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

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

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Why Mutual Fund Rankings Can Be Misleading and What to Look at Instead

Log into any investment app today and the default view is the same - a list of mutual funds, sorted by last year's returns, with the highest at the top. The logic is intuitive - why not invest in the best performer? The problem is that such one-dimensional instinct costs investors real money. The solution is not any single magic alternative metric. It is learning to read a fund through multiple, non-overlapping lenses.

The Core Problem with Rankings

A performance ranking is a photograph of the past. It answers one question: which fund made the most money over a specific period? It does not answer the questions that actually matters - how much risk was taken, whether that return is likely to repeat, whether the portfolio is already expensive, or whether the fund is truly distinct from others you already own.

Academic research examining over 100 active equity mutual funds in India found no evidence that performance is persistent - meaning last year's rank is a poor guide to the next year. A fund that gained 20% through concentrated sector bets ranks identically to one that gained 20% through diversified, disciplined selection. For an investor, these funds are not the same - the distinction lies beyond past returns.

Risk Adjusted Returns: Sharpe, Sortino, and Information Ratios

The first upgrade from raw returns is the Sharpe Ratio - how much excess return a fund generates for every unit of total risk. Take the fund's return, subtract the risk free treasury bill rate, and divide by its standard deviation. A Sharpe ratio of 1 means one unit of return per unit of risk taken; a Sharpe ratio under 0.5 means the return barely compensates for the volatility investors will endure.

Sortino ratio refines this by penalising only downside volatility. Two funds with identical Sharpe ratio can have very different Sortino ratio. The fund with the higher Sortino ratio makes money with fewer painful dips - the practical difference between staying invested through a correction and panic-redeeming at the worst possible moment, particularly relevant for conservative investors.

Information ratio (IR) answers the most precise question of all: how much excess return did the manager generate above the benchmark, per unit of active risk taken to get there? The formula is: (Fund Return − Benchmark Return) ÷ Tracking Error, where the tracking error measures how consistently the manager's decisions deviated from the index. A high IR signals consistent, efficient outperformance. A negative IR means the manager is taking active risk without being compensated for it.

India-specific data on this metric is revealing. Large-cap funds delivered 13-14% CAGR over a decade, yet only 2 in 10 funds had a positive IR - meaning most of that return came from the market rising, not the manager adding value. In the mid-cap space, just 1 in 10 regular-plan funds showed a positive IR, while small-cap funds performed better with 7 in 10 with a positive IR, reflecting genuine manager contribution in a less-efficient universe.

Portfolio P/E vs. Portfolio Earnings Growth

Every fund discloses its portfolio P/E - the weighted average valuation multiple of its holdings. A high P/E is not automatically a warning sign. A fund at P/E of 25 whose portfolio companies are growing earnings at 25-30% annually is reasonably priced; one at P/E of 20 with 8-10% earnings growth is not.

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This PEG logic - comparing the P/E multiple paid to the growth received or anticipated - is more informative than a standalone P/E ratio. Category context is also critical: a Banking fund's P/E of 14 and an IT fund's P/E of 30 are structurally incomparable. Always benchmark within the same category.

NAV: What It Does and Does Not Tell You

A persistent misconception is that a low-NAV fund is "cheaper." It is not. NAV is simply the current market value of a fund's holdings per unit - not a price signal or a valuation metric. What matters is percentage growth in NAV relative to the benchmark over time.

For ETFs and closed-ended funds, units trade on exchanges and may carry a meaningful premium or discount to NAV - buying an ETF at a 3% premium means overpaying for the same underlying basket. For open-ended mutual funds, NAV is purely a reference price.

Alpha, Beta, and the Source of Returns

Beta measures market sensitivity: a Beta of 1.2 amplifies both gains and losses by 20% versus the index. A fund ranking #1 in a bull year with a Beta of 1.4 has demonstrated leverage to the market, not necessarily skill. Alpha strips out the beta-driven portion: it is the manager's genuine value addition above what the market provided for free.

Positive, consistent alpha across multiple cycles including a downturn is the most honest available signal of a fund manager's skill. Treynor ratio, which uses beta rather than standard deviation as its risk measure, complements alpha in assessing whether a well-diversified fund is earning returns commensurate with its market risk.

Portfolio Overlap: The Hidden Diversification Trap

Performance rankings never reveal whether your funds are genuinely distinct from each other. The Nifty 50 universe is finite, and most large-cap funds hold significant allocations to top 5-10 companies by market cap regardless of the fund house. An investor holding four large-cap funds may effectively own the same 20-25 stocks four times, paying four fund houses in the illusion of diversification.

When multiple funds share the same holdings, a single sector or stock underperformance hits the entire portfolio harder than expected. Portfolio overlap calculators available on certain platforms can quantify this before any commitment is made.

Fund Manager, Fund Size, and Expense Ratio

Three structural factors determine the conditions under which any quantitative ratio is achievable - yet all three are invisible in a ranking.

Fund Manager's Consistency: A fund's track record belongs to its manager, not its name. Research on over 100 fund manager changes found that manager turnover is a key driver of performance discontinuity - strong funds frequently decline after a manager exits, while underperforming funds often improve when a fund manager is replaced. Always verify how long the current manager has run a specific fund. A five-year record across three managers is not a five-year track record; it is three shorter tenures presented as a continuum.

Fund Size: A mutual fund's giant-sized Small Cap fund holds nearly 3 times as many stocks as an average large-cap fund - not by conviction, but by necessity. At that scale, the fund increasingly mirrors the small-cap index while charging an active management fee, a phenomenon known

as closet indexing. This risk becomes acute above a certain fund size in mid and small-cap strategies, where liquidity is finite and larger trades move prices. For large-cap funds, size is a lesser concern given the depth of the investment universe.

Expense Ratio: Returns are uncertain. The expense ratio is not. It compounds daily regardless of performance. Average gap between direct (no-commission) and regular (commission based) equity fund plans in India is ~0.7% p.a. which translates into a reduced terminal corpus over a longer investment horizon. A genuinely skilled manager generating consistent alpha above the benchmark may justify a higher fee. Where alpha is thin or inconsistent, minimizing the expense ratio is the most reliable lever available.

Reading a Fund Like a Framework, Not a Scoreboard

The right approach is layered and sequential: start with category, use rolling returns over 3-5 years rather than trailing returns, apply Sharpe, Sortino and Information ratios for risk-efficiency, check portfolio P/E against its earnings growth, verify is alpha is consistent, confirm the manager's consistency, assess fund size relative to its strategy, and map holdings for overlap before adding anything new.

No single metric tells the whole story. Rankings give you only one dimension of a multi-dimensional reality. The investor who asks, "what return did this fund make?" is asking a good question. The investor who also asks, "at what risk, at what valuation, with what genuine skill, how experienced is the manager, and does it truly add something my portfolio doesn't already have?" - that investor is asking a far better question.

Disclaimer: This article is meant for educational purposes only and should not be considered as investment advice. Consult a SEBI Registered Investment Adviser before making any investment decisions.

Sources: Publicly available reports and studies, AMFI website, AI based research tools.

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Important Rulings

Not all interest is taxable income: HC capitalizes pre-commencement interest inextricably tied to project setup

VNG Automotive Pvt. Ltd. v. ACIT, ITA No. 795 & 796 of 2004, Delhi High Court

VNG Automotive Pvt. Ltd., the taxpayer, was incorporated in March 1992 with the object of manufacturing asbestos-free automobile brake shoes. Shortly after incorporation, it entered into a technical know-how agreement with a Singapore based company and paid USD 50,000 as the first instalment, with the balance USD 2,00,000 payable in five annual instalments. It also paid advances towards purchase of machinery to several vendors and purchased industrial land. All of these payments were made out of interest-free loans raised from the Directors. The remaining portion of the loan, which was kept aside to meet the upcoming committed obligations, namely the balance technical know-how fee and further machinery advances, was temporarily deposited in a bank. This deposit earned interest of Rs. 1.33 lakhs and Rs. 2.37 lakhs for AY 1993-94 and AY 1994-95 respectively. The taxpayer adjusted this interest against pre-operative expenses and filed nil income returns. The returns were processed under Section 143(1) of the ITA. In 2001, the AO reopened the assessments relying on the Supreme Court's ruling in *Tuticorin Alkali Chemicals and Fertilizers Ltd. v. CIT*[1997] and treated the bank deposit as surplus funds, taxing the interest as income from other sources. The CIT(A) deleted the addition. The ITAT reversed the CIT(A) and restored the addition. The taxpayer appealed to the Delhi High Court.

