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Tax Digest

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CBDT Exempts Dividend Payments Between IFSC Aircraft Leasing Units from TDS

[Notification No. 141/2026 dated November 4, 2026]

The Central Government has specified that no tax shall be deducted at source under Section 393(1) on dividend income paid by an International Financial Services Centre (IFSC) unit engaged in aircraft leasing to another IFSC aircraft-leasing unit, pursuant to powers under Section 400(1) read with Schedule VI of the Income-tax Act, 2025. To claim this exemption, the recipient unit (payee) must furnish a statement-cum-declaration in Form No. 1(N) to the payer unit, detailing the relevant tax year and verifying its eligibility. Upon receipt of this declaration, the payer unit is required to cease tax deductions on such dividend payments and report them accordingly in its quarterly TDS statements. The notification is deemed to have come into force retrospectively from April 1, 2026.

1. Assessment on a Non-Existent Entity and Protective Addition Held Invalid

In the instant case[1], the assessee-company was converted into a Limited Liability Partnership (LLP). During the assessment proceedings, the Assessing Officer was aware of the conversion but nevertheless passed the assessment order in the name of the erstwhile company. Further, the Assessing Officer treated the reserves and surplus transferred to the partners' capital accounts as capital gains arising in the hands of the erstwhile shareholders. However, in the absence of evidence regarding payment of tax by the shareholders, he made a protective addition of the same amount in the hands of the assessee-company.

Aggrieved by the assessment order, the assessee preferred an appeal before the Commissioner (Appeals). The Commissioner (Appeals) upheld the protective addition in principle and directed the Assessing Officer to verify the tax payment by the shareholders and delete the addition to the extent the substantive assessments were finalised in their hands. The Commissioner (Appeals) also rejected the assessee's objection regarding the validity of the assessment, holding that the participation of the successor LLP in the proceedings cured the defect under section 292B of the Income-tax Act, 1961.

Aggrieved thereby, the assessee preferred an appeal before the Hon'ble ITAT. The Hon'ble Tribunal observed that upon conversion into an LLP, the erstwhile company stood dissolved under section 58(4)(c) of the Limited Liability Partnership Act, 2008. Since the Assessing Officer was aware of the conversion, the assessment framed in the name of the dissolved company was invalid. It further held that participation by the successor LLP could not cure the jurisdictional defect under section 292B of the Income-tax Act, 1961.

The Hon'ble Tribunal held that failure to satisfy the conditions under section 47(xiiib) does not, by itself, make capital gains arising in the hands of the erstwhile shareholders taxable in the hands of the company. Since the Assessing Officer had not established any basis for taxing such gains in the company's hands, the protective addition was unsustainable merely on the ground that the shareholders' tax payment had not been verified.

Accordingly, the Hon'ble ITAT quashed the assessment order and deleted the protective addition. The appeal filed by the assessee was allowed.

2. Limitation for filing appeal against ITAT order begins from date of receipt

In the instant case[2], the assessee had filed an appeal before the Hon'ble ITAT for Assessment Year 2021-22. The Hon'ble ITAT remanded the matter to the Assessing Officer for fresh consideration, observing that the assessee's claim that the long-term capital gains were exempt from tax had not been examined during the assessment proceedings and the necessary facts were not available on record.

The assessee received the signed copy of the ITAT order on 27.02.2025. Initially, it decided to file a miscellaneous application under section 254(2) of the Income-tax Act, 1961. However, after

[1] NJ MF Distribution LLP v. Deputy Commissioner of Income-tax [2026] 192 taxmann.com 217 (Mumbai - Trib.)

[2] GS Strategic Investments Ltd. v. Assistant Commissioner of Income-tax [2026] 191 taxmann.com 823 (High Court of Bombay)

discussions with its Chartered Accountant and advocate, it decided to prefer an appeal before the Hon'ble Bombay High Court. The appeal was filed on 23.09.2025, resulting in a delay of 88 days. Accordingly, the assessee filed an application seeking condonation of the delay.

