SNR & COMPANY
CHARTERED ACCOUNTANTS

MAY 2026

Delhi, Pune, Bangalore

SNR & COMPANY
CHARTERED ACCOUNTANTS

CONTENT

- Judicial Updates

- Minor variations in Form No. 10 is not a ground to deny benefit of exemption under section 11(2) benefit: 1
- Inextricable nexus between FD interest on bank guarantee & SRA project justifies capitalization: 3
- Penalty cannot be imposed on Additional income reported u/s 148: 5
- Loan raising expenditure for repaying liabilities & statutory dues is an allowable expenditure: 7
- Machinery replacement that creates enduring benefit constitutes capital expenditure, not revenue expenditure: 9

- Circulars/ Notification 11

1. Minor variations in Form No. 10 is not a ground to deny benefit of exemption under section 11(2) benefit:

Case of: Shree Tardeo Jain Swetamber Murti Pujak Sangh Vs ITO (E) Ward 2(3)
Decision by: ITAT, Mumbai
Order Date: April 07, 2026
In favour of: Assessee
Appeal No.: ITA No. 5923/MUM/2025

Facts:

- The Assessee, Shree Tardeo Jain Swetamber Murti Pujak Sangh, is a Jain religious trust that had sought the benefit of accumulation of income under Section 11(2) of the Income Tax Act, 1961. The trust accumulated a sum of Rs. 75 Lakhs and invested the same in fixed deposits with HDFC Bank. In support of its claim, the trust filed Form No. 10 specifying the purpose of accumulation as repair, renovation, and maintenance of temple premises, upashraya, and related structures. The Assessing Officer (AO) and the Commissioner of Income Tax (Appeals) [CIT(A)] denied the benefit, raising objections regarding alleged timing discrepancies in investment dates, alleged violation of Section 11(5) concerning the mode of investment, and a purported mismatch between the purposes stated in Form No. 10 and the objects of the trust.

Issues Involved:

- 1.Whether minor timing differences or variations in Form No. 10 justify denial of the accumulation benefit under Section 11(2).
- 2.Whether investment in fixed deposits with HDFC Bank constitutes a permissible mode under Section 11(5), and whether the CIT(A)'s objection on this ground was sustainable.
- 3.Whether the purposes of accumulation stated in Form No. 10 — namely repair, renovation, and maintenance of temple premises and related structures — are consistent with the charitable and religious objects of the trust.

Tribunal Observations:

The Tribunal made the following key observations:

- On Form No. 10 and timing variations: Placing reliance on the co-ordinate bench ruling in Senior Citizen Santacruz (Paschim) Sanstha, the Tribunal held that minor variations or general descriptions in Form No. 10 cannot be a ground to deny the benefit under Section 11(2), so long as the purpose remains within the objects of the trust. It further observed that Sections 11(2) and 11(5) do not mandate a rigid interpretation that would deny the claim merely on account of minor timing differences, particularly where investments are made in close proximity to the end of the financial year and are otherwise compliant with statutory requirements.

- On mode of investment: The Tribunal found that the accumulated funds were invested in fixed deposits with HDFC Bank, which is a prescribed and permissible mode of investment under Section 11(5). Accordingly, the CIT(A)'s objection on this ground was dismissed as being without any basis.

- On purpose of accumulation vis-à-vis trust objects: The Tribunal found that the purposes stated in Form No. 10 — repair, renovation, and maintenance of temple premises, upashraya, and related structures — fall squarely within the religious and charitable objects of the trust. The Tribunal held that CIT(A)'s reliance on statements made during assessment proceedings, without appreciating the overall factual matrix and documentary evidence on record, was unjustified.

Tribunal Decision:

- The Mumbai ITAT restored the limited issue of verification of the exact dates of investment of Rs. 75 Lakhs to the file of the AO, with a direction that upon verification, the AO shall grant the benefit of accumulation under Section 11(2) in accordance with law. The Tribunal disposed of the appeal in the manner stated above, with a partial ruling in favour of both parties.

