MONTHLY NEWSLETTER

Nucleus ADVISORS

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Welcome to our monthly newsletter

We bring you a concise and noteworthy regulatory developments in Income Tax, Goods & Services Tax, Companies Act during February 2026. We had tried to cover all important updates occurred during February 2026 in this volume of newsletter. The sole purpose of this circulation is to update finance professionals and business owners on direct & indirect taxes and other compliances. Feedbacks are welcome at info@nucleusadvisors.in.

Direct Tax Updates

Kaushal Ganpatbhai Patel vs ITO (AY 2019-20)

1. Facts of the Case

·The assessee Kaushal Ganpatbhai Patel was a non-resident under the provisions of the Income Tax Act.

·He was employed with VJP Company, Seychelles and rendered services outside India.

·During the relevant year, he received salary of ₹44,24,000, which was credited to his NRE bank account in India.

·The Assessing Officer (AO) treated this salary as taxable in India because the money was received in India.

·The AO relied on Section 5(2)(a) and added:

Salary income – ₹44,24,000

Foreign currency purchase – ₹42,81,762 (alleged unexplained investment)

Bank deposits – ₹1,00,34,419 (alleged unexplained money)

·The assessee challenged the order before the Dispute Resolution Panel (DRP) but the DRP upheld the AO's decision.

·Therefore, the assessee filed an appeal before the ITAT.

2. Issues Before the Tribunal

Whether salary earned outside India but credited to an NRE account in India is taxable in India under Section 5(2)(a).

Whether the additions made for foreign currency purchase and bank deposits were justified when the source was the salary earned abroad.

3. Petitioner's (Assessee's) Arguments

The assessee argued that:

- He was a non-resident under Section 6.
- The employment and services were rendered outside India.
- Therefore the salary accrued outside India.
- Credit of salary into an NRE account in India is merely a remittance, not the first receipt of income.
- The first control of money (constructive receipt) occurred outside India.
- Hence, it cannot be treated as income received in India under Section 5(2)(a).

The assessee relied on several judicial precedents supporting this interpretation.

4. Precedent Analysis

1. Smt. Sumana Bandyopadhyay v Deputy Director of Income Tax

Held that salary earned abroad and remitted to India later cannot be taxed in India if it was first received outside India.

2. DIT v Prahlad Vijendra Rao

Confirmed that income earned and received abroad by a non-resident is not taxable merely because it is transferred to India.

3. Arvind Singh Chauhan v Income Tax Officer

Clarified that "receipt of income" means the first point when the taxpayer gains control over the money.

4. CIT v A.P. Kalyan Krishnan

Held that remittance of pension to India after it accrued abroad does not amount to receipt in India.

These precedents consistently establish that remittance ≠ receipt of income.

5. Revenue's (Tax Department's) Argument

The Revenue contended that:

- The salary was credited to the assessee's NRE account in India.
- Therefore it was received in India.
- Hence it falls under Section 5(2)(a) and should be taxed in India.
- The department also attempted to distinguish previous judgments by stating they involved seafarers and special CBDT circulars.

Accepting the assessees' interpretation would defeat treaty intent and domestic anti-abuse law.

6. Court's Reasoning

The ITAT analyzed the meaning of "receipt of income".

Key observations:

·Receipt refers to the first occasion when the taxpayer obtains control over income.

·Once income is received abroad, subsequent transfer to India is only application or movement of money.

·Income cannot be taxed multiple times at different stages of transfer.

·The assessee had earned and obtained the right to receive salary at the place of employment (outside India).

·Therefore the constructive receipt occurred outside India.

·Deposit into the NRE account was merely a remittance for convenience.

The tribunal also rejected the department's argument regarding seafarers because the earlier judgments interpreted the law itself, not just the CBDT circular.

7. Decision / Conclusion

The tribunal held that:

·Salary earned for services rendered outside India accrues outside India.

·Credit of such salary in an NRE account in India does not constitute receipt of income in India.

