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Chartered Accountants

kcm Insight

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We are happy to present ***kcm*Insight,** 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.

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GST

Advisories

GSTN has issued an advisory intimating taxpayers to file all returns prior to the enabling of GSTR-9 and GSTR-9C for FY 2024–25 on the GST portal

GSTN has issued an advisory clarifying that there is no change in ITC auto-population and introducing enhanced credit note handling under the Invoice Management System (IMS)

GSTN has issued an advisory announcing the introduction of new IMS functionality providing a "pending" option for credit notes and allowing declaration of the ITC reversal amount

CBIC issues advisory urging taxpayers to file pending GST returns before the three-year limitation period

GSTN introduces 'Import of Goods' section in Invoice Management System (IMS) integrating Bill of Entry details for enhanced ITC reconciliation

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GSTN has issued FAQs addressing various questions and clarifications re-lated to GSTR-9 and GSTR-9C

Circulars

CBIC withdraws earlier circular prescribing procedure for furnishing evidence of com-pliance with respect to post-supply dis-counts under Section 15(3)(b)(ii) of the CGST Act

Instructions

The CBIC has prescribed a process for the provisional sanction of refund claims, based on system-driven identification and evalua-tion of risk parameters

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Notification issued for alignment of duty structures and exemptions with AIDC frame-work

Notification issued for consolidation of var-ious exemption notifications

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CBIC issues instruction on operationaliza-tion of online Look Out Circular (LOC) portal for customs and GST intelligence formations

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CBIC issues circular enabling system-based au-to-approval mechanism for incentive bank account and IFSC code registration across all customs locations

CBIC issues circular on nationwide imple-mentation of Sea Cargo Manifest and Tran-shipment Regulations (SCMTR), 2018

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Supreme Court upholds entitlement of bona fide purchasers to input tax credit even when the selling dealer fails to deposit tax

TR-6 challan not a valid tax-paying docu-ment for availing input tax credit

University not a body corporate and eligible for refund of service tax paid under reverse charge mechanism

Admissibility of Input Tax Credit of IGST in case of payment deferred to foreign suppli-ers beyond 180 days

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The Paradox of Diversification

Introduction

Diversification is one of the most universally followed principles of investing. By spreading capital across multiple holdings, investors aim to reduce unsystematic risk and achieve more stable long-term returns. Yet, despite widely diversified portfolios, many investors continue to experience inconsistent performance and unexpected drawdowns. This paradox raises a critical question: *If diversification is the answer, why does it so often appear ineffective in practice?*

In equity markets, investors generally hold large number of stocks while still exhibiting concentrated exposures – either through sector dominance, correlated business models, or thematic crowding. As such, result is a portfolio that appears diversified on paper but behaves more like a narrow bet when volatility strikes.

The Traditional Case for Diversification

The rationale behind diversification is grounded in Modern Portfolio Theory (MPT), which demonstrates that combining assets with different risk characteristics can lower overall portfolio volatility without necessarily reducing return potential. The key assumption is that not all securities react uniformly to the same economic or market forces. For investors, diversification traditionally aims to achieve the following objectives:

1) **Reduce Unsystematic Risk**: Company specific risks such as management decisions, regulatory actions, operational failures, etc. tend to reduce as the number of independent holdings increases.
2) **Enhance Risk-Adjusted Returns**: By balancing cyclical and defensive sectors, portfolios can maintain a more stable return profile across market cycles.
3) **Benefit from Low Correlation Among Assets**: When individual holdings move differently, downside in one area may be offset by resilience in another.

In theory, a portfolio of 15-20 fundamentally different stocks is often sufficient to eliminate a significant portion of stock-specific risk. Beyond this point, incremental diversification yields diminishing returns as the portfolio begins to track the broader market.

However, these principles rely on an ideal scenario where correlations are predictable, liquidity is consistently available, and sectoral dependencies remain limited. As equity markets continue to evolve, these assumptions are frequently challenged.

Where Diversification Goes Wrong

While the intent behind diversification is to reduce risk, many portfolios end up diluting returns instead. The gap between theory and practice emerges from how diversification is executed rather than the concept itself.

Excessive Number of Holdings

Investors often accumulate more than 50 stocks over time, driven by new ideas or fear of missing out. At this scale, portfolios begin to mirror index-like behavior - *but without the cost efficiency of an index fund!* The result is lower conviction, higher monitoring complexity, and diminishing alpha potential.

Hidden Concentration Through Similar Business Models

Holdings may be spread across multiple stocks, yet still share:

- Same economic drivers,
- Similar customer bases, or
- Regulatory exposures.

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For example, owning several banks and NBFCs may appear diversified but represents high concentration in a single underlying theme - India's credit cycle.

Thematic and Cyclical Crowding

Indian investors frequently chase popular sectors - IT in 2021, new-age tech in 2022, PSUs more recently. This behaviour amplifies drawdowns when the cycle turns and correlations rise sharply.

Value Destruction in Illiquid Segments

Diversification into small and micro caps without assessing liquidity risk can magnify losses owing to:

- Wider bid-ask spreads
- Forced selling during volatility
- Difficulty exiting deteriorating positions

In summary, a portfolio may look diversified by count but behaves concentrated by risk. This mismatch leads to the paradox - more holdings do not necessarily translate into better protection or performance.

High Market Concentration

Indian equity market is disproportionately driven by a handful of large companies. For instance, top constituents of benchmark indices like NIFTY 50 account for a significant share of total index weight. As a result, even widely diversified portfolios often remain sensitive to the performance of a few dominant sectors.

Sector Leadership Moves in Cycles

Equity markets tend to experience extended periods of sectoral dominance - IT in early 2000s, BFSI for most of the last decade, and more recently industrials and PSUs. Building a portfolio tilted toward the prevailing theme works until the cycle reverses, at which point the correlations converge.

Limited True Diversification Options

While equity choices have grown, access to certain asset classes is still developing:

- Global diversification remains small due to regulatory and allocation caps
- Hedging instruments are available but under-utilized by retail investors
- Alternate investment options such as REITs and InvITs are still maturing

As such, there is a narrower spectrum of diversifiable risks for most investors.

Liquidity Disparities

Emerging markets like India exhibit significant liquidity gaps, especially in small and mid-cap spaces:

- Liquidity tends to shrink during periods of stress
- Large portfolios may find exits difficult without price impact
- Valuations become vulnerable to shift in sentiments

Thus, diversification into illiquid assets can increase fragility instead of lowering risk.

As such, in emerging markets the practical constraints on asset availability, liquidity, and sector concentration can cause diversification strategies to behave very differently than the theory suggests.

Smart Diversification - Quality Over Quantity

Effective diversification requires clarity of purpose. Rather than adding holdings for the sake of expanding the portfolio, investors should aim to optimize risk exposures while preserving

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return potential. The focus shifts from *how many* stocks to *what risks* each holding represents. A disciplined approach to portfolio construction should incorporate the following principles:

Diversify by Economic Drivers

Select companies influenced by different underlying forces, such as:

- Consumption vs. Investment-led growth
- Domestic vs. Global demand exposure
- Interest rate sensitivity vs. Interest rate independence

This ensures that common macro shocks do not affect the entire portfolio simultaneously.

Allocate Across Business Models and Industry Structures

Avoid concentration in:

- Similar revenue streams
- Common supply chains
- Correlated regulatory frameworks

Balance Cyclical and Defensive Segments

A resilient portfolio combines:

- Cyclicals → Higher growth, higher volatility
- Defensives → Stable cash flows during downturns

This helps smoothen the return profile across market phases.

Maintain Conviction and Liquidity Discipline

Position sizing should reflect conviction and exit feasibility:

- Limit low-conviction holdings that add complexity but little diversification benefit.
- Avoid excessive exposure to illiquid small caps without adequate risk controls.

Use a Clear Upper Bound on Number of Holdings

For most retail investors, **15-20 well researched stocks** provide:

- Adequate diversification of idiosyncratic risk
- Retention of alpha potential
- Practical monitoring and risk assessment

Going beyond this often leads to inefficiencies and benchmark-like behaviour.

Smart diversification must be intentional where every position must justify its role in reducing the portfolio's overall vulnerability.

Expanding Role of Asset Classes

Diversification within equities alone has limitations, particularly in emerging markets where sectoral and macroeconomic influences remain tightly interconnected. Incorporating complementary asset classes can create more robust protection against market-specific risk.

Global Equities

Exposure to international markets offers access to:

- Different economic cycles
- New sectors such as technology leadership
- Currency diversification benefits

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Even modest international allocation can reduce domestic concentration risk.

Fixed Income Instruments

Debt funds and government securities provide:

- Predictable income streams
- Lower volatility relative to equities
- A stabilizing component during equity drawdowns

Interest rate cycles also offer tactical allocation opportunities.

Real Assets through REITs and InvITs

As listed real estate options evolve in India, investors gain access to:

- Yield-generating commercial properties
- Infrastructure assets with long-term cash flow visibility

These instruments typically exhibit lower correlation with pure equity risk.

Commodities

Gold has historically served as:

- An effective hedge during inflationary periods
- A store of value during systemic stress

Limited allocation can enhance resilience against macro shocks.

True diversification aligns the portfolio with multiple return drivers, not a singular market outcome. Expanding beyond domestic equities is becoming increasingly practical as well as necessary as India's financial market matures.

Conclusion

Diversification remains a fundamental principle of sound investing, but its effectiveness depends on thoughtful implementation. A portfolio crowded with similar risks - regardless of the number of holdings - offers limited protection when markets turn volatile. The goal is not to own more stocks, but to own the right mix of assets driven by diverse economic forces. In practice, **true diversification is defined by risk alignment, not quantity**.

Disclaimer: This article is meant for educative purposes only and should not be considered as investment recommendation.

