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Tax Digest

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CBDT Exempts International Rice Research Institute (IRRI) from TDS Provisions

[Notification No. 138/2026 dated October 28, 2026]

The Central Board of Direct Taxes (CBDT) has issued an order specifying that the provisions of Chapter XIX of the Income-tax Act, 2025, concerning Tax Deduction at Source (TDS), shall not apply to payments received by the International Rice Research Institute (IRRI). This exemption is granted under Section 400(1) of the Act and is subject to the conditions specified under the United Nations (Privileges and Immunities) Act, 1947, read alongside the Ministry of External Affairs' Notification S.O. 3230(E) dated October 3, 2017. The notification comes into force immediately upon publication in the Official Gazette.

1. Closing Stock Valuation to Be Based on Market Price Prevailing Near Balance Sheet Date

In the instant case[1], the assessee, engaged in the business of extraction and refining of vegetable oils, was subjected to reassessment proceedings for Assessment Year 2009-10. The Assessing Officer accepted the valuation of opening stock but revalued the closing stock of refined soya oil and acid oil by adopting the average annual sale price instead of the prevailing market price around the balance sheet date, resulting in an addition on account of alleged undervaluation of closing stock.

The assessee also contended that the quantity of closing stock of acid oil had been incorrectly reported in Form 3CD due to a typographical error. The Assessing Officer relied on the figures in Form 3CD, whereas the assessee relied on its day-to-day production register and audited balance sheet to establish the correct stock quantity. The Commissioner (Appeals) upheld the additions.

The Hon'ble Raipur Tribunal observed that closing stock should be valued at cost or net realisable value, whichever is lower, and that the net realisable value should be determined with reference to the prevailing market price on or around the balance sheet date. Adopting the average annual price, particularly where prices fluctuate significantly during the year, may result in distorted valuation. The Tribunal also noted that the assessee had consistently followed its method of accounting and held that the valuation based on the prevailing market price around the balance sheet date was justified.

With regard to the quantity of acid oil, the Tribunal held that the day-to-day production register and audited balance sheet, being primary documents, would prevail over the secondary details reported in Form 3CD.

Accordingly, the Tribunal set aside the findings of the Commissioner (Appeals), directed the Assessing Officer to adopt the prevailing market price for valuation of closing stock and deleted the addition arising from the quantitative discrepancy. The assessee's appeal was allowed.

2. Disallowance under section 43B not warranted where excise duty was neither claimed as deduction nor payable

In the instant case[2], the assessee, a company engaged in the manufacture of sugar, filed its return of income declaring a net loss. The Assessing Officer, relying on the Tax Audit Report, added unpaid excise duty of ₹69.92 lakh relating to closing stock under section 43B read with section 145A of the Income-tax Act, 1961.

Aggrieved by the assessment order, the assessee preferred an appeal before the Commissioner (Appeals), who deleted the addition. The Hon'ble ITAT upheld the order of the Commissioner (Appeals). However, the Hon'ble Delhi High Court reversed the decision and restored the addition made by the Assessing Officer.

Aggrieved by the order of the Hon'ble High Court, the assessee preferred an appeal before the Hon'ble Supreme Court.

[1] Adishwar Oils and Fats Ltd. v. Assistant Commissioner of Income-tax, Central Circle-1 [2026] 191 taxmann.com 285 (Raipur - Trib.)

[2] Lakshmi Sugar Mills Co. Ltd. v. Commissioner of Income-tax [2026] 191 taxmann.com 777 (Supreme Court of India)

The Hon'ble Supreme Court observed that the goods were lying in the assessee's bonded warehouse and the disputed excise duty was neither paid nor claimed as an expenditure in the Profit and Loss Account. It held that section 43B cannot be invoked to disallow an amount which was not claimed as a deduction, merely on the basis of a remark in the Tax Audit Report, without examining its impact on the assessee's taxable income.

Accordingly, the Hon'ble Supreme Court set aside the order of the Hon'ble High Court and allowed the appeal filed by the assessee.

3. Reassessment Valid Where Fresh Investigation Report Provides Tangible Material

In the instant case[3], the assessee sold shares of two companies along with other shareholders and earned long-term capital gains, against which deduction under section 54F of the Income-tax Act, 1961, was claimed on investment in residential property. The original assessment was completed under section 143(3), accepting the returned income.

Subsequently, fresh information indicating possible overvaluation of shares in comparison with the value of the underlying land and building came to the notice of the Assessing Officer. On this basis, the Assessing Officer issued a notice under section 148. The assessee challenged the reassessment proceedings before the Hon'ble Delhi High Court, which dismissed the writ petition. The assessee thereafter filed appeals before the Hon'ble Supreme Court.

The Hon'ble Supreme Court held that reopening of assessment requires tangible material having a rational connection or live link with the belief that income has escaped assessment. Further, a change of opinion arises only where the Assessing Officer has consciously examined and formed an opinion on the specific issue during the original assessment. At the stage of issuing notice, the Assessing Officer is not required to conclusively establish escapement of income.

In the instant case, the original assessment order did not reflect any opinion on the overvaluation of shares or the related issues. Since the reopening was based on fresh tangible material and not a mere change of opinion, the reassessment proceedings were held to be valid. The appeals filed by the assessee were dismissed.

4. Provision for Contribution to Approved Gratuity Fund Allowable under Section 40A(7)(b) Notwithstanding Section 43B

In the instant case[4], the assessee had claimed a deduction in respect of a provision made towards contribution to an approved gratuity fund. Since the amount had not been actually paid before the due date for filing the return of income, the Revenue contended that the deduction was subject to the actual payment condition prescribed under section 43B(b) of the Income-tax Act, 1961.

The Tribunal held that the issue regarding the allowability of the deduction was debatable and, accordingly, the proceedings initiated under section 263 were not sustainable. Aggrieved by the decision of the Tribunal, the Revenue preferred an appeal before the Hon'ble Madras High Court, challenging,

[3] Chetan Sabharwal v. Assistant Commissioner of Income-tax [2026] 191 taxmann.com 798 (Supreme Court of India)

[4] Commissioner of Income-tax v. Flowserve Sanmar Ltd. [2026] 191 taxmann.com 515 (High Court of Madras)

inter alia, the allowability of the deduction in respect of the unpaid provision for gratuity.

The Hon'ble High Court observed that section 40A(7)(a) generally disallows deduction in respect of a provision made for payment of gratuity to employees on their retirement or termination of employment. However, section 40A(7)(b) specifically carves out an exception by permitting deduction in respect of a provision made towards contribution to an approved gratuity fund. The Court further observed that section 40A(1) contains a non obstante clause and that the specific provision under section 40A(7)(b) would prevail over the general payment requirement under section 43B. Accordingly, where the provision is made towards contribution to an approved gratuity fund, deduction is allowable under section 40A(7)(b), notwithstanding that the amount was not actually paid before the due date for filing the return of income.

The Hon'ble High Court answered the substantial questions of law in favour of the assessee and dismissed the Revenue's appeal.