kcm NETWORK

K C Mehta & Co LLP
Chartered Accountants

kcm Insight

July 2025

Dear Reader,

We are happy to present **kcmInsight** , comprising of important legislative changes in finance & market, direct & indirect tax laws, corporate & other regulatory laws, as well as recent important decisions on direct & indirect taxes.

We hope that we are able to provide you an insight on various updates and that you will find the same informative and useful.

For detailed understanding or more information, send your queries to knowledge@kcmehta.com

kcm NETWORK

Mergers & Acquisitions

ESG Investing or Greenwashing: A Balancing Act of Profit and Purpose

Corporate Tax

Important Rulings

Utilisation of fund by trust and applicability of section 11(3) prior to amendment by FA, 2022

Section 56(2)(via), deemed income provision shall not apply to buy-back of shares

Provision of section 263 cannot be invoked to verify the claim

Circular and Notification

Relief to Deductor/Collector from demand raised due to short deduction/collection of TDS/TCS consequent to PAN of deductees/collectees becoming inoperative

Bonds issued by Indian Renewable Energy Development Agency (IREDA) notified as long-term specified asset

Corporate Tax

Circular and Notification

Cost Inflation Index for AY 2026-27 notified

International Tax

Important Rulings

Indian Rulings

Guarantee Fees not taxable under India-Korea DTAA

Derivatives not akin to shares, receipts from transfer of not taxable under India-Mauritius DTAA

Delay in filing Form 67 cannot restrict the taxpayer from claiming foreign tax credit

Taxability of income in the absence of an FTS clause in the tax treaty

Foreign Rulings

Taxability of payments attributable to 'right to work' as defined in the tax treaty and not merely 'right to receive'

International Tax

Important Updates

Indian Updates

Government notifies protocol amending India-Oman DTAA

Foreign Updates

Malaysia unveils venture capital incentives to stimulate start-up investments

The USA senate passed 'Big Beautiful Bill'; introduced 1% remittance tax on non-citizen

Oman issues law on special economic zones and free zones

New income tax credit introduced for foreign investors reinvesting dividends in China

Georgia introduces tax benefits for innovative Startups, SMEs, and R&D service providers

Transfer Pricing

Important Rulings

Use of Berry ratio is not suitable in case of manufacturing entities

Payment of commission to agents in Multi-level marketing schemes should not be included in AMP expenditure

Indirect Tax

Important Updates

GST Portal Updates & Advisory

Advisory regarding filing appeal against SPL-07 waiver rejection orders

Advisory on system-generated GSTR-3A notices to cancelled composition taxpayers

Circulars

Timely submission of physical verification reports in GST high-risk registration cases

Indirect Tax

Important Rulings

Judicial updates

SC dismisses revenue's SLP challenging grant of IDS refund under modified rule 89(5

Karnataka high court holds no IGST on genuine secondment where employer-employee relationship exists

Extension of Time Limit for issuance of SCN under Notifications 9/2023 and 56/2023 is held ultra vires

Chartered Accountant certificate valid for transaction genuineness even if not from supplier

Judicial updates

Issuance of consolidated show cause notices across years is not valid.

Apex Court admits revenue's SLP to hear against Kerala High Court's judgement striking down constitutional validity of section 7(1) (aa) through amendment (Finance Act, 2021).

Indirect Tax

Important Rulings

Foreign Trade Policies

DGFT clarifies no mandatory warehousing for goods shipped before authorisation under FTP 2023

Continuation of MOOWR Scheme Application Facility

Coverage | Detailed Analysis

Corporate Laws

RBI / FEMA Notifications and Press Releases

- Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025
- Master Direction - Reserve Bank of India (Rupee Interest Rate Derivatives) Directions, 2025 – Draft
- Lending Against Gold and Silver Collateral - Voluntary Pledge of Gold and Silver as Collateral for Agriculture and MSME Loans
- Directions related to Closure of Shipping Bills in the Export Data Processing and Monitoring System (EDPMS) – Draft for Feedback

Corporate Laws

SEBI Notifications

- Timelines for rebalancing of portfolios of mutual fund schemes in cases of all passive breaches

Corporate Laws

SEBI Notifications

- Ease of Doing Investment – Special Window for Re-lodgement of Transfer Requests of Physical Shares
- Extension towards Adoption and Implementation of Cybersecurity and Cyber Resilience Framework (CSCRF) for SEBI Regulated Entities (REs)
- Frequently Asked Questions (FAQs) related to regulatory provisions for Research Analysts

Corporate Laws

MCA Notifications

- Companies (Incorporation) Amendment Rules, 2025
- Companies (Restriction on number of layers) Amendment Rules, 2025.
- Companies (Listing of equity shares in permissible jurisdictions) Amendment Rules, 2025
- Companies (Corporate Social Responsibility Policy) Amendment Rules, 2025

Corporate Laws

MCA Notifications

- Ease of Doing Investment – Special Window for Rsse-lodgement of Transfer Requests of Physical Shares

ESG Investing or Greenwashing: A Balancing Act of Profit and Purpose

Introduction

As climate change accelerates, social issues intensify, and investors demand more accountability, ESG (Environmental, Social, and Governance) investing is rising as a powerful trend globally and India is no exception. Globally, ESG assets are projected to surpass **$50 trillion in 2025**, and India is fast becoming a key player in this movement. A younger investor base, progressive regulations, and growing awareness are driving this shift. But challenges like **greenwashing**, inconsistent data, and a lack of transparency threaten the credibility of ESG investing.

Let us break down what ESG investing looks like in India today, what is working, what's not, and how investors can separate purpose from PR.

What Is ESG Investing?

ESG investing means putting your money into companies that not only offer good returns but also care for the environment, treat people fairly, and are governed responsibly. In short, it is about making money with a conscience. ESG investing is gaining traction as retail and institutional investors alike seek long-term value that aligns with ethical and sustainable goals

India's Regulatory Push

To ensure ESG is not just a marketing buzzword, regulators have been tightening the screws:

- **SEBI's ESG Fund Rules** (2023) require mutual funds to clearly state their ESG strategy and invest at least 65% of assets in companies that provide verified ESG data (via BRSR Core reports).
- **RBI's Climate Disclosure Framework** lays out how banks and financial institutions should report climate related risks, starting in 2025. The goal is to ensure that the financial system is not caught off guard by climate shocks.
- **Green and ESG Bonds** are getting attention too. In 2025, SEBI introduced rules to avoid "purpose-washing" in bond markets, ensuring that money raised for sustainability is not misused.

Fund (as of June 2025)	AUM (Rs Crores)	Inception	Expense Ratio (%)	Return (%)		
				6 M	1 Yr	3 Yr
SBI ESG Exclusionary Strategy Fund	5,556	Jan, 2013	1.3	-1.3	5.3	16.7
Miree Asset Nifty 100 ESG Sector Leaders Fund of Fund	99	Nov,2020	0.4	0.6	6.9	13.9
ICICI Prudential ESG Exclusionary Strategy Fund	1,488	Sep,2020	1.1	1.7	19.1	22.5

ESG Investing or Greenwashing: A Balancing Act of Profit and Purpose

Coverage

Axis ESG Integration Strategy Fund	1,232	Jan, 2020	1.3	-2.8	9.2	15

Fund (as of June 2025)	AUM (Rs Crores)	Inception	Expense Ratio (%)	Return (%)		
				6 M	1 Yr	3 Yr
Kotak ESG Exclusionary Strategy Fund	864	Nov, 2020	0.9	-1.8	3.8	17.2
Invesco India ESG Equity Fund	538	Feb, 2021	2.4	-3.7	9.5	16.7
Quantum ESG Best In Class Strategy Fund	95	Jul, 2019	2.1	-2.8	8.9	15.2
Quant ESG Equity Fund	284	Nov, 2020	0.9	-4.1	-0.7	22.3
Average			**1.3**	**-1.8**	**7.7**	**17.4**
NIFTY100 ESG Index		**Mar, 2018**		**-0.4**	**12.1**	**14.4**
NIFTY 50				**0.6**	**12.5**	**14.1**

ESG Investing on the Rise

India's ESG themed mutual funds have grown rapidly from just ₹2,700 crore in 2020 to over ₹10,000 crore by mid-2025, with projections pushing towards $4 billion by 2030.

Surveys by CFA Institute show 60% of Indian investors are interested in ESG products, well above global averages. Platforms like Zerodha, Groww, and Paytm Money now feature ESG tools to help everyday investors make informed choices.

Sectors like renewable energy, EVs, green infrastructure, and climate-tech startups are favourites. Marquee Indian business **houses are** drawing ESG-focused capital, as are smaller innovators in clean tech and sustainable agriculture.

	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
No. of ESG Schemes	3	9	13	12	12	8	9
AUM (in Rs Crores)	2,703	9,411	12,369	12,447	10,427	9,753	10,946

Greenwashing: ESG's Dark Shadow

Despite this momentum, a major threat looms - **greenwashing**. This is when companies claim to be environmentally or socially responsible without actually backing it up. Greenwashing confuses investors, diverts money away from truly ethical companies, and erodes trust in the whole ESG ecosystem.

ESG Investing or Greenwashing: A Balancing Act of Profit and Purpose

How Does Greenwashing Happen?

- Exaggerated claims like "eco-friendly" or "green" without proof
- Highlighting positives while hiding harmful practices
- Superficial efforts like planting trees while continuing to pollute

Examples of Greenwashing:

- **Conglomerates:** While one of the businesses of a conglomerate could be into renewable energy sector, another business from the same group continues to expand into fossil fuels / coal projects in order to distract attention from its fossil fuel business.
- **Textiles:** Apparel manufacturing companies market "sustainable" collections but provide no data on water usage, carbon emissions, or worker welfare.
- **Real Estate**: Real estate / Cement companies boast of "green buildings" but fail to show real reductions in carbon intensity over time.
- **Banks:** Few banks have issued ESG labelled bonds while simultaneously funding coal based and high emission projects.

Examples of Greenwashing:

Regulators are responding:

- **SEBI's ESG fund** regulations now require transparency in naming, investments, disclosures, and audits.
- **Plans to regulate ESG rating providers** are in motion to standardize scores and prevent inflated claims.
- **Mandatory ESG reporting** via BRSR is expanding to cover not just companies but also their supply chains by next fiscal.

How Can Investors Protect Themselves?

- Do not **trust labels blindly**: Look for detailed reports and third-party audits.
- **Use trusted ESG rating providers**: Prefer ratings which explain the scoring criteria and follow SEBI norms.
- **Track fund impact**: Check how ESG-labelled funds are using their capital.
- **Support verified green bonds**: Invest in bonds where the use of funds is clearly specified and monitored.

Challenges on the Road Ahead

- **Data Gaps**: Small and Midcap companies struggle to provide quality ESG data.
- **Valuation Concerns**: ESG stocks are often priced at a premium, leading to fears of overvaluation.
- **Limited Assurance**: Most ESG disclosures, especially from smaller firms, remain unaudited.
- **Institutional Readiness**: Many banks and financial institutions still lack climate strategies or net-zero commitments.

