

INCOME TAX BULLETIN

APRIL 2026



CONTENT

- Judicial Updates

- Interest on loan taken for investing in a subsidiary for expansion of business is an allowable expense: 1
- No separate Sec. 43CA adjustment if Assessee opts for Sec. 44AD presumptive tax & accepted by Revenue: 3
- Digital platform outside India defeats Fixed Place PE claim. Thus, commission is not taxable in India: 5
- Sales tax subsidy received under State Government scheme is a non-taxable capital receipt as 'Purpose test' prevails over any other test: 7
- Arrangement of sharing IPO costs between company & Assessee-seller is not a "colourable device". Thus, allowable u/s 48(i): 9

- Circulars/ Notification

11

1. Interest on loan taken for investing in a subsidiary for expansion of business is an allowable expense:

Case of: DCIT vs Tata Steel Ltd.
Decision by: ITAT, Mumbai
Order Date: February 20, 2026
In favour of: Assessee
Appeal No.: ITA No. 3555/MUM/2016

Facts:

- Tata Steel Ltd. (the Assessee), a manufacturing enterprise engaged in the production and sale of steel and related products, undertook the acquisition of Corus Group PLC (Corus) – a leading European steel company with manufacturing facilities across Europe – through a Special Purpose Vehicle (SPV) created as a step-down wholly owned subsidiary.
- To finance this acquisition, the Assessee borrowed funds and incurred interest costs amounting to Rs. 518.75 Crore, which it claimed as a deduction under Section 36(1)(iii) of the Income Tax Act. The Assessee contended that the acquisition was a strategic business expansion aimed at entering overseas markets and growing its global steel operations. Following the acquisition, Tata Steel emerged as the 6th largest steel manufacturer in the world.
- The Revenue disallowed the interest deduction on the ground that the investment was made solely to acquire and maintain a "controlling interest" in Corus, without any direct income being earned from the said investment, and therefore the expenditure could not qualify as a business expenditure.

Issues Involved:

- Whether the interest expenditure of Rs. 518.75 Crore incurred on borrowed funds used to acquire a foreign subsidiary (Corus Group PLC) is allowable as a business deduction under Section 36(1)(iii) of the Income Tax Act, 1961.



Tribunal Observations:

- **Purpose of Acquisition was Business Expansion:** Referring to the minutes of the Board of Directors meeting and the Managing Director's presentation, the Tribunal noted that the Assessee's acquisition of Corus was driven by clear business objectives – specifically, to access overseas markets and expand its existing steel operations, not merely to hold shares as an investment.
- **Same Line of Business:** The Tribunal underscored that Corus was engaged in the same line of business as the Assessee (i.e., steel manufacturing), making the acquisition organically linked to the Assessee's core business activities rather than a passive financial investment.
- **SPV Structure Does Not Alter Character of Expenditure:** The Tribunal held that the creation of an SPV to acquire the overseas entity does not change the fundamental business character of the interest expenditure. The Assessee borrowed capital, incurred interest, and the purpose remained business expansion.
- **Reliance on Bombay HC Precedent:** The Tribunal placed reliance on the Bombay High Court's ruling in Concentrix Services, which held that interest incurred on loans taken to acquire a controlling interest in a company engaged in the same line of business is allowable under Section 36(1)(iii).
- **Revenue's Reliance on Tata Sons Distinguished:** The Tribunal rejected the Revenue's reliance on the Tata Sons Ltd. precedent, observing that Tata Sons is an investment company whose sole purpose is to acquire shares for investment, whereas the Assessee is a manufacturing enterprise. The two cases are on an entirely different footing and cannot be equated.
- **Business Autonomy of the Assessee:** The Tribunal affirmed that it is the prerogative of an enterprise to decide how to enhance or expand its business presence. Acquiring controlling interest in an overseas entity in the same industry, funded by borrowed capital, is a legitimate business decision whose interest cost is deductible.

Tribunal Decision:

- The Mumbai ITAT ruled in favour of the Assessee and deleted the disallowance of Rs. 518.75 Crore. The Tribunal held that the interest expenditure was incurred for the purpose of business and is therefore allowable as a deduction under Section 36(1)(iii) of the Income Tax Act, 1961.

