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Tax Digest

- Recent case laws

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Income Tax Dept launches new TRACES portal *CBDT Website*

The Income-Tax Department has introduced an upgraded version of its TRACES (TDS Reconciliation Analysis and Correction Enabling System) portal, aiming to streamline tax compliance through a unified digital platform. The rollout coincides with the implementation of the new Income-Tax Act, 2025, which came into effect on April 1.

The move reflects a broader push towards digitization, with authorities seeking to simplify procedures, reduce errors, and enhance transparency for both individuals and businesses.

1. Absence of irrevocability or dissolution clause in trust deed not a valid ground for rejection of registration : Where the trust is otherwise irrevocable in law, cannot override substantive eligibility for charitable registration.

In the instant case¹, the assessee, Amita Memorial Trust, is a charitable trust created by a deed dated 29 April 1987 with objects of relief of the poor, education and medical relief. It had already been granted registration under section 12A and approval under section 80G in the earlier regime, and thereafter obtained provisional registration under section 12AB under the new framework effective from 1 April 2021. Upon filing Form 10AB for regular registration under section 12AB and corresponding approval under section 80G, the CIT(E), Mumbai rejected both applications by orders dated 28 January 2026. The rejection was based principally on two grounds: first, that the trust deed did not contain an express irrevocability clause or a dissolution clause; and second, that the assessee had furnished “incorrect information” in row 6 of Form 10AB by answering “Yes” to the question whether the trust deed contained a clause that the trust is irrevocable.

Before the Tribunal, the assessee contended that the absence of an explicit clause on irrevocability or dissolution did not render the trust revocable in law, especially when it was a public charitable trust registered under the Maharashtra Public Trusts Act, 1950. It argued that there had been no change in the trust deed since the original grant of registration, and that the Department could not insist upon a fresh condition not found in section 12AB. The assessee further explained that the answer “Yes” in Form 10AB was not a false

statement but arose from a portal-level system constraint, since the online utility reportedly did not permit filing if the answer was given as “No.” The trust also relied on the judgment of the Bombay High Court in Chamber of Tax Consultants v. CIT(E), which had examined this very issue and held that a public charitable trust is deemed irrevocable by operation of law unless the instrument expressly confers a power of revocation.

The Tribunal accepted the assessee’s submissions and held that the controversy stood squarely covered by the Bombay High Court’s ruling in Chamber of Tax Consultants v. CIT(E). Following that judgment, it observed that absence of an explicit irrevocability or dissolution clause cannot, by itself, justify rejection of registration under section 12AB, nor can the answer “Yes” in row 6 of Form 10AB be treated as furnishing false or incorrect information in such circumstances. The Tribunal therefore set aside the orders of the CIT(E), quashed the rejection of registration under section 12AB and approval under section 80G, and directed that the registrations be granted to the assessee.

2. Disallowance under section 14A restricted to exempt income; deduction under section 80G allowable for eligible CSR donations

In the instant case², the assessee, engaged in media and communication as well as trading in securities and real estate, had earned exempt income of ₹10.88 crore during the year and had itself made a suo motu disallowance of ₹5.01 crore under section 14A. The Assessing Officer, however, recomputed the disallowance under Rule 8D at ₹10.88 crore and made a further addition of ₹5.86 crore. Separately, the Assessing Officer also disallowed part of the assessee’s claim under section 80G in respect of

¹ [Amita Memorial Trust v. Commissioner of Income-tax \(Exemption\) \[2026\] 185 taxmann.com 68 \(Mumbai - Trib.\)](#)

² [NDL Ventures Ltd. v. Assistant Commissioner of Income-tax \[2026\] 185 taxmann.com 45 \(Delhi - Trib.\)](#)

donations aggregating to ₹2 crore, on the ground that a portion of the donation represented CSR expenditure and therefore could not qualify as an eligible donation.

On the first issue, the CIT(A) held that disallowance under section 14A could not exceed the amount of exempt income and accordingly restricted the disallowance to the amount already offered by the assessee. On the second issue, the CIT(A) held that merely because a payment formed part of the company's CSR obligation, it did not automatically lose eligibility under section 80G, provided the statutory conditions of that section were otherwise satisfied. The appellate authority noted that the prohibition inserted by Explanation 2 to section 37(1) only barred deduction of CSR expenditure as a business expenditure, but did not create any corresponding bar under Chapter VI-A. The assessee had made the donations through proper banking channels to institutions approved under section 80G, including the Hinduja Foundation, and the appellate authority therefore directed that the deduction be allowed subject to verification of statutory conditions.

