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Direct Tax Newsletter

Tax Digest

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CBDT Guidelines for SFT-2518 Filings by Mutual Fund RTAs

[Notification No. 2 of 2026 dated September 10, 2026]

The Directorate of Income Tax (Systems), CBDT, has issued updated procedures for Registrar and Share Transfer Agents (RTAs) to submit the Statement of Financial Transactions (SFT-2518) covering mutual fund capital gains under Section 508(1) read with Rule 237(6). Designed to enable accurate pre-filling of tax returns and update the Annual Information Statement (AIS - Form 168), half-yearly reporting must be submitted via SFTP server by October 31 (for H1 ending September 30) and April 30 (for H2 ending March 31). Capital gains must be calculated on a FIFO basis and classified by statutory holding periods (12 months for equity funds/UTI and 12/24 months for other units; Section 76 Specified Mutual Funds remain short-term). Compliance requires uploading four mandatory data files alongside a signed Annexure C Control Statement, while also dispatching transaction statements directly to investors for seamless reconciliation.

1. Penalty under section 270A not leviable where income was fully disclosed and taxability was debatable

In the instant case[1], the assessee, a Singapore tax resident, received advertisement and distribution/subscription revenue from India. The assessee disclosed the receipts in its return but claimed that the same were not taxable in India under the India-Singapore DTAA in the absence of a Permanent Establishment (PE) in India. Subsequently, under the Mutual Agreement Procedure (MAP), a portion of the revenue was agreed to be taxable in India as business profits. The Assessing Officer thereafter levied penalty under section 270A for alleged under-reporting of income.

Aggrieved thereby, the assessee preferred appeal before the CIT(A), who deleted the penalty. The Revenue thereafter preferred appeal before the Hon'ble Delhi ITAT.

The Hon'ble Tribunal observed that the notice issued under section 270A and the penalty order merely stated "under-reporting of income" without specifying the particular clause of section 270A(2) under which the penalty was sought to be imposed. Since section 270A(2) contains different circumstances constituting under-reporting of income, failure to specify the applicable clause rendered the initiation and levy of penalty ambiguous.

The Hon'ble Tribunal further observed that the assessee had disclosed the advertisement and distribution/subscription receipts and had only claimed that such income was not taxable in India. Thus, the case involved a dispute regarding the taxability of the receipts, and not non-disclosure of income. The Tribunal also noted that the issue was debatable and involved different possible legal views regarding the character and taxability of the receipts.

Accordingly, the Hon'ble Tribunal held that mere difference of opinion regarding the taxability of duly disclosed receipts could not constitute under-reporting of income for the purpose of section 270A. The deletion of penalty by the CIT(A) was upheld and the appeal of the Revenue was dismissed.

2. Additional evidence relevant to genuineness of share transactions admitted under Rule 29

In the instant case[2], the assessee claimed short-term capital loss on sale of shares of Comfort Intech Ltd. The Assessing Officer disallowed the loss treating the share transactions as non-genuine, and the CIT(A) upheld the disallowance on the ground that the assessee had failed to establish the genuineness of the transactions.

Aggrieved thereby, the assessee preferred appeal before the Hon'ble Mumbai ITAT and sought admission of additional evidence, including bank statements and CDSL transaction statements, in support of the purchase and sale of shares.

The Hon'ble Tribunal observed that the additional documents were directly relevant to the controversy, as they had a material bearing on whether the purchase and sale transactions were actually undertaken by the assessee. It further observed that Rule 29 of the Income-tax (Appellate Tribunal) Rules, 1963 empowers the Tribunal to admit additional evidence where such evidence is

[1] Assistant Commissioner of Income-tax v. Discovery Networks Asia-Pacific Pte. Ltd. [2026] 190 taxmann.com 9 (Delhi - Trib.)

[2] Bharat Balvantrai Goradia v. Income-tax Officer [2026] 190 taxmann.com 350 (Mumbai - Trib.)

necessary for proper and effective adjudication of the dispute.

