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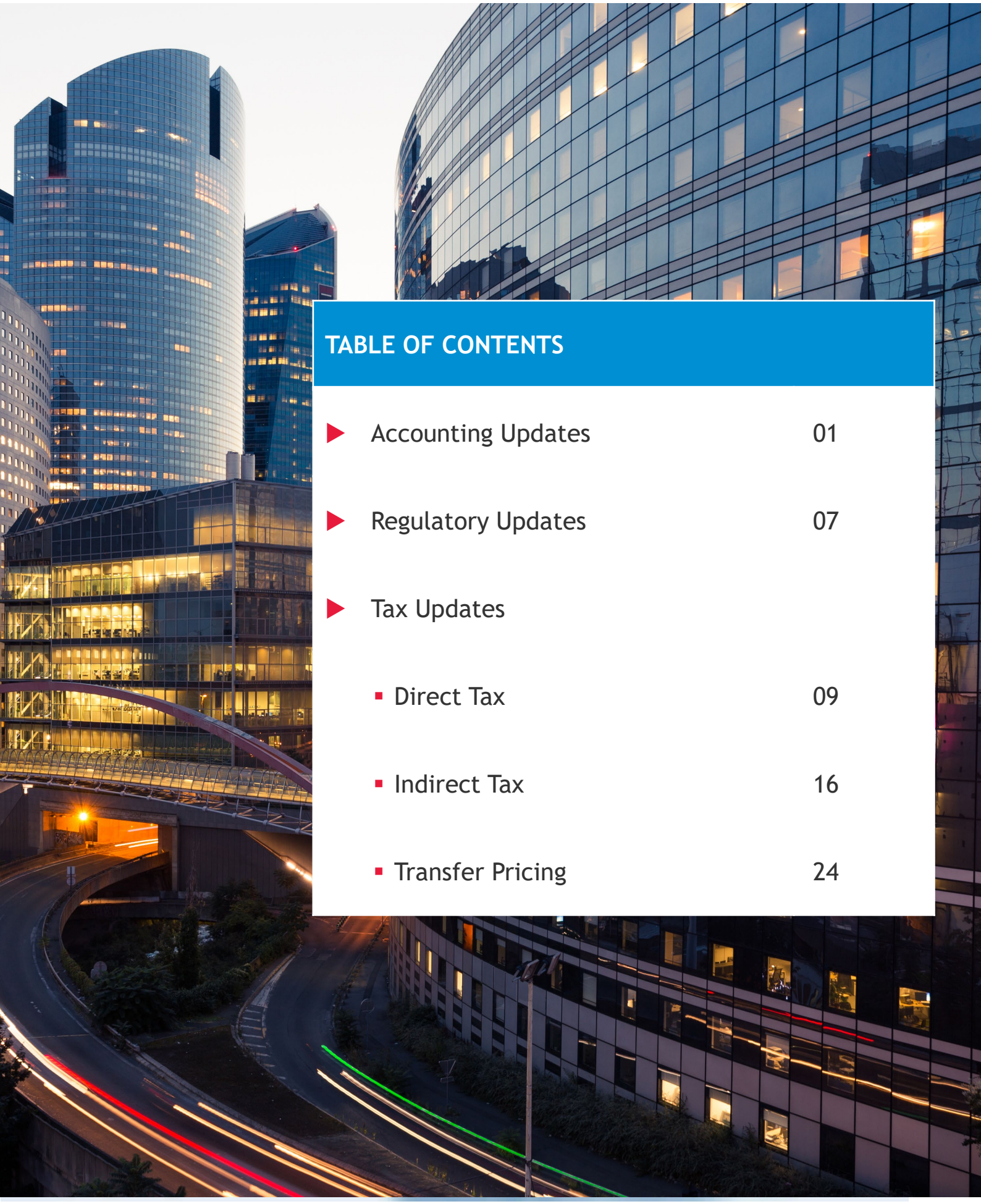

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The Institute of Chartered Accountants of India (ICAI):

Timing of capitalisation of partly completed gas pipeline (Phase I) under the Ind AS framework.

The Company, a joint venture formed to develop the North-East Gas Grid (NEGG), is executing a large integrated gas pipeline project in phases. Under Phase I, the Guwahati-Numaligarh pipeline (392 km) was identified as a key component, intended to supply gas to Numaligarh Refinery, the anchor customer. As of the reporting date, approximately 195.898 km of the pipeline had been mechanically completed along with related infrastructure. However, the remaining portion was still under construction, and commercial operations were expected to commence only upon completion of the entire pipeline.

The Company continued to classify all expenditure, including borrowing costs, as Capital Work-in-Progress (CWIP), without capitalising the completed portion as Property, Plant and Equipment (PPE).

The key issue examined was whether the partially completed section of the pipeline could be capitalised under Ind AS 16, despite the overall project not being fully completed or operational.

The Expert Advisory Committee noted that, under Ind AS 16, capitalisation is permitted only when an asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. It further considered principles under Ind AS 23, which allow capitalisation of costs to cease for parts of an asset only if those parts are capable of being used independently. Accordingly, the Committee concluded that the expenditure, including borrowing costs, should continue to be recognised as Capital Work-in-Progress and should not be capitalised until the full pipeline is completed and ready for operation.

REGULATORY UPDATES

The Institute of Chartered Accountants of India (ICAI):

Announcement regarding applicability of 'Guidance Note on Financial Statements of Non-Corporate Entities' and 'Guidance Note on Financial Statements of Limited Liability Partnerships' for annual reporting periods 2025-26 onwards.

ICAI has announced the phased applicability of the “Guidance Note on Financial Statements of Non-Corporate Entities” and the “Guidance Note on Financial Statements of Limited Liability Partnerships”.

- Phase I: Accounting periods beginning on or after 1 April 2025, for entities whose turnover exceeds INR 5 crores.
- Phase II: Accounting periods beginning on or after 1 April 2026, for all entities.

Income Tax Rules, 2026, including Tabular Mapping of Rules and Forms vis-a-vis Income Tax Rules, 1962 and Forms

The Income-tax Act, 2025, comes into force on 1 April 2026, marking a significant milestone in India’s direct tax landscape. The Income-tax Rules, 2026, along with the prescribed forms, have also been notified on 20 March

2026, thereby completing the foundational framework for the new law. The Central Board of Direct Taxes (CBDT) has released a tabular mapping of the Income-tax Rules, 2026, vis à vis the Income-tax Rules, 1962, along with a corresponding mapping of Forms under the new Rules. This mapping has been issued to help taxpayers and professionals easily identify corresponding provisions and forms, understand structural changes, and ensure a smooth transition from the old framework to the new Rules. The comparative tables serve as navigational tools, enabling stakeholders to track continuity, modifications, and re numbering of rules and forms under the proposed Income Tax Rules, 2026.

Educational Material on Ind AS 24, Related Party Disclosures

The Accounting Standards Board of ICAI, on 28 February 2026, has released Educational Material on Ind AS 24 (Related Party Disclosures) to aid preparers and users of financial statements. The material explains the core concepts of related party relationships, the identification of related parties, and the disclosure requirements for related party transactions, balances, and commitments. It also includes a summary of the Standard and FAQs addressing practical implementation issues, with the objective of enhancing transparency and improving understanding of an entity's financial position, performance, and cash flows.

Educational Material on Ind AS 36, Impairment of Assets

The Accounting Standards Board of ICAI, on 28 February 2026, has released Educational Material on Ind AS 36 to assist stakeholders in applying the Standard. The material explains the principles for identification, recognition and reversal of impairment losses, determination of cash generating units, estimation of recoverable amounts, and related disclosures. It also includes a brief overview of the Standard and FAQs addressing practical implementation challenges faced by financial statement preparers.

Widening the scope of mandatory applicability of the Audit Quality Maturity Model (AQMM)

ICAI has issued an announcement widening the scope of mandatory applicability of the Audit Quality Maturity Model (AQMM) Version 2.0. Key highlights include:

- AQMM continues to be mandatory for firms auditing listed entities, banks (other than cooperative banks, except multi state cooperative banks), and insurance companies, excluding firms conducting only branch audits.
- Mandatory AQMM review has been extended to Practice Units subject to Peer Review auditing the holding, subsidiary, associate or joint venture of the above entities, other than branch only audits.
- With effect from 1 April 2026, AQMM v2.0 shall apply to Practice Units proposing to undertake a statutory audit of unlisted public companies meeting the prescribed thresholds of paid up capital, turnover, or outstanding borrowings.
- From 1 April 2026, AQMM v2.0 will also apply to Practice Units proposing to audit entities that have raised funds exceeding INR 50 crore from the public, banks or financial institutions, including public interest entities.
- The scope of AQMM v2.0 shall be further expanded from 1 April 2027 to additional specified Practice Units, in accordance with the Peer Review Guidelines, 2022.

National Financial Reporting Authority (NFRA)

Creation of Functional Divisions within the NFRA

NFRA has issued an Order dated 28 April 2026, establishing a structured framework for the creation of functional divisions within the Authority. Key highlights include.

- Four functional divisions - Monitoring & Oversight, Investigation, Determination and Disciplinary have been constituted to streamline regulatory functions and ensure role clarity.
- The Monitoring & Oversight Division ensures compliance with accounting and auditing standards, reviews service quality, and identifies cases for investigation, which are then referred to the Investigation Division.
- The Investigation Division conducts investigations under Rule 10 of the NFRA Rules, 2018, exercising its powers to gather documents and evidence as required by law.
- The Determination Division acts under Rule 11(1) of the NFRA Rules, 2018 by reviewing references from the Central Government, monitoring or oversight findings, and other available records, including investigation results. If it finds sufficient cause for action under Section 132(4) of the Act, it refers the matter to the Disciplinary Division for further proceedings.
- The Disciplinary Division functions under Rules 11(1) to 11(8) of the NFRA Rules, 2018, handling disciplinary proceedings. It is responsible for issuing show-cause notices, conducting adjudication, and passing final orders.
- All divisions will work independently. No member of one division shall participate in the functioning of another division.

Audit Quality Inspection Guidelines

NFRA has issued the updated Audit Quality Inspection Guidelines to strengthen and standardise the inspection framework for statutory auditors in India. Key highlights include:

- Inspections include reviews, interviews, site visits, and testing of audit files and controls. Inspections assess compliance with auditing standards, quality control systems, governance, and audit risk management.