The Next Phase: From Compliance to Commitment

Between 2025 and 2030, ESG investing in India is expected to become integrated across asset classes - equity, debt, private equity, and real estate. One can expect:

- More **climate-resilient policies** from Banks and NBFCs
- Use of **AI and blockchain** for ESG data tracking

ESG Investing or Greenwashing: A Balancing Act of Profit and Purpose

- Greater **collaboration between regulators, investors, and companies**
- Continued focus on monitoring **greenwashing and transparency**

Conclusion: Aligning Capital with Conscience

ESG investing is not just about doing good - it is about doing well and doing right. For India, the real win lies in using ESG not as a marketing tool, but as a blueprint for sustainable, inclusive growth. By holding companies accountable, demanding transparency, and resisting greenwashing, we can ensure ESG becomes a force for real change - not just another trend.

Sources of information: Times of India, Economic Times, Reuters, KPMG, Grant Thornton

Contributed by

Mr. Chinmay Naik & Mr. Nirant Doshi

For detailed understanding or more information, send your queries to ***knowledge@kcmehta.com***

Important Rulings

Utilisation of fund by trust and applicability of section 11(3) prior to amendment by FA, 2022

Shri Krishnanagar Vaishnvsama jITA No. 1096 of 2025, ITAT Ahmedabad)

Income of charitable and religious trust is exempt from tax subject to fulfilment of conditions stipulated under section 11 to 13 of ITA. Section 11 of the ITA allows exemption from taxation even in case income is not applied for charitable purpose but accumulated and set apart for its application in subsequent years. Section 11(2) provides time frame of five years for accumulation and setting apart of funds and if such funds are not utilized for the charitable / religious activity within such period, then as per section 11(3), it shall be deemed to be income of the trust of the previous year immediately following the expiry of period of five years i.e. at the end of sixth year. The provisions of section 11(3) were amended by FA, 2022 wherein the legislature omitted the application of funds in extended year and thereby if accumulated funds are not utilized within five years, then it shall be deemed to be income of the fifth year.

The Taxpayer is a trust eligible for exemption of income as per section 11 of ITA. In the return of AY 2017-18, the taxpayer claimed exemption of accumulated funds which were utilized in FY 2022-23. At the time of processing the return of income by CPC, exemption claimed by the taxpayer was disallowed as accumulated funds were not utilized within period of five years i.e. on or before 31.03.2022. The aggrieved taxpayer filed an appeal before CIT(A) who confirmed the adjustment so made while processing the return of income.

The taxpayer preferred an appeal before ITAT objecting the order of the CIT(A) on the ground that time limit for application of accumulated funds were six years i.e. five years as provided u/s 11(2) and one more year as section 11(3) deems income of previous year immediately following the year in which such period expires. The taxpayer also contended that the amendment reducing time limit to five years was effective from 01.04.2023 and cannot apply retrospectively to FY 2022-23.

On the other hand, the department contended that amendment in section 11(3) was applicable from AY 2023-24 and as the taxpayer had not utilized funds within five years, it shall be deemed to be income of the taxpayer.

The Tribunal appreciating the provisions of section 11(3) held that taxpayer had time limit of six years to utilize accumulated funds and upheld the contentions of the taxpayer that amendment should be applied with degree of practicality and reasonableness. The Tribunal held that if the amendment is made applicable, then the time to utilize funds would end on 31.03.2022 when the provisions were not even enacted, and it shall be impossible for the taxpayer to utilize the funds. It was held that amendment should be applied in a manner that it leads to fair and possible outcome.

Section 56(2) (via), deemed income provision shall not apply to buy-back of shares

Lupin Investment Private Limited, ITA No. 4635 of 2024, ITAT Mumbai

Section 56(2) of the ITA constitutes of certain deeming provisions which provides that where an individual, HUF, firm or company receives any property or money exceeding prescribed limit without consideration or at a consideration lower than its fair market value ("FMV") then the

differential amount exceeding the prescribed limit shall be deemed to be income of such person. Clause (via) states that where a firm or a company receives any property being shares of a company without consideration or for a consideration which is less than its FMV, then the FMV exceeding Rupees fifty thousand in case shares are received without consideration or difference of consideration and FMV exceeding Rupees fifty thousand if shares are received for consideration less than its FMV shall be deemed to be income of the firm or a company.

The Taxpayer is a company in which public are not substantially interested and during the year under consideration had undertaken buy-back of shares. The Assessing Officer determined the FMV of unquoted equity shares by invoking provisions of Rule 11UA of the Income Tax Rules and contended that the taxpayer had bought back shares at a value lower than its FMV. Accordingly made addition u/s 56(2)(via) of ITA on the ground that the taxpayer had received shares for a consideration lower than its FMV. The CIT(A) confirmed the addition made by the AO.

The taxpayer challenged the order before the ITAT wherein the Tribunal observed that for the purpose of deeming income u/s 56(2)(via), the company should receive property in form of shares of a company. Reference is also made to Memorandum of Finance Bill 2010 wherein the definition of property was amended so as to provide that deeming provisions shall apply to property which is in nature of capital asset and not to stock in trade where transactions are entered in normal course of business or trade. Applying the same analogy, it was held that in case of buy back of shares, the shares are purchased from the shareholders and such shares extinguishes by writing down the share capital, so the taxpayer do not receive any property in form of capital asset. The ITAT further observed that section 56(2)(via) applies if a company receives shares which becomes property of the company and therefore to receive property, shares should be of any other company. In case of buy-back, the taxpayer does not receive shares of any other company, so the condition stipulated u/s 56(2)(via) does not satisfy. The ITAT took support from the decision of the co-ordinate Bench in case of Vora Financial Services (P) Ltd in ITA No. 532 of 2018.

Provision of section 263 cannot be invoked to verify the claim

Imperial Housing Ventures Pvt. Ltd., ITA No. 2345/DEL/2024, ITAT, New Delhi

The taxpayer is a private limited company and case of the taxpayer for AY 2018-19 was selected for scrutiny, pursuant to which an order u/s 143(3) of the ITA was passed by the AO. The order passed by the AO was considered for revision by Principal CIT ("PCIT") on its own motion by virtue of revisionary powers as provided under section 263 of the ITA. The PCIT observed that the AO has not made necessary enquiries on the issue of disallowance under Rule 8D. The PCIT further observed that the taxpayer has claimed excess TDS as the turnover reported is lower as compared to the turnover reflected in Form 26AS on which TDS was deducted and claimed by the taxpayer.

Aggrieved by the action of PCIT for invoking the revisionary powers, the taxpayer filed an appeal before Delhi ITAT. The taxpayer contended the various grounds for dismissing the action of the PCIT including that the revisionary powers u/s 263 cannot be used for substituting the opinion

of the AO as the same can be invoked only in case of no/lack of enquiry by AO.

Before ITAT, the main argument of the taxpayer was that the AO had already made inquiry during the assessment proceedings on the issue considered by the PCIT for revision and relied on the various judicial precedents. Further, the taxpayer argued that the reliance placed by the PCIT on the Explanation to Section 14A for making disallowance u/s 14A even if the taxpayer had no exempt income during the year shall be applicable prospectively from AY 2022-23 and relied on various judgements of jurisdictional High Court.

Whereas the Revenue in support of its argument before ITAT has referred to the CBDT Circular No. 5/2014 dated February 11, 2014, with respect to disallowance u/s 14A and relied on the findings of PCIT with respect to excess claim of TDS.

With respect to disallowance u/s 14A, the Tribunal observed that it is settled position of law by various High Courts and coordinate benches that no disallowance can be made u/s 14A when the taxpayer has not received any exempt income during the year. The Tribunal further observed that the above CBDT Circular relied by PCIT has no application when the taxpayer has not received any exempt income.

With respect to claim of excess TDS by taxpayer, the Tribunal observed that the details of turnover and method followed by the taxpayer was already furnished before the AO during the assessment proceedings. At the end, the Tribunal on the issue of TDS reconciliation noted that the PCIT should have call for details from the taxpayer and by mere remanding the matter back to the file of the AO, he failed in his duty to come to conclusion that the order passed by the AO is prejudicial to the interest of the Revenue.

The above ruling emphasis that the PCIT cannot impose another possible view for invoking revisionary power u/s 263 of the ITA by remanding the matter to AO when the AO had already made enquiry on the issue during the assessment proceedings and taken a possible view.

Relief to Deductor/Collector from demand raised due to short deduction/collection of TDS/TCS consequent to PAN of deductees/collectees becoming inoperative

Circular No 9/2025/F. No 275/04/2024 – IT(B) dated 21st July 2025

The CBDT vide earlier circular No. 03/2023 dated March 28, 2023, outlined the various consequences of PAN becoming inoperative on account of failure to link PAN with Aadhar within specified timeline in accordance with Rule 114AAA of the Income Tax Rules, 1962. In accordance with the same, TDS/TCS shall be required to deduct/collect at higher rate as per provisions of section 206AA/206CC of ITA.

As a result of which, short deduction/collection of TDS/TCS demand were raised against the Deductor/Collector while carrying out the transactions with such deductees/collectees whose PAN became inoperative due to non-linking with Aadhar. Therefore, several grievances have been received from the taxpayers regarding receipt of notices in respect of default of short deduction/collection of TDS/TCS.

Important Rulings

To readdress the grievances faced by such Deductor/Collector, CBDT has again granted relief to the Deductor/Collector against the demand raised due to short deduction/collection of TDS/TCS if PAN of such deductees/collectees becomes inoperative on or before the specified date given as under:

- Where the amount is paid or credited between the period from 1st April 2024 to 31st July 2025 and the PAN of deductees/collectees becomes operative as a result of linking with Aadhaar on or before September 30, 2025
- Where the amount is paid or credited on or after 1st August 2025, and the PAN of the deductees/collectees becomes operative as a result of linking with Aadhaar within two months from the end of the month in which the amount is paid or credited

Bonds issued by Indian Renewable Energy Development Agency (IREDA) notified as long-term specified asset

Notification No. 73/2025/F. No. 225/192/2023 dated 9th July 2025

The Central Government has notified bonds redeemable after five years by the IREDA as long-term specified asset for the purpose of claiming exemption u/s 54EC of the ITA from the capital gain arises from the transfer of long-term capital assets.

Cost Inflation Index for AY 2026-27 notified

Notification No. 70/2025/F. No. 370142/24/2025-TPL dated 1st July 2025

The Central Government has notified cost inflation index for AY 2026-27 at 376 for the purpose of computation of capital gain under section 48 of the ITA.