Sources of Information: News articles, publicly available research reports, AI based tools

Contributed by

Mr. Chinmay Naik and Mr. Nishant Doshi

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

Important Rulings

Procedural delays cannot be the sole reason for denial of claiming the benefit of Foreign Tax Credit (FTC)

Maharishi Education Corporation Pvt. Ltd [TS-1409-ITAT-2025(DEL)]

Maharishi Education Corporation Pvt. Ltd. (hereinafter referred to as "the taxpayer") is a domestic company that opted for taxation under Section 115BAA of the Income tax Act 1961, effective from Assessment Year (AY) 2020–21 by duly filing Form 10-IC. The taxpayer has continued to file its returns of income under the said section in subsequent AYs.

For AY 2021-22, the taxpayer filed its return of income declaring a total income of Rs. 14,98,150 and a loss of Rs. 20,263. The total income comprised Long Term Capital Gains (LTCG) of Rs. 15,18,414 which was taxable u/s 112 of the Act at the rate of 20%. Accordingly, the taxpayer computed and paid tax on such LTCG at the rate of 20% in the return of income. The return was processed u/s 143(1) of the Act and the Assessing Officer (AO) levied tax on the LTCG at the rate of 22%, being the rate applicable to companies that have opted for taxation under Section 115BAA. Consequently, it raised a demand of Rs. 59,973.

Aggrieved by such addition, the taxpayer filed an appeal before the Commissioner of Income Tax (Appeals) [CIT(A)], contending that the LTCG was taxable at the special rate of 20% u/s 112 and not at 22%, as prescribed under Section 115BAA.

The CIT(A), however, upheld the addition of the AO, holding that no specific exemption for special rate taxation is provided under Section 115BAA. The Hon'ble Delhi Bench of the Income Tax Appellate Tribunal (ITAT) further affirmed the order of the CIT(A), concluding that the LTCG arising from the sale of land are taxable at the rate of 22% under Section 115BAA, and not at the special rate as specified u/s 112.

The ITAT's judgment appears to be incorrect, as it overlooks the fundamental principles of the Act. Section 115BAA explicitly states that it is "*subject to the provisions of this Chapter*" which clearly implies that incomes subject to special rates under specific provisions are to be taxed at those respective special rates.

Capital gains assessed to the real economic beneficiary despite title with the firm

Go Go Garments [ITA No. 4483/Mum/2024]

Go Go Garments, a partnership firm, had three commercial galas recorded in its books. After partner Shri Vinod Kumar Goenka retired in FY 2003-04, the properties were stated to have been allotted to him under a family settlement. He continued to possess and use them for his own business. In AY 2013-14, the firm executed the sale deeds, and the entire sale consideration was received directly by the retired partner. The Assessing Officer taxed the firm under section 50C, but the CIT(A) deleted the addition, leading the revenue to this appeal before Mumbai ITAT.

The firm contended that, as per section 2(47)(vi), "transfer" includes any arrangement that has the effect of transferring or enabling the enjoyment of an immovable property. Since Shri Goenka had been in possession and enjoyment of the properties since retirement and realised the full consideration, the transfer had effectively occurred in AY 2004-05. The firm neither possessed nor derived any benefit from the properties thereafter.

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The Revenue maintained that the firm was the registered owner and had executed the sale deeds in 2012, making it the transferor under section 50C. It contended that the family settlement was unregistered and only supported by internal book entries, insufficient to establish transfer of ownership. The department also noted that Shri Goenka had not declared any capital gains in his return and that the firm, being the legal owner on record, was correctly assessed for the gains.

The Tribunal observed that Shri Goenka continued to possess and use the properties for his business after retirement and had received the entire sale proceeds. Relying on section 2(47)(vi), it held that a transfer includes any transaction that enables enjoyment of property, even without a registered deed. The ITAT noted that the effective transfer took place in AY 2004-05, and the firm derived no benefit from the subsequent sale. Accordingly, it affirmed the CIT(A)'s deletion of the ₹6.80 crore addition. Importantly, the Tribunal confined its decision to the firm's taxability and did not examine the partner's tax position.

This ruling reiterates that capital gains should attach to the person who actually enjoys and realises the income rather than the one whose name appears on record. It reinforces that under section 2(47)(vi), transfer is determined by enjoyment and possession, not merely registration. Practitioners should ensure proper documentation—such as retirement deeds, family settlements, and flow of sale proceeds—when legal title and control diverge. It is important to note that the Tribunal only ruled on the firm's taxability and did not address the question of whether or how the capital gains may be taxable in the partner's hands.

Deletes unexplained jewellery addition, as source accepted in spouse's assessment on identical satisfaction note

Sunil Suresh v. DCIT [ITA No. 2168/Bang/2024]

This case deals with whether an addition made under Section 69 of the Income-tax Act, 1961 on account of unexplained investment in jewellery could be sustained when the same jewellery and satisfaction note were already accepted in the assessment of the assessee's spouse under Section 153C read with Section 153D by the same Assessing Officer.

A search and seizure operation under Section 132(1) was conducted at the residence of the assessee and his wife, during which jewellery valued at ₹1,65,45,323 and silver articles weighing around 3 kilograms were inventorised and seized. Consequent to the search, the Assessing Officer framed an assessment under Section 143(3) read with Section 153D, wherein the seized jewellery was treated as unexplained investment under Section 69. During the course of assessment, the assessee explained that the jewellery had been acquired through legitimate means part purchased through banking channels and credit card payments, supported by invoices, while the balance was ancestral or received as gifts from family and relatives. The assessee also furnished the corresponding details of payments and ownership.

The Assessing Officer, however, rejected the explanation on the ground that there was a mismatch between the jewellery described in the search annexures and the items covered by the invoices. The AO also held that no confirmations had been furnished for the alleged gifts and that

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the claim of ancestral jewellery remained unsubstantiated. Accordingly, the AO concluded that the seized jewellery represented unexplained investment and added the entire value to the assessee's income under Section 69.

The assessee preferred an appeal before the Commissioner of Income tax (Appeals). It was submitted that the very same jewellery had already been considered in the assessment of his wife under Section 153C read with Section 153D, on the basis of a satisfaction note recorded by the same AO, and that in her case, ownership and source of the jewellery had been accepted as explained. The seized material forming part of Exhibits B/SS/B1/01 and D/SS/B1/01 had been held to belong to the spouse. The assessee contended that once the same AO, on the same satisfaction note, accepted ownership and explanation in the hands of the wife, it was legally impermissible to treat the identical assets as unexplained in his own assessment.

The CIT(A) agreed with the assessee's contention and deleted the addition. The Commissioner observed that in the case of the assessee's spouse, the very same Assessing Officer had recorded a satisfaction note under Section 153C read with Section 153D, examined the same seized annexures and exhibits, and accepted the return of income declaring the jewellery as belonging to her. The jewellery described was inherently feminine in nature, normally worn by a lady, and there was no evidence to suggest that it belonged to the assessee. Accordingly, the CIT(A) concluded that the addition in the husband's hands amounted to double taxation of the same asset and was unsustainable.

Aggrieved by the relief granted, the Revenue filed an appeal before the Income Tax Appellate Tribunal, Bengaluru. The Department contended that the jewellery was found in joint possession at the assessee's residence and, therefore, the AO was justified in treating it as unexplained investment in the husband's hands. The assessee reiterated that the addition was a clear case of duplication because the same seized material had already been accepted in the spouse's case on identical facts and by the same AO.

After examining the records, the ITAT observed that the satisfaction notes and annexures forming the basis of the addition were word for word identical in both cases and that the seized jewellery was the same. The Tribunal noted that the Assessing Officer had already accepted in the wife's case that the jewellery belonged to her and that the source was duly explained. Once such a finding was recorded and ownership was conclusively determined, the pre-condition for invoking Section 69 namely, ownership of the unexplained asset by the assessee could not be satisfied. The AO could not take contradictory positions on the same seized material in two connected assessments.

The Tribunal also agreed with the finding of the CIT(A) that the seized jewellery was of a kind ordinarily used by a lady, reinforcing the wife's ownership claim. Since there was no independent evidence establishing the husband's ownership, the addition in his hands was unjustified. On these findings, the Tribunal upheld the CIT(A)'s order, holding that there was no infirmity in deleting the addition made by the AO.

In conclusion, the ITAT held that the same jewellery could not be taxed twice in two different hands merely because it was found at a common residential premises. Once the AO had accepted

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the ownership and source of the jewellery in the wife's assessment, he could not, on satisfaction notes and seized material, treat the same assets as unexplained in the husband's hands. The appeal filed by the Revenue was accordingly dismissed.

This decision reiterates that ownership and attribution are foundational to invoking Section 69 or 69A of the Act. The Assessing Officer must first establish that the assessee is the actual owner of the unexplained assets. The ruling also underscores the principle of consistency the Revenue cannot take contradictory stands in two related assessments based on the same seized material. The ITAT thus reaffirmed that duplicate additions on identical evidence are impermissible under the scheme of the Income-tax Act.

Deletes disallowance of director's remuneration u/s 40(A)(2)(b) & unaccounted cash sales basis WhatsApp chats

LSL Tools (P) Ltd [TS-1424-ITAT-2025(DEL)]

The taxpayer during the year under consideration has made a payment to one of its directors of the company amounting to Rs 44,10,000. The taxpayer during the year has made sales to one of its customers in the normal course of the business. The assessing officer (herein referred as AO) has selected the case for scrutiny during the AY 2021-22 and a search & seizure operation under section 132 of the Act has also been conducted.

During the operation the AO found out that the taxpayer has made a payment of Rs 44,10,000 to Priti Singla as director remuneration. It was noted that the said payment has been made to the director without any suitable qualifications and involvement in business of the entity. The said amount was disallowed under section 40(A)(2) (b) of the Act and the same was accepted by the director under an oath under section 132(4) of the Act. Moreover, the AO has also made an addition of Rs 5,00,000 on account of cash sales by merely relying on WhatsApp chats between the parties during their search and seizure operation. Aggrieved by the order passed by AO, the taxpayer filed an appeal before CIT(A) wherein the CIT(A) after accepting the detailed submission passed the order in favour of Revenue.

