

INCOME TAX BULLETIN

MARCH 2026



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1. Entire purchases cannot be bogus if sales are undisputed; Restricts Sec.69C addition to 5%:

Case of: ITO Vs The Silk Factory

Decision by: ITAT, Delhi

Order Date: February 18, 2026

In favour of: Assessee

Appeal No.: ITA No. 6048/DEL/2024

Facts:

- The assessee reported purchases from three entities alleged by the Revenue to be non-existent.
- The Assessing Officer treated such purchases as bogus and made addition under Section 69C as unexplained expenditure.
- However, the sales corresponding to such purchases were duly recorded in the Profit & Loss account and accepted by the AO.
- The CIT(A) restricted the addition to 5% of such purchases.
- The Revenue challenged the relief granted before the ITAT.

Issues Involved:

- Whether purchases can be treated as entirely bogus under Section 69C when corresponding sales are accepted, and to what extent addition is justified?



Tribunal Observations:

- The Tribunal noted that the sales declared by the assessee against the disputed purchases were accepted by the Revenue.
- It was observed that if purchases were entirely bogus, the corresponding sales could not have been effected. Hence, purchases cannot be disallowed in entirety.
- The Tribunal relied on its own decision in the assessee's case for AY 2022-23, wherein it was held that acceptance of turnover implies acceptance of corresponding purchases.
- Section 69C cannot be invoked to treat entire purchases as unexplained when the trading results are otherwise accepted.
- Restricting the addition to 5% was held to be reasonable to account for possible inflation or non-genuine elements in purchases.

Tribunal Decision:

- The ITAT upheld the order of the CIT(A) restricting the addition under Section 69C to 5% of the disputed purchases and dismissed the Revenue's appeal.



Full Judgement: [The Silk Factory](#)

Key Takeaways

- *It is commercially implausible to sustain sales without underlying purchases; hence, full disallowance is unwarranted. Thus, where corresponding sales are accepted by the Revenue, the entire purchases cannot be treated as bogus.*

2. Active Sec. 12AA registration protects Assessee despite missing approval details in ROI; Restores exemption claim:

Case Name: Institute of Rehabilitation Vs Exemption

Decision by: ITAT, Delhi

Order Date: 18th February, 2026

In favour of: Assessee

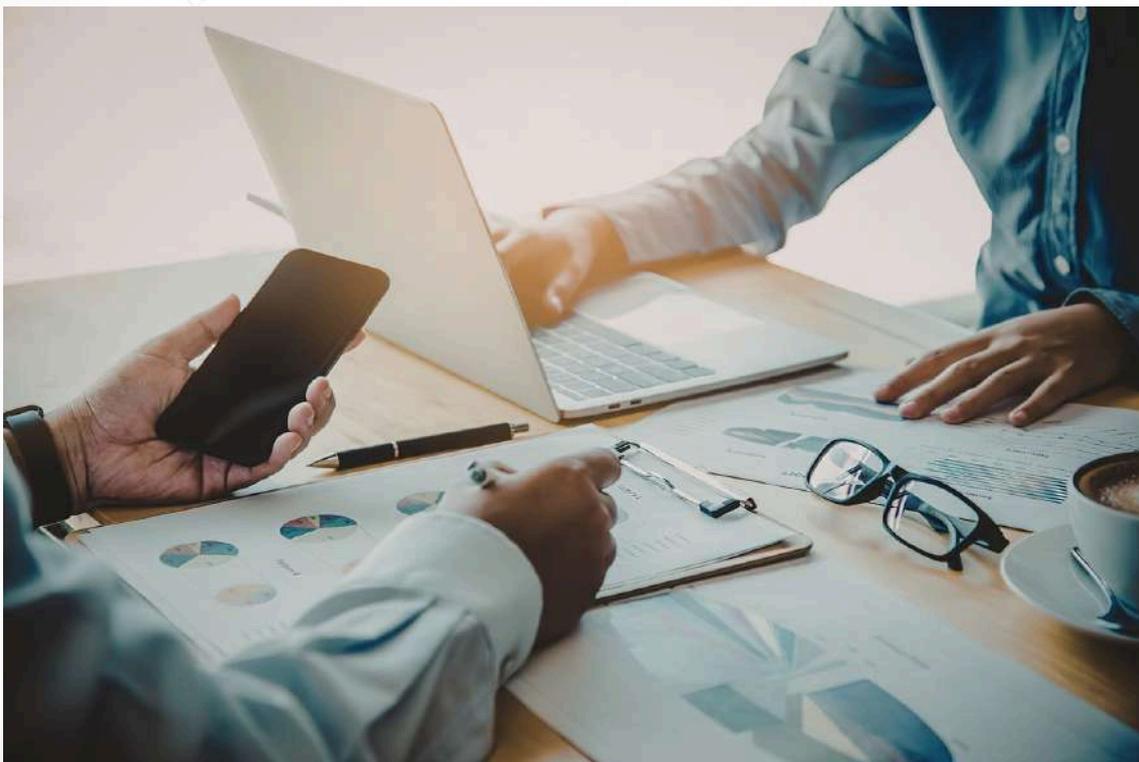
Appeal No.: ITA Nos.6442 to 6446/Del/2025

