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Direct Tax Newsletter

Tax Digest

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NEWS FEED

CBDT Launches Drive to Curb Fake Deductions in ITR Filings

Press Release, dated 14-07-2025

Investigations conducted by the Department have uncovered organized rackets operated by certain tax return preparers. These individuals and firms are suspected of filing returns with **fictitious deductions** and exemptions, **abusing sections** of the Income-tax Act to illegitimately reduce tax liability, and **submitting false TDS returns** to claim inflated or excessive refunds

To combat these activities, the Department has adopted a **tech-driven approach**. The verification operation is backed by financial data from **third-party sources**, **Ground-level intelligence** inputs, **Advanced artificial intelligence** and analytics tools
These technologies help in identifying suspicious filing patterns, inconsistencies, and unusual refund claims with greater precision and efficiency.

1. Transfer of Shares and Section 13 Violation - Exemption Denied

In the instant case[1], the assessee, a company registered under Section 8 of the Companies Act, and running a school, was formerly controlled by one promoter group 'F' and later taken over by another group 'A'. A search was conducted in the case of 'A' Group, and documents seized showed that although share transfer was officially recorded at Rs. 20.57 crore, a "receipt" document indicated the agreed consideration was Rs. 45.50 crore, out of which Rs. 24.92 crore was allegedly paid in cash to the former promoters.
Based on seized documents, the Assessing Officer (AO) initiated proceedings under Section 153C and held that the assessee, being a party to the share transfer transaction, had allowed specified persons to derive substantial benefit in violation of Sections 13(1)(c), 13(2) and 13(3). Accordingly, he denied the exemption under Section 11. The CIT(A) upheld the order of the AO. Aggrieved by the order, the assessee filed an appeal to the Delhi Tribunal.

The Tribunal held that the benefit from the transfer of 100% shares and control of the assessee company had indeed accrued to the specified persons under section 13(3) through undisclosed cash consideration. It emphasised that the exemption under section 11 is not available when any part of the trust's property is used directly or indirectly for the benefit of such persons.

The seized documents clearly demonstrated the flow of undisclosed consideration, and the assessee company was an active party to the transaction. Therefore, the Tribunal upheld the denial of exemption under section 11. It further held that in terms of section 164(2), the entire income became taxable at the maximum marginal rate due to the violation. The appeal was dismissed.

2. Charitable Trust Promoting EVs Eligible for Sections 12AA and 80G

In the instant case[2], the assessee was a public charitable trust duly registered under the Indian Trusts Act, 1882. The object of the trust was to promote environmental sustainability by encouraging the use of electric vehicles, reducing carbon emissions, and supporting scalable and climate-resilient transportation solutions as part of its CSR vision.

The Commissioner (Exemptions) denied the grant of registration under sections 12AA and 80G, stating that the rental activity of the assessee showed it to be commercial in nature and that the assessee was engaged in commercial activities. The matter reached the Delhi Tribunal.

The Tribunal held that the activities of the assessee are charitable and have been undertaken professionally, with each activity governed by agreements entered into with various parties, including the beneficiaries, to ensure that the desired activities are performed and accomplished, from raising funds to the deployment of funds. Furthermore, at this juncture, the revenue is only required to examine the genuineness of the trust's activities and its compliance with any other applicable law.

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[1] ASPAM Academy Noida v. Assistant Commissioner of Income-tax - [2025] (Delhi-Trib.)

[2] Rasha Welfare Foundation v. Commissioner of Income-tax - [2025] (Delhi-Trib.)

The Apex Court in the case of Additional Commissioner of Income Tax, Gujarat, Ahmedabad v. Surat Art Silk Cloth Manufacturers Association Surat [1979] 2 Taxman 501/[1978] 121 ITR 1 (SC) has held that the dominant object of the trust is charitable and mere existence of profit cannot negate charitable status as long as the profits are applied solely for the purpose of the charitable object and not distributed among members. The present case squarely falls within the ambit of the ratio of this judgment. Thus the trust was eligible to registration.