Aggrieved, the taxpayer filed an appeal before ITAT, wherein it was held that the mere oath taken from the Director is not sole evidence of addition and it requires more clear evidence. This can be referred in the case of **CIT vs M/s Moon Beverages Ltd.** Moreover, it was held that such statements made under oath do constitute evidence, but it is not material evidence, and other material needs to be discovered to make additions. It was also held that the said remuneration has been included in the return of M/s Priti and has been offered for tax at maximum rate of tax and there will be no loss of revenue on account of such allowance of the expense.

It was also stated by ITAT that the addition on account of cash sales on basis of WhatsApp chat does not provide sufficient evidence. It was further stated that as per section 65B (4) of the Indian Evidence Act, merely relying on WhatsApp chat is not exclusive evidence and the authenticity of source and extraction of the evidence must be presented in a certificate to be reflected in the Assessment order. Hence the additions made by the AO on account of cash sales made relying on the WhatsApp chats detected during the search & seizure operation without

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any material sources and certificate are not valid in the eyes of law. Accordingly, the ITAT deleted the disallowance under 40(A)(2)(b) and unaccounted cash sales.

However with the increasing use of social media platforms the documentary evidence in various electronic mode is on a rise and how far this can be considered as an evidence in the search & seizure operation can be an interesting point to discuss.

ITAT upheld addition made by adopting NAV approach for share premium assessment and dismissed unrealistic DCF valuation

Kataria Snack Pellets Pvt. Ltd [TS-1375-ITAT-2025(Rjt)]

Kataria Snack Pellets Pvt. Ltd ('Taxpayer'), a newly established Indian Company, issued 8,000 equity shares having face value of Rs. 10 each at a premium of Rs. 4,990 per share receiving total share premium of Rs. 3,99,20,000. The information of receipt of such share premium was received by the department in 'High risk transaction' category of 'Insight portal' of the department. The AO initiated reassessment proceedings and sought the taxpayer to justify the valuation of shares.

On perusal of the valuation report certified by a qualified CA, the AO found that the taxpayer valued shares following Discounted Free Cash Flow (DCF) method where the cashflows were estimated to grow by 10% for 1st two years, then by 7% in following three years, and long term growth rate being 5%. Estimated cost of equity was 14%. The terminal value was calculated using 'Gordon Growth Model'. However, the taxpayer failed to provide underlying basis of such estimation. The AO contended that key factors for scientific valuation as laid down in 'Technical guide on share valuation' issued by ICAI were not considered by the valuer and the CA merely adopted the values provided by the management. Further, the company, being newly incorporated, had no operational past track record to justify such optimistic projections. The projections, which grossly differed from the actual performance of the company, were inflated to inflow the money in the garb of share premium to bypass the tax implications.

Rejecting the above valuation, the AO determined the FMV of shares of the taxpayer under Rule 11UA as per Net Asset Value (NAV) Method. The FMV worked out to Rs. 10 per share (including share premium) based on the last financials available, giving rise to a difference of Rs. 4,990 of excessive valuation worked out by taxpayer. AO added back to the total income of taxpayer, the difference between the FMV and actual consideration received by invoking the provision of Section 56(2)(viib) of the Act. One of the reasons for introduction of Section 56(2)(viib) is to curb the introduction of the black money in the garb of share premium. In subsequent appeals by the taxpayer, the CIT(A) and ITAT affirmed the addition made by the AO under Section 56(2)(viib) in view of the above.

In the recent ruling of Delhi ITAT in case of JUS Scriptum Magnus (P). Ltd., it was held that Rule 11UA places a choice upon taxpayer to either follow DCF or NAV method, thus AO is not empowered to independently value shares by adopting a valuation method other than one chosen by taxpayer. Further, AO cannot compare the projections adopted by the taxpayer with actual figures. However, in this case, outside investors had accepted the valuation, while in the present case the investors were closely related to the company, thus cannot be relied upon.

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ITAT placed reliance on the legal maxim- 'Sublato fundamento cadit opus' means if the foundation/ initial action (certificate of CA) itself is not in accordance with law, then all subsequent proceedings & claims would fall through as the illegality strikes at the root of the order. Thus, a certificate of CA does not always justify the valuation, especially when the predictions are not substantiated by independent verification. Moreover, any credits in the books of accounts having no satisfactory explanation shall be liable to tax.

Contributed by

Mr. Dhaval Trivedi, Mr. Akshay Dave, Mr. Ansh Awtani, Mr. Sushant Relwani, Mr. Taher Saherwala, Mr. Shreyansh Khandhar, Mr. Ved Prajapati

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

Indian Rulings

Coverage

Tribunal Rejects India–Cyprus DTAA Benefit, Citing Lack of Beneficial Ownership over Interest Income

Silverplass Holdings Ltd v. DCIT [TS-1308-ITAT-2025(Del)]

This appeal has been filed by the taxpayer challenging the action of the Assessing Officer (AO) in denying the benefit of the India-Cyprus Double Taxation Avoidance Agreement (DTAA) under Article 11 in respect of the interest income earned during the relevant assessment year. The said income arose from investments made by the taxpayer in the form of Compulsory Convertible Debentures (CCDs) issued by its associated enterprise i.e. Amrapali Princely Estate Private Limited ('AEPL'). The taxpayer contends that the denial of treaty benefit is unjustified as the principal business activity of the company is the holding and management of investments, and the investment in CCDs was made as part of its regular business operations. Further, the taxpayer asserts that it is the beneficial owner of the interest income derived from such investment and, therefore, entitled to the concessional tax rate i.e. 10%prescribed under Article 11. Accordingly, the taxpayer argues that the claim for treaty benefit is legitimate and in accordance with law. On the other hand, the Assessing Officer disallowed the claim holding that the taxpayer is merely a conduit or intermediary entity established primarily to route funds and to avail the benefit of the reduced tax rate under the treaty.

The taxpayer contended that it was the beneficial owner of the investment held in the associated enterprise and was, therefore, entitled to claim treaty benefits under Article 11 of the DTAA. It was further submitted that the taxpayer possessed a valid Tax Residency Certificate (TRC) issued by the Cyprus tax authorities, evidencing its tax residency in Cyprus. However, in one of its earlier submissions, the taxpayer itself had indicated that the beneficial owner of the investment was its holding company, IL&FS India Realty Fund II LLC (IIRF II). This contradictory statement substantially weakened the taxpayer's claim of being the beneficial owner of the interest income.

On the other hand, the Department argued that although the taxpayer claimed to be an investment company, its only investment since incorporation was in its associated enterprise, AEPL. This, according to the Department, clearly demonstrated that the taxpayer was merely a conduit company, established with the primary objective of availing the lower tax rate benefit under the DTAA. The Department further observed that there was no shareholder agreement or other supporting documentation to substantiate the taxpayer's claim of being the beneficial owner of the interest income.

Accordingly, the AO denied the treaty benefit and taxed the interest income at 20% under section 115A of the Income-tax Act, 1961 ('the Act').

It was also noted that the taxpayer failed to appear before the Tribunal on eight consecutive occasions despite being given sufficient opportunities of hearing. Consequently, the Tribunal proceeded to adjudicate the matter based on the materials available on record. In the absence of any substantive documentary evidence in favour of the taxpayer, the Tribunal upheld the order of the AO and sustained the denial of the India-Cyprus DTAA benefit, thereby confirming the taxation of interest income at 20% under section 115A of the Act.

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Although the Tribunal's decision was unfavourable to the taxpayer, the outcome might have been different had the taxpayer been more responsive during the hearing process and presented stronger arguments. As per the OECD Commentary on Article 11 since the beneficial owner of an asset and that of the related income may differ depending upon the bilateral negotiation. In the present case, in the absence of the shareholder agreement, the AO's conclusion that the taxpayer is not the beneficial owner is purely based on assumption and lacks evidentiary support. Further, the taxpayer, in the grounds of appeal, has contended that the entire income was not actually received due to bad debts. However, the Revenue has not addressed or discussed this contention in its findings. Moreover, even if the "look-through" approach is applied, as observed in international jurisprudence, the income should not be taxed at the rate of 20%. Instead, the applicable rate should be as per the provisions of the DTAA between India and Mauritius, being the jurisdiction of the holding company.

Warner Bros Ruling: ITAT on Profit Attribution, Royalty Characterisation, and Tax Rate on Interest Refund

Warner Bros Distributing Inc. [TS-1347-ITAT-2025(Mum)]

Warner Bros Distributing Inc. ("the taxpayer"), a U.S. tax resident, granted exclusive theatrical distribution rights of its films to Warner Bros Pictures (India) Pvt. Ltd. ("Warner India"). For AY 2020–21, it received ₹53.52 crore from Warner India. The taxpayer claimed the receipts as non-taxable business income under Article 7 of the India–USA DTAA, since it had no Permanent Establishment (PE) in India. The Assessing Officer (AO) held that Warner India constituted a Dependent Agent PE (DAPE) and attributed 65% of income to India. Alternatively, the receipts were taxed as royalty under section 9(1)(vi). The AO also taxed interest on income-tax refund at 40%.

The taxpayer contended that Warner India operated independently on a principal-to-principal basis, bearing its own risks and expenses. The same arrangement was accepted by the Transfer Pricing Officer (TPO) as being at arm's length in earlier and later years. Once transactions are at arm's length, no further attribution is permitted, relying on Morgan Stanley & Co. (SC). It further argued that film distribution income does not qualify as royalty under the act or treaty, since it relates to commercial exploitation of films and not to use of copyright. Regarding interest on refund, the taxpayer claimed it is taxable at 15% under Article 11(2) of the DTAA.