The Hon'ble High Court observed that section 254(3) of the Income-tax Act, 1961, read with Rules 35 and 49 of the Income-tax (Appellate Tribunal) Rules, 1963, provides for communication of the Tribunal's order to the assessee and the Commissioner. The copies of the orders are supplied free of cost. The Hon'ble High Court held that the limitation for filing an appeal commences from the date on which the order is received by the concerned party and not from the date of its pronouncement or mere knowledge of the order.

The Hon'ble High Court further observed that a liberal and justice-oriented approach should ordinarily be adopted while considering applications for condonation of delay, particularly where the delay is not deliberate or mala fide. In the present case, the assessee had furnished a stage-wise explanation covering the entire period of delay. Accordingly, the Hon'ble High Court held that sufficient cause had been established and condoned the delay of 88 days in filing the appeal.

3. Penalty under section 271D not leviable on cash receipt of sale consideration

In the instant case[3], the assessee, an individual working as a lecturer, sold two immovable properties during Assessment Year 2018-19 and received the entire sale consideration in cash at the time of execution of the sale deeds. The capital gains declared by the assessee were accepted by the Assessing Officer without making any addition. However, the Assessing Officer treated the cash receipt as a violation of section 269SS of the Income-tax Act, 1961, and levied penalty under section 271D.

Aggrieved by the penalty order, the assessee preferred an appeal before the Commissioner (Appeals), who confirmed the penalty. Thereafter, the assessee preferred an appeal before the Hon'ble ITAT, contending that the amount received was sale consideration and did not constitute a loan or deposit. It was further submitted that the provisions of section 269ST, and not section 269SS, were relevant to the cash receipt in the present case.

The Hon'ble Tribunal observed that the term "specified sum" was inserted in section 269SS with effect from 01.06.2015 to cover money received as an advance in relation to the transfer of immovable property, whether or not the transfer ultimately takes place. It further observed that section 269ST was introduced with effect from Assessment Year 2017-18 to cover cash receipts of ₹2 lakh or more, which are not covered under section 269SS. In the present case, the entire sale consideration was received in cash at the time of registration of the sale deeds and not by way of an advance. Accordingly, the transaction did not fall within the scope of section 269SS.

The Hon'ble Tribunal held that the Assessing Officer had wrongly invoked section 269SS instead of section 269ST and, therefore, the penalty levied under section 271D was liable to be cancelled.

Accordingly, the Hon'ble Tribunal allowed the appeal filed by the assessee and deleted the penalty.

[3] Kari Purushottam v. Income Tax Officer [2026] 192 taxmann.com 216 (Cuttack - Trib.)

4. Rule 3(7)(i) Providing for Taxation of Interest-Free or Concessional Loans as Perquisites Is Constitutionally Valid

In the instant case[4], the petitioner, an officers' federation, filed a writ petition before the Hon'ble Madras High Court challenging the constitutional validity of section 17(2)(iii) of the Income-tax Act, 1961, Rule 3(7)(i) of the Income-tax Rules, 1962, and the relevant provision of a bank circular dated 24.07.2010, relating to the taxation and valuation of benefits arising from interest-free or concessional loans granted to bank employees.

The petitioner sought a declaration that the aforesaid provisions and the relevant portion of the bank circular were unconstitutional, ultra vires and void. The challenge primarily concerned the authority to tax such loan benefits as perquisites and the method prescribed for their valuation.

The Hon'ble Court noted that the taxation of interest-free or concessional loans as perquisites falls within the rule-making power under section 17(2)(viii) of the Act. It further observed that Rule 3(7)(i), which adopts the Prime Lending Rate (PLR) of the State Bank of India as the benchmark for valuing such benefits, is neither arbitrary nor violative of Article 14 of the Constitution. The provision also does not amount to excessive delegation of essential legislative functions.

In view of the issue having already been settled, the Hon'ble Madras High Court dismissed the writ petition and rejected the challenge to the constitutional validity of the relevant provisions and the bank circular.

[4] All India UCO Bank Officers' Federation v. Union of India [2026] 191 taxmann.com 817 (High Court of Madras)