income earned by *Superstar Libra Ltd.*, a foreign cruise operator, is taxable under the presumptive scheme of Section 44B of the Income-tax Act. Rejecting the Revenue's contention that cruise operations were predominantly hospitality and entertainment services rather than passenger carriage, the Court held that onboard amenities and shore excursions are ancillary to the core activity of operating ships for the carriage of passengers. Accordingly, the operator was entitled to presumptive taxation at 7.5% of gross receipts under Section 44B, with consequential implications for TDS under Section 195. The ruling provides significant clarity for foreign cruise operators and their Indian agents by confirming that cruise businesses fall within the scope of the shipping taxation regime under Section 44B.

RECENT JUDGMENTS PASSED BY HON'BLE HIGH COURT

DBS Technology Services India Private Limited v. Assistant Commissioner of Income Tax, W.P. No. 19502 of 2025, dated 03.07.2026 passed by Hon'ble High Court of Telangana

The Hon'ble Telangana High Court held that a taxpayer's legitimate deduction claim cannot be rejected solely due to a technical or procedural defect when substantive eligibility is undisputed. Setting aside the Department's order, the Court directed the Assessing Officer to reconsider the claim on merits, emphasizing that procedural irregularities should not override substantive statutory entitlements. The ruling reinforces the principle that genuine claims for deductions, exemptions, or concessional tax treatment should not be denied merely because of filing errors, delays, or other curable procedural lapses.

Cognizant Technology Solutions India Private Limited v. Assistant Commissioner of Income Tax, W.P. Nos. 25670 of 2026, dated 06.07.2026 passed by Hon'ble High Court of Madras

The Hon'ble Madras High Court granted interim relief to Cognizant Technology Solutions India Pvt. Ltd. by staying recovery of a TDS penalty demand exceeding ₹101 crore pending disposal of its appeals before the CIT(A). While finding that the company had established a *prima facie* case, the Court balanced the interests of the Revenue by directing Cognizant to deposit ₹4 crore within two months. Recovery of the remaining demand was stayed until the appeals are decided, and for a further two weeks thereafter. The ruling highlights the Court's willingness to grant conditional protection against coercive tax recovery during the pendency of appellate proceedings.

Joint Commissioner of Income Tax & Anr. v. Ganesh Agarwal & Connected Matters, W.A. No. 1991 of 2025 with connected matters, dated 07.07.2026 passed by Hon'ble High Court of Karnataka

The Hon'ble Karnataka High Court has held that penalty proceedings under Section 271DA (cash receipt violations under Section 269ST) commence only when the Joint Commissioner issues a show-cause notice under Section 274, and not when the Assessing Officer merely forwards a proposal for penalty. The Court further ruled that, although the Act prescribes no specific limitation period for issuing such notice, it must be issued within a reasonable period of six months from the end of the month in which the Joint Commissioner receives the Assessing Officer's proposal. The decision provides taxpayers with a significant defence against delayed Section 271DA penalty proceedings and curbs indefinite exposure to penalty action.

Principal Commissioner of Income Tax & Another v. Ankur Mittal, Income Tax Appeal No. 99 of 2026, dated 13.07.2026, passed by the Hon'ble High Court of Allahabad

The Hon'ble Allahabad High Court held that when an assessment is framed pursuant to a Section 263 revision, the Assessing Officer cannot travel beyond the specific directions given by the Principal Commissioner and make fresh unrelated additions. The Court also clarified that Form 6R (used by agricultural traders) does not require mandatory certification by the Agricultural Produce Market Committee. The ruling is useful in restricting the scope of assessments made under Section 263 directions.

