KPMG

Tax Flash News



18 November 2026

KPMG. Make the Difference.

Waiver of term loan under one-time settlement does not constitute receipt of money; not taxable as income from other sources

Executive summary

In the case of *Jindal India*,[1] the Delhi Bench of the Income-tax Appellate Tribunal ('the Tribunal') examined whether waiver of the principal component of a term loan pursuant to a one-time settlement with a consortium of lenders could be taxed as income from other sources under section 56(2)(x) of the Income-tax Act, 1961.

The Tribunal ruled in favour of the taxpayer and held that waiver of a loan does not constitute "receipt of money" for the purposes of section 56(2)(x). The settlement was a commercially negotiated arrangement involving consideration in the form of settlement payment, transfer of equity shares by the taxpayer's parent company and other obligations. Accordingly, the essential requirement of "without consideration" was not satisfied.

The Tribunal also observed that the term loan had been availed for acquisition of capital assets and therefore the waiver of the principal component constituted a capital receipt. It rejected the Revenue's reliance on the Supreme Court decision in *Mahindra And Mahindra Ltd*., holding that the said decision did not deal with the applicability of section 56(2)(x).

[1] *Jindal India Power Ltd*. v. *DCIT* [2026] 191 taxmann.com 736 (Delhi Tribunal)

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Facts of the case

The taxpayer, a power generation company, had availed term loans from a consortium of 16 lenders for financing its power project.

Due to persistent losses and low-capacity utilisation, the taxpayer defaulted in servicing its debt obligations and the loan account was classified as a non-performing asset.

To resolve the stressed debt, the taxpayer and the lenders entered into a one-time settlement ('OTS') under which the lenders agreed to settle the outstanding debt.

Against the total outstanding dues (including principal and accrued interest), the lenders agreed to accept the settlement amount and write off the balance.

Accordingly, during FY 2021-22, the taxpayer recognised waiver of both the principal and interest amount in its books of account.

The taxpayer reduced the entire waiver amount while computing its taxable income.

The tax officer accepted that the amount waived off was not taxable as business income[2] but brought the principal component of the loan waiver to tax as income from other sources under section 56(2)(x).

[2] Section 28(iv) or 41(1)

Relevant provisions

Section 56(2)(x)(a) provides for taxation of any sum of money received by a person without consideration where the prescribed threshold is exceeded.

Revenue's contentions

The taxpayer had effectively received a benefit upon waiver of the principal amount of the loan. The principal amount waived by the lenders was relinquished without any corresponding consideration flowing from the taxpayer. Accordingly, all the ingredients of section 56(2)(x) stood satisfied.

Section 56(2)(x) is not restricted only to sham or tax avoidance arrangements and could apply even to genuine commercial transactions if the conditions of the section are satisfied.

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Tribunal's decision

The Tribunal ruled in favour of the taxpayer and deleted the addition made under section 56(2)(x).

Key observations of the Tribunal included:

Waiver of loan on capital account not taxable

The principal amount of the loan had been utilised for acquisition of capital assets. Accordingly, waiver of such principal amount constituted a capital receipt and represented a transaction on capital account.

Loan waiver is not receipt of money

Section 56(2)(x) requires actual receipt of money during the relevant previous year which was not satisfied in the instant case.

The taxpayer had not received any money during the relevant year pursuant to the OTS. In fact, waiver, by its very nature, is the antithesis of actual receipt of money.

Waiver of a loan merely resulted in discharge of an existing liability and could not be equated with actual receipt of money.

The settlement involved consideration

The waiver was contingent upon the taxpayer fulfilling several obligations, including partial repayment of outstanding dues, transfer of 10 per cent equity shares by the taxpayer's parent company and compliance with other contractual conditions.

Therefore, the transaction was not undertaken "without consideration". Since the OTS was a negotiated commercial arrangement supported by consideration, section 56(2)(x) could not be invoked.

Section 56(2)(x) not intended for *bona fide* debt restructurings

Referring to the Finance Minister's speech and Explanatory Memoranda explaining the evolution of sections 56(2)(vi), 56(2)(vii) and 56(2)(x), the Tribunal observed that these provisions were introduced as anti-abuse measures to prevent laundering of unaccounted income through purported gifts and similar arrangements.

The provisions were not intended to apply to genuine commercial transactions such as debt restructurings carried out after negotiations between borrowers and banks or financial institutions.

Commercial debt resolution cannot be equated with tax avoidance

The lenders had explored a Swiss challenge process and invited bids from third parties before ultimately entering into the OTS with the taxpayer. The OTS was therefore a genuine commercial restructuring undertaken having regard to the taxpayer's financial condition and prospects of recovery of debt.

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The Revenue had not alleged any money-laundering arrangement or colourable device. Accordingly, the transaction did not fall within the mischief sought to be addressed by section 56(2)(x).

