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## Tax Digest

- Recent case laws

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### CBDT Encourages Taxpayers to Review and Correct Ineligible Deduction/Exemption Claims

*Press Release, dated 23-12-2025*

The Central Board of Direct Taxes (CBDT) has identified a set of cases for Assessment Year (AY) 2025–26 where taxpayers appear to have claimed ineligible refunds by availing deductions or exemptions to which they are not entitled.

The initiative forms part of CBDT's **Non-intrusive Usage of Data to Guide and Enable (NUDGE) campaign**, which emphasises voluntary compliance through data-driven guidance rather than immediate enforcement.

The communication encourages taxpayers to review their ITRs and voluntarily correct errors, if any.

## 1. No Section 153A Additions On Suspicion

In the instant case<sup>1</sup>, a search operation was conducted at the business premises of Garg Group of companies. The assessee was one of the concerns of the group, and its books of account were also found during the search.

During the assessment proceedings, the Assessing Officer (AO) noted that machinery worth Rs. 10.52 crores had been shown as purchased from four concerns. Incriminating material and blank letterheads were also found on the assessee's hard disk.

He concluded that the assessee was involved in circular transactions, in which the sale consideration received by the said companies was ultimately returned to the assessee company or its sister concerns. The companies were also not found to exist at the addresses mentioned, and the handwriting on the bills of all four concerns was the same.

Accordingly, he disallowed expenses and depreciation claimed by the assessee and levied a penalty under section 271(1)(c). On appeal, the CIT(A) upheld the order of the AO. Aggrieved by the order, the assessee filed the instant appeal before the Tribunal.

The Tribunal held that the entire case of the AO was based on suspicion arising from the blank letterhead found during the search. The coordinate Bench held that these seized materials are dumb documents and cannot be made the basis for any addition. Thus, based on the aforesaid findings, it is viewed that on first principles nothing further is required to be examined as the whole case of the AO was based on suspicion arising out of the blank

letterhead found during the search, which the coordinate Bench has held to be a 'dumb document'. Thus, making any addition under section 153A read with section 143(3) was not justified.

## 2. Donations For Religious Events Not Taxable

In the instant case<sup>2</sup>, the assessee, Krishna Janmashtmi Mahotsav Samiti, a public charitable trust registered under section 12A and approved under section 80G, was engaged in organising religious and cultural activities, including Janmashtmi Mahotsav, conducting religious discourses, arranging free meals (bhandaras), establishing ashrams, and constructing dharamshalas.

For A.Y. 2014-15, the assessee filed a NIL return claiming exemption under sections 11 and 12.

During assessment proceedings under section 143(3), the Assessing Officer noted that the assessee had received donations during the Janmashtmi Mahotsav. Based on replies received from certain donors under section 133(6) stating that donations were given for publicity or advertisement, the Assessing Officer treated such receipts as business promotion or advertisement income and made an addition by denying exemption under section 11. The Commissioner (Appeals) upheld the addition.

On appeal, the Tribunal observed that the objects of the assessee-trust were purely religious and cultural and not covered under "advancement of any other object of general public utility". It was further noted that the Revenue did not dispute that the donations were utilised for organising religious events, providing free meals, conducting discourses, and for the construction of religious infrastructure, all of

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<sup>1</sup> RG Home Furnishing (P.) Ltd. vs. Deputy Commissioner of Income-tax - [2025] (Delhi - Trib.)

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<sup>2</sup> Krishna Janmashtmi Mahotsav Samiti vs. Income-tax Officer, Exemption [2025] (Delhi - Trib.)

which were in furtherance of the trust's declared objects.

The Tribunal held that the mere display of donor names on banners, posters, or event sites was only an acknowledgement of their contributions and did not confer any commercial benefit on the donors. In the absence of any profit motive, such receipts could not be treated as business promotion or advertisement income.

Accordingly, the Tribunal held that the Assessing Officer was not justified in treating the donations as business promotion receipts and in denying exemption under sections 11 and 12. The addition was deleted, and the assessee's appeal was allowed.

### **3. High Court Quashes Section 263 Revision on Demerger Misread as Amalgamation**

In the instant case<sup>3</sup>, the assessee received manufacturing undertakings of three companies pursuant to court-approved schemes of demerger and filed its return accordingly, which culminated in an assessment order allowing carry forward of accumulated business losses and unabsorbed depreciation.

The Commissioner invoked revisionary jurisdiction under section 263, taking the view that the arrangement was akin to an amalgamation and that the conditions prescribed under section 72A(2), particularly the requirement that the amalgamating companies had been in existence for at least 3 years, were not fulfilled.

On appeal, the Tribunal set aside the revisionary order. The matter reached before the Madras High Court.

The Madras High Court held that the jurisdiction under section 263 can be exercised only when the assessment order is both erroneous and prejudicial to the interests of the revenue. In the present case, the foundational error committed by the Commissioner was mischaracterising a demerger as an amalgamation, despite the assessee having placed on record the Company Court's orders clearly evidencing the nature of the transaction.

The Court observed that, while section 72A governs the carry-forward and set-off of accumulated losses and unabsorbed depreciation in cases of amalgamation and demerger, the three-year condition applies only under section 72A(2), which deals with amalgamation. In contrast, section 72A(4), applicable to demergers, does not impose any such condition. The assessee had specifically pointed out this distinction in its reply to the show-cause notice, and the same was even reflected in the Commissioner's order, indicating due consideration of the explanation.

In the absence of any demonstrable error in the assessment order, the direction issued under section 263 amounted to nothing more than a roving and fishing enquiry, which is impermissible in law. Accordingly, the High Court held that the pre-conditions for invoking section 263 were not satisfied and answered the questions of law in favour of the assessee and against the revenue.

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<sup>3</sup> Commissioner of Income-tax vs. Eastman Exports Global Clothing Pvt Ltd. - [2025] (High Court of Madras)

#### **4. No Penalty u/s 271D for Cash Receipt Under Pre-Amendment Agreement**

under section 271D was deleted, and the assessee's appeal was allowed.

In the instant case<sup>4</sup>, the assessee, an individual, agreed to sell an immovable property on 15-05-2015 and received a cash advance of Rs. 5 lakhs. The sale deed was subsequently executed on 11-04-2016, at which time the balance consideration of Rs. 15.78 lakhs was also received in cash in the presence of witnesses. The entire sale consideration was duly disclosed in the return of income for A.Y. 2017-18, and the applicable taxes were paid.

The Assessing Officer initiated penalty proceedings under section 271D on the ground that, after the amendment to section 269SS with effect from 01-06-2015, receipt of any "specified sum" in cash in relation to the transfer of immovable property was prohibited. Holding that the money received at the time of registration violated section 269SS, the Assessing Officer (AO) levied a penalty equal to the amount so received. The Commissioner (Appeals) upheld the penalty.

On further appeal, the Tribunal noted that the agreement to sell and the receipt of a substantial advance had occurred before the amendment to section 269SS. The Tribunal accepted the assessee's contention that the cash receipts were made in accordance with the pre-existing contractual obligation and under a bona fide belief that the transaction was outside the scope of section 269SS.

The Tribunal held that, since the agreement to sell was executed before the amendment and the transaction was genuine, duly disclosed, and taxed, there was reasonable cause within the meaning of section 273B. Accordingly, it was held that the Assessing Officer was not justified in levying a penalty under section 271D. The penalty levied

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<sup>4</sup> Hari Krishna Leela Prasad Paladugu vs. Income-tax Officer - [2025] (Hyderabad-Trib.)