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Tax Digest

- Recent case laws

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Activation of Online Filing and Offline Utilities for ITR-2 (AY 2026–27)

The Income Tax Department has officially enabled the online filing window and offline Excel utility for ITR-2 for the Assessment Year (AY) 2026–27 on the e-Filing portal. Following the earlier rollout of forms for salaried and presumptive tax assesseees, this expansion allows individuals and HUFs having income from salaries, multiple house properties, capital gains (including equity, mutual funds, and crypto), or foreign assets to commence their compliance cycles early. Before final submission, taxpayers and professionals are strongly advised to cross-verify all pre-filled fields with the updated Annual Information Statement (AIS) and Taxpayer Information Summary (TIS) parameters to ensure absolute data symmetry and prevent automated discrepancy notices.

1. Section 68 Addition on Share Capital Cannot Survive Without Evidence of Money Routing Back from Assessee

In the instant case¹, the assessee-company had received share capital investment from a third-party investor. During the assessment proceedings, the Assessing Officer made addition under section 68 of the Income-tax Act, 1961 in respect of the share capital received by the assessee.

The Revenue's case was also built around the investor company allegedly being controlled by certain third parties and the share premium being commercially improbable.

The CIT(A), however, had recorded categorical findings that the assessee was carrying on genuine activity, was not a shell entity, and had in fact invited investment in its share capital. The Tribunal confirmed the CIT(A)'s order and deleted the addition. When the matter reached the Allahabad High Court, the Revenue argued that the assessee was newly incorporated, had no discernible net worth, and had received share application money at an allegedly exorbitant premium of ₹490 per share on face value of ₹10, requiring application of the test of human probabilities.

The High Court dismissed the Revenue's appeal. It held that once the assessee was only the recipient of share capital from a third-party investor, the addition in the assessee's hands could be sustained only if there was evidence that the money had been routed back by the assessee itself. If the Revenue's doubt was about the investor company or persons controlling that investor, the addition could be considered in the hands of the relevant third party under appropriate provisions — but not

automatically in the hands of the recipient company.

2. Delay in filing appeal condoned where assessee remained unaware of assessment order

In the instant case², the assessee filed his return for AY 2020–21 declaring income of about ₹12.90 lakh and carried forward house property loss of about ₹17.42 lakh, mainly on account of interest on borrowed capital. During assessment, the AO restricted the carry-forward loss to about ₹9.64 lakh by disallowing 50% of the interest, assuming that the property and loan were jointly held, even though the assessee claimed that he alone had borne the loan repayment and interest burden. This resulted in disallowance of loss of about ₹7.78 lakh.

The assessee filed an appeal before the CIT(A), but there was a delay of 524 days. The CIT(A) dismissed the appeal only on limitation grounds, without going into the merits of whether the interest claim / house property loss was actually allowable. Before the Tribunal, the assessee filed a notarised affidavit explaining that he did not have an internal accounts/finance team and had relied entirely on his earlier Chartered Accountant for tax compliances and income-tax proceedings. The Department's notices and communications were sent to the email ID and contact details of that consultant, not directly to the assessee.

The assessee stated that he came to know of the adverse assessment order only in January 2024, when he approached another CA after noticing issues with refund/demand status on the income-tax portal. Once he became aware of the order, he took steps to obtain documents, seek advice and

¹ Principal Commissioner of Income-tax v. Livros Publishing (P.) Ltd. [2026] 186 taxmann.com 885 (High Court of Allahabad)

² Manish Hansraj Wadhwa v. Assessment Unit of Income-tax Department [2026] 186 taxmann.com 997 (Mumbai - Trib.)

file the appeal. The Tribunal accepted that the delay was not intentional or deliberate, but arose from bona fide circumstances beyond the assessee's control.

The Tribunal held that substantial justice should prevail over technical considerations, especially where reasonable cause is supported by affidavit evidence. Accordingly, the delay of 524 days was condoned, the CIT(A)'s order was set aside, and the matter was restored to the CIT(A) for fresh adjudication on merits after giving the assessee proper opportunity of hearing. The ruling is useful because it reinforces that appeals should not be dismissed mechanically on limitation where the assessee shows a credible, bona fide explanation and the underlying issue deserves consideration on merits.

3. Proceedings against deceased assessee held invalid in absence of action under section 159

In the instant case³, the Income-tax Department initiated reassessment proceedings under section 148A of the Income-tax Act, 1961 and also issued consequential notices under section 274 against an assessee who had already expired. The proceedings were initiated without bringing the legal representatives on record or taking recourse to the provisions of section 159 of the Act.

Aggrieved by the same, the legal representative of the deceased assessee preferred a writ petition before the Hon'ble Rajasthan High Court contending that reassessment proceedings initiated against a deceased person were without jurisdiction and not sustainable in law.

The Hon'ble High Court observed that the issue was no longer res integra and it was a settled position of law that reassessment proceedings could not be

³ [Devendra Pareek v. Assistant Commissioner of Income-tax \[2026\] 186 taxmann.com 979 \(High Court of Rajasthan\)](#)

initiated or continued against a deceased person. It was further observed that section 159 specifically provides the mechanism for proceeding against legal representatives in cases where the assessee had expired.

The Hon'ble High Court held that since the Department had failed to take recourse to section 159 and had directly initiated proceedings against the deceased assessee, the notices issued under section 148A and consequential proceedings were invalid in law.

Accordingly, the Hon'ble Rajasthan High Court quashed the impugned notices and orders with liberty to the Department to initiate fresh proceedings against the legal representatives in accordance with section 148A read with section 159 of the Act.

4. Delay in filing appeal condoned where non-participation occurred due to failure to monitor registered e-mail

In the instant case⁴, the assessee-society claimed deduction under section 37 of the Income-tax Act, 1961 in respect of expenditure incurred towards gifts, boarding and lodging and other expenses in connection with its General Body Meeting. The Assessing Officer disallowed the claim on the ground that the expenditure was not incurred wholly and exclusively for the purposes of business and was excessive in nature.

Aggrieved by the same, the assessee preferred an appeal before the Hon'ble Tribunal. The Hon'ble Tribunal allowed the claim of the assessee holding that the expenditure incurred in connection with the General Body Meeting was allowable as business expenditure.

⁴ [Commissioner of Income-tax v. National Agricultural Co-operative Marketing Federation of India Ltd. \[2026\] 186 taxmann.com 933 \(High Court of Delhi\)](#)

The matter thereafter travelled to the Hon'ble Delhi High Court. The Hon'ble High Court observed that convening a General Body Meeting is a statutory requirement for a company or society and expenditure incurred in relation thereto cannot be denied merely because it is not directly connected with purchase, sale or other business operations. It was further observed that the expression "business expenditure" under section 37 should be construed broadly and would include expenditure incurred for fulfilling statutory obligations and business requirements.

The Hon'ble High Court further held that the Assessing Officer cannot sit in judgment over the commercial wisdom of the assessee in incurring such expenditure, particularly when the expenditure was admittedly incurred for the purposes of the General Body Meeting. Accordingly, the Hon'ble High Court upheld the order of the Tribunal and dismissed the appeal filed by the Revenue.