The Revenue asserted that Warner India habitually secured orders and performed core functions for the taxpayer, thus creating a DAPE in India. It argued that income from distribution rights represented royalty for the use of films under section 9(1)(vi), and interest on refund should be taxed at 40% as "other income."

The Mumbai ITAT observed that while the DAPE issue required factual verification, once the inter-company transactions are determined to be at arm's length, no further profit can be attributed to a PE. Since the same arrangement was accepted by the TPO in other years, the addition of ₹34.78 crore was deleted. The Tribunal also held that payments for film distribution do not constitute royalty under section 9(1)(vi) or the DTAA, as they relate to business profits.

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Further, interest on income-tax refund was directed to be taxed at 15% in line with Article 11(2) of the India–USA DTAA.

The ruling reinforces that once transfer pricing is at arm's length, no additional profit attribution to a PE is warranted. It also clarifies that film distribution receipts are not royalty, and interest on refunds to U.S. residents is taxable at 15%. Practitioners should ensure consistency in transfer pricing positions and maintain robust documentation showing the Indian affiliate's independent status to defend similar cross-border arrangements. The decision provides useful guidance for taxpayers engaged in cross-border film, media, and intellectual property transactions, emphasizing the protection offered by the DTAA when arm's-length and treaty conditions are satisfied.

Payment for Installation of spare parts-Fees for Technical service vis-a-vis works contract under the India-Norway DTAA

HAL Offshore Ltd [TS-1381-ITAT-2025 (DEL)]

The taxpayer, resident of India made certain remittance to Norway entity without deduction of tax at source under section 195 of Income Tax Act, 1961. Based on the parameter contained in Central Action Plan, jurisdictional AO conducted verification to ascertain the veracity of claim. The AO held that the payments constituted fees for technical services and accordingly treated the taxpayer as an "assessee in default" for failure to deduct tax at source. Consequently, a demand for tax and interest was raised. Aggrieved by the AO's order, the taxpayer preferred an appeal before CIT(A), who upheld the findings of the AO.

Subsequently, the taxpayer filed an appeal before ITAT wherein it argued that payments were made for replacement and installation of spare parts of ship which were found to be defective which is in nature of carrying work contract and not of rendering Technical services as contract was primarily for sale of spare parts and replacement of defective parts was incidental to sale of spare parts.

The taxpayer further relied on the case of Lufthansa Cargo India Pvt. Ltd. Vs DCIT and submitted that personnel of vendor visited India for 29 days for installation which is less than threshold of 'three months' to constitute PE in India as per Article 5 of India-Norway DTAA. It contended that even if the said activities are considered as installation contract, the said income was not taxable in India as the duration does not satisfy the condition for an PE. Consequently, tax at source is not required to be deducted under section 195.

The tribunal relying on the decision in case of Additional Director of Income tax Vs BHEL-GE-Gas Turbine Servicing Pvt Ltd and Lufthansa Cargo India Pvt. Ltd held that the payments made were not in nature of fees for technical services and accordingly the taxpayer was not liable to deduct tax at source and therefore could not be treated as assessee in default under section 201(1) of the act. The contention of tribunal that work carried out by vendor company falls under Article 7 leading to commercial profits might arise questions as vendor company may have provided services as primary activity which falls under Article 12 and taxed in source country even without PE and not Article 7. However, in given case it is works contract and since vendor company does not have PE in India it will be covered by Article 7.

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Foreign remittance towards use of IT infrastructure facility not 'royalty' under India Belgium DTAA

Bekaert Industries Private Limited [TS-1377-ITAT-2025(PUN)].

A minor typographical error managed to sprout a major interpretational debate, ultimately led to the involvement of a third member of the Tribunal to resolve the issue. Indeed, just one additional "t" in the India–Belgium DTAA — turning "Plan" into "Plant" — was enough to escalate the matter from a simple tax question to a full-fledged judicial deliberation.

The Pune bench of ITAT has adjudicated on the issue of tax deduction at source in respect of payments made for the use of IT infrastructure facility by a taxpayer. The taxpayer, a private limited company engaged in the manufacture of steel tyre cord, hose reinforcement wire and advanced filtration products and is also engaged in trading of steel tyre cord and other Bekaert products. The taxpayer has availed various IT support services from its associated enterprise. The associated enterprise allocated a portion of overall cost to the taxpayer, who was required to reimburse the same. The taxpayer did not deduct tax at source on such payments, contending that such payments made were not chargeable to tax in India.

The assessing officer took note of the transaction and was of the view that such payments made by the taxpayer for the use of the IT infrastructure facilities to its holding company were taxable as royalty as well as fees for technical services in the hands of the holding company under the act as well as the DTAA. Accordingly, he held that the taxpayer was under an obligation to deduct tax at source on such payments. Since no tax was deducted by the taxpayer, he invoked section 40(a)(i) of the income tax act and consequently disallowed the commission expenditure claimed by the taxpayer.

Subsequently, upon a Miscellaneous Application filed by the taxpayer, the Tribunal acknowledged an error in its earlier application of the Treaty, noting that the relevant clause pertaining to the use of industrial, commercial, or scientific equipment was absent in the India–Belgium Tax Treaty. In view of this, the Judicial Member concluded that the payments could not be characterized as royalty under the Treaty and therefore were not taxable in India, leading to the deletion of the disallowance. The Accountant Member, however, disagreed, taking the position that the term "Plan" used in the Treaty should be interpreted as "Plant," thereby supporting the characterization of the payment as royalty and its consequent taxability. The core issue in dispute thus centred on the interpretation of this term and its implications for determining the taxability of the payments as royalty under the India–Belgium Tax Treaty. For which the tribunal had referred Notification No.20/F. No. 505/2/89-FTD in which it had found out that the term royalty was redefined, and the expression use of industrial, commercial or scientific equipment was excluded from the same. Further for which the tribunal has also referred case of Baggerwerken Decloedt En Zoon (supra) has categorically held that the word "Plant" appearing in the India Belgium treaty is on account of a typographical error and therefore the correct word is "Plan" and thereby the concerned receipts were out in the nature of Royalty under Article 12 of the India Belgium treaty.

In light to the above discussion, it was held that payment made for use of IT infrastructure

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facility do not fall within the ambit of industrial royalty / equipment royalty due to the exclusion of the expression use of industrial, commercial or scientific equipment therefore it was held that the transaction would not be fall under the ambit of taxation as royalty under article 12 of the treaty. The Tribunal also held that payments for the use of IT infrastructure facilities do not fall within the definition of "Plant," as Article 12(3)(a) of the India–Belgium Tax Treaty refers to "Plan," not "Plant." Since the Treaty lacks a clause covering the use of industrial or scientific equipment, such payments are not subject to TDS. The Accountant Member's reliance on the word "Plant" was deemed incorrect, and the Judicial Member's order was upheld. Subsequently, this typographical error has been addressed in the India–Belgium DTAA, with the word "t" now omitted, thereby confirming the correct term as "Plan" instead of "Plant".

No Look-Through, No Tax: ITAT Rules in Favour of eBay Singapore on Indirect Transfer Issue

eBay Singapore Services Private Limited [ITA No. 2378/Mum/2022]

eBay Singapore Services Pte. Ltd. (the taxpayer), a Singapore tax resident, is engaged in providing e-commerce support services to group entities, including product management, business development, customer service, legal, HR, and finance functions. The taxpayer also operates an online platform facilitating export sales from Indian sellers to overseas buyers and holds a valid Tax Residency Certificate for the relevant years. As part of its regional investment activities, it had invested in various Indian entities between 2014 and 2019. In April 2017, the taxpayer transferred its shares in eBay India to Flipkart Singapore in exchange for Flipkart Singapore shares and subsequently acquired an additional minority stake through primary subscription. In August 2018, it divested this stake in Flipkart Singapore and earned short-term capital gains, which it claimed as exempt under Article 13(5) of the India–Singapore DTAA. The tax authorities denied this claim, a position later upheld by the Dispute Resolution Panel, leading the taxpayer to appeal before the ITAT.

The taxpayer contended that it was a bona fide tax resident of Singapore, holding valid Tax Residency Certificates for the relevant years along with substantive management presence in Singapore and Hong Kong. It argued that, under Article 13(5) of the India–Singapore DTAA, capital gains arising from the sale of shares of a Singapore entity between two Singapore entities were taxable only in Singapore. The taxpayer maintained that the domestic indirect transfer provisions could not override treaty protection in view of Section 90(2) of the Income-tax Act, which gives primacy to treaty provisions. It further submitted that the India–Singapore DTAA does not have a "look-through" clause, and therefore, India could not tax gains merely because the underlying assets of the Singapore company had links to India.

The Revenue contended that the benefit of the India–Singapore DTAA was not available as the taxpayer's control and management were effectively situated in the United States with eBay Inc., making it the ultimate beneficiary of the transaction. It argued that Article 13 of the DTAA applies only to the sale of shares of an Indian company, whereas the present case involved the sale of shares of Flipkart Singapore, and hence the income should be governed by Article 23, making it taxable under Indian domestic law. The tax department further invoked the indirect transfer provisions under Section 9(1)(i) of the Income-tax Act, relying on Article 13(4B) of the

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Treaty to assert that the transaction resulted in an indirect transfer of Indian assets. Without prejudice, it maintained that the use of the phrase “may be taxed” in Article 13(4B) confers taxing rights upon India in relation to the capital gains arising from this transaction.

After examining the facts and submissions, the Mumbai ITAT ruled in favour of the taxpayer. The Tribunal accepted the taxpayer’s claim of Singapore residency, which was supported by valid Tax Residency Certificates (TRCs) and evidence of independent management and control exercised from Singapore. It held that the ultimate beneficiary of the transaction was eBay Singapore, and not eBay Inc. (U.S.). Relying on the AAR v/s Tiger Global International II Holdings, the ITAT observed that the burden rests on the Revenue to establish that a transaction is layered or colorable. In the absence of such evidence, the TRC is conclusive for determining treaty entitlement. Consequently, the Tribunal applied Article 13(5) of the India–Singapore DTAA, granting exclusive taxing rights to Singapore. It also held that since the treaty does not contain a “look-through” provision, India had no right to tax the gains. Accordingly, the short-term capital gains amounting to ₹2,257.91 crore were held to be not taxable in India.