·Therefore Section 5(2)(a) does not apply.

Final Outcome

- Addition of ₹44,24,000 (salary) – Deleted
- Addition of ₹42,81,762 (foreign currency purchase) – Deleted
- Addition of ₹1,00,34,419 (bank deposits) – Deleted

Appeal of the assessee was allowed.

Assessment Year: 2014–15

Authority: Income Tax Appellate Tribunal (ITAT), Pune

Date of Order: 19 February 2026

ITA No. 1821/PUN/2025

1. Background of the Case

The present appeal was filed by the assessee against the order dated 21.05.2025 passed by the Commissioner of Income Tax (Appeals) – National Faceless Appeal Centre (NFAC) for the Assessment Year 2014-15.

The dispute primarily related to the disallowance of deduction under Section 54F of the Income Tax Act, 1961 on the ground that the assessee had not deposited the entire capital gain amount in the Capital Gain Account Scheme (CGAS) before filing the return of income.

2. Facts of the Case

- The assessee is an individual taxpayer who filed his return of income on 23.01.2015, declaring total income of ₹17,18,490.
- The case was selected for scrutiny assessment through CASS.
- During the relevant year, the assessee sold a plot of land for ₹3,21,00,000 on 18.03.2014.
- Subsequently, the assessee purchased a residential flat for ₹4 crore on 25.02.2015.
- The assessee claimed exemption under Section 54F on the capital gains arising from the sale of the plot.

However:

- The assessee deposited only ₹2,25,00,000 in the Capital Gain Account Scheme before filing the return.
- The remaining ₹91,45,450 was not deposited in CGAS.

Therefore:

- The Assessing Officer (AO) disallowed the deduction of ₹91,45,450 and taxed it as capital gain.
- The total income was assessed at ₹1,08,63,940 instead of ₹17,18,490.

The assessee filed an appeal before CIT(A)/NFAC, which confirmed the AO's order, leading to the present appeal before the ITAT.

3. Grounds of Appeal

The assessee raised the following grounds:

Ground 1
The assessment order was passed without issuing a proper show cause notice, which violates the principles of natural justice, and therefore the assessment should be treated as invalid and void.
Ground 2
The disallowance of deduction under Section 54F amounting to ₹91,45,450 is incorrect and contrary to the provisions of the Income Tax Act.
Ground 3
The assessee reserved the right to add, modify or withdraw grounds during the hearing.

4. Issues Before the Tribunal
Whether deduction under Section 54F can be denied when the entire sale consideration was invested in a residential house but not fully deposited in the Capital Gain Account Scheme before filing the return.
Whether the Assessing Officer was justified in disallowing ₹91,45,450 due to non-deposit in CGAS.

5. Arguments of the Assessee
The assessee argued that:
- The entire sale consideration of ₹3.21 crore was invested in the purchase of a residential flat worth ₹4 crore.
- The investment was made within one year of the sale of the original asset, which satisfies the conditions of Section 54F.
- The main intention of the legislature is to encourage investment in residential housing.
- Since the money was actually invested in the residential property, non-deposit in CGAS should not deny the exemption.

The assessee relied on the judgment of:

CIT v K Ramachandra Rao

6. Arguments of the Revenue
The Revenue contended that:
- According to Section 54F(4), if the capital gain is not utilized before filing the return, the assessee must deposit the unutilized amount in the Capital Gain Account Scheme.
- Since the assessee deposited only ₹2.25 crore and failed to deposit the remaining ₹91,45,450, the deduction should not be allowed.

Therefore, the AO correctly disallowed the deduction, and the CIT(A)/NFAC rightly confirmed the order.

7. Precedent Analysis

CIT v K Ramachandra Rao
The High Court held that:
- Section 54F(4) applies only when the capital gain is not invested in purchasing or constructing a residential house within the prescribed time.

If the assessee actually invests the entire sale proceeds in a residential property within the specified period, exemption cannot be denied merely because the amount was not deposited in CGAS.

