

# CONNENKT

June 2026

# Table of Content

**DIRECT TAX - CASE LAWS**

---

**03**

**INDIRECT TAX - CASE LAWS**

---

**07**

**LEGAL & REULATORY NOTIFICATIONS**

---

**09**

**COLUMN**

---

**11**

**IBA NEWS**

---

**14**

**COMPLIANCE CALENDER**

---

**15**

**ABOUT US**

---

**17**

# DIRECT TAX

## Case Laws



### **Case Law 1:**

**HIGH COURT OF DELHI Sunil Bhalla Vs Deputy Commissioner of Income-tax**

### **Facts:**

The petitioner-assessee, Sunil Bhalla, challenged before the Delhi High Court the validity of an order passed under Section 148A(d) of the Income-tax Act, 1961, and the consequential notice issued under Section 148, both dated 16.04.2024. The challenge was confined to the issue of limitation, the assessee contending that the reassessment proceedings had been initiated after the expiry of the period prescribed under Section 149.

The Assessing Officer (AO) issued a notice under Section 148A(b) on 28.03.2024, calling upon the assessee to show cause as to why a notice under Section 148 should not be issued for income alleged to have escaped assessment. The notice granted time up to 08.04.2024 for furnishing a reply.

Instead of filing a reply within the stipulated period, the assessee submitted an application on 05.04.2024 seeking an adjournment. Accepting the request, the AO extended the time and deferred the hearing to 15.04.2024. However, even on the adjourned date, the assessee did not furnish any substantive reply and once again sought further adjournment.

The AO declined the second request for adjournment on 15.04.2024. Since no reply had been filed despite the opportunities granted, the AO treated 15.04.2024 as the deemed date of filing of reply and proceeded to decide the matter. Consequently, on 16.04.2024, the AO passed an order under Section 148A(d) holding that it was a fit case for issuance of notice under Section 148 and, on the same date, issued the reassessment notice under Section 148.

Aggrieved, the assessee filed a writ petition before the Delhi High Court contending that both the order under Section 148A(d) and the notice under Section 148 were barred by limitation and, therefore, liable to be quashed.

# DIRECT TAX

## Case Laws

### Held:

The Delhi High Court dismissed the writ petition and upheld the validity of both the order under Section 148A(d) and the notice under Section 148. The Court relied upon its earlier decision in *Shailendra Nath Rai v. Assistant Commissioner of Income Tax*, wherein the scope and effect of the fifth and sixth provisos to Section 149 had been comprehensively explained.

The Court observed that the fifth proviso to Section 149 specifically mandates exclusion of the period allowed to an assessee for furnishing a reply to a show-cause notice issued under Section 148A(b), including any extended period granted by the Assessing Officer. Therefore, while computing the limitation period for issuance of notice under Section 148, the entire period commencing from the date of issuance of the notice under Section 148A(b) until the date on which the assessee files a reply, or is deemed to have filed a reply, has to be excluded.

The Court further held that the sixth proviso to Section 149 grants the Assessing Officer a minimum period of seven days from the date of receipt of the assessee's reply for passing an order under Section 148A(d) and issuing a notice under Section 148 where the balance period of limitation available is less than seven days.

Applying these principles to the facts of the present case, the Court noted that the notice under Section 148A(b) was issued on 28.03.2024 and the assessee was initially granted time up to 08.04.2024. Upon the assessee's request, the time was further extended up to 15.04.2024. Since no reply was ultimately filed and the request for a further

adjournment made on 15.04.2024 was rejected, the Court held that 15.04.2024 had to be regarded as the deemed date of filing of reply.

The Court emphasized that once 15.04.2024 was treated as the relevant date, the Assessing Officer had seven days thereafter, i.e., up to 22.04.2024, to pass the order under Section 148A(d) and issue the notice under Section 148. As both actions were taken on 16.04.2024, namely on the very next day after rejection of the adjournment request, they were clearly within the period prescribed by law.

Accordingly, the Court concluded that the reassessment proceedings were not time-barred. The period consumed in granting time and extensions to the assessee for filing a reply had to be excluded from the computation of limitation, and the Assessing Officer had acted within the statutory timeframe. The writ petition was therefore dismissed and the order under Section 148A(d) as well as the notice under Section 148 were sustained. The decision was rendered in favour of the Revenue.

