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

Direct Tax Newsletter

Tax Digest

- Recent case laws

April 20, 2026

CBDT issues corrigendum to Income-tax Rules, 2026; rectifies technical errors in forms and rules

[Notification No. G.S.R. 286(E) dated April 16, 2026]

The CBDT has issued a corrigendum to the Income-tax Rules, 2026 (originally notified on March 20, 2026) to rectify typographical and technical inaccuracies arising from the transition to the Income-tax Act, 2025.

In the instant notification, the Board has substituted "Aadhaar" with "PAN" across several statutory forms and corrected rule references, including marginal headings in Rule 165 (relating to Section 263). Additionally, verification clauses have been updated from "my/our" to "my" to ensure precise individual declarations. These adjustments ensure that digital filing utilities and the TRACES portal align with the new statutory framework effective from April 1, 2026.

1. Penalty under section 270A not leviable where no "under-reported income"; revision under section 264 cannot be rejected without reasons

In the instant case[1], the assessee, GM Modular (P) Ltd., filed its return for AY 2019–20, which was processed under Section 143(1)(a) with a disallowance under Section 36(1)(va) for delayed PF/ESI contributions. Subsequently, pursuant to a search, an assessment under Section 143(3) read with Section 153A reiterated the same disallowance. While the CIT(A) initially deleted the addition, the ITAT restored it relying on the Supreme Court's decision in Checkmate Services. Thereafter, the Assessing Officer levied penalty under Section 270A for under-reporting of income, limited to this disallowance. The assessee challenged the penalty through a revision under Section 264, which was summarily rejected by the PCIT without reasons, leading to a writ before the Bombay High Court.

Two primary issues arose:

(i) whether penalty under Section 270A for under-reporting could be sustained when the disallowance had already been made at the stage of processing under Section 143(1)(a), and

(ii) whether the PCIT was justified in rejecting the revision under Section 264 on the ground that an appellate remedy was available.

The Court held that revisional jurisdiction under Section 264 is wide and can be exercised even where an appeal lies, provided statutory conditions are satisfied. The assessee has the discretion to choose between appeal and revision, and the PCIT's summary rejection without reasons was unsustainable. On merits, the Court found that there was no "under-reported income" since the assessed income did not exceed the income already determined under Section 143(1)(a); the addition was merely reiterated. Further, the claim was made bona fide based on binding jurisdictional High Court precedent prevailing at the time of filing, and the issue itself was debatable. The case also fell within the exception under Section 270A(6)(a), as full disclosure of material facts had been made.

The Bombay High Court quashed both the penalty order under Section 270A and the PCIT's order under Section 264. It reaffirmed that penalty is not automatic, especially in cases involving bona fide claims, full disclosure, or debatable issues. Importantly, it clarified that where no incremental income arises over the processed income, the foundational requirement for "under-reporting" fails, rendering the penalty unsustainable.

2. Under the project completion method only project-specific expenses to be capitalized while advertisement, promotion and commission allowed as revenue expenditure

In the instant case[2], the assessee, a real estate developer following the Project Completion Method (PCM), had a single ongoing project and claimed various expenses—advertisement, business promotion, commission, loan processing charges, and security expenses—as revenue expenditure. The Assessing Officer treated all such expenses as part of work-in-progress (WIP) and disallowed them under Section 37(1). The CIT(A) upheld this treatment by directing capitalization through enhancement of WIP, leading to an appeal before the ITAT.

[1] GM Modular (P.) Ltd. v. Principal Commissioner of Income-tax [2026] 185 taxmann.com 68 (Mumbai - Trib.)

[2] Samira Realty Projects (P.) Ltd. v. Assistant Commissioner of Income-tax [2026] 185 taxmann.com 333 (Mum. - Trib.)

The core issue was whether such expenses, incurred during the execution of a real estate project under PCM, should be allowed as revenue expenditure in the year incurred or capitalized as part of WIP forming the project cost.

The Tribunal held that the classification depends on the nature and nexus of the expenditure with the project. Relying on Accounting Standard (AS-2) and judicial precedents, it observed that only those costs which directly contribute to bringing inventories to their present location and condition are to be included in WIP. Accordingly, advertisement, business promotion, and commission expenses were held to be general and promotional in nature, not directly linked to construction or inventory creation, and hence allowable as revenue expenditure. Conversely, loan processing charges and security expenses were held to be project-specific and directly attributable to the project, thereby forming part of WIP.