The Court emphasized that:

- The object of Section 54F is investment in residential property.
- Deposit in CGAS is required only when the capital gain remains unutilized.

8. Tribunal's Reasoning

The Tribunal observed that:

- The assessee had invested the entire sale consideration of ₹3.21 crore in the purchase of a residential house worth ₹4 crore.
- The purchase was made within the prescribed time limit under Section 54F.
- Therefore, the purpose and intention of the law were fulfilled.

The Tribunal further held that:

Section 54F(4) applies only when the amount is not utilized before filing the return.

Since the assessee actually invested the amount within the stipulated period, the exemption should be allowed.

Mere non-deposit in CGAS cannot defeat the benefit of Section 54F.

9. Final Decision / Conclusion

The Tribunal held that:

- The assessee satisfied all conditions of Section 54F.
- The entire sale proceeds were invested in a residential house within the prescribed time.
- Therefore, the deduction under Section 54F cannot be denied.

Final Outcome

- Addition of ₹91,45,450 deleted
- Deduction under Section 54F allowed
- Order of CIT(A)/NFAC set aside
-

Appeal of the assessee allowed.

Pratibha Singh v. ACIT – ITAT decision on unexplained investment in LIC policy under Section 69 and claim of HUF ownership (AY 2009–10)

1. Facts of the Case

The present appeal was filed by the assessee against the order dated 30.04.2025 passed by the Commissioner of Income Tax (Appeals) for Assessment Year 2009-10. The assessment was originally framed under Section 143(3) read with Section 147 of the Income Tax Act, 1961.

The assessee had filed a return declaring total income of ₹4,81,340. Subsequently, information was received from LIC indicating that the assessee had invested ₹50,00,000 in a life insurance policy during the relevant financial year. Considering that such investment was not commensurate with the returned income, the Assessing Officer initiated reassessment proceedings under Section 147 after recording reasons and obtaining approval under Section 151.

The assessee challenged the reopening before the Hon'ble Himachal Pradesh High Court, which upheld the validity of the reassessment proceedings and held that the Assessing Officer possessed material giving

rise to "reasons to believe" that income had escaped assessment.

During the assessment proceedings, the assessee contended that the investment in the LIC policy was not made by her but by Virbhadra Singh (HUF) through Shri Anand Chauhan, an LIC agent, pursuant to an alleged Memorandum of Understanding (MOU) concerning orchard income. However, the Assessing Officer found discrepancies in the explanation, particularly noting that funds had been transferred prior to the date of the alleged MOU.

The Assessing Officer held that the assessee failed to establish the source of the investment and treated the amount of ₹50,00,000 as unexplained investment under Section 69, along with additional unexplained bank deposits of ₹10,80,456. The CIT(A) confirmed the additions due to lack of documentary evidence.

The assessee filed the present appeal before the Tribunal, challenging primarily the addition of ₹50,00,000.

2. Issues for Determination

1. Whether the investment of ₹50,00,000 in the LIC policy standing in the name of the assessee could be treated as unexplained investment under Section 69 of the Income Tax Act, 1961.
2. Whether the investment actually belonged to Virbhadra Singh (HUF) and therefore could not be taxed in the hands of the individual assessee.
3. Petitioner's (Assessee's) Arguments

The assessee contended that the investment in the LIC policy was not made by her in her individual capacity but was made by Virbhadra Singh (HUF) out of agricultural income generated from orchard land.

It was argued that the HUF owned approximately 100 bighas of orchard land and had entered into an MOU with Shri Anand Chauhan for management of the orchard income. According to the assessee, funds generated from agricultural activities were routed through Shri Anand Chauhan and invested in LIC policies in the names of HUF members.

The assessee further argued that:

- An HUF is a separate taxable entity under Section 2(31) of the Income Tax Act.
- The assessee was merely a member/coparcener of the HUF, and therefore the investment could not be treated as her personal investment.
- In other assessment proceedings relating to the HUF, the Revenue had already taken cognizance of such investments.
- The assessment proceedings of the HUF for the relevant year were pending before the High Court, and therefore making an addition in the hands of the assessee could result in double taxation.