### CASE LAW 2

**IN THE ITAT DELHI BENCH 'C' Ramesh Zalpuri Vs DCIT/ACIT, Central**

### FACTS :

The assesseees were employees of group entities forming part of the Uflex/Montage Group, in respect of which a search and seizure action under section 132 of the Income-tax Act, 1961 was conducted. During the course of search operations on the group concerns, the Investigation Wing and Assessing Officer came

into possession of various electronic records, including emails, Excel sheets, WhatsApp communications, and internal salary-related data extracted from the office systems of the group companies and certain employees, including an HR Manager.

These seized materials allegedly indicated that, in addition to the regular salary paid through banking channels and reflected in the books of account, certain employees were also being paid an unrecorded cash component described as “B salary.” Based on this inference drawn from third-party material, the Assessing Officer concluded that the assessee had received unexplained cash salary of approximately ₹2.58 lakhs per month, aggregating to about ₹30.96 lakhs for the relevant year.

Accordingly, the Assessing Officer invoked section 69A of the Income-tax Act and treated the alleged cash component as unexplained money, making additions while framing assessments under section 143(3). Significantly, no material was found or seized from the possession, premises, or control of the assessee themselves. The entire basis of the addition was derived from documents seized during the search of a third party.

The assessee challenged the assessments before the CIT(A), contending that the additions were purely based on third-party material without independent corroboration and without following the mandatory reassessment procedure under section 147/148 read with Explanation 2 to section 148. The CIT(A), however, upheld the additions primarily on the ground that the seized material and statements recorded during search proceedings had not been satisfactorily rebutted by the assessee.

Aggrieved, the assessee preferred appeals before the Tribunal, raising a jurisdictional challenge. It was argued that where the Revenue relies upon material seized from a third person, the statute mandates initiation of reassessment proceedings under section 147/148, including satisfaction recording and prior approval requirements, and that framing an assessment directly under section 143(3) was contrary to law and void ab initio.

### **Held:**

The Tribunal, after examining the statutory framework and factual matrix, held that the additions in question were entirely founded upon documents and electronic records seized during search proceedings conducted in the case of a third party, and not from the possession of the assessee. The Tribunal emphasized that such third-party material cannot be straightaway relied upon to make additions in a regular assessment under section 143(3) without following the specific statutory route prescribed under the Act.

The Tribunal referred to Explanation 2 to section 148 (as amended), observing that where books of account, documents, or information seized from a third person are alleged to “pertain to” or “relate to” an assessee, the Assessing Officer is deemed to have information suggesting escapement of income. However, such deeming fiction does not dispense with the mandatory procedural safeguards built into the reassessment regime. The Assessing Officer must necessarily record satisfaction that the seized material pertains to the assessee and obtain prior approval of the competent authority before initiating reassessment proceedings under section 147/148.

# DIRECT TAX

## Case Laws

It was further held that the statutory scheme clearly distinguishes between material found from the assessee and material found from third parties, and in the latter situation, the law requires the Revenue to adopt the reassessment mechanism rather than expanding the scope of a regular assessment under section 143(3). The Tribunal observed that bypassing this mandatory procedure amounts to a jurisdictional defect, not a mere procedural irregularity, thereby vitiating the assessment itself.

Relying on earlier coordinate bench decisions, including *Ace Mega Structures (P.) Ltd.* and *Homelife Buildcon (P.) Ltd.*, the Tribunal reiterated that additions based solely on third-party seized material, without initiating reassessment proceedings and without compliance with statutory safeguards, are legally unsustainable. The Tribunal also noted that the absence of material seized from the assesseees themselves further weakened the Revenue's case, as no independent evidentiary foundation existed within the assessment record under section 143(3).

Accordingly, the Tribunal held that the assessments framed under section 143(3) were bad in law and without jurisdiction. The additions made under section 69A were consequently deleted, and the impugned assessment orders were quashed in entirety. The appeals of the assesseees were therefore allowed.



### **Case Law 1:**

**Valmet Flow Control Private Limited v. Union of India (judgment dated – 22nd April 2026)**

### **Facts:**

The petitioner, Valmet Flow Control Pvt. Ltd., filed a writ petition challenging an order dated 3 April 2025 passed by the Assistant Commissioner, CGST and Central Excise, Thane Rural, which rejected its refund claim of ₹1,10,52,474. The refund pertained to an invoice dated 24 June 2022, for which foreign remittance was received on 22 August 2022. The petitioner filed the refund application on 9 August 2024, which was within the two-year limitation period prescribed under Section 54(1) of the CGST Act.