Full Judgement: Shree Tardeo Jain Swetamber Murti Pujak Sangh

Key Takeaways

The tribunal has re-established the fact that procedural technicalities cannot override substantive compliance. Therefore, minor variations in Form No. 10 or general descriptions of purpose cannot disentitle a trust from the Section 11(2) benefit, provided the stated purposes align with the trust's objects.

2. Inextricable nexus between FD interest on bank guarantee & SRA project justifies capitalization:

Case Name: Shreenath Realtors Vs ITO
Decision by: ITAT, Mumbai
Order Date: 01st April, 2026
In favour of: Assessee
Appeal No.: ITA Nos. 7295/Mum/2025

Facts:

- The Assessee, Shreenath Realtors, was engaged in a slum redevelopment project under the Slum Rehabilitation Authority (SRA). As a mandatory pre-condition for executing the SRA project, the Assessee was required to furnish a bank guarantee. Fixed deposits (FDs) were created specifically to back this bank guarantee.
- During the relevant Assessment Year (AY), the SRA project was cancelled; however, the cancellation was under challenge before the jurisdictional High Court and had not attained finality.
- The bank guarantee furnished by the Assessee also remained in force during the relevant AY and was not cancelled. The Assessee capitalised interest earned on the FDs amounting to Rs. 37,58,095/- as work-in-progress, treating it as inextricably linked to the SRA project.
- The AO treated this interest as income from other sources under Section 56 and made an addition accordingly. The Revenue relied upon the Supreme Court judgment in Tuticorin Alkali Chemicals to contend that FD interest is assessable as income from other sources.

Issues Involved:

- Whether interest earned on FDs created as security for bank guarantees furnished in connection with the SRA project is assessable as income from other sources under Section 56 or is required to be capitalised as work-in-progress.
- Whether the cancellation of the SRA project during the relevant AY severed the nexus between the FDs and the project, rendering the funds surplus or idle.

Tribunal Observations:

- **On nexus between FDs and the project:** The Tribunal held that the FDs were not created out of surplus or idle funds but were a mandatory pre-condition for furnishing the bank guarantee in connection with the SRA project. The bank guarantee remained in force throughout the relevant AY, and the communication dated July 3, 2017 pertaining to release or refund of the guarantee related to the subsequent AY 2018–19. Accordingly, the Tribunal found that the funds remained locked-in for business purposes during the relevant year and could not be treated as free or idle.

- **On legal test — inextricable nexus:** Relying on the Supreme Court judgment in Bokaro Steel, the Delhi High Court judgment in Indian Oil Panipat Power Consortium, and the Bombay High Court judgment in Paramount Premises, the Tribunal affirmed that the determinative test is the existence of an inextricable nexus between the income earned and the business or project activity. Applying this test, the Tribunal held that the interest income was integrally connected with the SRA project and was required to be capitalised.

- **On distinguishing Tuticorin Alkali Chemicals:** The Tribunal factually distinguished the Revenue's reliance on the Supreme Court's ruling in Tuticorin Alkali Chemicals, observing that the said judgment applies to situations where surplus funds are independently deployed to earn income. In the present case, the FDs were not surplus funds — they were locked-in as security for a subsisting bank guarantee, making the factual matrix fundamentally different.

- **On project cancellation:** The Tribunal noted that since the cancellation of the SRA project was sub-judice before the High Court and had not attained finality during the relevant AY, the nexus between the FDs and the project remained intact. The funds could not be characterised as surplus for the year under consideration.

Tribunal Decision:

- The Mumbai ITAT deleted the addition of Rs. 37,58,095/- made by the AO on account of FD interest, holding that the said interest is inextricably linked with the SRA project and is required to be capitalised to work-in-progress. The appeal was allowed in favour of the Assessee.

Full Judgement: Shreenath Realtors

Key Takeaways

FD interest earned on deposits created as a mandatory condition for furnishing a project-related bank guarantee must be capitalised as work-in-progress, not treated as income from other sources. The determinative test is the existence of an inextricable nexus between the interest income and the underlying project — not merely the form in which the income arises.

