आयकर अपीलीय अधिकरण, 'सी' न्यायपीठ, चेन्नई
**IN THE INCOME TAX APPELLATE TRIBUNAL**
**'C' BENCH, CHENNAI**

श्री एबी टी वर्की, न्यायिक सदस्य एवं श्री एस. आर. रघुनाथा, लेखा सदस्य के समक्ष
**BEFORE SHRI ABY T VARKEY, JUDICIAL MEMBER AND**
**SHRI S. R. RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./**ITA No.2481/Chny/2026**

निर्धारण वर्ष / Assessment Year: **2018-19**

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| **AEON Formulations Pvt.Ltd.**<br>Plot No.21, Door No.2<br>Venkateswara Nagar<br>Velu Naicker Street, Ramapuram<br>Chennai – 600 089. | vs. | **The Income Tax Officer**<br>Corporate Ward 2(1)<br>Chennai. |
| **[PAN: AAHCA4128R]**<br>(अपीलार्थी/Appellant) | | (प्रत्यर्थी/Respondent) |

अपीलार्थी की ओर से/Appellant by : Shri. R.Venkata Raman, C.A. &
Shri. K.Vishva Padmanabhan, CA
प्रत्यर्थी की ओर से/Respondent by : Shri. Beesam Narasing Rao, JCIT

सुनवाई की तारीख/Date of Hearing : 23.09.2026
घोषणा की तारीख/Date of Pronouncement : 12.10.2026

**आदेश /O R D E R**

**PER S. R. RAGHUNATHA, AM :**

This appeal by the assessee is directed against the order dated 12.02.2026 passed by the Learned Commissioner of Income Tax (Appeals), National Faceless Appeal Centre (NFAC), Delhi [hereinafter referred to as "the Ld. CIT(A)"], arising out of the assessment order dated 22.02.2021 passed by the National e-Assessment Centre, Delhi [hereinafter referred to as "the AO"] u/s.143(3) of the Income-tax Act, 1961 [hereinafter referred to as "the Act"], for the Assessment Year (A.Y) 2018-19.

2. The assessee has raised the following grounds of appeal:

1. *That the Learned Commissioner of Income Tax (Appeals), NFAC, Delhi ["Ld. CIT(A)"] erred in law and on facts in upholding the disallowance of Rs.2,45,55,010/- made by the Assessing Officer under section 35(2AB) of the Income-tax Act, 1961 ["the Act"], without appreciating that such disallowance was made beyond the permissible scope of the limited scrutiny assessment; consequently, the said addition is without jurisdiction, bad in law, and liable to be deleted in full.*

2. *That the Ld.CIT(A) ought to have quashed the impugned assessment order dated 22.02.2021 passed by the Assessing Officer u/s.143(3) of the Act as the same was passed without obtaining the prior approval of the administrative PCIT.*

3. *Without prejudice to the above, that the Ld.CIT(A) ought to have deleted the addition of Rs.2,45,55,010/- made by the Assessing Officer in full.*

3. The brief facts of the case as emanating from the records are that the assessee is a company engaged in the business of formulations research and manufacture of pharmaceutical, nutraceutical and ayurceutical products. For the impugned assessment year, the assessee filed its return of income electronically on 31.10.2018 declaring a loss of Rs.82,11,268/-, inter alia, after claiming deduction u/s.35(2AB) of the Act in respect of expenditure incurred on its in-house Research and Development facility. The case of the assessee was selected for Limited Scrutiny under CASS specifically for examination of the following two issues:

*i. Deduction on account of donation for Scientific Research*
*ii. Duty Drawback*