- A risk-based approach is used to select audit firms and engagements based on size, complexity, and public interest.
- NFRA issues draft and final reports with findings, requiring auditors to submit responses and corrective action plans.
- Findings are not treated as professional misconduct findings or adjudication.
- Auditors must submit remediation plans within 90 days and complete compliance within 180 days.
- NFRA publishes inspection results, except confidential/proprietary information.
- Follow-up actions are reviewed in subsequent inspections or earlier if needed.

Ministry of Corporate Affairs:

The Companies (Registration Offices and Fees) Amendment Rules, 2026

The Ministry of Corporate Affairs (MCA) has amended the Companies (Registration Offices and Fees) Rules, 2014. The amendment revises the fee structure for filing Form DIR 3 KYC Web under Rule 12A of the Companies (Appointment and Qualification of Directors) Rules, 2014. Key highlights include:

- No fee where DIR 3 KYC Web is filed within the prescribed timeline.
- INR 5,000 fee for delayed filing or DIN reactivation, and INR 500 per filing for DIR 3 KYC Web filed again to report changes in director details.

They shall come into force on the date of their publication in the Official Gazette.

FAQS on the Companies Compliance Facilitation Scheme, 2026 (CCFS-2026)

The Ministry of Corporate Affairs (MCA) has released FAQs on the Companies Compliance Facilitation Scheme, 2026 (CCFS 2026) to clarify the scope, eligibility, procedural aspects and benefits of the scheme. The FAQs provide guidance on the regularisation of past compliance defaults, the forms covered, the fee structure, immunity from penalties/prosecution, and exclusions from the scheme, with the objective of facilitating ease of compliance and improving corporate governance.

The scheme shall come into force on 15 April 2026 and remain in force until 15 July 2026.

Insurance Regulatory Development Authority of India (IRDAI)

Clarifications on the implementation of Indian Accounting Standards (Ind AS)

IRDAI vide circular dated 1 April 2026, has issued clarifications on the implementation of Indian Accounting Standards (Ind AS) by insurers, pursuant to the amendments to the IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024, effective from 1 April 2026.

As per the circular, Financial Statements prepared under Ind AS shall be the basis of financial reporting and must be prepared in accordance with Schedule IIA of the Regulations. Insurers are also required to undertake parallel reporting of Financial Statements and Financial Information for a period of two years from the date of implementation.

The circular mandates quarterly preparation and submission of both Financial Statements and Financial Information, along with disclosure on the insurer's website. While quarterly statements shall be subject to limited review, annual financial statements shall be subject to audit as per applicable laws.

Insurers may seek a one-year forbearance for Ind AS implementation by submitting a Board-approved action plan by 30 April 2026, along with a detailed roadmap. During the forbearance period, Financial Statements shall continue under Schedule II, while Ind AS-based Financial Information shall be submitted in pro forma format.

The circular further clarifies that segregation of policyholder and shareholder funds, actuarial valuation, surplus distribution and solvency requirements shall continue to be governed by the provisions of the Insurance Act, 1938 and relevant regulations, and shall not be impacted merely due to the adoption of Ind AS.

Additionally, discounting of insurance liabilities shall be carried out in accordance with Ind AS 117 using risk-free rates derived from Government securities.

The circular aims to ensure uniformity, transparency and smooth transition in the implementation of Ind AS across the insurance industry.

Reserve Bank of India ('RBI')

Reporting under the Foreign Exchange Management Act, 1999 - Returns pertaining to External Commercial Borrowing (ECB)

RBI has issued a circular on reporting requirements for External Commercial Borrowings (ECB) under the FEMA Act, 1999, effective from 1 April 2026. Key highlights include:

- Form ECB 1 and Revised Form ECB 1 are now classified as returns that do not capture flows. Late submission fees (LSF) will be calculated accordingly.
- Each delayed submission of Form ECB 2 under a Loan Registration Number (LRN) will be treated as a separate instance for computing the fixed component of LSF.
- Designated AD Category I banks must submit complete returns received from borrowers, with due certification, to the Reserve Bank within seven calendar days of receipt.
- Where applicable, LSF shall be payable via NEFT or RTGS at the relevant Regional Office after acknowledgement from the Reserve Bank. Banks must monitor timely payment by their customers in case of delays.

RBI Second Amendment Directions on Prudential Norms on Capital Adequacy for Commercial and Small Finance Banks (Revised)-2026

RBI has issued revised Second Amendment Directions, 2026 for Commercial Banks and Small Finance Banks concerning Prudential Norms on Capital Adequacy. The revised amendments take effect either from the date the bank implements the provisions of the Credit Facilities Amendment Directions, 2026 (Revised) or 1 July 2026, whichever is earlier. Key Highlights include:

- Irrevocable payment commitments issued to clearing corporations on behalf of clients are treated as financial guarantees with a Credit Conversion Factor (CCF) of 100%.
- Capital is to be maintained only on exposures classified as Capital Market Exposure (CME), with a risk weight of 125% applied to the CME amount, in accordance with the respective Concentration Risk Management Directions.

RBI Directions: Commercial & Small Finance Banks Financial Statements: Presentation and Disclosures - 2026

RBI has issued revised amendment directions for Commercial Banks and Small Finance Banks on Financial Statements: Presentation and Disclosures. The revised amendments are effective from the date a bank implements the Credit Facilities Amendment Directions, 2026 (Revised) or 1 July 2026, whichever is earlier. Key highlights include:

- A new sub-paragraph has been inserted in the notes to accounts under “Exposures” to capture direct investments, advances, credit facilities to Capital Market Intermediaries (CMIs), acquisition finance, underwriting commitments, irrevocable payment commitments, and trade exposures.
- Capital market exposure is to be computed in accordance with the respective Concentration Risk Management Directions and Credit Facilities Directions, 2025

Reserve Bank of India (Commercial Banks - Asset Classification, Provisioning and Income Recognition) Directions, 2026

RBI has issued the Commercial Banks – Asset Classification, Provisioning and Income Recognition Directions, 2026. The revised framework introduces a comprehensive ECL-based staging approach for asset classification, comprising Stage 1, Stage 2, and Stage 3 categories, while retaining the conceptual framework for Non-Performing Assets. It adopts a forward-looking provisioning methodology based on ECL. The Directions also formalise the use of the Effective Interest Rate method.

These Directions are designed to enhance credit risk management practices, improve comparability and consistency across regulated entities, and align the Indian regulatory framework more closely with internationally accepted financial reporting and prudential standards. These Directions shall come into force with effect from 1 April 2027.

Consequent to the issuance of these Directions, the Reserve Bank has also amended multiple allied regulatory frameworks, including those relating to capital adequacy, investment portfolio and valuation, stressed asset resolution, credit facilities, asset-liability management, and credit risk transfer.

Reserve Bank of India - Amendment Directions, 2026 on Income Recognition, Asset Classification and Provisioning.

RBI has issued Amendment Directions on Income Recognition, Asset Classification and Provisioning across regulated entities pursuant to the revised framework for resolution of stressed assets due to natural calamities.

- Standard accounts will remain as standard upon implementation of the resolution plan, and some NPAs during calamity may be upgraded to standard.
- Even repeated restructuring can stay Standard but requires 5% additional provision each time (up to 100%).
- Reversal of additional provisions is permitted upon repayment of at least 20% of outstanding debt without slipping into NPA and without further restructuring, or after one year for CC/OD and non-fund-based exposures, subject to no default during the period.
- Income recognition will be on an accrual basis for standard restructured accounts and on a cash basis for repeatedly restructured accounts.
- Effective date: 1 July 2026. These directions are applicable to Commercial banks, small finance banks, non-banking financial companies, Rural cooperative banks, Regional rural banks and All India Financial Institutions.

Reserve Bank of India (Commercial Banks - Financial Statements: Presentation and Disclosures)- Seventh Amendment Directions, 2026

RBI has issued the Seventh Amendment Directions for Commercial banks, aligning disclosure requirements with revised RBI (Commercial Banks-Asset Classification, Provisioning and Income Recognition) Directions, 2026, effective from 1 April 2027. Key highlights include:

- Stage 1 and Stage 2 provisions to be disclosed under "Other liabilities and provisions", and these shall not be netted off against gross advances
- Enhanced disclosure framework introduced, requiring stage-wise credit quality reporting (Stage 1, 2, 3 and POCI) along with detailed ECL movements and reconciliation
- Additional disclosures mandated on fraud reporting, country risk exposure, unhedged foreign currency risk, and impact of transitional arrangements on regulatory capital and leverage ratios, effective from 1 April 2027

Reserve Bank of India (Urban Co-operative Banks – Financial Statements: Presentation and Disclosures) – Second Amendment Directions, 2026

RBI has issued amendment directions requiring Urban Co-operative Banks to disclose detailed information on unsecured advances and lending to nominal members in their financial statements. The disclosure includes data on sanctioned and outstanding unsecured loans, priority sector eligible small loans, and their share in total advances. Banks must also report stress indicators like Special Mention Accounts, Non-Performing Assets, provisions held, and details of lending to nominal members, including their number and proportion to regular members.

These enhanced disclosure requirements will be effective from 1 October 2026, to improve transparency and risk reporting

Reserve Bank of India (Non-Operative Financial Holding Companies)-Amendment Directions, 2026

RBI has issued Non-Operative Financial Holding Companies Amendment Directions, 2026, effective from 1 April 2027. The amendment directions modify paragraph 20 as follows:

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances as specified under Reserve Bank of India (Commercial Banks – Asset Classification, Provisioning, and Income Recognition) Directions, 2026.

Digital Payments – E-mandate Framework, 2026

The RBI has issued consolidated Directions titled "Digital Payments – E-mandate Framework, 2026" under the Payment and Settlement Systems (PSS) Act, 2007, effective immediately, repealing all earlier circulars on e-mandates. Key highlights include:

- These Directions shall be applicable to all Payment System Providers and Payment System Participants in respect of processing of recurring transactions, domestic or cross-border, using cards / PPI / UPI.
- Additional Factor of Authentication (AFA) mandatory for registration & first transaction, and modification/withdrawal allowed anytime.
- Pre-Transaction notification is mandatory with pre-debit notification (24 hours prior) with opt-out facility (AFA required).
- Pre-transaction notification is not required for e-mandates registered to auto-replenish balances of FASTag and National Common Mobility Card (NCMC).
- An issuer shall send a post-transaction notification to the customer. This notification shall, at a minimum, inform the customer about the merchant's name, transaction amount, date and time of debit, reference number of transaction, e-mandate, reason for debit, i.e., e-mandate registered by the customer, and details on grievance redressal.
- Limits: INR 15,000 (no AFA); INR 1 lakh (no AFA for Insurance premiums, Mutual fund subscriptions, card bills)
- No charges shall be levied on the customer for availing the e-mandate facility for recurring transactions.