The assessee relied upon judicial precedents such as:

- ITO v. Ch. Atchaiah (218 ITR 239) – Income must be assessed in the hands of the correct person.
- Surjit Lal Chhabda v. CIT (101 ITR 776) – HUF is a separate assessable entity.
- Lalji Haridas v. ITO (43 ITR 387) – protective assessment principles.

- Radhasoami Satsang v. CIT (193 ITR 321) – principle of consistency.

Based on these arguments, the assessee prayed that the addition be deleted or treated as protective, subject to determination of tax liability in the hands of the HUF.

4. Respondent's (Revenue's) Arguments

The Departmental Representative supported the findings of the Assessing Officer and CIT(A) and submitted that the assessee failed to provide any documentary evidence establishing that the funds belonged to the HUF.

The Revenue argued that:

- The LIC policy stood in the name of the assessee, and she was both the life assured and beneficiary.
- The assessee failed to establish the identity, creditworthiness, and genuineness of the source of funds.
- Mere assertion that the funds belonged to the HUF was insufficient to discharge the burden placed upon the assessee under Section 69.
- The concept of protective assessment applies only when the Assessing Officer himself is uncertain regarding the person liable to tax.
- The Revenue contended that the Assessing Officer had reached a clear finding that the investment belonged to the assessee, and therefore the addition was correctly made on a substantive basis.

5. Analysis of Law

The Tribunal examined the relevant statutory provisions, particularly:

Section 69 – Unexplained Investments

Under this provision, where an assessee has made investments not recorded in the books of account and fails to provide a satisfactory explanation regarding the source, the value of such investment may be deemed to be income of the assessee.

The Tribunal also noted that the burden of proof lies on the assessee to explain the source of the investment.

Further, the Tribunal emphasized that although HUF is recognized as a separate person under Section 2(31), mere existence of an HUF does not automatically establish that assets standing in the name of an individual belong to the HUF.

The assessee must demonstrate:

 Actual generation of HUF income
 Availability of funds
 Clear flow of funds from HUF to the investment

6. Precedent Analysis

The Tribunal considered the precedents cited by the assessee but held that they did not support her case in the given facts.

1. ITO v. Ch. Atchaiah (218 ITR 239)

This case established that income must be taxed in the hands of the correct person. However, the Tribunal held that in the present case the assessee failed to establish that the investment belonged to the HUF.

2. Lalji Haridas v. ITO (43 ITR 387)

The Supreme Court explained that protective assessments are justified only when the Revenue is uncertain about the correct person liable to tax.

3. Surjit Lal Chhabda v. CIT (101 ITR 776)

This case recognized the HUF as a separate taxable entity. However, the Tribunal clarified that the existence of an HUF does not automatically mean that every asset held by a member belongs to the HUF.

The Tribunal concluded that the precedents relied upon by the assessee were not applicable due to lack of evidence establishing HUF ownership of the funds.

7. Court's Reasoning

The Tribunal observed several inconsistencies and deficiencies in the assessee's explanation:

- The alleged Memorandum of Understanding dated 15.06.2008 was never produced before the Assessing Officer, CIT(A), or the Tribunal.
- Bank transactions in the account of Shri Anand Chauhan occurred before the date of the alleged MOU, which undermined the credibility of the arrangement.

- The assessee failed to produce any agricultural income records, such as sale receipts, books of account, cash flow statements, or evidence of orchard income.
- Mere ownership of agricultural land does not prove generation of liquid funds of such magnitude.

The Tribunal also noted that obtaining an LIC policy requires personal documentation, proposal forms, and medical examination of the insured person. Therefore, the policy legally belonged to the individual in whose name it was issued.

Since the assessee failed to prove that the funds originated from the HUF, the Tribunal held that the statutory presumption under Section 69 applied.