The Revenue argued that there was no compulsion on the taxpayer to deposit funds in the bank, and the deposit was therefore not directly linked to the acquisition of technical know-how or plant and machinery. It relied on *Tuticorin Alkali Chemicals* to contend that interest earned on funds temporarily invested during the pre-commencement period was taxable as income from other sources. It also contended that the reassessment was valid since the original assessment was merely processed under Section

143(1) of the ITA and no opinion had been formed by the AO at that stage.

The taxpayer submitted that the funds were not surplus in any meaningful sense. They were earmarked for specific upcoming project payments: the balance technical know-how fee instalments due to the Singapore company, and further payments towards plant and machinery for which advances had already been made. The bank deposits were simply a prudent way to hold these funds pending deployment. The interest earned was therefore inextricably linked to the setting up of the business and ought to be treated as a capital receipt to be adjusted against project cost, following the Supreme Court's ruling in *CIT v. Bokaro Steel Ltd.* [1999]. Reliance was also placed on *Karnal Cooperative Sugar Mills*, *Indian Oil Panipat Power Consortium Ltd.* and this Court's earlier decision in *Brahma Center Development Pvt. Ltd.*

The Delhi High Court allowed the appeal on merits. On the reassessment issue, the Court agreed with the ITAT that since the original assessment was processed under Section 143(1) and not Section 143(3) of the ITA, no opinion had been formed by the AO thus not resulting in change of opinion, and reopening was therefore valid. On the substantive issue, the Court held that the funds were not surplus. They were earmarked to meet specific committed obligations, being the balance technical know-how payments and further machinery advances. Since those

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obligations were outstanding and the funds were kept in deposits only pending their deployment, the interest earned was inextricably linked to the setting up of the business. *Applying Bokaro Steel Ltd.,* the Court held that such interest was a capital receipt and must be adjusted against pre-operative expenses, not taxed separately. The Court distinguished *Tuticorin Alkali Chemicals* on facts, observing that in that case the funds were genuinely surplus with no specific pending obligation, and were deployed to generate interest income independently. The ITAT's order was set aside and the taxpayer was held entitled to set off the interest against pre-operative expenditure.

The distinction between *Bokaro Steel* and *Tuticorin Alkali Chemicals* has been a recurring source of litigation, and this ruling is a useful reminder of where the line is drawn. In *Tuticorin*, the company had borrowed funds, and since those funds were not immediately required, it invested them in short-term deposits with banks, lent them to employees at interest, and invested in Tamil Nadu Electricity Board deposits. Importantly, in several earlier years the taxpayer itself had treated this interest as taxable income before changing its position. The funds were genuinely surplus and were being deployed to generate returns. In *Bokaro Steel*, on the other hand, the funds were inextricably linked to the construction of the plant and the interest earned was incidental to that process, not an independent income generating activity. The present case falls clearly in the *Bokaro* camp. The court has drawn a clear distinction between the interest on surplus funds and interest on funds which are 'inextricably linked' to setting up of plant and the taxpayers needs to be mindful of this very thin line while taking any tax position.

Buy-back is capital reduction, not asset acquisition: Delhi HC holds Section 56(2)(x) cannot be invoked on purchase of own shares

Pr. CIT v. Globe Capital Market Ltd., ITA No. 364 of 2024, Delhi High Court

Globe Capital Market Ltd., the taxpayer, is engaged in share broking and clearing of trades. During AY 2018-19, it bought back 28,62,500 of its own equity shares at Rs. 313.40 per share, aggregating to Rs. 89.71 crores, after following the procedure under Section 68 of the Companies Act, 2013 and paying the applicable buyback distribution tax under Section 115QA of the ITA. During assessment proceedings under Section 153A of the ITA, the AO computed the fair market value (FMV) of the shares under Rule 11UA at Rs. 370.46 per share. He treated the difference of Rs. 57.06 per share, totalling to Rs. 16.33 crores, as income in the hands of the taxpayer under Section 56(2)(x) of the ITA, on the ground that the taxpayer had acquired property, being its own shares, at a price below FMV. The CIT(A) deleted the addition. The ITAT upheld the deletion. The Revenue then appealed to the Delhi High Court, which dismissed the appeal.

The Revenue argued that the definition of property under Section 56(2)(x) of the ITA includes shares and securities, and makes no distinction between shares of the taxpayer's own company and shares of any other company. Since the shares were acquired at a price below FMV, the difference was liable to be added as income by virtue of the deeming fiction in the provision. It further pointed out that the Finance Bill, 2017 had widened the scope of income from other sources, and the scope of Section 56(2)(x) was broader than the earlier Section 56(2)(viia) of the ITA.

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The taxpayer submitted that the buy-back was carried out strictly in accordance with Section 68 of the Companies Act and after shareholder approval. The transaction was not a purchase of a capital asset but a reduction of share capital. Under Section 68(7) of the Companies Act, every bought-back share must be extinguished and physically destroyed within seven days of completion of the buy-back. Since the shares ceased to exist the moment they were bought back, the very premise of the AO that the taxpayer had acquired an asset at below FMV was factually and legally incorrect. A company cannot be said to have acquired property that it was simultaneously required by law to destroy.

The Delhi High Court dismissed the Revenue's appeal. It held that a buy-back of shares is fundamentally a reduction of capital and not an acquisition of property. Shares of a company, for the issuing company itself, are certificates issued to members in lieu of their capital contribution and cannot be treated as property in the same sense as shares held by a third-party investor. The Court pointed to Section 68(7) of the Companies Act, which mandates that bought-back shares must be extinguished and physically destroyed. Once the shares are destroyed, the purported property simply vanishes. A taxpayer cannot be taxed on deemed profit arising from property that has been extinguished by operation of law. The Court held that buy-back of own shares is the very antithesis of buying an asset, and the Revenue's reading of Section 56(2)(x) of the ITA, while superficially attractive, does not survive scrutiny when tested against the Companies Act, common sense, and the Income Tax Act read as a whole.

The above approach by the appellate authority is not something new but has been a part of various Tribunal judgements such as in case of Lupin Investments (P) Ltd., Venture Lighting India Ltd., VITP (P) Ltd. and many more. This ruling reiterates the prudence that in a buy-back, the company does not "receive" property in any real sense, and therefore any alleged undervaluation cannot be characterised as a gift in its hands, the very premise of receipt fails. This aligns squarely with Section 68 of the Companies Act, which mandates extinguishment of shares post buy-back and imposes no requirement that the buy-back price be at fair market value, underscoring that a buy-back is a capital restructuring exercise, not an acquisition of income-generating property. The tax framework reinforces this conclusion. Until October 2024, buy-backs were governed by Section 115QA of the Income-tax Act, a self-contained code taxing the company without any FMV condition; from October 2024, taxation shifted to shareholders as dividend income, again with no FMV implications. From 1 April 2026, buy-backs are taxed as capital gains in shareholders' hands, bringing Section 79 of the Income-tax Act, 2025 (akin to Section 50CA of the ITA, 1961) into play for unquoted shares, but only for computing shareholders' capital gains. Even under this latest regime, any alleged undervaluation in a buy-back may not be treated as income or a gift in the hands of the buying company as has been upheld in various judicial decisions.

Box donations collected and used for construction of community hall: Non - Taxable Capital Receipt though not registered u/s 12AA of the ITA

Shree Sant Bhojaji Maharaj Deosthan Ajansara v. ITO, ITA No. 188 of 2025, Nagpur Tribunal

The taxpayer is a charitable trust registered under the Bombay Public Trust Act, 1950, with Section 12AA registration under ITA effective only from AY 2019-20. For A.Y. 2016-17, the trust

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received voluntary contributions of Rs. 88,20,088 collected through a donation box placed in the temple premises for construction of a community hall for devotees. The entire amount was credited to the Corpus Fund Account, reflected in the balance sheet as a capital receipt, and applied exclusively towards the said construction. Exemption was claimed under Section 11(1)(d) of the ITA. The CPC disallowed the claim citing absence of Section 12AA registration under ITA, a rectification under Section 154 was also rejected, and the CIT(A) upheld the disallowance on the same ground thus treating registration as a condition precedent for availing Section 11 benefit.