Securities and Exchange Board of India ("SEBI")

Review of the requirements relating to registration for a Not-for-Profit Organisation on Social Stock Exchange and the minimum subscription requirement for issuance of Zero Coupon Zero Principal Instruments

Securities and Exchange Board of India vide circular dated 15 April 2026, has introduced key relaxations under the Social Stock Exchange (SSE) framework to promote ease of fundraising for Not-for-Profit Organisations (NPOs).

As per the circular, the period for which an NPO can remain registered on the SSE without undertaking fundraising has been extended from two years to three years, subject to approval of the SSE for an additional one-year period.

Further, the minimum subscription requirement for issuance of Zero Coupon Zero Principal (ZCZP) Instruments has been reduced from 75% to 50%, provided that the Social Stock Exchange is satisfied through due diligence that the funds raised are sufficient for meaningful deployment in line with the stated objectives.

In case of under-subscription, NPOs are required to disclose the manner of raising the balance funds and the likely impact on the achievement of social objectives. However, where the minimum subscription threshold is not met, the funds raised shall be refunded.

The circular also amends the relevant provisions of the Master Circular dated 19 January 2026 and comes into effect immediately.

Fast-track Mechanism for Processing of Placement Memorandum of AIFs filed with SEBI.

SEBI has introduced a fast-track mechanism for processing Private Placement Memorandums of AIFs to enable quicker launch of non-LVF schemes and improve ease of doing business. Key highlights include:

- AIFs can proceed with the launch of their new schemes and circulate the PPM to their investors for soliciting funds after 30 days of filing the application with SEBI, unless otherwise advised.
- In case of the first scheme of AIFs, it is clarified that AIFs can proceed with the launch of such schemes from the date of grant of SEBI registration (or) after 30 days of filing of the application with SEBI, whichever is later.
- Comments, if any, provided by SEBI during this period of 30 days shall be complied with by Merchant Banker/ AIF prior to launch of the scheme/ circulation of PPM.
- First close must be completed within 12 months from eligibility to launch the scheme.
- Merchant Bankers and AIF Managers are responsible for the accuracy and completeness of disclosures in PPMs and prescribed documents, and due diligence certificates must be filed along with PPMs on the SEBI portal.

One-time relaxation with respect to the validity of SEBI Observations

SEBI has announced a one-time relaxation from penal provisions related to Minimum Public Shareholding (MPS) requirements and the validity of observation letters issued for public offerings. Listed entities with compliance deadlines between 1 April and 30 September 2026 will not face penalties during this period. The move comes in response to challenges posed by ongoing geopolitical tensions and market volatility. Stock exchanges and depositories have also been directed to withdraw any penalties imposed since 1 April 2026.

This circular shall come into force with immediate effect.

Ease of doing business - mechanism for lock-in of pledged shares under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

SEBI has introduced a framework to facilitate the lock-in of pledged shares under ICDR Regulations. In cases where direct lock-in is not feasible, such shares can now be designated as “non-transferable” by depositories for the lock-in period. Depositories have made necessary changes to their systems and processes, including amendments to Articles of Association, lender intimation, and enhanced disclosures. The move aims to improve the ease of doing business and ensure the effective implementation of lock-in provisions.

REGULATORY UPDATES

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Reserve Bank of India (RBI)

Overseas Investment - Submission of References to the Reserve Bank[1]

As per RBI's circular dated 1 April 2026, the process for handling references relating to Overseas Investment by Persons Resident in India has been decentralised. Such references will now be handled by designated Regional Offices of the RBI, replacing the earlier centralised processing by the Foreign Exchange Department, Central Office.

Key Highlights:

- References will now be processed by seven designated RBI Regional Offices instead of a centralised system.
- AD Banks are required to submit such references to the Regional Office through the PRAVAAH portal of RBI as per the UIN (Unique Identification Number of the foreign entity) allocated to them.
- AD Banks must also notify and circulate these changes to their customers and relevant stakeholders.

Master Direction - Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025 Amendment[2]

The RBI has, vide its circular dated 10 April 2026, consolidated and updated the framework governing investments by Non-Resident Indians (NRIs) in debt instruments, including provisions relating to their use as collateral when trading in derivatives on recognised stock exchanges in India.

Key Highlights:

- Investments by NRIs in debt instruments are governed by Part - 5(B) of these Directions, which specify that Non-Resident Indians may invest in debt instruments as specified in sub-paragraphs (B) and (C) of paragraph 1 of Schedule 1 to the Foreign Exchange Management (Debt Instruments) Regulations, 2019.
- Such investments shall not be subject to any investment limit under these Directions.

Key Amendments under the Master Direction:

- The definition of "Non-Resident" has been revised to explicitly include "Non-Resident Indian (NRI)", defined as an individual resident outside India who is a citizen of India.
- A framework has been provided where Foreign Portfolio Investors (FPIs) may offer Government securities and non-convertible debentures/bonds issued by an Indian company (acquired in terms of these Directions) as collateral to recognised Stock Exchanges in India for their transactions in exchange-traded derivative contracts.
- Non-residents must make payments for investing in eligible instruments and receive money from the sale or maturity of those investments in the manner prescribed under paragraphs 2 and 4 of Schedule 1 of the Foreign Exchange Management (Debt Instruments) Regulations, 2019.

Securities and Exchange Board of India (SEBI)

One-Time Relaxation from Penalties under MPS Regulations Provided by SEBI[3]

SEBI has issued a circular dated 7 April 2026, granting a one-time relaxation from penalties imposed as per SEBI Master Circular dated 11 July 2023. This master circular describes the procedure to be followed by recognised stock exchanges and depositories for monitoring compliance with Minimum Public Shareholding (MPS) regulations, which include imposing penalties, freezing of shares held by promoters, and other consequences.

[1] RBI/2026-27/03 A.P. (DIR Series) Circular No. 02 dated 1 April 2026
[2] RBI/2026-27/10 A.P. (DIR Series) Circular No. 06 dated 10 April 2026
[3] SEBI Circular no. HO/49/14/14(13)2026-CFD-POD2/ I/8772/2026 dated 7 April 2026

Key Highlights:

- SEBI has considered the representations made by a trade association about the challenges being faced by listed companies in complying with the MPS regulations due to volatility in the capital market because of the conflict in the Middle East region.
- Accordingly, the regulator has provided a one-time relaxation from penalties for listed firms whose compliance date is between 1 April 2026 and 30 September 2026.
- Stock exchanges that are recognised by law have been instructed not to take any penal action during this time and to stop all penal actions that have already been started. This circular will be implemented forthwith.

One-time relaxation with respect to the validity of SEBI Observations[4]

SEBI has issued a circular dated 7 April 2026, granting a one-time relaxation in the validity of observation letters for public issues under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

Key Highlights:

- SEBI has made a one-time relaxation regarding the validity period of its observation letters relating to public issues, which are otherwise required to be acted upon within 12 or 18 months from the date of issuance of observations by SEBI under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- The SEBI noted representations from issuers facing challenges in raising funds due to geopolitical conditions in the Middle East, leading to deferral, modification, or withdrawal of issue proposals, leading to potential lapses in observation validity, resulting in repetitive regulatory processes.
- Considering prevailing market conditions, SEBI has granted one-time relaxation to extend the validity of the SEBI Observations letters expiring between 1 April 2026 and 30 September 2026 till 30 September 2026, provided there is an undertaking furnished by the Lead Manager to the issue about compliance with Schedule XVI of the ICDR Regulations.
- The circular comes into effect immediately.

Ease of doing business - mechanism for lock-in of pledged shares under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018[5]

SEBI has issued a circular dated 8 April 2026, introducing a mechanism to operationalise the lock-in of pledged shares, in furtherance of its objective to protect the interests of investors in securities and to promote the development and regulation of the securities market.

Key Highlights:

- Specified securities on which lock-in cannot be created may be recorded as "non-transferable" by depositories for the duration of the applicable lock-in period.
- To implement this, the Depositories have issued the framework to be followed by issuers, including:
  - Incorporation of suitable provisions in the Articles of Association,
  - Issuance of necessary intimations to the concerned lenders/pledgees, and
  - Suitable disclosures in the offer documents.
- The Depositories have made necessary changes to their systems and processes.
- Accordingly, the Stock Exchanges, Depositories, Merchant Bankers and Issuers shall ensure compliance with the mechanism for lock-in of pledged shares.

SECURITIES AND EXCHANGE BOARD OF INDIA (REAL ESTATE INVESTMENT TRUSTS) (AMENDMENT) REGULATIONS, 2026[6]

SEBI has issued an amendment notification dated 16 April 2026, revising the definitions of "liquid assets" and "units of liquid mutual funds" under the SEBI (Real Estate Investment Trusts) Regulations, 2014, which is as set out below:

- The amendment relaxes investment norms by lowering the minimum credit risk value from 12 to 10 and widening the eligibility criteria to include securities categorised under Class A-I or Class B-I, along with standardising references to Government Securities, treasury bills, and repo on Government Securities.
- The amendments shall be applicable from the date of notification in the Official Gazette.

SECURITIES AND EXCHANGE BOARD OF INDIA (INFRASTRUCTURE INVESTMENT TRUSTS) REGULATIONS, 2014[7]

SEBI has issued a notification dated 16 April 2026 and made amendments in the SEBI (Infrastructure Investment Trusts) Regulation, 2014.

Key Amendments:

- Liquid Asset definition has been amended to include units of overnight mutual fund schemes and units of liquid mutual fund schemes where the credit risk value is at least 10 and which fall under the Class A-I or Class B-I.
- Special Purpose Vehicle (SPV) definition has been amended:
  - To bring drafting refinement, where the phrase "any company or LLP" has been replaced with "a company or LLP" to improve clarity and precision without changing the substantive meaning.
  - Further providing flexibility for investments in PPP (Public-Private Partnership) projects where ownership restrictions apply, allowing SPVs to retain their status even after termination of concession agreements.
  - For an SPV that owns an infrastructure project, even if its concession agreement ends or is terminated, it will still be treated as an SPV if it meets the conditions set by the Board.
- In connection with "Borrowings and deferred payments":
  - The regulation has been amended to introduce greater flexibility in fund deployment by adding "or for such other purposes as may be specified by the Board," which was not included earlier.