3. CPC Can Levy Late Fee u/s 234E and Interest u/s 201

In the instant case[3], the assessee, a trust, filed its TDS statement after the due date. During the processing of the statement, the Centralised Processing Cell (CPC) levied a late fee under section 234E. The assessee contended that the levy of late fee was beyond the jurisdiction of the CPC and filed an appeal to the CIT(A).

The CIT(A) confirmed the levy. The aggrieved assessee filed an appeal to the Pune Tribunal.

The Tribunal held that section 200A(1) provides the mechanism for processing the TDS returns/statements. Sub-section (2) of section 200A gives the powers to the Board to make a Scheme for Centralised Processing of statements. For online processing of the statements of TDS by CPC, the intent is that the work that the Assessing Officers were previously carrying out to process the TDS returns having jurisdiction over the particular Circle/Ward can be carried out by the Centralised Processing Cell in a faster and effective manner.

For such ease of processing the TDS statements, subsection (2) of section 200A gives the power to the Board to frame the Scheme for Centralised Processing of statements. In sub-section (2) of section 200A, along with mentioning the words determining the "tax payable or refund due", is also followed by the phrase "as required under subsection (1)". So on one hand there is the word "tax payable" and on the other hand a reference is given to the processing of the statement as per sub-section (1).

This clearly shows the intent of the section 200A and the same has to be interpreted in this manner that the CPC constituted by the Board under section 200A(2) of the Act shall process the TDS statements as provided under sub-section (1) of section 200A and even though the words in sub-section (2) of section 200A mentioned is "tax payable but the same has to be read in totality with the intent of section 200A of the Act and therefore it actually is meant to determine the "sum payable or refund due" to the deductor.

Therefore, the CPC is well within its jurisdiction to levy a late fee for the delay in filing the quarterly returns of TDS by the assessee as well as interest u/s 201 of the Act. Accordingly, the legal issue raised in the grounds of appeal raised by the assessee stands dismissed.

4. Executor of Will Is Legal Representative Liable to File ITR of Deceased

In the instant case[4], the petitioner was the son of a deceased person who was engaged in the business of Electrical Installation Work. The deceased had executed a will, appointing the petitioner as the executor of the will. After the death of his father, the petitioner filed all the income tax returns in

[3] Chate Tutorials (P.) Ltd. vs. ACIT, TDS Circle [2025] (Pune-Trib.)

[4] Vinod Kala v. Commissioner of Income-tax-II [2025] (High Court of MP)

respect of the income derived by his father during his lifetime for the periods during which his father was alive, as he was unable to file his tax returns due to his ailment.

The petitioner, being the executor of the will, is deemed to be the legal representative of the deceased. The returns for the Assessment Year 1995-96 were filed beyond the prescribed period for a belated return. Since a refund was receivable in respect of Tax Deducted at Source from the deceased's income, the petitioner approached the Chief Commissioner of Income Tax and requested that he condone the delay in filing the said return.

The Commissioner raised a doubt regarding the validity of the return filed by the petitioner, claiming him to be the legal representative of the deceased in the capacity of executor of the deceased's will. The order under Section 119(2)(b) had been rejected, and the petitioner filed a writ petition to the Madhya Pradesh High Court.

The High Court held that the petitioner was the son of the deceased and fell within the definition of 'Legal Representative' as contained in Section 2(29) of the Income Tax Act. No family member of the petitioner had challenged the will.

Section 159 of the Income Tax Act provides for the legal representative. The said section creates a fiction and provides for assessment by the legal representative on behalf of the deceased. It is not disputed that an executor is also included in the term "legal representative" because the said term is defined to have the same meaning as assigned to it in Clause (ii) of Section 2 of the CPC, which states that "legal representative" means a person who in law represents the estate of a deceased person.

In light of the judgment relied upon by the petitioner and also the provisions as contained under Section 2(29) and 159 of the Income Tax Act and Section 2(11) of CPC, it was held that the Commissioner committed an error in raising a doubt regarding the petitioner's capacity as the legal representative of the deceased.