The Revenue maintained that Section 12AA registration is a condition precedent for any benefit under Section 11 of the ITA and since the trust's registration was effective only from AY 2019-20, the claim for AY 2016-17 was without basis. Non-filing of Form 10B was also pressed as an additional procedural failure. The CIT(A) confirmed the disallowance without examining the substantive nature of the receipt.

Before the Tribunal, the taxpayer argued that a corpus donation is a gift and inherently capital in nature. It is not income at all and hence the question of applicability of Section 11 of the ITA and the requirement of registration therefore simply does not arise when the receipt itself falls outside the computation of income. The taxpayer relied on decisions of the various Tribunals, the Madras High Court in CIT v. Pentafour Software Employees' Welfare Foundation, and the Delhi High Court's dismissal of Revenue's appeal in ITO v. Smt. Basanti Devi & Shri Chakhan Lal Garg Education Trust.

The Nagpur ITAT reasoned with the taxpayer and deleted the entire disallowance of Rs. 88,20,088. The Tribunal held that corpus donations are capital receipts and are not taxable irrespective of whether the trust is registered under Section 12A/12AA of the ITA or not. While technically a corpus donation requires a specific written direction from the donor which was absent here given the box collection mode, the Tribunal focused on the undisputed substance that the entire amount was applied for capital construction and the transaction was fully reflected in the balance sheet. More fundamentally, the Tribunal drew a clear distinction between the question of whether Section 11 of the ITA applies (which depends on registration) and the prior question of whether the receipt is income at all. Tribunal concluded that corpus donation are capital in nature and a capital receipt does not enter the computation of income. Section 12AA registration governs the exemption route and its absence cannot convert a receipt of non-taxable nature into a taxable one.

This ruling might be relevant for the trusts operating before their Section 12AA/12AB registration under ITA is effective, a window where tax authorities have frequently sought to tax voluntary contributions by invoking the absence of registration. The ruling firmly separates two distinct questions: 1. Registration determines the route to exemption under Section 11 of the ITA, but it does not determine whether a receipt is income in the first place 2. Where contributions are received for a specific capital purpose and entirely applied to create a capital asset, with transactions transparently reflected in audited accounts, the capital character of such receipts holds regardless of registration status. In sum, the nature of the receipt governs taxability, not the registration status of the trust. However, this approach is not litigation free especially when definition of income u/s 2(24)(iia) of the ITA

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does not provide any such specific exclusion with respect to corpus donation.

ITAT holds that right to collect toll is an 'intangible asset'; allows depreciation @25% for BOT operator.

Jalandhar Amritsar Tollways Ltd, ITA No. 2921 & 3926 of 2017, Delhi Tribunal

The taxpayer, M/s. Jalandhar Amritsar Tollways Ltd., a Special Purpose Vehicle engaged in road projects on BOO/BOT/BOOT basis, undertook widening of an existing two-lane road to a four-lane highway along with operation and maintenance of NH-1. The taxpayer did not acquire ownership of the road, as the infrastructure remained vested with the Government/NHAI, and only a right to collect toll was granted under the concession arrangement. The taxpayer claimed depreciation at 25% by treating the toll collection right as an intangible asset. However, the Assessing Officer restricted depreciation to 10%, treating the right as part of "road" falling under the category of "building" in Appendix-I of the Income-tax Rules.

The Tribunal, following the ITAT Hyderabad Special Bench decision in case of ACIT v. *Progressive Constructions Ltd.,* concluded that the expenditure incurred on construction of infrastructure facilities does not result in the creation of a tangible asset owned by the concessionaire; instead, it gives rise to an intangible asset in the form of the right to operate the facility and collect toll during the concession period and hence the same is eligible for depreciation at the rate of 25%. Since the Delhi Tribunal has relied solely on the judgement of ITAT Hyderabad Special Bench in case of Progressive Constructions, the relevant extracts and reasoning provided by the Hyderabad Tribunal are discussed herewith: ITAT Hyderabad Special Bench in Progressive Constructions Ltd., in similar BOT/BOOT cases, held that expenditure incurred on construction of infrastructure does not result in creation of any tangible asset in the hands of the concessionaire, as ownership of the road remains vested with the Government/NHAI. Instead, such expenditure results in a valuable and enduring intangible asset in the form of the right to operate the facility and collect toll during the concession period, which is eligible for depreciation under Section 32(1)(ii) of the ITA. The Tribunal also rejected the Department's argument of double depreciation, holding that there is no overlap of claims. The taxpayer's claim is confined only to the intangible toll collection right, not the physical road itself; hence, no case of double depreciation arises.

The Hyderabad Tribunal observed that the right arising under the BOT Concession agreement constitutes only commercially meaningful benefit of the investment, as it enables the taxpayer to recover its cost along with profit and therefore has independent business value. It further observed that the Government merely grants a limited right to enter, develop, operate, and maintain the project site, without transferring any ownership, title, or interest in the immovable property, and such permission would otherwise be unlawful without the agreement. Accordingly, the right was regarded as a license or at least akin to a license under Section 52 of the Indian Easements Act, 1882, and thus falls within the scope of intangible assets under Section 32(1)(ii) of the ITA. Even if it does not strictly qualify as a license, the Tribunal held that it would in any case be covered under the residuary expression "any other business or commercial rights of similar nature" in Explanation 3(b), which has been interpreted broadly by the Supreme Court in *Techno Shares & Stocks Ltd. v. CIT* to include commercial rights akin to

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franchise. In Techno Shares & Stocks Ltd., the Apex court held that a BSE Membership Card is an intangible asset as it provides the essential right to carry on trading business.

Applying the same principle to BOT cases, the Hyderabad Tribunal observed that just as a BSE membership card is the fundamental tool enabling a stockbroker to operate in the stock market, the right to collect toll is the core business tool for a BOT concessionaire. Both rights are acquired at substantial cost, do not confer ownership of any physical asset, but are essential for carrying on the respective businesses and earning revenue. Accordingly, the Tribunal held that toll collection rights qualify as intangible assets eligible for depreciation at the rate of 25%.

It is important to note that with respect to the above issue, CBDT has issued Circular No. 9 of 2014 dated 23-04-2014 which permits amortisation of expenditure incurred on BOT/BOOT infrastructure projects over the concession period, treating it as deferred revenue expenditure, since the concessionaire does not acquire ownership of the underlying asset and recovers its cost through toll collection. In this regard, the Hyderabad Tribunal noted that since the circular is a beneficial provision, its benefit can be availed only if specifically opted for by the taxpayer and it cannot be thrust upon by the Revenue to deny depreciation under Section 32(1)(ii) of the ITA. However, since the question of amortisation as per above mentioned CBDT circular was beyond the scope of the orders of the lower authorities and not part of the dispute, the Tribunal did not adjudicate this ground of the revenue.

Accordingly, the Delhi Tribunal has once again re-iterated the principles laid down by the Hyderabad Tribunal in *case of Progressive Constructions Ltd.* with respect to BOT/BOOT arrangements.

Sec. 56(2)(x)(c) of ITA (gift provisions) does not apply to Fresh share allotment or Leasehold rights

Torque Pharmaceuticals Pvt. Ltd. v. DCIT, ITA No. 547 of 2025, Chandigarh Tribunal

Torque Pharmaceuticals Pvt. Ltd., the taxpayer, a pharmaceutical company, invested Rs. 75 Crores to acquire 14,06,259 freshly allotted equity shares of M/s Kranti Buildwell Pvt. Ltd. (KBPL) on 31-03-2021 at price of Rs. 533.33 per share (face value Rs. 10 plus premium Rs. 523.33). KBPL's wholly owned subsidiary M/s Lok Priya Buildwell Pvt. Ltd. (LBPL) owned the JW Marriott hotel, Chandigarh, on leasehold land of 12,694.422 sq. yards taken from Municipal Corporation, Chandigarh on a 99-year lease. The taxpayer's own valuation under Rule 11UA(1)(c)(b), using audited Balance Sheet of KBPL as on 31-03-2021, placed FMV at Rs. 420.73 per share treating the leasehold land and building thereon at book value due to land being leasehold and recognising the FF&E reserve of Rs. 20.16 Crores as an ascertained liability considering the same being mandated by the Marriott franchise agreement.