Full Judgement: [Tata Steel Ltd.](#)

Key Takeaways

Business purpose, not income generation, is the test under Section 36(1)(iii) – interest on borrowed funds is deductible even if no direct income flows from the investment. Acquisition of a same-sector foreign entity qualifies as business expansion, not passive investment, making the associated interest cost deductible.

2. No separate Sec. 43CA adjustment if Assessee opts for Sec. 44AD presumptive tax & accepted by Revenue:

Case Name: Mukesh Vasantkumar Chandan Vs ITO

Decision by: ITAT, Mumbai

Order Date: 26th February, 2026

In favour of: Assessee

Appeal No.: ITA Nos. 3003/Mum/2023

Facts:

- The Assessee, an individual, transferred one flat during the relevant Assessment Year for a sale consideration of Rs. 45 Lakhs. The stamp valuation authority, however, adopted a value of Rs. 58.23 Lakhs for the said property, resulting in a difference of Rs. 13.23 Lakhs.
- The Assessee had offered income from his business under the presumptive taxation scheme under Section 44AD, which was accepted by the Assessing Officer (AO). However, the AO simultaneously made a separate addition of Rs. 13.23 Lakhs under Section 43CA – treating the stamp duty value as the deemed sale consideration and adding the differential to the Assessee's income.
- The Assessee challenged the addition, contending that once income is computed under the presumptive scheme of Section 44AD, no further adjustments can be grafted independently under Section 43CA over and above the presumptive profits.

Issues Involved:

- Whether a separate addition under Section 43CA is sustainable when the AO has simultaneously accepted the Assessee's income computation under the presumptive taxation scheme of Section 44AD – i.e., whether such a dual or hybrid computation approach is permissible under the Act.



Tribunal Observations:

- **Presumptive Taxation Replaces Normal Computation:** The Tribunal emphasised that where Section 44AD applies and is accepted, the statute substitutes the ordinary computation exercise with a legislative presumption linked to turnover or gross receipts. The scheme is intended to replace transaction-level profit computation entirely, not partially.
- **Impermissible Hybrid Computation:** The Tribunal held that once the presumptive scheme is accepted, business income cannot be recomputed by importing individual computation provisions in a piecemeal manner. Applying selected provisions to enhance profits while simultaneously retaining presumptive computation results in an impermissible hybrid computation not contemplated by the Act.
- **Stamp Duty Value Already Absorbed in Turnover Base:** The Tribunal observed that the stamp duty value under Section 43CA is embedded in the turnover figure on which presumptive taxation is applied. Accordingly, the statutory substitution contemplated by Section 43CA is, in substance and effect, already absorbed within the turnover base used for Section 44AD computation.
- **Double Taxation of the Same Income:** Retaining Section 44AD computation on the turnover (which includes stamp duty value as the base) and simultaneously making a fresh addition of the differential under Section 43CA amounts to taxing the same income twice – once through the enhanced turnover base and again as an independent addition. The Tribunal held that such duplication is not sanctioned by the Act.
- **Correct Harmonious Construction of Both Provisions:** The Tribunal laid down the correct approach – Section 43CA can influence the turnover base for the purposes of Section 44AD, but it cannot create a second layer of taxation over and above the presumptive profits. The only situation where Section 43CA can operate independently is if the AO first rejects or displaces the applicability of Section 44AD and proceeds to compute income under the normal provisions.
- **Architecture of Presumptive Taxation Must Be Respected:** The Tribunal underscored that the presumptive taxation scheme is architecturally designed to replace transaction-level computation with a turnover-linked presumption. Any attempt to superimpose individual computation provisions on top of the presumptive scheme is contrary to its legislative intent and design.

Tribunal Decision:

- The Mumbai ITAT ruled in favour of the Assessee and deleted the addition of Rs. 13.23 Lakhs made under Section 43CA. The Tribunal held the addition to be unsustainable as it resulted in an impermissible duplication of income under a hybrid computation approach.

Full Judgement: [Mukesh Vasantkumar Chandan](#)

Key Takeaways

Once section 44AD is accepted, normal computation displaced entirely. Thus, individual computation provisions like Section 43CA cannot be selectively grafted on top of presumptive income. The AO cannot retain presumptive taxation and simultaneously apply transaction-level adjustments; it is one or the other.