This ruling reinforces the principle that treaty protection prevails over domestic tax law when the taxpayer demonstrates genuine residency and real economic substance in the treaty jurisdiction. The Mumbai ITAT’s decision highlights the importance of maintaining robust documentation evidencing effective control, management, and commercial presence in Singapore to substantiate treaty eligibility. The Tribunal’s observation on the absence of a “look-through” clause in the India–Singapore DTAA was decisive, thereby shielding the gains from Indian taxation. A similar approach was followed by the ***Andhra Pradesh High Court in Sanofi Pasteur Holding SA v. Department of Revenue***, where the Court held that in the absence of a specific “look-through” or anti-abuse provision in the India–France DTAA, India could not tax the gains by treating the foreign company as a conduit for underlying Indian assets. The ruling emphasised that genuine residency and commercial substance of the foreign entity must be respected while interpreting treaty provisions. Nevertheless, practitioners should remain cautious, given India’s continuing emphasis on taxing indirect transfers and the evolving international focus on the principle of substance over form, which could lead to future litigation or treaty reinterpretation. While the ruling offers clarity for genuine foreign investors, it also underscores that treaty benefits must be grounded in real commercial activity and consistent compliance with the Limitation of Benefits clause.

Contributed by

Mr. Dhaval Trivedi, Ms. Simran Aulakh, Mr. Jeel Modi, Mr. Meet Prajapati, Mr. Apoorav Jain, Mr. Sushant Relwani

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

GST

Advisories

GSTN has issued an advisory intimating taxpayers to file all returns prior to the enabling of GSTR-9 and GSTR-9C for FY 2024–25 on the GST portal

The GSTIN has issued an advisory dated 15th October 2025, informing taxpayers that the facility for filing GSTR-9 (Annual Return) and GSTR-9C (Reconciliation Statement) for the Financial Year 2024–25 has been enabled on the GST portal with effect from 12th October 2025. Taxpayers are advised to ensure that all monthly/quarterly returns in Form GSTR-1 and GSTR-3B for FY 2024–25 are duly filed before attempting to access or file the annual return and reconciliation statement.

The advisory further mentions that a detailed FAQ and user guide will be published to assist taxpayers in completing the filing process accurately and in compliance with applicable provisions.

GSTN has issued an advisory clarifying that there is no change in ITC auto-population and introducing enhanced credit note handling under the Invoice Management System (IMS)

The GSTN, through its advisory dated 8th October 2025, has clarified certain misconceptions circulating on social media regarding supposed changes in GST return filing procedures following the implementation of the Invoice Management System (IMS) from October 1, 2025.

It has been categorically stated that no change has been made in the auto-population mechanism of Input Tax Credit (ITC). ITC will continue to auto-populate from GSTR-2B to GSTR-3B without any manual intervention by taxpayers, ensuring continuity in the existing process.

The advisory further explains that GSTR-2B will continue to be generated automatically on the 14th of every month, as before. Taxpayers may still perform actions in IMS even after GSTR-2B generation and can regenerate GSTR-2B if needed before filing GSTR-3B. Additionally, from the October 2025 tax period onwards, new functionality has been introduced for credit note handling, whereby recipient taxpayers can keep a credit note or related document pending for a specific period. Upon acceptance, they may reduce ITC only to the extent availed, with manual adjustment of the reversal amount permitted for greater flexibility.

GSTN has issued an advisory announcing the introduction of new IMS functionality providing a "pending" option for credit notes and allowing declaration of the ITC reversal amount

The GSTN, through its communication dated 17th October 2025, has introduced new functionalities in the Invoice Management System (IMS) to enhance flexibility and accuracy in credit note handling and Input Tax Credit (ITC) reversals. Taxpayers can now mark credit notes and related documents as "Pending" for one tax period—one month for monthly filers and one quarter for quarterly filers (QRMP)—before taking a final action. After the specified period, if no action is taken, the system will automatically treat the record as "deemed accepted."

The IMS has also been upgraded to allow taxpayers to declare the amount of ITC to be reversed while accepting credit notes or amendments. Earlier, the system auto reversed the full ITC value upon acceptance, even if only partial

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credit had been availed. Now, taxpayers can choose whether ITC needs to be reduced and, if so, specify the exact reversal amount. This flexibility ensures more accurate ITC reporting and prevents unnecessary reversals. Taxpayers can also add remarks while marking documents as rejected or pending, which will assist in audit trails and record clarity.

The facility applies prospectively from the October 2025 tax period. For instance, a credit note dated 15 October 2025 reported in the October 2025 GSTR-1 will appear in IMS with the pending option, whereas earlier period documents will not. The GSTN FAQs further clarify that these changes extend to credit notes, amendments (upward or downward), debit notes, and e-commerce operator documents, ensuring comprehensive coverage of all relevant document types.

CBIC issues advisory urging taxpayers to file pending GST returns before the three-year limitation period

The GSTIN has issued an advisory on October 29, 2025, reminding taxpayers to file all pending GST returns before the expiry of the prescribed three-year limitation period introduced under the Finance Act, 2023 (8 of 2023). As per the amendment implemented with effect from October 1, 2023, through Notification No. 28/2023–Central Tax dated July 31, 2023, taxpayers will be barred from filing returns beyond three years from their original due date under Sections 37, 39, 44, and 52 of the CGST Act, 2017.

This restriction applies to key GST forms including GSTR-1, GSTR-1A, GSTR-3B, GSTR-4, GSTR-5, GSTR-5A, GSTR-6, GSTR-7, GSTR-8, and GSTR-9/9C. The GST portal will implement this restriction from the November 2025 tax period, meaning that returns due three years prior and still unfiled will become permanently inaccessible for filing. For example, from December 1, 2025, filing will be blocked for GSTR-1 and GSTR-3B of October 2022, quarterly GSTR-1 and GSTR-3B of July–September 2022, and annual returns (GSTR-9/9C) for FY 2020–21.

The advisory urges taxpayers to reconcile their books and file all pending returns immediately to avoid being permanently barred from compliance. This measure enforces timely return filing and ensures the integrity of the GST return system.

GSTN introduces 'Import of Goods' section in Invoice Management System (IMS) integrating Bill of Entry details for enhanced ITC reconciliation

The Goods and Services Tax Network (GSTN) has issued an advisory dated October 30, 2025, announcing the introduction of a new 'Import of Goods' section within the Invoice Management System (IMS). This enhancement allows recipient taxpayers to view and act upon Bill of Entry (BoE) details—covering both imports from overseas and from SEZs—directly within the IMS dashboard starting from the October 2025 tax period. Taxpayers can now accept or keep pending individual BoEs, while any unacted record will be treated as deemed accepted for the purpose of generating draft GSTR-2B on the 14th of the subsequent month.

The system classifies BoEs under four categories:

- IMPG – Imports from overseas,
- IMPG (Amendments) – Amendments to overseas BoEs,
- IMPGSEZ – Imports from SEZs, and

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- IMPGSEZA (Amendments) – Amendments to SEZ BoEs.

A significant update in this release is the handling of GSTIN amendments in Bills of Entry. When a BoE undergoes a GSTIN change, the system will automatically reflect ITC reversal entries for the previous GSTIN and corresponding ITC availability for the new GSTIN. Taxpayers can partially or fully declare reversal amounts, ensuring accurate reflection of credit transitions between GSTINs.

The advisory also details important procedural aspects:

- “Reject” action is not available for BoEs.
- “Pending” action is restricted for downward amendments and GSTIN amendment reversals.
- Accepted or deemed accepted BoEs will auto-populate in GSTR-3B and move out of the IMS post-filing.
- IMS and GSTR-2B formats have been enhanced to include new fields such as amendment type and ITC reduction details.

GSTN has issued FAQs addressing various questions and clarifications related to GSTR-9 and GSTR-9C

The GSTN’s updated FAQs on GSTR-9 and GSTR-9C for FY 2024–25 provide important guidance on auto-population, accurate reporting of Input Tax Credit (ITC), and key procedural updates for annual return filing.

Question (as per FAQ)	Simplified Summary
When will GSTR-9/9C for FY 2024-25 be enabled?	It will be enabled automatically once all GSTR-1 and GSTR-3B returns for FY 2024-25 are filed.
Will GSTR-9 be enabled if any GSTR-1 or GSTR-3B is pending?	No. GSTR-9 will be enabled only after filing all due GSTR-1 and 3B returns. Auto-population will use data from GSTR-1/1A/IFF, GSTR-2B, and GSTR-3B.
What is Table 8A of GSTR-9?	It captures ITC details from GSTR-2B for FY 2024-25, including invoices of FY 2024-25 appearing in GSTR-2B up to Oct 2025, and excluding FY 2023-24 invoices.
Does IMS Dashboard impact GSTR-9?	No direct impact. Accepted records in IMS appear in GSTR-2B and hence in Table 8A of GSTR-9.
Will GSTR-1A changes affect Table 4/5?	Yes. From FY 2024-25, supplies added/amended in GSTR-1A will also be considered in auto-population for Tables 4 and 5.

