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Tax Digest

- Recent case laws

May 5, 2025



CBDT Notifies Updated ITR-3 Applicable for AY 2025-26

Notification no. 41/2025, dated 30-04-2025

While the overall structure and reporting framework of ITR-3 remain largely consistent with the previous version, the changes in the new form are primarily consequential in nature —

- Incorporation of new reporting requirements, where applicable, based on revised provisions of the Income-tax Act.
- Modifications in existing schedules or fields to reflect changes in tax treatment, exemptions, or deduction limits.
- Additional disclosures, where mandated, to enhance transparency and facilitate automated processing and compliance verification.

1. Cash Loan Repayment at Lender's Request Valid Reason Under Section 273B

In the instant case¹, the assessee repaid a loan in cash, contravening the modes prescribed under section 269T. The assessee contended that she made a cash payment because the financier had insisted on cash repayment of loan instalments. Therefore, she was constrained to make payments in cash. AO imposed a penalty on the assessee under section 271E for repaying the loans in contravention of the mode prescribed under section 269T.

On appeal, CIT(A) and the Tribunal confirmed the penalty. The aggrieved assessee filed the instant appeal before the High Court.

The High Court held that the provision of section 271E included in Chapter XXI of the Act deals with penalties for failure to comply with the provisions of section 269T. It speaks of the levy of a penalty equal to the deposit amount repaid in contravention of section 269T. Section 271E is a penal provision, as the assessee's failure to comply with the provisions contained in section 269T would attract a penalty as a sum equal to the amount of the loan or deposit. This penal provision has to be construed strictly.

Further, section 273B is a provision that contemplates certain exigencies in which, though the assessee is liable to suffer a penalty, the penalty is not to be imposed in certain cases. Section 273B also includes reference of Section 271E.

Section 273B says that no penalty shall be imposed for any failure referred to in the said provisions if the assessee proves that there was reasonable cause for the said failure. However, the word

'reasonable cause' has not been defined. Therefore, in the context of the penalty provisions, the words 'reasonable cause' would mean a cause beyond the assessee's control.

'Reasonable cause' obviously means a cause which prevents a reasonable man of ordinary prudence from acting under normal circumstances without negligence or inaction or want of bona fides. Bona fide belief coupled with the genuineness of the transactions would constitute a reasonable cause. Furthermore, the bona fide transaction that did not aim to avoid any tax liability would constitute a reasonable cause within the meaning of section 273B for not invoking section 271E.

In the instant case, the finance company insisted upon the assessee's repayment of the loan in cash, which persuaded the assessee to make the payment of the loan amount in cash. This would constitute a reasonable cause within the meaning of section 273B. Therefore, the assessee was not liable to pay penalty under section 271E for non-compliance with section 269T.

2. HC Upholds Seizure of Jewellery Over Accounting Discrepancies

In the instant case², the assessee was a private limited company that designed, crafted, and sold fine gold and studded stone jewellery. It operated showrooms in various locations across India and frequently participated in jewellery shows, exhibitions, and displays in multiple cities.

¹ Kamaljeet Kaur Gill vs. Joint Commissioner of Income-tax - [2025] (High Court of Chhattisgarh)

² Dia Gold Jewels (P.) Ltd. vs. Principal Commissioner of Income-tax - [2025] (High Court of Calcutta)

On the exhibition day, two employees were deputed to carry jewellery and requisite documents, including transfer memos and certificates, to the exhibition location. Upon arrival at the Railway Station, the employees were intercepted by two individuals claiming to be RPF personnel. The jewellery and accompanying documents were confiscated and taken to the RPF office.

Further, the Income Tax Department officials interrogated the employees, and jewellery was taken to the Income Tax office. A government-approved valuer assessed the jewellery at a higher price than the assessee claimed. Despite providing manufacturing vouchers, stock registers, and other records, the authorities refused to release the seized jewellery.

The assessee filed the instant petition before the High Court.

The High Court held that the authorities seized the jewellery under sections 131 and 132 of the Act. The authorities had reasonable grounds to suspect that the gold ornaments being transported by the assessee's employees were not adequately accounted for in the company's records. It was noted that credible information was received from the Post Commander of the Railway Protection Force (RPF), which raised justifiable concerns regarding the nature of the jewellery being carried without the requisite documentation. The absence of crucial records, such as a bill book or alternative means for generating cash memos, gave rise to substantial suspicion regarding the legitimacy of the goods in transit.

