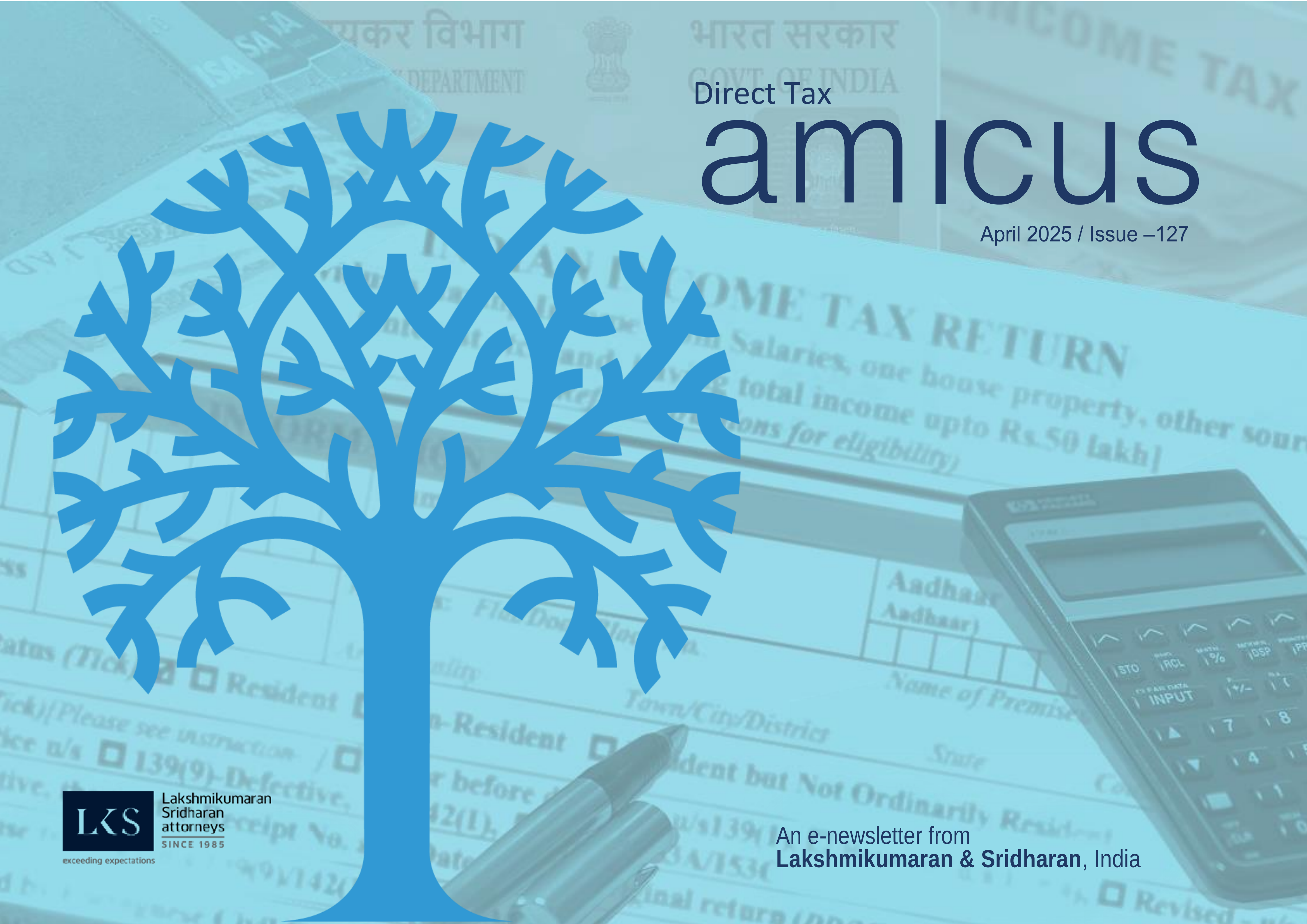

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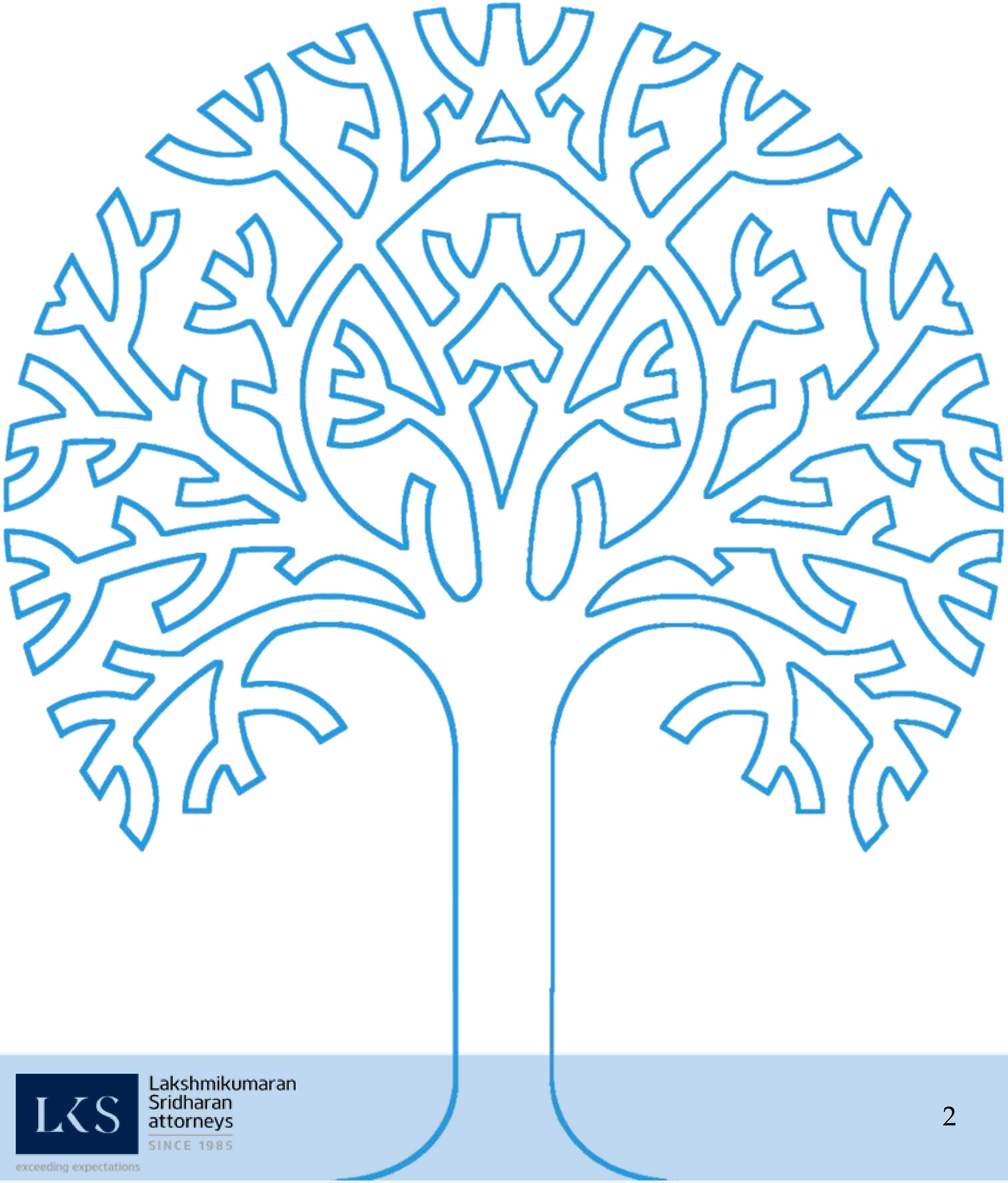

Article

Section 194T – A new compliance frontier for partnership firms and LLPs

By **Ravi Sawana and Samyak Lohade**

The introduction of Section 194T in the Income-tax Act, 1961 represents a **Section 194T – A new compliance frontier for partnership firms and LLPs** pivotal shift in the tax regime governing payments made by partnership firms and LLPs to their partners. According to the authors, the provision which is effective from 1 April 2025, in its current form, presents significant interpretative issues, and the determination of nature of payment by the firm to partner, either at the time of credit or payment, is essential before withholding tax under this section. The article discusses key interpretational challenges and notes that the absence of clear definitions, issues in their application to the different transactions between firm and its partners, and delineation of nature of payments could give rise to inconsistent compliance and increased litigation risk. The authors hence suggest that timely and comprehensive guidance from CBDT is essential to address the ambiguities in scope, timing, and classification of partner payments.

Section 194T – A new compliance frontier for partnership firms and LLPs

By Ravi Sawana and Samyak Lohade

The introduction of Section 194T by the Finance (No. 2) Act, 2024 in the Income-tax Act, 1961 ('**Act**'), represents a pivotal shift in the tax regime governing payments made by partnership firms and LLPs to their partners. Effective from 1 April 2025, the provision mandates the deduction of tax at source ('**TDS**') at 10% on amounts (either single sum or in aggregate) exceeding INR 20,000 in a financial year. Such payments must be 'in the nature of salary, remuneration, commission, bonus or interest'.

While the legislative intent is to enhance tax transparency and plug revenue leakages, the provision, in its current form, presents significant interpretative issues.

Section 194T – Scope and applicability

Section 194T requires the firm[1] to deduct TDS on payment of any sum which is in the nature of salary, remuneration, bonus, commission or interest. These payments are often made under the terms of the partnership deed and are allowable as deductions u/s. 40(b) of the Act, subject to specified limits.

