Direct Tax Newsletter

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Tax Digest

- Recent case laws

November 23, 2026

CBDT Notifies Specified Income of Telangana Building & Other Construction Workers Welfare Board

[Notification No. 150/2026 dated November 20, 2026]

The Central Government has notified the Telangana Building & Other Construction Workers Welfare Board under Schedule III read with Section 11 of the Income-tax Act, 2025, for the tax years 2026-27 and 2027-28 in respect of specified income comprising cess received, registration and renewal fees collected from workers, and interest earned on bank deposits. This notification takes effect subject to conditions that the Board shall not engage in any commercial activity, shall file its return of income under Section 263(9)(c)(xiii) of the Act, and shall maintain its activities and nature of specified income unchanged throughout the relevant tax years. Any non-compliance with these stipulations will result in withdrawal of the exemption and initiation of proceedings under the Act.

1. Mechanical Approval under Section 153D Without Application of Mind Invalidates Assessment

In the instant case[1], the assessee challenged the validity of the assessment orders on the ground that the mandatory prior approvals obtained under section 153D of the Income-tax Act, 1961, were granted without proper application of mind. The Assessing Officer had submitted draft assessment orders to the Additional Commissioner for approval. However, the approvals were identically worded, contained no reference to the draft assessment orders and were granted in bulk within less than 24 hours. Further, in several instances, the draft assessment orders mentioned the date and number of the approval even before it was actually granted.

The Hon'ble ITAT held that the approvals suffered from complete non-application of mind and accordingly quashed the approvals and set aside the consequential assessment orders passed under section 153A. On appeal by the Revenue, the Hon'ble High Court upheld the Tribunal's decision, observing that the requirement of prior approval under section 153D is an inbuilt safeguard against arbitrary exercise of power by the Assessing Officer and cannot be reduced to a mere mechanical formality.

Aggrieved by the order of the Hon'ble High Court, the Revenue preferred a Special Leave Petition before the Hon'ble Supreme Court. The Hon'ble Supreme Court declined to interfere with the impugned order and dismissed the SLP.

Accordingly, the order quashing the approvals granted under section 153D and the consequential assessment orders was left undisturbed.

2. Valid Approval under Section 10(23C)(iv) Cannot Be Disregarded Without Establishing Violation of Approved Objects

In the instant case[2], the assessee-trust, engaged in the promotion of performing arts, held approval under section 10(23C)(iv) of the Income-tax Act, 1961. During assessment, the Assessing Officer invoked the proviso to section 2(15), denied exemption under section 10(23C)(iv) and the alternative claim under section 11 read with section 13(8), on the ground that the receipts exceeded the prescribed monetary limit. He also treated income from the sale of shares and paintings as taxable.

Aggrieved by the assessment order, the assessee preferred an appeal before the Commissioner (Appeals). The Commissioner (Appeals) upheld the denial of exemption, observing that the Assessing Officer was empowered to examine the eligibility for exemption despite the subsisting approval granted under section 10(23C)(iv). The additions relating to the sale of shares and paintings were also sustained.

Aggrieved thereby, the assessee preferred an appeal before the Hon'ble ITAT. The Hon'ble Tribunal observed that the prescribed authority had granted approval under section 10(23C)(iv) after examining the assessee's objects and activities. It held that the Assessing Officer could not disregard such valid approval merely on the basis of alleged irregularities. Denial of exemption required cogent

[1] Principal Commissioner of Income-tax v. SVP South West Industries Ltd. [2026] 192 taxmann.com 206 (Supreme Court of India)

[2] National Centre for the Performing Arts v. Deputy Commissioner of Income-tax (Exemption-II) [2026] 192 taxmann.com 188 (Mumbai - Trib.)

material establishing that the assessee had deviated from its approved objects, its activities were not genuine or any condition of approval had been violated. In the absence of such material, denial of exemption was held to be unjustified.