3. Penalty cannot be imposed on Additional income reported u/s 148:

Case of: Bangadu Natarajan Balasundharam Vs ITO
Decision by: ITAT, Chennai
Order Date: 09 April 2026
In favour of: Assessee
Appeal No.: ITA No. 2414/Chny/2025

Facts:

- The Assessee, an individual, co-owned certain plots along with two others. He had not offered income from the sale of these plots in his original return of income filed under Section 139(1).
- On receipt of information from the DDIT (Investigation) indicating that the Assessee had not disclosed income from the sale of co-owned plots, the Revenue issued a notice under Section 148.
- In response, the Assessee filed a return of income offering the sale proceeds of Rs. 82.36 Lakhs as Long Term Capital Gains (LTCG). Notably, the AO's assessment order recorded a specific finding that the Assessee had also offered gains from transactions that were not even part of the investigation report, reflecting the Assessee's bonafide intention. The AO completed the assessment accepting the income as returned, without making any additions or disallowances.
- Despite this, the AO proceeded to levy penalty under Section 271(1)(c) on the ground of concealment of income, comparing the income disclosed in the original return with the income offered in the return filed under Section 148.

Issues Involved:

- Whether income disclosed for the first time in a return filed in response to a notice under Section 148 — and accepted by the AO without any additions — can be treated as concealment of income attracting penalty under Section 271(1)(c).
- Whether the test of concealment under Section 271(1)(c) read with Explanation 1 thereto is triggered merely by comparing the income in the original return under Section 139(1) with the income in the return filed under Section 148..

Tribunal Observations:

- On the test of concealment: The Tribunal held that the test of concealment cannot be based on a comparison between the income disclosed in the original return under Section 139(1) and the income offered in the return filed in response to a notice under Section 148, particularly where the AO has completed the assessment accepting the returned income without making any additions. The mere disclosure of higher income in a subsequent return does not automatically amount to concealment.
- On Explanation 1 to Section 271(1)(c): The Tribunal expounded that Explanation 1 comes into operation in three specific situations — where there is a failure to offer an explanation regarding facts material to the computation of total income, where an explanation offered is found to be false, or where an explanation offered is not substantiated. In the present case, since the AO accepted the income returned under Section 148 without making any additions or disallowances, none of the three conditions under Explanation 1 were attracted.
- On the Revenue's argument: The Tribunal dismissed the Revenue's contention that the Assessee would not have offered the additional income but for the initiation of reassessment proceedings. It held that since the AO accepted the returned income, the foundation for levying penalty was absent. Additionally, the Tribunal drew attention to the AO's own finding that the Assessee had voluntarily offered gains from transactions not covered by the investigation report — a clear indicator of bonafide conduct.
- On the scope of Section 271(1)(c): The Tribunal underscored that Explanation 1 to Section 271(1)(c) specifically addresses amounts that are "added or disallowed" in the assessment. Since the AO completed the assessment without any additions or disallowances, the Explanation had no application, and levying penalty in such circumstances was not legally tenable.

Tribunal Decision:

- The Chennai ITAT deleted the penalty levied under Section 271(1)(c), holding that when income returned in response to a notice under Section 148 is accepted by the AO in its entirety without any additions or disallowances, the levy of penalty for concealment of income is not sustainable. The appeal was allowed in favour of the Assessee.

Full Judgement: **Mangadu Natarajan Balasundharam**

Key Takeaways

- *Income disclosed in a return filed under Section 148 and accepted by the AO without additions cannot form the basis for a concealment penalty under Section 271(1)(c). The test of concealment cannot be applied by comparing the original Section 139(1) return with the Section 148 return — it must be anchored to what the AO actually added or disallowed in assessment.*

4. Loan raising expenditure for repaying liabilities & statutory dues is an allowable expenditure:

Case Name: Ebony Retail Holdings Ltd
Decision by: High Court, Delhi
Order Date: 09th April 2026
In favour of: Assessee
Appeal No.: ITA 296/2026 & CM APPL. 22926/2026

