LATEST CASE LAWS

- CHHATTISGARH HC: Deputy Director Jagdalpur Mining Officer v. DCIT
- TELANGANA HC: M/s. Prasad Film Laboratories Pvt. Ltd. v. ACIT
- BOMBAY HC: Bank of India v. DCIT

UPDATES

- CBDT Circular No. 09/2025 dated 21st July
- CBDT Circular No. 10/2025 dated 28th July
- CBDT Notification No. 71/2025 Dated 2nd July 2025

EDITOR'S COLUMN

- Supreme Court: Shital Fibers Ltd. v. CIT- This Judgement states that deductions under Sections 80-IA/80-IB of the Income Tax Act need not reduce the gross total income before computing deductions under other provisions like Section 80-HH for export profits.

TAX BITES

- ITAT KOLKATA: Satish Kumar Birdika v. ITO, Kolkata.
- ITAT HYDERABAD: Sri Ramalingeswara Swamy Temple v. Income Tax Officer

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DIRECT TAX UPDATES

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LATEST CASE LAWS

CHHATTISGARH HC: Deputy Director Jagdalpur Mining Officer v. The DCIT [TAXC No. 114 of 2025]

[TCS under Section 206C(1C) is not applicable on compounding fees collected for illegal mining]

Background: A TDS survey revealed that the State Mining Department had not collected tax collected at source on compounding fees/fines recovered from persons involved in illegal mining and transportation of minerals. The Income Tax Department treated the State as an assessee-in-default under Section 206C(1C) of the Income Tax Act. The assessee argued that TCS applies only where rights in a mine/quarry are legally transferred via lease, licence, or contract, and not on penal charges like compounding fees under Section 23A of the MMDR Act and Rule 71(5) of the Chhattisgarh Minor Mineral Rules, 2015.

Decision: The High Court held that TCS provisions under Section 206C(1C) apply only to lawful transfers of rights in mines/quarries. Compounding fees, being penalties under Section 23A of the MMDR Act and Rule 71(5) of the Chhattisgarh Rules, are not "royalty" or consideration for mining rights. 'Royalty' and 'Compounding Fees' both are mutually exclusive. Since there is no legislative mandate to collect TCS on such fines, the ITAT order was set aside, and the appeal was allowed in favour of the assessee. The judgment is significant as it settles the position that penal receipts, such as compounding fees, stand on a different footing altogether and cannot be equated with royalty or other consideration for lawful mining rights.

TELANGANA HC: M/s. Prasad Film Laboratories Pvt. Ltd. v. ACIT [I.T.T.A. Nos. 142, 144 and 180 of 2008]

[Payments made in the ordinary course of business to a parent company were held not to be deemed dividends under Section 2(22)(e)]

Background: The appellant made regular payments to its parent company during the course of business, which were treated by the Assessing Officer as deemed dividend under Section 2(22)(e) of the Income Tax Act. The ITAT remanded the matter back to assessees whether accumulated profits existed on the date of each such payment. The appellant challenged this remand order, arguing that the payments were trade advances made in the ordinary course of business and not in the nature of loans or advances to shareholders.

Decision: The High Court held that trade advances made during normal business transactions do not fall within the ambit of deemed dividend under Section 2(22)(e). It relied on various judgments, including Creative Dyeing and Raj Kumar, and CBDT Circular No. 19/2017, which clarified that commercial trade advances are outside the scope of deemed dividend. The ITAT's remand was held to be uncalled for, and the Court allowed the appeal, holding the payments were not to be treated as dividend.

The significance of this judgment lies in the reaffirmation of the principle that Section 2(22)(e) must be strictly construed and applied only in cases where a shareholder derives a direct benefit in the form of loans or advances from a closely held company out of accumulated profits. It does not extend to situations where payments are made as part of ongoing commercial transactions which are essential for business operations.

BOMBAY HC: Bank of India v. DCIT [Income Tax Appeal No. 425 of 2003]

[RBI subsidy under the Export Credit Scheme is not taxable as "interest" under Section 2(7) of the Interest Tax Act, as it does not stem from any loan or advance]

Background: The assessee, a public sector bank, received ₹12.93 crore from the RBI under the Export Credit (Interest Subsidy) Scheme, 1968, as compensation for offering export credit to borrowers at concessional interest rates. While filing its return for AY 1992–93, the assessee excluded this subsidy from chargeable interest under the Interest Tax Act, 1974. The Assessing Officer treated the subsidy as "interest" under Section 2(7) and levied interest tax, which was upheld by the CIT(A) and ITAT. Aggrieved by the decision, the assessee filed an appeal before the Bombay HC under Section 260A of the Income Tax Act.