The refund was rejected because the petitioner had previously filed a refund application on 26 April 2024 for the tax period July 2022 to September 2022, and refund had already been sanctioned for that period. The department held

that since August 2022 was already covered by the earlier application, a second refund application for that month was not maintainable, even though the petitioner claimed that the invoice had been inadvertently omitted from the earlier claim.

### **Issue:**

The principal issue before the Court was: Whether a taxpayer can file a second refund application under Section 54(1) of the CGST Act for an omitted invoice when an earlier refund application covering the same tax period had already been filed and sanctioned, provided the second application is filed within the prescribed limitation period.

A related issue was whether the refund authority was justified in rejecting the application solely because a previous refund claim had already been filed for the broader period.

### Court's Clarification:

The Court clarified that Section 54(1) of the CGST Act does not contain any provision prohibiting the filing of more than one refund application. Therefore, merely because an earlier refund application had been filed, a subsequent application could not be rejected if it was otherwise maintainable in law.

The Court emphasized that the petitioner's application was admittedly filed within the statutory period of limitation. Since there was no express legal bar against a second application, the refund authority could not deny consideration of the claim merely on technical grounds.

The Court further observed that where an invoice or claim is omitted due to an inadvertent mistake, such an error should not deprive a taxpayer of a substantive benefit otherwise available under the law. Technicalities should not defeat justice, particularly when the claim satisfies the statutory requirements.

### Conclusion:

The Bombay High Court held that the rejection of the refund application was legally flawed. The Court stated:

The refund application was filed within the prescribed limitation period.

- ❖ Section 54(1) does not prohibit a second refund application.
- ❖ An inadvertent omission of an invoice cannot, by itself, extinguish a valid refund claim.
- ❖ The claim ought to have been examined on merits rather than being rejected as non-maintainable.

Accordingly, the Court quashed and set aside the order dated 3 April 2025 and restored the refund application dated 9 August 2024 to the Assistant Commissioner for fresh consideration in accordance with law.

### **1. Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026 (Notification number G.S.R. 416 (E) dated May 27, 2026)**

Pursuant to Notification G.S.R. 415(E) dated May 27, 2026, the Ministry of Corporate Affairs (MCA) has issued the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026, amending the Companies (Corporate Social Responsibility Policy) Rules, 2014.

The amendment introduces a new mode for undertaking CSR activities through Zero Coupon Zero Principal (ZCZP) Instruments issued by Not-for-Profit Organizations (NPOs) registered on the Social Stock Exchange and also aligns the definition of NPO with SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

As per the amended provisions, companies are permitted to undertake CSR through such instruments, subject to a cap of 10% of the total CSR expenditure for the financial year and provides exemption from impact assessment for such projects.

The amendment also prescribes conditions for NPOs, including completion of projects within three financial years and transfer of unspent amount to any fund included in Schedule VII on termination of listing and submission of compliance Report to SEBI.

It has also been clarified that provisions of rule 4, except sub-rules (5) and (6) shall be applicable to the implementation of Corporate Social Responsibility through a zero coupon zero principal instrument

The amendment is effective from the date of its publication in the Official Gazette i.e. May 27, 2026.

For more details:

<https://www.mca.gov.in/bin/ebook/dms/getdocument?doc=NjUzNDkxNDEy&docCategory=Notifications&type=open>

### **2. Amendment of Schedule VII of Companies Act 2013 (Notification number G.S.R. 416 (E) dated May 27, 2026)**

Pursuant to Notification G.S.R. 416 (E) dated May 27, 2026, the Ministry of Corporate Affairs (MCA) has amended Schedule VII of the Companies Act, 2013.

The amendment includes subscription to Zero Coupon Zero Principal (ZCZP) Instruments on Social Stock Exchange as an eligible CSR activity.

The amendment is effective from the date of its publication in the Official Gazette i.e. May 27, 2026.

For more details:

<https://www.mca.gov.in/bin/ebook/dms/getdocument?doc=NjUzNDkwNjk2&docCategory=Notifications&type=open>

### **Advisory issued by Ministry of Corporate Affairs dated May 8, 2026:**

#### **❖ Transfer of Interest of Members in Companies Not Having Share Capital**

The Ministry of Corporate Affairs (MCA) has issued advisory for Transfer of Interest of Members in Companies Not Having Share Capital. MCA has clarified that transfer of interest of members in companies not having share capital shall be effected through a duly executed instrument of transfer in accordance with Section 56 of the Companies Act, 2013.

According to Rule 11(2) of the Companies (Share Capital and Debentures) Rules, 2014, Form SH-4 shall be used for this purpose. The term “securities” in the said form shall be construed as “interest of the member” in such cases.

