

# INCOME TAX



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## REGULATORY UPDATE

### INCOME TAX

#### ❖ **CBDT Notification No. 19/2025 dated 11.03.2025**

In exercise of the powers conferred by section 2(48) of the Income-tax Act, 1961 (IT Act, 1961), read with clause (ii), clause (iii) and clause (v) of sub-rule (3) and sub-rule (6) of rule 8B of the Income-tax Rules, 1962, the Central Government (CG) hereby specifies the bond with the following particulars as zero coupon :-

- a) name of the bond - Ten Year Zero Coupon Bond of Power Finance Corporation Ltd.
- b) period of life of the bond - Ten years one month
- c) the time schedule of the issue of the bond - To be issued on or before the 31st day of March, 2027
- d) the amount to be paid on maturity or redemption of the bond - Rs.1,00,000/- for each bond
- e) the discount - Rs. 49,546/- per bond
- f) the number of bonds to be issued - Ten lakhs

#### ❖ **CBDT Notification No. 20/2025 dated 18.03.2025**

The CG has authorized the Additional Chief Secretary (IT), Department of Information & Technology, Government of NCT of Delhi u/s 138(1)(a)(ii) of the Income-tax Act, 1961. This authorization allows the official to receive income-tax-related information for the purpose of identifying eligible beneficiaries under the social welfare schemes of the Delhi Government.

#### ❖ **CBDT Notification No. 21/2025 dated 25.03.2025**

This notification expands the scope of safe harbour rules by increasing the threshold for availing safe harbour from Rs 200 Crore to Rs 300 Crore and including the 'lithium-ion batteries for use in electric or hybrid electric vehicles' in the definition of core auto components. In order to provide tax certainty to the assesseees opting for safe harbour, the amendments are applicable to two assessment years (AY) 2025-26 and 2026-27.

#### ❖ **CBDT Notification No. 22/2025 dated 27.03.2025**

This notification amends Income Tax Rules. In Form 26Q, Section 194T has been added to the heading, and a new entry in Note 16 clarifies that it applies to payments such as salary, remuneration, commission, bonus, or interest to firm partners. Similarly, in Form 27Q, Section 194T has been added, and modifications have been made in Note 13 to reflect payments to firm partners alongside existing provisions for non-resident payees u/s 195.

#### ❖ **CBDT Notification No. 23/2025 dated 28.03.2025**

The notification amends Income Tax Rules. The key changes include modifications to Form 3CD, used for tax audits, with the addition of Section 44BBC and removal of deductions u/ss 32AC, 32AD, 35AC, and 35CCB. New reporting requirements cover payment to small businesses, expenses related to legal settlements and buyback of shares. It also introduces detailed classifications for loans, deposits, and repayments. It also added

a simple code system to classify types of payments and receipts like cash, cheque, or asset transfers. These changes aim to make tax reporting clearer and more detailed.

❖ **CBDT Circular No. 4/2025 dated 17.03.2025**

The CBDT issued revised guidelines for the compounding of offences under the IT Act, 1961, on 17th October 2024, which superseded all previous guidelines. These new guidelines simplify the compounding process by eliminating the categorization of offences, removing the limit on the number of applications a taxpayer can file, and allowing new applications after correcting previous defects. The revised guidelines also include the compounding of offences u/s 275A and 276B of the Act and remove the 36-month time limit for filing applications. To enhance understanding and awareness, the CBDT has issued a circular answering frequently asked questions regarding the new guidelines.

❖ **CBDT Circular No. 5/2025 dated 28.03.2025**

The CBDT has issued an order u/s 119 of the IT Act, 1961, allowing waiver of interest charged u/s 201(1A)(ii) and 206C(7) in cases where TDS/TCS payments were delayed due to technical glitches. If the tax was initiated and debited from the taxpayer's account on or before the due date but credited to the government after the due date due to system issues beyond the taxpayer's control, the Chief Commissioner or Director General of Income-tax may waive or reduce the interest after proper verification. Taxpayers can apply for a waiver even if the interest has already been paid, and refunds may be issued if approved. Applications must be submitted within one year from the end of the financial year in question and will be resolved within six months. The decision by the authority will be final.

## **JUDICIAL UPDATES**

### **INCOME TAX CASES**

#### **Step-siblings are relatives and the gift is not taxable u/s 56(2) of IT Act.**

The Mumbai Bench of the Income Tax Appellate Tribunal (ITAT) held that step-siblings qualify as "relatives" u/s 56(2) of the IT Act, making gifts exchanged between them non-taxable. In this case, Mr. Rabin Arup Mukerjea, a non-resident Indian, received a property as a gift in 2016 from his step-sister Ms. Vidhie Mukerjea through a registered gift deed. The AO and the Commissioner of Income Tax (Appeals) contended that the relationship did not fall under the definition of "relative" as per Section 56(2), which they interpreted strictly based on blood or lineal relationships. However, the ITAT bench observed that the legal definition of "brother and sister" should include step-siblings formed through the marriage of their respective parents. As a result, the tribunal accepted the assessee's claim, ruled that the gift was exempt from tax u/s 56(2)(vii), and deleted the addition made by the AO.

