SNR & COMPANY
CHARTERED ACCOUNTANTS

INCOME TAX BULLETIN

JULY 2026

Delhi, Pune, Bangalore

CONTENT

- Judicial Updates

1. CIT(A) cannot enhance income from sources that are unrelated to reassessment reasons:

Case of: Ritu Chopra Vs The ITO
Decision by: ITAT, Chandigarh
Order Date: June 22, 2026
In favour of: Assessee
Appeal No.: ITA No. 19/Chd/ 2025

Facts:

- Reassessment proceedings under Section 147/148 were initiated against the Assessee solely on the basis of information relating to an investment of Rs. 79.20 lacs. The Assessing Officer's entire inquiry during reassessment was confined to verifying the source of this investment. However, the CIT(A), while disposing of the appeal, went beyond the scope of the original reassessment and enhanced the Assessee's income by bringing to tax long-term capital gains of Rs. 98.94 lacs arising from the sale of a separate property — an issue that had never formed part of the reasons recorded for reopening the assessment, nor was it examined or adjudicated upon by the AO.

Issues Involved:

- Whether the CIT(A), in exercise of enhancement powers under Section 251, can bring to tax a source of income that was neither the subject matter of the reasons recorded for reassessment under Section 147 nor examined by the AO during the reassessment proceedings.

Tribunal Observations:

- The Tribunal noted that the reassessment was founded exclusively on the issue of the Rs. 79.20 lacs investment, and no finding whatsoever was recorded by the AO regarding the capital gains on the separate property. Relying on the Supreme Court's rulings in CIT v. Rai Bahadur Hardutroy Motilal Chamaria and CIT v. Shapoorji Pallonji Mistry, the Tribunal held that while the powers of the first appellate authority are wide, they do not extend to taxing a new source of income that was not considered by the AO. It further placed reliance on the Delhi High Court's decision in Ranbaxy Laboratories Ltd. and the Bombay High Court's decision in CIT v. Jet Airways (I) Ltd. to hold that where no addition survives on the issue for which reassessment was reopened, the Revenue cannot independently assess income on unrelated issues.

- The Bench emphasised that jurisdiction under Section 147 is anchored to the reasons recorded and cannot be expanded to unrelated matters once the foundation for reopening fails. It cautioned that accepting the Revenue's contention — that the CIT(A) could introduce an entirely new and unrelated source of income at the appellate stage — would render the statutory safeguards under Sections 147 to 149 meaningless. The Tribunal clarified that the enhancement power under Section 251, though wide, is only ancillary to the appellate jurisdiction and cannot serve as an independent source of jurisdiction to assess income that the AO himself could not have assessed during reassessment.

Tribunal Decision:

- The Tribunal held that what the AO could not have done directly under Sections 147/148, the CIT(A) cannot be permitted to achieve indirectly under Section 251. Accordingly, the enhancement of Rs. 98.94 lacs made by the CIT(A) was held to be beyond jurisdiction and unsustainable, and the same was deleted. The appeal was decided in favour of the Assessee.

Full Judgement: Ritu Chopra

SNR's Take

The tribunal's decision reiterates that the reassessment jurisdiction under Section 147 is confined to the reasons recorded for reopening and cannot be expanded to unconnected sources of income. The CIT(A)'s enhancement power under Section 251, though broad, is ancillary in nature and cannot be used to assess a new source of income that the AO did not - and could not - examine during reassessment.

2. Payment to occupants/tenants as compensation for vacating property is an allowable accrued business liability:

Case Name: ITO Vs Svadeshi Enterprises (Mumbai)
Decision by: ITAT, Mumbai
Order Date: 12th May, 2026
In favour of: Assessee
Appeal No.: ITA Nos. 5850/Mum/2024

Facts:

- The Assessee had claimed a deduction towards an additional liability arising from payments to be made to occupants/tenants as compensation for vacating a property under development. The obligation stemmed from a binding commercial arrangement entered into in the ordinary course of the Assessee's business. The Revenue disallowed the claim on the ground that the liability was contingent in nature, since exact quantification and actual payment were to occur at a future date, with several disputes still pending before various judicial forums. The CIT(A) deleted the disallowance, holding the liability to be an accrued business liability, against which the Revenue preferred an appeal before the Tribunal.

Issues Involved:

- Whether the liability to compensate occupants/tenants for vacating the property — where quantification and payment were yet to be finalised and litigation was pending — constituted an allowable accrued business liability under Section 37(1), or merely a contingent liability not eligible for deduction.