3. Digital platform outside India defeats Fixed Place PE claim. Thus, commission is not taxable in India:

Case of: BOOKING.COM B.V. Vs ACIT

Decision by: TAT, Delhi

Order Date: 06 March 2026

In favour of: Assessee

Appeal No.: ITA No.2033/Del/2025

Facts:

- Booking.com B.V. (the Assessee), a company incorporated and tax resident in the **Netherlands**, operates an online platform for reservation of accommodations globally. Its digital platform is hosted on **servers located outside India**. The Assessee earns commission income from accommodation providers (hotels, guesthouses, etc.) in India who list their properties on the platform.
- The Assessing Officer (AO) alleged that the Assessee had a **Fixed Place Permanent Establishment (PE)** in India in the form of dependent agents and the accommodation properties themselves, and accordingly sought to bring the commission income to tax in India under the **India-Netherlands DTAA**.
- The Assessee contested the existence of any PE in India, asserting that it has no office, employees, agents, or equipment in India, that no employees visited India during the relevant year, and that no premises were made available to it at any accommodation property. It further maintained that its relationship with accommodation providers is on a principal-to-principal basis, with no element of agency involved.
- The Assessee had separately complied with India's **Equalization Levy** provisions applicable to cross-border digital transactions.

Issues Involved:

- Whether the Assessee has a **Fixed Place PE** in India under Article 5(1) of the India-Netherlands DTAA, such that its commission income is taxable in India.
- Whether the Assessee constitutes a **Significant Economic Presence (SEP)** in India under Explanation 2 to Section 9(1)(i) of the Income Tax Act, 1961.



High Court Observations:

- **No Evidence to Establish Fixed Place PE:** The Tribunal found that the AO made bald allegations without placing any evidence on record to demonstrate that the cumulative conditions for a fixed place PE were satisfied. Relying on Supreme Court decisions in Formula One World Championship and eFunds IT Solution, the Tribunal held that the AO failed to discharge its onus of establishing PE.
- **Digital Platform Outside India:** No Physical Presence: The Tribunal noted that the Assessee conducts its business entirely through a digital platform hosted on servers outside India. It has no place of business, agent, personnel, or equipment in India, and no employees visited India during the relevant year.
- **No Premises Made Available:** No space or premises at any accommodation property was made available to the Assessee, a prerequisite for establishing a fixed place PE.
- **No Dependent Agent PE:** The Assessee transacts with accommodation providers on a principal-to-principal basis. The Tribunal further observed that even if an agency relationship were assumed, it would be the Assessee acting as agent of the accommodations – given the flow of funds from accommodations to the Assessee by way of commission – and not the other way around. There is therefore no dependent agent PE.
- **SEP Provisions Inoperable for the Subject AY:** While the Tribunal acknowledged that the Government introduced SEP provisions recognising the inadequacy of existing frameworks to tax the digital economy, the threshold limits prescribed under Explanation 2 to Section 9(1)(i) were not notified until AY 2022-23, rendering the provisions inoperable for the subject Assessment Year.
- **SEP Does Not Override Tax Treaties:** The SEP provisions were introduced into domestic tax law without a corresponding amendment to India's tax treaties. Accordingly, enterprises governed by tax treaties – such as the Assessee under the India-Netherlands DTAA – fall outside the ambit of SEP.
- **Equalization Levy Compliance:** The Tribunal noted that the Assessee had duly complied with the Equalization Levy, the specific mechanism introduced by the Government of India to tax cross-border digital economy transactions.

High Court Decision:

- The Delhi ITAT ruled in favour of the Assessee and allowed the appeal. The Tribunal held that no fixed place PE exists in India, and accordingly no part of the commission income earned by Booking.com B.V. could be brought to tax in India.

Full Judgement: [Booking.com B.V.](#)

Key Takeaways

- *A digital platform hosted outside India does not create a Fixed Place PE as physical presence or disposal of premises in India remains a prerequisite.*

4. Sales tax subsidy received under State Government scheme is a non-taxable capital receipt as 'Purpose test' prevails over any other test:

Case Name: Vardhman Textiles Ltd vs DCIT

Decision by: High Court, Punjab & Haryana

Order Date: 26 February 2026

In favour of: Assessee

Appeal No.: ITA-517-2008 (O&M)

Facts:

- Vardhman Textiles Ltd. (the Assessee), a textile manufacturing company, received a sales tax subsidy under a State Government Incentive Scheme designed to promote capital investment and industrialisation in the backward areas of Punjab. The subsidy was directly linked to the capital investment made by the Assessee in establishing its industrial unit in such a backward area.
- The Assessee treated the subsidy as a capital receipt, not liable to tax. The Revenue, however, assessed it as a revenue receipt taxable under Section 28 of the Income Tax Act, 1961. The Income Tax Appellate Tribunal (ITAT) upheld the Revenue's position, treating the subsidy as a revenue receipt. The Assessee appealed to the Punjab and Haryana High Court.