Contributed by

Mr. Akshay Dave, Ms. Amrin Pathan and Mr. Minesh Rawat

For detailed understanding or more information, send your queries to ***knowledge@kcmehta.com***

Important Rulings

Indian Ruling

Guarantee Fees not taxable under India-Korea DTAA

Kia Corporation [ITA No. 644 (BANG.) of 2025 – Order dated 30 June 2025]

The present case deals with the issue whether the guarantee fees received by a South Korean company from its Indian subsidiary was taxable in India. The fees were not offered to tax in India claiming exemption under Article 22 – 'Other Income' of the India-Korea DTAA. The taxpayer argued that such income falls under the head "Other Income" as per the DTAA, and therefore, is taxable only in the country of residence, i.e., South Korea.

However, the AO rejected the above claim asserting that the income had accrued or arisen in India and that Article 22 of the DTAA did not support the claim of the taxpayer. The Hon'ble bench of Bangalore ITAT noted that the guarantee fees did not fall under Article 6 (immovable property), Article 7 (business profits), or Article 11 (interest) of the India-Korea DTAA which was also acknowledged by the AO. Further, the Hon'ble bench of Bangalore ITAT observed that Article 22 states that if the income is not covered under any of the preceding articles, it shall be taxable only in the state of residence (i.e., South Korea in this case).

The Hon'ble bench of ITAT further distinguished the decision of Delhi High Court in the case of Johnson Matthey Public Ltd. v. CIT [2024] 465 ITR 649, as relied by the AO, which was based on the India-UK DTAA that contains a differently worded "Other Income" Article permitting taxation in the source country under certain conditions — unlike the India-Korea DTAA. Therefore, the Tribunal held that the guarantee fees received by the taxpayer were not taxable in India under Article 22 of the DTAA.

Taxation of Corporate Guarantee Fees is always a matter of litigation in India as the tax department wishes to tax it as either interest or business profits in the hands of non-residents. The courts have time and again ruled the position that guarantee fees cannot be taxed as interest income in absence of any debt claim on the borrower by the guarantor. Further, the Hon'ble bench of ITAT has also stated that the AO did not bring any material on record to establish that the transaction constitutes business profits or interest income.

Derivatives not akin to shares, receipts from transfer of not taxable under India-Mauritius DTAA

Sigma Global Fund vs ACIT [ITA No.1130/Mum/2025 - Order dated 26 June 2025]

The central issue in the case was whether income from the transfer of derivatives, financial contracts whose value is based on underlying assets like shares should be classified as gains from "shares", thus, taxable in India under Article 13(3A) of the India-Mauritius DTAA or as gains from "other property" (covered by Article 13(4) and taxable only in Mauritius). The case questioned whether derivatives should be treated the same as shares for tax purposes under the DTAA or as a separate category of financial asset.

Sigma Global Fund, a Mauritius based company earned income from transfer of derivatives. It claimed exemption under Article 13(4) of the India-Mauritius DTAA, stating that derivatives are not shares. The tax authorities disagreed, arguing the derivatives should be taxed under Article 13(3A).

Important Rulings

The Appellant argued that derivatives are separate instrument and just because the underlying asset can be in the form of shares cannot be the reason. Also, the AO had previously accepted the exemption under Article 13(4) for similar income in subsequent AY. The principle of consistency should apply in this case. The Appellant submitted that the Revenue Secretary has stated that to tax or not to tax income on derivatives is the right of the home country (Mauritius).

The revenue argued that the income from derivatives should not be exempt for the reason that derivatives and shares are closely related and therefore the income is to be taxed as per Article 13(3A) of DTAA. The AO placed reliance on Article 13(3A) of the India-Mauritius DTAA to reject the appellant's claim for exemption on income from derivatives.

The Hon'ble bench of Mumbai ITAT ruled in favour of the taxpayer, holding that derivatives are distinct from shares and the income on such transfer are not taxable in India. It stated that on a combined analysis of nature of derivatives, the definition of "shares" and "Securities" and the relevant observation of the coordinate bench in case of Vanguard Emerging Markets Stock Index Funds [2025] 172 taxmann.com 515, it is clear that derivatives and shares are different. Accordingly, it can be seen that there is a merit in the contention that gain from alienation of derivatives need to be considered under Article 13(4) of the India-Mauritius DTAA. This view is supported by the observations of the Revenue Secretary's clarification in Media while amending the India-Mauritius DTAA with regard to taxability of the assets other than shares and immovable property under the DTAA. The ITAT also observed that under the SEBI (Mutual Funds) Regulations, 1995, mutual funds, in India can be established only in the form of "trusts", and not "companies". Therefore, the units issued by Indian mutual funds will not qualify as "shares" for the purpose of Companies Act, 2013.

The decision reinforces the supremacy of DTAA provisions only to the extent they are expressly provided and each provision under DTAA can be differentiated. In the absence of any specific provision under the Act to deem the unit as shares, it could not be considered as shares of companies and therefore, receipts from derivatives transfer are exempt under India-Mauritius DTAA.

This ruling confirms that income or gains from derivatives, despite being linked to shares, have a different legal and tax identity under Indian and treaty law and are therefore not taxable in India as gains from shares. This reinforces the principle that tax treaties must be applied according to their exact wording without expanding definitions to include related but different financial instruments. Similar view has also been considered in the case of Emerging India Focus Funds vs ACIT [ITA No.1963/Del/2025 – Order dated 25 June 2025].

Delay in filing Form 67 cannot restrict the taxpayer to claim foreign tax credit

Deepak Pragjibhai Gondaliya [SCA No. 3445 of 2024 (Guj HC) – Order dated 10 June 2025]

In the present case, the taxpayer earned salary income from Bangladesh and duly discharged taxes therein. However, while filing return of income in India, the taxpayer inadvertently missed filing Form 67 for claiming credit of foreign taxes paid and filed it after the issuance of intimation order u/s 143(1) of the ITA. Subsequently, the taxpayer filed an application for condonation of delay with PCIT u/s 119(2)(b)

of the ITA. However, PCIT rejected the application for condonation of delay on the ground that there was no genuine hardship to the taxpayer.

Upon appeal, the Gujarat HC, drawing upon its precedents, held that it is now a settled position that procedural delays for filing various forms for claiming deductions should not restrict the taxpayers to claim the benefit available under the ITA. The Court emphasized the need for a liberal construction of the term "genuine hardship" and remitted the matter to PCIT to reconsider the condonation application and pass a fresh order condoning the delay in filing of Form 67.

While the Gujarat High Court has reiterated that procedural lapses ought not to interrupt the benefits available to taxpayers, the taxpayers continue to face challenges with lower tax authorities.

Taxability of income in the absence of FTS clause in the tax treaty

Castlewick FZE [ITA No. 459 (CHNY.) of 2025 – Order dated 11 June 2025]

The taxpayer incorporated in and a tax resident of UAE. During the relevant year, it was in receipt of income from an Indian company, pursuant to services provided for review of existing design and drawing for a turnkey project of water supply distribution. The service was rendered from outside India and no person had visited India for this purpose.

It did not file the ITR in India claiming that it did not have any PE in India and it does not have any income accruing or arising in India. Based on the proceedings under section 201 of the ITA in case of the Indian company, notice was issued u/s. 148 of ITA to the taxpayer. In response to the said notice, the taxpayer submitted that since there is no specific Article in relation to FTS in the India-UAE DTAA, therefore, ITR was filed stating 'NIL' income. Further, it stated that once the income construed as FTS is not covered by the specific Article as per the relevant DTAA provisions, the said income cannot be taxed by importing the provisions from the ITA. The AO disagreed to the contentions and made the additions in the draft assessment order of the amount received on the basis of FTS considered u/s. 9(1)(vii) of ITA. Thus, it resulted in raising a demand including interest levied u/s. 234A and 234B of the ITA. The DRP also upheld the view of the AO. Accordingly, the taxpayer has filed an appeal before the Hon'ble bench of the Chennai ITAT.

The appeal before the bench emanated from the fact that the income received should be in the nature of FTS and the same is liable to tax in India. Alternatively, it should be construed as business income as per India-UAE DTAA. The Hon'ble Bench of Chennai ITAT observed that the taxpayer was in receipt of business income from the services rendered to the Indian company. In this regard, Bench perused the copy of the work order issued by the Indian Company and the relevant invoices on the basis of which the payments were received by the taxpayer.

In deriving the conclusion, the bench analysed that once the tax treaty does not define the term FTS, the classification of such income has to be as per other provisions of the tax treaty. The bench observed that as per section 90(2), where the government has entered into a tax treaty with any jurisdiction, the provisions of the ITA would apply only to the extent it is more beneficial to the taxpayer to whom such treaty

applies. Hence, where the nature of income is not defined or taxability of such income is not determined as per relevant treaty provisions, the provisions of the ITA cannot be imported for defining the income or taxability of such income. The need for importing the meaning of the term from the ITA arises, only where the term is provided in the tax treaty.

Further, the ruling also highlighted the residual clause under Article 22 of the India-UAE DTAA which deals with income not expressly dealt in other Articles 5 to 21. In such instance, the rights of taxation of such income should be in the taxpayer's jurisdiction in accordance with Article 22 of the DTAA. It was ultimately held that in the absence of any Article in the DTAA dealing in FTS, the payment should be classified as business income as per Article 7 of the DTAA. However, in the absence of PE in India, the income would not be taxed in India and consequently not liable for TDS u/s. 195 of the ITA. Thus, the Bench ordered for deletions of the additions made and consequential demand.

This ruling strengthens the position that one cannot derive the definition of income from the ITA in the absence of specific income classification in the tax treaty.

Foreign Ruling

Taxability of payments attributable to 'right to work' as defined in the tax treaty and not merely 'right to receive'

Royal Bank of Canada Vs. Commssioner of His Majesty's Revenue and Customs [(2023) EWCA Civ 695 – Order dated 12 February 2025]

The issue in this case revolved around the payments received by the taxpayer and the allocation of taxing rights between UK and Canadian jurisdiction regarding oil exploration agreement in UK. It highlights the importance of Article 6 of UK-Canada DTAA in this case. The provisions of Article 6(2) of UK-Canada DTAA deals with the 'Income from Immoveable property' which deals with rights to variable or fixed payments "as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources"

Sulpetro Ltd ('Sulpetro (Canada)'), a Canada based Company owned a UK subsidiary Sulpetro ('Sulpetro (UK)'). Sulpetro UK was granted license by UK government to explore oil in the Buchan Field in the North Seabed. Sulpetro (Canada) funded and provided the required expertise to carry the licensed work. Further, Sulpetro (Canada) obtained a significant amount of loan from the taxpayer to fund the arrangement. In exchange for the fund provided by Sulpetro (Canada), Sulpetro (UK) agreed that the oil explored should belong to Sulpetro (Canada). As per the share purchase agreement, BP Petroleum Development Ltd ('BP') acquired the rights from Sulpetro (UK) to explore and extract the oil. Thereafter, BP promised to make contingent payments to Sulpetro (Canada) based on stipulated pricing. Due to financial difficulties faced by Sulpetro (Canada), the taxpayer (the primary creditor of loan) stepped into the shoe of Sulpetro (Canada) and ultimately acquired the right to receive the payments from BP.