Decision: The Court held that the subsidy received from the RBI was not taxable as "interest" under Section 2(7) of the Interest Tax Act, as it did not arise from any loan or advance made by the assessee to the RBI. It emphasized that only amounts directly arising from loans or advances fall within the scope of "interest." The Court relied on the Supreme Court rulings in *State Bank of Patiala v. CIT* and *Muthoot Leasing*, and the Delhi High Court decision in *Punjab National Bank v. CIT*, to hold that the RBI subsidy, being compensatory in nature and not connected to any borrowing by RBI, could not be taxed. The appeal was accordingly allowed in favour of the assessee.

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UPDATES

Key Highlights of the 2025 Notification/Circular:

Circular No. 09/2025 dated 21st July, 2025, CBDT provides relief from higher TDS/TCS rates for inoperative PANs under sections 206AA/206CC

CBDT has modified Circular No. 3/2023 to address demands raised for short-deduction/collection of TDS/TCS due to inoperative PANs under Rule 114AAA. Relief is granted from higher TDS/TCS rates under Sections 206AA/206CC where PAN is subsequently made operative either by 30.09.2025 for payments upto 31.07.2025, or within two months for payments from 01.08.2025 onwards. In such cases, only regular TDS/TCS provisions under Chapter XVII shall apply.

Circular No. 10/2025 dated 28th July, 2025, Relaxation of time limit for processing of returns of income filed electronically which were incorrectly invalidated by CPC.

The CBDT has allowed relaxation for electronically filed income tax returns up to 31.03.2024 that were wrongly invalidated by CPC due to technical errors, permitting their processing under section 143(1) by 31.03.2026. All consequential actions, including refunds with applicable interest, will follow. However, refunds will not be issued where PAN is not linked with Aadhaar as per Circular No.03/2023.

CBDT Notification [Notification No. 71 /2025/F. No. 300196/29/2024-ITA-I] dated 2nd July 2025 On Exemption from specified income U/s 10(46) to Karnataka State Pollution Control Board

The Central Government has notified the Karnataka State Pollution Control Board, Bengaluru, for income tax exemption under section 10(46) of the Income-tax Act, 1961. The exemption covers specified incomes such as consent fees, water/air analysis charges, environmental compensation, government grants, interest, and incidental receipts related to environmental protection. It applies for AYs 2024-25 to 2028-29, subject to conditions that the Board does not undertake commercial activities, the income nature remains unchanged, and returns are duly filed.

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EDITOR'S COLUMN

Supreme Court: Shital Fibers Ltd. v. Commissioner of Income Tax (and connected cases) [CIVIL APPEAL NO.14318 OF 2015]
[Supreme Court Clarifies Restriction Under S. 80-IA(9) On Claiming Cumulative Deductions Under S.80IA & 80-HHC]

Background:

In this case, the appellant had claimed deductions under Section 80-HHC (export profits) and Section 80-IA/80-IB (industrial profits). However, the Income Tax Department disallowed these claims, contending that Section 80-IA (9) prohibits availing double benefits on the same profits, a view later upheld by the Punjab & Haryana High Court, leading the appellant to approach the Supreme Court.

Department's Contentions:

The Department submitted that if an assessee claims any deduction under the provisions of Section 80-IA and 80-IB, he cannot claim any deduction to the extent of such profits and gains which had been claimed and allowed under the provisions of Section 80-HHC. The Reason being Section 80-HHC is included in Heading 'C' of Chapter VI-A of the IT Act. He submitted that the profits in respect of which deduction was allowed under section 80-HHC has also been previously allowed under section 80-IB.

Decision of the High Court

The appeal preferred by the appellant against the said Order was dismissed by Commissioner of Income Tax (Appeals). In appeal preferred by the appellant before the ITAT, the appellant was unsuccessful. Thereafter, an appeal was preferred before the Punjab and Haryana High Court which came to be dismissed by the impugned judgment and order. The High Court took the view that Sub-section (9) of Section 80-IA bars claim for deduction under any other provision of Chapter VI-A, if deduction under Section 80-IA has been allowed. HC noted that section 80-IA (9) has been introduced with a view to prevent the taxpayers from claiming repeated deductions in respect of the same amount of eligible income and that too in excess of the eligible profits. Thus, the object of section 80- IA(9) being not to curtail the deductions computable under various provisions under heading C of Chapter VI-A, it is reasonable to hold that section 80-IA(9) affects allowability of deduction and not computation of deduction.