Facts:

- The Assessee, Ebony Retail Holdings Ltd., had raised fresh loans for the purpose of repaying existing liabilities and discharging statutory obligations, including refund of share application money.
- Expenditure incurred in connection with raising these loans was claimed as allowable business expenditure under Section 37 of the Income Tax Act, 1961.
- The AO disallowed the claim, questioning the commercial rationale behind raising fresh debt to repay existing liabilities, and treating the expenditure as not being incurred for business purposes.
- The CIT(A) allowed the claim in part, upholding the deduction for loan-raising expenditure connected with repayment of existing liabilities and statutory dues, while disallowing the portion attributable to funds advanced to a subsidiary company and a related party, on the ground that such diversion of funds was not directly linked to business purposes. The ITAT upheld the CIT(A)'s order.
- The Revenue preferred an appeal before the Delhi High Court.

Issues Involved:

- Whether expenditure incurred for raising a loan to repay existing liabilities and discharge statutory obligations qualifies as allowable business expenditure under Section 37.
- Whether the AO is entitled to question the commercial expediency of the Assessee's financial decisions, including the decision to raise fresh debt for retiring existing loans.
- Whether the refund of share application money constitutes a statutory or contractual obligation, such that borrowing costs incurred to meet it are deductible as business expenditure.
- Whether the portion of loan utilised for advancing funds to a subsidiary and a related party was rightly disallowed.

Court Observations:

- On commercial expediency: The High Court affirmed the well-settled principle that it is within the commercial wisdom and business acumen of the Assessee to decide how it manages its finances. The decision to raise a fresh loan for repayment of an existing loan may be driven by several legitimate business considerations - such as obtaining more favourable interest rates, restructuring financial arrangements, or addressing strained relationships with existing lenders. The AO cannot sit in judgment over such decisions or substitute his own reasoning for that of the Assessee.
- On repayment of existing liabilities: The Court held that expenditure incurred in raising a loan to repay existing liabilities is intrinsically connected to the Assessee's business operations and financial management and therefore qualifies as allowable business expenditure under Section 37.
- On refund of share application money: The Court held that the refund of share application money constitutes a statutory or contractual obligation of the company. Borrowing costs incurred to meet such obligations are necessarily connected to business and cannot be characterised as non-business expenditure.
- On diversion to subsidiary and related party: The Court upheld the CIT(A)'s finding that the portion of the loan advanced to a subsidiary company and a related party was rightly disallowed. Such utilisation amounts to diversion of funds not directly linked to the Assessee's own business purposes and thus does not satisfy the requirements for deductibility under Section 37.
- On substantial question of law: The High Court found no infirmity in the ITAT's order and held that no substantial question of law arose for consideration, dismissing the Revenue's appeal at the threshold.

Court Decision:

- The Delhi High Court dismissed the Revenue's appeal in its entirety, holding that the expenditure incurred for raising loans to repay existing liabilities and discharge statutory obligations is allowable as business expenditure under Section 37. The Court affirmed that the AO cannot question the commercial expediency of the Assessee's financial decisions. The disallowance of the portion of loan utilised for advancing funds to a subsidiary and a related party was upheld. The Court found no substantial question of law arising from the ITAT's order.

Full Judgement: Ebony Retail Holdings Ltd

Key Takeaways

- *Loan-raising expenditure incurred for repayment of existing liabilities or discharge of statutory obligations qualifies as allowable business expenditure under Section 37. The AO cannot question or override the Assessee's commercial judgment on financial decisions - including the decision to refinance existing debt - so long as the expenditure has a nexus with business.*

5. Machinery replacement that creates enduring benefit constitutes capital expenditure, not revenue expenditure:

Case of: CIT Vs Super Spinning Mills Ltd
Decision by: High Court, Madras
Order Date: 09th April, 2026
In Favour of: Revenue
Appeal No.: Tax Case (Appeal) Nos.459 & 460 of 2009

Facts:

