



LEGAL Decisions



INCOME TAX

LD/75/12 ITAT Delhi: ITA No. 5335/Del/2025 The Dy. Commissioner of Income Tax Vs. Manchanda and Manchanda Builders P. Ltd. 29th June 2026

ITAT deleted addition made by AO by applying Percentage Completion Method (POCM) as against Project Completion Method (PCM) method consistently followed by Assessee; In relevant year, assessee had recognized revenue of 56 units at Rs. 23.01 Cr and the remaining units were sold in subsequent AYs where the year-wise revenue was recognized and due taxes were paid; Since project inception, assessee had recognized the revenue as per PCM and the AO cannot change the method to POCM randomly and bring to tax the income which was already offered for tax in earlier years or in subsequent AYs.

LD/75/13 Calcutta High Court: WPO 212 of 2026 Pricewaterhouse Coopers Private Limited Vs. The Assistant Commissioner of Income Tax 25th June 2026

HC quashed assessment order passed u/s 143(3) r.w.s. 144B against PWC, holding that granting merely two days to respond to show cause notice under Section 144B(6) without affording reasonable opportunity of hearing violated principles of natural justice; Assessment order was passed in undue haste at the far end of limitation, reducing the opportunity of hearing to a ritualistic formality; Reliance placed on SC ruling in SC judgment in Whirlpool Corporation and Harbanslal Sahnia; Matter remitted back to AO for de novo adjudication.

LD/74/14 Karnataka High Court: Income Tax Appeal No. 54 of 2025 Sri Kudlur Ramaswamy Sathyanarayana Vs. The Assistant Commissioner of Income Tax 18th June 2026

Karnataka HC upheld ITAT order sustaining addition of Rs. 1.50 Cr u/s 69 towards unexplained

investment, holding that the Assessee's categorical admission under Section 132(4) regarding undisclosed investment constituted substantive evidence; Mere filing of an ITR does not amount to retraction and that a valid retraction must be made at the earliest opportunity, supported by an affidavit, cogent evidence, or proof of coercion or duress; Noting that the alleged retraction was made after about one-and-a-half years and was unsupported by credible evidence, HC concurs with the ITAT that sufficient material existed to corroborate the admission and refuses to interfere with the addition.

LD/75/15 Kerala High Court: WP No. 4122 of 2023 Noel Villas and Apartments Vs. The Assistant Commissioner of Income Tax 08th June 2026

HC upheld assessment order passed without issuance of draft assessment under Section 144B holding that the same is mandatory only for an 'eligible assessee' namely cases involving transfer pricing variation or certain non-residents under Section 144C, not ordinary Assessee; Statutory requirement held to be satisfied a show cause notice clearly indicating proposed variations was issued and an opportunity to respond was granted; Further, HC held the order as not time-barred since by virtue of Finance Act, 2022, the time limit for AY 2020-21 was extended up to 30/09/2022, and the order was passed on 28/09/2022.

LD/75/16 ITAT Ahmedabad: ITA No. 63/Ahd/2024 Dhaval Patel Vs. The Assistant Commissioner of Income Tax 08th June 2026

Ahmedabad ITAT deleted additions based solely on WhatsApp chats, holding that uncorroborated electronic communication cannot constitute conclusive evidence of undisclosed income; The Tribunal observed that the message stating "50 lakhs given to Manan yesterday" nowhere indicates a cash payment and, therefore, the Revenue was unjustified in presuming an unaccounted cash outflow; Noting that the assessee had explained the transaction as a cheque payment and furnished the ledger account, PAN and address of Shri Manan and so the burden had shifted to the AO to conduct further enquiry; Suspicion, however strong, cannot replace evidence.

LD/75/17 ITAT Mumbai: 658/Mum/2026 Posco Holdings Inc Vs. The Dy. Commissioner of Income Tax 25th May 2026 (International Tax)

Mumbai ITAT allowed the assessee's appeal and held that penalty under Section 271AA was unsustainable as the assessee had established a reasonable cause for not reporting the

international transaction in Form 3CEB; Revenue failed to establish any nexus between the sale of raw materials and the assessee's Project Office/ PE in India; Further, no addition was made to the returned income, no profits were attributed to the PE, and the transaction had been accepted at Arm's Length Price in the hands of the Indian AE; These facts supported the assessee's bona fide belief that the transaction was not taxable in India under the Act or the India-Korea DTAA; Separately, ITAT held that the CIT(A) had exceeded its jurisdiction by enhancing the penalty to cover guarantee fees and trade affairs services, which were never the subject matter of the AO's penalty proceedings.