Accordingly, notice u/s.143(2) of the Act was issued on 22.09.2019, followed by statutory notices u/s.142(1) of the Act. The assessee duly complied with the notices and furnished the details and documents called for during the course of assessment proceedings. During the course of assessment, the AO proceeded to examine the assessee's claim for weighted deduction u/s.35(2AB) of the Act in respect of expenditure incurred on its own in-house Research and Development facility. The assessee had claimed deduction of Rs.3,21,66,010/- u/s.35(2AB) of the Act. The AO called upon the assessee to furnish Form No.3CL issued by the prescribed authority, namely, the Department of Scientific

and Industrial Research (“DSIR”). As per Form No.3CL, the eligible Research and Development expenditure for the relevant assessment year was quantified at Rs.50.74 lakhs, comprising capital expenditure of Rs.31.41 lakhs and revenue expenditure of Rs.10.33 lakhs. On the basis thereof, the AO allowed weighted deduction u/s.35(2AB) of the Act to the extent of Rs.76.11 lakhs and disallowed the balance claim of Rs.2,45,55,010/-. Consequently, while completing the assessment u/s.143(3) of the Act vide order dated 22.02.2021, the AO adopted the loss of Rs.70,15,016/- determined u/s.143(1) of the Act, as against the loss of Rs.82,11,268/- declared in the return of income, and after making the aforesaid disallowance of Rs.2,45,55,010/- u/s.35(2AB) of the Act, determined the total income of the assessee at Rs.1,75,39,990/-.

4. Aggrieved by the assessment order, the assessee preferred an appeal before the ld.CIT(A).

5. In the course of the appellate proceedings, the assessee raised an additional legal ground challenging the very jurisdiction of the AO to examine and make a disallowance u/s.35(2AB) of the Act. It was specifically contended that the case had been selected for Limited Scrutiny for examining “Deduction on account of Donation for Scientific Research”, whereas the impugned disallowance related to expenditure incurred by the appellant on its own in-house Research and Development facility u/s.35(2AB) of the Act. It was, therefore, contended that the issue examined by the AO was distinct from the specific issue for which the case had been selected for Limited Scrutiny and that, in the absence of conversion of the Limited Scrutiny into Complete Scrutiny in accordance with the prescribed procedure, the impugned disallowance travelled beyond the permissible scope of assessment.

6. The ld.CIT(A) admitted the aforesaid additional ground as being a pure question of law going to the root of the assessment and also called for a remand report from the AO. In the remand report dated 15.09.2025, the AO sought to justify the examination of the claim u/s.35(2AB) of the Act on the ground that the CASS issue of “Deduction on account of Donation for Scientific Research”

as well as expenditure on in-house scientific research fell broadly within the scheme of section 35 of the Act. It was further contended that the assessee had participated in the assessment proceedings and had accepted the eligible deduction of Rs.76.11 lakhs on the basis of Form No.3CL. Reliance was also placed upon sections 292 and 124(3)(a) of the Act.

7. The ld.CIT(A), while accepting that the assessee's challenge related to the scope of enquiry permissible in a Limited Scrutiny assessment and was not a challenge to the territorial or functional jurisdiction contemplated u/s.124 of the Act, nevertheless rejected the additional ground. The ld.CIT(A) held that the enquiry into the claim u/s.35(2AB) of the Act was intrinsically connected with the subject of scientific research deduction u/s.35 of the Act and, therefore, could not be regarded as an altogether unrelated issue. The ld.CIT(A) further took into consideration the assessee's participation in the assessment proceedings and its acceptance of the eligible amount as per Form No.3CL and accordingly upheld the jurisdiction of the AO to examine the claim u/s.35(2AB) of the Act.

8. On merits, the ld.CIT(A) confirmed the restriction of deduction u/s.35(2AB) of the Act to Rs.76.11 lakhs and consequently sustained the disallowance of Rs.2,45,55,010/-, principally on the ground that Form No.3CL certified eligible Research and Development expenditure of Rs.50.74 lakhs and that no material had been produced to establish that such certification was erroneous or incomplete. The assessee had also raised an alternative ground seeking depreciation u/s.32 of the Act in respect of that portion of Research and Development expenditure which had been capitalised as product development/intangible assets but had not been allowed as deduction u/s.35(2AB) of the Act. The ld.CIT(A) observed that there was no statutory prohibition against allowance of depreciation in respect of expenditure which had been capitalised and had not otherwise been allowed as deduction u/s.35(2AB) of the Act, subject to satisfaction of the statutory conditions. Accordingly, the ld.CIT(A) restored the said issue to the AO with a direction to verify the quantum of Research and Development expenditure capitalised

during the year, the portion thereof which had not been allowed u/s.35(2AB) of the Act, and whether the same formed part of the relevant block of assets and had been put to use, and thereafter to allow depreciation at the applicable rate in accordance with law.