The Tribunal upheld the order of the CIT(A) on both issues. It held that the law was settled that disallowance under section 14A cannot exceed the exempt income earned during the year, and therefore found no infirmity in restricting the disallowance to the extent already offered by the assessee. On the CSR issue, the Tribunal held that although CSR expenditure is not allowable as a business deduction under section 37(1), there is no express prohibition under section 80G against allowing deduction where the payment otherwise satisfies the prescribed conditions. It observed that denying deduction solely because the donation also constituted CSR expenditure would amount to an unintended double disallowance, which is not supported by the statute. The appeal of the Revenue was therefore dismissed, affirming both

the restriction of section 14A disallowance and the allowability of deduction under section 80G in respect of eligible CSR-linked donations.

3. Claim under section 54F can be raised in reassessment proceedings if relatable to escaped income; allotment of constructed residential units under development agreement may qualify as investment in a residential house

In the instant case³, the assessee, Surender Kumar Bhojwani, a non-resident individual, had purchased one acre of vacant land and later entered into a registered Development Agreement-cum-General Power of Attorney (DAGPA) with a developer for construction of individual bungalows on a 48:52 sharing basis. The assessment for the relevant year was reopened under section 147, and in response to notice under section 148, the assessee filed a return declaring the same income as originally returned, without claiming deduction under section 54F. During reassessment, the Assessing Officer treated the assessee's share in the development arrangement as consideration, computed long-term capital gains at ₹22.77 lakh, and determined the total income accordingly.

In appeal, the assessee contended that the consideration receivable under the development agreement, namely his share in the constructed residential units/bungalows, should be regarded as investment in construction of a residential house for the purposes of section 54F, and therefore the capital gains ought to be exempt. Although this claim had not been made either in the original return or in the return filed in response to notice under section 148, it was specifically raised before the Commissioner (Appeals). The CIT(A), however,

³ Surender Kumar Bhojwani v. Income-tax Officer[2026] 185 taxmann.com 43 (Hyderabad - Trib.)

rejected the claim on the ground that no such claim had been made in the return and that supporting evidence had not been furnished within the prescribed time.

The Tribunal held that while reassessment proceedings cannot be converted into a forum for reopening concluded matters unrelated to escaped income, an assessee is nevertheless entitled to raise a claim that is directly relatable to the escaped income sought to be taxed. Since the reassessment in the present case was initiated to bring to tax the capital gains arising from the development agreement, the claim under section 54F was held to be legitimately connected with such escaped income and therefore required adjudication. The Tribunal further observed that judicial precedent supported the proposition that allotment of residential units to a landowner under a development agreement can constitute investment in construction of a residential house under section 54F. Accordingly, the matter was set aside to the Assessing Officer for fresh adjudication, with directions to examine the assessee's claim in accordance with law and subject to fulfilment of the statutory conditions.

4. Mere generation of surplus by an educational trust, without any finding of non-genuine activities or deviation from its objects, cannot justify cancellation of registration under section 12AA(3)

In the instant case⁴, in CIT v. Baba Gandha Singh Education Trust, the assessee, an educational trust registered under section 12AA with effect from 1 April 2007, was engaged in running schools for educational purposes. The Commissioner issued

⁴ Commissioner of Income-tax v. Baba Gandha Singh Education Trust [2026] 185 taxmann.com 53 (Punjab & Haryana)

notice under section 12AA(3) proposing cancellation of registration on the ground that the trust had generated surplus over several assessment years, namely AYs 2002-03 to 2007-08. The Commissioner further observed that the trust had granted fee concession only to 56 out of 2,901 students, which was treated as indicating absence of subsidy for the poor and needy. On this basis, the registration was cancelled. The Tribunal, however, set aside the cancellation, noting that the dominant object of the trust was admittedly education and that no activity contrary to its objects had been pointed out by the Commissioner.

Before the High Court, the trust maintained that the surplus generated from its educational activities had been ploughed back into capital assets and educational infrastructure, and therefore continued to be applied towards its charitable objects. The Court accepted this line of reasoning and emphasized that under section 12AA(3), cancellation of registration is permissible only where the Commissioner is satisfied that the activities of the trust are not genuine or are not being carried out in accordance with its objects. It held that the Commissioner cannot dictate the precise manner in which a trust should utilise its funds, so long as such utilisation remains within the framework of its stated objects. Strengthening infrastructure, laboratories, libraries and other educational facilities was held to be a permissible means of carrying out the trust's educational purpose.

The High Court ultimately held that mere generation of surplus, even if continuous, cannot by itself lead to cancellation of registration under section 12AA(3), unless there is material to show that the surplus arose from activities beyond the trust's objects or was applied for non-charitable purposes. In the present case, there was a complete absence of any finding that the trust had deviated from its educational objects or had engaged in non-genuine

activities. The Court also clarified that while the Supreme Court's ruling in *New Noble Educational Society* may be relevant to the limited extent that surplus per se is not fatal, the framework of section 10(23C) cannot be bodily imported into section 12AA, which operates in a different and wider field. Accordingly, the Court upheld the Tribunal's order and dismissed the Revenue's appeal.