Notably, the phrase *'in the nature of'* used in the provision significantly broadens its scope. It implies that not only the explicitly mentioned terms but also any payment akin to salary, remuneration, commission, bonus, or interest may fall within the ambit of TDS under this section. However, if the payment is not 'in the nature of salary etc.', then TDS u/s. 194T may not get attracted. Thus, the determination of nature of payment by the firm to partner, either at the time of credit or payment, is essential before withholding tax under this section.

Key interpretational challenges

While the legislative intent appears to ensure tax traceability on partner payouts, several interpretational issues merit attention:

Lack of definition for key terms

Section 194T does not define the terms such as 'salary,' 'remuneration,' 'bonus,' and 'commission.' These terms are generally understood in the context of an employer-employee relationship, which is conspicuously absent between a partner and the firm. Further, these terms are also not defined in

[1] Section 2(23) of the ITA defines 'firm' to include LLP

Section 40(b) of the Act. The definitions provided in Section 15 of the Act shall not be applicable to Section 194T. This is because the Explanation 2 to Section 15 of the ITA explicitly states that any salary, bonus, commission or remuneration paid to a partner shall not be regarded as 'salary' for the purposes of the head 'Salaries.' As a result, the ordinary meaning of these terms must be drawn from judicial precedents, accounting literature, or commercial practice.

In the absence of clear legislative definitions under Section 194T, a risk arises that revenue authorities may adopt a broad interpretation of these terms, potentially expanding the scope of the section. To avoid any ambiguity, the partnership deed must spell out the nature of different payments that shall be made to the partners.

Capital Account Credits and revaluation implications

Another ambiguity pertains to whether certain credits to a partner's capital account which are on account of revaluation of assets, recognition of goodwill, restructuring of the firm or other notional allocations, would also fall within the ambit of Section 194T. It shall depend on determination of nature of these payments, i.e. whether such payments are 'in the nature of salary, commission, bonus or remuneration'.

Payment / credits on account of revaluation of assets or recognition of goodwill or change in profit sharing ratio etc. are on account of adjustment / settlement of *inter-se* obligations between the partners and firm. These are not in the nature of salary etc. as sought to be covered by the provision. TDS u/s. 194T shall be applicable on those payment made to partners which are in consideration of the services rendered by them to the firm. Then irrespective of the nomenclature, TDS u/s. 194T may get attracted.

Further, mere credit of any and every amount to 'the account of the partner (including the capital account)' shall not attract Section 194T. As aforesaid, such payment must be 'in the nature of' salary etc. If not, then credits to partners account shall not attract this section.

Classification ambiguities between profit share and remuneration

The profit share of a partner, being exempt under Section 10(2A), falls outside the TDS purview. However, in practice, many partnership deeds lack sufficient clarity in distinguishing between profit share and remuneration or commission. The absence of clear classification can lead to an application of Section 194T on such payments, potentially triggering tax demands and interest liabilities.

Timing of TDS on interim withdrawals

A common operational challenge arises in scenarios where partners withdraw funds periodically throughout the financial year without any immediate classification as to the nature of such withdrawals. The determination of nature of these withdrawals as capital withdrawals, remuneration, commission, interest or otherwise, is only determined upon finalisation of accounts.

Section 194T mandates that TDS must be deducted at the time of credit or payment, whichever is earlier. This requirement places the onus on firms to identify the character of each withdrawal at the time it is made. If withdrawals are later classified as remuneration or commission but no TDS was deducted at time of withdrawals, then the firm may face penal consequences for failure to deduct tax u/s. 194T.

Final settlement with retiring partners

When a partner retires, the final settlement usually encompasses multiple components such as capital contributed, accumulated profits, interest accrued on capital, and in some cases, a share of the firm's goodwill or intangible assets. The complexity arises when these elements are not clearly delineated in the partnership deed, leading to ambiguity in how each component should be treated for tax purposes. In such cases, there is a significant risk that portions of the payout, especially those linked to the partner's continued involvement or past contributions, may be recharacterized by tax authorities as remuneration or bonus rather than capital receipts.

If a firm retrospectively categorises a portion of the final settlement as remuneration, it could trigger TDS liability from the date of payment or credit, potentially exposing the firm to interest and penalties for non-compliance.

TDS on book entries without cash flow

Section 194T imposes TDS liability at the time of credit or payment, whichever is earlier, even if no actual cash payment takes place. This provision therefore applies even in cases where a firm merely records remuneration, interest, or similar amounts due to a partner as a credit in the partner's capital account. Such entries, while not involving any outflow of funds, shall attract TDS compliance u/s. 194T.