BVM Developers v. ITO, Ward-3(3)(1), Special Civil Application No. 9400 of 2026, decided on 16.07.2026 (Gujarat High Court)

The Hon'ble Gujarat High Court quashed a reassessment notice issued under Section 148, holding that Explanation 2(iv) cannot be invoked unless the seized material has a direct and demonstrable nexus with the assessee. The reopening was based solely on an entry in a third-party broker's inquiry register recording the asking rate of land several months before the petitioner's purchase. The Court held that the document neither mentioned the petitioner nor evidenced any concluded transaction, and merely reflected preliminary market enquiries. Rejecting the Revenue's reliance on the presumptions under

Sections 132(4A) and 292C, the Court emphasized that such presumptions cannot substitute the jurisdictional requirement of a "*live link*" between the material and the assessee. Distinguishing the limited threshold laid down in *CIT vs. Rajesh Jhaveri Stock Brokers (P.) Ltd., [2007] 291 ITR 500 (SC),* A*nshul Jain vs. PCIT, [2022] 143 taxmann.com 38 (SC)* and *Raymond Woollen Mills Ltd. vs. ITO, [1999] 236 ITR 34 (SC)*, the Court held that even at the stage of assumption of jurisdiction, there must exist tangible material having a rational connection with the assessee.

Smt. Asha Dubey v. Union of India Thru. Secy. Ministry of Finance Deptt. Revenue Sectt. & Ors., Writ Tax No. 571 of 2026, dated 23.07.2026 passed by Hon'ble High Court of Allahabad

The Hon'ble Allahabad High Court held that a reassessment notice issued beyond the normal limitation period cannot be justified under Section 150(1) merely because an earlier notice issued in the name of a deceased assessee was quashed as void. The Court ruled that an order setting aside such a notice does not constitute a "finding" or "direction" capable of triggering the extended limitation under Section 150, as it contains no adjudication on the merits of the tax liability. Accordingly, the reassessment notice issued to the legal representative was quashed as time-barred. The Court also highlighted a legislative gap concerning reassessment of deceased taxpayers and suggested that Parliament consider suitable amendments.

Pr. CIT v. The Tata Power Company Ltd., ITXA No. 21 of 2020, dated 23.07.2026, passed by the Hon'ble High Court of Bombay

The Hon'ble Bombay High Court held that income earned from trial runs and sale of scrap during the pre-commencement / construction stage of a capital project is capital in nature and not taxable as revenue income, as it only reduces the cost of the project. The Court also upheld the assessee's right to claim deduction under Section 80-IA from the initial year of its own choice. The judgment is relevant for infrastructure, power and manufacturing companies dealing with trial-run income and Section 80-IA claims.

RECENT JUDGMENTS PASSED BY HON'BLE INCOME TAX APPELLATE TRIBUNAL:

A. Hartrodt India Private Limited v. DCIT, ITA No. 5823/Del/2024 dated 03.07.2026 passed by Hon'ble Income Tax Appellate Tribunal, Delhi Bench

The ITAT held that a company cannot be selected as a transfer pricing comparable merely on a broad assertion of functional similarity. The Tribunal emphasized that inclusion of comparables must be supported by a detailed Functions, Assets and Risks (**FAR**) analysis to establish genuine comparability under the arm's length principle. Finding that the TPO and DRP had not undertaken an adequate FAR analysis, the Tribunal partly allowed the assessee's appeal and remanded the matter to the DRP for fresh examination. The ruling underscores the importance of a rigorous, documented comparability analysis in transfer pricing assessments.

Pulin Investments (P) Ltd. v. DCIT, ITA No.2396/DEL/2019, dated 06.07.2026 passed by the Hon'ble Income Tax Appellate Tribunal, Delhi Bench

The ITAT deleted an addition of ₹2.44 crore made in respect of alleged non-genuine losses arising from the sale of listed shares. The Tribunal held that the Revenue had selectively questioned losses on three scrips while ignoring the fact that they were part of a single bona fide en-bloc acquisition of shares of 13 listed companies under a documented commercial arrangement. Noting that the purchase, demat holding, sale through recognised stock exchanges, payment of STT, and banking trail were undisputed and supported by contemporaneous evidence, the Tribunal observed that the Assessing Officer had relied solely on a general investigation report without conducting any independent enquiry or establishing any nexus between the assessee and alleged accommodation-entry operators. The ITAT further held that section 68 could not be invoked as there was no unexplained credit in the books, the impugned transaction having resulted in a business loss rather than an unexplained inflow of funds. It also rejected the CIT(A)'s attempt to sustain the addition under section 69B, holding that no unexplained or excess investment had been alleged or established. Emphasising that suspicion cannot substitute evidence and that denial of cross-examination of third parties violated principles of natural justice, the Tribunal allowed the assessee's appeal in full.