9. The assessee had further challenged the action of the AO in adopting the loss of Rs.70,15,016/- determined u/s.143(1) of the Act, instead of the returned loss of Rs.82,11,268/-, as the starting point for computation of assessed income. The ld.CIT(A) observed that the assessment order did not contain any proper reconciliation or explanation for the difference between the returned loss and the loss processed u/s.143(1) of the Act. The said issue was accordingly restored to the AO for verification and correction in accordance with law.

10. The ld.CIT(A) thus vide the impugned appellate order dated 12.02.2026 partly allowed the appeal of the assessee while sustaining the principal disallowance of Rs.2,45,55,010/- u/s.35(2AB) of the Act and rejecting the assessee's jurisdictional challenge that the said disallowance was beyond the specific scope of Limited Scrutiny.

11. Being aggrieved by the order of the ld.CIT(A), particularly insofar as it upholds the jurisdiction of the AO to travel beyond the specific CASS issue of "Deduction on account of Donation for Scientific Research" and sustains the disallowance of Rs.2,45,55,010/- u/s.35(2AB) of the Act relating to the assessee's in-house Research and Development expenditure, the assessee has preferred the present appeal before this Tribunal.

12. The ld.AR submitted that the impugned disallowance of Rs.2,45,55,010/- made u/s.35(2AB) of the Act is wholly beyond the scope of the Limited Scrutiny and, therefore, without jurisdiction. It was submitted that the case of the assessee was selected under CASS for Limited Scrutiny and the notice issued u/s.143(2) of the Act specifically identified only two issues, namely, "Duty Drawback" and "Deduction on Account of Donation for Scientific Research". However, the AO travelled beyond the aforesaid issues and proceeded to

examine the assessee's claim for deduction u/s.35(2AB) of the Act in respect of expenditure incurred on its own approved in-house Research and Development facility and consequently made the impugned disallowance.

13. The ld.AR submitted that “Donation for Scientific Research” and expenditure incurred on an assessee's own in-house R&D facility u/s.35(2AB) of the Act are distinct and independent issues. The mere fact that both may fall within the broader statutory framework of section 35 of the Act would not authorise the AO to enlarge the specific issue for which the case was selected for Limited Scrutiny. The reasons for selection under Limited Scrutiny have to be construed strictly and cannot be expanded by giving them a wider or generic meaning.

14. It was further submitted that the applicable CBDT guidelines governing CASS-2019 specifically prohibit the AO from expanding the scope of enquiry beyond the issue for which the case was selected for Limited Scrutiny, except where credible specific information regarding tax evasion is received from the prescribed law-enforcement, intelligence or regulatory authority or agency and the prescribed procedure, including prior administrative approval of the Pr.CIT/CIT, is followed. In the present case, neither the assessment order nor the remand report nor the order of the ld.CIT(A) refers to any such information, recording of reasons, prior approval or intimation for enlargement of the scope of scrutiny.

15. The ld.AR contended that the subsequent issuance of a questionnaire u/s.142(1) of the Act calling for details relating to in-house R&D expenditure cannot confer jurisdiction upon the AO to examine an issue which was otherwise outside the scope of Limited Scrutiny. Jurisdiction to examine an additional issue must exist before such enquiry is undertaken and cannot be created merely by incorporating an additional query in the notice u/s.142(1) of the Act.