The Hon'ble Tribunal further held that the income arising from the sale of shares and paintings was also not liable to tax in view of the valid approval granted to the assessee.

Accordingly, the denial of exemption and the consequential additions were set aside, and the appeal filed by the assessee was allowed.

3. Business Receipts Disclosed under Section 44AD Cannot Be Treated Again as Unexplained Money under Section 69A

In the instant case[3], the assessee, an individual senior citizen, disclosed receipts of ₹8,70,140 from dairy business and offered income therefrom under the presumptive taxation scheme under section 44AD of the Income-tax Act, 1961. During assessment, the Assessing Officer, being dissatisfied with the supporting documents furnished to establish the genuineness of the dairy activity, treated the entire receipts as unexplained money under section 69A and invoked section 115BBE.

Aggrieved by the assessment order, the assessee preferred an appeal before the Commissioner (Appeals). The Commissioner (Appeals) confirmed the addition on the ground that the assessee had failed to furnish basic details of business operations, customers, purchase records and other supporting evidence to establish the genuineness of the dairy receipts and their nexus with the cash deposits.

Aggrieved thereby, the assessee preferred an appeal before the Hon'ble ITAT. The Hon'ble Tribunal observed that the receipts had already been disclosed by the assessee in the return of income under section 44AD and the corresponding presumptive income had been offered to tax. It held that once the receipts were disclosed under the presumptive taxation scheme, the same could not again be treated as unexplained money under section 69A in the absence of independent material establishing that the amount represented a different undisclosed source. The Tribunal further observed that the mere absence of detailed purchase bills and expenditure vouchers could not, by itself, convert the disclosed business receipts into unexplained money.

Accordingly, the Hon'ble Tribunal held that treating the same receipts as unexplained money would result in double taxation and deleted the addition of ₹8,70,140 made under section 69A. The appeal filed by the assessee was allowed.

4. DCF Valuation Cannot Be Rejected Merely on the Basis of Subsequent Actual Results or Preference for NAV Method

In the instant case[4], the assessee-company issued equity shares at a premium and determined their fair market value under the Discounted Cash Flow (DCF) method on the basis of a valuation report prepared by a Chartered Accountant. The Assessing Officer, relying on an internal audit objection questioning the projections and preferring the Net Asset Value (NAV) method, adopted a lower fair market value and made an addition of ₹1,36,55,742 under section 56(2)(viib) of the Income-tax Act,

[3] Ram Dhari v. Income-tax Officer [2026] 192 taxmann.com 160 (Chandigarh - Trib.)

[4] SMS Integrated Facility Services (P.) Ltd. v. Deputy Commissioner of Income-tax [2026] 192 taxmann.com 164 (Mumbai - Trib.)

1961. The Commissioner (Appeals) upheld the addition.

Aggrieved by the order of the Commissioner (Appeals), the assessee preferred an appeal before the Hon'ble ITAT. The Hon'ble Tribunal observed that, on the date of issue of shares, Rule 11UA permitted valuation under the DCF method and recognised a valuation report prepared by an accountant. The subsequent amendment omitting the words "or an accountant" could not retrospectively invalidate the Chartered Accountant's report. It further held that the Assessing Officer could examine the assumptions and calculations of the valuation report; however, the DCF method could not be rejected merely because the NAV method was preferred or actual results in subsequent years differed from the projections. Any deviation from the valuation adopted by the assessee was required to be supported by identified defects and a reasoned basis for determining the fair market value.

The Hon'ble Tribunal also held that the Assessing Officer had failed to properly consider the assessee's reply while passing the order under section 148A(d). Further, the computation furnished by the assessee on a "without prejudice" basis could not be treated as an admission of the correctness of the valuation adopted by the Assessing Officer.

Accordingly, the Hon'ble ITAT held the reassessment proceedings to be unsustainable and independently deleted the addition of ₹1,36,55,742 under section 56(2)(viib) on merits. The appeal filed by the assessee was allowed.