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Direct Tax Newsletter

# Tax Digest

- Recent case laws

**August 10, 2026**

## Center for Incubation Innovation Research Approved Under Section 45(3)(b)

*[Notification No. 07/2026 dated August 6, 2026]*

The Principal Chief Commissioner of Income Tax (Exemptions), New Delhi, in exercise of powers under section 45(3)(b) of the Income-tax Act, 2025 read with Rule 35 of the Income-tax Rules, 2026, has granted approval to M/s Center for Incubation Innovation Research and Consultancy, Bengaluru (PAN: AAGCC6539D) for 'Scientific Research'. This notification is applicable for five consecutive tax years, from Tax Year 2026-27 through 2030-31. An explanatory memorandum appended to the order confirms that no person is adversely affected by granting retrospective effect to this notification.

## 1. Penalty under section 271B deleted on account of reasonable cause

In the instant case[1], the assessee, an individual acting as an agent of Surat District Co-operative Milk Producers Union Ltd. (SUMUL Dairy), earned commission/trade discount on sale of milk pouches. For A.Y. 2019-20, the assessment was reopened under section 148, pursuant to which the assessee filed her return declaring total income of ₹2.90 lakhs. The Assessing Officer completed the reassessment without making any addition but initiated penalty proceedings under section 271B on the ground that the assessee had failed to get her books of account audited under section 44AB.

Aggrieved thereby, the assessee preferred appeal before the CIT(A), which was dismissed ex parte. Thereafter, the assessee preferred appeal before the Hon'ble Surat ITAT and submitted that she had disclosed the commission income and had also furnished all relevant details and materials during the penalty proceedings. She further explained the reasonable cause for not getting the books of account audited.

The Hon'ble Tribunal observed that the assessee had furnished all relevant details explaining the nature of her business and the commission income earned. It further observed that the reasonable cause explained by the assessee had not been considered by the lower authorities, particularly when the reassessment had been completed without making any addition to the returned income.

Accordingly, the Hon'ble Tribunal, relying on the provisions of section 273B, held that the reasonable cause shown by the assessee constituted sufficient ground for deletion of penalty under section 271B and directed the Assessing Officer to delete the penalty.

## 2. Investment Allowance under Section 32AC Allowable on Dispensing Units Used in Integrated Manufacturing Business

In the instant case[2], the assessee, engaged in refining crude oil and marketing petroleum products, claimed investment allowance under section 32AC in respect of dispensing units installed at its retail outlets. The Assessing Officer disallowed the claim on the ground that the dispensing units were used for retailing petroleum products and were not used for manufacture or production. The Commissioner (Appeals) deleted the disallowance holding that the manufacturing and marketing activities constituted an integrated business. Aggrieved by the same, the Revenue preferred an appeal before the Hon'ble Tribunal.

The Hon'ble Tribunal observed that the assessee was engaged in the business of manufacture and production of petroleum products as well as their marketing and sale. It was further observed that the dispensing units constituted plant and machinery and did not fall within the exclusions specified under section 32AC(4).

The Hon'ble Tribunal held that section 32AC does not require the eligible plant and machinery to be directly used in the actual process of manufacture or production. Since manufacturing and marketing constituted an integrated and indivisible business activity, the dispensing units, being an integral part of the marketing and sale of the manufactured products, were used for the purposes of the

[1] Bhavishaben Bhajivala v. Income-tax Officer [2026] 189 taxmann.com 202 (Surat - Trib.)

[2] Deputy Commissioner of Income-tax v. Hindustan Petroleum Corporation Ltd. [2026] 188 taxmann.com 870 (Mumbai - Trib.)

assessee's business of manufacture or production. The Hon'ble Tribunal further relied upon the principle laid down in the assessee's own case under the erstwhile section 32A, wherein marketing was recognised as an integral part of the manufacturing business.

The Hon'ble Tribunal, therefore, held that the dispensing units installed at the retail outlets qualified as eligible plant and machinery for the purposes of section 32AC and that the assessee was entitled to claim investment allowance thereon. Accordingly, the disallowance of ₹7.35 crore was deleted and the appeal filed by the Revenue was dismissed.

### 3. Subsisting Registration Cannot Be Treated as Invalid Without Following Section 12AB(4)

In the instant case[3], the assessee had been granted registration under section 12A(1)(ac)(i) and subsequently filed an application in Form 10AB seeking renewal of registration under section 12AB. However, the Commissioner of Income-tax (Exemptions) rejected the application on the ground that the original registration had been wrongly granted and, therefore, the renewal application was not maintainable.

Aggrieved by the same, the assessee preferred an appeal before the Hon’ble Income-tax Appellate Tribunal (ITAT) contending that the registration granted under section 12A(1)(ac)(i) continued to remain valid and had never been cancelled in accordance with the procedure prescribed under section 12AB(4).

The Hon’ble ITAT observed that once registration has been granted, the same continues to remain valid unless cancelled in the manner prescribed under section 12AB(4). It was further observed that even where the CIT(E) is of the view that the registration was wrongly granted or that a specified violation has occurred, the registration cannot be treated as invalid without following the statutory procedure for cancellation. The Hon’ble ITAT further observed that the Act does not confer any power upon the CIT(E) to disregard a subsisting registration while considering an application for renewal.

Accordingly, the Hon’ble ITAT held that the CIT(E) was not justified in rejecting the renewal application by treating the existing registration as invalid without first invoking the cancellation mechanism prescribed under section 12AB(4). Consequently, the impugned order was set aside and the matter was restored to the file of the CIT(E) for fresh adjudication in accordance with law.

### 4. Ex Gratia Received Under BSNL VRS-2019 Eligible for Exemption Under Section 10(10B)

In the instant case[4], the assessee, a retired employee of Bharat Sanchar Nigam Limited (BSNL), received ex gratia compensation under BSNL VRS-2019. The assessee had originally offered the compensation to tax after claiming relief under section 10(10C). Subsequently, relying upon judicial precedents, the assessee contended that the compensation constituted retrenchment compensation eligible for exemption under section 10(10B).

Aggrieved by the orders of the lower authorities, the assessee preferred an appeal before the

[3] Doddaballapura Planning Authority v. Commissioner of Income-tax (Exemptions) [2026] 188 taxmann.com 869 (Bangalore - Trib.)

[4] Vinod Kumar Madan v. Income-tax Officer [2026] 188 taxmann.com 734 (Delhi - Trib.)

Hon'ble Income-tax Appellate Tribunal (ITAT) contending that the compensation received under BSNL VRS-2019 was in the nature of retrenchment compensation and was therefore exempt under section 10(10B) of the Act.

The Hon'ble ITAT observed that various Coordinate Benches had consistently held that compensation received under BSNL VRS-2019 constituted retrenchment compensation eligible for exemption under section 10(10B). It was further observed that the compensation was paid pursuant to the workforce rationalisation and revival plan implemented for BSNL and MTNL. The Hon'ble ITAT further observed that the substance and true nature of the payment were relevant for determining eligibility under section 10(10B).

Accordingly, the Hon'ble ITAT held that the ex gratia compensation received by the assessee under BSNL VRS-2019 was eligible for exemption under section 10(10B) as retrenchment compensation and was not confined merely to relief under section 10(10C). Consequently, the assessee's appeal was allowed.