#### **Redevelopment flat value is not taxable as income from other sources u/s 56(2)(X) of IT Act, 1961.**

The Mumbai Bench of the Income Tax Appellate Tribunal (ITAT) held that the allotment of a new flat in a redevelopment project in exchange for an old flat does not attract tax u/s 56(2)(x) of the IT Act. The assessee had originally purchased a flat in Mahavir Nagar Tristar Co-op Housing Society during the financial year 1997–98. Following a redevelopment agreement with a developer, the society allotted a new flat to the assessee in lieu of the old one. The AO assessed the difference between the stamp duty value of the new flat (Rs. 25,17,700) and the indexed cost of the old flat (Rs. 5,43,040), amounting to Rs. 19,74,660, as taxable income u/s 56(2)(x). The Commissioner of Income Tax (Appeals) [CIT(A)] confirmed this addition. However, the ITAT ruled that the transaction was not one of receiving property without or for inadequate consideration, but rather an extinguishment of rights in the old flat in exchange for a new one under a contractual redevelopment agreement. Hence, such a transaction does not fall within the ambit of Section 56(2)(x). The Tribunal allowed the appeal, quashed the CIT(A)'s order, and directed the AO to delete the addition.

#### **Capital loss incurred under the India-Ireland Double Taxation Avoidance Agreements (DTAA) cannot be set off against short term capital gain (STCG) derived from sale of rights of entitlement.**

The Mumbai Bench of the Income Tax Appellate Tribunal (ITAT) ruled that capital loss incurred under the India-Ireland Double Taxation Avoidance Agreement (DTAA) cannot be set off against short-term capital gains (STCG) from the sale of rights entitlement. The assessee, Vanguard Funds Public Limited Company Vang FTSE Emerging Markets UCITS ETF (VFEME), an Irish tax resident and SEBI-registered Foreign Portfolio Investor (FPI), earned capital gains, dividends, and interest from Indian investments. The AO argued that u/ss 70, 71, and 74 of the IT Act, carried-forward capital losses should be set off against current year gains before applying treaty benefits. However, VFEME claimed exemption under Article 13(6) of the India-Ireland DTAA, which provides that gains from transfer of assets not covered under Articles 13(1) to 13(5) are taxable only in the country of residence, i.e., Ireland. The AO

treated the STCG on sale of rights entitlement as taxable in India and adjusted it against capital losses. The Tribunal, however, concluded that rights entitlements do not fall under Articles 13(4) or 13(5) and are therefore governed by Article 13(6), making the gains taxable only in Ireland. Accordingly, the Tribunal upheld the assessee's position and allowed the appeal, affirming that such gains should be excluded from total income computed under Indian tax laws.

**Income tax additions on bogus transactions on the grounds that the genuineness of transactions was established.**

The Mumbai Bench of the Income Tax Appellate Tribunal (ITAT) deleted income tax additions made on alleged bogus transactions, holding that the genuineness of the transactions was duly established by the assessee. The assessee had electronically filed its return declaring nil book profit, and the AO later issued a reassessment notice u/s 148, citing failure to fully and truly disclose all material facts. However, the Tribunal found that the assessee had already provided comprehensive documentary evidence during the original assessment proceedings, sufficiently establishing the identity, creditworthiness, and genuineness of the transactions, thereby discharging the onus placed on it u/s 68 of the IT Act. The Tribunal concluded that there was no failure in disclosure by the assessee and, therefore, the reopening of assessment was unjustified. Consequently, it quashed the reassessment notice and deleted the additions made, reaffirming that proper disclosures were made in the original assessment.

**Retracted statement alone is not sufficient for income tax addition.**

The Gauhati High Court held that a retracted statement alone does not constitute sufficient basis for making income tax additions in the absence of any incriminating material. The case arose from a search operation u/s 132 of the IT Act on the assessee's premises, which led to proceedings u/s 153A. The AO passed an order based solely on a retracted statement without relying on any other concrete evidence. The Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal (ITAT) both found that no incriminating material was available to justify reopening a completed assessment. The assessee had filed their return u/s 139(1) declaring an income of ₹2,00,080, and argued that in the absence of any fresh incriminating evidence, the use of Section 153A was invalid. Agreeing with this, the High Court upheld the findings of both CIT(A) and ITAT, stating that a retracted statement alone cannot be treated as incriminating material. Consequently, the Court dismissed the department's appeal, confirming that additions u/s 153A must be supported by concrete evidence, not just statements that have been withdrawn.