The issue emanated from the fact that His Majesty's Revenue and Customs (HMRC) contended that these payments received by the taxpayer fall within the purview of Article 6(2) of the UK-Canada DTAA. Further the domestic provisions on which HMRC relied was section 1313 of Corporation Tax Act, 2009. Pursuant to which, the payments were taxable in UK as they were income arising from the rights to the exploration activities from the oilfield.

Important Updates

Accordingly, UK was conferred the taxing rights in relation to the payments received.

The First-tier Tribunal and Upper Tribunal upheld HMRC's position. On appeal by HMRC before the SC, the taxpayer highlighted that the payments it received were merely a financial arrangement and not consideration for a "right to work" as defined in Article 6(2). The right to work refers to the direct operational / exploration rights which the taxpayer did not have. The SC ruled that the payments did not emerge from the "right to work" as defined in Article 6(2) of UK-Canada DTAA. There was no applicability as per domestic law provisions, since the payments related to financing arrangement rather than involving in exploration activities. Accordingly, the taxability was not within the UK domain.

The Supreme Court's ruling has put to rest the controversy around taxability of cross border financing arrangement in the absence of direct exploration rights.

Indian Updates

Government notifies protocol amending India-Oman DTAA

The Indian MoF has officially announced the entry into force of a Protocol amending the DTAA between the Republic of India and the Sultanate of Oman which is signed on 27 January 2025 in Muscat. The Protocol became effective from 28 May 2025 following the completion of necessary domestic procedures by both nations. The amended provisions will apply to income derived in any fiscal year beginning on or after April 1 following the Protocol's entry into force in India, and in any tax year following the entry into force in Oman.

Key changes include updated definitions for "competent authority" and "tax year," revised rules for determining residency for non-individuals, a reduction in withholding tax rates on royalties and technical fees from 15% to 10%, removal of tax-sparing credit and the introduction of new articles on non-discrimination, assistance in the collection of taxes and entitlement to benefits. These amendments aim to prevent fiscal evasion and ensure fair taxation between the two countries.

Foreign Updates

Malaysia unveils venture capital incentives to stimulate start up investments

Malaysia's government has introduced tax incentives to strengthen the venture capital ecosystem and encourage investment in local startups.

Eligible venture capital fund entities investing at least 20% in Malaysian startups will enjoy a 5% concessionary tax rate for up to 10 years. Additionally, registered venture capital (VC) and private equity management (PE) companies registered with the securities commission will benefit from 10% tax rate, subject to specific conditions. This initiative aims to attract more capital and to support the growth of Malaysia's startup sector.

The USA senate passed 'Big Beautiful Bill'; introduced 1% remittance tax on non-citizen

The USA Senate's revised 'One Big Beautiful Bill Act' offers relief to NRIs by reducing the proposed remittance tax rate from 3.5% to 1% on overseas transfers made by the non-citizens of the USA. Transfers from accounts held at the USA banks, other financial

Important Updates

institutions and via debit and credit cards issued in the USA are exempt from the proposed remittance tax. This means that 1% tax will now apply only on remittances made in cash, a money order, third party agents or a cashier's check.

This tax, impacting non-citizens, is set to apply only to transfers made after 01 January 2026, potentially affecting remittances to countries like India.

Under the bill, only non-citizens including highly skilled professionals, students, and green card holders would be subject to the remittance tax. The New bill inter-alia encompasses provisions on changes in the tax rates, tax deductions, creation of funds for children, national defense and deportation, and termination of tax credits to EVs, and reduction of clean electricity production tax credits.

Oman Introduces Personal Income Tax Law effective from 2028

Oman announces the introduction of Personal Income Tax effective from 1st January 2028. On 22 June 2025, Oman issued Royal Decree No. 56/2025 promulgating Oman's Personal Income Tax Law. The law published on 29 June 2025 will come into effect from 1 January 2028.

The law introduces a 5% income tax on natural persons whose annual gross income exceeds OMR 42,000. The scope of taxation shall apply to the global income of the tax residents of Oman and to the income of non-residents earned within Oman – require to report the same by electronic filing of return within 6 months from the end of the tax year, being 31 December.

The taxable income shall include income from salary, business income, rental income, royalties, interest, dividends, capital gains, retirement benefits, prizes and awards, donations, and bonuses linked to board or council membership. Standard deduction of taxable income has been provided for each category. The other provision covered under the new personal tax regime includes carry forward and set off of loss, foreign tax credit, withholding tax and tax assessments.

New income tax credit introduced for foreign investors reinvesting dividends in China

On 27 June 2025, the Chinese tax administration has introduced a new tax incentive for foreign investors, who reinvest profits (dividends) distributed by Chinese resident enterprises into qualified domestic direct investments during the period from 1st January 2025 to 31st December 2028 and meet prescribed conditions, will be granted a tax credit.

Conditions to qualify for tax credits on reinvestment includes: (i) Direct investments (exceptions include capital increases of listed companies, conversions into share capital, or share acquisitions of affiliated companies). (ii) The business scope of the invested company must be listed in the "Catalogue of Industries Promoted for Foreign Investment". (iii) The reinvestment must be held for at least 5 years. (iv) The capital must be transferred directly to the account of the invested company or the seller of the shares – no other accounts may be used as intermediaries.

The tax credit amount shall be equal to 10% of the reinvestment amount (or the preferential dividend tax rate specified in the applicable tax treaty, if lower than 10%). The tax credit may be used to offset the foreign investor's corporate withholding tax arising from dividends, interest,

Important Updates

royalties and service fees paid to foreign investors after the reinvestment date. Any unused portion of the tax credit may be carried to subsequent years. If the reinvestment is withdrawn within 5 years – shall attract tax consequences.

Georgia introduces tax benefits for innovative Startups, SMEs, and R&D service providers

Georgia has introduced new tax incentives to support innovative startups, SMEs, and R&D service providers through recent amendments to the Tax Code and the Law on Innovations.

Under these Laws, Innovative startups can enjoy these tax benefits for 10 years (subject to certain conditions). For the first three years, salaries paid by the innovative startup (within government-set limits) will be exempt from individual income tax. In the next three years, a reduced 5% tax rate will apply to both individual income and corporate taxes. For the final four years, the personal and corporate tax rates will increase to 10%.

For Innovative SME, the tax incentive includes – When paying dividends, profit tax base may be reduced by three times the previous year's R&D costs. Further, R&D service providers will also benefit from the tax incentives. Salaries from an R&D service provider will be taxed at 5% individual income tax, while the company will pay a 5% corporate income tax. These changes will take effect from 27 September 2025.

Contributed by *Mr. Dhaval Trivedi, Ms. Shradha Khemka, Ms. Rakhi Maiti, Mr. Vishal Sangtani, Ms. Richa Naik and Ms. Gestina Prasad*

For detailed understanding or more information, send your queries to ***knowledge@kcmehta.com***

Important Rulings

Use of Berry ratio is not suitable in case of manufacturing entities

Vaibhav Global Limited [TS-391-ITAT-2025(JPR)-TP]

The taxpayer was engaged in manufacturing / processing of jewellery and precious stones. The said activity encompassed the import of gemstones, rough diamonds & other raw material as well as export of gemstones, and studded jewe llery. The taxpayer used the 'Gross Profit / Cost of Production' as the relevant Profit Level indicator ('PLI') for benchmarking the transactions of import and export of goods.

The taxpayer's case was selected for scrutiny in respect of which the transfer pricing officer ('TPO') applied the 'Operating profit / Value added expenses' ignoring the material cost in the cost base, thereby making an upward adjustment to the taxable income of the taxpayer/

Aggrieved by the TPO's action, the taxpayer preferred an appeal before the Dispute Resolution Panel ('DRP'), which upheld the actions of the TPO. Aggrieved by the TPO's and DRP's directions, the taxpayer made an appeal before the Hon'ble Jaipur ITAT.

The Jaipur ITAT considering the facts of the case held that the use of Berry Ratio especially with respect to value added expenses as the denominator is generally applied in case of simpliciter functions such as procurement or distribution of finished goods wherein the value of the products procured does not plays a significant role in the profitability of the business activities.

Samsung SDI India Pvt. Ltd [TS-415-ITAT-2025(DEL)-TP]

The taxpayer was engaged in manufacturing and trading in Battery packs used in mobile phones. The taxpayer was engaged undertook manufacturing activities for only 1 month and then shifted to undertaking trading activities. The taxpayer considered Berry ratio as the PLI for the purpose of benchmarking trading activity.

The taxpayer's case was selected for scrutiny in respect of which the transfer pricing officer rejected the Berry ratio considered by the taxpayer as PLI, thereby making an upward adjustment to the taxable income of the taxpayer.

Aggrieved by the TPO's action, the taxpayer preferred an appeal before the Dispute Resolution Panel ('DRP'), which upheld the actions of the TPO. Aggrieved by the TPO's and DRP's directions, the taxpayer made an appeal before the Hon'ble Delhi ITAT.

The salient features of the trading activity undertaken by the taxpayer was:

- Taxpayer purchased from a single vendor and sold to single customer on an order to order basis
- The goods never come to the inventory of the taxpayer and are nor stored in warehouse of taxpayer
- Both the seller and buyer are pre-determined and prices of the good i.e. mobile battery is pre-fixed
- The taxpayer only provides logistics and certain administrative functions

Hence, the role of the taxpayer is limited. In this process, the taxpayer has made no value addition to the goods and kept his margin to meet out the cost incurred such as transportation, handling and certain administrative charges. Hence, the taxpayer can be termed to be a low risk distributor.

Important Rulings

Basis the above, the Hon'ble Delhi ITAT upheld that the function of the taxpayer being a low risk distributor can be considered an appropriate case to apply Berry ratio as PLI

Reader's focus:

Time and again, the root cause of transfer pricing controversy stems from the viewpoint of the tax advisors and the revenue authorities with respect to the intensity of the functions performed which can be traced to a certain extent in the profit and loss statement of the tested party.

Coming to the use of Berry Ratio i.e., Gross profit / Value added expenses, which was developed by the Prof. Charles Berry focused on the use of berry ratio for the distributors wherein the return was purely attributed to the value-added distribution activities and which was denoted completely by the operating expenses of the distributor. Therefore, it was held that the use of berry ratio is suitable in case of limited risk distributors or service providers which do not use non-routine intangibles which might indicate a direct relation between the gross profit and value-added operating expenses.

Berry ratio generally cannot be used in case of manufacturers. This can be understood with a suitable example which is discussed hereinafter.