16. The ld.AR placed reliance upon the judgment of the Hon'ble Madras High Court in Madras Craft Foundation Society v. CIT in W.P.No.10673 of 2021 dated 23.02.2024, wherein it was held that an assessment travelling beyond the notified Limited Scrutiny issue, contrary to the binding CBDT Instructions and without obtaining the requisite approval, suffers from a jurisdictional infirmity. The ld.AR further placed reliance on the decision of the Coordinate Bench of this Tribunal Aadarsh Surana v. DCIT in ITA No.1840/Chny/2025 dated 15.12.2025, wherein it was held that the reasons for selection under Limited Scrutiny have to be read strictly and literally and that an addition must directly arise from the specific issue selected for scrutiny; indirect, consequential or interpretative enlargement of such issue is impermissible.

17. The ld.AR further submitted that the participation of the assessee in the assessment proceedings and furnishing of Form No.3CL cannot confer jurisdiction upon the AO where none otherwise existed. Likewise, sections 124(3) and 292B of the Act cannot cure the fundamental jurisdictional defect arising from the AO travelling beyond the permissible scope of Limited Scrutiny. Accordingly, the ld.AR submitted that the examination of the assessee's claim u/s.35(2AB) of the Act was outside the notified scope of Limited Scrutiny and was undertaken without complying with the mandatory conditions prescribed by the CBDT for enlargement of such scope. The resultant disallowance of Rs.2,45,55,010/- was, therefore, without jurisdiction and liable to be deleted.

18. Per contra, the ld.DR vehemently supported the orders of the authorities below. The ld.DR submitted that the disallowance of Rs.2,45,55,010/- made by the AO and sustained by the ld.CIT(A) was well within the scope and parameters of the limited scrutiny assessment and, therefore, no infirmity could be attributed to the action of the AO in making the impugned disallowance. Accordingly, the ld. DR prayed that the order of the ld.CIT(A) on this issue be upheld and the ground raised by the assessee be dismissed.

19. We have heard the rival submissions and perused the material available on record. The short controversy arising for our consideration is whether, in an

assessment selected for Limited Scrutiny under CASS, the AO was justified in examining the assessee's claim of deduction u/s.35(2AB) of the Act and making a disallowance of Rs.2,45,55,010/-, when the issue communicated to the assessee in the notice issued u/s.143(2) of the Act was specifically described as “Deduction on Account of Donation for Scientific Research”.

20. The assessee contends that expenditure incurred on its own in-house Research and Development facility u/s.35(2AB) of the Act is a distinct issue and that, in the absence of compliance with the procedure prescribed by the CBDT for enlargement of Limited Scrutiny, the AO lacked jurisdiction to examine the said claim. The Revenue, on the other hand, seeks to sustain the action on the ground that both donation for scientific research and expenditure on in-house research fall within the broader field of scientific research contemplated u/s.35 of the Act and, therefore, the examination of the claim u/s.35(2AB) of the Act did not amount to travelling beyond the scope of Limited Scrutiny.

21. The material facts before us are not in dispute. The assessee is a company engaged in formulations research and manufacture of pharmaceutical, nutraceutical and ayurceutical products. For the assessment year under consideration, the assessee filed its return of income declaring a loss of Rs.82,11,268/- and, inter alia, claimed deduction of Rs.3,21,66,010/- u/s.35(2AB) of the Act in respect of expenditure incurred on its approved in-house Research and Development facility. The return was selected under CASS for Limited Scrutiny. The notice dated 22.09.2019 issued u/s.143(2) of the Act expressly described the proceedings as “Limited Scrutiny (Computer Aided Scrutiny Selection)” and identified only two issues, namely,

- “Duty Drawback” and
- “Deduction on Account of Donation for Scientific Research”.

The assessment order also acknowledges that these were the issues for which the case had been selected for Limited Scrutiny.

22. It is equally undisputed that, during the course of assessment proceedings, the AO proceeded to examine the assessee's claim u/s.35(2AB)

of the Act relating to expenditure incurred upon its own in-house R&D facility. The AO called for Form No.3CL issued by the Department of Scientific and Industrial Research and, on the basis thereof, restricted the eligible weighted deduction and disallowed a sum of Rs.2,45,55,010/-. Thus, the question is whether the expression “Deduction on Account of Donation for Scientific Research”, which constituted the notified Limited Scrutiny issue, was wide enough to confer jurisdiction upon the AO to scrutinise the assessee's independent claim relating to expenditure on its own in-house R&D facility u/s.35(2AB) of the Act.