[4] SEBI Circular HO/49/11/11(123)2026-CFD-RAC-DIL2/I/8760/2026 dated 7 April 2026
[5] SEBI Circular no. HO/49/14/14(13)2026-CFD-POD2/ I/8772/2026 dated 7 April 2026
[6] SEBI Notification No. SEBI/LAD-NRO/GN/2026/302 dated 16 April 2026
[7] SEBI Notification No. SEBI/LAD-NRO/GN/2026/301 dated 16 April 2026

- These amendments will come into effect from the date of publication in the Official Gazette.

Foreign Exchange Management Act (FEMA)

Reporting under Foreign Exchange Management Act, 1999 – Returns pertaining to Foreign Exchange Management (Guarantees) Regulations, 2026[8]

RBI has released a circular under the Foreign Exchange Management Act, 1999, dated 1 April 2026, detailing the procedures and requirements for reporting on guarantees under Foreign Exchange Management (Guarantees) Regulations, 2026.

Key Highlights:

- Guarantee reporting to the AD Bank must be done using prescribed RBI forms available on its website, which are as follows:
  - 'Form GRN Issue' – For reporting, issuance of Guarantee
  - 'Form GRN Modification' – For reporting, any subsequent change in guaranteed terms, namely, guarantee amount, extension of period or pre-closure
  - 'Form GRN Invocation' – For reporting, invocation of guarantee
- The AD bank shall thereby submit the returns to the RBI within 30 calendar days from the end of the respective quarter through CIMS.
- The AD bank shall provide a unique Guarantee Transaction Number before submission of the return to the RBI in the manner provided in the operational guidelines for each guaranteed issuance, reported through 'Form GRN Issue'.
- Computation of late submission fees will be as follows:
  - For delayed reporting of 'Form GRN Invocation', the amount involved in the delayed reporting shall be the amount of liability created toward the surety on invocation.
  - For delayed reporting of 'Form GRN Issue' and 'Form GRN Modification', the amount involved in the delayed reporting shall be considered 'Nil' since these returns do not capture flows.

[8] RBI Circular No. RBI/2026-27/02 A.P. (DIR Series) Circular No. 01 dated 1 April 2026

DIRECT TAX

Circulars / Notifications / Press Release

CBDT specifies new PAN Correction Forms under Income-tax Rules, 2026

The Director General of Income-tax (Systems), Delhi, in exercise of the powers conferred under Rule 158(12) of the Income-tax Rules, 2026, read with Section 262(4) of the Income-tax Act, 2025, has issued an order specifying the following new Application Forms for requesting changes or corrections in Permanent Account Number (PAN) data:

- **PAN CR-01**: Request for Changes or Correction in PAN Data – for Individuals.
- **PAN CR-02**: Request for Changes or Correction in PAN Data – for Non-Individuals (companies, firms, trusts, etc.)

Further, as a part of said Forms, the following key guidelines have been issued for changes or corrections in PAN Data:

- Quoting of Aadhaar mandatory: Except for the exempt category, every individual possessing an Aadhaar number must mandatorily quote it in the application. The Aadhaar name will be printed on the PAN card.
- Name without abbreviations: Names must be filled in block letters in English without any titles (Shri, Mr, Mrs, Dr, etc.) or abbreviations. In case of an expanded name on Aadhaar containing initials, the full expanded name must be provided in Form PAN CR-01.
- Supporting documents: Applicants must submit relevant proofs of identity, address, date of birth, and documentary evidence in support of the proposed changes, along with a copy of the PAN card. In case of loss of PAN card, a copy of FIR must be submitted.
- Non-Individual entities: Companies and Limited Liability Partnerships are required to mandatorily provide their Registration Number. Name of the Company must be written without abbreviations (e.g., 'Private Limited' must not be abbreviated as 'Pvt. Ltd.').
- Submission modes: The aforementioned forms may be submitted either physically at PAN Centres of M/s UTIITSL or M/s Protean eGov, or online through their respective websites (www.utiitsl.com or www.tinpan.proteantech.in).
- PAN card reprint: Where no changes to PAN data are required and only a reprint of the PAN card is needed, PAN holders may directly visit www.utiitsl.com or www.tinpan.proteantech.in

The aforementioned order is effective from 1 April 2026.

[F. No. ADG(S)-1/PAN/M/3699/2026-AD-DD SYSTEMS 1-5 DELHI dated 1 April 2026]

Judicial Updates

The Supreme Court has remanded the matter back to the High Courts in relation to several writ petitions filed before various High Courts challenging the retrospective amendment to Section 147A[1] of the Act

The controversy originates from the Finance Act, 2021, which overhauled the reassessment framework under sections 147 to 151 of the Act with effect from 1 April 2021, with the stated objective of enhancing transparency and protecting the rights and interests of the taxpayers.

Further, a scheme under Section 151A of the Act, titled as 'e-Assessment of Income Escaping Assessment Scheme' (Scheme), was thereafter introduced by the CBDT vide

[1] Section 147A of the Act, is a retrospective amendment (effective from 1 April 2021) which clarifies that for the purpose of issuance of reassessment notices under section 148/148A of the Act, Assessing officer shall mean an officer other than NFAC.

Notification No. 18/2022 dated 29 March 2022, with the objective of enhancing efficiency, transparency and accountability. The Scheme provides that assessment, reassessment or re-computation under Section 147 of the Act, and issuance of notice under Section 148 of the Act, shall be carried out through (i) Automated allocation; and (ii) A faceless mechanism.

However, a critical ambiguity emerged whether reassessment notices under section 148A(d) and section 148 of the Act could still be issued by the Jurisdictional Assessing Officer (JAO), or whether such authority is now vested exclusively with the Faceless Assessing Officer (FAO) / National Faceless Assessment Centre (NFAC) as per the Scheme. Resultantly, a large number of petitions were filed before various jurisdictional High Courts (HCs). On the interpretation of provisions, divergent views were expressed by various HCs.

While this issue was still under challenge before the Supreme Court of India, the Finance Act, 2026, introduced section 147A with a retrospective effect from 1 April 2021, clarifying that "Assessing Officer" refers to officers other than the NFAC or any assessment unit referred to in section 273(3) of the Act. On behalf of the Revenue, before the Supreme Court, it was submitted that the intention of the Parliament while bringing in the recent amendment was to clearly demarcate the assessment procedure from the pre-assessment stage of enquiry till the reassessment order is passed. The taxpayers, on the other hand, contended that the amendment is not clarificatory in nature but is instead an abortive attempt to fasten penal liability retrospectively, which is impermissible under law, and that amending laws with antedated civil consequences ought to be construed strictly.

In a batch of appeals, the Supreme Court, while setting aside the orders quashed by HCs, had passed an order remitting the matter back to HCs while laying down the following observations:

- HCs had primarily quashed reassessment notices on the ground that JAOs lacked competence, and the very foundation of that view now stands altered by the Finance Act, 2026 amendment. The impugned High Court judgments in favour of the taxpayer are set aside on this limited ground, and all matters are remitted to the respective HCs for fresh consideration.
- Taxpayer are granted liberty to amend their writ petitions within four (4) weeks from the date of uploading of this order, to challenge section 147A of the IT Act or any connected or consequential provision.
- The Revenue shall be at liberty to file written submissions and affidavits before the jurisdictional High Court within three (3) weeks thereafter.
- During the pendency of writ petitions before the High Court, there shall be an interim stay of further assessment/reassessment proceedings pursuant to the impugned notices, subject to terms and conditions as may be imposed by the High Courts.
- The High Courts are requested to decide the matters preferably by 30 September 2026, with no adjournments to be granted on mere asking of the parties.

[Tej Partap Singh V. Income tax officer, ward 2 (1), SC]

Delhi High Court holds that share buy-back is capital reduction and not an acquisition of assets, hence not chargeable to tax under Section 56(2)(x) of the Act

Share buy-back by companies has been an area of significant tax controversy in India. Section 56(2)(x) of the Income-tax Act, 1961 (the Act) provides that the receipt of property (including shares and securities) for inadequate consideration shall be chargeable to tax in the hands of the recipient. At various instances, when a company buy-back its own shares at a price lower than the fair market value (FMV), tax authorities invoke the provision of section 56(2)(x) of the Act, treating the buy-back of shares as an 'acquisition of property' for inadequate consideration.

Recently, a Division Bench of the Hon'ble Delhi High Court pronounced a significant ruling wherein it held that share buy-back is capital reduction and not an acquisition of an asset, hence not chargeable to tax under section 56(2)(x) of the Act. To read our detailed analysis, please go to: https://www.bdo.in/en-gb/insights/alerts-updates/direct-tax-alert-delhi-high-court-holds-that-share-buy-back-is-capital-reduction

[M/s. Globe Capital Market Limited v. PCIT (ITA 364/2024) (Delhi HC)]

Bangalore Tax Tribunal holds that tax dues not included in an IBC resolution plan cannot be recovered from the taxpayer

The taxpayer is a builder and property developer. For Fiscal Year (FY) 2016-17, the taxpayer filed a return of loss. During the course of assessment proceedings, the tax officer disallowed branding and marketing expenses, treating them as capital expenditure and disallowed interest on delayed TDS remittances. Aggrieved by the disallowances made by the tax officer, the taxpayer filed an appeal before the First Appellate Authority. However, the taxpayer didn't appear during the proceedings before the First Appellate Authority, and hence the said appeal was dismissed on the grounds of non-prosecution.

In the meantime, insolvency proceedings were initiated against the taxpayer under section 9 of the Insolvency and Bankruptcy Code, 2016 (IBC). A moratorium order was passed by the National Company Law Tribunal (NCLT), Bengaluru Bench, on 16 April 2021. The Resolution Professional (RP) informed the Income Tax Department of the insolvency proceedings vide letter dated 13 September 2021. Public announcements were also made inviting claims from all creditors, including statutory authorities. Despite these communications, the Revenue neither filed any claim before the RP nor sought inclusion of its tax demands in the resolution plan. The NCLT approved the resolution plan on 8 September 2023, with the value payable to statutory authorities recorded as Nil, given that no claims were received from any government authority.

Therefore, RP on behalf of the taxpayer filed an appeal before the Bangalore Tax Tribunal, contending that in spite of a valid demand, the same cannot be invoked on account of the approved resolution plan by NCLT.

The Bangalore Tax Tribunal, while dismissing the appeal as infructuous, made the following key observations:

- The tax authorities were made aware of the insolvency proceedings as early as 16 April 2021, through the communication from the newly appointed RP. Despite this, the tax authorities had missed the opportunity to claim their outstanding demands and to include the

same in the resolution plan, even though they had knowledge about the insolvency proceedings of the taxpayer.