This has significant implications not only for partnership firms, particularly those operating with limited liquidity, but also for the partners themselves. When amounts such as remuneration or interest are merely credited to a partner's account, without any actual cash payment, rigours of Section 194T gets attracted. Simultaneously, the partner is required to report such credited amounts as income and may need to pay tax thereon, even though the corresponding funds have not been received. This dual burden results in a timing mismatch between tax liability and actual cash flow, potentially leading to financial strain for both the firm and the partner.

Disallowance under Section 40(b) vs. TDS on gross amount

Section 40(b) prescribes limits on the deductibility of remuneration etc. paid by the firm to its partners. Section 28(v) of the Act provides that the interest and remuneration etc. earned by the partner shall be adjusted to the extent of non-allowability u/s. 40(b). In other words, the amount of deduction allowed to firm u/s. 40(b) on account of payment of remuneration etc. is the same amount which is assessable as business income in the hands of partner u/s. 28(v). The amount not allowed to firm u/s. 40(b) of the Act is also not treated as business income of the partner u/s. 28(v) of the Act. However, TDS under Section 194T is to be deducted on the entire amount paid or credited, regardless of its allowability u/s. 40(b) of the Act. This may create a disconnect between the TDS by the firm u/s. 194T and income taxable in the hands of the partner u/s. 28(v) of the Act.

For instance, if a firm credits INR 3,00,000 as remuneration to a partner, but only INR 2,00,000 is allowable u/s. 40(b), then the firm is still required to deduct TDS u/s. 194T on full amount of INR 3,00,000. In contrast, the partner is only liable to pay tax on the INR 2,00,000 u/s. 28(v). This will create a mismatch between the Form 26AS (which will income credit of INR 3,00,000) and the income reported in the partner's return (i.e., INR 2,00,000).

Such mismatches can trigger unnecessary scrutiny from the tax department.

Interest on loans vs. Capital contribution

Interest paid by a firm to partners is exempt from TDS u/s. 194A(3)(iv) of the Act. However, with the introduction of Section 194T, any interest credited to a partner, whether on account of loan given by the partner or on their capital contribution, shall suffer TDS u/s. 194T.

Applicability to non-resident partners and DTAA interaction

Withholding of tax on payments to non-resident is governed by Section 195 of the Act provided such payments are chargeable to tax under the provisions of the Act. Thus, the taxability or non-taxability of payments to non-residents is determined as per the provisions of the Act read with relevant tax treaties. If a payment is not chargeable to tax in India under the tax treaties, then no withholding of tax is required u/s. 195 of the Act.

However, Section 194T does not distinguish on payments by a firm to its resident and non-resident partners. The section is applicable on payments by a firm to its partners.

There are no guidelines as to which section would prevail on payments to non-residents partner i.e., whether deductibility would be examined u/s. 194T or 195. This is relevant because the withholding of tax u/s. 194T is not affected by the taxability of payments. Whereas TDS u/s. 195 of the Act is applicable only on those payments which are taxable under the Act. Therefore, it will be crucial to decide on applicability of Section 194T or 195 on payments by a firm to its non-resident partners.

Conclusion

The intent of the legislature in introducing Section 194T was to enhance tax transparency. However, there are several interpretational and procedural challenges which need to be addressed. The absence of clear definitions, issues in their application to the different transactions between firm and its partners, and delineation of nature of payments could give rise to inconsistent compliance and increased litigation risk. The partnership deeds / LLPs agreements must be carefully worded and must spell out the nature of transactions between the firm and its partners.

In this context, timely and comprehensive guidance from the Central Board of Direct Taxes (CBDT) is essential. This may take the form of detailed FAQs, explanatory circulars, or other administrative instructions to address the ambiguities in scope, timing, and classification of partner payments.

[The authors are Partner and Principal Associate, respectively, in Direct Tax practice at Lakshmikumaran & Sridharan Attorneys, Mumbai]

Notifications & Circulars

- Safe Harbour Rules expanded and streamlined
- TDS on payments made by Firms to Partners under Section 194T
- Comprehensive amendments to Tax Audit Report (Form 3CD)
- Aadhaar linking for PAN allotted via Enrolment ID
- TDS exemption on specific schemes under Section 194EE
- Guidelines for Compounding of Offences – FAQs issued
- Interest on TDS/TCS defaults under Sections 201(1A)(ii) and 206C(7) waived in specific cases

Safe Harbour Rules expanded and streamlined

Vide Notification No. 21 of 2025, the CBDT has introduced the Income-tax (Seventh Amendment) Rules 2025, w.e.f. 25 March 2025.

Rule 10TA of the Income Tax Rules, 1962 defines certain terms used in Rules 10TB to 10TG, which are related to transfer pricing and safe harbour provisions. The amendment to clause (b) 'core auto components' expands the definition to now include lithium-ion batteries used in electric or hybrid vehicles.