Tribunal Observations:

- The Tribunal observed that the obligation to compensate occupants/tenants was an admitted business obligation arising directly from a commercial arrangement connected with the development of the property, and therefore formed an integral part of the Assessee's business expenditure. It took note of the fact that multiple litigations initiated by occupants/tenants were pending before various forums, that settlement negotiations were ongoing, and that compensation demands had risen substantially on account of changes in the Development Control Regulations enhancing rehabilitation entitlements. Given this factual matrix, the Tribunal held that the liability was not created on an arbitrary or ad-hoc basis, and the provision made by the Assessee could not be characterised as hypothetical or imaginary in the absence of supporting material.
- Placing reliance on the Supreme Court's ruling in Bharat Earth Movers, which held that a business liability that has definitely arisen during the accounting year is deductible even if it requires quantification or discharge at a future date, the Tribunal held that a present business obligation existed arising from past commercial events. It found that the probability of an outflow of resources was reasonably certain in light of the ongoing litigation and settlement process, and that the liability had been estimated on a rational and scientific basis supported by contemporaneous material on record.
- The Tribunal emphasised that mere future quantification or payment of the liability does not render it contingent, and that pendency of litigation may affect the timing or exact amount of payment but does not extinguish an existing business obligation that has already crystallised during the relevant year.

Tribunal Decision:

- The Tribunal upheld the order of the CIT(A) deleting the disallowance, holding that the liability towards compensation to occupants/tenants for vacating the property represented an accrued business liability, duly supported by documentary evidence, and not a contingent or ad-hoc provision. The appeal of the Revenue was accordingly dismissed.

Full Judgement: Svadeshi Enterprises (Mumbai)

Key Takeaways

A business liability that has definitely arisen during the relevant accounting year is deductible, even if its exact quantification or discharge occurs at a future date.
Pendency of litigation affecting the timing or quantum of a liability does not, by itself, convert an accrued liability into a contingent one.

3. Proviso to Sec. 2(15) inapplicable, as trust's activities of printing books, constitutes educational activity:

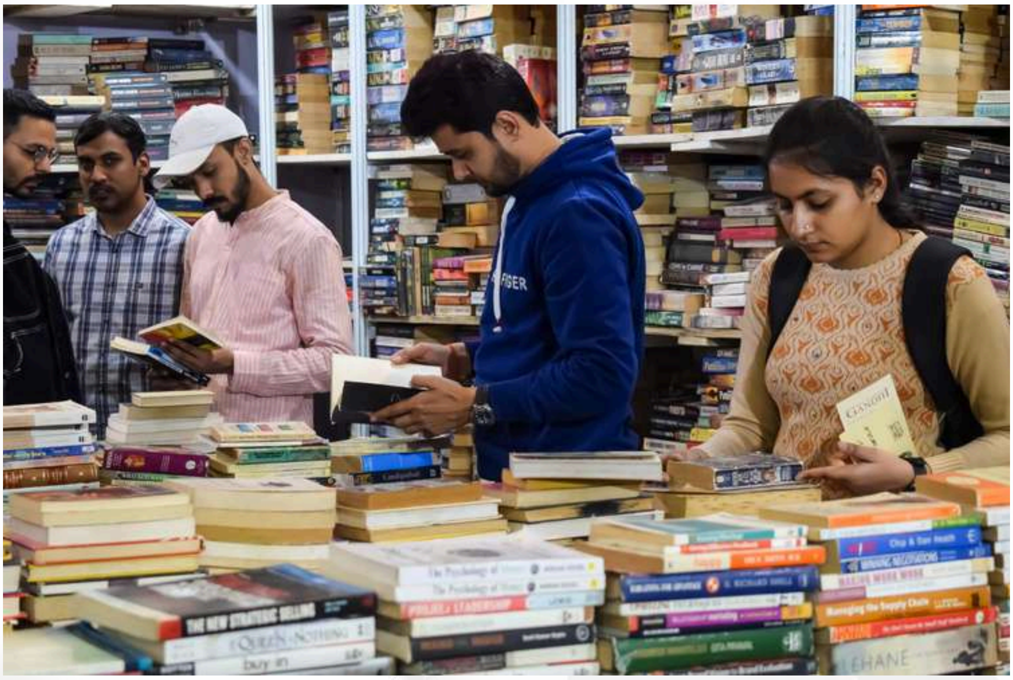
Case of: Rashtrotthana Sahitya and Mudrana Trust Vs ITO
Decision by: ITAT, Bangalore
Order Date: 25 May 2026
In favour of: Assessee
Appeal No.: ITA No. 2146/Bang/2025

