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DIRECT TAX UPDATES:

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LATEST CASE LAWS

EDITOR'S COLUMN

- ***SUPREME COURT- L.K. Trust v. Commissioner of Income Tax & Anr. [Civil Appeal No. 527/2012]***

The Supreme Court held that the assessee-trust was entitled to deduction under Section 36(1)(iii) for interest on funds borrowed from Corporation Bank, even though routed through a group company before being used to purchase shares of Shaw Wallace and Company Ltd. Applying the commercial expediency test from S.A. Builders v. CIT and Sharp Business System v. CIT, it set aside the Karnataka High Court's judgment and restored the ITAT's order allowing the deduction.

TAX BITES

ITAT, Delhi: Deputy Commissioner of Income Tax, Delhi v. Biba Apparels Pvt. Ltd. [ITA No. 7689/Del/2025, ITA No. 7684/Del/2025 and ITA No. 7687/Del/2025]

- The Hon'ble tribunal held that CAM charges paid to the Ambience Group are contractual maintenance payments, not rent, and are liable to TDS at 2% under Section 194C rather than 10% under Section 194I. Following its own coordinate bench rulings and Nijhawan Travel Service (P) Ltd. v. ACIT, it upheld deletion of the Rs. 40,58,520/- demand under Section 201(1)/201(1A) and dismissed all three Revenue appeals.

Gujarat High Court: Bhavnaben Darshanbhai Patel v. Income Tax Officer [SCA No. 780 of 2026]

[High Court quashed move to reopen Income Tax Assessment over vague third-party material]

The Hon'ble High Court quashed the reassessment notices ruling that the IT Department cannot reopen completed assessments based on vague third-party documents that have no clear link to the person concerned. The case arose after search under section 132 in the cases on B Safal Real Estate Group and City Estate Management India. The Revenue relied on entries in the register indicating unaccounted consideration in relation to land transaction linked to the Assessee. The Assessee contended that the seized enquiry register was a third-party document containing only tentative property details, did not bear her name. The revenue argued that expressions "pertains to" and "relates to" under Explanation 2 to Section 148 have a wide ambit and that at the stage of reopening, only prima facie material is required. Rejecting the Revenue's stand, the Court held that even for reopening, there must exist a "live link" between the seized material and the assessee. The Court found that the loose paper relied upon by the Department merely contained general property details without any reference to the petitioner. The Court observed that such vague and non-specific material, especially when dated subsequent to the actual registered transaction, cannot justify an inference of unaccounted payment. Accordingly, Court allowed the Writ Petitions.

Telangana High Court: Piramal Swasthya Management and Research Institute v. Assistant Commissioner of Income Tax & Anr. [W.P. (C) 12288 of 2023]

[Telangana High Court quashes IT Reassessment on Issue already examined, calls it change of opinion]

The Hon'ble High Court quashed the reassessment proceedings initiated under Sections 148A(d) and 148 of the Income Tax Act, holding that the Revenue cannot reopen an issue that had already been examined and accepted during the original scrutiny assessment under Section 143(3). The assessee, a charitable trust registered under Section 12A, had claimed exemption under Section 11(2) and filed Form 10. The AO examined the issue, sought explanations and supporting documents, and thereafter accepted the claim while completing the assessment. More than four years later, the department sought to reopen the assessment on the ground that Form 10 had not been electronically filed within the prescribed time, alleging escapement of income. Rejecting the department's contention, the Court held that the issue had already been scrutinized and consciously accepted in the original assessment, and that reopening the assessment on the same material would amount to an impermissible review and mere change of opinion. The Court further observed that the procedural requirement of electronic filing of Form 10, introduced in the relevant assessment year, could not justify reopening a completed assessment when the manually filed Form 10 had been duly considered and accepted by the AO. Accordingly, the reassessment proceedings were set aside.

Chattisgarh High Court: Maa Harsiddhi Infra Developers P. Ltd. v. ACIT [TAXC No. 152 of 2025]

[Summary proceedings cannot decide debatable ESI, EPF claims]

The Hon'ble High Court held that the Income Tax Department cannot invoke the limited powers under Section 143(1)(a) of the Income Tax Act to disallow claims involving debatable legal issues, such as delayed deposit of employees' contributions towards ESI and EPF under Section 36(1)(va). In the case relating to AY 2019-20, the Assessing Officer, while processing the return under Section 143(1)(a), disallowed Rs. 32.77 lakh on account of delayed deposits of ESI/EPF contributions. The High Court noted that divergent judicial opinions at the relevant time made the issue "highly debatable" and therefore unsuitable for adjustment under Section 143(1)(a). The Court observed that Section 143(1)(a) permits only prima facie adjustments and cannot be used to adjudicate contentious legal issues, which can only be examined in a scrutiny assessment under Section 143(3). Accordingly, it held that the Assessing Officer exceeded his jurisdiction by making the disallowance at the intimation stage and clarified that the subsequent Supreme Court ruling in Checkmate Services Pvt. Ltd. could not retrospectively justify an adjustment that was beyond the scope of Section 143(1)(a) when originally made.