Rule 10TD is concerned with the transfer price in case of eligible international transactions. The amendment to sub-rule (2A) of Rule 10TD has increased the upper limit to avail safe harbour in the case of certain eligible transactions from INR 200 crore to INR 300 crore. This adjustment applies to transactions such as:

- Provision of software development services,
- Information technology enabled services,
- Knowledge process outsourcing services,
- Contract research and development services related to software development, and generic pharmaceutical drugs.

The applicability of the Safe Harbour Rules has been extended to include Assessment Years (AY) 2025-26 and 2026-27.

Rule 10TE provides the procedure for taxpayers to opt for the safe harbour provisions. The amendment to sub-rule (2) specifies that if taxpayers validly opt for the safe harbour under Rule 10TD(3B), the general conditions in Rule 10TE(2) (like multi-year validity or continued declarations) do not apply. This option is valid only for one assessment year. Taxpayers must furnish Form 3CEFA annually to avail the safe harbour benefits for each relevant assessment year.

TDS on payments made by Firms to Partners under Section 194T

Vide Notification No. 22 of 2025, the CBDT has introduced the Income-tax (Seventh Amendment) Rules 2025, w.e.f. 27 March 2025.

The amendment primarily focuses on incorporating provisions related to Section 194T of the Income-tax Act, 1961, which mandate Tax Deducted at Source (TDS) on specific payments made by firms to their partners. This section requires firms to deduct TDS at a rate of 10% on payments exceeding INR 20,000 in a financial year, made to partners in the form of salary, remuneration, commission, bonus, or interest. Amendments have been made in TDS Return Forms Nos. 26Q and 27Q of the Income Tax Rules, 1962 to include Section 194T in its heading and annexure, ensuring that such payments are accurately reported.

Comprehensive amendments to Tax Audit Report (Form 3CD)

Vide Notification No. 23 of 2025, the CBDT has introduced the Income-tax (Eighth Amendment) Rules 2025, w.e.f. 1 April 2025. This amendment brings significant changes to Form 3CD, the tax audit report required under Section 44AB of the Act as follows:

1. ***Insertion of Section 44BBC in Clause (12)***: A new reference to Section 44BBC has been added, requiring reporting of income computed under this section, which pertains to presumptive taxation for certain professionals.

2. ***Omission of Specific Deductions in Clause (19)***: The rows related to deductions under Sections 32AC, 32AD, 35AC, and 35CCB have been removed, reflecting the phasing out of these provisions.

3. ***Enhanced Reporting in Clause (21)***: A new requirement mandates disclosure of expenditures incurred to settle proceedings related to contraventions under laws specified by the Central Government.

4. ***Revised MSME Payment Reporting in Clause (22)***: Detailed disclosures are now required for payments to MSMEs under the MSMED Act, 2006, including the total amount payable, breakdown of timely and delayed payments, and interest inadmissible under Section 23.

5. ***Modifications in Clause (26)***: Clarifications have been made regarding deductions under Section 43B.

6. ***Omission of Clauses (28) & (29)***: These clauses have been removed to streamline the tax audit reporting framework.

7. ***Changes in Loan and Deposit Reporting in Clause (31)***: A dropdown selection has been introduced for reporting the nature of loan or deposit transactions, accompanied by a new coding system for various transaction types.

8. ***Insertion of Clause (36B)***: A new clause has been added to report details of share buybacks under Section 115QA.

Aadhaar linking for PAN allotted via Enrolment ID

Vide Notification No. 25 of 2025, the CBDT has introduced the Income-tax (Ninth Amendment) Rules 2025, w.e.f. 3 April 2025.

This amendment mandates that individuals who were allotted a Permanent Account Number (PAN) based on an Aadhaar Enrolment ID from applications submitted before 1 October 2024, must intimate their Aadhaar number to the Principal Director General of Income-tax (Systems) or an authorized authority. This requirement ensures the synchronization of PAN and Aadhaar details, aiming to enhance the accuracy of taxpayer information.

TDS exemption on specific schemes under Section 194EE

CBDT's Notification No. 27 of 2025, issued on 4 April 2025, exempts individual taxpayers from TDS under Section 194EE of the Act on withdrawals from the National Savings Scheme (NSS), specifically amounts covered under Section 80CCA(2)(a). Previously, TDS at 10% applied to such withdrawals exceeding INR 2,500, but this notification removes that requirement altogether for individuals, regardless of the amount.

Guidelines for Compounding of Offences – FAQs issued

Vide Circular No. 04 of 2025 dated 17 March 2025, the CBDT has issued certain FAQs on the revised guidelines for compounding of offences issued under the Income Tax Act on 17 October 2024. These guidelines apply to both pending and new applications. Some of the important clarifications are:

1. ***Compounding eligibility***: All offences under the Act are now eligible for compounding, including those under Sections 275A and 276B, which were previously non-compoundable.

2. ***Application process***: Taxpayers can file compounding applications at any time after committing an offence, with no limit on the number of applications. Fresh applications are permitted upon curing defects from previous submissions.