The present case mainly arose due to the agreements and papers found during search proceedings u/s 132 of the ITA held on the taxpayer on 08-12-2021, during which the Assessing Officer seized two agreements i.e. a signed shareholders' agreement dated 12-10-2020 that contemplated purchase of 50% stake in KBPL by taxpayer from existing shareholders at Rs. 150 Crores and an unsigned, undated agreement envisaging fresh allotment of 15 Lakh shares of KBPL to taxpayer at price of Rs. 1,000 each for aggregate Rs. 150 Crores. Relying on these

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documents and on handwritten seized papers, the AO concluded that the true value of 14,06,259 shares was Rs. 150 Crores and the taxpayer deliberately undervalued the share acquisition, and hence, provisions of Sec. 56(2)(x)(c) of the ITA were triggered. The AO applied the provisions of rule 11UA of the Income Tax Rules, 1962 to arrive at FMV of the shares and while doing so, substituted the leasehold land's book value with the freehold collector's rate of Rs. 4,16,988 per sq. yard obtained from the Sub-Registrar u/s 133(6) of the ITA, rejected the FF&E reserve as an ascertained liability and reworked FMV of KBPL's shares at Rs. 1,316.845 per share. Accordingly, the difference of Rs. 783.515 per share across 14,06,259 shares yielded a deemed income addition of Rs. 110,18,25,132 u/s 56(2)(x)(c) of the ITA. CIT(A) confirmed the addition.

Before the Chandigarh ITAT, the taxpayer advanced three independent contentions on Sec. 56(2)(x)(c) of the ITA: 1. The transaction involved fresh allotment of shares by a company and therefore did not amount to a 'receipt' of shares at all, citing the judgement of Gujarat High Court in PCIT v. Jashawanlal Shah on the applicability of erstwhile section 56(2)(vii)(c) of the ITA to fresh issue of shares; 2. The definition of 'property' under the Explanation to Sec. 56(2)(vii) which is imported into Sec. 56(2)(x) covers only 'immoveable property being land or building or both', and leasehold rights in land are not included within that expression; and 3. Even on merits, the AO's logic was self-contradictory because the Revenue's own addition of Rs. 7 Crores as unaccounted cash payment established that the true consideration paid was more than the book-entry of Rs. 75 Crores, making it impossible to simultaneously allege that shares were received for less than FMV.

The Chandigarh ITAT ruled entirely in favour of the taxpayer and deleted Rs. 110.18 Crore addition. The Tribunal's reasoning rested on three distinct and self-sufficient pillars. First, the unsigned and undated agreement was a dump document unenforceable in law, uncorroborated by the actual transaction, and to be wholly discarded for assessment purposes. The actual transaction (allotment of 14,06,259 shares at Rs. 533.33) confirmed neither to the signed SHA (which contemplated secondary purchase of 7.5 Lakh shares at Rs. 2,000 each) nor to the unsigned document (fresh allotment of 15 Lakh shares at Rs. 1,000 each) proving that both agreements were preliminary, unexecuted explorations. Second, the AO could not blow hot and cold simultaneously. Having confirmed the addition of Rs. 7 Crores as unaccounted cash actually paid by the taxpayer to the existing shareholder - Shri Harpal Singh, the AO had implicitly accepted that the total real consideration was higher than Rs. 75 Crores. Sec. 56(2)(x)(c) is attracted only when shares are received at less than FMV yet the Revenue's own findings established that the taxpayer had paid more, not less. Third and most significant for jurisprudential purposes, fresh allotment of shares is not covered by Sec. 56(2)(x)(c) at all. The Tribunal held that the provision uses the word 'receives' property, and relying on the Supreme Court's position in Khoday Distilleries Ltd. (307 ITR 312, SC), observed that shares come into existence only upon allotment and therefore allotment does not constitute 'receipt' of pre-existing shares. Since Sec. 56(2)(vii)(c) and Sec. 56(2)(x)(c) of the ITA are similarly worded, the only difference being the operative date, the Gujarat High Court's ruling in Jashawanlal Shah ratio squarely applied.

On the leasehold question, the Tribunal conducted a careful textual analysis of the

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Explanation to Sec. 56(2)(vii) of the ITA (imported into Sec. 56(2)(x) of the ITA): 'property' is defined to mean 'immoveable property being land or building or both'. There is no reference to 'any right in such land or building'. The Tribunal contrasted this with Sec. 54D(1) of the ITA, which explicitly defines 'capital asset' to include 'any right in land or building', and held that Parliament's use of precise language in one section and its omission in another is deliberate. The AO's reliance on Sec. 27(iiib) of the ITA, treating the 99-year lessee as deemed owner was held to be misplaced, since Sec. 27 operates in the context of computing income from building under the head 'house property', not for valuation of shares under Sec. 56(2)(x). Separately, the Tribunal found that no stamp duty value existed for the leasehold land in any registrar records, making the Rule 11UA(1)(c)(b) computation mechanism itself inapplicable, following B.C. Srinivasan Shetty (128 ITR 294, SC). Application of freehold SCO/SCF collector rates to a unique, encumbered, leasehold hotel site was held to be fundamentally flawed.

This ruling deserves to be read carefully by any taxpayer who has received freshly allotted shares in a private company, because the Revenue has been aggressively invoking Sec. 56(2)(x)(c) of the ITA even in such cases, treating fresh allotment as economically identical to secondary acquisition. The Tribunal has firmly closed that door by returning to first principles: allotment creates shares; it does not transfer them. The 'receipt' language in Sec. 56(2)(x)(c) of the ITA pre-supposes a pre-existing property passing from one hand to another, which is not the case when a company issues new capital. The leasehold holding is equally important: practitioners dealing with share valuation of companies whose primary asset is leasehold land must note that (a) leasehold rights are not 'immoveable property' for Sec. 56(2)(x) of the ITA purposes and therefore stamp duty value cannot be substituted for book value in the Rule 11UA computation; and (b) where no official stamp duty rate is available for the leasehold asset, the entire revaluation exercise by the AO collapses at the threshold. The internal consistency argument that an AO cannot simultaneously allege under-valuation of shares and unexplained cash payment for the same transaction is a tactically powerful point that deserves to be pressed in similar search-based additions. In sum, the ruling draws three clean, textually grounded lines that strengthen the taxpayer's position and may be viewed as a well-reasoned decision.

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Indian Rulings

Buy Back qualifies as restructuring, taxable only in Country of residence under India – Netherland DTAA

Huntsman Investment [Netherlands] BV [ITA No. 764 (Delhi) of 2014 – Order dated 25th March 2026 (Delhi ITAT)]

The taxpayer was a company incorporated in and tax-resident of the Netherlands, holding 99.98% shares in its Indian subsidiary (HIIPL). HIIPL made an offer to buy back about 24% of its equity shares. The taxpayer contended that transfer from parent to subsidiary was exempt under Section 47(iv) of the ITA 1961. The taxpayer raised an additional ground contending that as per Article 13(5) of the India–Netherlands DTAA, gains arising from a corporate organisation, reorganisation, amalgamation, division or similar transaction are taxable only in the State of residence of alienator where buyer or seller holds at least 10% shareholding. Accordingly, it was represented that buy-back of shares of a 99.99% subsidiary, being in the nature of corporate organisation or reorganisation, could not be subject to tax in India as per Article 13(5) of the India – Netherlands DTAA.

According to Accountant Member of Hon'ble bench of Delhi ITAT, the phrase corporate reorganisation in Article 13(5) was wide enough to cover buybacks, relying on certain judicial precedents and ICAI guidance note where buyback is given as an example to corporate restructuring, capital and financial restructuring. Accordingly, DTAA benefits were allowable to the taxpayer as buyback qualified for corporate reorganisation and as per Article 13(5) Capital Gains are not taxable in India.