- Even if the appeal is decided on merits and the disallowances as per the assessment order are confirmed, the tax authorities would be unable to recover the tax demand in view of the resolution plan approved by the NCLT.
- Reliance in this regard is placed on the order passed by the NCLT, Ahmedabad Bench, wherein a similar claim by the Revenue was rejected on the ground that the income tax demands had not been filed or included in the resolution plan at the relevant time.
- Accordingly, outstanding demands which were not claimed and included in the resolution plan approved by the NCLT could not be enforced against the taxpayer.

[M/s. Metrik Infra Projects Pvt. Ltd. v. ITO, ITA No. 125/Bang/2025 (Bangalore Tax Tribunal)]

Mumbai Tax Tribunal holds that legal advisory fees are not Fees for Technical Services under the India-Singapore DTAA; the service Permanent establishment threshold is not met

The taxpayer company is incorporated in Singapore and is engaged in the practice of law. During FY 2018-19, the taxpayer rendered legal services to Barclays Bank Plc, U.K., in relation to matters concerning Rural Electrification Corporation Ltd. (REC Ltd.). The services included due diligence, document review, and provision of legal opinions under English and New York laws. For commercial convenience, REC Ltd made payment of the invoice to the taxpayer. However, there was no contractual relationship between the taxpayer and REC Ltd.

For the year under consideration, the taxpayer filed its return declaring Nil income. Reassessment proceedings under section 148[2] of the Act were subsequently initiated, and the tax officer held that the fees constituted Fees for Technical Services (FTS) under Section 9(1)(vii) of the Act as well as under Article 12(4)(b) of the India-Singapore Double Tax Avoidance Agreement (DTAA). The tax officer further held that the temporary use of hotels and client premises by the taxpayer's personnel constituted a fixed place of business, thereby giving rise to a Permanent Establishment (PE) in India. Without prejudice to this, the tax officer contended that the receipt of fees for such services can be subject to tax under Article 15 of the India-Singapore DTAA.

Accordingly, the tax officer passed the draft assessment order treating the said receipts as FTS under the India-Singapore DTAA. Aggrieved by this, the taxpayer filed objections before the Dispute Resolution Panel (DRP). DRP also upheld the order passed by the tax officer.

Aggrieved, the taxpayer filed an appeal before the Mumbai Tax Tribunal. The Mumbai Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

On taxability as Fees for Technical Services:

- Article 12(4)(b) of the India-Singapore DTAA stipulates that for a payment to qualify as FTS, the services must 'make available' technical knowledge, experience, skill, know-how or processes to the recipient, enabling the recipient to apply the same independently.
- The services rendered by the taxpayer are in the nature of professional advisory services. Mere receipt of such services by the client does not satisfy the 'make available' condition. The clients could not reapply the legal advice for future requirements without the continued involvement of the taxpayer.
- Reliance in this regard is placed on the Karnataka High Court's ruling in De Beers India Minerals Pvt. Ltd[3]., wherein it was held that for service rendered to be considered as 'made available', only if the payer of the service could derive and utilise the knowledge or know-how on its own in future without the aid of the service provider.
- Further, an identical issue on similar facts was considered by a coordinate bench in the taxpayer's own case[4] for FY 2012-13, wherein it was held that fees received by the taxpayer were not in the nature of FTS under India-Singapore DTAA.

On the existence of a service PE in India and applicability of Article 15 of the India – Singapore DTAA

- Under Article 5(6)(a) of the India-Singapore DTAA, a service PE is constituted only if service activities continue in India for periods aggregating more than 90 days in a FY.
- None of the employees of the taxpayer were present in India for an aggregate period of more than 21 days during the year under consideration.
- Therefore, it cannot be held that the places where the professionals stayed would amount to a fixed place of PE in India for the taxpayer.
- Further, Article 15 of the India-Singapore DTAA applies only to individuals and is not applicable to a company. Accordingly, the receipts are not taxable under Article 15 of the India-Singapore DTAA.

[Linklaters Singapore Pte. Ltd. v. ACIT, I.T.A. No. 765/Mum/2026 (Mumbai Tax Tribunal)]

Delhi Tax Tribunal holds that compensation received under RERA is taxable as Long-Term Capital Gains, not as Income from Other Sources

The taxpayer, an individual, had booked a plot in FY 20025-06 and made payment of various instalments up to FY 2014-15. During FY 2019-20, the taxpayer subsequently received compensation amount from the builder/developer under the Real Estate (Regulation and Development) Act, 2016 (RERA). The taxpayer declared this as Long-Term Capital Gains (LTCG) in his return of income.

During the course of reassessment proceedings, the tax officer re-characterised the RERA compensation as interest income and assessed it as 'Income from Other Sources' under section 56[5] of the Act. The First Appellate Authority / National Faceless Appeal Centre (NFAC) upheld the order passed by the tax officer. Aggrieved, the taxpayer filed an appeal before the Delhi Tax Tribunal.

The Delhi Tax Tribunal, while ruling in favour of the taxpayer, made the following observations:

- Section 18(1) of RERA stipulates that 'compensation' is to be computed as per the prescribed interest rate (inclusive of payments already made).

[2] Section 148 of the Act empowers the tax officer to issue a notice to reopen a completed assessment if they have information suggesting that income taxable in a previous year has escaped assessment.
[3] De Beers India Minerals Pvt. Ltd. V. CIT reported in (2012) 21 taxmann.com 214
[4] ITA No. 854/Mum/2017 for A.Y. 2013-14
[5] Section 56 of the Act is the residuary charging provision under the head "Income from Other Sources" covering incomes that are not taxable under the other specified heads.

- Section 2(47)(ii) of the Act defines 'transfer' to include the 'extinguishment of any rights' in relation to a capital asset. When the taxpayer's rights in the booked property were extinguished upon cancellation of the arrangement with the builder, this constituted a 'transfer' of a capital asset.
- Accordingly, the compensation received from RERA cannot be assessed as Income from Other Sources under section 56 of the Act. The taxpayer had rightly declared the aforesaid amount as LTCG.

[Prem Narayan Chaurasia v. ACIT, Circle-2(1)(1) ITA No. 989/Del/2026 (Delhi Tax Tribunal)]

LEGAL UPDATES

GOODS AND SERVICES TAX

'Nil' Demand Order must be rectified to reflect demand before filing Appeal on GST Portal; Pre-deposit field made editable

GSTN has clarified that when adjudication orders show 'NIL' demand due to voluntary payment made at the show cause notice stage (without admitting liability), assessees still retain the right to file an appeal under Section 107 of the Central Goods and Services Tax Act, 2017 ('CGST Act'). However, the GST portal blocks appeal filing since no demand is recorded. In such cases, assessees may seek a rectification order from the adjudicating authority to reflect the correct demand. Once rectified, the appeal can be filed on the GST portal within the prescribed time.

Further, the auto-populated pre-deposit percentage of 10% has now been made editable to facilitate cases where the pre-deposit had already been made through other means or where the demand was incorrectly reflected under the appropriate head.

[Source: GSTN Advisory dated 3 and 10 April 2026]

Introduction of Invoice Management System Offline Tool

GSTN has provided an Excel-based Invoice Management System ('IMS') Offline Tool for taxpayer facilitation and for enabling taxpayers to undertake actions on both individual as well as bulk invoices in an efficient manner. A detailed advisory has been issued in this regard.

[Source: GSTN Advisory dated 21 April 2026]

Submission of an English translation is not mandatory where the Bench can read and understand Hindi

The Goods and Services Tax Appellate Tribunal ('GSTAT') has clarified that although Rule 23(1) of the GSTAT (Procedure) Rules, 2025 requires submission of certified English translations of Hindi orders, appeals filed with Hindi orders are being accepted without insisting on immediate translation where the Bench Members can read and understand Hindi. This relaxation is being followed in view of Office Order No. GSTAT/Pr.Bench/Portal/125/25-26/2711-15[1], which advises the registry to take a lenient approach during the initial phase of appeal filing on the GSTAT portal.

[Source: F. No. GSTAT/CPGRAM/2025-26/136-172 dated 22 April 2026]

CUSTOMS

CBIC clarifies drawback eligibility on SEZ-to-DTA re-exports and timelines for RoSCTL/RoDTEP scroll generation

In view of divergent practices being adopted by various customs field formations, CBIC has issued the following clarifications/directions:

- Goods which are cleared from Special Economic Zones into the Domestic Tariff Area on payment of applicable duties and are re-exported thereafter, are to be treated as imported goods for the purposes of disbursement of drawback under Section 74 of the Customs Act, 1962 ('Customs Act').
- The timeline of three days available under Instruction No. 21/2020-Customs[2] for crediting the amount of duty drawback the rules must be complied with for the

[1] Dated 20 January 2026
[2] Dated 16 December 2020

generation of scrolls of Rebate of State and Central Taxes and Levies scheme and Remission of Duties and Taxes on Exported Products scheme.

[Source: Instruction No. 05/2026-Customs dated 23 April 2026, and Instruction No. 06/2026-Customs dated 27 April 2026]

DIRECTORATE GENERAL OF FOREIGN TRADE

DGFT restricts Certificate of Origin issuance to Authorised Agencies and mandates Invoice Number Consistency

DGFT has amended Para 2.62 of the Foreign Trade Policy, 2023, to clarify that Certificates of Origin ('CoO') for exports from India can be issued only by agencies authorised by the DGFT. Additionally, exporters obtaining CoOs are required to use the same invoice numbers in both the CoO and the corresponding Shipping Bills to enable automated verification.

[Source: Notification No. 05/2026-27 dated 7 April 2026]

JUDICIAL PRECEDENTS

Details furnished in GSTR-1 not treated as self-assessed tax under section 75(12) of Central Goods and Services Tax Act, 2017

M/s. ITI Ltd. Vs. Union of India and Ors. [TS-191-HC(GAUH)-2026-GST]

M/s. ITI Ltd. ('Taxpayer') is a public sector undertaking. While filing Form GSTR-1 for March 2019, the Taxpayer had erroneously reported the rate of tax @ 18% instead of 12% for four invoices and also misreported a credit note. However, the correct particulars were duly reported in Form GSTR-3B filed for the said month as well as in the annual returns for FY 2018-19.

However, the Assistant Commissioner, Central Goods and Services Tax, Dimapur Division ('tax authority'), vide Order dated 30 April 2024 ('Impugned Order') and without granting any opportunity of being heard, held that:

- As per the Explanation to section 75(12) of the CGST Act, inserted with effect from 1 January 2022, any excess liability in Form GSTR-1 vis-à-vis Form GSTR-3B is an admitted liability and recoverable from the Taxpayer.

