आयकर अपीलीय अधिकरण, हैदराबाद पीठ
IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad ' A ' Bench, Hyderabad
श्री विजय पाल राव, उपाध्यक्ष एवं श्री मधुसूदन सावडिया, लेखा सदस्य के समक्ष ।

Before Shri Vijay Pal Rao, Vice-President
A N D
Shri Madhusudan Sawdia, Accountant Member

आ.अपी.सं /**ITA No.1521/Hyd/2025**
(निर्धारण वर्ष/Assessment Year: 2018-19)

Smt. Supriya Nagendla Secunderabad PAN:AAUPN8127B	Vs.	Income Tax Officer Ward 4(1) Hyderabad
(Appellant)		(Respondent)
निर्धारिती द्वारा/Assessee by:	Assessee Smt. Supriya Nagendla	
राजस्व द्वारा/Revenue by::	Shri Abhinav Pitta, Sr. DR	
सुनवाई की तारीख/Date of hearing:	13/11/2025	
घोषणा की तारीख/Pronouncement:	19/11/2025	

आदेश/ORDER

Per Madhusudan Sawdia, A.M.:

This appeal is filed by Smt. Supriya Nagendla ("the assessee"), feeling aggrieved by the order passed by the Learned Commissioner of Income Tax (Appeals), National Faceless Appeal Centre (NFAC), Delhi ("Ld. CIT(A)") dated 05.08.2025 for the A.Y 2018-19.

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

" I. The CIT(A) erred in law and on facts in upholding the addition of ₹26,97,912/- towards severance pay , despite detailed submissions and documentary evidence establishing that the Income were capital receipts.

II. The authorities below failed to appreciate that the Severance pay were authentic 'compensation'

III. The CIT(A) erred in confirming the addition of ₹26,97,912/- as without applying the correct interpretation of facts and information produced before them. The disallowance of severance pay solely on the ground of company deducting tax on payment and not verification of evidence, which is unjustified, especially when such an evidences and supporting produced in proceedings, and the appellant was not given an opportunity to provide the same. The additions are arbitrary, contrary to the principles of natural justice, and not sustainable in law, as all primary evidence was provided and not controverted by the lower authorities. The appellant craves leave to add, amend, or withdraw any ground of appeal at any stage.

Prayer

In view of the above, the appellant prays that the additions of ₹26,97,912/- towards severance pay be deleted, and such other relief as the Hon'ble Tribunal may deem fit be granted."

3. The brief facts of the case are that the assessee is an individual employed as Operations Lead with M/s. Monsanto Holdings Pvt. Ltd. ("employer"). For the Assessment Year 2018-19, she filed her return of income on 10.01.2019, declaring a total income of Rs.25,10,760/-. The case of the assessee was selected for Complete Scrutiny under CASS on the issues of Salary Income and Refund Claim and notice under section 143(2) of the Income Tax Act, 1961 ("the Act") was issued to the assessee on 28.09.2019. During the scrutiny proceedings, the Learned Assessing Officer ("Ld. AO") examined the salary details and noted a substantial discrepancy between the total taxable salary

reported in Annexure-II of Form 24Q by the employer and the salary declared by the assessee in her ITR. While the assessee had received gross salary of Rs.61,29,902/-, she had declared only Rs.26,58,124/- as gross salary in the return. Upon further enquiry under section 142(1) of the Act, the Ld. AO found that the assessee had received Rs.26,97,912/- towards Severance Compensation and claimed the entire severance compensation as exempt income. The Ld. AO, relying on section 17(3) of the Act, held that severance compensation received after cessation of employment is fully taxable as "profits in lieu of salary", unless specifically exempted under section 10 of the Act. Accordingly, the Ld. AO made an addition of Rs.26,97,912/- in the hands of the assessee and assessed the total income of the assessee at Rs.52,08,672/- vide order dated 11.01.2021 passed under section 143(3) r.w.s 143(3A) and 143(3) of the Act.

4. Aggrieved with the order of the Ld. AO, the assessee filed appeal before the Ld. CIT(A). The Ld. CIT(A) upheld the addition made by the Ld. AO and dismissed the appeal of the assessee.

5. Aggrieved with the order of the Ld. CIT (A), the assessee is in appeal before this Tribunal. At the outset, the assessee submitted that the solitary issue involved out of her grounds of appeal is the addition made by the Ld. AO on account of severance compensation of Rs.26,97,912/-. The assessee vehemently argued that the severance compensation of Rs.26,97,912/- received by her constitutes a capital receipt not

chargeable to tax under the Act. She submitted that her employment ended due to corporate restructuring and therefore the compensation received was towards loss of employment and loss of source of income, not for services rendered. In support of her contention, the assessee relied on the decisions of the Coordinate Bench of the Tribunal in the cases of Sudhakar Ratan Shanker vs. ITO (ITA No.1033/Ahd/2024 dated 03.10.2024) and Samik Pankajbhai Parikh vs. ITO (ITA No.659/Ahd/2023 dated 31.10.2023), wherein severance compensation was held to be a capital receipt. She accordingly prayed that the addition sustained by the Ld. CIT(A) be deleted.

6. Per contra, the Learned Departmental Representative ("Ld. DR") strongly supported the orders of the lower authorities and contended that the addition has been rightly sustained by the Ld. CIT(A), and the appeal deserves to be dismissed.