- The Assessee, Super Spinning Mills Ltd., a textile manufacturer, incurred expenditure towards replacement of machinery and claimed the same as revenue expenditure under the head of 'current repairs' under Section 37(1) of the Income Tax Act, 1961.
- The AO disallowed the claim, treating the expenditure as capital in nature. The ITAT allowed the Assessee's claim, placing reliance on the jurisdictional High Court judgment in Janakiraman Mills, wherein it had been held that replacement of worn-out machinery could qualify as 'current repairs' and be allowed as revenue expenditure.
- The Revenue appealed before the Madras High Court, contending that the coordinate bench ruling relied upon by the ITAT had been subsequently overruled by the Supreme Court and that the machinery replacement resulted in creation of independent assets, thereby constituting capital expenditure.

Issues Involved:

- Whether expenditure incurred towards replacement of machinery in a textile mill constitutes capital expenditure or revenue expenditure.
- Whether replacement of worn-out machinery can be treated as 'current repairs' under Section 37(1) so as to be allowable as revenue expenditure.
- Whether the ITAT was justified in relying on the jurisdictional High Court judgment in Janakiraman Mills, which had been subsequently overruled by the Supreme Court.

Court Observations:

- On the nature of machinery replacement: The High Court held that expenditure incurred towards replacement of machinery is capital in nature where it results in the creation of an independent asset or confers an enduring benefit. Such expenditure cannot be treated as revenue expenditure merely by labelling it as 'current repairs'.
- On the legal test: The Court emphasised that the correct legal test is whether the expenditure results in the creation of a new asset or an advantage of an enduring nature. If yes, it must be treated as capital expenditure, irrespective of how it is characterised by the Assessee.
- On the scope of 'current repairs': The Court reiterated that the concept of 'current repairs' is limited in scope and does not extend to substantial replacement of machinery. It applies only where expenditure merely preserves or maintains an existing asset without creating a new one or providing an enduring advantage.
- On the overruling of Janakiraman Mills: The Court held that the ITAT's reliance on the coordinate bench ruling in Janakiraman Mills was misplaced, as the said judgment had been subsequently reversed by the Supreme Court in Saravana Spinning Mills and Ramaraju Surgical Cotton Mills. These Supreme Court rulings clarified that each machine in a textile mill is an independent asset, and its replacement cannot be equated with 'current repairs' unless it merely maintains the existing asset without enhancement or creation of a new advantage.
- On the Assessee's burden: The Court observed that to qualify for revenue treatment, the Assessee must demonstrate that the replacement was necessitated due to non-availability of spare parts or prolonged wear and tear from usage, and that the replacement did not enhance the capacity or efficiency of the machinery beyond its original state.
- On the ITAT's approach: The Court found that the ITAT had allowed the Assessee's claim without proper analysis, solely on the basis of a precedent that had been overruled by the Supreme Court. Such an approach was held to be legally unsustainable.

Court Decision

- The Madras High Court allowed the Revenue's appeal and remitted the matter back to the appellate authority for de novo adjudication in light of the Supreme Court's judgment in Saravana Spinning Mills. The appellate authority was directed to re-examine the claim afresh, applying the correct legal test as laid down by the Supreme Court, particularly whether the machinery replacement resulted in creation of an independent asset or conferred an enduring benefit.

Full Judgement: Super Spinning Mills Ltd

Key Takeaways

Replacement of machinery that results in a new independent asset or enduring benefit is capital expenditure - it cannot be claimed as 'current repairs' under Section 37(1) merely because the old machinery was worn out. The correct legal test is whether the expenditure creates a new asset or advantage of enduring nature - not the Assessee's characterisation of the expense. 'Current repairs' is a narrow concept, confined to maintenance or preservation of an existing asset; it does not cover substantial replacement of machinery.