Issues Involved:

- Whether the sales tax subsidy received by the Assessee under a State Government Incentive Scheme for capital investment in backward areas constitutes a **capital receipt** or a **revenue receipt**, and whether it is liable to tax under Section 28 of the Income Tax Act, 1961.



Court Observations:

- **Purpose Test is Determinative:** The Court applied the well-established "purpose test" to determine the nature of the subsidy. Since the subsidy was granted to encourage industrialisation and capital investment in backward areas – and not to supplement the profits or day-to-day operations of the business – it was held to be capital in nature.
- **Direct Link to Capital Investment:** The subsidy was directly linked to the capital investment made in establishing the industrial unit. Its purpose was to incentivise the setting up of industry in underdeveloped regions, not to compensate for revenue losses or boost profitability.
- **Reliance on Coordinate Bench in Abhishek Industries:** The Court relied on its own coordinate bench judgment in Abhishek Industries, which had held that subsidies and exemptions granted to promote industrial development are capital receipts.
- **Reliance on Shree Balaji (J&K HC, affirmed by SC):** The Court also placed reliance on the Jammu & Kashmir High Court's decision in Shree Balaji – subsequently affirmed by the Supreme Court – which held that excise duty exemptions granted to promote industrial development are capital in nature.
- **Reliance on Chaphalkar Brothers (SC):** The Court further relied on the Supreme Court's ruling in Chaphalkar Brothers, which established that incentives granted to promote capital investment must be treated as capital receipts even if received after the commencement of production.
- **ITAT Erred in Treating Subsidy as Revenue Receipt:** The Court held that the ITAT incorrectly characterised the subsidy as a revenue receipt, and that the correct position in law – as consistently affirmed by multiple courts – is that subsidies linked to capital investment for industrial promotion are non-taxable capital receipts.

Court Decision:

- The Division Bench of the Punjab and Haryana High Court ruled in favour of the Assessee and allowed the appeal. The Court held that the sales tax subsidy received under the State Incentive Scheme is a capital receipt not liable to tax and set aside the ITAT's order treating it as a revenue receipt.

Full Judgement: [Vardhman Textiles Ltd](#)

Key Takeaways

- *Purpose test governs subsidy classification. Thus, a subsidy linked to capital investment for industrial promotion is a capital receipt, regardless of the form in which it is received.*

5. Arrangement of sharing IPO costs between company & Assessee-seller is not a "colourable device". Thus, allowable u/s 48(i):

Case of: Zarah Rafique Malik Vs ITO

Decision by: ITAT, Mumbai

Order Date: 10 March 2026

In Favour of: Assessee

Appeal No.: ITA No. 5159/Mum/2025

Facts:

- The Assessee, a promoter-shareholder of a company, participated in the company's Initial Public Offering (IPO) by offering a portion of her shareholding through the Offer for Sale (OFS) mechanism. As part of this arrangement, the Assessee agreed to bear a share of the IPO expenses proportionate to her shareholding being offered for sale.
- The IPO expenses were initially incurred by the company and subsequently apportioned and recovered from the Assessee in proportion to her shareholding. The proportionate expenses were netted off against the sale proceeds, and only the net amount was transferred to the Assessee's bank account.
- While computing capital gains under Section 48, the Assessee claimed the proportionate IPO expenses as a deduction under Section 48(i) – being expenditure incurred wholly and exclusively in connection with the transfer of shares. The Revenue disallowed the deduction, treating the arrangement as a colourable device to artificially reduce capital gains.

Issues Involved:

- Whether the proportionate IPO expenses borne by the Assessee – initially incurred by the company and subsequently recovered from her – are deductible as expenditure incurred wholly and exclusively in connection with the transfer of shares under Section 48(i) of the Income Tax Act, 1961.