Accordingly, use of form SH-4 has been advised for transfer of interest of member in case of a company limited with guarantee in terms of rule 11(2).

For more details:

<https://www.mca.gov.in/bin/dms/getdocument?mds=9LG8Jaei95YsmyZ9XZ3eCw%253D%253D&type=open>



## Impact of AI & Data Analytics on Tax Administration

Burhan Ul Haq

### Impact of AI & Data Analytics on Tax Administration :

Information is the oil of the 21st century, and analytics is the combustion engine. This was said by one of the leading researchers. He was speaking broadly about how data has become the most valuable resource of our time and how the ability to analyse that data is what actually puts it to work.

To exemplify the above, taxation is one of the clearest places to find it. Behind the scenes, Artificial Intelligence and data analytics have been quietly but fundamentally changing how tax systems operate – from the way tax evasion gets spotted, to how tax returns get examined, to how an ordinary taxpayer gets an answer to a simple question. There was no single dramatic moment when this shift happened. But it has happened, and those who deal with tax – whether as professionals or as individuals – have begun to feel it.

### What exactly is happening in tax administration :

Traditional tax administration was slow by design. Returns were filed on paper or through heavy portals, scrutiny was largely manual, and follow-up took months. Auditors relied on spot checks and informants more than on systematic analysis.

Today's tax administration systems work differently. AI can identify unusual patterns across millions of returns simultaneously, flagging the trader whose declared income doesn't match their lifestyle, or the company whose claimed deductions look statistically implausible against industry peers. Data analytics goes further, pulling together information from bank statements, property registrations, GST filings, foreign remittance records and more to build a financial picture of each taxpayer far richer than anything a human investigator could assemble manually.

This is visible in tools like the Annual Information Statement (AIS) and the Tax Information Statement (TIS), which aggregate data from dozens of sources into a single view. The PAN database ties everything together. The department no longer has to ask what you earned as it already knows.

### Faceless assessment: the most remarkable change :

The most visible structural shift has been the move to faceless assessment. Under this system, the entire scrutiny process, from case selection to final order, happens through a digital platform, with no direct interaction between the taxpayer and any specific officer.

The objective is straightforward i.e. remove the relationship between taxpayer and the Assessing Officer. AI handles case allocation randomly across the country, preliminary scrutiny of returns, and identification of risk parameters. A taxpayer in Mumbai may have their case reviewed by a team in Chennai, with no one knowing who is handling what.

However, it has its own pros and cons. Though compliance has improved in measurable ways, and the scope for arbitrary or biased treatment has reduced. But faceless systems also struggle with complexities such as cases involving genuine ambiguity, unusual business structures, or cross-border transactions can be poorly handled when there's no human to exercise judgment.

### Impact on the taxpayers and the government :

Stakeholder	Impact of AI and Data Analytics
Government & Tax Authorities	<ul style="list-style-type: none"> <li>Revenue administration has grown sharper.</li> <li>Evasion is harder to hide,</li> <li>assessments move faster, and scrutiny is now risk-focused rather than random.</li> </ul>
Taxpayers	<ul style="list-style-type: none"> <li>Filing has become less of a chore.</li> <li>Pre-filled forms, AI chatbots that answer questions instantly, and</li> <li>faster refund processing mean people spend less time worrying about their taxes.</li> </ul>

### Grey areas in this entire structural change :

None of this comes without a friction. Some of the risks that requires attention are .

Area of Concern	What it Means in Practice
Data Privacy	Tax systems now pull in data from dozens of sources such as bank accounts, property records, business filings. That depth of surveillance, even when well-intentioned, raises real questions about what personal information the government should hold and for how long.
Cybersecurity	A more connected system is also a more exposed one. The same integration that makes tax administration efficient creates high-value targets for hackers. A single breach could compromise the financial data of millions taxpayers.
Algorithm Bias	AI is only as fair as the data it learns from. If tax enforcement in the past was tougher on certain types of businesses or communities, the algorithm picks that up and keeps repeating it, just faster and at a much larger scale. The bias doesn't disappear; it gets automated.

Area of Concern	What it Means in Practice
<b>The Human Element</b>	Tax law involves interpretation, context, and judgment which the machines still struggle with. A notice generated by an algorithm that gets the facts right but misses the nuance can cause real hardship. Human review is essential.

AI and data analytics have genuinely improved tax administration such as returns get processed faster, risky cases get flagged sooner, and there is less room for arbitrary human interference.