Facts:

- The assessee is a registered charitable trust that claimed exemption under Sections 11 and 12. The exemption was denied on two grounds.
 - Delay in filing audit report in Form 10B; and
 - Non-disclosure of approval/registration details in the return of income.
- The NFAC dismissed the appeal on account of delay in filing, attributing negligence to the assessee.
- The assessee contended that the delay was due to the demise of the person handling tax compliances.

Issues Involved:

- Whether exemption under Sections 11 and 12 can be denied due to delay in filing Form 10B and non-reporting of approval details in the return, despite the assessee holding a valid Section 12AA registration?



Tribunal Observations:

- The Tribunal relied on the Supreme Court ruling in CIT v. Anjana Foundation and held that filing of Form 10B within the due date is a procedural requirement and not mandatory in nature.
- The Tribunal observed that where registration under Section 12AA is valid and subsisting, the benefit of exemption cannot be denied merely due to omission in reporting approval details in the return. Reliance was placed on Shambhu Dayal Modern School Vs ITO.
- The Tribunal accepted the assessee's explanation that delay occurred due to the death of the person responsible for compliance.
- It held that in the case of trusts or institutions, reliance on office bearers is inherent and such circumstances constitute reasonable cause.
- The ITAT disagreed with the NFAC's rigid view that responsibility lies solely with the assessee, noting that such reasoning is not appropriate for institutional assessees.

Tribunal Decision:

- The ITAT set aside the orders of the lower authorities and restored the matter to the file of the Assessing Officer for de novo adjudication, with directions to consider:
 - Form 10B and other relevant records; and
 - The assessee's valid registration under Section 12AA.



Full Judgement: [Institute of Rehabilitation](#)

Key Takeaways

- *Filing of Form 10B within the prescribed due date is a procedural requirement, and exemption under Sections 11 and 12 cannot be denied solely for delay in its submission.*
- *A valid and subsisting registration under Section 12AA protects the assessee's claim for exemption even if approval details are not correctly reported in the return of income.*

3. Revision u/s 23 of Black Money Act dismissed as foreign assets disclosed in 'Schedule FA' and nothing prejudicial to Revenue's interest could be established:

Case of: Bharat Bansal Vs National Faceless Assessment

Decision by: High Court Delhi

Order Date: 17 February 2026

In favour of: Revenue

Appeal No.: W.P.(C) 2238/2026, CM APPL. 10798/2026 & CM APPL. 10799/2026

Facts:

- The assessee challenged the validity of notice issued under Section 143(2), contending that no reasons were provided for selection of the case for scrutiny.
- The assessee also relied upon CBDT scrutiny selection guidelines to question the legality of the notice.
- The Assessing Officer had issued notice under Section 143(2) followed by subsequent notices seeking information during assessment proceedings.

Issues Involved:

- Whether an assessee can challenge a notice under Section 143(2) on the ground that reasons for selection of scrutiny were not provided or that CBDT scrutiny guidelines were not followed?



High Court Observations:

- The Court held that the initial notice under Section 143(2) is merely an intimation that the case has been selected for scrutiny and does not require the Assessing Officer to disclose reasons for such selection.
- The Court observed that an assessee cannot, as a matter of right, question why the case has been selected for scrutiny, unless there is evidence of arbitrariness, mala fide intent, or vendetta.
- The Court clarified that CBDT circulars governing scrutiny selection are internal administrative guidelines meant for departmental functioning and do not confer enforceable rights upon the assessee.
- The Court noted that while the initial notice is only an intimation, the Assessing Officer is required to issue specific notices during the course of assessment seeking relevant information, which was duly done in the present case.

High Court Decision:

- The Delhi High Court upheld the validity of the notice issued under Section 143(2) and dismissed the assessee's writ petition, holding that there was no arbitrariness or illegality in the action of the Assessing Officer.