According to Judicial Member of Hon'ble bench of Delhi ITAT, the provisions of Section 47(iv) were not applicable in present case since the taxpayer did not hold 100% shares in the subsidiary and considering that provisions of Section 47 should be read with general provisions of Section 45 and not with special provisions of Section 46A of ITA. It was further held that, under the Companies Act, 1956, corporate reorganisation refers to a court-approved mechanism or a statutory scheme, and therefore, the buyback undertaken by the taxpayer could not be regarded as corporate reorganisation within the meaning of Article 13(5) of the DTAA.

As there was a difference of opinion, reference was made to Third member of Hon'ble bench of Delhi ITAT whose views concurred to the views of the Accountant member. It was thus held that gains arising to the taxpayer from buyback of shares by its subsidiary company was not taxable in India as per Article 13(5) of the India-Netherlands DTAA

Taxation of buyback of shares has been once again brought to tax net as capital gains vide Finance Act 2026. It would be interesting to see how buybacks would be characterised between Dividend and capital gains articles under various treaties and if the present case could have impact on characterising the buybacks as capital gains. Another interesting aspect of this case law was on interpretation of the terms not defined in tax treaties. Considering that Section 159 of ITA 2025 has amended the interpretation rules vis-à-vis Section 90 / 90A of the ITA 1961, it would be interesting to see if references to dictionary meanings and to international laws, for example, reference to clarifications under Netherlands–Nigeria DTAA in the present case would continue to have persuasive value or not.

Indian Rulings

Virtual provision of services cannot be deemed as provision of services in India, not taxable as FTS as per India–China DTAA

Benteler Automative (China) Investment Ltd [W.P No. 11074 of 2025 – Order dated 27th March 2026 (Bombay HC)]

The taxpayer, a tax resident of China, provided various services, in the nature of management support, finance, HR, quality system, warranty management, IT support, facility management, technical support on treasury, taxation, legal and other services to its wholly owned Indian subsidiary, Benteler India Pvt. Ltd. The taxpayer claimed that the services were provided virtually, through video conferencing, e-mail, etc. and cannot be considered as services provided in India. Considering that the provisions of Article 12(4) of India-China DTAA which defines FTS as payment for the provision of services of managerial, technical or consultancy nature by a resident of a Contracting State in the other Contracting State, the taxpayer contended that fees for services provided to its Indian subsidiary did not fall under the ambit of Article 12 as the same was not rendered in India. It was contended that Indian DTAAs with China, Israel and Finland stipulates deviation from other treaties such that to qualify as FTS, fees received by residents of China, Israel or Finland, respectively should pertain to services provided in the other contracting state i.e. in India. Considering that the taxpayer did not have a PE in India, the taxpayer contended that no income was chargeable to tax in India in light of provisions of Article 7 of the DTAA and accordingly, Nil withholding tax certificate was applied for. Application for Nil withholding tax certificate was rejected by AO, which was challenged by way of writ before the Bombay HC.

Bombay HC pronounced its views on a limited point of argument, holding that services rendered virtually from China could not be deemed as services rendered in India. However, in light of the ongoing proceedings pending before CIT(A) and ITAT for earlier assessment years, the HC upheld rejection of Nil withholding certificate by AO and declined to adjudicate the matter and provide views on taxability.

Bombay HC refrained from providing views on the question as to whether the words 'in other Contracting State' appearing in Article 12(4) of India-China DTAA should be viewed as physically rendered in the other Contracting State and hence not taxable in India if the services are not rendered in India. There was no discussion on the Mumbai ITAT decision of Ashapura Minichem Ltd. on a similar issue. It would be interesting to see how the case moves further, specially considering the provisions of Article 12(6) of the DTAA which define source rules under India-China DTAA and consider income to accrue or arise in India when payer is in India, without any qualification or condition with respect to rendition of services in India unlike India-Finland DTAA. The case would also be relevant in context of amended India-China DTAA which has retained the phrase 'in Other Contracting State' in definition of FTS under Article 12.

Gains from sale of stock derivatives not taxable in India under India-Mauritius DTAA

Estee India Fund [ITA No. 1955(Del)2025 – Order dated 12th March 2026 (Delhi ITAT)]

The taxpayer is a quant multi-strategy market-neutral Mauritius based fund registered with SEBI as a Category II Foreign Portfolio Investor. It trades in equity, commodity and currency derivatives and maintains a hedged portfolio. For

Indian Rulings

AY 2022-23, it traded in Futures and Options in two segments: currency derivatives and stock derivatives. The taxpayer claimed that gains from both segments were not taxable in India under the India-Mauritius DTAA. The AO accepted that currency derivative gains were covered under Article 13(4) and were therefore taxable only in the country of residence. However, for stock derivatives, the AO held that since the underlying assets were shares, the gains were effectively gains from shares and taxable in India under Article 13(3A), which was inserted in accordance with amendment made in 2016 to the India-Mauritius DTAA which was also upheld by the Hon'ble DRP. Consequently, the taxpayer appealed before the Delhi ITAT.

The Revenue argued that stock derivatives derive their value from underlying shares and are therefore akin to shares. Since the insertion of Article 13(3A) in 2016 to tax share-based capital gains in India, gains arising from stock derivatives should likewise be subject to the same treatment. The Revenue maintained that the underlying asset being a share was sufficient to bring the transaction within the scope of Article 13(3A), regardless of the form of the instrument traded.

The taxpayer submitted that shares and derivatives are fundamentally distinct assets. A derivative is a financial contract whose value is derived from an underlying asset, but owning a derivative does not confer ownership of the underlying shares, voting rights, or any other rights attached to shares. Article 13(3A) of the India-Mauritius DTAA uses the word 'shares' and nothing else. It does not extend to derivatives or any instrument that merely derives its value from shares. Article 13(4) covers all property not mentioned in earlier clauses and provides that gains therefrom are taxable only in the country of residence.

The Hon'ble bench of Delhi ITAT ruled in favour of the taxpayer holding that the AO and DRP were fundamentally wrong in treating stock derivatives as equivalent to shares. The Delhi ITAT drew a clear distinction between the two: shares represent ownership in a company and carry voting rights and entitlement to dividends, while derivatives are financial contracts that derive value from an underlying asset without conferring any ownership. A bare reading of Article 13(3A) shows that it covers only gains from alienation of 'shares'. It says nothing about derivatives. Article 13(4), which is a residual clause, covers all other property and provides that gains are taxable only in the state of residence. Relying on Vanguard Funds and Sigma Global Fund v. ACIT (International Taxation) [2025] 173 taxmann.com 321, the ITAT confirmed that the principle is well settled, a derivative that derives its value from shares is not, for that reason alone, a share. The gain from stock derivatives therefore falls under Article 13(4) and is taxable only in Mauritius. Accordingly, addition was deleted.

The AO's approach of looking through a derivative to its underlying asset and then taxing the gain as if the underlying asset itself had been sold is conceptually flawed. That is not how derivative contracts work, and more importantly, it is not what Article 13(3A) says. The clause uses the word 'shares' and there is no basis, either in the text of the treaty or in the general understanding of financial instruments, to read that word as including derivatives. The 2016 amendment to the India-Mauritius DTAA was a deliberate and negotiated reallocation of taxing rights specifically for shares. The then Economic Affairs Secretary had clarified publicly at the time of the amendment that derivatives and other instruments would continue to be taxed in the country of residence. There is also a broader

principle worth noting, an asset that derives its value from another asset is not the same as that other asset. This applies equally to rights entitlements, compulsory convertible debentures, and optionally convertible debentures in the context of the India-Mauritius DTAA, all of which were specifically mentioned in the Government's clarification as continuing to be taxed in the country of residence. Foreign portfolio investors trading in derivatives through Mauritius structures may take comfort from this ruling, though it is always worth reviewing the specific instrument and the applicable treaty language before relying on it.