3. ***Pending applications***: Applications pending as of October 17, 2024, will be considered under the revised guidelines without requiring resubmission or additional fees.

4. ***Compounding charges***: The fee structure has been adjusted, allowing application fees to be offset against

compounding charges for the specific offences cited in the application.

5. ***Convictions and other agencies***: Individuals convicted with imprisonment of two years or more may apply for compounding with the approval of the CBDT Chairman. Cases involving agencies like the Enforcement Directorate (ED) or Central Bureau of Investigation (CBI) can also be compounded if the applicant is not involved in anti-national or terrorist activities.

Interest on TDS/TCS defaults under Sections 201(1A)(ii) and 206C(7) waived in specific cases

Vide Circular No. 05 of 2025 dated 28 March 2025, the CBDT has provided for waiver of interest levied under Sections 201(1A)(ii) and 206C(7) of the Income Tax Act, in specific cases where taxpayers encounter technical glitches while making payments of TDS and taxes collected at source (TCS).

Interest is imposed under Section 201(1A) for failure to deduct or pay tax to the Central Government, and under Section 206C(7) for failure to collect or remit collected tax. The Circular addresses instances where payments, although initiated on time, are delayed in reaching the government due to technical issues. In such cases, the CCIT, DGIT, or Pr. CCIT may reduce or waive the interest, provided the delay was beyond the taxpayer's control. Waiver applications must be reviewed, with a speaking order issued after the taxpayer is given an opportunity to present their case, and the technical issue verified. If interest has already been paid, a refund may be issued upon approval of the waiver. Applications for waivers must be submitted within one year from the end of the relevant financial year, with decisions to be made within six months of receipt. The authorities' decisions are final, and no petitions thereagainst will be entertained by the Board.

Ratio Decidendi

- Transfer of leasehold rights constitutes transfer of capital asset under Section 2(14) and Section 50C – *Bombay High Court*
- Black money – Assessment order to be quashed where the Assessing Officer did not acquire jurisdiction in accordance with law for assessing undisclosed assets and income by issuing a valid notice – *ITAT Mumbai*
- Private discretionary trusts where income is charged at MMR – Surcharge is to be computed based on slab rates – *ITAT Mumbai*
- Order passed under Section 139(9) cannot be challenged by way of a writ petition where an alternate remedy exists – *Bombay High Court*
- Transfer pricing – Unrelated transactions should not be aggregated when no value addition is involved – *Delhi High Court*
- Reassessment proceedings initiated after approval of the Resolution Plan by NCLT under IBC are invalid; Corporate debtor is eligible to file a writ petition to challenge the proceedings – *Calcutta High Court*

Transfer of leasehold rights constitutes transfer of capital asset under Section 2(14) and Section 50C

The Assessee had acquired leasehold rights to certain plots of land from MIDC through a Deed of Assignment. The Income Tax Officer held that the transfer of these leasehold rights should be subject to the provisions of Section 50C, which deals with the valuation of capital assets for the purpose of calculating capital gains tax. In appeal, the Appellant contended that leasehold rights do not equate to ownership of land or building and hence fall outside the ambit of Section 50C, which applies when a capital asset being 'land or building or both' is transferred for consideration less than the stamp duty valuation. The Appellant relied on earlier decisions of co-ordinate benches of the Court which had excluded leasehold interests from the scope of this provision.

The Bombay High Court examined the scope of the term 'transfer' under Section 50C and the definition of 'capital asset' under Section 2(14) of the Act. It emphasized that the term 'capital asset' under Section 2(14) includes '*property of any kind held by an assessee*' and not necessarily '*owned by the assessee*'. The Court noted that rights in land—whether as owner, lessee, allottee, or otherwise—constitute valid legal interests capable of transfer and fall within the meaning of '*held*'. Accordingly, the Court held that the transfer of such leasehold rights through assignment qualifies as a 'transfer' under Section 50C. The Court also clarified that the expression 'transfer' in Section 50C(1) should not be interpreted restrictively but must be given the widest possible construction, consistent with the purpose of the provision, which is to curb undervaluation of real estate transactions for tax purposes.

Further, the Court rejected the reliance placed by the Appellant on the coordinate bench decision in *Atul G. Puranik*, observing that the judgment failed to address the interplay between Sections 2(14) and 50C and improperly excluded leasehold rights from the definition of capital assets. Similarly, the Court found the judgment in *Greenfield Hotels and Estates* as not persuasive, since it was premised on the earlier flawed reasoning in *Atul G. Puranik*.