23. At the outset, it needs to be borne in mind that Limited Scrutiny is a deliberate restriction placed upon the scope of scrutiny assessment. The CBDT instructions governing such assessments are intended to ensure that where a return is selected for examination on specified risk parameters, the AO confines his enquiry to the particular issues for which the case was selected, unless the conditions prescribed by the Board for enlargement of the scope are fulfilled. The distinction between ‘Limited Scrutiny’ and ‘Complete Scrutiny’ would lose its significance if an AO, after receiving jurisdiction over specified issues, were permitted to enlarge those issues by adopting a broad or generic description of the statutory provision under which they arise.

24. We find that CBDT Instruction No.20/2015 dated 29.12.2015 made it clear that in Limited Scrutiny cases the questionnaire u/s.142(1) of the Act and the enquiry of the AO should remain confined to the specific reasons/issues for which the case was selected. We further find that CBDT Instruction No.5/2016 dated 14.07.2016 further regulated enlargement of such scrutiny by prescribing safeguards including objective material and prior approval of the competent authority. The Board thereafter reiterated that these restrictions constituted checks and balances upon the powers of the AO and were intended to prevent fishing and roving enquiries outside the issues identified for Limited Scrutiny.

25. We find that for the CASS cycles relevant to the present controversy, the restrictions were further tightened. CBDT vide Letter F.No.225/402/2018/ITA-II

dated 28.11.2018 specifically provided that in pending Limited Scrutiny cases selected through CASS cycles of 2017 and 2018, an issue outside the original Limited Scrutiny parameters could be examined where credible material or information regarding tax evasion had been provided by a law-enforcement, intelligence or regulatory authority or agency, subject to recording of reasons and prior administrative approval of the concerned Pr.CIT/CIT. The Board categorically directed that the AO should not expand the scope of enquiry beyond the issues on which the case had been flagged for Limited Scrutiny and the additional issue arising from such specified information.

26. We find that in the present case, the notice u/s.143(2) of the Act was issued on 22.09.2019 pursuant to CASS-2019. Therefore, the CBDT Guidelines contained in F.No.225/169/2019/ITA-II dated 05.09.2019 assume direct relevance. Paragraph 2(ii) thereof provides that where a case is selected for Limited Scrutiny but credible specific information regarding tax evasion has been or is received from any law-enforcement, intelligence or regulatory authority or agency, “then only” the issue arising from such information can additionally be examined during the assessment proceedings, with prior administrative approval of the Pr.CIT/CIT in accordance with the procedure prescribed in the Board's letter dated 28.11.2018. The Guidelines further expressly direct that in such Limited Scrutiny cases the AO shall not expand the scope of enquiry or investigation beyond the issues on which the case was flagged for Limited Scrutiny and the issue arising from such qualifying information.

27. The expression “then only” employed in the applicable CBDT Guidelines is of considerable significance. It demonstrates that the Board did not leave enlargement of the scope of Limited Scrutiny to the unrestricted discretion of the AO. The existence of the stipulated circumstances is a condition precedent for examination of an additional issue. The restriction is not merely procedural. It defines and regulates the permissible field of enquiry in an assessment consciously selected as one of Limited Scrutiny. When the facts of the present case are tested against the above framework, we find that neither the

assessment order nor the remand report nor the impugned order of the ld.CIT(A) makes any reference to credible specific information concerning the assessee's claim u/s.35(2AB) of the Act having been received from any law-enforcement, intelligence or regulatory authority or agency. There is also nothing brought before us to show that reasons were recorded for enlargement of the scope of Limited Scrutiny or that prior administrative approval of the Pr.CIT/CIT was obtained for examination of the assessee's claim u/s.35(2AB) of the Act. Nor has the Revenue demonstrated that the assessee was intimated that an additional issue was being taken up in exercise of the power available under the applicable CBDT framework. Indeed, the Revenue does not seek to justify the impugned disallowance on the footing that the statutory safeguards governing enlargement of Limited Scrutiny were complied with. The case of the Revenue, as emerging from the remand report and the order of the ld.CIT(A), is that no enlargement at all was involved because “Donation for Scientific Research” and expenditure incurred upon an in-house R&D facility are both species of scientific research expenditure governed by section 35 of the Act. We are unable to accept this proposition.