Furthermore, the discrepancies in the weight of the seized jewellery, as compared to the assessee's claimed quantity, further substantiated the belief that the goods were not accurately reflected in the assessee's books. In exercising their powers in good faith and within the scope of their legal authority, the respondent authorities acted justifiably in seizing the jewellery at that time.

The assessee failed to reconcile the jewellery with its books of account. The assessee's representative could not provide sufficient evidence to substantiate that the jewellery was a part of the assessee's legitimate stock-in-trade. The absence of stock registers and the significant discrepancies in the weight of the jewellery raised further concerns. The assessee's failure to satisfactorily reconcile the seized jewellery with its books of accounts and the substantial discrepancies in the weight of the gold justified the ongoing investigation.

Consequently, the seizure of the jewellery remains valid as part of an investigation into potential non-compliance under the Act.

3. Jurisdictionally Invalid Notice by AO Quashes Assessment

In the instant case³, the Assessing Officer Ward-4(5), Raipur, issued the first notice under section 143(2) for initiating scrutiny. Subsequently, the Assessing Officer Ward-3(1), Raipur, issued a second notice under section 142(1) and framed the assessment without any transfer order by the Principal Commissioner. On appeal, the CIT(A) upheld the

³ [Rahul Tyagi vs. Income-tax Officer - \[2025\] \(Raipur - Trib.\)](#)

assessment order. The aggrieved assessee filed the instant appeal before the Tribunal.

The Raipur Tribunal held that the first notice under section 143(2) had been issued by the ITO, Ward-4(5), Raipur. There is no evidence of any order of the PCIT, under section 127, that transfers jurisdiction from one Assessing Officer to another in the assessee's case. It is also noted from the return and the department's acknowledgement that the designation of the jurisdictional Assessing Officer is mentioned as ITO, Ward-3(1), Raipur.

If so, the first notice, i.e., issued under section 143(2) by the ITO, Ward-4(5), Raipur, is without jurisdiction, invalid and bad in law. Similarly, suppose it is accepted that the actual jurisdiction is with the ITO, Ward-3(1), Raipur. In that case, the first notice issued for initiating the scrutiny proceedings by the ITO, Ward-4(5), Raipur, is definitely without a valid jurisdiction over the assessee.

When the issuance of notice and framing of assessment order suffer from a lack of jurisdiction, as enshrined in the statute, then all subsequent proceedings become non-est in the eyes of the law. Accordingly, the Assessing Officer Ward-3(1) assessment order passed by Raipur without any valid notice under section 143(2) was to be quashed.

4. Payment to Clear Title Valid as Cost of Acquisition Under Section 48

In the instant case⁴, the assessee purchased a property under a registered deed dated 22-1-1980. However, the vendors' title to the property was under litigation with their sisters, who successfully claimed title up to the High Court. In execution proceedings, the assessee paid Rs. 33 lakhs to the sisters to perfect her title. Subsequently, the

assessee sold the property and in her return for the impugned assessment year, claimed the amount paid to the sisters as part of the cost of acquisition under section 48.

The Assessing Officer (AO) disallowed the claim, stating that the amounts paid as compensation did not constitute expenditures that could be allowed to compute capital gains. On appeal, the CIT(A) accepted the assessee's claim.

However, the Tribunal reversed the order, and the matter reached the Madras High Court.

The High Court held that the assessee purchased the subject property on 22-1-1980. The property vendors were engaged in litigation with their sisters regarding the title to various properties, including the subject property. The Civil Court rejected their claim, holding that the subject property would vest in the sisters of the vendors.

Hence, the assessee's title to the subject property under the deed dated 22-1-1980 was clouded.

The civil suit instituted against the vendors, their sisters, and other family members was in 1981, after the deed of purchase was executed on 22-1-1980, by the order of High Court in the second appeal dated 9-4-1996 in S.A. No. 458 of 1985, the sisters have been held to own the scheduled property. The vendors of the assessee thus held no title to the property, and it is only upon payment of Rs. 33 lakhs (approx.) that the assessee has cleared his title and can be said to have acquired the property.

Thus, the amount paid was 'wholly and exclusively' incurred in connection with transferring the subject asset. Thus, such amount formed part of cost of acquisition and was deductible under section 48.

⁴ [Smt. A. Rita vs. Commissioner of Income Tax - \[2025\] \(High Court of Madras\)](#)