Strikes Down Section 94B Disallowance as Violative of Non-Discrimination Clause under India–Denmark DTAA

Vestas Wind Technology India Private Limited [ITA No. 320/Chny/2025 – Order dated 9th March 2026 (Chennai ITAT)]

The Taxpayer, an Indian subsidiary of a Danish group engaged in the wind energy sector, had availed External Commercial Borrowings (ECBs) from its non-resident AE, Vestas Denmark, and incurred interest expenditure of Rs. 55.83 crore during year under consideration. In its return, the Taxpayer made a so motu disallowance of Rs. 9.34 crore under Section 94B of ITA. During assessment, the TPO recomputed the disallowance at Rs. 18.47 crore, thereby enhancing it by Rs. 9.13 crore. Notably, the TPO accepted that the interest was at arm's length and accordingly no transfer pricing adjustment were made, the enhancement arose solely on account of alleged computational errors.

The AO adopted the enhanced disallowance, which was upheld by the CIT(A). Aggrieved, by the said order, the Taxpayer preferred an appeal before the Hon'ble Bench of Chennai ITAT, contending that Section 94B of the Act is inapplicable in view of the non-discrimination clause under Article 24(4) of the India-Denmark DTAA.

The primary issue before the Hon'ble Bench of Chennai ITAT, was whether the disallowance of interest under Section 94B of ITA, which applies only to borrowings from non-resident associated enterprises, violates the non-discrimination clause contained in Article 24(4) of the India-Denmark DTAA.

During the appellate proceedings, the Taxpayer contended that Article 24(4) of the India-Denmark DTAA requires interest paid to a non-resident to be deductible on the similar lines as if paid to a resident, whereas Section 94B applies only to borrowings from non-resident AEs, resulting in discriminatory treatment. It was further submitted that the interest was accepted to be at arm's length and, therefore, Article 12(7) was not applicable. Reliance was also placed on OECD Commentary and judicial precedents to support that thin capitalization rules targeting only non-residents violate the non-discrimination clause.

In response, the AO argued that the disallowance under Section 94B represents excess interest arising from the AE relationship and falls within Article 12(7), thereby excluding the applicability of Article 24(4). The Revenue also contended that the TPO's computation was correct.

Upon consideration of the submissions made by both parties and after hearing them, the Hon'ble Chennai Bench of ITAT, held as under:

- **Article 24(4) Overrides Domestic Law**
  Section 94B of the Act is discriminatory as it restricts interest deductibility only for borrowings from non-resident AEs, while no such restriction applies to resident AEs,

thereby violating Article 24(4) of the India-Denmark DTAA which provides for parity in deductibility conditions.

The Hon'ble Bench of Chennai ITAT relied on judicial precedents and the OECD Commentary on Article 24 to hold that denial of deductions solely due to the non-resident status of the payee is discriminatory.

Further, relying on section 90(2) of ITA, the Hon'ble Bench of Chennai ITAT further held that the treaty provisions, being more beneficial, override domestic law, and accordingly, Article 24(4) prevails over Section 94B of ITA. The Hon'ble Bench of Chennai ITAT held that the disallowance under Section 94B of ITA is discriminatory and violative of Article 24(4) of the India-Denmark DTAA. Accordingly, it directed deletion of the entire disallowance of Rs. 18.47 crore, including the amount voluntarily disallowed by the taxpayer.

- **Article 12(7) Not Applicable**

  The Hon'ble Bench of Chennai ITAT held that the Revenue had erred in relying on Article 12(7) of the India-Denmark DTAA as the said provision applies only where interest exceeds the arm's length amount due to a special relationship. In the present case, since the TPO had accepted the arm's length nature of the interest and made no transfer pricing adjustment, Article 12(7) of the India-Denmark DTAA was held to be inapplicable and could not be invoked.

This ruling clarifies that while countries may adopt thin capitalization rules, such provisions cannot be applied solely to non-residents unless explicitly authorized under the relevant Double Taxation Avoidance Agreement (DTAA). In the absence of a specific carve-out, as seen in certain treaties such as India-Australia DTAA, such provisions cannot override the non-discrimination mandate.

Accordingly, disallowance under Section 94B of the ITA cannot be sustained where it results in discriminatory treatment against non-resident lenders in violation of the applicable treaty. The decision highlights the importance of carefully examining the relevant DTAA before invoking Section 94B to disallow interest expenditure.

Voice Termination Receipts is treated as Business Profits, Not Royalty under India-USA DTAA

Reliance Jio Infocom USA Inc. [ITA No. 2991 (MUM.) of 2023 – Order dated 17th April 2026 (Mumbai ITAT)]

The taxpayer is a US subsidiary of RJIL, provides telecom support through its Advanced Technology Operation Centre (ATOC), international voice/IP services, and marketing support. For the year under consideration, it earned through: (I) ATOC services, taxed as FTS), (ii) Voice termination, treated as non-taxable business income due to no PE in India, and (iii) Marketing support, claimed as non-taxable under the India–USA DTAA. Under the agreement, it independently owned and operated its US-based telecom infrastructure, with no transfer of rights or control to RJIL.

The AO and DRP held that consideration for voice termination services constituted 'process royalty' taxable in India under Section 9(1)(vi) read with Article 12 of the India-USA DTAA. Relying on Explanation 6 (retrospectively inserted), they argued that "process" includes transmission via telecom infrastructure (satellite, cable, optic fibre), thereby bringing such payments within the ambit of royalty. Further, Explanation 5 was invoked to contend that

royalty covers consideration irrespective of transfer of rights or control, negating the taxpayer's argument. The department also relied on Article 3(2) of the DTAA to import this expanded domestic definition into the treaty framework.

Aggrieved by the aforesaid order, the taxpayer preferred an appeal before the Hon'ble Bench of Mumbai ITAT wherein it was contended by the taxpayer that no intellectual property, rights, or use of any process was transferred to RJIL and all point of presence infrastructure and call-routing processes remained under its exclusive ownership and control of the taxpayer, RJIL merely receiving standard telecom services.

Article 12 of the India-USA DTAA defines "royalty" narrowly, covering only payments for use of a "secret formula or process." Since the services involved standard, non-proprietary technology, they fell outside this definition. It was further submitted that domestic law amendments (including Explanation 6) cannot override treaty provisions, and Article 3(2) cannot import domestic definitions into a term already defined in the DTAA. Accordingly, the receipts constituted business profits, and in the absence of a PE in India, were not taxable in India.

The Hon'ble Bench of Mumbai ITAT ruled in favour of the taxpayer, following its earlier decisions, coordinate bench rulings, and the Karnataka HC's judgment in the case of Vodafone Idea Ltd., it held that voice termination receipts are neither royalty nor FTS under ITA or Article 12 of the India-USA DTAA, but constitutes business profits, not taxable in India in the absence of a PE.

The ruling rests on two key principles. First, the tax treaty definition of royalty is exhaustive and prevails over domestic law, unilateral amendments or retrospective expansions under ITA cannot override DTAA provisions, consistent with the principle of "Pacta sunt servant". Second, voice termination services do not involve a "secret process" as required under Article 12(3)(a), since the telecom routing process is standard, non-proprietary, and widely used, thereby falling outside the scope of royalty under the DTAA.

The ruling has significant implications for cross-border telecom transactions. It reinforces that payments for services such as voice termination, bandwidth, and IP transit cannot be characterised as royalty where the applicable DTAA restricts royalty to "secret processes" and no IP rights are transferred. In the absence of a PE, such income remains non-taxable in India, and correspondingly, no withholding tax obligation arises for Indian payers.

The decision highlights the need for treaty-specific interpretation, as outcomes may vary where treaties employ a broader definition of 'royalty. In essence, the ruling affirms that treaty provisions prevail over domestic law, and standard telecom services, lacking IP transfer or secret processes, do not give rise to taxable royalty in India.