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Question (as per FAQ)	Simplified Summary
What is Table 6A1?	It reports ITC of preceding FY 2023-24 claimed in FY 2024-25 (till the cut-off date). Reclaimed ITC under Rule 37/37A is excluded.
How to report ITC claimed, reversed, and reclaimed in the same FY?	Report claims in 6B, reversal in 7A-7H, and reclaim in 6H. The same ITC will appear twice in Table 6A (claim + reclaim).
How to report ITC of FY 2023-24 reclaimed in FY 2024-25?	If reclaimed for reasons **other than Rule 37/37A**, report in 6A1; if due to **Rule 37/37A**, report in 6H.
How to report ITC of FY 2024-25 reclaimed in FY 2025-26?	Report claim in 6B, reversal in 7, and reclaim in next year's 6A1 (if not under Rule 37/37A) or 6H (if under Rule 37/37A).
Any change in Table 6M?	Only the label changed; ITC from ITC-01, 02, and 02A should continue to be reported in 6M.
What is "Table 8A Excel"?	A downloadable file on the GSTR-9 dashboard giving invoice-wise details of records appearing in Table 8A.
Why do 8A Excel and Online differ?	Minor mismatches may occur in five cases (like RCM supplies, PoS amendments, etc.). The online version is considered correct.

Question (as per FAQ)	Simplified Summary
Will supplier amendments auto-update Table 8A?	Yes, if amendments relate to FY 2024-25. Post-amendment invoices will shift between FYs accordingly.
How are next-year invoices (Apr–Oct 2025) treated?	They will auto-populate in Table 8A once the recipient files the corresponding GSTR-3B for that period.
What is Table 8C?	It shows ITC of FY 2024-25 claimed in next FY 2025-26 (within cut-off). Does not include ITC reversed and reclaimed later.
Will ITC reclaimed in next FY appear in 8C?	No. Such reclaim should be reported in Table 13, not 8C.
When to report ITC in Table 8C?	When ITC of FY 2024-25 is first claimed in next FY (Apr–Nov 2025). Examples: missed claims or invoices reported late by suppliers.
What does delinking 6H from 8B mean?	From FY 2024-25, 8B will auto-populate only from 6B. ITC reclaimed (6H) won't appear in 8B, avoiding mismatches in 8D.
How to report import IGST ITC claimed next year?	IGST on imports is shown in 8G; ITC claimed next FY in 8H1 and 13.

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Question (as per FAQ)	Simplified Summary
What will auto-populate as tax payable in Table 9?	Positive net tax from Table 6.1 of GSTR-3B. If negative, “Tax Payable” will remain blank. It can be edited if needed.
Any change in Tables 12 & 13 labels?	Only label change. Table 12 = ITC reversed in next FY; Table 13 = ITC availed in next FY.
Any facility for HSN details (Table 17)?	Yes. Excel download “Table 12 of GSTR-1/1A HSN Details” helps taxpayers fill HSN summary easily.
Is concessional 65% tax rate still applicable?	No. The 65% concessional rate checkbox has been removed from GSTR-9 (Tables 17 & 18).
How is late fee for GSTR-9C calculated?	Late fee under Sec 47(2) applies for delay in filing complete annual return (GSTR-9 & 9C). Auto-calculated by system based on actual filing dates.
ITC reclaimed under Rule 37/37A—belongs to which year?	It is treated as ITC of the **year in which it is reclaimed** and reported in Table 6H of that year’s GSTR-9.

Circulars

CBIC withdraws earlier circular prescribing procedure for furnishing evidence of compliance with respect to post-supply discounts under Section 15(3)(b)(ii) of the CGST Act

(Circular No. 253/10/2025-GST dated 1st October 2025)

The CBIC through Circular No. 253/10/2025–GST dated 1st October 2025, has withdrawn Circular No. 212/6/2024–GST dated 26th June 2024, which earlier provided clarifications regarding the mechanism for furnishing evidence of compliance with the conditions of Section 15(3)(b)(ii) of the CGST Act, 2017. The withdrawn circular had laid down procedures for suppliers to demonstrate that the discount or post-supply price reduction was passed on to the recipient and appropriately adjusted in taxable value.

With this withdrawal, the previously prescribed procedure for providing evidence of such compliance is no longer applicable. Hence, taxpayers are no longer required to follow the documentation or certification process outlined in Circular No. 212/6/2024–GST. The withdrawal aims to simplify compliance requirements and eliminate procedural ambiguity regarding the substantiation of post-supply discount conditions under Section 15(3)(b)(ii).

Instructions

The CBIC has prescribed a process for the provisional sanction of refund claims, based on system-driven identification and evaluation of risk parameters

(Instruction No. 06/2025-GST dated 3rd October 2025)

The CBIC through Instruction No. 06/2025-GST dated 3rd October 2025, has introduced a structured mechanism for provisional sanction of GST refund claims based on system-identified risk categories. This initiative arises from the 56th GST Council meeting held on 3rd September 2025, which recommended amending Rule 91(2) of the CGST Rules, 2017 to allow 90% provisional refund in cases identified as low risk by the system.

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The change, notified via Notification No. 13/2025-Central Tax dated 17.09.2025, comes into effect from 1st October 2025.

Under the new framework, refund applications categorized as low risk by the system will be eligible for 90% provisional sanction, while applications not categorized as such or where the officer records valid reasons will undergo detailed scrutiny. Additionally, Notification No. 14/2025-Central Tax dated 17.09.2025 specifies certain registered persons who are not eligible for provisional refunds on zero-rated supplies.

The Instruction emphasizes strict adherence to timelines for issuing FORM GST RFD-02 or RFD-03 and clarifies that officers should not withhold provisional refunds merely based on presumptions or initiation of scrutiny. Cases involving pending appeals or show cause notices are excluded from provisional sanction until finality is attained.

The following table summarizes the operational framework for provisional sanction of refunds:

Situation	Action to be Taken
Application identified as low risk by system	90% of refund claim to be sanctioned provisionally.
Not identified as low-risk or officer decides otherwise (with written reasons)	Detailed scrutiny to be conducted; provisional refund not to be granted.
Previous refund application pending in appellate forum or under SCN/order not attained finality	No provisional sanction: refund processed only after case closure.
Applicants notified under Notification No. 14/2025-Central Tax	Not eligible for provisional refund for zero-rated supplies.

Additionally, the Government has extended this facility as an interim measure to refund claims under Inverted Duty Structure (IDS) filed on or after 1st October 2025, allowing 90% provisional refund until the legislative amendment to Section 54(6) of the CGST Act is enacted. The refund processing mechanism for IDS will mirror that of zero-rated supplies, and the GSTN has enabled this functionality on the portal.

Customs

Notification issued for alignment of duty structures and exemptions with AIDC framework

(Notification No. 44/2025-Customs Dated October 24, 2025)

The Central Government, vide Notification No. 44/2025–Customs dated 24th October 2025, has amended multiple earlier customs notifications to align the basic customs duty (BCD) and exemption structure with the updated notification No. 45/2025–Customs. The changes are made under the powers conferred by Section 25(1) of the Customs Act, 1962, and relevant Finance Acts to rationalize tariff structures and ensure uniformity in the application of exemptions across various goods.

Key amendments include the substitution of several serial numbers in Notification Nos. 11/2018, 8/2020, and 11/2021–Customs to synchronize tariff entries with the new Table I of Notification No. 45/2025–Customs. These cover a wide range of goods such as food preparations (2106 90), electronic components (8541 series), motor vehicles (8703, 8704, 8711), precious metals (Chapter 71), and other items under headings 9028, 9503, and 9802. Certain entries have been omitted or replaced to eliminate overlapping exemptions. The notification also modifies concessional duty rates—e.g., 0.35% for specific precious metals, 5% for certain vehicle categories, and 67.5% for other passenger vehicles—to align with the updated AIDC (Agriculture Infrastructure and Development Cess) framework.

Additionally, the notification omits redundant serial numbers and introduces new ones linking eligible goods to the exemption provisions under Notification No. 45/2025–Customs. These updates ensure seamless application of exemptions where BCD relief is claimed and prevent double benefits under overlapping notifications

Notification issued for consolidation of various exemption notifications

(*Notification No. 45/2025-Customs Dated October 24, 2025*)

The Central Government has issued Notification No. 45/2025–Customs dated 24th October 2025, superseding multiple earlier exemption notifications to establish a comprehensive and unified structure for customs duty exemptions and concessional rates, in line with the Agriculture Infrastructure and Development Cess (AIDC) framework. This notification consolidates and rationalizes exemptions under the Customs Act, 1962 and the Customs Tariff Act, 1975, replacing several long-standing notifications dating back to 1957.

The notification provides detailed Tables (I to IV) specifying goods eligible for partial or full exemption from Basic Customs Duty (BCD), Integrated GST (IGST), and, in certain cases, Compensation Cess, subject to prescribed conditions. The covered goods range across diverse sectors — agriculture, pharmaceuticals, energy, renewable power, semiconductors, gems and jewellery, and defence manufacturing. Time-bound exemptions have been included for sectors such as fertilizers, aquatic feed, rare disease medicines, semiconductor fabrication, and renewable energy components, with most concessions valid until 31st March 2026 or 2029.

By consolidating multiple earlier notifications, this master notification ensures simplification, transparency, and alignment with AIDC-linked import duties. It aims to streamline classification references, minimize overlapping exemptions, and enable efficient monitoring of concessional duty imports

Instructions

CBIC issues instruction on operationalization of online Look Out Circular (LOC) portal for customs and GST intelligence formations

(Instruction No. 30/2025–Customs, dated October 13, 2025)

The CBIC has issued Instruction No. 30/2025 dated 13th October 2025, notifying the full operationalization of the Online Look Out Circular (LOC) Portal with effect from 1st March 2024. This replaces the earlier manual process of issuing LOC requests through letters or emails routed via DRI or DGGI headquarters, thereby ensuring a centralized, digital, and streamlined system for handling LOCs concerning both Indian citizens and foreign nationals.

As per the instruction, login credentials for the LOC portal are to be designation-based and created through nodal officers of designated offices. The designated authorities responsible for access creation and coordination include the Pr.