LD/75/18 ITAT Mumbai: 6255/Mum/2025 The Dy. Commissioner of Income Tax Vs. Anand Rathi Global Finance Limited 22nd May 2026

ITAT upheld deleting of disallowance of discount on issue of NCDs, holding that such discount is revenue expenditure allowable in the year of issue where Assessee opts to claim it fully; Ordinarily, revenue expenditure incurred in a particular year is to be allowed in that year, and Revenue cannot compel Assessee to spread the expenditure over number of years, when already incurred; Accounting treatment in books is not determinative of tax allowability and deduction must be tested strictly under the provisions of the Act; No statutory provision mandated amortisation of such expenditure and AO was not justified in spreading the deduction over the life of the debentures.

LD/75/19 ITAT Bangalore: 1798/Bang/2025 Kundapura Vyavasaya Seva Sahakari Sangha Vs. The Income Tax Officer 27st May 2026

ITAT held that the assessee, a primary agricultural credit co-operative society was entitled to deduction under Section 80P(2)(a)(i) in respect of interest earned on deposits with scheduled and co-operative banks; Following the Karnataka HC ruling in Tumkur Merchants, Tribunal held that interest earned on surplus business funds temporarily parked with banks remained attributable to the business of providing credit facilities and was not assessable as "income from other sources"; ITAT distinguished Totgars Co-operative ruling observing that the assessee had claimed deduction under Section 80P(2)(a)(i), not Section 80P(2)(d); ITAT deleted the disallowance of provision for interest and expenses, holding that it was based on mere surmises despite the assessee consistently following the mercantile system.

LD/75/20 ITAT Mumbai: ITA No. 1517/Mum/2026 Balgopal Trust Vs. The Income Tax Officer 21st May 2026

ITAT held that assessee was entitled to deduction u/s 54F since it had substantially complied with all the statutory conditions by acquiring rights in a specifically identified under-construction residential flat and paying the entire consideration including amount deposited with Bombay High Court; Denial of possession owing to the builder's default, despite the High Court restraining alienation of the allotted flat, could not defeat the exemption since the delay was beyond the assessee's control; W.r.t. amount deposited in Capital Gains Account Scheme, the Tribunal held that its subsequent deposit with the High Court pursuant to judicial directions constituted valid utilization.

LD/75/21 ITAT Mumbai: ITA No. 6105/Mum/2025 Income Tax Officer Vs. Vaibhav Vijay Sawant 20th May 2026

ITAT upheld the assessee's claim for deduction u/s 54, holding that exemption could not be denied merely because the new residential property was under construction, possession had not been handed over, or the purchase agreement was unregistered; The Tribunal observed that the assessee had invested the entire long-term capital gain within the prescribed period, and acquired enforceable rights through allotment letters; Relying on CBDT Circular No. 471 (1986) and the co-ordinate bench decision in Sunder Kaur Sujan, it held that booking an under-construction property amounts to construction of a residential house for the purposes of Section 54; Since the delay was attributable to the builder, as evidenced by RERA proceedings, assessee's exemption could not be denied.

LD/75/22 ITAT Chennai: ITA No. 2495/Chny/2025 Kuttiappagounder Duraiyan Vs. Income Tax Officer 04th May 2026

ITAT quashed reassessment proceedings u/s 147 noting that no evidence of 'issuance' of notice was placed on record by the Revenue; "issuance" of notice is complete when the notice is dispatched and goes out of the control of the issuing authority; Section 292BB cures defects in service of notice where the Assessee has participated in proceedings without objection, but it does not cure jurisdictional defects arising from non-issuance; Notice dated 29/03/2017 was issued on the same day, but was returned back on 31/03/2017, due to incomplete address of the Assessee, and the same was re-sent to the Assessee on 07/04/2017.