[*Vidarbha Veneere Industries Ltd.* v. *ITO, Nagpur* – Order dated 1 April 2025 in ITA No. 34/2022, Bombay High Court, Nagpur Bench]

Black money – Assessment order to be quashed where the Assessing Officer did not acquire jurisdiction in accordance with law for assessing undisclosed assets and income by issuing a valid notice

The Appellant, an individual, challenged the assessment order passed under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ('**BMA**') for the AY 2018-19. The Department had initiated proceedings on the basis of information that the Appellant was a beneficiary and settlor of an offshore trust and company holding undisclosed foreign assets, which were not disclosed in the return of income. Based on this, a notice under Section 10(1) of the BMA was issued dated 27 April 2018, and the Assessing Officer proceeded to pass an assessment order u/s 10 of the BMA for AY 2018–19. The Appellant filed an appeal contending that the assessment order was vitiated since it was passed for the incorrect AY.

The Tribunal emphasized that under the BMA, particularly Section 72(c), if foreign assets were acquired prior to the commencement of the BMA and not voluntarily disclosed, they are deemed to be acquired in the year in which notice under Section 10 is issued. Accordingly, such assets are to be assessed in the corresponding assessment year following that previous year. In this case, the notice dated 27 April 2018 fell within previous year 2018–19, making AY 2019–20 the correct assessment year. Consequently, an assessment for AY 2018–19 on the strength of that notice was legally untenable.

The Tribunal also rejected the Department's reliance on the corrigendum issued to the earlier notice and held that no jurisdiction could be acquired on the basis of a defective or withdrawn notice. Further, the invocation of Section 81 of the BMA (analogous to Section 292B of the Income Tax Act) was found inapplicable as it does not cure substantive legal defects such as jurisdictional errors. As there was no valid notice for AY 2018–19 in accordance with the deeming provisions of the BMA, the assessment order passed for that year was held by the Tribunal, to be passed without jurisdiction and accordingly, the assessment order was quashed.

[*Anandi Kaushik Laijawala* v. *Deputy Director of Income-tax (Inv.)* – [2025] 172 taxmann.com 121 (Mumbai - Trib.)]

Private discretionary trusts where income is charged at MMR – Surcharge is to be computed based on slab rates

The Assessee, a private discretionary trust, in its return of income for AY 2023-24, declared income of INR 4.85 lakhs and paid tax at 30%, being the Maximum Marginal Rate ('**MMR**') as per Sections 164 and 2(29C) of the Act. However, the CPC, while processing the return, imposed a surcharge of 37%, applicable only to the highest income bracket. The Assessee contested the levy of such a high surcharge, arguing that levy of surcharge was not justified in the absence of income crossing the prescribed thresholds. Since there were conflicting decisions of the Tribunal on this issue, the Assessee filed an application for referring the issue to a Special Bench, which was accepted.

The Special Bench ruled in favour of the Appellant, holding that while the base tax is to be computed at the MMR, surcharge must be levied strictly in accordance with the income thresholds and rates specified in the Finance Act. Its reasoning centred around the interpretation of MMR u/s 2(29C) of the Act, which includes 'surcharge on income-tax, if any,' and how that phrase interacts with the surcharge provisions under the Finance Act. The Bench noted that Sections 164 and 167B mandate taxation at MMR but do not prescribe a rate of surcharge. The surcharge component, being governed entirely by the Finance Act, must be levied based on income thresholds laid down therein. The Finance Act, 2023 specifies a graded surcharge structure, beginning at 10% for income above ₹50 lakhs and rising to 37% only where income exceeds ₹5 crores. In the absence of such income, the Tribunal held, no surcharge can be levied—regardless of the fact that tax is computed at the MMR.

The Tribunal further held that interpreting MMR to include the highest surcharge in all cases would render the slab-based surcharge scheme under the Finance Act meaningless and lead to absurd and discriminatory consequences, particularly for low-income discretionary trusts. It emphasized that the phrase 'if any' in Section 2(29C) must be read in conjunction with the computation mechanism under the Finance Act and not in isolation. The Bench also rejected reliance on earlier decisions that had upheld such a view, noting that none of those cases directly dealt with the question of surcharge computation.

[*Araadhya Jain Trust* v. *Income Tax Officer* – Order dated 9 April 2025 in ITA No. 4272/Mum/2024 (Mumbai - Trib.)]

Order passed under Section 139(9) cannot be challenged by way of a writ petition where an alternate remedy exists

The Petitioner, TPL-HGIEPL Joint Venture, filed a writ petition challenging an order u/s 139(9) of the Income Tax Act, which declared its income tax return for AY 2022-23 as invalid for not being accompanied by an audit report u/s 44AB of the Act, based on the assumption that the Petitioner's gross receipts exceeded INR 10 crore. The Petitioner argued that their gross receipts were only INR 6.15 crores, much below the threshold mandating a tax audit, and that the additional income of INR 16.82 crore arose from liabilities written back, which were not part of operational receipts and thus not includable in the turnover for audit purposes. Despite submitting this clarification, the return was declared invalid via a non-speaking AI-generated order.