- The Taxpayer is not entitled to avail input tax credit ('ITC') pertaining to March 2019 in March 2021 when Form GSTR-3B for the said month was duly filed, as any ITC availed for FY 2018-19 beyond 20 October 2019 would be ineligible.

Aggrieved by the above, the Taxpayer filed a Writ Petition before the Gauhati High Court challenging the Impugned Order and the validity of Notification Nos. 09/2023-Central Tax[3] and 56/2023-Central Tax[4] ('extension notifications'). The High Court, while ruling in favour of the Taxpayer, held as under:

- Error in Form GSTR-1 can be corrected subsequently
  - The Bombay High Court in Aberdare Technologies[5] (upheld by the Supreme Court[6]) had allowed rectification of Form GSTR-1 in case of a bona fide mistake. The said ruling was also followed by the Madras High Court[7].
  - Section 37(3) of the CGST Act provides an opportunity to the taxpayer to rectify such error or omission, upon discovery, in the manner as may be prescribed and upon payment of tax and interest, if any. Further, the proviso to section 37(3) provides that no rectification shall be allowed after the 30th day of November following the end of the financial year to which such details pertain, or furnishing of the relevant annual return, whichever is earlier.
  - Rule 59(6)(d) of the Central Goods and Services Tax Rules, 2017 ('CGST Rules') read with Rule 88C(1) of the CGST Rules provides that when there are discrepancies between Form GSTR-1 and GSTR-3B, a notice must be issued in Form GST DRC-01B to enable Taxpayer to either pay the tax liability along with interest or explain the aforesaid difference in the tax payable in the common portal.
  - The Explanation to section 75(12) of the CGST Act, which came into effect on 1 January 2022, extended the term self-assessed tax to include the tax payable in respect of details of outward supplies furnished under Section 37(1) of the CGST Act when the said amount is not included in the return furnished under Section 39 of the CGST Act.
  - In the present case, a notice under Rule 88C of the CGST Rules was not issued, and the tax authority directly imposed the tax liability on the taxpayer based on Form GSTR-1, along with interest, without affording an opportunity to explain the mismatch between Form GSTR-1 and GSTR-3B.
- In line with the introduction of section 16(5) of the CGST Act, the Taxpayer could have claimed ITC in Form GSTR-3B till 30 November 2021. In the present case, since the Taxpayer has claimed ITC in March 2021, which is well within the aforesaid time limit, the question of denial of ITC being time-barred would not arise.
- Considering the above, the Impugned Order is set aside without evaluating the validity of the extension notifications. Accordingly, the High Court had issued the following orders/directions:
  - The Taxpayer to be granted an opportunity to furnish an explanation within 30 days, post which, the tax authority shall proceed in accordance with the GST law; and
  - The rejection of ITC for March 2019 is not sustainable, and the Taxpayer is entitled to claim ITC as per section 16(5) of the CGST Act.

[3] Dated 31 March 2023
[4] Dated 28 December 2023
[5] Aberdare Technologies Pvt. Ltd. Vs. CBIC [2024 (105) GST 585 (Bombay)]
[6] CBIC vs. Aberdare Technologies Pvt. Ltd. and Ors. [TS-172-SC-2025-GST]
[7] The Principal Chief Commissioner of GST and Central Excise Vs. Deepa Traders [2025 (4) TMI 1009]

Track assembly, Brake/case sub assembly, Gear Vertical adjuster and Bar seat track lock are classifiable under HSN 9401 9000

M/s. Shiroki Automobiles India Pvt. Ltd. Vs. Commissioner of Customs [TS-105-CESTAT-2026-CUST]

M/s. Shiroki Automobiles India Pvt. Ltd. ('Importer') was engaged in the import of various products, inter alia, Track assembly, Gear Vertical adjuster and Bar seat track lock ('subject goods') for onward sale to car seat manufacturers. These goods were classified by the Importer under HSN 9401 9000 as parts of seats.

During 2021, the Directorate of Revenue Intelligence, Pune, had initiated an intelligence inquiry against the Importer. Subsequently, a show cause notice was issued to the Importer proposing to reclassify the subject goods under HSN 8708 9900. The Importer replied to the aforesaid notice, inter alia, highlighting that:

- The Additional Commissioner had confirmed the classification of the brake sub-assembly, as adopted by the Importer, vide Order dated 1 August 2022.
- CESTAT[8] had classified child parts imported by Importer under HSN 9401 9000, and an appeal against such order was dismissed by the Supreme Court vide Order dated 30 July 2021.

Despite this, the Customs Authority upheld the allegations in the show cause notice vide Order dated 7 January 2025 ('Impugned Order') and held that:

- CESTAT had not taken into consideration various judgments, Advance Rulings and Explanatory Notes;
- The subject goods are not parts of seats. Reliance was also placed on Insulation Electrical[9] ;
- The subject goods are classifiable under HSN 8708 9900 as 'parts and accessories of motor vehicles'.

Aggrieved, the Importer filed an appeal before the Principal Bench, CESTAT. The CESTAT, while ruling in favour of the Importer held as under:

- **CESTAT ruling is binding on the Customs Authority**
  - Since the CESTAT ruling was not set aside by the superior court(s), it has a binding precedential value for the Customs Authority. The observations recorded by the Customs Authority speak volumes of judicial impropriety. The Customs Authority was bound to follow the aforesaid decision.
  - It is a settled law that there would be chaos in the administration of justice if a subordinate Tribunal refused to carry out directions given to it by a superior Tribunal. The principles of judicial discipline require that the orders of higher appellate authorities are unreservedly followed by the subordinate authorities[10].
  - In the present case, the Customs Authority was not justified in not following the binding precedent of CESTAT in the Importer's own case. Hence, the Impugned Order deserves to be set aside for this reason alone.
- **Interpretation of Tariff Entries and Explanatory Notes**
  - It is a settled law that a specific entry prevails over a general entry. Accordingly, on perusal of the relevant tariff entries under HSN 9401 and 8708, it was observed that Entry 9401 specifically covers seats and their parts, and the imported goods are integral to seats. Consequently, the subject goods must be classified under HSN 9401.
  - The Tribunal also referred to the World Customs Organisation Harmonised System of Nomenclature, which clarifies that seat parts are more specifically covered under heading 9401, and only those not specifically included elsewhere should be classified under 8708.
- **Applicability of the Supreme Court ruling in Insulation Electrical (supra)**
  - The Customs Authority had held that CESTAT did not consider the relevant advance ruling and the Supreme Court decision in Insulation Electrical (supra). The Advance Rulings relied upon by the Customs authority and Insulation Electrical (supra) were considered at length by CESTAT Chennai in Daebu Automotive Seat India[11] wherein it was held that 'track assembly' is classifiable under HSN 9401, and Insulation Electrical (supra) will not apply to 'track assembly'.
  - Hence, the Customs authority was not justified in disregarding the decision of CESTAT Ahmedabad. The Advance Rulings cannot be relied upon to classify the subject goods as 'parts' or 'accessories' of motor vehicles. Further, the decision in Insulation Electrical (supra) is not applicable, as it concerned 'rail assembly', which is distinct from the 'track assembly' involved in the present case.
- **The subject goods are classifiable under HSN 9401 9000**
  - The Importer sold the subject goods directly to car seat manufacturers and not to car manufacturers. Hence, the subject goods imported by Importer are parts of car seats and cannot be described as 'parts' and 'accessories' of motor vehicles because of the following:
    - 'Gear vertical adjuster' is affixed in the car seat at a particular location along with the brake seat lifter.
    - 'Track assembly' helps in the upward and downward seat adjustment.
    - 'Bar seat track lock' is used to lock the position of the seat at the required position.
  - Accordingly, the subject goods are correctly classified under HSN 9401 9000 as 'parts of seats'.
- **Invocation of an extended period of limitation:** There was no evidence of deliberate misdeclaration or fraud by the Importer. In fact, the Importer had consistently classified similar goods under HSN 9401, and the Customs Authorities had accepted this classification in the past. Consequently, the invocation of the extended limitation period and imposition of penalty were thus unjustified.
- Hence, the Customs Authority erred in holding that the subject goods warrant classification under HSN 8708 9900 and consequently, the Impugned Order is set aside.

[8] Shiroki Auto Components India Pvt. Ltd. Vs. Commissioner of Central Excise & Service Tax, Ahmedabad 2020 (374) E.L.T. 433 (Tri.-Ahmd)
[9] Commissioner of Central Excise, Delhi Vs. Insulation Electrical Pvt. Ltd. [2008 (224) ELT 512 (SC)]
[10] Commissioner of Central Excise, Delhi Vs. Insulation Electrical Pvt. Ltd. [2008 (224) ELT 512 (SC)]
[11] Daebu Automotive Seat India Pvt. Ltd. Vs. Commissioner of Customs, Chennai [2025 (10) TMI 1199 - CESTAT Chennai]

Damages paid under an arbitral award settlement do not constitute a supply liable to GST

Tata Sons Pvt. Ltd. Vs. Union of India and Ors. [TS-310-HC(BOM)-2026-GST]

Tata Sons Pvt. Ltd. ('Taxpayer'), the principal investment holding company of the Tata Group and owner of the Tata brand, entered into a Shareholders Agreement dated 25 March 2009 ('SHA') with NTT Docomo Inc. ('Docomo') for investment in shares of Tata Teleservices Limited ('TTSL'). Under the SHA, Docomo acquired 26% equity in TTSL and certain key performance indicators ('KPIs') were contractually stipulated. It was provided in the SHA that on failing to meet KPIs, the Taxpayer would be obligated to find a buyer for the shares held by Docomo at a 'Sale Price'.

A 'Sale Notice' dated 7 July 2014 was issued by Docomo calling upon the Taxpayer to find a buyer as per the SHA. Since the Taxpayer was unable to comply with the same, disputes arose between the two parties and were ultimately referred to in the arbitral proceedings. London Court of International Arbitration ('LCIA') declared a unanimous arbitral award on 22 June 2016 ('Award'), comprising:

- Damages of USD 1.17Bn.;
- Interest of USD 0.65Bn.;
- Arbitration costs of GBP 0.12Mn.; and
- Legal costs of JPY 1.07Bn.