7. We have carefully considered the rival submissions and the documents placed on record along with the judicial precedents relied upon. The issue for consideration is whether the severance compensation of Rs.26,97,912/- received by the assessee is taxable or exempt under the Act. In this regard, it is crucial to go through the provision contained under section 17(3) of the Act, which is to the following effect:

> ***"Salary", "perquisite" and "profits in lieu of salary" defined.***
>
> *17. For the purposes of sections 15 and 16 and of this section –*
>
> *(1) "Salary" includes-*

……

(2) ……

"(3) "profits in lieu of salary" includes—

(i) the amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment or the modification of the terms and conditions relating thereto;

(ii) any payment (other than any payment referred to in clause (10), clause (10A), clause (10B), clause (11), clause (12), clause (13) or clause (13A) of section 10), due to or received by an assessee from an employer or a former employer or from a provident or other fund, to the extent to which it does not consist of contributions by the assessee or interest on such contributions or any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy. Explanation.—For the purposes of this sub-clause, the expression "Keyman insurance policy" shall have the meaning assigned to it in clause (10D) of section 10;

(iii) any amount due to or received, whether in lump sum or otherwise, by any assessee from any person—

(A) before his joining any employment with that person; or
(B) after cessation of his employment with that person"

8. On perusal of the above, we find that the provisions contained under section 17(3)of the Act clearly provides that any amount received by an assessee from any person after cessation of employment, whether in lump sum or otherwise, shall be treated as profits in lieu of salary, except where specifically exempt under section 10. The language of the provision is clear and unambiguous. We have gone through the decisions of the Coordinate Bench of the Tribunal in the cases of Sudhakar Ratan Shanker (Supra) and Samik Pankajbhai Parikh (Supra) relied on by the assessee. In both these decisions, the Tribunal proceeded on the basis of the judgment of the Hon'ble Gujarat High Court in

Arunbhai R. Naik vs. ITO (64 taxmann.com 216) dated 12.10.2015, wherein severance compensation was held to be a capital receipt on the ground that the same was a voluntary payment not falling within the ambit of section 17(3)(i) of the Act. We have perused the judgment of the Hon'ble Gujarat High Court. It is evident that the said judgment pertained to Assessment Year 1994-95, when the statutory position was materially different. The Finance Act, 2001 inserted clause (iii) to section 17(3) of the Act with effect from 01.04.2002, which brings within the scope of "profits in lieu of salary" "any amount received by an employee, whether in lump sum or otherwise, from any person, before his joining, or after cessation of his employment." Thus, post 01.04.2002, any amount received by an employee at or on termination of employment, irrespective of nomenclature, mode of payment, or voluntariness, is liable to be taxed under section 17(3)(iii) of the Act. Therefore, with effect from 01.04.2002, the statutory scheme has undergone a substantive change, and the ratio of Arunbhai R. Naik (supra), which was concerned with a pre-amendment year, cannot be mechanically applied to Assessment Year 2018-19, which is the year under appeal before us. We have also gone through the para no. 7.3 on page 13 of the order of the Ld. CIT (A), which to the following effect:

> *"7.3 The reply of the assessee and the assessment order have been perused. The AO has relied upon section 17(3) (iii) and has also mentioned that the case laws relied upon by the assessee pertain to the period prior to the insertion of this section. I find force in the finding of the AO that the receipt of the assessee falls squarely within the purview of section*

> *17(3)(iii). The assessee has received a lump sum amount from her employer on account of cessation of her employment. The circumstances and conditions of the cessation are immaterial. The amount has been received on account of the cessation. It is seen from the cessation of employment letter that the payment made by the employer was not voluntary and that the payment was made in lieu of services rendered by the assessee. Also assessee was obligated as the letter states that " The details of the cessation of your services with the company are to be kept confidential". Therefore, it clearly falls within the ambit of salary income. Further, in view of these facts, the employer itself has gone ahead and deducted TDS on the said amount, and taken it as part of salary in Form 16.*

9. On perusal of the above, we find that the Ld. CIT (A) has recorded a categorical factual finding that the payment made by the employer to the assessee was not voluntary, and that the compensation was paid in lieu of services rendered by the assessee during the period preceding the cessation of employment. The assessee has not brought before us any documentary evidence to rebut the factual findings so recorded by the Ld. CIT(A). No material has been placed to show that the payment was gratuitous, voluntary, or compensatory for loss of employment in a capital field. In the absence of any contrary evidence, and in view of the specific statutory inclusion under section 17(3)(iii) of the Act, we are unable to accept the contention of the assessee that the severance compensation received by her of constitutes a capital receipt. Accordingly, we uphold the findings of the Ld. CIT(A) and hold that the severance compensation received by the assessee is taxable as profits in lieu of salary under section 17(3) of the Act. The grounds of appeal raised by the assessee are, therefore, dismissed.

10. In the result, the appeal of the assessee is dismissed.

Order pronounced in the Open Court on 19th November, 2025.

Sd/-	Sd/-
(VIJAY PAL RAO) **VICE PRESIDENT**	**(MADHUSUDAN SAWDIA)** **ACCOUNTANT MEMBER**

Hyderabad, dated 19th November, 2025

Vinodan/sps

Copy to:

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2	Income Tax Officer Ward 4(1) Hyderabad
3	Pr. CIT - Hyderabad
4	DR, ITAT Hyderabad Benches
5	Guard File

By Order