



A.C. Bhuteria & Co.
Chartered Accountants

16, Strand Road, Diamond Heritage,
Room No. H-703,
Kolkata – 700001

Ph: 033-46002382/ 40032841
Email id: info@acbhuteria.com

Tax Digest

- Recent case laws

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1. Interest on Enhanced Compensation Taxable under the head “Income from Other Sources”

In the instant case¹, the assessee, an individual, filed its return of income and his case was selected for scrutiny under the faceless regime. During the assessment, the assessee claimed exemption in respect of interest on enhanced compensation arising from the acquisition of agricultural land. The Assessing Officer (AO) accepted the assessee’s claim and completed the assessment.

On examination of the assessment records, the Principal Commissioner noticed that the AO failed to apply the provisions of section 56(2)(viii), read with section 145B(1) and section 57(iv). Accordingly, a show cause notice under section 263 was issued proposing to revise the assessment order. The matter reached the Chandigarh Tribunal.

The Tribunal held that the AO didn’t discuss the issue of the taxability of interest on enhanced compensation. The assessment order does not refer to section 56(2)(viii) or section 57(iv), nor does it examine the effect of the amendments introduced by the Finance (No. 2) Act, 2009. The order is also completely silent on the judicial precedents governing the issue. Mere calling for information and placing it on record does not constitute an

¹ [Baljinder Singh vs. Principal Commissioner of Income-tax - \[2026\] 183 taxmann.com 572 \(Chandigarh-Trib.\)](#)



CBDT Detects Turnover Suppression by Restaurants

Press Release, dated 09-03-2026

The Income Tax Department had conducted a **nationwide verification exercise** to detect tax evasion

inquiry under the law. What is required is a conscious examination of the issue, the application of the relevant statutory provisions, and the formation of a reasoned view. The absence of any such exercise clearly shows a lack of proper enquiry and non-application of mind on the part of the AO. The Finance (No. 2) Act, 2009, with effect from 01-04-2010, inserted section 56(2)(viii), which specifically provides that income by way of interest received on compensation or enhanced compensation shall be chargeable to tax. The legislative intent behind this amendment is explicit and leaves no scope for ambiguity. Once the statute clearly mandates taxability of such interest, the AO was duty-bound to apply the said provision.

Failure to do so renders the assessment order erroneous in law. This amendment was brought in to settle the controversy relating to the taxability of interest on compensation, irrespective of the nomenclature or the provision under which such interest is awarded. Once the statute itself deems such interest to be taxable as 'Income from other sources', the AO had no discretion to treat it as exempt unless supported by a binding authority holding otherwise.

Therefore, the order was erroneous and prejudicial to the revenue's interests under section 263. Such interest, taxable as "Income from other sources", was also not eligible for exemption under section 10(37). The PCIT's assumption of jurisdiction was upheld.

2. Sales-Linked Payments to Group Firms Attract TDS u/s 194C

In the instant case², the assessee, a company, was a unit of the Dey's Medical Stores Group and involved in manufacturing products. It used the Group Companies' infrastructure, marketing, and sales promotion services on a reimbursement basis for incurred expenses. Such expenses were apportioned as a percentage of net sales based on historical data and treated as reimbursements.

The assessee did not deduct tax at source (TDS) on such payments. AO disallowed the reimbursement expenses under section 40(a)(ia) for failure to deduct TDS. On appeal, the CIT(A) deleted the disallowance, but the Tribunal partially restored it. The aggrieved assessee filed the instant appeal before the Calcutta High Court.

The High Court held that the Tribunal rightly emphasised that the payments did not correspond to actual, verifiable expenses incurred by the recipients. Genuine reimbursements are characterised by their nature as payments made post-facto, directly linked to specific, documented expenses supported by bills, vouchers or other tangible evidence.

In contrast, the payments in question lacked such detailed documentation. Instead, they appeared to be structured as fixed commissions or service fees, amounts that are inherently not reimbursements but contractual consideration for services rendered.

While commercial arrangements often involve apportioning costs based on historical data or arm's-length negotiations, such practices cannot override the statutory requirement to deduct TDS at the time of payment or credit when the transactions are contractual in nature and fall within the scope of Section 194C.