Indian Updates

Notification of Protocol amending the Convention between India and Brazil

The Protocol, amending the Convention and the Protocol between the Government of the Republic of India and the Government of the Federative Republic of Brazil for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, was signed at Brasilia on the 24th of August, 2022 and the date of entry into force of the said amending Protocol was the 18th October, 2025. Now, therefore, in exercise of the powers conferred, the CG has notified that all the provisions of the said Amending Protocol, shall be given effect to in the Union of India from 1st April 2026. The major impacts in relation to the amendment are listed as below:

- The preamble has been amended to specifically exclude the treaty shopping arrangements for indirect benefit of residents of third States.
- The scope of PE has been broadened through the introduction of the concept of Service PE under Article 5. A Service PE shall be deemed to exist if services are furnished for a period, or for periods in aggregate, exceeding 183 days within any 12-month period commencing or ending in the relevant fiscal year.
- Article 8 (Shipping and Air Transport) - the right to tax profits has been shifted from state in which POEM exists, to the state in which profits are derived.
- The rate of dividend has been reduced to 10% from 15% if the beneficial owner is a company which holds directly at least 20 per cent of the capital of the company paying the dividends throughout a 365 day period.
- An article "Fees for technical" has been specifically introduced after Article 12 to widen the scope of such services.
- In case of Independent personal services, now if a person stays in the other Contracting State for a period amounting to or exceeding in the aggregate 183 days in any 12 month period, the income may also be taxed in the other Contracting State.

Notification of MOU for mutual assistance in tax collection between India and Japan

In regard to the para 1 of the Article 26A of the convention between the Government of the Republic of India and the Government of Japan for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, the MOU for Assistance in Collection of taxes has been notified vide notification dated 2nd April 2026.

The provisions of the said Memorandum shall apply in respect of any request for collection of taxes made after the later of the dates of signature by two competent authorities. Now, therefore, in exercise of the powers conferred, the CG has notified that all the provisions of the said Amending Protocol, shall be given effect to in the Union of India from 8th July 2025.

Foreign Updates

Clarification for filing of tax return in case of suspended businesses – Taiwan

The Kaohsiung National Taxation bureau advises businesses with suspended operations in FY 2025 to file their business income tax returns within the prescribed time in the month of May 2026 being tax season to avoid penalties. The bureau clarified that under Article 71 of the Income Tax Act, and the Ministry of Finance's letter dated November 22, 1968, suspended profit-making enterprises must file settlement returns.

If not filed on time, but submitted within 15 days of a notice, a late filing fee of 10% of the assessed tax (min. NT$1,500; max. NT$30,000) applies under Article 108. If still delayed or not filed, an additional 20% penalty (min. NT$4,500; max. NT$90,000) will be levied.

Framework for Direct Grant of Tax Treaty Benefits to Non-Residents – Qatar

With effect from 16th March 2026, Qatar has issued Cabinet Resolution No. (4) of 2026 enabling the direct application of tax treaty benefits

The direct application of treaty benefits may be requested by NR by specifying the relevant treaty provisions and confirming that:

1. it is a tax resident of the treaty jurisdiction (supported by a residency certificate)
2. is the beneficial owner of the income
3. has no permanent establishment in Qatar in respect of such income
4. is not part of any arrangement primarily intended to obtain treaty benefits

The approved debtor must approve or reject them within 60 days, **failure to respond will be deemed a rejection, against which no appeal lies**. Upon approval, the approved debtor must report necessary information and documents within 30 days when called upon by the GTA

25% Tax Exemption Incentive for Returning Non-Residents – Cyprus

Cyprus has introduced a new tax incentive for NR individuals who return to Cyprus to take up employment or commence a self-employed business. Under this incentive, 25% of annual employment or business income is exempt from tax, subject to a max. cap of EUR 25,000. To be eligible, individuals must have been NR for at least 7 consecutive years, previously qualified as Cyprus tax residents, and must satisfy below conditions.

- The individual holding a university degree must have been employed outside Cyprus by a NR employer for at least 36 out of 84 months immediately preceding the month in which employment or business activities commence in Cyprus and
- 84 months in case of not holding a university degree.

The exemption is available from the year in which employment or business activity begins in Cyprus and for the subsequent 6 years, provided such activity commences on or after 1 January 2025 and up to and including 2030. Additionally, the exemption applies only where the annual employment or business income exceeds EUR 30,000.

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Important Updates

Coverage

Change of Transfer Pricing method in higher forum

Asandas & Sons Pvt. Ltd. [TS-335-ITAT-2026(Ahd)-TP]

Facts

Asandas & Sons Pvt. Ltd. is a private limited company engaged in manufacturing frozen potato-based food products. For AY 2022-23, it entered into a specified domestic transaction (SDT) involving purchase of potatoes from its associated enterprise, Hyfun Agrilink Private Limited (HAPL), under a cost-plus arrangement. The matter was referred to the TPO for ALP determination under section 92CA.

The TPO rejected the assessee's benchmarking and made a transfer pricing adjustment of ₹23.01 lakhs, holding that the assessee had initially adopted CUP but attempted to shift to TNMM without cogent justification, and that the switch was an afterthought to avoid adjustment. The DRP upheld the TPO's order. The assessee appealed before the Ahmedabad ITAT.

Reader's Focus

The central issue is the **selection of Most Appropriate Method (MAM)** whether CUP or TNMM, for benchmarking the specific domestic transaction of purchase of potatoes.

The Tribunal emphasised that CUP requires a **high degree of comparability** and demands reasonably accurate adjustments for differences in quality, volume, contractual terms, business model, and risk allocation. Where such adjustments cannot be made reliably, CUP cannot be sustained as MAM.

A crucial legal principle was also affirmed: **there is no estoppel in transfer pricing.** The initial selection of a method in Form 3CEB or the TP study does not bind the assessee. The MAM must be determined based on the nature of the transaction and availability of reliable data, not on what was originally filed.

It was noted that the **same issue had already been decided earlier** in the assessee's own case for the AY 2021–22. It also involved identical nature of specified domestic transactions involving purchase of potatoes and the same controversy regarding rejection of TNMM and adoption of CUP by the TPO and DRP.

Practical Takeaways

- CUP cannot be applied mechanically for commodity transactions where fundamental differences in volume, quality, business model (B2B vs. B2C), and contractual terms exist between controlled and uncontrolled transactions.
- No estoppel in transfer pricing — initial method selection does not prevent adoption of correct MAM at a later stage.
- The AE (HAPL), being a routine trader without significant intangibles, was correctly identified as the tested party under TNMM.
- Rule of consistency across years is critical where facts, parties, and nature of transactions remain identical.

This decision is significant for SDT cases involving agricultural commodities, where the Revenue often defaults to CUP citing commodity comparability. The ruling clarifies that product heterogeneity, differing business models, and contractual structures can render CUP unreliable, making TNMM with the AE as tested party the more appropriate and defensible method.

Important Updates

Coverage

Delhi High Court allows to file fresh petitions to challenge retrospective amendment of dispute regarding time barring of assessment u/s 144C & 153

Facts

A batch of 80+ writ petitions (lead matter: Wanshan Mobiles Pvt Ltd; co-petitioners include Nokia Solutions, Donaldson India, Ceragon Networks, ManpowerGroup, G4S, SoftwareOne, Infogain, BID Services Mauritius and several China-linked mobile trading entities) was filed before the Delhi High Court challenging transfer pricing / assessment orders on the ground that they were time-barred under Section 153 of the Income-tax Act, 1961, read with the DRP procedure prescribed in Section 144C.

The core legal issue, namely whether the limitation timeline of Section 144C operates independently of, or is subsumed within, the outer limitation of Section 153, is already pending before the Supreme Court. Owing to a divergence of opinion between two Judges of the Supreme Court, the issue stood referred to a Larger Bench.

While the matter was sub judice, Parliament intervened retrospectively amending the Act to clarify that the Section 144C limitation continues to apply even after the Section 153 period has expired.

The petitioners contended that this retrospective amendment adversely affected accrued rights and sought leave to withdraw the present petitions and refile, incorporating a constitutional challenge to the amendment alongside their existing grounds.

The Court:

- Permitted withdrawal of all captioned writ petitions with liberty to file fresh petitions on or before **24.05.2026**;
- Directed that the **interim orders already operating in each petitioner's favour shall continue up to 31.05.2026**;
- Granted liberty to seek extension where fresh filing is delayed by unavoidable circumstances.