Regarding the plea for protective assessment, the Tribunal held that protective assessment arises only when the Assessing Officer himself is uncertain about the correct person liable to tax. In the present case, the Assessing Officer had arrived at a definite conclusion that the investment belonged to the assessee.

Therefore, the assessee could not compel the Revenue to convert a substantive addition into a protective one.

8. Conclusion

The Tribunal held that the assessee failed to establish that the investment of ₹50,00,000 in the LIC policy belonged to Virbhadra Singh (HUF) or that it was made out of agricultural income.

The explanation offered by the assessee was unsupported by documentary evidence and therefore could not rebut the presumption under Section 69 of the Income Tax Act.

Further, the plea to treat the addition as protective instead of substantive was rejected because the Assessing Officer had reached a clear finding regarding ownership of the investment.

Accordingly, the Tribunal upheld the order of the Assessing Officer and CIT(A) and dismissed the appeal of the assessee.

GST UPDATES

Advisory-1 Facility for Withdrawal from Rule 14A

Rule 14A provides that a registered person shall not be allowed to furnish details of outward supplies of goods or services or both made to registered persons under Section 37 in excess of the prescribed limit. The prescribed limit is an output tax liability of ₹2.5 lakh in a tax period in respect of such supplies. The restriction shall remain applicable until the registered person satisfies the prescribed conditions.

Background:

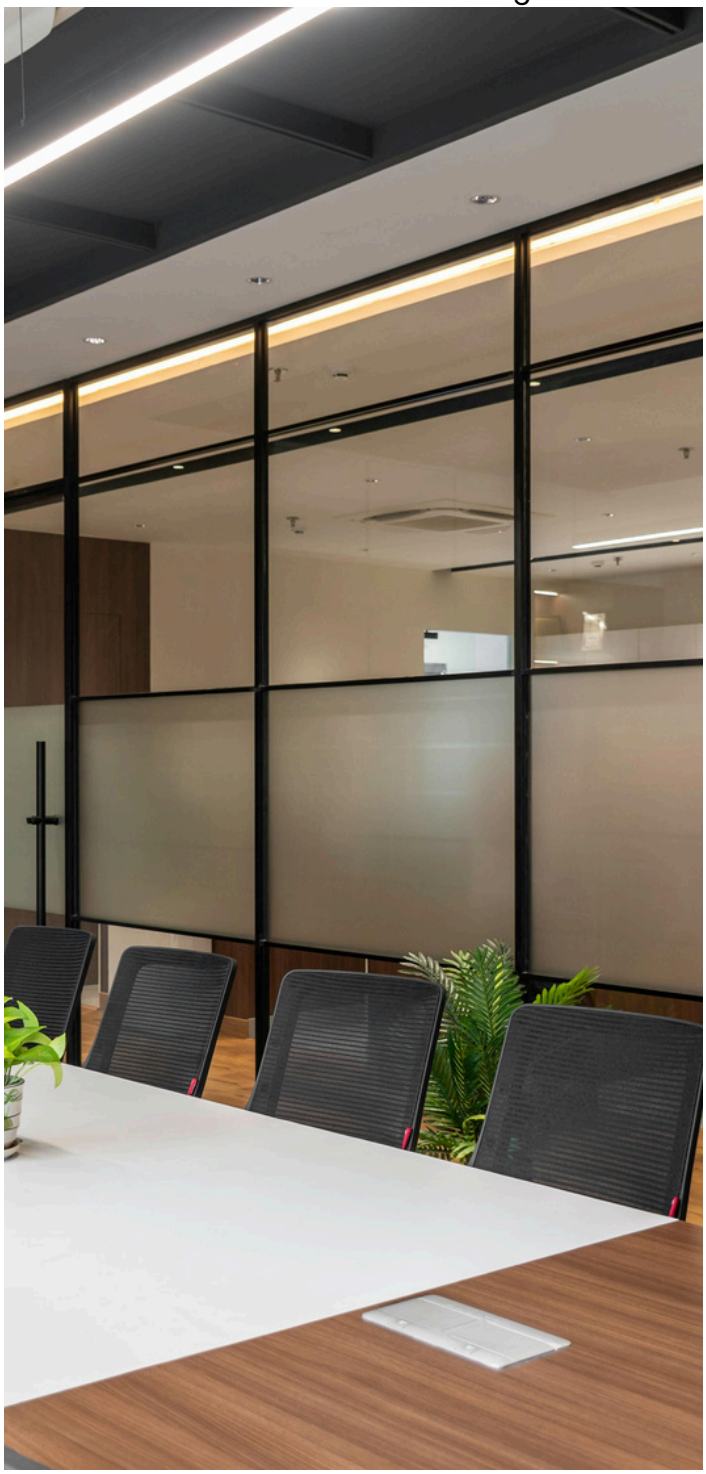
Rule 14A of the Central Goods and Services Tax Rules, 2017 prescribes a special registration mechanism for certain taxpayers identified through data analytics, requiring additional verification and compliance conditions.