But a better tool is still just a tool. It works well when the underlying data is correct, the rules are fair, and someone with judgment is actually reviewing what the system produces. When those conditions are not met, AI does not fix the problem, it just runs the same old problem at greater speed and scale.

# IBA NEWS

## Training on Tax Planning vs Avoidance vs Evasion



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Neha Srivastava recently conducted an informative session on Tax Planning, Tax Avoidance, and Tax Evasion. The training provided valuable insights into the differences between legal tax-saving methods and non-compliant tax practices.

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## Annual Party 2026



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Our Annual Party 2026 was full of energy, fun, and excitement! It was a great evening of laughter, music, and celebrations, bringing everyone together to create wonderful memories

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# UPCOMING COMPLIANCES

Date	Compliance
June 11, 2026	Due Date for filing of Form GSTR-1 for the tax period May 2026 for the registered taxpayers who have opted for monthly filing of GST Returns.
June 13, 2026	Due Date for filing of IFF for the tax period May 2026 for the registered taxpayers who have opted for quarterly filing of GST Returns.
	Due Date for filing of Form GSTR-6 for the period May 2026 for the registered taxpayers who have obtained Input Service Distributor (ISD) registration
June 14, 2026	Last date for certificate under section 395(4) of the Income-tax Act 2025 for tax deducted at source under section 393(1) of the Income-tax Act 2025 [Table Sl. No. 2(i), 3(i), 6(ii) & 8(vi)] in the month of April, 2026.
June 15, 2026	Due date for furnishing the statement of income distributed by the Securitisation Trust to the investors.
	Due date for furnishing of statement of income paid or credited by an investment fund to its unit holder for the previous year 2025-26.
	Due date for furnishing statement by a recognised association in respect of transactions in which client codes have been modified after registering in the system for the month of May 2026.
	Due date for furnishing of the prescribed Form by an office of the Government where TDS/TCS for the month of May 2026 has been paid without the production of a challan.
	Last date for quarterly TDS certificates (in respect of tax deducted for payments other than salary) for the quarter ending March 2026.
	Due date for monthly statement by stock exchange in respect of transactions in which client codes have been modified after registering in system for the month of May 2026.
	Last date for certificate of tax deducted at source to employees in respect of salary paid and tax deducted during Financial Year 2025-26.
	Due date for furnishing the statement of income distributed by the Securitisation Trust to the investors.
June 20, 2026	Due Date for filing of Form GSTR-3B for the period May 2026 for the registered taxpayers who have opted for monthly filing of GST Returns

# UPCOMING COMPLIANCES

Date	Compliance
June 29, 2026	Due date for e-filing of a statement in Form No. 3CEK (Income-tax Rules, 1962) by an eligible investment fund under section 9A (Income-tax Act 1961) in respect of its activities in the financial year 2025-26.
June 30, 2026	Due date for furnishing statement by Alternative Investment Fund (AIF) to unit holders in respect of income distributed during the previous year 2025-26.
	Due date for furnishing of statement containing the particulars of expenditures specified under section 35D(2)(a) (Income-tax Act 1961) (if the assessee is required to submit return of income by July 31, 2026).
	Due date for Challan-cum-statement of deduction of tax under section 393(1) [Table Sl. No. 2(i), 3(i), 6(ii) & 8(vi)] in the month of May 2026.
	Due date for Return in respect of securities transaction tax for the financial year 2025-26.
	Due date for quarterly return of non-deduction of tax at source by a banking company from interest on time deposit in respect of the quarter ending March 31, 2026.
	Due date for Annual statement pertaining to income distributed during financial year 2025-26 by a securitisation trust.
	Due date for furnishing of statement containing the particulars of expenditures specified under section 35D(2)(a) (Income-tax Act 1961) (if the assessee is required to submit return of income by July 31, 2026).

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## About Us

IBA is a leading financial and legal advisory company with specialization in Assurance, Risk Consulting, Legal, Direct Tax, Indirect Tax (GST), and Corporate Advisory for midsize, SMEs, and start-up firms. IBA constitutes a young team of pathbreaking professionals, who believe in creating value through innovation and creativity to provide ultimate client satisfaction. Clients benefit from our fresh thinking, constructive challenge, and practical understanding of the issues they face. We aim to alloy a perfect blend of professionalism with high standards of service, in our pursuit of excellence.

Founded in the Year 2003, the company witnessed immense growth from 2 members to currently a 200 members team. IBA continues to offer wholesome service experience to boost highly valued client relationships by combining the technical and industry expertise together with a personal commitment to optimize client service.

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