SNR & COMPANY
CHARTERED ACCOUNTANTS

Circulars/ Notification

1. CBDT notified application forms for correction of PAN:

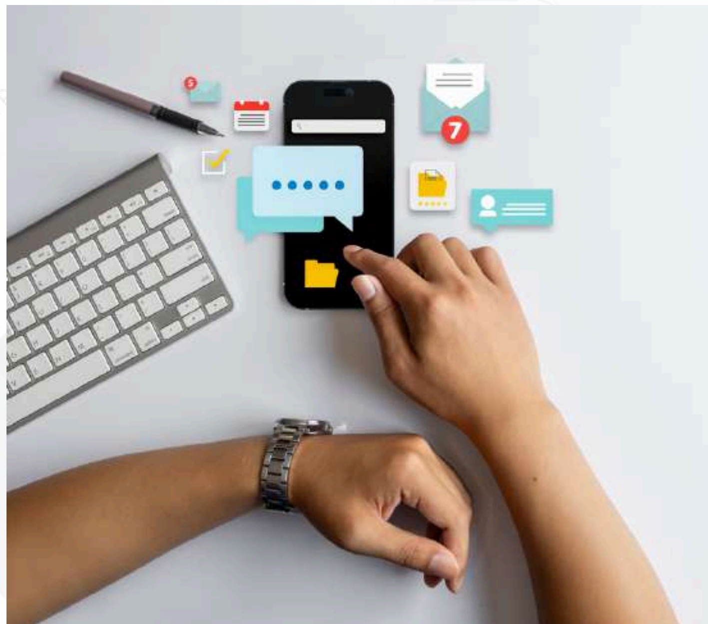
- CBDT specifies vide Order dated April 1, 2026, the Application Forms in respect of correction of PAN along with related procedure and guidelines; PAN holders are required to fill the following Forms for Changes or Correction in PAN Data - (i) PAN CR-0 I - for an Individual, (ii) PAN CR-02 - for Non-Individual; The order applies with effect from April 1, 2026.

Read Notification: DIT(Systems) - Order

2. CBDT notified amendment to Rule 10U(1)(d) and 10U(2), w.r.t. grandfathering clause in GAAR:

- CBDT vide, Notification No. 54/2026 dated March 31, 2026, notifies amendment in Income-tax Rules, 1962, particularly in rule 10U, substituting clause (d) of Rule 10U(1) and Rule 10U(2), to the effect that the GAAR provisions of Chapter X-A shall not be invoked on or after March 31, 2026 in a case where income accrues or arises to, or deemed to accrue or arise to, or is received or deemed to be received, by any person from transfer of such investments which were made before the April 1, 2017 by such person.

Read Notification: 54/2026



SNR & COMPANY
CHARTERED ACCOUNTANTS

SNR is a firm of Chartered Accountants offering assurance, tax, accounting and consulting services to its national and international clients across the globe. The firm has its head office at New Delhi with branches at Pune & Bengaluru. SNR has experienced a considerable growth since its inception in 1996 and is empanelled with reputed banks and with the office of the comptroller and auditor general of India. The firm through it's team of experts consisting of Chartered Accountants, Company Secretaries and Management professionals provides professional services to a large number of clients viz Companies, Banks and NGO's etc.

OUR LOCATION

DELHI

A-15, Second Floor, Hauz Khas,
New Delhi- 110016

Tel: +91-11 41655801, 41655802

PUNE

B 609, Nyati Empress,
Viman Nagar, Pune,
Maharashtra – 411014 (India)

Tel No. +91-20-45104304

BANGALORE

No. 5A, Second Floor, 6th Main,
KHB Colony, Basaveshwaranagar,
Bangalore - 560079

Tel: +91 80 42064178

Disclaimer:

While every care has been taken in the preparation of this Bulletin to ensure its accuracy at the time of publication, SNR & Company assumes no responsibility for any errors which despite all precautions, may be found therein. Neither this bulletin nor the information contained herein constitutes a contract or will form the basis of a contract. The material contained in this document does not constitute/ substitute professional advice that may be required before acting on any matter. All logos and trademarks appearing in the bulletin are the property of their respective owners. The information transmitted is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, re-transmission, dissemination, or other use of, or taking of any action in reliance upon, this information by persons or entities other than the in- tended recipient is prohibited.