Update:

GSTN has enabled an online facility for taxpayers registered under Rule 14A to apply for withdrawal (opt-out) by filing Form GST REG-32 on the GST Portal.

Eligible active taxpayers can submit the application through Services → Registration → Application for Withdrawal from Rule 14A, along with the reason for withdrawal and completion of Aadhaar authentication of the Primary Authorised Signatory and one Promoter/Partner.

The application can be filed only after furnishing the prescribed minimum returns and all pending returns from the effective date of registration.



GST UPDATES

Upon approval of the application through Form GST REG-33, the taxpayer will be allowed to report supplies made to registered persons exceeding ₹

2.5 lakh from the first day of the month succeeding the month in which the order is issued.

Advisory-2 Interest Collection and Related Enhancements in GSTR-3B

The Interest Calculator has been introduced on the GST Portal to automatically compute the interest payable on delayed tax payments reported in Form GSTR-3B, applicable from the January 2026 tax period onwards.

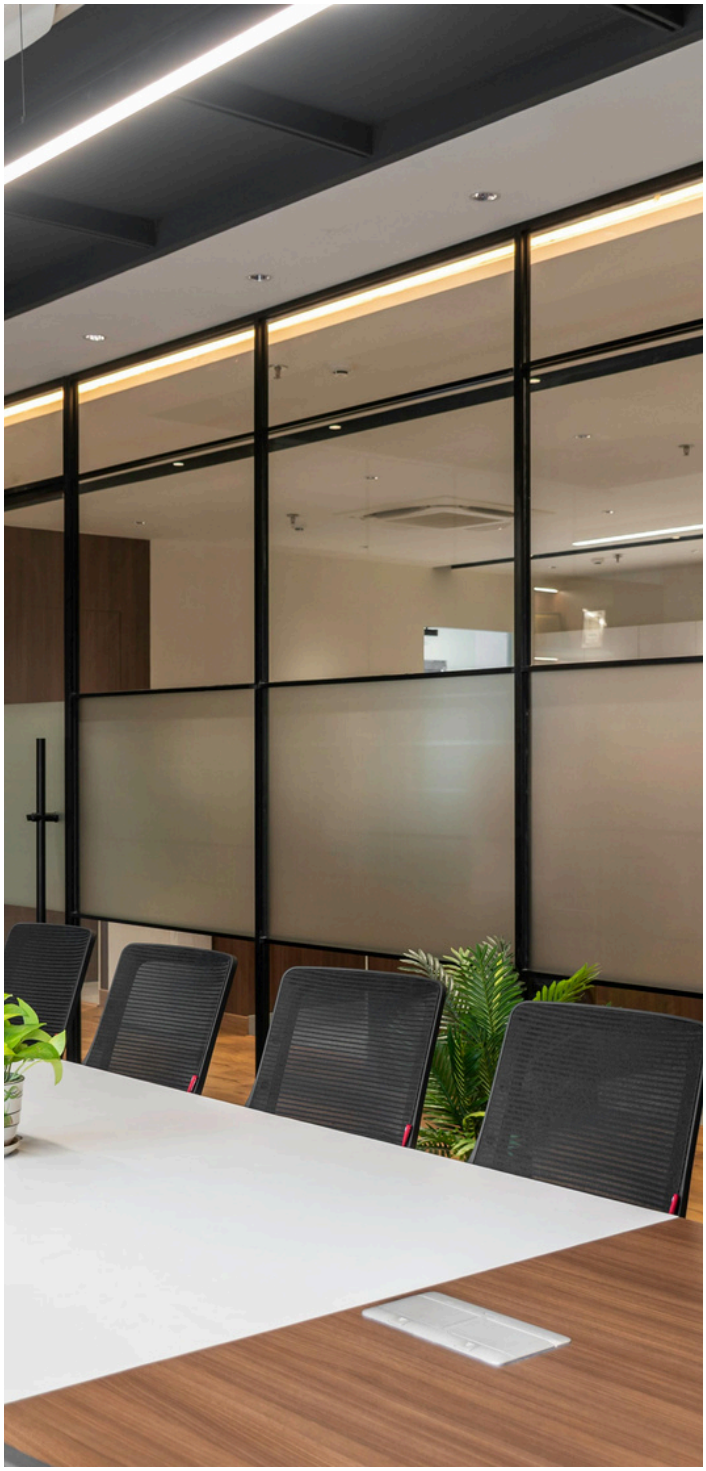
Key Update – System-Computed Interest

The GST portal will now auto-compute interest in Table 5.1 of GSTR-3B based on the revised methodology aligned with Rule 88B(1) of the CGST Rules.

Under the updated mechanism, interest is calculated after considering the minimum balance available in the Electronic Cash Ledger (ECL) from the due date of return filing until the date of tax payment (offset).

Revised interest computation formula:

Interest = (Net Tax Liability – Minimum Cash Balance in ECL from due date to date of debit) × (No. of days delayed / 365) × Applicable interest rate.



GST UPDATES

These changes apply from the January 2026 tax period onwards, and the interest for delayed filings will be auto-reflected in subsequent GSTR-3B returns.