For enforcement of the Award, Docomo initiated proceedings in the Courts of the United Kingdom and the United States of America. In India, the proceedings for enforcement of the arbitral award were filed before the Delhi High Court, which vide Order dated 28 April 2017 declared the Award to be enforceable in India and ordered the Taxpayer to deposit INR 84.50Bn. and held as under:

- The arbitral award would operate as a deemed decree passed by the High Court.
- The intervention made by the Reserve Bank of India (RBI) in the enforcement of the Award, when RBI had stated that prior permission is required for discharging such liability under the Award, was rejected.
- Accordingly, Docomo was entitled to the sum awarded, which was in the nature of damages and not the sale price of the shares, and this is the clear position on record of the arbitral proceedings.

The aforesaid amounts were remitted to Docomo on 30 October 2017 and 7 November 2017.

Accordingly, Docomo, as part of the joint consent application filed before the Delhi High Court, had agreed to suspend and later withdraw its enforcement proceedings outside India and also agreed not to initiate any further proceedings in relation to the SHA and/or under the Award.

Prior to remittance of the aforesaid amounts, on 25 September 2017, the Taxpayer received a letter from the Directorate General of GST Intelligence ('tax authorities') seeking to initiate an enquiry for ascertaining facts relating to the levy of Service Tax on the amounts being paid to Docomo. Multiple letters and documents were submitted to the DGGI, contending that no Service Tax was payable on the damages paid to Docomo under the arbitral award.

Later, the Taxpayer filed a representation with CBIC seeking clarification on the applicability of GST on payments made to Docomo. However, no response was received on such representation.

Subsequently, vide letter dated 15 February 2022, tax authorities informed the Taxpayer that payments made to Docomo attracted the levy of GST. Accordingly, Form DRC-01A ('Pre-SCN') was issued to the Taxpayer under section 74(5) of the CGST Act proposing to demand Integrated Goods and Services Tax ('IGST') of INR 15.24Bn. along with interest and penalty, inter alia alleging that:

- By tolerating the contractual defaults by the Taxpayer and by refraining from initiating any further proceedings in relation to the SHA and/or the Award, Docomo had supplied 'service' in the nature of agreeing to refrain from an act or tolerating an act, falling within the ambit of Entry 5(e) of Schedule II under Section 7 of the CGST Act;
- Reliance was also placed on Office Memorandum F. No. 349/168/2017-GST-Pt. 1/314 dated 21 February 2018 ('OM'), issued by CBIC, Policy wing; and
- The Taxpayer was liable to discharge IGST on a reverse charge basis as the said service was considered to be an import of service.

However, even after serving a reminder, a copy of the OM was not furnished to the Taxpayer. Aggrieved by the above, the Taxpayer preferred a writ petition before the Bombay High Court, which directed the tax authorities to furnish the OM to the Taxpayer. Further, in a subsequent hearing, the tax authority was directed by the Bombay High Court to grant the Taxpayer a personal hearing and take an appropriate decision.

Accordingly, a show cause notice dated 26 July 2023 ('Impugned SCN') was issued by the DGGI under section 74(1) of the CGST Act, proposing to demand the amounts mentioned in Form GST DRC-01A. The Bombay High Court, while ruling in favour of the Taxpayer, held as under:

- **Refrain from initiation of proceedings on payment of the Award, not a supply**
  - For a supply of service to be covered under Entry 5(e) of Schedule II to the CGST Act, there must necessarily be an independent agreement, where the parties in the normal course of business bind themselves to refrain from an act, or to tolerate an act or a situation or to do an act involving consideration, which would amount to supply of services of such nature.
  - It does not require any deep diving to observe that the recovery of amounts under a decree of the Court, i.e., an arbitral award, which is for damages, by any stretch of imagination, ought not to amount to 'supply of services'.
  - It is a settled legal principle that recovery of damages for contractual breach is a part of legislative requirement, even if it represents an arbitral award of a foreign court.
  - The reciprocal obligation, even in the settlement of a decree, necessarily emanates from a decree and cannot be construed as an independent agreement de hors the decree and/or alien to the decree itself.

- The proceedings which are incidental and integral to the execution of the decree and falling under the decree, cannot be alien to the decree, as such proceedings certainly partake the character of the original/principal proceedings, namely, execution of a decree.
- If the money decree itself is being satisfied by the defendants by making a full and final payment and as a natural consequence of such satisfaction, the plaintiff agrees to withdraw the collateral proceedings, it cannot be considered as the plaintiff discharging an obligation which is alien to the decree in withdrawing such proceedings. Such collateral proceedings, which are incidental to the execution of the decree, cannot be regarded as independent proceedings, having legs different from the principal proceedings, i.e., the proceedings for execution of a decree.
- In the present case, the foreign Award was subjected to enforcement before the Delhi High Court and proceedings were initiated for recovery of the Award in foreign courts. Such proceedings for the recovery of an award draw their colour from the arbitral award. Consequently, satisfaction of the Award would result in such collateral proceedings necessarily coming to an end, as a natural corollary based on the principle that once the decree itself stands satisfied and accepted, the collateral proceedings to recover the decree amounts would not survive.
- Such non-pursuance of further proceedings, as agreed in the consent terms, being considered to be a supply of services, itself is untenable.

- **Entry 5(e) of Schedule II to the CGST Act cannot be read de hors section 7 of the CGST Act**
  - Entry 5(e) cannot be read beyond the purview and context of Section 7 of the CGST Act. Reading Entry 5(e) de hors the aforesaid provision would amount to an erroneous reading, which is being sought to be applied by the tax authorities.
  - In the present case, there is neither any independent agreement involving any consideration nor can the consent terms be implied from any independent agreement, for which any separate consideration has been agreed to be paid by the Taxpayer to Docomo so as to even remotely attract the provisions of Section 7 read with Entry 5(e) of the CGST Act.
  - Docomo and the Taxpayer have not agreed on any independent obligation/arrangement for a consideration, so as to categorise such obligation to be an independent obligation, amounting to the supply of service within the purview of Section 7 read with entry 5(e) of Schedule II of the CGST Act.
  - When Section 7 of the CGST Act itself is not attracted, there is no question of the provisions of Entry 5(e) and the corresponding provisions of the IGST Act being made applicable. The approach of the tax authorities is absurd, wholly without jurisdiction and patently perverse.
- **Circular No.178/10/2022 is binding on the tax authorities**
  - The present proceedings are initiated merely due to the Award being of a large amount, without application of mind. Such action has no basis in law, more particularly when the revenue at all material times was aware of the legal position which was clarified in Circular No.178/10/2022[12] and Circular No. 214/1/2023-Service Tax[13] ('Circulars').
  - The position accepted in respect of liquidated damages would necessarily apply in respect of unliquidated damages, as the legal character of the payment is nothing but a flow of money from the party who causes a breach of contract to the party who suffers loss or damage due to such breach, so as to be the damages as awarded by the Court in its decree.
  - The legal character of the Award is damages payable by the Taxpayer to Docomo and stands recognised under Section 73 of the Indian Contract Act, 1872, which ordains compensation for loss or damage caused by breach of contract.
  - The aforesaid Circulars appropriately consider the legal position that once liquidated damages are received by a party on account of breach of contract, receipt of such amount would not constitute consideration for a supply, and hence, such amounts would not be taxable.
  - In the present case, once the Award was received by Docomo towards damages, there is no question of such amounts being regarded as 'consideration' for a taxable supply, particularly in the absence of any independent agreement creating distinct rights and liabilities, independent of the arbitral proceedings or totally alien to the Award.
- **Alternate remedy**
  - The principles of law in regard to the parties being relegated to an alternate remedy are well-settled. It is purely the discretion of the Court whether its writ jurisdiction needs to be exercised or not, and such discretion is required to be judicially exercised.
  - In the present case, the tax authority had no jurisdiction to issue a show cause notice, so as to bring such demand within the purview of Section 7(1)(c) read with Entry 5(e) of Schedule II of the CGST Act. When the jurisdictional authority itself was absent, there is no gainsaying that the Taxpayer nonetheless needs to be relegated to an alternate remedy. Hence, the present petition is entertained.
- The challenge to Section 7 read with Entry 5(e) to Schedule II of the CGST Act as being illegal and ultra vires was not examined.
- In view of the above, the High Court held that the settlement of the Award between Docomo and Taxpayer before the Delhi High Court would not amount to a supply under Section 7(1) of the CGST Act. Consequently, the Impugned SCN are quashed and set aside.

[12] Dated 3 August 2022
[13] Dated 28 February 2023

TRANSFER PRICING

JUDICIAL UPDATES

Chennai Tax Tribunal holds that professional fees paid for sourcing support services cannot be characterised as a 'shareholder activity', remits TP adjustment for fresh benchmarking

The taxpayer, a subsidiary of Shibaura Machine Co. Ltd., Japan, is engaged in manufacturing plastic injection moulding machineries and auxiliary equipment. For Fiscal Year ('FY') 2020-21, the taxpayer's case was selected for scrutiny and during the course of assessment proceedings, Transfer Pricing Officer ('TPO') made two principal transfer pricing adjustments: (i) An upward margin adjustment in respect of the manufacturing segment; and (ii) A downward adjustment treating the arm's length price ('ALP') of professional fees paid to its Associated Enterprise ('AE') for sourcing support services as Nil, on the ground that such services constituted a 'shareholder activity'.

With regard to margin adjustment, the taxpayer contended that the weighted average margin of the comparables for the last three years should not be compared with the margin of the taxpayer for FY 2020-21, which is an extraordinary year due to the COVID-19 pandemic. With regard to professional fees paid to it, AE, the taxpayer submitted that rendering of such services was an integral part of its main business. However, the TPO rejected the taxpayer's contentions and passed the draft assessment order.

The taxpayer filed objections before the Dispute Resolution Panel ('DRP'), wherein both the adjustments proposed by TPO were upheld. Aggrieved, the taxpayer preferred an appeal before the Chennai Tax Tribunal.

The Chennai Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

Re. Upward Margin adjustment

- Rules 10B(2) and 10B(3) of Income Tax Rules, 1962 (IT Rules), read with the OECD[1] guidelines required the reasonable adjustment to be made to eliminate material effects due to conditions prevailing in the market/capacity utilisation due to the pandemic situation.
- Further, following the coordinate bench ruling in Brakes India Pvt. Ltd. , the TPO/ tax officer is directed to compare the margin/results of the comparable companies for FY 2020-21 along with those of the taxpayer, rather than using the three-year weighted average.