DISCIPLINARY CASE

Failure to detect and report fictitious sales transactions and non-payment of service tax while conducting statutory and tax audits – Issuance of unqualified audit report without sufficient audit evidence and failure to furnish information during disciplinary proceedings – Held, the Respondent is guilty of professional misconduct under Clause (2) of Part III of the First Schedule and Clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Held:

In this case, the Respondent, being the statutory auditor of the Company for the financial years 2010-11 to 2012-13 and the tax auditor for the financial years 2008-09 to 2012-13, was alleged to have failed to detect and report fictitious transactions recorded under the head “Sales–Bio–IT”. The Committee noted that the investigation conducted by the Department revealed that the Company had recorded fictitious sales to project an inflated financial position, while no consideration was received against such transactions. The investigation further established, based on bank statements, that no monetary transactions relating to the alleged services had taken place and that the Managing Director admitted the Company had not received any amount towards such services. The Committee also observed that customers purportedly shown as recipients of the services denied having entered into any agreement with or receiving any services from the Company. The Committee noted that despite certifying the financial statements, the Respondent failed to produce any audit working papers or evidence demonstrating the audit procedures performed to verify the material sales, which significantly contributed to the Company’s reported profits. It further observed that the Respondent issued unqualified audit reports despite the Company having neither paid service tax nor filed statutory service tax returns, although substantial demand had subsequently been raised by the Department. The Committee held that the Respondent failed to exercise due diligence, obtain appropriate audit evidence and report material misstatements in the financial statements. It also noted that despite repeated opportunities, the Respondent failed to submit any substantive defence or furnish the information sought during the disciplinary proceedings. Accordingly, the Committee held the Respondent guilty of professional misconduct falling within the meaning of Clause (2) of Part III of the First Schedule and Clauses (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

[PR-162/15/DD-10/2016/DC-753/2018]

Failure to report material loan defaults, doubtful recoveries and loans sanctioned beyond permissible limits in audit of co-operative society – Non-reporting of material irregularities and failure to discharge statutory reporting obligations under Delhi Co-operative Societies Rules, 2007 – Held, the Respondent is guilty of professional misconduct under Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Held:

In this case, the Respondent being the statutory auditor of a co-operative society alleged to have failed to report material irregularities relating to outstanding loans, recoverability of interest and sanction of loans beyond the financial powers of the Society. The Committee noted that the financial statements disclosed loans of ₹32.96 crore and recoverable interest of ₹31.49 crore, while only ₹5.21 crore was recognised as interest income during the year. It further observed that the Society had created a provision for doubtful recovery of interest and had instituted 591 arbitration proceedings against defaulting members, indicating prolonged and material defaults. Referring to Rules 80(6)(a)(v) and 80(7)(d) of the Delhi Co-operative Societies Rules, 2007, the Committee observed that the auditor was required to report material irregularities in the realisation of money due to the Society and disclose amounts appearing bad or doubtful of recovery. Though the Respondent claimed that a list of defaulters had been submitted with the audit report, the Committee found that the same was not submitted before the Registrar of Co-operative Societies and treated it as an afterthought. The Committee held that the Respondent failed to make any qualification or adverse comment despite the material outstanding loans and doubtful recoveries. With respect to the second charge, the Committee observed that several loans exceeded the permissible sanction limit under the Society’s bye-laws. Although the Respondent contended that the credit limit had been enhanced through amendment of the bye-laws, he failed to produce evidence of approval by the Registrar of Co-operative Societies and his submissions were found to be inconsistent with the statements made in the audit report. The Committee further noted an unusual transaction involving transfer of a deceased member’s outstanding loan to his son’s account, which remained unrecovered despite arbitration awards and held that such significant matters also warranted appropriate reporting by the auditor. Accordingly, the Committee held that the Respondent failed to exercise due diligence and discharge his statutory reporting responsibilities and was guilty of professional misconduct under Clauses (6) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

[PR-250/15/DD/223/15/DC/990/2019]

The section on Legal Updates has been contributed by CA. Sahil Garud and Disciplinary Directorate.