Example:

Let's say the taxpayer (T Ltd.) is engaged in manufacturing of X product and its comparable company (i.e., C Ltd) also manufactures the X product and both the entities import the goods and sell the goods in the same region. The only point of differentiation is the type / state of material / goods in which they are procured by both the entities. While T Ltd. procures the raw material for making X product in its most basic form, C Ltd. procures the goods in a semi-finished state. The cost structure both the entities is provided below:

Particulars	T Ltd.	C Ltd.
Material cost (basic form) (A)	50	-
Material cost (semi-finished form) (B)	-	200
Processing charges (basic form to finished good) (C)	200	-
Processing charges (WIP to finished goods) (D)	-	50
Production cost (E = A + B + C + D)	250	250
Other operating expenses (F)	100	100
Total cost (G = E + F)	350	350
Selling price (H)	400	400
Net Profit (I = H - G)	50	50
Gross Profit (Selling price – Production cost) (J = H – E)	150	150

Important Rulings

Particulars	T Ltd.	C Ltd.
Value added expenses (processing charges + other op. expenses) (C + D + F)	300	150
Gross profit	150	150
Berry Ratio (Gross profit / value added expenses)	50%	100%

In the above case, if one were to compute the berry ratio in manufacturing industry after including the other operating expenses & processing charges and ignoring the material cost then the same would lead to a conclusion that T Ltd. earns lesser profits than C Ltd (i.e., comparison of 50% with 100%). This is due to the fact that T Ltd incurs substantial expenses in terms of processing charges as it procures the material in its very raw form whereas C Ltd procures the material in a finished state which though expensive leads to lesser expenses in terms of processing charges.

Considering the detailed discussion in the foregoing paras, the use of berry ratio in case of a manufacturer can lead to absurd results. As a result, berry ratio is best applied in case of distributor simpliciters where the value of material does not determine the profitability of the tested party.

Payment of commission to agents in Multi-level marketing schemes should not be included in AMP expenditure

Amway India Enterprises Pvt Ltd [TS-403-ITAT-2025(DEL)-TP]

The taxpayer was engaged in distribution of consumer related healthcare products by employing a multi-level marketing channel. The multi-level marketing channel involved numerous individuals who enrolled with the taxpayer who were remunerated by way of commission on sale of products as well as for including more agents which may contribute to increased sales in the future. The taxpayer's case was selected for scrutiny by the TPO which held that the payment of commission to the individual commissionaire agents was towards promotion of the brand which was held by the foreign associated enterprise. Accordingly, such expenditure should have been recovered by the taxpayer from its AE as held to be incurred towards advertisement, marketing and promotion expenses ('AMP') on behalf of the AE.

Aggrieved by the TPO's contention, the taxpayer appealed before the DRP which upheld the actions of the TPO. Again, aggrieved by the TPO as well as the DRP's directions, the taxpayer appealed before the Hon'ble Delhi ITAT.

The Delhi ITAT while examining the issue referred to its own ruling in taxpayer's case for the previous year, wherein it was held that payment of commission to the numerous individuals was in the nature of expenses which was incurred for the enhancing or incentivizing the distributors base which would result into increased sales and was not with the only intention of promoting the foreign brand. Therefore, Delhi ITAT held that payment of commission to the individuals by the taxpayer shall not be included in the definition of AMP expenses.

Important Rulings

Reader's focus:

The expenditure towards sales can be classified broadly into two categories: i.e.,

i. Direct selling expenses: Those expenses which can be specifically identified and attributed to the sales of a particular product, service, order, or customer. These may include courier charges, shipping charges, freight expenses, special packaging expenses, travelling expenses directly attributable to a customer or sales call, sales commission paid for enabling a sale, etc.
ii. Indirect selling expenses: These expenses are not linked to a specific sale or product but support the overall sales process across the entire business. These may include office rent for the marketing team, general travelling expenses, **advertising and promotional costs, as advertising aims to increase overall brand awareness,** etc.

The direct selling expenses are not incurred towards the promotion of the brand but are directly linked to the product or service line which can be identified on a per diem basis which indicates that the expenditure so incurred is not for the promotion of the brand but for the promotion of the sales which may or may not include the incidental promotion of the brand.

Further, in the present case, the peculiar nature of the expenditure i.e., payment of commission directly to the individuals which comprise of the distribution network though unusual can be attributed towards expansion, enhancement and incentivizing the distribution chain across India and not towards promotion of the foreign brand.

Contributed by

Ms. Stuti Trivedi, Mr. Gunjan Shah and Mr. Nitin Chaudhary

For detailed understanding or more information, send your queries to ***knowledge@kcmehta.com***

Important Updates

GST Portal Updates and Advisory

Advisory regarding filing appeal against SPL-07 waiver rejection orders

The GSTN has issued an advisory for the enablement of functionality on the GST portal for filing appeals against rejection orders issued in Form SPL-07, which pertain to waiver applications filed by taxpayers through Form SPL-01 or SPL-02. These waiver applications relate to the waiver of late fees or penalties. Taxpayers who receive a rejection order in Form SPL-07 from the jurisdictional authority may now file an appeal using Form APL-01 on the portal.

To file an appeal, taxpayers must navigate to:

Services → User Services → My Application,- select "Appeal to Appellate Authority" as the application type and click on New Application. In the appeal form, they must choose the order type as "Waiver Application Rejection Order" and complete the required details before submitting the appeal.

It is critical to note that once an appeal under the waiver scheme is filed, it cannot be withdrawn, and hence, taxpayers are advised to exercise due caution before initiating such appeals.

Furthermore, taxpayers who decide not to appeal against the waiver rejection (SPL-07) but instead wish to restore their original appeal (previously withdrawn to seek a waiver) may do so by filing an undertaking. This undertaking option is available in the "Orders" section under the "Waiver Application" case folder.

Advisory on system-generated GSTR-3A notices to cancelled composition taxpayers

The GSTN, through its advisory dated July 20, 2025, has acknowledged that certain composition taxpayers whose registrations were cancelled prior to FY 2024–25 have erroneously received GSTR-3A notices for non-filing of GSTR-4 due to a technical glitch. It is clarified that no action is required from taxpayers who have already filed GSTR-4 or whose registrations were cancelled before the said financial year. Further it is also clarified that, corrective measures are being taken to address this issue.

This advisory brings clarity and relief to affected taxpayers. Professionals should confirm registration status and filing history before acting on such notices.

Circulars

Timely submission of physical verification reports in GST high-risk registration cases

The circular number is F.IV/42/T&T/Admn./Misc./2025/8464-67. – Delhi Government]

The Delhi Department of Trade and Taxes has issued this circular to address recurring issues with physical verification processes for GST registrations flagged as 'High Risk Score'. The department has observed that several GST Inspectors (GSTIs) and field functionaries are either submitting verification reports beyond prescribed timelines or providing inadequate reports with remarks claiming jurisdictional issues regarding addresses mentioned in Application Reference Numbers (ARNs).

The Competent Authority has taken serious cognizance of such lapses and has issued clear directives mandating that assigned GSTIs must compulsorily conduct physical verification visits and submit comprehensive reports within stipulated deadlines. The circular emphasizes zero tolerance for dereliction of duty, with explicit warnings that any deviation from prescribed procedures will attract strict disciplinary action under applicable service rules.

Important Rulings

Judicial updates

SC dismisses revenue's SLP challenging grant of IDS refund under modified rule 89(5)

Union Of India & Ors. v/s M/s Tirth Agro Technology Pvt. Ltd. & Ors [SLP (CIVIL) Diary No.31632/2025]

The Gujarat High Court allowed refund claims under the inverted duty structure (IDS) by applying the amended formula prescribed in Rule 89(5) of the CGST Rules, as introduced by Notification No. 14/2022 dated 05.07.2022. The Department had denied differential refund on the ground that the amendment was prospective in nature, following CBIC Circular No. 181/13/2022-GST dated 10.11.2022. However, the High Court, relying on its earlier ruling in Ascent Meditech Ltd., held that the amended formula was clarificatory and curative, and therefore must be applied retrospectively to refund applications filed within the limitation period under Section 54(1) of the CGST Act.

The petitioners had submitted refund claims prior to the amendment but later filed rectification applications seeking recalculation as per the amended formula. The High Court quashed the Department's rejection orders and clarified that the amended Rule 89(5) applies retrospectively. It also held the CBIC Circular, to the extent it treated the amendment as prospective, to be contrary to the Act and therefore invalid.

The Union of India filed a Special Leave Petition (SLP) before the Supreme Court challenging the Gujarat High Court's ruling. However, the Supreme Court dismissed the SLP on 18.07.2025, observing that the Revenue had already failed in a similar SLP against the Ascent Meditech judgment and that this fact was not disclosed in the present petition. The Court declined to interfere, thereby affirming the High Court's decision on the retrospective application of the amended refund formula.

The judgment reinforces the principle that remedial amendments intended to cure defects in statutory formulas are to be treated as clarificatory and thus operate retrospectively. This is a welcome relief for taxpayers affected by the earlier flawed formula under Rule 89(5), which excluded input services in IDS refund calculations. The High Court's interpretation ensures equity between taxpayers who filed refund claims before and after the amendment. With the Supreme Court dismissing the SLP, the retrospective benefit now stands settled, and eligible taxpayers should act promptly to file rectification or supplementary refund claims within the prescribed timelines. This decision also establishes judicial precedence overruling contrary departmental circulars when they are inconsistent with statutory provisions.

Karnataka high court holds no IGST on genuine secondment where employer-employee relationship exists

M/s. Alstom Transport India Ltd. vs. Commissioner of Commercial Taxes & Ors [Writ Petition No.1779 OF 2025 (T-RES)]

The petitioner, engaged in infrastructure services for rail and metro projects, had availed the services of expatriate employees deputed by its foreign affiliates between July 2017 and March 2023. These secondees were placed on the payroll of the petitioner, subject to Indian TDS and employment regulations. Although social security benefits were initially provided by the foreign entities, such expenses were reimbursed without markup, and no invoices were raised. However, the department issued IGST demands amounting to approximately ₹57.95 crore, treating the arrangement as import of "manpower supply services.

Important Rulings

Petitioner's by relying on CBIC Circular No. 210/4/2024-GST dated 26.06.2024 and the Delhi HC ruling in Metal One Corporation India Pvt. Ltd., it was argued that the relationship between the petitioner and the seconded employees was one of employer and employee, covered under Entry 1 of Schedule III of the CGST Act (non-taxable). Further, since no invoices were raised and full ITC was available, the open market value must be treated as 'Nil' under Rule 28 of the CGST Rules

Departments on the other hand contended that, as per the Notification No. 10/2017-IGST (Rate), secondment constitutes manpower supply from a foreign non-taxable territory, and IGST was payable under RCM. They emphasized the foreign company as the service provider and the Indian entity as the recipient.

The Karnataka High Court held that the secondment arrangement did not amount to a taxable supply of manpower services under GST. Distinguishing the facts from the Supreme Court's ruling in Northern Operating Systems Pvt. Ltd., the Court emphasized that the expatriate employees were under the exclusive administrative and functional control of the petitioner, were on its payroll, and received salaries directly from the Indian entity after deduction of TDS. Relying on paragraph 3.7 of CBIC Circular No. 210/4/2024-GST dated 26.06.2024, the Court noted that since no invoices were raised and full input tax credit was available, the value of the services must be deemed as 'Nil' under Rule 28(1) of the CGST Rules. The Court also replied on the Delhi High Court's reasoning in Metal One Corporation [2024 DHC 8298 DB], holding that such secondment arrangements, supported by a genuine employer-employee relationship, fall within the exclusion under Schedule III of the CGST Act and are not liable to IGST under reverse charge. Accordingly, the writ petition was allowed, and the IGST demand of ₹57.94 crore along with interest and penalties was quashed.