Tribunal Observations:

- **Coordinate Bench Precedent – Usharani Raghunathan:** The Tribunal noted that an identical issue had been decided by a coordinate bench in Usharani Raghunathan, wherein it was held that IPO expenses through which promoter-shareholders were able to sell their shares are directly connected to the transfer and are eligible for deduction under Section 48.
- **Clear Nexus Between Expenditure and Transfer:** The Tribunal held that the IPO expenses were clearly incurred wholly and exclusively in connection with the transfer of the Assessee's shareholding. The nexus between the expenditure and the transfer stands duly established.
- **Initial Incurrence by Company is Irrelevant:** The fact that expenses were initially incurred by the company and later recovered from the Assessee does not disentitle her from the deduction. The IPO exercise is necessarily undertaken at the company level, not at the level of individual shareholders – the mode of incurrence does not alter the character of the expenditure.
- **Proportionality Duly Demonstrated:** The Tribunal emphasised that what is relevant is that the expenditure claimed is **proportionate to the Assessee's shareholding**, which was duly demonstrated. The apportionment methodology was reasonable and consistent with the OFS mechanism.
- **OFS is an Accepted Mechanism – Revenue Cannot Cherry-Pick:** The OFS route is a recognised and accepted mechanism for bulk transfer of promoter shareholding as part of an IPO. Where the Assessee followed this mechanism and incurred related expenses to realise fair market value, the Revenue cannot accept the sale proceeds for taxation while simultaneously disallowing the related expenditure.
- **Consistency with Treatment of Other Promoters:** The Tribunal noted that the Revenue had already examined and accepted identical claims of proportionate IPO expenses in the cases of other promoter-shareholders. It cannot take a contrary position in the case of similarly situated assessees without a valid distinguishing basis.
- **Not a Colourable Device:** The Tribunal firmly rejected the Revenue's characterisation of the arrangement as a colourable avoidance device. The Assessee's agreement to participate in the IPO, offer her shares through OFS, and bear proportionate expenses is a **commercially legitimate and legally permissible arrangement**.

Tribunal Decision

- The Mumbai ITAT partly allowed the Assessee's appeal and held that the proportionate IPO expenses are deductible under Section 48(i). The Tribunal ruled that the arrangement is not impermissible in law and the deduction claim is fully in accordance with the provisions of Section 48(i).

Full Judgement: [Zarah Rafique Malik](#)

Key Takeaways

Proportionate IPO expenses in an OFS are deductible u/s 48(i) as they constitute expenditure incurred wholly and exclusively in connection with the transfer of shares. OFS is a legitimate transfer mechanism, thus Revenue cannot tax the full sale proceeds while disallowing the directly related transfer expenses.

Circulars/ Notification

1. CBDT amended Income-tax Rules 114F, 114G & 114H

- CBDT, vide Notification No. 19/2026 dated March 5, 2026, notifies amendment in Income Tax Rules, 1962 by introducing amendments in Rule 114F, 114G and 114H; Rules are regarding effective implementation of the Foreign Account Tax Compliance Act and Common Reporting Standard in India, mandating the financial institutions to identify "reportable accounts" of foreign residents, maintain records, and report this information to tax authorities; The amendments are effective January 1, 2026.

Read Notification: [19/2026](#)

2. CBDT issued Form wise FAQs & Guidance notes for new Income tax Rules, 2026

- CBDT issued FAQs and Guidance Notes on Forms for each of the 190 Forms in the new Income tax Rules, 2026.

Read Notification: [FAQs](#)

3. CBDT extended timeline for issuance of TDS certificate u/s 203 for the quarter ending 31 December 2025:

- CBDT extended the timeline for issuance of TDS certificate u/s 203 for the quarter ending December 31, 2025 to March 31, 2026. CBDT received representations from deductors regarding delay in issuance of TDS certificates for the quarter ending December 31, 2025, due to technical glitches on the e-filing portal. CBDT clarified that TDS certificate issued within the extended period shall be treated as having been issued within the prescribed time.

Read Notification: [02/2026](#)

4. CBDT notified ITR Forms for AY 2026-27:

- CBDT notifies ITR Forms for AY 2026-27

Read Notification: [ITR Form 1](#)

Read Notification: [ITR Form 2](#)

Read Notification: [ITR Form 3](#)

Read Notification: [ITR Form 4](#)

Read Notification: [ITR Form 5](#)

Read Notification: [ITR Form 6](#)

Read Notification: [ITR Form 7](#)

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