DG, DRI for DRI formations, Pr. DG, DGGI for DGGI formations, Pr. Chief Commissioner, CGST Delhi for CGST field formations, and Chief Commissioner, Delhi Customs for all Customs and Customs (Preventive) formations. The instruction mandates all field formations to coordinate with their respective designated offices for procedural guidance and activation of access.

This initiative marks a significant move towards digitization, efficiency, and accountability in handling LOC requests, minimizing delays, and improving coordination between investigative wings and field formations.

Circulars

CBIC issues circular enabling system-based auto-approval mechanism for incentive bank account and IFSC code registration across all customs locations

(Circular No. 24/2025-Customs dated 7/10/2025)

The CBIC, through Circular No. 24/2025–Customs dated 7th October 2025, has introduced a significant procedural simplification by enabling system-based auto-approval of incentive bank account and IFSC code registration requests across all customs locations. This measure builds upon Instruction No. 25/2023–Customs dated 28th July 2023, which had earlier prescribed documentary requirements and timelines for manual approval of AD Code and bank account registration for IGST refund and drawback purposes through the ICEGATE portal.

Under the new system, once a particular bank account and IFSC combination for an Importer Exporter Code (IEC) has been approved at any customs location, the same combination will be automatically approved for registration at other customs locations. The submission process on ICEGATE remains unchanged; however, such system-approved requests will bypass manual verification by port officers and move directly to PFMS (Public Financial Management System) for validation as per the existing protocol.

This initiative is aimed at enhancing ease of doing business by reducing redundancy, improving processing efficiency, and providing a smoother digital experience for exporters across ports.

CBIC issues circular on nationwide implementation of Sea Cargo Manifest and Transhipment Regulations (SCMTR), 2018

(Circular No. 25/2025–Customs dated October 8, 2025)

The CBIC has issued Circular No. 25/2025–Customs dated 8th October 2025, outlining the status and further implementation plan for the Sea Cargo Manifest and Transhipment Regulations (SCMTR), 2018. The circular confirms that the Sea Arrival Manifest (SAM) and Sea Entry Inward (SEI) systems have been implemented across India since 16th January 2025, while the Sea Departure Manifest (SDM) became operational from 26th August 2025, including the amendment functionality.

Additionally, the Stuffing Message (SF), filed by custodians, has been launched on a pilot basis at ICD Tughlakabad and CFS-Sattva (Chennai Customs) from 29th September 2025, with the remaining SCMTR messages to be operationalized by 31st December 2025. A Task Force has been constituted to monitor implementation and address issues raised by stakeholders. Furthermore, the transitional provisions under SCMTR have been extended till 31st December 2025 through Notification No. 61/2025–Customs (N.T.) dated 30th September 2025, allowing stakeholders to adapt to the digital filing process.

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Chief Commissioners have been directed to conduct weekly outreach programs in coordination with the DG Systems to sensitize trade and ensure smooth implementation. The circular emphasizes the importance of filing accurate electronic declarations under Sections 30, 41, 53, and 54 of the Customs Act, 1962, in line with SCMTR, 2018.

Supreme Court upholds entitlement of bona fide purchasers to input tax credit even when the selling dealer fails to deposit tax

(Civil Appeal Nos. 2042–2047 of 2015 & Civil Appeal No. 9902 of 2017 – Dated October 9, 2025)

The Supreme Court examined whether Input Tax Credit (ITC) could be denied to a purchasing dealer who had paid tax to a registered seller dealer, where the seller later failed to deposit the collected tax with the government. The taxpayer had purchased goods from sellers who were duly registered on the date of transaction but whose registrations were subsequently cancelled for defaulting in tax payment.

The Department contended that under Section 9(2)(g) of the Delhi Value Added Tax Act, 2004, ITC could not be allowed to a purchasing dealer unless the selling dealer had actually deposited the tax. Conversely, the taxpayer argued that they had acted bona fide, made purchases from registered dealers, paid the tax through valid invoices, and should not be penalized for the seller's default. The Delhi High Court had earlier ruled in their favor, recognizing them as bona fide purchasers entitled to ITC after invoice verification.

The Supreme Court referred to its earlier decisios, where Section 9(2)(g) of the DVAT Act was "read down" to protect bona fide purchasers. The Court reiterated that ITC cannot be denied to a genuine purchasing dealer merely because the selling dealer failed to deposit tax, unless there is evidence of collusion. Consequently, the Supreme Court found no grounds to interfere with the Delhi High Court's decision and dismissed the Department's appeal

This ruling has strong persuasive value under the GST regime as well. Under Section 16(2)(c) of the CGST Act, 2017, ITC is linked to the condition that the tax must be actually paid to the Government. However, as judicially recognized now, the bona fide purchaser should not be penalized for non-compliance by the supplier when all genuine documentation and due diligence have been maintained. The decision reinforces the principle of substantive justice over procedural lapses and aligns with the equitable approach that tax credit, being a vested right, cannot be denied to a compliant buyer for reasons beyond their control

TR-6 challan not a valid tax-paying document for availing input tax credit

(Advance Ruling No. 20/ARA/2025 dated May 9, 2025 – AAAR-TN)

Taxpayer imported goods during FY 2022–23 and FY 2023–24 and paid differential Integrated GST (IGST) on imports through TR-6 challans based on Special Valuation Branch (SVB) orders and directions from Customs authorities under Section 28(1)(b) of the Customs Act, 1962. The company sought to claim input tax credit (ITC) of such IGST, contending that the TR-6 challan represented valid tax payment evidence. The Tamil Nadu Authority for Advance Ruling (AAR) rejected this claim, holding that TR-6 challan is not

Important Rulings

a prescribed document under Section 16(2) of the CGST Act read with Rule 36 of the CGST Rules. The company appealed before the Appellate Authority for Advance Ruling (AAAR).

The taxpayer contended that a TR-6 challan, when accompanied by SVB orders and Customs correspondence, constitutes a valid document akin to a bill of entry, as it evidences payment of IGST on imports. They argued that both re-assessment and post-assessment payments under Customs law qualify as "assessment," and therefore, the TR-6 challan should be treated as a document similar to a bill of entry under Rule 36(1)(d). They further argued that Section 16(4) time limitation would not apply in such cases. Reliance was placed on earlier judicial precedents such as Essel Propack and Ambuja Cement from the pre-GST regime.

The department maintained that a TR-6 challan is not recognized under Section 16(2) or Rule 36 for availing ITC. It asserted that the law explicitly restricts eligible documents to bills of entry or documents prescribed under the Customs Act for assessment of IGST on imports. The department emphasized that the legislative intent does not permit substitution of TR-6 challans for bills of entry, especially given the GSTN's system-based mechanism for ITC reflection and verification.

The Tamil Nadu AAAR upheld the AAR's ruling, confirming that TR-6 challans do not qualify as valid tax-paying documents for ITC purposes. It reasoned that while TR-6 challans may evidence payment of duty under Customs law, they are not prescribed under GST law for ITC availment. The Authority clarified that the expression "document prescribed under the Customs Act for assessment of integrated tax on imports" is restrictive and deliberate. The AAAR also noted that re-assessment should be carried out bill-wise to generate valid re-assessed bills of entry, which would have enabled seamless credit flow. The appellate authority found no merit in invoking mutatis mutandis interpretation or pre-GST precedents, as the GST framework involves system-integrated transmission of data to the GSTN, a feature absent under earlier laws. Consequently, the appeal was dismissed, and the AAR ruling was affirmed.

This decision reiterates the importance of documentary compliance under GST. Even though TR-6 challans represent genuine payment of IGST under Customs provisions, they cannot serve as the basis for ITC unless supported by a bill of entry or re-assessed bill. Importers facing SVB-related differential duty payments must ensure re-assessment at the bill-of-entry level to safeguard ITC eligibility. The ruling also highlights the divergence between pre-GST and GST-era credit mechanisms, reinforcing that system validation through GSTN is integral to ITC entitlement. This serves as a cautionary precedent for businesses relying on TR-6 challans for differential IGST payments.

University not a body corporate and eligible for refund of service tax paid under reverse charge mechanism

(Final Order No. 51634-51635/2025 dated October 30, 2025; CESTAT, New Delhi)

The taxpayer filed a refund claim under Section 11B of the Central Excise Act, 1944, for service tax paid between May 2015 and October 2015 on legal, security, manpower, and works contract services under reverse charge mechanism. The university claimed that being a charitable educational institution, it was exempt from service tax under Notification No. 25/2012-ST and

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not liable to pay tax under Notification No. 30/2012-ST. The adjudicating authority partly sanctioned the refund and credited the sanctioned amount to the Consumer Welfare Fund on grounds of unjust enrichment. Both the department and the university filed cross appeals before the Tribunal.

Taxpayer argued that it was not a "body corporate" under Rule 2(bc) of the Service Tax Rules, 1994, as it was established as an autonomous charitable institution sponsored by the India Education Trust and not incorporated under the Companies Act. Therefore, it was eligible for exemption under the Mega Exemption Notification. The taxpayer also contended that unjust enrichment was not applicable since the tax was paid under reverse charge and borne entirely by the university.

The department argued that under Section 3 of the Mahatma Gandhi University Act, 2011, the university was constituted as a body corporate, and thus, not eligible for the claimed exemption. It further contended that the refund should remain credited to the Consumer Welfare Fund, as the university failed to produce evidence that it had not passed on the tax burden.

The CESTAT held that the university does not fall within the definition of "body corporate" under Rule 2(bc) of the Service Tax Rules, 1994, or Section 2(11) of the Companies Act, 2013, since it was not incorporated as a company or LLP and functioned as a charitable trust. The Tribunal observed that Section 3 of the University Act merely recognized the Board of Trustees as a body corporate, not the institution itself. Referring to Supreme Court rulings, it reaffirmed that only incorporated entities with independent legal identity qualify as "body corporate." The Tribunal further held that since service tax was paid under reverse charge, the question of unjust enrichment did not arise, as the university bore the tax burden. The refund was therefore allowed to be paid to the university and not transferred to the Consumer Welfare Fund.