The Hon'ble Tribunal further held that since the additional evidence was produced for the first time before the Tribunal and its examination involved factual verification, the matter should be restored to the CIT(A) for examination of the evidence after providing reasonable opportunity of being heard to both sides. The Tribunal refrained from expressing any opinion on the genuineness of the share transactions.

Accordingly, the Hon'ble Tribunal admitted the additional evidence under Rule 29 and restored the issue relating to the disallowance of short-term capital loss to the CIT(A) for fresh adjudication. The grounds challenging reopening under sections 147/148 were kept open.

3. Agricultural land not qualifying for exemption under section 54B where not used for agricultural purposes

In the instant case[3], the assessee sold land and offered capital gains to tax in the return while claiming deduction under section 54B. The Assessing Officer, pursuant to proceedings under section 263, treated the land as a capital asset under section 2(14) and denied the deduction under section 54B. The CIT(A) upheld the assessment order.

Aggrieved thereby, the assessee preferred an appeal before the Hon'ble Pune ITAT. The Hon'ble Tribunal observed that the registered sale deed classified the land as being for industrial use and the relevant 7/12 extract did not establish agricultural use of the land. Considering the documentary evidence and surrounding circumstances, the Hon'ble Tribunal held that the land sold by the assessee was not agricultural land and therefore constituted a capital asset within the meaning of section 2(14).

The Hon'ble Tribunal further observed that deduction under section 54B is available only where the land transferred was used for agricultural purposes during the period of two years immediately preceding the date of transfer. Since the land sold was not shown to have been used for agricultural purposes during the prescribed period, the assessee was not entitled to claim deduction under section 54B.

The Hon'ble Tribunal also held that, as the assessee had not challenged the order passed under section 263 separately, the validity of such order could not be challenged in the present proceedings arising from the order of the CIT(A).

Accordingly, the Hon'ble Tribunal dismissed the relevant grounds of appeal and partly allowed the appeal of the assessee.

4. Addition under section 68 not sustainable merely on suspicion of share price manipulation

In the instant case[4], the assessee claimed exemption under section 10(38) in respect of long-term capital gains arising from sale of listed shares. The Assessing Officer, alleging abnormal appreciation in the share price and possible manipulation of the transactions, treated the sale proceeds as unexplained cash credits under section

[3] Namdeo Janku Thorat v. Income-tax Officer – [2026] 189 taxmann.com 942 (Pune - Trib.)

[4] Commissioner of Income-tax v. Sohanraj Uttamchand [2026] 189 taxmann.com 986 (High court of Madras)

68 and denied the exemption claimed by the assessee. The CIT(A) upheld the addition.

Aggrieved thereby, the assessee preferred an appeal before the Hon'ble ITAT. The Hon'ble Tribunal observed that the share transactions were duly supported by documentary evidence and that there was no cogent and corroborated evidence establishing the assessee's involvement in the alleged manipulation of share prices. Accordingly, the Hon'ble Tribunal deleted the addition and directed that the gain be treated as long-term capital gain eligible for exemption under section 10(38).

Aggrieved by the order of the Hon'ble ITAT, the Revenue preferred an appeal before the Hon'ble Madras High Court. The Hon'ble High Court observed that the shares were traded through recognised stock exchanges, the transactions were supported by documentary evidence, Securities Transaction Tax was paid and the sale consideration was received through banking channels. It further observed that the Assessing Officer had not brought on record any cogent evidence establishing that the assessee was a party to or involved in any manipulation of the share prices. Mere steep appreciation in the share price or suspicion regarding the transactions could not, by itself, justify treating the sale proceeds as unexplained cash credits.

Accordingly, the Hon'ble High Court held that mere steep appreciation in the price of listed shares, in the absence of cogent evidence linking the assessee with price manipulation, cannot justify an addition under section 68 where the transactions are duly documented and the consideration is received through banking channels. The order of the Hon'ble Tribunal deleting the addition was accordingly upheld.