28. We are of the considered view that the starting point for determining the permissible scope of Limited Scrutiny must necessarily be the issue actually communicated to the assessee. The issue communicated was not “Scientific Research Expenditure”. It was not “Deduction under section 35”. Nor was it “Large Deduction Claimed for Scientific Research”. The issue specifically communicated was “Deduction on Account of Donation for Scientific Research”, which has been specifically dealt in the provisions of section 35(1) of the Act. The word “Donation” cannot be treated as redundant or devoid of legal significance. It qualifies and identifies the nature of the transaction selected for verification. The statutory scheme of section 35 of the Act itself supports this distinction. Payments or contributions made to outside research institutions and expenditure incurred by a company upon its own approved in-house Research and Development facility constitute distinct statutory categories. Section 35(2AB) of the Act operates in relation to expenditure incurred by an eligible company on scientific research in its own in-house R&D facility approved by the

prescribed authority. A donation or contribution for scientific research, on the other hand, involves a payment to another eligible or approved research entity. The nature of the transaction, the recipient or beneficiary, the statutory conditions governing eligibility, and the evidence necessary for verification are materially different.

29. The distinction is further fortified by the return of income itself. As pointed out on behalf of the assessee, the relevant entries in Schedule ESR relating to payments or contributions under sections 35(1)(ii), 35(1)(iia), 35(1)(iii) and 35(2AA) were shown as Nil, whereas the amount of Rs.3,21,66,010/- was separately claimed u/s.35(2AB) of the Act. Thus, there was no claim by the assessee towards a donation or contribution for scientific research which could have encompassed the impugned deduction. The claim actually examined by the AO was expenditure incurred upon the assessee's own in-house R&D facility.

30. In our considered view, the mere circumstance that two distinct deductions find place under different limbs of the same statutory provision does not make them one and the same issue for the purposes of Limited Scrutiny. The object of Limited Scrutiny is to confine examination to the particular issue flagged under CASS and not to open up every other item having some statutory, accounting or conceptual relationship with that issue. If the contention of the Revenue were accepted, selection of one particular claim under a statutory provision would enable the AO to examine every other claim falling under that provision. Such an interpretation would substantially obliterate the distinction between Limited Scrutiny and Complete Scrutiny.

31. The Hon'ble jurisdictional Madras High Court in Madras Craft Foundation Society v. CIT, W.P. No.10673 of 2021, judgment dated 23.02.2024, has considered the legal consequences of an assessment travelling beyond the notified Limited Scrutiny issue. In that case, while the issue selected for Limited Scrutiny concerned correctness of depreciation, the AO proceeded to examine the assessee's exemption u/s.11(2) of the Act. The Hon'ble High Court held that

the two issues were distinct and independent and that the assessment, insofar as it travelled beyond the Limited Scrutiny issue without obtaining the requisite approval, was contrary to the binding CBDT instructions. The Hon'ble High Court further held that such disregard of the binding instructions constituted an infirmity fatal to the validity of the assessment insofar as it travelled beyond the permissible scope.

32. The principle emanating from the aforesaid judgment, in our view, squarely applies to the facts before us. What is material is the issue actually identified for Limited Scrutiny and not whether another issue can subsequently be brought within a wider conceptual description of the same subject. In the present case, donation for scientific research and expenditure incurred on an assessee's own in-house R&D facility are distinct both factually and statutorily. The latter cannot be brought within the former merely by describing both as deductions relating to scientific research.