This judgment reinforces a essential principle under GST law that the nature of control and contractual structure in secondment arrangements is determinative of tax liability. The Court's reliance on the CBIC's latest circular and its alignment with the Delhi HC's view in Metal One Corporation provides significant relief to taxpayers facing retrospective demands. The taxpayer must, however, ensure robust documentation, especially employment agreements and payroll compliance to substantiate employer-employee relationships in secondment scenarios.

Extension of Time Limit for issuance of SCN under Notifications 9/2023 and 56/2023 is held ultra vires.

Tata Play Limited vs Union of India

[Hon'ble Madras High Court W. P. Nos. 17184, 22511, 22516, 34667, 36344, 36347, 36599, 36604 of 2024]

The batch of writ petitions challenged the validity of Central Government Notifications Nos. 9/2023 and 56/2023 issued under Section 168A of the CGST Act, 2017. These notifications extended the limitation period for issuance of show cause notices (SCN) and passing adjudication orders under Section 73(10) for financial years 2017-18, 2018-19, and 2019-20, purportedly due to the impact of the COVID-19 pandemic (force majeure).

Petitioners contended that the notifications were ultra vires the CGST Act as the required conditions precedent actual impossibility of

compliance due to force majeure were not genuinely present when the notifications were issued, and the mandatory prior recommendation of the GST Council was absent or only ratified post facto.

The department argued that the pandemic had necessitated the extension, and procedure adopted via the GST Implementation Committee (GIC) and subsequent Council ratification was valid. They also relied on the Supreme Court's suo motu extension of limitation to justify the notifications.

The High Court, however, found that Section 168A is an exception to the legislative policy on limitation, necessitating strict construction. The Court held that the requisite proximate causal link between COVID-19 and the impossibility of action was missing by the time the impugned notifications were issued. Moreover, the recommendations by the GIC could not substitute those of the GST Council, nor could subsequent ratification cure the procedural defect. Importantly, the court noted that the computation of the limitation period, as governed by the Supreme Court's own exclusion orders, already gave authorities more time than what these impugned notifications provided, and that the notifications in fact diminished the limitation, contrary to the object of Section 168A. Thus, the notifications were declared ultra vires and adjudication/orders based thereon were set aside, with all matters remanded to the assessing authorities for de novo consideration

The Madras High Court, in striking down GST Notifications 09/2023 and 56/2023, reaffirmed that extensions of limitation under Section 168A of the CGST Act must be grounded in a genuine and proximate force majeure event, such as the COVID-19 pandemic, and must be preceded by a valid recommendation of the GST Council. The Court held that mere administrative delays or post-pandemic procedural lapses do not constitute sufficient grounds for such extensions. Notably, this decision highlights a significant judicial divergence, as the Kerala and Telangana High Courts have upheld similar extensions citing continued pandemic-related disruptions, while the Gauhati, Bihar, and Madras High Courts have insisted on strict procedural and statutory compliance. With a Special Leave Petition currently pending before the Supreme Court in the case of M/S HCC-SEW-MEIL-AAG JV vs. ASSISTANT COMMISSIONER OF STATE TAX [SLP No 4240/2025] tentatively case may be listed on - 22-08-2025 (Computer generated as per SC website), an authoritative ruling is expected to bring uniformity and legal clarity on the validity of such extensions across jurisdictions.

Chartered Accountant certificate valid for transaction genuineness even if not from supplier:

M/s.JIT Auto Comp v/s Assistant Commissioner, Hosur Division II,

[W.P.No.16474 of 2024 and W.M.P.Nos.18033 & 18034 of 2024]

The petitioner, an auto component manufacturer, faced a show cause notice and an adverse assessment for availing excess ITC during July 2017–March 2020, based on mismatches between GSTR-2A data and ITC claimed in GSTR-3B. The department treated the case as one involving fraudulent ITC availment under Section 74, primarily because the petitioner failed to submit a CA certificate from the supplier due to the supplier's liquidation status.

The petitioner, however, submitted a certificate from its own Chartered Accountant, confirming

receipt of goods and payment (including GST) to the supplier. The petitioner also offered to deposit the disputed tax if the matter was remanded for reconsideration.

The department argued that, since the certificate from the supplier was not furnished and documentary evidence to explain the ITC differences was lacking, invocation of Section 74 (fraud/wilful misstatement) was justified.

The Court held that, in the absence of any proven fraud or misrepresentation, the mere inability to submit a supplier's certificate especially when the supplier is under liquidation and alternative evidence such as a CA certificate from the recipient is provided does not justify proceedings under Section 74. The Court noted that the proceedings were mechanically initiated without genuine application of mind to the evidence submitted by the petitioner, including the Chartered Accountant's certificate confirming the genuineness of the transaction. The Court set aside the impugned assessment order, directed the department to treat the matter as one under Section 73 (non-fraud cases), and remanded it for fresh consideration subject to the petitioner depositing the disputed tax amount within two weeks.

This judgment reaffirms the GST law's distinction between fraudulent intent (Section 74) and bona fide procedural lapses (Section 73), and provides a safeguard for genuine taxpayers unable to procure supplier-side documents due to circumstances like liquidation. It also emphasizes that the authorities must carefully consider all relevant evidence and not mechanically invoke penal provisions in the absence of explicit fraud or wilful misstatement. This decision offers important relief and clarity for recipients facing documentary limitations when the supplier is no longer traceable or operational.

Issuance of consolidated show cause notices across years is not valid

R A and Co vs The Additional Commissioner of Central Taxes, South Commissionerate

[Hon'ble Madras High Court W.P.No.17239 of 2025 and & W .M.P.Nos.19530 of 2025]

The petitioner, a taxpayer, challenged the legality of a single consolidated Show Cause Notice (SCN) and assessment order issued by GST authorities for six financial years (2017-18 to 2022-23). The petitioner argued that such a composite SCN covering several years impairs their ability to contest year-specific issues, avails statutory schemes, or respond adequately within the limitation period applicable to each year. The case centered on whether the GST Act permits the issuance of a consolidated SCN for multiple financial years or mandates separate proceedings for each tax period.

The petitioner contended that Sections 73 and 74 of the CGST Act, 2017 clearly contemplate issuance of notices for specific tax periods either monthly or annually and each financial year is a distinct tax period with its own limitation timeline. Composite demands, therefore, frustrate statutory safeguards, particularly those under Sections 73(10) and 74(10), which prescribe year-wise limitation. They further argued that clubbing years prejudices their rights in appeals, compounding, and amnesty scheme availment, and creates undue hardship.

The Department contended that the Act does not expressly prohibit issuing SCNs for blocks of years and that the phrase "any period" in Sections 73/74 allows clubbing. They asserted

practical convenience and argued that since "tax period" could include several months or years, issuing a single notice is permissible

The Court undertook a detailed reading of the statutory provisions and definitions of "tax period" and "return" under the GST Act. It held that the Act recognizes each financial year as a separate tax period, and the strict limitation prescribed by Sections 73(10)/74(10) applies independently for every financial year. Clubbing multiple financial years within a single SCN and adjudication was found inconsistent with the statutory scheme, as it bypasses year-wise limitation and prejudices taxpayer rights. The Court confirmed that such bunching of SCNs for more than one financial year is impermissible in law. It quashed the impugned consolidated order, supporting the requirement for year-wise notices and adjudication.

This judgment upholds procedural fairness within GST adjudication. By insisting on year-wise SCNs and orders, it safeguards taxpayers' substantive and procedural rights, including the opportunity for specific appeals, and participation in statutory schemes. The ruling aligns with the limitation structure of the GST law and prevents jurisdictional excesses by the tax authorities.

Apex Court admits revenue's SLP to hear against Kerala High Court's judgement striking down constitutional validity of section 7(1) (aa) through amendment (Finance Act, 2021)

Union Of India & Ors. V/s Indian Medical Association & Anr.

[W.A. No. 1659 of 2024]

The taxpayer has challenged the constitutional validity before the Keral HC for the Section 7(1)(aa) of the Central Goods and Services Tax (CGST) Act, 2017, which was inserted retrospectively by the Finance Act, 2021. This provision sought to include transactions between associations and their members within the ambit of "supply" for GST purposes.

In a landmark judgment, the Hon'ble Kerala High Court applied the doctrine of mutuality, asserting that an association and its members are not two distinct persons. In the absence of two distinct parties, the Court held that there is no "supply" under GST law and, therefore, no tax liability arises on such transactions. The Court further held that retrospective GST claims (pre-judgment) against Resident Welfare Associations (RWAs) are unconstitutional and can be challenged unless the Constitution is amended by Parliament. As a result, supplies by RWAs and housing societies to their members are not taxable under GST, and retrospective GST demands are invalid. The doctrine of mutuality remains upheld, and the retrospective insertion of Section 7(1)(aa) via the Finance Act, 2021, was declared unconstitutional.

The Revenue has filed a Special Leave Petition (SLP) challenging this judgment before the Supreme Court. The central issue is whether services provided by RWAs and housing societies to their members are liable to GST or whether the principle of mutuality exempts such transactions. The Supreme Court, while agreeing to hear the matter in September 2025, has clarified that no recovery action shall be taken against taxpayers for the past period.

This case has significant implications for RWAs, clubs, and cooperative societies across India. The Supreme Court's eventual decision may redefine the GST treatment of member-based

services and shape future legislative and administrative policies in this area.

A detailed analysis of the Kerala High Court judgment including the factual background, key arguments, and judicial observations can be found in the KCM Flash newsletter – https://www.linkedin.com/posts/kcmllp_kcmflash-gst-customs-activity7322926937742499842olef?utm_source=share&utm_medium=member_desktop&rcm=ACoAAAlSZOABU0Ku27v3clqw2I7bUzz_iogmCJs .

Foreign Trade Policies

Circulars

DGFT clarifies no mandatory warehousing for goods shipped before authorisation under FTP 2023

[Policy Circular No. 02 /2025-26 - dated 22nd July 2025]

The Directorate General of Foreign Trade (DGFT) has issued Policy Circular No. 02/2025-26, dated 22nd July 2025, to address operational difficulties in the interpretation of Para 2.12 of the Foreign Trade Policy (FTP) 2023. Para 2.12 permits the customs clearance of goods that have been imported, shipped, or arrived prior to obtaining an import authorisation, provided these goods are yet to be cleared from customs. Previously, several customs authorities were insisting on the mandatory warehousing of such goods even in cases where the import authorisation was obtained before customs clearance resulting in additional costs and delays for importers.