National Lubricating Grease Institute India Chapter v. CIT (Exemption), Chandigarh, ITA No. 8271/Del/2025, dated 10.07.2026 passed by Hon'ble Income Tax Appellate Tribunal, Delhi Bench

The ITAT held that an institution cannot be denied registration under Sections 12AA/12AB merely because its activities primarily benefit participants of a particular industry. In the case of a lubricating grease industry association, the Tribunal observed that a defined beneficiary class does not, by itself, negate charitable status where the organisation otherwise pursues charitable objects such as education, research, or advancement of an object of general public utility under Section 2(15). Accordingly, the ITAT set aside the Commissioner (Exemption)'s rejection order and directed fresh consideration of the registration application. The ruling is significant for trade bodies, industry associations, and sector-specific research organisations seeking charitable registration.

Jindal Saw Ltd. (formerly Saw Pipes Ltd.) v. Deputy Commissioner of Income Tax, ITA Nos. 2383 & 2384/Del/2018, 2747 & 2748/Del/2018 and 463/Del/2019, dated 13.07.2026 passed by Hon'ble Income Tax Appellate Tribunal, Delhi Bench

The ITAT held that proceeds from the sale of carbon credits constitute **capital receipts** and are not taxable for assessment years prior to the introduction of Section 115BBG (effective from AY 2017-18). The Tribunal observed that carbon credits arise from environmental initiatives and not from the assessee's regular business operations. It further ruled that such receipts, being capital in nature, must also be excluded from the computation of book profits under Section 115JB for MAT purposes. The decision provides relief to taxpayers with pending disputes relating to carbon credit income for pre-AY 2017-18 years.

SFDC Ireland Ltd. v. Deputy Commissioner of Income Tax, ITA No. 2137/Del/2023, dated 17.07.2026 passed by Hon'ble Income Tax Appellate Tribunal, Delhi Bench

The ITAT held that receipts earned by an Irish company from automated, cloud-based software services cannot be treated as Fees for Technical Services **(FTS)** under the India-Ireland DTAA without first determining whether the services involve significant human intervention. Relying on the Hon'ble Supreme Court's ruling in *CIT v. Kotak Securities Ltd., (2016) 11 SCC 424*, the Tribunal observed that a distinction must be drawn between specialised technical services and access to a standardised automated platform. As the Assessing Officer had not undertaken this factual examination, the matter was remanded for fresh adjudication. The ruling is significant for SaaS and cloud-service providers facing FTS characterization of subscription and platform-access revenues.

Fujifilm India Private Limited v. Assessing Officer, ITA No. 3446/Del/2024, dated 20.07.2026 passed by Hon'ble Income Tax Appellate Tribunal, Delhi Bench

The ITAT deleted a ₹5.19 crore transfer pricing adjustment made on account of Advertising, Marketing and Promotion **(AMP)** expenses incurred by Fujifilm India Pvt. Ltd., holding that the adjustment was based solely on the Bright Line Test **(BLT)**. Relying on the Delhi High Court's decision in *Sony Ericsson Mobile Communications India (P) Ltd. v. CIT, (2015) 374 ITR 118.*, the Tribunal reiterated that BLT is not a legally permissible standalone method for benchmarking AMP expenditure under transfer pricing provisions. The relief, however, was made subject to the final outcome of the Revenue's pending challenge to Delhi High Court's ruling in *Sony Ericsson Mobile Communications India Private Limited, (2015) 374 ITR 118(Delhi)* before the Supreme Court. The ruling provides continued support to taxpayers contesting AMP-based transfer pricing adjustments founded on the Bright Line Test.

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

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