33. We also find considerable force in the reliance placed by the ld.AR on the decision of the Chennai Bench of the Tribunal in Aadarsh Surana v. DCIT, ITA No.1840/Chny/2025, order dated 15.12.2025. This Tribunal, after considering the evolution of the CBDT instructions governing Limited Scrutiny, held that the reasons for selection of a case under CASS for Limited Scrutiny have to be read strictly and literally and without interpretative enlargement. It was further held that an addition must directly relate to and arise from the specific issue for which the case was selected and that indirect or consequential additions made by enlarging or extrapolating the scope of the reason for scrutiny are impermissible.

34. The ratio of the aforesaid decision directly answers the reasoning adopted by the ld.CIT(A) that the claim u/s.35(2AB) of the Act was “intrinsically connected” with the broader subject of scientific research deduction. The test is not whether some connection can be established between the notified issue and the issue ultimately examined by the AO. The test is whether the addition directly arises from the specific issue for which the case was selected for

Limited Scrutiny. A statutory, accounting or conceptual connection cannot substitute the specific CASS parameter communicated to the assessee.

35. We are also unable to sustain the view that the subsequent questionnaire issued u/s.142(1) of the Act, whereby particulars relating to in-house research were called for, could validly enlarge the scope of scrutiny. A notice u/s.142(1) of the Act is a procedural instrument available to the AO for making enquiries within the permissible field of assessment. It cannot, by itself, become the source of jurisdiction to examine an issue which is otherwise outside the Limited Scrutiny mandate. Jurisdiction to enquire into an additional issue must precede the enquiry. The issuance of a questionnaire on an issue beyond the permissible scope cannot retrospectively confer jurisdiction upon the AO to examine that issue. Any other view would render the safeguards prescribed by the CBDT ineffective. If an AO could enlarge Limited Scrutiny merely by incorporating additional queries in a notice u/s.142(1) of the Act, there would be little purpose in prescribing conditions such as receipt of credible specific information, recording of reasons, prior administrative approval and intimation to the assessee. What cannot be done directly under the binding Limited Scrutiny instructions cannot be accomplished indirectly through the questionnaire issued during assessment proceedings.

36. We find that the reliance placed by the ld.CIT(A) upon the participation of the assessee in the assessment proceedings and furnishing of Form No.3CL is also misplaced. When the AO called upon the assessee to furnish particulars concerning its deduction u/s.35(2AB) of the Act, the assessee was required to respond to the enquiry and protect its position on merits. Compliance with a statutory notice or furnishing information in response to an enquiry cannot amount to conferring jurisdiction upon the AO where such jurisdiction is otherwise restricted by binding CBDT instructions. There can be no estoppel against raising a pure jurisdictional ground merely because the assessee, faced with an enquiry and a proposed disallowance, participated in the proceedings.

37. We further find that the ld.CIT(A), having himself admitted the additional ground as one raising a jurisdictional issue going to the root of the assessment, could not have rejected the same merely on account of the assessee's participation on merits. The existence of jurisdiction has to be tested with reference to the statutory and administrative framework governing the assessment and not with reference to whether the assessee furnished information when called upon to do so.

38. We also find no merit in the Revenue's reliance upon section 124(3) of the Act. The objection raised by the assessee does not concern the territorial or functional jurisdiction of the AO contemplated u/s.124 of the Act. The objection concerns the legally permissible scope of enquiry in an assessment specifically selected as a Limited Scrutiny assessment. The bar prescribed in section 124(3) of the Act, therefore, has no application to such an objection.

39. Similarly, section 292B of the Act cannot come to the aid of the Revenue. The case before us does not involve a mere mistake, defect or omission in the notice issued u/s.143(2) of the Act. The notice is explicit and unambiguous in identifying the issue as “Deduction on Account of Donation for Scientific Research”. The assessment order itself reiterates the same reason for Limited Scrutiny. The defect complained of by the assessee is substantive, namely, that the AO proceeded to examine and make an addition on an independent issue beyond the notified scope without establishing compliance with the conditions prescribed for taking up an additional issue. Section 292B of the Act cannot be invoked to confer a substantive jurisdiction which was otherwise unavailable to the AO under the governing Limited Scrutiny framework.