² [Deys Medical \(U.P.\) \(P.\) Ltd. vs. Principal Commissioner of Income-tax - \[2026\] 184 taxmann.com 101 \(High Court of Calcutta\)](#)

Therefore, the Tribunal's reasoning was sound, well-reasoned and supported by the record evidence. The payments in question, being contractual and not genuine reimbursements, squarely fall within the scope of Section 194C. The failure to deduct TDS in these circumstances justifies the disallowance under Section 40(a)(ia). The assessee's arguments to the contrary lack merit and do not withstand scrutiny.

3. Section 11 Exemption Allowed in Updated Return for Pre-AY 2023-24 years, but not after the 2023 amendment

In the instant case³, the assessee was a public charitable trust formed under the Bombay Public Trust Act, 1950. It filed its updated return of income under section 139(8A) after offering short-term capital gain and long-term capital gain and claiming exemption under section 11.

During the assessment proceedings, the Assessing Officer (AO) denied the assessee's exemption claim. The AO considered that the Income Tax Act, as amended by the Finance Act, 2017, makes it mandatory for charitable and religious trusts to file their return of income within the due date specified under section 139(1) to claim exemption under section 11.

Thus, the exemption cannot be claimed in an updated return if no original return is filed. Aggrieved by the order, the assessee preferred an appeal to the CIT(A). The CIT(A) confirmed the order of the AO, and the matter then reached the Pune Tribunal.

³ [Indian Medical Association vs. Deputy Commissioner of Income-tax, Exemption - \[2026\] 183 taxmann.com 735 \(Pune-Trib.\)](#)

The Tribunal held that the relevant portion of the Memorandum explaining the Finance Bill, 2023, states that the exemption under section 11 will be available only if the return of income is furnished within the time allowed under section 139(1) or section 139(4). The amendment was introduced to exclude returns filed under section 139(8A). It was also submitted that, subsequent to the amendment brought in with effect from the assessment year 2023-24, no exemption under section 11 would be allowable when the same has been claimed in an updated return under section 139(8A).

Therefore, before the assessment year 2023-24, even if the same has been claimed in an updated return under section 139(8A), the exemption under section 11 cannot be denied. Accordingly, the assessee cannot be denied the exemption under section 11 on account of filing the updated return.

4. ITAT Rejects 8% Profit Estimation on Logistics Firm

In the instant case⁴, the assessee was a private limited company engaged in the business of logistics and freight forwarding. For the relevant assessment year, it filed its return of income, declaring a total income of ₹ 9.31 crore on a turnover of ₹ 353.68 crore.

During the scrutiny proceedings, the Assessing Officer (AO) observed that three major vendors, namely CMA CGM SA, MSC Mediterranean Shipping Company SA, and ZIM Integrated Shipping Services Limited, were non-resident shipping lines, which had either filed nil returns or had not declared business income in India. Further, the assessee furnished confirmations from 26 vendors, along with party-

⁴ [Assistant Commissioner of Income-tax vs. Freightbridge Logistics \(P.\) Ltd. - \[2026\] 183 taxmann.com 744 \(Mumbai-Trib.\)](#)

wise ledger accounts, bank statements, and supporting documents.

Unsatisfied with the response, AO rejected the books of account and estimated profit at 8% of turnover. Aggrieved by the order, the assessee preferred an appeal to CIT(A). The CIT(A) deleted the additions made by AO, and the matter reached the Mumbai Tribunal.

The Tribunal held that the assessee was engaged in the business of logistics and freight forwarding for a long time. The three major vendors, CGM SA, MSC Mediterranean Shipping Company SA, and ZIM Integrated Shipping Services Limited, were found to be non-resident shipping lines filing returns under the applicable provisions of the Act. The remand report itself acknowledged that these entities are non-residents and file returns under the statutory framework applicable to international shipping operations.

Significantly, the CIT(A) did not rely solely on the assessee's submissions but conducted independent verification by issuing notices under section 133(6) to the major vendors. Two of the parties responded and furnished the requisite details confirming the transactions. The findings recorded in the appellate order clearly demonstrate that the addition was based on an ad hoc estimation without any cogent material to justify the application of an 8% net profit rate.

Moreover, the net profit ratios declared by the assessee over the years reveal consistent, modest margins typical of the logistics and freight forwarding industry. The AO did not present any comparable case or industry data to justify the arbitrary 8% estimate. The rejection of books of account and the estimation of profit cannot be sustained merely because certain vendors filed nil returns in India, especially when they are non-resident shipping companies governed by specific

provisions of the Act. Accordingly, there was no infirmity in the order of the CIT(A) directing the deletion of the addition.