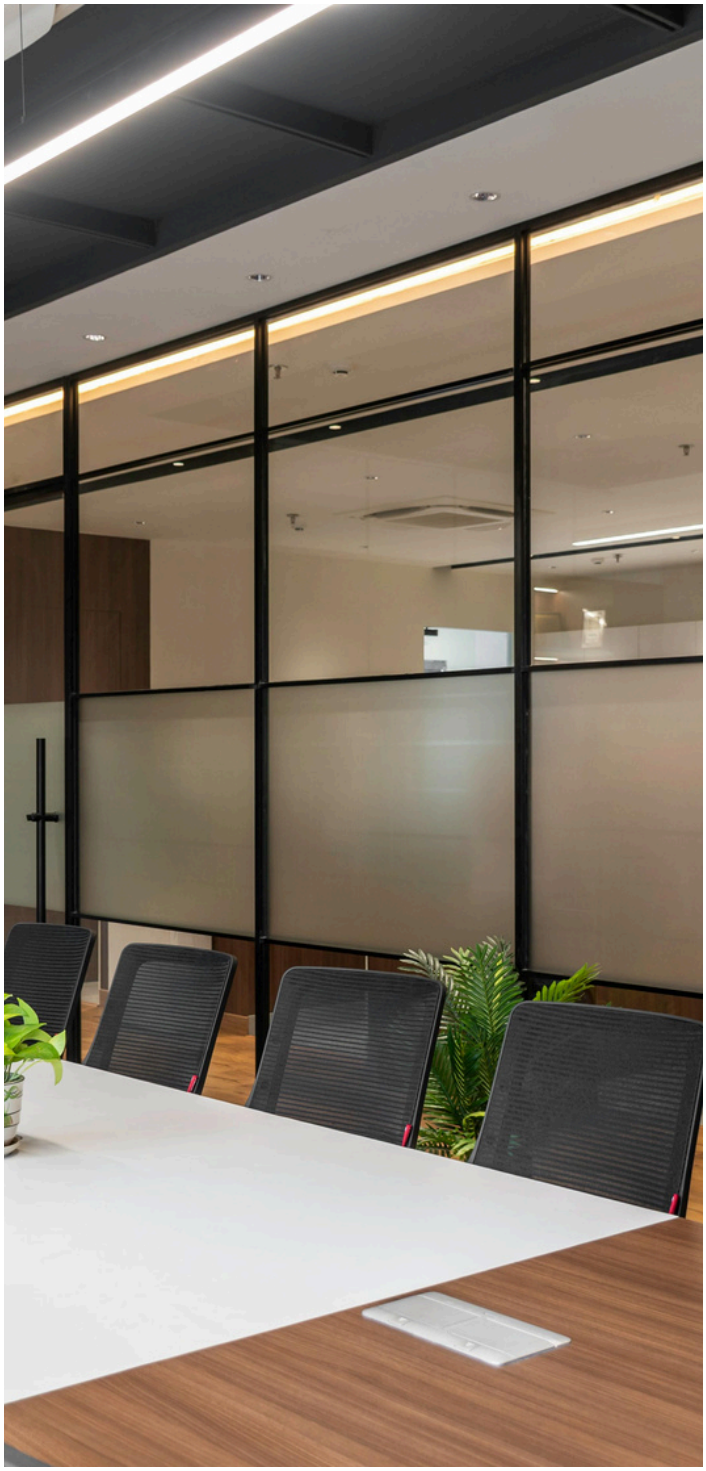
Important Points for Taxpayers

- Interest amount will be auto-populated by the GST portal in Table 5.1 of GSTR-3B.
- The auto-computed interest represents the minimum interest payable.
- Taxpayers cannot reduce the system-generated interest amount but may increase it if the actual liability is higher based on self-assessment.

Additional System Enhancement

The portal will also auto-populate the "Tax Liability Break-up Table" in GSTR-3B based on the document dates reported in GSTR-1 / GSTR-1A / IFF for supplies pertaining to previous tax periods but discharged in the current period.

Effective Period



COMPLIANCE CALENDER

Direct Taxes

March 02, 2026
Due date for furnishing of challan-cum-statement in respect of tax deducted under section 194M in the month of January, 2026.

March 15, 2026

- Fourth instalment of advance tax for the assessment year 2026-27.
- Due date for payment of whole amount of advance tax in respect of assessment year 2026-27 for assessee covered under presumptive scheme of section 44AD / section 44ADA.
- Due date for furnishing of Form 24G by an office of the Government where TDS/TCS for the month of February, 2026 has been paid without the production of a Challan.

March 17, 2026

- Due date for issue of TDS Certificate for tax deducted under section 194-IA , section 194-IB, section 194M, section 194S (by specified person) in the month of January, 2026.

COMPLIANCE CALENDER

March 30, 2026

- Due date for furnishing of challan-cum-statement in respect of tax deducted under section 194-IA , section 194-IB, section 194M, section 194S (by specified person) in the month of February, 2026.

March 31, 2026

- Country-By-Country Report in Form No. 3CEAD for the previous year 2024-25 by a parent entity or the alternate reporting entity, resident in India, in respect of the international group of which it is a constituent of such group.
- Country-By-Country Report in Form No. 3CEAD for a reporting accounting year (assuming reporting accounting year is April 1, 2024 to March 31, 2025) by a constituent entity, resident in India, in respect of the international group of which it is a constituent if the parent entity is not obliged to file report under section 286(2) or the parent entity is resident of a country with which India does not have an agreement for exchange of the report etc.
- Uploading of statement [Form 67], of foreign income

LINKEDIN ENGAGEMENT

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