The ITAT partly allowed the appeal, drawing a clear distinction between general business promotion expenses and project-specific costs. It reaffirmed that under PCM, the method of revenue recognition does not alter the fundamental nature of expenditure. Expenses not directly contributing to inventory creation remain deductible in the year incurred, while those intrinsically linked to the project must be capitalized.

3. No substantial question of law arises where factual findings on bogus sales are concurrent and not perverse

In the instant case[3], the assessee challenged additions of approximately ₹11.04 lakh made on account of alleged bogus sales for AYs 2004-05 and 2005-06. During assessment, notices issued to customers either resulted in outright denial of transactions or were returned unserved with remarks such as “not known” or “no trace.” The assessee failed to produce the customers or furnish credible supporting evidence beyond ledger entries (largely cash-based) and unconvincing explanations. The Assessing Officer treated the sales as bogus, and this finding was upheld by the CIT(A) and the Tribunal.

The issue stood as to whether the High Court, in an appeal under Section 260A, could interfere with concurrent findings of fact regarding bogus sales, particularly when the assessee failed to substantiate the genuineness of transactions.

The High Court held that the Revenue had discharged its initial burden by issuing notices and gathering responses indicating non-existence or denial of transactions. The onus then shifted to the assessee, which failed to produce parties or credible evidence to substantiate its claim. The Court rejected the argument of lack of cross-examination, noting no evidence that such an opportunity was sought and denied. Importantly, the Court emphasized that all three authorities had recorded consistent findings of fact based on available material, and such findings were neither perverse nor unsupported by evidence.

The appeal was dismissed, with the Court reiterating that Section 260A permits interference only on substantial questions of law, not for re-appreciation of evidence. Where concurrent factual findings exist and no perversity is demonstrated, the High Court will not intervene. The judgment reinforces that failure to substantiate transactions, especially when counterparty existence itself is doubtful, can justify

[3] Vaishnavi Agro v. Income-tax Officer [2026] 185 taxmann.com 223 (High Court of Jharkhand)

additions, and such factual determinations attain finality at the Tribunal level.

4. Contractual receipts reflected in Form 26AS taxable in year of receipt where assessee failed to prove earlier recognition

In the instant case[4], the assessee, engaged in IT and e-governance services, received contractual payments of approximately ₹6.10 crores during AY 2018–19, relating to services rendered in earlier years (FY 2011-12 and 2012-13). These receipts were reflected in Form 26AS with corresponding TDS deductions. The assessee claimed that it followed the completed service contract method and, due to disputes and uncertainty, adjusted the receipts against opening work-in-progress (WIP) instead of recognizing them as income. The Assessing Officer, noting lack of evidence of earlier recognition, treated the receipts as income for the year of receipt. The CIT(A) largely upheld the addition.

The key issue was determination of the correct year of taxability of contractual receipts - whether such receipts could be deferred based on the assessee's claimed accounting method, or should be taxed in the year of actual receipt as reflected in Form 26AS.

The Tribunal held that the assessee failed to substantiate its claim of having followed the accrual or completed contract method consistently. No evidence was produced to show that the income had been offered in earlier years, nor was there any credible proof of ongoing disputes affecting recognition. The Tribunal observed that the reflection of receipts along with TDS in Form 26AS strongly indicated receipt and taxability in the relevant year. Further, the assessee's practice of adjusting receipts against WIP without proper disclosure was considered non-transparent and inconsistent with prescribed accounting principles. This effectively indicated that the assessee was following a receipt (cash) basis rather than accrual.

The ITAT upheld the addition, affirming that income must be taxed in accordance with the real method of accounting followed in substance, not merely the method claimed. Where receipts are actually received, reflected in Form 26AS, and not offered in earlier years, they are taxable in the year of receipt. The judgment reinforces that inconsistent or opaque accounting practices cannot be used to defer taxation, and Form 26AS entries carry significant evidentiary value in determining taxability.

[4] Virgo Softech Ltd. v. Deputy Commissioner of Income-tax [2026] 185 taxmann.com 283 (Delhi - Trib.)