Facts:

- The Assessee, a registered charitable trust holding registration under Section 12AA, was engaged in the activity of printing and sale of books. Its case was selected for scrutiny on account of substantial surplus accumulated under Section 11(2) relative to its group receipts. During the assessment proceedings, the AO went beyond the scope of the limited scrutiny and concluded that the Assessee was not carrying on charitable activities but was instead engaged in the advancement of an object of general public utility, thereby attracting the proviso to Section 2(15) and disentitling the Assessee from claiming exemption under Sections 11 and 12. Notably, the Revenue had accepted the Assessee's claim of carrying on educational activities and allowed exemption under Section 11(2) in both the preceding and succeeding assessment years, taking a contrary view only for the year under consideration.

Issues Involved:

- Whether the Assessee's activity of printing and selling books constituted an "educational activity" eligible for exemption under Sections 11 and 12, or whether it amounted to the advancement of an object of general public utility involving trade or commerce, thereby attracting the proviso to Section 2(15) and disqualifying the Assessee from claiming accumulation benefit under Section 11(2).



Tribunal Observations:

- The Tribunal noted that the Revenue had consistently accepted the Assessee's claim as an educational trust engaged in charitable activity in both the earlier and subsequent assessment years, and had taken a divergent stand only for the relevant AY. Relying on the Supreme Court's ruling in Radhasoami Satsang, the Tribunal held that the Revenue cannot "blow hot and cold" on the same set of facts, and that consistency is a hallmark of sound public administration.
- On merits, the Tribunal rejected the Revenue's contention that since receipts from the sale of printed books exceeded 20% of gross receipts, the Assessee was carrying on trade or commerce and was thus ineligible for exemption under Section 11. Relying on the Delhi High Court's decision in Delhi Bureau of Text Books, the Tribunal held that the Assessee's activity of printing books constituted an educational activity and did not amount to the advancement of any other object of general public utility. Accordingly, the proviso to Section 2(15), which applies specifically to entities pursuing objects of general public utility involving trade, commerce, or business, was held to be inapplicable to the Assessee's case.

Tribunal Decision:

- The Tribunal held that the Assessee was carrying on an educational activity through its printing of books, and not an activity in the nature of trade or commerce falling within the mischief of the proviso to Section 2(15). Consequently, the Assessee was held eligible for exemption under Sections 11 and 12, along with the benefit of accumulation of income under Section 11(2). The appeal was decided in favour of the Assessee.

Full Judgement: Rashtrotthana Sahitya and Mudrana Trust

Key Takeaways

- *Activities such as printing and sale of books by an educational trust, even where receipts exceed 20% of gross receipts, may still qualify as educational activity rather than an object of general public utility, depending on the nature and purpose of the activity. The proviso to Section 2(15) is confined to entities pursuing the "advancement of any other object of general public utility" involving trade, commerce, or business, and does not apply where the core activity itself qualifies as "education" under Section 2(15).*

4. DT-VSV Scheme settlement doesn't bar reopening on unrelated matters:

Case Name: Bhima Jewellery Vs The Union Of India
Decision by: High Court Kerala
Order Date: 29th June 2026
In favour of: Assessee
Appeal No.: WP(C) NO. 12801 OF 2024

Facts:

- The Assessee had settled certain disputed tax demands under the Direct Tax Vivad Se Vishwas Scheme, 2020 (DTVsV Scheme). Subsequently, the Revenue initiated reassessment proceedings under Section 148A in respect of issues that were unrelated to the matters covered under the original assessment order settled through the DTVsV Scheme. The Assessee challenged the reassessment by way of a writ petition before the Kerala High Court, contending that once the assessment had been settled under the DTVsV Scheme, the assessment order ceased to exist, and therefore no reopening of the assessment could be undertaken.

Issues Involved:

- Whether settlement of a disputed tax demand under the DTVsV Scheme precludes the Revenue from reopening the assessment under Section 148A in respect of issues that are wholly unrelated to the matters covered under the settled assessment order.

High Court Observations:

- The High Court held that the scheme of settlement under the DTVsV Scheme is confined strictly to the demands arising from findings recorded in the assessment order, and that satisfaction of such payments does not cause the assessment order itself to cease to exist. The Court observed that reopening of assessment in respect of matters entirely unrelated to the issues settled under the scheme is not barred.