**The income tax principal commissioner can cancel registration u/s 12A of the Income Tax without waiting for assessing the authority's decision.**

The Kerala High Court in a ruling held that the Principal Commissioner of Income Tax is empowered to cancel registration u/s 12A of the IT Act without waiting for a decision from the Assessing Officer. This decision came in response to a case where, following a survey and search of the assessee's premises, show-cause notices were issued u/ss 12AA(3) and 12AA(4) proposing cancellation of the trust's registration. Despite a detailed reply from the assessee, the Principal Commissioner proceeded with the cancellation, citing substantive reasons. The



assessee appealed to the Income Tax Appellate Tribunal (ITAT), which held that the cancellation was premature and should have awaited the Assessing Officer's findings. However, the High Court overruled the ITAT, clarifying that the statutory framework of Section 12AA grants the Principal Commissioner independent authority to assess and cancel a registration if the necessary conditions are met, without being dependent on or constrained by any parallel proceedings or determinations by the Assessing Officer. The Court further ruled that such interpretation by the ITAT was legally flawed and inconsistent with the legislative intent of the IT Act.

### **Bogus purchase u/s 9C of the Income Tax is fully disallowed.**

The Bombay High Court in a judgment upheld the full disallowance of bogus purchases u/s 69C of the IT Act, ruling in favor of the revenue. The case involved Kanak Impex, a company engaged in iron and steel trading, which had shown purchases worth ₹20.06 crore from bogus entities, as revealed through information from the Sales Tax Department. During reassessment proceedings initiated u/s 147, the assessee failed to appear or respond to multiple notices served via email and affixture, prompting the AO to pass an order u/s 144 read with Section 147, disallowing the entire amount of suspicious purchases. Though the CIT(A) upheld the reassessment, it restricted the addition to a gross profit (GP) rate of 12.5% instead of disallowing the full amount. This was further modified by the ITAT, which directed that the GP rate be aligned with genuine purchases. However, the High Court reversed these findings, emphasizing that the assessee made no effort to prove the genuineness of the transactions during reassessment and failed to discharge the burden of proof. It held that in the absence of any explanation or participation by the assessee, the AO was justified in disallowing the entire amount u/s 69C, and no partial relief could be granted. Consequently, the Court allowed the department's appeal and confirmed the full addition of ₹20.06 crore.

### **Reconsideration of the application for compounding of offence under IT Act as the rejection was solely based on the limitation period.**

The Bombay High Court directed the Chief Commissioner to reconsider a compounding application under the IT Act that was previously rejected solely on the ground of delay. The petitioner had challenged the rejection of their application made u/s 279(2), which the Chief Commissioner dismissed citing that it was filed beyond the 36-month limit as per paragraph 9.1 of the CBDT's compounding guidelines dated 16 November 2022. However, the Court noted that the authority had treated the guidelines as rigid statutes, exercising no discretion despite the fact that the guidelines themselves allow for relaxation in certain circumstances. The Court emphasized that even in the absence of a specific statutory limitation, discretion must be applied in light of the case's facts, as highlighted by the Supreme Court in *Vinubhai Mohanlal Dobaria v. CIT*. It clarified that the compounding application should not have been rejected automatically for being time-barred, and the competent authority must assess whether the circumstances justify condoning the delay and granting relief. The Court, therefore, set aside the previous order and instructed the Chief Commissioner to reevaluate the application considering the discretionary powers available under the law.

## **NEWS UPDATES**

**GST collections for March at Rs 1.96 lakh crore, up 9.9%**

## VALUATION BUZZ

[Jio Financial Services to invest Rs 1,000 crore in Jio Finance](#)

[LIC set to buy 40-49% stake in ManipalCigna; primary and secondary deal values company at Rs 3,500 crore](#)

[Renault to fully acquire Nissan's stake in India JV, take full control of operations](#)

[Swift transfer of unclaimed shares, dividends & debentures in works](#)

[Shriram Finance aims to cross Rs 3 lakh crore in assets in FY26](#)

**OUR TEAM**

We are a team of professionals comprising of Chartered Accountants, Company Secretaries, Cost and Management Accountants, Advocates and MBAs who are truly committed in providing timely, professional and quality services to our clients thereby building a long-term relationship with them.

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**ABOUT THE FIRM**

DGA Global is a multi-disciplinary audit and advisory firm providing gamut of services including audit, income tax, consulting and outsourcing services. We are based in the National Capital Region, Gurgaon, India. The firm is headed by Deepanshu Gupta, Chartered Accountant, having 14 years of experience working in Deloitte and PwC. Deepanshu is also a Cost and Management Accountant having secured 1<sup>st</sup> rank in North India. He has worked extensively for Indian and global clients serving wide-ranging sector experience in Manufacturing, Engineering, Automobile, IT/ITES/BPO, Real Estate, Investment Management, Mining among others for several years. He is also a Registered Valuer in domain of Securities and Financial Assets (SFA).

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