Decision of the Supreme Court

The bench comprising **Justices Abhay S Oka**, **Ahsanuddin Amanullah** and **AG Masih** delivered the verdict while answering a reference after a matter was referred to the larger bench due to split verdict in ***Assistant Commissioner of Income Tax v. Micro Labs Limited (2015)*** on the issue of whether deductions claimed under Section 80-IA/80-IB (for industrial profits in certain categories) and Section 80-HHC (for export profits) could be cumulatively allowed. One view rendered by **Justice Anil R. Dave** was that the deduction under Section 80-IA must first reduce gross total income before computing deductions under other provisions (like Section 80-HHC). Opposing **Justice Dave's** view, **Justice Dipak Misra** held that Section 80-IA (9) does not alter the computation of deductions under other provisions but only restricts the aggregate deduction to not exceed the eligible profits. The case was referred to a 3-judge bench due to a split decision. The judgment authored by **Justice Oka** upheld the view taken by Justice Misra, stating that assessees do not have to subtract the Section 80-IA deduction before calculating the Section 80-HHC deduction, i.e., both the deductions can be calculated separately.

EDITOR'S COMMENTS

- The Supreme Court's recent ruling on the interplay between Section 80-IA/80-IB and Section 80-HHC provides much-needed clarity on a long-standing controversy. By holding that deductions can be computed separately, while ensuring that the aggregate does not exceed the eligible profits, the Court has struck a balance between preventing double benefits and safeguarding the assessee's rightful claims.
- This interpretation reinforces the principle that tax incentives must be read purposively — to encourage industrial growth and exports — rather than mechanically denying benefits on technical grounds. The decision also settles the earlier divergence of views in Micro Labs, thereby bringing certainty to taxpayers and practitioners alike.

TAX BITES

ITAT KOLKATA: Satish Kumar Birdika v. ITO, Kolkata [I.T.A. No. 1359/Kol/2024]

[Reassessment was quashed as approval under Section 151(ii) was wrongly granted by the PCIT instead of the PCCIT]

For A.Y. 2017–18, reassessment proceedings were initiated against the assessee based on alleged unexplained capital of ₹2.26 crore introduced in a partnership firm. Notice under Section 148 was issued on 21.07.2022 after obtaining approval from the Principal Commissioner of Income Tax (PCIT). The assessee contended that under the amended provisions of Section, since more than three years had elapsed from the end of the assessment year, the required approval should have been granted by the Principal Chief Commissioner (PCCIT), not the PCIT. The ITAT held that the approval granted by the PCIT was not valid as per the new regime under Section 151(ii). Since more than three years had passed from the end of A.Y. 2017–18, approval for reopening should have come from the PCCIT. Relying on the Supreme Court judgment in Union of India vs. Rajeev Bansal and other binding rulings of other courts, the Tribunal concluded that the reassessment proceedings were without jurisdiction and thus quashed the entire assessment, allowing the assessee's appeal.

ITAT HYDERABAD: Sri Ramalingeswara Swamy Temple v. Income Tax Officer [ITA No. 579/Hyd/2025]

[Exemption under Section 11 cannot be denied for a minor delay in filing Form 10BB if the audit report is available before assessment.]

The appellant, a religious institution registered under Sections 12A and 12AA and governed by the Telangana Endowments Department, filed its return for AY 2023–24 on 28.11.2023, along with the audit report in Form 10BB. However, the due date for filing of Form 10BB was 31.10.2023, and the delay of 28 days led the AO to deny exemption under Section 11 during processing under Section 143(1). The CIT(A) upheld the denial, relying on the Supreme Court's decision in Wipro Ltd. to hold that statutory timelines are mandatory and rejected the assessee's explanation. The assessee appealed before the Tribunal, contending that the audit report was available to the AO before the assessment was completed, and hence, the exemption should not have been denied for a minor procedural lapse. The ITAT held that a minor delay of 28 days in filing Form 10BB, especially when it was available before the order under Section 143(1) was passed, should not result in denial of exemption under Section 11. It emphasized that the AO ought to have taken a liberal view in line with precedents (Sardeivatha Education Trust v. ITO (ITAT Bangalore) and Shilparamam Arts, Crafts & Cultural Society (Telangana High Court). The Tribunal accordingly set aside the order of the CIT(A) and directed the AO to allow the exemption under Section 11 and delete the addition.

- Ravi Agarwal reappointed as CBDT Chairman for one year.
- CBDT taking action for non-responsive taxpayers having foreign income: Finance Ministry
- ITR filing due date extended but deadline to pay final tax without penalty is July 31 or Sept 15 now for FY 2024-25?

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