- Examining the scheme and definitions under the DTVsV Scheme, the Court noted that while the scheme is intended to resolve pending litigation relating to "disputed tax," it contains no provision that confers finality on matters not dealt with under the settlement. The Court highlighted that the scheme's objective is to resolve the disputed tax and connected matters, and not to grant blanket finality to the assessment as a whole. It clarified that the settlement pertains only to the specific amount disputed by the Assessee in appeal, assessment, or revision proceedings pending at the time, and does not extend to matters outside the scope of the settled assessment order.

- Relying on the Supreme Court's decisions in Hemalatha Gargya and Killick Nixon Ltd., the Court held that where reassessment is necessitated in connection with issues wholly unconnected with those covered under the settlement, there is no prohibition on reopening the assessment, subject to compliance with the other statutory provisions.

- The Court rejected the Assessee's argument that invocation of the DTVsV Scheme extinguished the assessment order in its entirety, thereby precluding any exercise of reassessment powers. It clarified that the protection under the scheme extends only to matters specifically dealt with and settled under the assessment order, and not beyond.

High Court Decision:

- The High Court dismissed the Assessee's writ petition and upheld the validity of the reassessment proceedings initiated under Section 148A, holding that settlement under the DTVsV Scheme does not bar reopening of assessment on issues unrelated to those covered by the settlement.

Full Judgement: Bhima Jewellery

Key Takeaways

Settlement of disputed tax under the DTVsV Scheme is confined to the specific demand covered by the assessment order and does not confer overall finality on the assessment.
Reassessment proceedings on issues wholly unrelated to matters settled under the DTVsV Scheme remain permissible, subject to compliance with applicable reassessment provisions.

5. Delayed Form 10B filing during appeal doesn't bar Sec. 11 exemption to Trust:

Case of: Anasuya Foundation Vs ITO (IT)
Decision by: ITAT, Bangalore
Order Date: 26th May, 2026
In Favour of: Assessee
Appeal No.: ITA No.:2617/Bang/2025

Facts:

- The Assessee, a charitable trust registered under Section 12AA, filed its return of income on August 31, 2018, claiming accumulation of income of Rs. 38.37 lacs. However, due to an oversight, Form 10B (audit report) was not electronically uploaded by the said date. The CPC, while processing the return, issued an intimation under Section 143(1) denying the benefit of accumulation of income on account of belated filing of Form 10B, which was eventually filed on March 26, 2025. The CIT(A) upheld the denial and dismissed the Assessee's appeal, following which the matter was carried before the Tribunal.

Issues Involved:

- Whether the benefit of accumulation of income under Section 11 can be denied to a charitable trust solely on the ground that Form 10B was filed belatedly, albeit during the pendency of appellate proceedings, and not by the due date applicable at the time of processing under Section 143(1).

ITAT Observations:

- The Tribunal noted that it was an undisputed fact that Form 10B had not been filed at the time the intimation order under Section 143(1) was passed, and therefore the benefit of accumulation could not have been granted at that stage. However, it was equally undisputed that Form 10B was subsequently filed during the appellate proceedings.

- Relying on the Gujarat High Court's ruling in Laxminarayan Dev Shrishan Seva Khendra, the Tribunal held that the requirement of filing Form 10B is directory, and not mandatory, in nature, and that exemption under Section 11 cannot be denied merely on account of delayed electronic filing of the audit report. The Tribunal held that although the Assessee had technically violated Section 12A(1)(b) by not filing Form 10B electronically within the prescribed time, this procedural lapse could not be used to deny the substantive benefit of Section 11 once the audit report was placed on record during the appellate proceedings.

- The Tribunal also distinguished the Revenue's reliance on the Supreme Court's decision in Wipro Ltd., which held that statutory time limits are not merely directory, on the ground that the said judgment pertained to the context of Section 10B and not to exemptions available under Sections 11 and 12A of the Act.

ITAT Decision:

- The Tribunal directed the AO to grant the benefit of deduction for application of income under Section 11, holding that belated filing of Form 10B during the pendency of appellate proceedings does not disentitle a charitable trust from claiming exemption, provided the audit report is placed on record before the appeal is finally decided. The appeal was allowed in favour of the Assessee.

Full Judgement: Anasuya Foundation

Key Takeaways

The requirement to file Form 10B electronically within the prescribed due date is directory in nature, and not mandatory, for the purpose of claiming exemption under Section 11. Trusts should nonetheless prioritise timely compliance with Form 10B filing requirements, as reliance on appellate remedies to cure such lapses involves litigation risk and delay in availing exemption.

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.