Judicial precedents

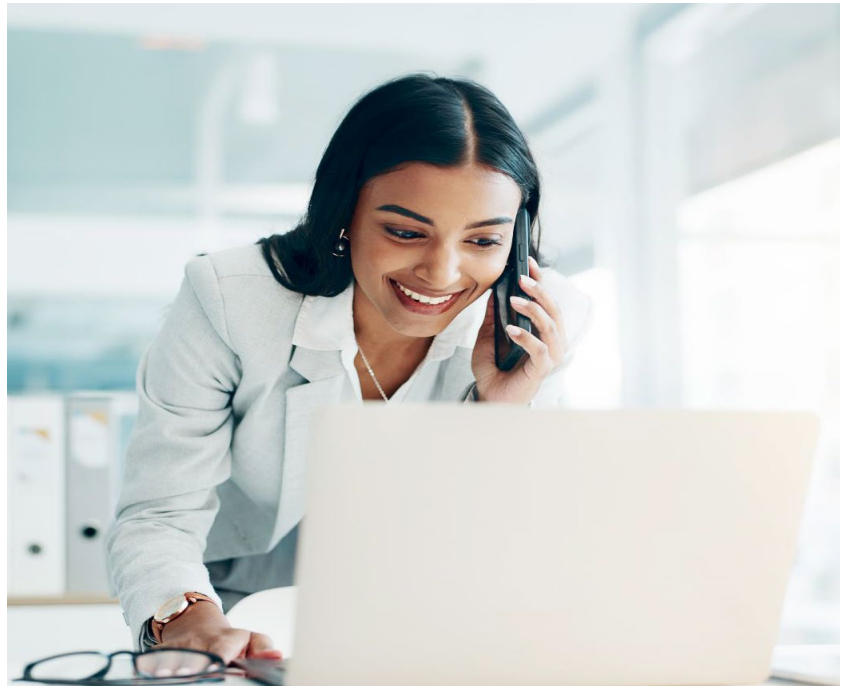
The Tribunal relied on the decisions in the case of *Infinite Buildcon*[3] and *Jai Pal Gaba.*[4]

The Tribunal rejected the Revenue's reliance on the Supreme Court decision in *Mahindra And Mahindra Ltd*.[5] and observed that the issues before the Supreme Court related to provisions dealing with taxability by way of business income (i.e., sections 28(iv) and 41(1)). The Supreme Court had no occasion to consider the applicability of section 56(2). Consequently, the observations in that decision could not be extended to support taxation under section 56(2)(x).

Section 28(iv) was amended with effect from 1 April 2024 to expressly cover benefits received in cash. No corresponding amendment was made to section 56(2)(x). This indicated that the legislature did not intend to tax loan waivers under section 56(2)(x).

Our comments

This ruling provides guidance on the scope of section 56(2)(x) in the context of debt restructuring and OTS arrangements. The Tribunal has reaffirmed that waiver of a loan liability cannot automatically be equated with receipt of money and that the expression "without consideration" cannot be interpreted in isolation from the underlying commercial arrangement.



[3] *ACIT* v. *Infinite Buildcon (P.) Ltd*. IT Appeal No. 2241 (Mumbai)
[4] *Jai Pal Gaba* v. *ITO* [2019] 108 taxmann.com 494 (Chandigarh Tribunal)
[5] *CIT* v. *Mahindra And Mahindra Ltd.* [2018] 404 ITR 1 (SC). The Revenue also relied on the decision in the case of *CIT* v. *T. V. Sundaram Iyengar & Sons Ltd* [1996] 222 ITR 344 (SC)

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG in India addresses:

Ahmedabad
Commerce House V, 9th Floor, 902, Near Vodafone House, Corporate Road, Prahlad Nagar, Ahmedabad – 380 051.
Tel: +91 79 4040 2200

Bengaluru
Embassy Golf Links Business Park, Pebble Beach, 13/02, 'B' Block, 1st & 2nd Floor, Off Intermediate Ring Road, Bengaluru – 560 071
Tel: +91 80 6833 5000

Chandigarh
Elante Offices, Unit No. A505, 5th Floor, Plot No.178-178A, Industrial Area Phase-1, Chandigarh – 160 002.
Tel: +91 172 664 4000

Chennai
KRM Towers, Ground, 1st, 2nd, & 3rd Floor, No. 1, Harrington Road, Chetpet, Chennai – 600 031.
Tel: +91 44 3914 5000

Gurugram
Building No.10, 8th Floor, DLF Cyber City, Phase II, Gurugram, Haryana – 122 002.
Tel: +91 124 307 4000

Hyderabad
Salarpuria Knowledge City, Orwell 6th Floor, Unit-3, Survey No 83/1, Plot No 2, Raidurg, Hyderabad – 500 081.Tel: +91 40 6111 6000

Jaipur
Signature Towers, Office No. 402, Fourth Floor, S Plot No. DC-II, Lal Kothi District Shopping Center, Tonk Road, Jaipur – 302 001
Tel: +91 141 – 672 1000

Kochi
Syama Business Centre, 49/179, 3rd Floor, NH 47, Bypass Road, Vytilla, Kochi – 682 019.
Tel: +91 484 302 5600

Kolkata
Unit No. 604, 6th Floor, Tower – 1, Godrej Waterside, Sector – V, Salt Lake, Kolkata – 700 091.
Tel: +91 33 4403 4000

Mumbai
Lodha Excelus, Apollo Mills Compound, 2nd Floor, N M Joshi Marg, Lower Parel, Mumbai- 400 011.
Tel: +91 22 3989 6000

Noida
Unit No. 501, 5th Floor, Advant Navis Business Park, Tower-A, Plot# 7, Sector 142, Expressway Noida, Gautam Budh Nagar, Noida – 201 305.
Tel: +91 0120 386 8000

Pune
9th floor, Business Plaza, Westin Hotel Campus, 36/3-B, Koregaon Park Annex, Mundhwa Road, Ghorpadi, Pune – 411 001.
Tel: +91 20 6747 7000

Vadodara
Ocean Building, 303, 3rd Floor, Beside Center Square Mall, Opp. Vadodara Central Mall, Dr. Vikram Sarabhai Marg, Vadodara – 390 023.
Tel: +91 265 619 4200

Vijayawada
PR heights, 4th Floor, NH 16 Service Rd, opp. Manipal Hospital Road, Tadepalle, Andhra Pradesh – 522 501.
Tel: +91 0864 536 2000

kpmg.com/in
Follow us on:
kpmg.com/in/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Lower Parel, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is meant for e-communication only.