This decision provides significant relief to educational institutions operating as charitable trusts or societies, clarifying that such entities are not "body corporates" for the purpose of service tax liability under reverse charge. The ruling also reinforces that unjust enrichment provisions do not apply where tax is paid under reverse charge by the recipient. Practitioners should, however, ensure that refund claims are well-documented with evidence of tax payment and non-passing of incidence to avoid diversion to the Consumer Welfare Fund.

Admissibility of Input Tax Credit of IGST in case of payment deferred to foreign suppliers beyond 180 days

(Advance Ruling No. GUJ/GAAR/R/2025/34 dated September 6, 2025) M/s taxpayer, a registered GST entity engaged in trading ferrous and non-ferrous metal scrap, sought an advance ruling on whether input tax credit (ITC) of IGST paid on imported goods would remain admissible if payment to the foreign supplier was made beyond 180 days from the invoice date, but within the time limits permitted under the Foreign Exchange Management Act (FEMA) and RBI guidelines.

The taxpayer contended that the second proviso to Section 16(2) read with Rule 37 of the CGST Rules, 2017, does not apply to import transactions because IGST is paid directly to the government, not to the supplier. The invoice issued

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by the foreign supplier is not a "tax invoice" under Section 2(66), and ITC is claimed on the bill of entry as per Rule 36(1)(d). The applicant also relied on FEMA and RBI guidelines permitting deferred payment for imports up to one year and cited the intent of the 6th GST Council Meeting, where the 180-day rule was primarily introduced to prevent tax evasion in domestic supplies.

The department argued that Section 16(2) and Rule 37 make no distinction between domestic and import transactions. Since the taxpayer had related entities facing proceedings on similar issues, the ruling should be rejected as barred under Section 98(2) of the CGST Act. On merits, it maintained that non-payment to the supplier within 180 days triggers ITC reversal, regardless of the nature of the supply.

The Gujarat AAR first held that the application was maintainable as no proceedings were pending "in the case of the applicant" as required under Section 98(2). On merits, it ruled that the second proviso to Section 16(2) of the CGST Act does not apply to import transactions. The AAR reasoned that IGST on imports is already paid to the government at the time of clearance, protecting revenue. It emphasized that the restriction under Section 16(2) was meant to curb evasion where tax had not yet reached the exchequer a situation inapplicable to imports. Drawing parallels with reverse charge transactions, the AAR held that denying ITC in such cases would amount to "treating equals as unequal," violating Article 14 of the Constitution. The Authority concluded that ITC on IGST paid for imported goods remains admissible even when payment to the foreign supplier is made after 180 days, provided it complies with FEMA and RBI guidelines.

This ruling provides welcome clarity for importers making deferred payments to foreign suppliers. It reinforces that once IGST is paid at import, ITC cannot be denied merely for delayed remittance to the supplier, as government revenue already stands protected. The AAR's analogy between imports and reverse charge mechanism aligns with the legislative intent of Section 16(2). Businesses may rely on this precedent to claim ITC confidently where payment delays occur within permissible FEMA timelines, though the ruling's binding effect is limited to the applicant's jurisdiction.

Contributed by

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

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

Important Updates - RBI

Coverage

Reserve Bank of India has come up with some major reforms in banking sector effective from October 1, 2025. These series of reforms are through several notifications and directions.

Interest Rate on Advances to retail borrowers and MSME[1]

Scheduled commercial banks (SCBs) are required to benchmark all floating rate personal or retail loans (housing, auto, etc.), and floating rate loans extended to MSMEs, to an external benchmark. While banks are free to decide the spread over the external benchmark, other than credit risk premium, all components of the spread can be altered only once in three years[2].

In respect of Equated Monthly Instalments (EMI) based Personal Loans, the regulated entities had to provide a mandatory option to the borrowers, at the time of reset of interest rates, to switch over to a fixed rate[3].

The Amendment Directions[4] revise the above provisions to benefit the borrowers, while providing greater flexibility to the lenders.

(i) Banks may reduce the other spread components **for the benefit** of the borrower earlier than three years; *the choice is only to be exercised in benefit of borrower.*

(ii) Banks may, at their discretion, provide the option to switchover to fixed rate at the time of reset.

Lending against Gold and Silver Collateral[4]

Banks are generally prohibited from lending for purchase of gold/silver in any form, or lending against the security of primary gold/silver. However, a carve-out has been allowed for scheduled commercial banks (SCBs) for granting working capital loans to jewellers.

The Amendment Directions[4]:

(i) Extend the carve-out for granting any need-based working capital requirements of a borrower that uses gold as a raw material or input in its manufacturing or industrial processing activities.

(ii) Permit Tier 3 and Tier 4 Urban Co-operative Banks to also grant working capital loans, on the same lines as proposed for SCBs.

Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas – Perpetual Debt Instruments (PDI)

The Reserve Bank has revised the existing eligible limit applicable to PDIs denominated in foreign currency/rupee denominated bonds overseas, thereby providing greater headroom to banks for augmenting their Tier 1 capital via overseas markets[5].

1 Reserve Bank of India (Interest Rate on Advances) (Amendment Directions), 2025
2 Reserve Bank of India (Interest Rate on Advances) Directions, 2016 dated March 3, 2016
3 Circular on Reset of Floating Interest Rate on EMI based Personal Loans dated August 18, 2023
4 Reserve Bank of India (Lending Against Gold and Silver Collateral) - (1st Amendment) Directions, 2025
5 Reserve Bank of India (Basel III Capital Regulations - Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital – Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas) Directions, 2025

Important Updates - RBI

Drafts for Comments

RBI releases drafts of all notifications, master circular and master directions for public comments. This time around they have released 3 such drafts for comments.

Reserve Bank of India (Gold Metal Loans) Directions, 2025

The Gold Metal Loan (GML) scheme was introduced *vide* circular on 'Gold Loan' dated December 31, 1998, to facilitate working capital finance to jewellery exporters in the form of raw gold imported by banks. The scheme has been liberalised over the years by, allowing banks to extend GML to domestic jewellery manufacturers and also from the gold deposits mobilised under the Gold Monetization Scheme.

With a view to further liberalise the scheme, harmonize the extant regulations applicable across eligible borrower segments in jewellery industry and provide more operational freedom to banks to devise their GML policy, a draft of comprehensive set of Directions on GML is being issued. The draft Directions, apart from making the same more principle-based, cover the following key modifications in the existing GML scheme:

(i) Banks may fix a repayment tenor for GML extended to jewellers other than exporters, subject to a revised ceiling of 270 days (from current 180 days);

(ii) Guidelines allow extension of GML to jewellery exporters and domestic jewellery manufacturers. It is proposed to allow GML to domestic non-manufacturers as well, for outsourcing their manufacturing of jewellery.

Large Exposures Framework (Amendment Circular), 2025; and Guidelines on Management of Intragroup Transactions and Exposures (Amendment Circular), 2025

Circulars on Large Exposures Framework (LEF) dated June 3, 2019, Large Exposures Framework – Credit Risk Mitigation (CRM) for offsetting – non-centrally cleared derivative transactions of foreign bank branches in India with their Head Office (LEF-CRM) dated September 9, 2021, and Guidelines on Management of Intra-Group Transactions and Exposures (ITE) dated February 11, 2014 prescribe prudential norms on a bank's exposures to its counterparties as also those to its group entities.

The two Amendment Circulars amend the extant norms to clarify certain aspects on prudential treatment of exposures of foreign bank operating as branches in India and aligning some of the prudential norms under LEF and ITE. The key changes include the following:

(i) Exposure of Indian branches of foreign banks to their HO, and branches/subsidiaries of the HO, shall be reckoned only for LEF, and not ITE. Such exposures, where cleared through a central counterparty, shall be considered on a gross basis.

(ii) Funds received from the HO, and kept by the Indian branch of a foreign bank under a special arrangement with RBI as cash/unencumbered approved securities, are treated as CRM for offsetting non-centrally cleared derivative transactions of such branches with their HO. It is proposed to extend the CRM benefit to any exposure of a foreign bank branch to its HO.

(iii) Computation of exposure under ITE is proposed to be made consistent with those under LEF i.e., the benefit of

Important Updates - RBI

credit conversion factor for deciding credit equivalence of off-balance sheet exposures, and credit risk mitigation technique for offsetting exposures to a counterparty, shall henceforth be permitted for ITE exposures.

(iv) The ITE threshold, which is currently linked to Paid-up Capital and Reserves, is proposed to be linked to Tier-1 capital of banks.

Draft Reserve Bank of India (Credit Information Reporting) (1st Amendment) Directions, 2025

The Master Direction – Reserve Bank of India (Credit Information Reporting) Directions, 2025 mandates submission of credit information by Credit Institutions (CIs) to Credit Information Companies (CICs) at fortnightly or shorter intervals. Given the increasing reliance of CIs on credit information reports in credit underwriting processes, it is imperative that the credit information reports (CIR) provided by CICs reflect a more recent information. Accordingly, the provisions of the Master Direction – Reserve Bank of India (Credit Information Reporting) Directions, 2025 pertaining to frequency of reporting of credit information by CIs to CICs have been reviewed.

It is proposed to transition to weekly credit information submission by CIs to CICs. The Draft amendments also mandate measures to facilitate faster data submission and error rectification by the CIs. Further, to facilitate aggregation of credit information by CICs, it is proposed to capture Central Know Your Customer (CKYC) number in a separate field in the reporting format of consumer segment.

Contributed by

Mr. Chirag Bakshi

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

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

Independent Member of KSL NETWORK

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 80 2356 1880
dhaval.trivedi@kcmehta.com

Mumbai

Bhadresh Vyas
315, The Summit Business Park,
Opp. Max Cinema, Nr. WEH Metro
Station, Andheri East, Gundavali,
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

Abbreviations

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