The Bombay High Court found that the impugned order was vitiated due to a clear violation of natural justice. It criticized the complete absence of reasoning in the order, noting that merely stating the Petitioner's response was 'not acceptable' without explaining why, is procedurally deficient. Citing various Supreme Court precedents, the Court reaffirmed that even administrative or computer-generated orders affecting rights must include basic reasoning to allow parties to respond or seek remedies effectively. The judgment emphasized that automation should not be used as a shield to bypass fair procedure, and that a reasoned order is foundational to ensuring accountability and transparency in decision-making.

Despite recognizing the procedural infirmities, the Court declined to quash the order outright. Instead, it directed the Petitioner to avail of the alternate statutory remedy under Section 264 of the Act, observing that factual evaluation—particularly involving the interpretation of ICAI guidance notes and classification of receipts—was best suited for the revisional authority. The Court also underscored the need for the CPC systems to evolve and ensure basic compliance with natural justice principles, even in automated processes.

[*TPL – HGIEPL Joint Venture* v. Union of India – Decision dated 27 March 2025 in WP (L) No. 15292 of 2024, Bombay High Court]

Transfer pricing – Unrelated transactions should not be aggregated when no value addition is involved

The Appellant, engaged in the distribution of solar products, adopted the Resale Price Method ('**RPM**') for benchmarking its international transactions pertaining to the import of goods, while applying other methods to benchmark reimbursement of expenses and warranty cost claims. However, during the course of assessment, the Transfer Pricing Officer ('**TPO**'), held that these transactions were interlinked and required aggregation. Consequently, the TPO replaced RPM with the Transactional Net Margin Method ('**TNMM**') and proposed a transfer pricing adjustment, which was confirmed by the Dispute Resolution Panel.

On appeal, the Tribunal upheld the Appellants' position, noting that the warranty claims and reimbursements constituted a negligible portion (about 1.5%) of the total value of imported goods, and that there was no value addition made to the products before resale. The Tribunal also relied on previous

High Court rulings which endorsed RPM for pure distribution activities without value addition. The High Court concurred with this view, emphasizing that the assessee, being a mere distributor with no involvement in manufacturing or product transformation, could not be said to add value simply by providing post-sale warranty support. It was held that the reimbursement of warranty costs by the associated enterprise (AE), in accordance with an inter-company agreement, did not entail a service component and could not be clubbed with the purchase transaction for transfer pricing purposes.

The Court further clarified that the TPO's reliance on TNMM based on the assumption of interlinked transactions was flawed. It reaffirmed that RPM is the appropriate method for distributors who resell imported products without modification. The Court rejected the Revenue's argument that after-sale services and marketing responsibilities constituted value addition. Citing precedents, the Court reiterated that functional comparability, rather than product comparability, governs the selection of RPM.

[*Pr. Commissioner of Income-tax* v. *D. Light Energy P. Ltd.* – [2025] 172 taxmann.com 808 (Delhi), Delhi High Court]

Reassessment proceedings initiated after approval of the Resolution Plan by NCLT under IBC are invalid; Corporate debtor is eligible to file a writ petition to challenge the proceedings

The Assessee filed two appeals challenging the interim passed by a Single Judge Bench of the Calcutta High Court, permitting the Department to proceed with actions under Section 148A(b) of the Income Tax Act for two AYs. The issue under consideration was that the notices were issued during a moratorium period under the Insolvency and Bankruptcy Code, 2016 ('**IBC**'), which should have prevented any proceedings against the Assessee. However, the Department challenged the *locus standi* of the Assessee to file the petitions, since the petitioner was a corporate debtor under a resolution plan approved by the NCLT. The High Court rejected this objection, citing the Supreme Court's ruling in *Ghanashyam Mishra & Sons Pvt. Ltd.*, which clarified that even after a resolution plan is approved, the corporate debtor retains the right to litigate and assert claims, and the resolution applicant merely steps into the shoes of the debtor. Thus, the High Court held that the writ petitions were maintainable.

On the substantive issue, the Court observed that the reassessment notices were issued after the moratorium under the IBC had come into effect. It was reiterated that once a moratorium is declared, no new proceedings can be initiated or continued against the corporate debtor. The Court noted that the Appellant had promptly challenged the reassessment proceedings during the moratorium and that these objections were ignored by the Assessing Officer in the final order passed under Section 148A(d). The High Court strongly criticized the Department for failing to address the Assessee's jurisdictional objections and proceeding to pass an order on merits, terming such action as a serious procedural lapse.

The Calcutta High Court quashed the orders issued under Section 148A(d) and the consequential notices under Section 142(1) of the Act. The Court ruled that the proceedings initiated by the Income Tax Department were without jurisdiction and unsustainable in law, given the overriding effect of the IBC.

[*Srei Equipment Finance Limited* v. *Assessment Unit* – Order dated 21 March 2025 in APOT/71/2025 and IA No. GA/1/2025, Calcutta High Court]

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