40. The approach adopted by the ld.CIT(A), in our considered opinion, proceeds on an erroneous premise. The question was not whether donation for scientific research and expenditure upon an in-house R&D facility could, at a high level of generality, be placed under the common umbrella of scientific research. The relevant enquiry was whether the claim u/s.35(2AB) of the Act directly fell within the precise Limited Scrutiny issue communicated to the

assessee and, if it did not, whether the mandatory conditions prescribed by the CBDT for examination of an additional issue had been fulfilled.

41. On the first question, we hold that expenditure incurred by the assessee upon its own in-house R&D facility u/s.35(2AB) of the Act cannot be equated with or subsumed within the notified issue “Deduction on Account of Donation for Scientific Research”. These are distinct transactions governed by different statutory conditions. On the second question, there is nothing on record to establish receipt of credible specific information regarding tax evasion from a law-enforcement, intelligence or regulatory authority or agency in relation to the section 35(2AB) of the Act claim. There is likewise nothing to demonstrate that the prescribed reasons were recorded and prior administrative approval of the Pr.CIT/CIT was obtained for taking up such additional issue. The jurisdictional conditions prescribed by the applicable CASS framework have thus not been shown to have been fulfilled.

42. The contention that both claims fall under section 35 of the Act cannot improve the Revenue's case. Limited Scrutiny is issue-specific and not section-specific. Once the CASS parameter itself identifies the particular nature of the transaction to be examined, the AO cannot disregard the limiting words employed therein and treat the entire statutory provision as having been opened up for scrutiny. To hold otherwise would permit an issue specifically selected under one limb of a provision to become a gateway for scrutiny of all claims arising under that provision, which would be contrary to the very architecture of Limited Scrutiny.

43. We may also observe that the binding nature of the CBDT instructions upon the income-tax authorities cannot be diluted by adopting an interpretation which effectively renders the restrictions imposed therein otiose. When the Board itself has consciously circumscribed the authority of the AO in Limited Scrutiny cases and has prescribed the circumstances and manner in which an additional issue may be examined, those safeguards have to be observed in substance. An addition made outside the specified scope without satisfying the

prescribed conditions cannot be sustained merely because, on merits, the AO may have considered the issue deserving of examination.

44. In view of the foregoing discussion and respectfully following the ratio laid down by the Hon'ble jurisdictional Madras High Court in Madras Craft Foundation Society (supra) and the decision of the coordinate Chennai Bench in Aadarsh Surana v. DCIT (supra), we hold that the AO travelled beyond the permissible scope of Limited Scrutiny in examining the assessee's claim u/s.35(2AB) of the Act. The notified issue, namely “Deduction on Account of Donation for Scientific Research”, could not have been enlarged by interpretation so as to encompass expenditure incurred by the assessee upon its own approved in-house R&D facility u/s.35(2AB) of the Act. Consequently, the disallowance of Rs.2,45,55,010/- made u/s.35(2AB) of the Act, having arisen from an enquiry beyond the permissible scope of Limited Scrutiny and without the jurisdictional requirements for taking up an additional issue having been shown to be satisfied, cannot be sustained in law. The finding of the ld.CIT(A) on this issue is, therefore, reversed and the AO is directed to delete the disallowance made u/s.35(2AB) of the Act.

45. In the result, the appeal of the assessee is allowed.

Order pronounced in the open court on 12th October, 2026 at Chennai.

| | |
|---|---|
| Sd/- | Sd/- |
| (एबी टी वर्की ) | (एस. आर. रघुनाथा) |
| **(ABY T VARKEY)** | **(S. R. RAGHUNATHA)** |
| न्यायिक सदस्य/Judicial Member | लेखासदस्य/Accountant Member |

चेन्नई/Chennai,

दिनांक/Dated, the 12th October, 2026

***Devadas***

**आदेश की प्रतिलिपि अग्रेषित/Copy to:**

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT- Chennai/Coimbatore/Madurai/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF

DEVADAS GOPALANACHARY

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