Re. Professional Fees as Shareholder activity

- The key test, as per OECD Guidance, for an activity to be classified as shareholder activity is whether the activity provides a benefit that an independent enterprise would be willing to pay for. From the perusal of the nature of services as elaborated above, it is clear that the services provided are towards identifying the customers and supporting customs clearance.
- Accordingly, when tested as per the guidance, the services are not in the nature of shareholder activity. Hence, the professional charges paid cannot be termed as a shareholder activity.
- Since the taxpayer furnished additional evidence in support of the nature of service and rendering of service at the appellate stage, in the interest of natural justice and fair play, the TPO is directed to re-examine such evidence and determine a fresh whether the transaction warrants separate benchmarking. If the TPO concludes that separate benchmarking is required, a proper benchmarking exercise must be carried out to determine the ALP, giving a reasonable opportunity of being heard to the taxpayer.

[Shibaura Machine India Pvt. Ltd. v. DCIT, IT(TP)A No. 97/Chny/2024 (Chennai Tax Tribunal)]

[1] Organisation for Economic Co-operation and Development
[2] Brakes India Pvt. Ltd. v. DCIT (IT(TP)A No.47/Chny/2024 (Chennai ITAT)

Telangana High Court holds that regulatory approvals are granted for a different purpose than for determining ALP, and the taxpayer cannot accept an inconsistent position for different years

The taxpayer, in FY 2009-10, paid royalty on export sales to its AE, Gulf Oil International Mauritius (Inc.), at 2.51% of export sales amounting to INR 64.83 lakhs on total export sales of INR 25.81 Cr. The rate, within the 8% limit, was approved by the Reserve Bank of India (RBI), and 9.41% ceiling was approved by the Government of India (GOI) under the royalty agreement. During the scrutiny proceedings, the TPO, on detailed analysis, determined the ALP of this transaction at 1% of export sales, resulting in a disallowance of INR 39.01 lakhs.

Aggrieved by this, the taxpayer preferred an appeal before the Telangana Income Tax Appellate Tribunal and contended that 2.51% was commercially justified as third parties paid a higher royalty, and the rate was well within the threshold specified by RBI and GOI. The taxpayer also contended that a special leave petition is also pending before the Supreme Court on an identical issue. However, the Tribunal upheld TPO's order and noted that the calculation of 2.51% royalty on export sales was flawed and not an adequate comparable as compared to transactions undertaken by third parties and that the taxpayer had accepted 1% royalty on export sales for subsequent years. Aggrieved by the order of the Tribunal, the taxpayer filed an appeal before the Telangana High Court.

The High Court dismissed the appeal, and while restricting ALP at 1% royalty on export sales, the following observations were laid down:

- Sections 92 to 92F of the Income Tax Act, 1961 ('the Act') constitute a self-contained code for ALP determination of international transactions between AEs. The fundamental objective of these provisions is to ensure that such transactions are conducted at prices that would have prevailed between independent parties operating at arm's length under comparable circumstances. The determination of ALP is a factual exercise that must be undertaken on a case-by-case basis, considering the specific facts and circumstances of each transaction.
- The approvals granted by authorities are for different regulatory purposes. The RBI approval is concerned with foreign exchange regulations and the remittability of foreign exchange, while the GOI approval under the erstwhile FERA/FEMA regime was concerned with broader policy considerations relating to technology transfer and industrial development. These approvals do not and were never intended to determine the ALP for income tax purposes under the transfer pricing provisions of the Act.
- The statutory scheme for determining ALP is distinct and independent and is governed by specific methodologies prescribed under Section 92C of the IT Rules.
- The regulatory ceiling merely indicates the maximum permissible rate for regulatory compliance purposes, not the actual market-driven price that independent parties would negotiate. An approval permitting payment of royalty up to 8% or 9.41% does not mean that any payment below such ceiling is automatically at arm's length.
- The determination of ALP requires not merely a superficial comparison of royalty rates, but a detailed functional analysis examining the nature and extent of services rendered, the value of intangibles transferred, the benefits derived by the recipient, the economic circumstances of the parties, and numerous other factors that may affect pricing in transactions between independent parties.
- Further, the taxpayer had accepted the ALP of 1% royalty in export sales in subsequent years, i.e., FY 2006-07 and FY 2007-08, and the taxpayer's contention that the acceptance was to avoid any further litigation cannot be considered. The taxpayer cannot adopt inconsistent positions across years based on litigation convenience.
- The acceptance of 1% for subsequent years demonstrates that the taxpayer could continue operations and derive benefits even with the restricted deduction, undermining its argument that 2.51% was necessary and at arm's length.
- Lastly, pendency of an SLP before the Supreme Court on a similar issue for FY 2005-06 does not constitute a ground for admitting a High Court appeal or interfering with the Tribunal's order.

[Gulf Oil Corporation Ltd. v. ACIT, I.T.T.A. Nos. 526 of 2015 & 101 of 2017, Telangana HC]

Bangalore Tribunal holds that ALP determination should be done in accordance with OECD TP guidelines and the factual basis of the transaction

The Taxpayer, a real estate company, had issued 8000 unsecured compulsorily convertible debentures ('CCDs') to Adamas BLR assets PTE Ltd (an investment holding company domiciled in Singapore) at an interest rate of 15%. In relation to the same, the taxpayer entered into an international transaction of payment of interest of INR 24 cr. The CCDs were compulsorily convertible into equity shares at a 1:1 ratio within 10 years of issuance.

For the purpose of computation interest rate, the taxpayer had adopted the comparable uncontrolled price ('CUP') method using the National Securities Depository Ltd ('NSDL') database and arrived at a comparable rate of 12% plus 300 bps as per the RBI Circular on Borrowings between Residents and Non-residents. During the scrutiny proceedings, the TPO rejected the CUP method and adopted 'Other Method', and computed interest based on the State Bank of India Prime Lending Rate (SBI PLR) of 12.27%, which resulted in an addition of INR 4.36 cr. The taxpayer contended that the SBI PLR applies to secured loans, whereas the CCDs were unsecured. Further, the TPO held that permission granted by the RBI cannot be deemed to set the ALP.

Aggrieved by this, the taxpayer filed objections before DRP. DRP held that interest should be computed at the LIBOR rate plus 200 bps. Considering the DRP's directions, the tax officer passed the assessment order computing interest at the rate of 2.77%, resulting in an adjustment of INR 19.56 cr.

Aggrieved by this, the taxpayer preferred an appeal before the Bangalore Tribunal. The Bangalore Tax Tribunal held as under:

- The tax authority failed to consider the TP guidelines issued by OECD in 2022 and Rule 10B(2) of the IT rules, which provides how the ALP of an international transaction is to be determined.
- The decision of the Hyderabad Tribunal in the case of watermark residency relied on by the tax officer is without any valid basis as neither the transaction involved therein was discussed nor its characteristics.
- The appeal in the case of the taxpayer for FY 2013-14 on the same issue was resorted back to the tax officer.
- Benchmark rates based on SBI PLR and LIBOR plus markup are relevant only for plain vanilla loan transactions and not hybrid instruments like CCDs.
- A significant flaw in applying such interest rates is that they pertain to loans repayable in cash, whereas hybrid instruments do not possess any feature of optional or mandatory convertibility into equity.
- Further, CCDs lack a defined repayment schedule and are for a longer term. There is an obligation on the issuer to convert CCDs into equity as agreed, and they issue a nominal rate of interest. Therefore, CCDs fundamentally differ from conventional loan transactions due to their inherent equity component.
- As per OECD TP guidelines on Financial Transactions, actual delineation of financial transactions is essential when benchmarking interest payments on hybrid instruments. This process requires careful consideration of the contractual terms of the tested instrument, functions performed, assets utilised, and risks assumed by both parties. It involves assessing the purpose of the instrument, its relationship with other intragroup transactions, the economic circumstances of both borrower and lender, the relevant industry and market, as well as the business strategies and conditions within the group, alongside the actual conduct of the parties involved.
- Further, specific examination of contractual terms, allocation of responsibilities, risks and benefits, etc., is also required to be analysed considering the market conditions.
- Since the TP Study Report did not contain details about terms, conditions, tenure of the instrument, the nature of the instrument issued and the comparables selected by the taxpayer, the CUP method adopted by the taxpayer cannot be accepted.
- In light of the above, the issue is remitted to the tax officer to determine the correct ALP, taking into consideration TP guidelines and other factors.

[Adamas Builders Pvt Ltd. v. DCIT, IT(TP)A No. 2478 of 2024, Bangalore Tribunal]

Bangalore Tax Tribunal, while quashing a time-barred final assessment order, holds that uploading of DRP directions on the ITBA portal constitutes receipt by the tax officer

The taxpayer, a wholly owned subsidiary of Koch Capabilities International Holdings LLC, is engaged in the provision of IT support services within the Koch Group. For the same, the taxpayer is compensated on a cost-plus basis at 10% markup. For FY 2019-20, the taxpayer's case was selected for scrutiny, wherein the TPO proposed an upward adjustment. The tax officer passed a draft assessment order, against which the taxpayer filed objections before the DRP. The DRP issued its directions under section 144C(5) of the Act on 29 May 2024, and the same were uploaded on the Income Tax Business Application (ITBA) portal on the same date, along with the generation of the Document Identification Number (DIN). However, the tax officer passed the final assessment order only on 29 July 2024. Aggrieved by the final assessment order, the taxpayer filed an appeal before the Bangalore Tax Tribunal and sought admission of an additional legal ground challenging the final assessment order as being time-barred under section 144C(13)[3] of the Act.

The Bangalore Tax Tribunal, while ruling in favour of the taxpayer, admitted the additional ground and made the following observations:

- If the Revenue's contention that the DRP directions were never received by the Faceless Assessing Officer (FAO) or Jurisdictional Assessing Officer (JAO) is considered, then final assessment order passed without receipt of the DRP's directions and not in conformity with section 144C(13) of the Act is illegal and bad in law.

[3] As per section 144C(13) of the Act, the tax officer is mandated to pass the final assessment order within one month from the end of the month in which the DRP's directions are received.

- Reliance is placed on the decision of the Hon'ble Madras High Court in Ramco Cements Ltd[4] wherein it is held that limitation cannot depend on varying user functionalities, which is an internal process that cannot be entertained, since the same would defeat the purpose of statutory limitation. Further, the limitation cannot be reckoned in a manner so as to give rise to more than one interpretation, where either party can take advantage of a later date.
- Accordingly, since the FAO had received the DRP's directions on 29 May 2024 itself, the final assessment order passed on 29 July 2024 is barred by limitation as per provisions contained in section 144C(13) of the Act.

[Koch Business Solutions India Pvt. Ltd. v. DCIT, IT(TP)A No.1844/Bang/2024 (Bangalore Tax Tribunal)]

[4] Ramco Cements Ltd V. Commissioner of Income Tax [(2025) 474 ITR 9] (Madras HC)

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