The latest circular clarifies that if an import authorisation is received after the date of shipment (as per Bill of Lading) but before the goods are cleared from customs, importers are not required to warehouse the goods as a procedural formality. Goods may be cleared for home consumption directly against the subsequently issued authorisation, unless the goods are 'Restricted' items or are traded through State Trading Enterprises (STEs), in which case this relaxation does not apply unless specifically approved by the DGFT.

This clarification streamlines the import clearance process, removes unnecessary procedural hurdles, and supports ease of doing business by minimising warehousing costs and administrative delays. Importers and professionals should note that the relaxation is strictly unavailable for restricted items and STE-traded goods, where warehousing or special DGFT permission remains necessary.

Continuation of MOOWR Scheme Application Facility

[Circular No. 19/2025 Customs - dated 23rd July 2025]

The Central Board of Indirect Taxes & Customs (CBIC) has issued Circular No. 19/2025 to reinstate and continue the online application facility under the Manufacture, Other Operations and Maintenance of Warehoused Goods for Export (MOOWR) Scheme via the Invest India portal (https://www.investindia.gov.in/bonded-manufacturing). This circular withdraws the earlier Circular No. 18/2025 (dated 22nd July 2025), which had discontinued the portal-based filing and directed applicants to submit MOOWR applications by email to the jurisdictional Commissionerate's.

Under Circular No. 19/2025, applications submitted online under Sections 58 and 65 of the Customs Act, 1962 will be accepted and

Important Updates

processed by the relevant customs authorities through the existing Invest India portal until 31st October 2025. This ensures operational ease and continuity for applicants and stakeholders by avoiding disruptions in the digital filing process. The circular also mentions that a new electronic system for MOOWR application submission is being developed, and details regarding its rollout and transition will be communicated separate.

Contributed by

Mr. Bhadresh Vyas, Mr. Vimarsh Munsif, Ms. Vidhi Mankad and Mr. Basavaraj M

For detailed understanding or more information, send your queries to ***knowledge@kcmehta.com***

Important Updates – RBI / FEMA

Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025

RBI/2025-26/40 A.P. (DIR Series) Circular No. dated 06 May 23, 2025

Loans from Regulated Entities ("REs") are the oil in the engine which keeps the businesses of small and medium enterprises running. As has been seen over the past few decades, individuals have also been actively availing loans for purchases including immovable property in form of housing loans to car loans and other general purpose loans such as higher education loans for self and children.

Reserve Bank has seen that not only have the REs been imposing hefty penalties on pre-payment of loans by borrowers but also putting restrictive covenants in loan agreements to deter borrowers from switching lenders or availing lower interest loans.

To put an end to this malpractice generally followed by REs, the Reserve Bank has introduced the Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025 which will be applicable on all loans and advances, implying on both term loans and demand loans.

The key features of the Directions are as follows:

- Applicable to all commercial banks (excluding payments banks), co-operative banks, NBFCs and All India Financial Institutions
- Discontinuance of levy of prepayment penalty on all floating rate loans and advances including
  a. All loans granted for purposes other than business to individuals, with or without co-obligant/(s)
  b. For all loans granted for business purpose to individuals and MSEs, with or without co-obligant(s):
     I. Small Finance Bank, Regional Rural Bank, NBFC- Middle Layer may levy pre-payment penalty in loans in excess of 50 lakhs
     II. No prepayment penalty to be levied by Commercial Bank, Cooperative Bank, NBFC – Upper Layer and all India Financial Institution on any quantum of loan
- The levy of prepayment penalty will not depend on source of funds with no minimum lock in period
- For cases of loans other than mentioned above, prepayment penalty may be levied based on approved policy of RE
- No penalty to be levied in case of early closure or non renewal of cash credit / overdraft facilities prior to period stipulated in loan agreement
- No prepayment penalty where the said facility is prepaid at the insistence of the RE
- Whether prepayment penalty will be levied or not by the RE has to be disclosed in the sanction letter and loan agreement
- No prepayment charges will be levied with a retrospective effect where the RE has earlier waived of such penalty

Effective date: January 01, 2026

Important Updates – RBI / FEMA

Master Direction - Reserve Bank of India (Rupee Interest Rate Derivatives) Directions, 2025 – Draft

Circulated on June 26, 2025

Reserve Bank of India ("RBI") has circulated draft directions on Rupee Interest Rate Derivatives ("IRDs") for comments from various stakeholders. These Directions will replace the Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 notified vide RBI/2018-19/222 FMRD.DIRD.19/14.03.046/2018-19 dated June 26, 2019, as amended from time to time.

Some of the key changes being introduced vide the new Master Directions are as follows:

1. Addition to the Definitions: The list of definitions has been made more expansive to include the following such as:
   a. 'back to back arrangement' means an arrangement under which an overseas entity (including overseas branches, IFSC Banking Units (IBUs), wholly owned subsidiaries or joint ventures of market-makers) undertakes a transaction with a non-resident and immediately enters into an off-setting transaction with the market-maker in India.
   b. 'Interest Rate Derivative' means a financial derivative contract whose value is derived from one or more Rupee interest rates, prices of Rupee interest rate instruments, or Rupee interest rate indices
   c. 'Foreign Currency Settled Interest Rate Derivative (FCS-IRD)' means a Rupee interest rate derivative contract whose settlement currency is a currency other than the Indian Rupee (INR)
   d. Certain definitions, including Company, Networth, Turnover have been included which will be as per Companies Act; Foreign Portfolio Investor (FPI) as per SEBI and Government Securities as per Government Securities Act, 2006
2. All-India Financial Institutions (AIFIs) has been replaced with NBFC – Upper Layer (NBFC-UL) as one of the eligible entities to act as market maker in IRDs.
3. Restrictions on open short positions by FPIs – draft directions state that the total gross short (sold) position of any FPI shall not exceed its consolidated long position in Government securities and Interest Rate Futures, at any point in time.
4. Interest rate cap, Interest rate floor, Interest rate collar and reverse interest rate collar are some additional interest rate derivatives which have been permitted to be offered to retail users.

The new Master Directions (currently in draft mode) is an outcome of dynamic market conditions and drafted with the objective to widen the interest rate derivatives market while at the same time ensuring that liquidity does not come at the expense of volatility through speculative trading.

Effective date: Master Direction will be effective from the date it is notified, which will be within three months from the circulation of the draft Directions (i.e.) June 26, 2025

Lending Against Gold and Silver Collateral - Voluntary Pledge of Gold and Silver as Collateral for Agriculture and MSME Loans

RBI/2025-2026/66 FIDD.CO.FSD.BC. No.08/05.05.010/2025-26 dated July 11, 2025

Important Updates – RBI / FEMA

Reserve Bank has been following the principle of restricted lending against primary gold and in the recent past silver due to broader macro-prudential concerns and also due to speculative and non-productive nature of gold. However, the Regulated Entities (REs) have been permitted to lend against the collateral security of gold jewellery, ornaments and coins for meeting the short-term financing needs of borrowers.

Agriculture forms the primary source of livelihood to half of the Indian population and considering the macro-economic dynamics, the RBI has always ensured a steady flow of funding to agriculture sector at subsidised rates. In this context RBI has been ensuring credit flow to agriculture by permitting REs to extend collateral free loans, currently up to a limit of INR 2 lakhs per borrower.

Though RBI has issued directives on collateral free loans up to specified limits, certain borrowers have insisted on voluntary pledge of Gold and Silver. RBI has clarified vide this Circular that loans sanctioned by the banks upto the collateral free limit against voluntary pledge of Gold and Silver as collateral by borrowers will not be construed as a violation of guidelines of RBI for collateral free loans.

Effective date: Immediate effect

Directions related to Closure of Shipping Bills in the Export Data Processing and Monitoring System (EDPMS) – Draft for Feedback

Press Release by RBI dated July 11, 2025

Reserve Bank has released Draft Directions on closure of shipping bills in EDPMS keeping in view the large number of export transactions and the frequency of small-value exports as a measure to easing compliance burden on exporters.

Detailed analysis has been shared through KCM Flash on KCM LinkedIn page dated July 22, 2025.

Effective date: January 01, 2026

Important Updates - MCA

Companies (Incorporation) Amendment Rules, 2025

Notification no. G.S.R. 426(E). dated June 27, 2025

Ministry of Corporate Affairs (MCA) issued a notification with respect to the substitution of the existing Form INC-22A with a new e-Form. This update streamlines corporate compliance procedures related to company incorporation, reflecting ongoing efforts to digitalize and enhance the regulatory framework for businesses in India.

Effective Date: July 14, 2025

Companies (Restriction on number of layers) Amendment Rules, 2025.

Notification dated June 27, 2025

MCA vide this notification amended Form No. CRL-1 [Return regarding number of layers] which is used for disclosing a company's subsidiary structure. This update aims to modify the reporting requirements related to the number of layers of subsidiaries that companies can have, reflecting ongoing adjustments to corporate governance regulations.

Effective Date: July 14, 2025

Companies (Listing of equity shares in permissible jurisdictions) Amendment Rules, 2025

Notification dated July 03, 2025

Ministry of Corporate Affairs (MCA) issued a notification and modified the existing Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024. The primary change involves the substitution of Form LEAP – 1 as prescribed in the Second Schedule of the 2024 Rules, with a newly structured and detailed format. The updated form enhances clarity and ensures better regulatory compliance by introducing standardised, mandatory fields.

Effective Date: July 03, 2025

Companies (Corporate Social Responsibility Policy) Amendment Rules, 2025

Notification no. G.S.R. 452(E). dated July 07, 2025

MCA vide this notification, introduced a revised Form CSR-1 form that requires applicant entities to provide more detailed disclosures.

The amendments aim to enhance transparency and accountability in CSR implementation by introducing stricter eligibility criteria and disclosure requirements for Implementing Agencies.

Effective Date: July 14, 2025

FAQs on 38 e-forms which have migrated from V2 to V3 portal of MCA - Lot 3 Forms

Ministry of Corporate Affairs (MCA) issued FAQs for Lot 3 forms to help stakeholders navigate the transition of 38 e-forms from the V2 portal to the V3 portal, which went live on July 14, 2025. These FAQs aim to clarify the new features, filing procedures, and address common queries related to the migrated forms, ensuring a smooth transition for companies, professionals, and other stakeholders. For Example: The FAQs prescribe the new procedure for change in email of company, mandatory attachment of photographs in Form MGT-7/MGT-7A.

The detailed FAQs can be referred from this link: https://www.mca.gov.in/bin/dms/getdocument?mds=obd2Sfxdh0Lui3yMybiT7A%253D%253D&type=open

Effective Date: July 14, 2025

Important Updates - SEBI

Timelines for rebalancing of portfolios of mutual fund schemes in cases of all passive breaches

SEBI/HO/IMD/PoD2/P/CIR/2025/92 dated June 26, 2025

SEBI has prescribed timelines under paragraph 2.9 of the Master Circular for Mutual Funds for rebalancing portfolios for cases of passive breaches (i.e., unintentional deviations not arising from the actions or omissions of AMCs).