Full Judgement: [Bharat Bansal](#)

Key Takeaways

- *The court affirmed that validity of scrutiny proceedings depends on due process during assessment, not on disclosure of selection criteria. A notice under Section 143(2) is merely an intimation of scrutiny selection and does not require disclosure of reasons.*

4. Satisfaction Note after 15 months of assessment 'unreasonable', proceedings barred by limitation; Quashes Sec. 153C notice

Case Name: Clear Channel India Private Limited vs DCIT

Decision by: High Court, Bombay

Order Date: 17 February 2026

In favour of: Assessee

Appeal No.: WRIT PETITION 4990 OF 2025

Facts:

- A search was conducted in February 2021 in the case of a third party (searched person).
- The assessment of the searched person was completed within the prescribed timeline (up to 31.03.2023).
- The satisfaction note for initiating proceedings under Section 153C against the assessee was recorded on 27.06.2024 (approx. 15 months later).
- The satisfaction note was also undated and did not bear a Document Identification Number (DIN).
- Based on such satisfaction, notice under Section 153C was issued to the assessee.
- The assessee challenged the validity of the notice and proceedings before the High Court.

Issues Involved:

- Whether proceedings under Section 153C are valid when the satisfaction note is recorded after an inordinate delay and without a DIN, and whether such delay renders the proceedings time-barred?



High Court Observations:

- The Court relied on the Supreme Court ruling in CIT v. Calcutta Knitweaves and held that satisfaction must be recorded “immediately” after completion of assessment of the searched person.
- The term “immediately” implies promptness and proximity in time, i.e., without undue delay.
- A delay of approximately 15 months from the completion of assessment of the searched person was held to be unreasonable and contrary to the requirement of recording satisfaction “immediately”.
- The Court reiterated that CBDT Circular No. 24/2015 makes the principles laid down in Calcutta Knitweaves applicable to Section 153C proceedings.
- The Revenue’s argument regarding voluminous data and time required for analysis was rejected, with the Court noting that sufficient statutory opportunities exist to record satisfaction at various stages.
- The satisfaction note did not bear a DIN, rendering it invalid and deemed to have never been issued, in light of CBDT Circular No. 19/2019 and judicial precedents.
- The absence of date further cast serious doubt on the legitimacy and timing of the satisfaction recorded..

High Court Decision:

- The Bombay High Court held that:
 - The satisfaction note was not recorded within a reasonable time and violated the requirement laid down by the Supreme Court.
 - The proceedings under Section 153C were barred by limitation.
 - The absence of DIN rendered the satisfaction note invalid.
- Accordingly, the notice issued under Section 153C and all consequential proceedings were quashed.



Full Judgement: [Clear Channel India Private Limited](#)

Key Takeaways

- *Inordinate delay in recording satisfaction vitiates jurisdiction and renders proceedings time-barred. Administrative constraints such as voluminous data do not justify delay beyond reasonable limits.*

5. Undisclosed cash income adjusted against cash seized in search; Follows 'principle of telescoping':

Case of: DCIT Vs Surjeet Singh

Decision by: ITAT, Delhi

Order Date: 20 February 2026

In Favour of: Assessee

Appeal No.: ITA No. 3578/DEL/2025

Facts:

- A search operation resulted in cash seizure of ₹43.44 lakh from the assessee.
- The assessee had disclosed unaccounted income aggregating to ₹39.28 lakh, comprising business income and cash receipts evidenced from seized documents.
- The Assessing Officer treated the entire seized cash as unexplained under Section 69A.
- The CIT(A) applied the principle of telescoping and adjusted the disclosed income against the cash found, sustaining addition only for the excess amount of ₹4.15 lakh.
- The Revenue challenged the relief granted by the CIT(A) before the ITAT.

Issues Involved:

- Whether undisclosed income declared by the assessee can be adjusted against cash found during search by applying the principle of telescoping, and whether both can be taxed simultaneously?



Tribunal Observations:

- The Tribunal explained that telescoping involves correlating undisclosed income with its application (such as investment or cash), so as to avoid double taxation of the same income.
- It was observed that where undisclosed income and unexplained assets coexist, it is reasonable to presume that the latter is sourced from the former.
- The Tribunal noted that the assessee had substantiated undisclosed income of ₹39.28 lakh through seized material and business activities, which explained the availability of cash.
- The Tribunal relied on **Anantharam Veersinghaiah & Co v. CIT** and **Aliasgar Anvarali Varteji Vs CIT** to uphold the application of telescoping.
- It also referred to CIT v. Smt. P. K. Noorjahan to emphasize that unexplained income cannot escape taxation where evidence exists.
- Since the seized cash exceeded the explained income, the balance amount of ₹4.15 lakh was rightly treated as unexplained under Section 69A.

Decision:

- The ITAT upheld the order of the CIT(A), allowing telescoping of ₹39.28 lakh against the cash seized and sustaining addition only to the extent of excess cash of ₹4.15 lakh under Section 69A.
- The Revenue's appeal was dismissed.



Full Judgement: [Surjit Singh](#)

Key Takeaways

- *The principle of telescoping permits adjustment of undisclosed income against unexplained assets to avoid double taxation. Thus, where undisclosed income is substantiated, it can be reasonably presumed to be the source of unexplained cash or investments. However, proper documentation and linkage between income and assets are critical to claim the benefit of telescoping.*

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