SUPREME COURT : L.K. Trust v. Commissioner of Income Tax & Anr. [Civil Appeal No. 527/2012]

EDITOR'S COMMENTS

- Interest deduction under Section 36(1)(iii) cannot be denied merely because borrowed funds were routed through a subsidiary before their ultimate use, so long as the transfer is justified by commercial expediency rather than direct profit-earning. The test is whether the transaction serves the larger business interests of the assessee.

ISSUE

Whether the assessee-trust was entitled to a deduction under Section 36(1)(iii) of the Income Tax Act, 1961, being interest paid on a loan borrowed from Corporation Bank, where part of the amount was routed through a group company, M/s Gayatri Holdings Private Limited, before being used to purchase shares of Shaw Wallace and Company Limited.

BACKGROUND

The asesee borrowed money from Corporation Bank to purchase shares of Shaw Wallace and Co. Ltd. pursuant to an agreement. The Assessing Officer noted that the borrowed amount had been transferred to M/s Gayatri Holdings Pvt Ltd., a group company, which in turn transferred it to one Shri G. Venkateshwaran for purchase of the shares, and accordingly disallowed the interest deduction under Section 36(1)(iii). The CIT(A) upheld the disallowance . The ITAT allowed the assessee's appeal, by giving interpretation of the Section 36 (1) that the sub section has three important words or phrases, i.e., (i) Interest, (ii) Borrowed and, (iii) For the purpose of business or profession. These three pre-requisites for deduction under Section 36(1)(iii) laid down were satisfied and that the assessee's business, comprising money-lending, speculation, investment in shares etc., was composite in nature. The Revenue's appeal was admitted by the Karnataka High Court, which reversed the ITAT finding and held in favor of the Revenue, holding the Assessing Officer was justified in disallowing the interest on the amount routed through Gayatri Holdings Pvt. Ltd.

DECISION

The Supreme Court held that the High Court erred in holding that the business of the subsidiary company could not, in law, be considered the business of the assessee, and in finding that the amount borrowed was utilised for the benefit of the subsidiary rather than the assessee's business. It is opined that the transfer of borrowed funds must be examined from the standpoint of commercial expediency, and not from the standpoint of whether the amount was advanced for earning profits. The Court agreed with the ITAT's decision on the interpretation of Section 36(1)(iii). Appeal filed by the Assessee is allowed and Impugned Judgement passed by the Hon'ble High Court is set aside. That the assessee is entitled to seek deduction of the amount of interest paid for the capital borrowed for the purposes of the business.

ITAT, Delhi: Deputy Commissioner of Income Tax, Delhi v. Biba Apparels Pvt. Ltd. [ITA No. 7689/Del/2025, ITA No. 7684/Del/2025 and ITA No. 7687/Del/2025]

CASE SUMMARY

Background: The assessee, engaged in retail of ethnic wear under brands 'Biba' and 'Rangriti', operated from premises of the Ambience Group. A survey under Section 133A(2A) revealed that Common Area Maintanance Charges (CAM) recovered from tenants had TDS deducted at 2% under Section 194C, whereas the AO held these to be part of rental activity requiring 10% TDS under Section 194I, raising a demand of Rs. 40,58,520/- under Section 201(1)/201(1A). The CIT(A) allowed relief, holding CAM charges to be contractual maintenance payments liable to TDS under Section 194C, relying on CIT(TDS) v. Liberty Retail Revolutions Ltd. The Revenue appealed to the ITAT.

Held: The ITAT held that CAM charges are maintenance charges paid by a unit for the upkeep of common areas, covering expenses on cleanliness, utilities and maintenance, and are shared expenses distinct from rental payments. Such charges cannot be construed as payment of rent for occupation of premises, and the premise that CAM charges are in the nature of lease rentals or licence charges is erroneous. The Tribunal relied on its own coordinate bench decisions in the assessee's case for AY 2011-12 and 2012-13, as well as the decision in Nijhawan Travel Service (P) Ltd. v. ACIT and found that the facts and circumstances remained unchanged from those precedents.

Result: All three Revenue appeals were dismissed, upholding deletion of the Rs. 40,58,520/- demand and confirming CAM charges are liable to TDS under Section 194C, not 194I.

Significance: The decision reaffirms the settled position that CAM charges, being contractual payments for maintenance services rather than payments for use of premises, fall within the scope of "work" under Section 194C and not "rent" under Section 194I, thereby attracting TDS at 2% rather than 10%.

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