As per the current Circular, the timelines as prescribed above will now apply to all types of passive breaches, including breaches of issuer, group, and sector limits, in actively managed mutual fund schemes.

Current timelines for Portfolio Rebalancing:

Sr. No.	Category of Scheme	Mandated Rebalancing Period
1	Overnight Fund	N.A.
2	All schemes other than Index Funds and Exchange Traded Funds	Thirty (30) business days*

* May be extended to sixty (60) business days subject to justification by the Investment Committee

Effective Date: Immediate

Extension towards Adoption and Implementation of Cybersecurity and Cyber Resilience Framework (CSCRF) for SEBI Regulated Entities (REs)

SEBI/HO/ITD-1/ITD_CSC_EXT/P/CIR/2025/96 dated June 30, 2025

SEBI is fully aware of the challenges faced in terms of cybersecurity and threats of frauds from bogus online sites / mails / apps. Thus, it felt the critical need for robust cybersecurity and protection of data and IT systems, for which the Cybersecurity and Cyber Resilience Framework (CSCRF) for its regulated entities (REs) was notified vide circular no. SEBI/HO/ITD-1/ITD_CSC_EXT/P/CIR/2024/113 dated August 20, 2024.

However, given the extensive systems and processes to be put in place, requests were made from regulated entities to extend the timeline for implementation of the norms specified above.

Giving due consideration to the request of the stakeholders, SEBI has extended the implementation deadline by two months by setting the new deadline as August 31, 2025.

Effective Date: August 31, 2025

Ease of Doing Investment – Special Window for Re-lodgement of Transfer Requests of Physical Shares

SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/97 dated July 02, 2025

Transfer of securities in physical mode was discontinued by SEBI from April 01, 2019. It was later clarified by the Board that transfer deeds lodged prior to the deadline of April 01, 2019, but were rejected / returned due to deficiency in the documents may be re-lodged with requisite documents up to March 31, 2021.

On representations received from investors as well as RTAs and listed companies that some of the investors had missed the timelines for re-lodging their documents for transfer of securities up to March 31, 2021, a final opportunity has been granted to re-lodge such shares for transfer.

SEBI has opened a special window only for re-lodgement of transfer deeds, which were lodged prior to the deadline of April 01, 2019 and rejected / returned / not attended to due to deficiency in the documents/process / or

Important Updates - SEBI

otherwise, for a **period of six months starting from July 07, 2025, up to January 06, 2026.**

Effective Date: Date of Circular up to January 06, 2026

Frequently Asked Questions (FAQs) related to regulatory provisions for Research Analysts

SEBI/HO/MIRSD/MISRD-PoD/P/CIR/2025/105 dated July 23, 2025

SEBI has been tightening its regulatory and monitoring systems by issuing guidelines and conditions on persons / entities dealing in the securities market, including Investment Advisers, Research Analysts, Stockbrokers etc.

Over the years the trading on the stock markets have increased exponentially and with the digital age and social media, all kinds of persons have started giving tips / recommendations / buy and sell side advisories, many of them with dubious track record and fraudulent intent. Thus, SEBI has been working to regulate various persons and entities involved in the business of securities markets, including Research Analysts. Research Analysts are primarily individuals who through their expertise and qualifications in equities advise and recommend to their clients on purchase and sale of securities on the stock exchanges.

As per Securities and Exchange Board of India (Research Analysts) Regulations, 2014 dated September 1, 2014 as amended from time to time, "research analyst" means a person who, for consideration, is engaged in the business of providing research services and includes a part-time research analyst.

To ensure that the Research Analysts are in compliance with the various provisions and guidelines issued to them, SEBI has come out with a set of Frequently Asked Questions (FAQs) to provide better understanding and assist RAs in ensuring compliance with applicable rules.

FAQs address various commonly asked questions and queries of RAs,a including what provisions regulate RAs, what are the registration requirements applicable for becoming a RA, what is the coverage of securities applicable, procedure and applicable fees for registration, applicable capital adequacy requirements for individuals acting as RA, what is public media, are there any trading restrictions on stocks recommended by RAs, whether RAs / Research entity can provide distribution services etc.

Contributed by

Ms. Darshna Mankad, Mr. Nitin Dingankar, Ms. Kajol Babani and Ms. Hirangi Desai.

For detailed understanding or more information, send your queries to ***knowledge@kcmehta.com***

Back

kcmInsight is prepared exclusively for the benefit and use of member firms of KCM Network and their clients. This should not be used as a substitute for professional advice. Reasonable care has been taken for ensuring the accuracy and the authenticity of the contents of this alert. However, we do not take any responsibility for any error or omission contained therein on any account. It is recommended that the readers should take professional advice before acting on the same.

For further analysis and discussion, you may please reach out to us.

Locations

Ahmedabad
Arpit Jain
Level 11, Tower B,
Ratnaakar Nine Square,
Vastrapur,
Ahmedabad - 380 015

Phone: + 91 79 4910 2200
arpit.jain@kcmehta.com

Bengaluru
Dhaval Trivedi
4/1, Rudra Chambers, First Floor, 4th Main, B/W 8th & 9th Cross Road, Malleshwaram, Bengaluru - 560 003

Phone: +91 99983 24622
dhaval.trivedi@kcmehta.com

Mumbai
Bhadresh Vyas
315, The Summit Business Bay, Nr. WEH Metro Station, Gundavali, Andheri East, Mumbai – 400 069

Phone: +91 22 2612 5834
bhadresh.vyas@kcmehta.com

Vadodara
Milin Mehta
Meghdhanush,
Race Course,
Vadodara - 390 007

Phone: +91 265 2440 400
milin.mehta@kcmehta.com

Independent Member
kcm NETWORK

Abbreviations

Back

Abbreviation	Meaning
AA	Advance Authorisation
AAR	Authority of Advance Ruling
AAAR	Appellate Authority of Advance Ruling
AAC	Annual Activity Certificate
AD Bank	Authorized Dealer Bank
AE	Associated Enterprise
AGM	Annual General Meeting
AIR	Annual Information Return
ALP	Arm's length price
AMT	Alternate Minimum Tax
AO	Assessing Officer
AOP	Association of Person
APA	Advance Pricing Arrangements
AS	Accounting Standards
ASBA	Applications Supported by Blocked Amount
AY	Assessment Year
BAR	Board of Advance Ruling
BEAT	Base Erosion and Anti-Avoidance Tax
CBDT	Central Board of Direct Tax
CBIC	Central Board of Indirect Taxes and Customs
CCA	Cost Contribution Arrangements
CCR	Cenvat Credit Rules, 2004
COO	Certificate of Origin

Abbreviation	Meaning
CESTAT	Central Excise and Service Tax Appellate Tribunal
CGST Act	Central Goods and Service Tax Act, 2017
CIT(A)	Commissioner of Income Tax (Appeal)
Companies Act	The Companies Act, 2013
CPSE	Central Public Sector Enterprise
CSR	Corporate Social Responsibility
CTA	Covered Tax Agreement
CUP	Comparable Uncontrolled Price Method
Customs Act	The Customs Act, 1962
DFIA	Duty Free Import Authorization
DFTP	Duty Free Tariff Preference
DGFT	Directorate General of Foreign Trade
DPIIT	Department of Promotion of Investment and Internal Trade
DRI	Directorate of Revenue Intelligence
DRP	Dispute Resolution Panel
DTAA	Double Tax Avoidance Agreement
ECB	External Commercial Borrowing
ECL	Electronic Credit Ledger
EO	Export Obligation
EODC	Export Obligation Discharge Certificate

Abbreviation	Meaning
EPCG	Export Promotion Capital Goods
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FII	Foreign Institutional Investor
FIFP	Foreign Investment Facilitation Portal
FIRMS	Foreign Investment Reporting and Management System
FLAIR	Foreign Liabilities and Assets Information Reporting
FPI	Foreign Portfolio Investor
FOCC	Foreign Owned and Controlled Company
FTC	Foreign Tax Credit
FTP	Foreign Trade Policy 2015-20
FTS	Fees for Technical Service
FY	Financial Year
GAAR	General Anti-Avoidance Rules
GDR	Global Depository Receipts
GMT	Global Minimum Tax
GILTI	Global Intangible Low-Taxed Income
GSTN	Goods and Services Tax Network
GVAT Act	Gujarat VAT Act, 2006
HSN	Harmonized System of Nomenclature

Abbreviations

Back

Abbreviation	Meaning
IBC	Insolvency and Bankruptcy Code, 2016
ICDS	Income Computation and Disclosure Standards
ICDR	Issue of Capital and Disclosure Requirements
IEC	Import Export Code
IIR	Income Inclusion Rule
IMF	International Monetary Fund
IRP	Invoice Registration Portal
IRN	Invoice Reference Number
ITC	Input Tax Credit
ITR	Income Tax Return
IT Rules	Income Tax Rules, 1962
ITAT	Income Tax Appellate Tribunal
ITR	Income Tax Return
ITSC	Income Tax Settlement Commission
JV	Joint Venture
LEO	Let Export Order
LIBOR	London Inter Bank Offered Rate
LLP	Limited Liability Partnership
LOB	Limitation of Benefit
LODR	Listing Obligations and Disclosure Requirements
LTA	Leave Travel Allowance
LTC	Lower TDS Certificate

Abbreviation	Meaning
LTCG	Long term capital gain
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs
MeitY	Ministry of Electronics and Information Technology
MSF	Marginal Standing Facility
MSME	Micro, Small and Medium Enterprises
NCB	No claim Bonus
OECD	The Organization for Economic Co-operation and Development
OM	Other Methods prescribed by CBDT
PAN	Permanent Account Number
PE	Permanent establishment
PPT	Principle Purpose Test
PSM	Profit Split Method
PY	Previous Year
QDMTT	Qualified Domestic Minimum Top-up Tax
RA	Regional Authority
RMS	Risk Management System
ROR	Resident Ordinary Resident
ROSCTL	Rebate of State & Central Taxes and Levies
RoDTEP	Remission of Duties and Taxes on Exported Products

Abbreviation	Meaning
RPM	Resale Price Method
SC	Supreme Court of India
SCN	Show Cause Notice
SDS	Step Down Subsidiary
SE	Secondary adjustments
SEBI	Securities Exchange Board of India
SEP	Significant economic presence
SEZ	Special Economic Zone
SFT	Specified Financial statement
SION	Standard Input Output Norms
SOP	Standard Operating Procedure
ST	Securitization Trust
STCG	Short term capital gain
SVLDRS	Sabka Vishwas (Legacy Dispute Resolution Scheme) 2019
TCS	Tax collected at source
TDS	Tax Deducted at Source
TNMM	Transaction Net Margin Method
TP	Transfer pricing
TPO	Transfer Pricing Officer
TPR	Transfer Pricing Report
TRO	Tax Recovery Officer
UTPR	Undertaxed Profits Rules
u/s	Under Section
WOS	Wholly Owned Subsidiary