Reader's Focus

The order itself does not decide the merits — it is a procedural disposal. What a tax practitioner should track is the underlying battle that this order keeps alive:

The retrospective amendment has materially changed the field on which the existing limitation jurisprudence (Louis Dreyfus, Shelf Drilling, Roca Bathroom Products line, etc.) was built. By legislatively decoupling the Section 144C timeline from Section 153, the Government has sought to neutralise a defence that was succeeding in several High Courts and was about to be authoritatively settled by a Larger Bench of the Supreme Court.

Two parallel streams now need to be watched: (a) the Larger Bench reference in the Supreme Court on the original 144C/153 interplay, and (b) the constitutional vires of the retrospective amendment — likely to be the subject of the fresh writs to be filed by 24.05.2026. The Delhi High Court has implicitly recognised the prima facie case by extending interim protection.

For TP/international tax assessments where the DRP route was adopted, the question of "is the order time-barred?" has effectively been reopened with a new lens.

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Important Updates

Coverage

Customs – Circulars

CBIC mandates faceless assessment for bills of entry filed by SEZ units for DTA clearances under concessional duty

Circular No. 18/2026–Customs, dated April 1, 2026

The Central Board of Indirect Taxes and Customs (CBIC) has issued Circular No. 18/2026–Customs to clarify the assessment mechanism for Bills of Entry filed by SEZ units for clearance of goods into the Domestic Tariff Area (DTA) under concessional duty. The circular refers to Notification No. 11/2026–Customs dated March 31, 2026, which extended concessional duty benefits to eligible goods manufactured in SEZ units and cleared into DTA, subject to prescribed conditions. It reiterates that the Bill of Entry for home consumption shall be filed by the SEZ unit on the common portal and assessed by the proper officer in terms of Section 2(34) of the Customs Act, 1962. The circular also draws attention to Rule 47(4) of the SEZ Rules, 2006, which mandates that valuation and assessment of goods cleared into the DTA shall be carried out in accordance with the Customs Act and the rules made thereunder.

In order to enhance uniformity and efficiency, the Board has mandated that all such Bills of Entry shall be subjected to faceless assessment through the Risk Management System (RMS). The Customs Automated System will allocate these Bills of Entry to faceless assessment groups, thereby ensuring standardised assessment practices across formations. At the same time, existing procedures under the SEZ Act, 2005 and SEZ Rules, 2006 remain unchanged, and jurisdictional officers at the SEZ location will continue to handle post-assessment functions such as examination (where required), out-of-charge, and related compliance processes.

The circular further reiterates the continued applicability of Circular No. 11/2017-Customs dated March 31, 2017, which prescribes the standard operating procedures in respect of refund, demand, adjudication, review and appeal in line with Rule 47 of the SEZ Rules, 2006. Operational issues or delays in implementation may be addressed through the ICEGATE Helpdesk (icegatehelpdesk@icegate.gov.in), with escalation to the concerned Turant Suvidha Kendras (TSKs) for timely resolution.

CBIC prescribes procedure for handling SEZ-origin export cargo affected by maritime disruptions

Circular No. 19/2026–Customs, dated April 10, 2026

CBIC has issued Circular No. 19/2026–Customs to provide a simplified and uniform procedure for handling export cargo originating from Special Economic Zones (SEZs) that has been impacted due to disruptions in maritime routes, particularly the closure of the Strait of Hormuz. The circular supplements earlier circulars on the subject and addresses practical issues where export cargo cleared from SEZs is stranded at gateway ports.

The circular clarifies that, upon request of the exporter, cancellation of Let Export Order (LEO) and Shipping Bill may be permitted by the originating SEZ, following which Customs authorities at the gateway port may allow movement of cargo for return to the exporter or for re-routing, without requiring the containers to be brought back to the SEZ. It further provides for electronic processing of requests, coordination between SEZ and gateway port authorities, and expeditious handling to reduce congestion. Cargo that

Important Updates

had already been loaded and subsequently returned shall be handled in accordance with earlier circulars issued in this regard.

Additionally, the circular permits de-stuffing and storage of such cargo in Customs bonded warehouses at gateway ports, and allows re-routing subject to filing of fresh Shipping Bills and compliance with applicable legal provisions. These facilitation measures, along with earlier relaxations, shall remain valid up to April 30, 2026.

This circular extends targeted relief to SEZ exporters facing logistical disruptions, ensuring operational continuity without procedural rigidity. The flexibility to cancel export documentation at the SEZ level and manage cargo directly at gateway ports significantly reduces turnaround time and logistical costs. Exporters should ensure proper documentation and timely coordination with Customs authorities to effectively utilise these relaxations within the prescribed timeframe.

CBIC clarifies eligibility of remission or rebate under RoDTEP and RoSCTL in case of short realisation of export proceed

Circular No. 20/2026-Customs) [dated 10th April 2026

CBIC has issued Circular No. 20/2026–Customs to clarify the treatment of remission or rebate under RoDTEP and RoSCTL schemes in cases involving short realisation of export proceeds. The circular addresses representations from trade regarding whether benefits are to be granted on the full FOB value or after deduction of agency commission and banking charges.

The Board has reiterated that, in line with Circular No. 64/2003-Cus dated July 21, 2003 and Circular No. 33/2019-Customs dated September 19, 2019 governing duty drawback, benefits shall be admissible on the full FOB value without deduction of agency commission and foreign banking charges, provided such deductions, whether claimed separately or jointly, do not exceed 12.5% of the FOB value. Where such charges exceed the prescribed limit, the excess amount shall be reduced from the FOB value for determining eligible benefits. The same principle has been extended to RoDTEP and RoSCTL schemes.

Further, in line with Rule 18 of the Customs and Central Excise Drawback Rules, 2017 read with paragraphs 2.54, 2.71 and 2.72 of the Foreign Trade Policy, 2023 and the Handbook of Procedures, the circular clarifies that compensation received from the Export Credit Guarantee Corporation (ECGC) for short realisation of sale proceeds may be treated as receipt of sale proceeds for the purposes of RoDTEP and RoSCTL benefits. Accordingly, remission or rebate benefits need not be recovered, provided the Reserve Bank of India writes off the unrealised amount on merits and the exporter furnishes certification from the concerned Indian mission abroad regarding non-recovery of dues.

This clarification provides significant relief and certainty to exporters by aligning RoDTEP and RoSCTL benefits with established drawback principles. The recognition of ECGC compensation as deemed realisation ensures that genuine exporters are not penalised for commercial risks beyond their control. Exporters should maintain proper documentation relating to commission, banking charges, and RBI write-off approvals to substantiate claims and avoid disputes during audit or verification.

Important Updates

Coverage

CBIC prescribes procedure for handling export containers offloaded at foreign ports and returned to India due to maritime disruptions

Circular No. 21/2026–Customs, dated April 15, 2026

CBIC has issued Circular No. 21/2026–Customs to prescribe a standardised procedure for handling export cargo containers that were offloaded at intermediate foreign ports and subsequently returned to India due to disruptions such as the closure of the Strait of Hormuz. The circular addresses operational and legal challenges arising in such cases and supplements earlier circulars issued on maritime disruptions

The circular mandates filing of a Sea Arrival Manifest (SAM) by the shipping line or authorised agent at the port of re-entry, considering changes in vessel, consignee, and bill of lading details. Containers are required to be verified with shipping documents, including matching of RFID e-seals or Customs seals with export records. Where seals are intact and verified, containers may be offloaded without filing a Bill of Entry, thereby facilitating faster clearance. Shipping Bills and Let Export Orders (LEO) are to be cancelled through the system, and Back to Town (BTT) facility may be permitted in accordance with earlier circulars.

However, where seals are found tampered or not intact, 100% examination is mandated, and the cargo is to be treated under normal re-import procedures. The circular also requires field formations to ensure recovery of export incentives such as IGST refunds or drawback if already disbursed. The facilitation measures prescribed shall remain valid up to April 30, 2026.

This circular completes the procedural framework for handling returned export cargo under complex international logistics disruptions. By allowing offloading without Bill of Entry in verified cases and enabling system-based cancellation of export documents, CBIC has significantly reduced procedural bottlenecks. Exporters must ensure seal integrity, proper documentation, and compliance with incentive reversal requirements to avoid disputes and ensure smooth processing under these temporary relaxations.

Instructions

CBIC mandates time-bound generation of RoDTEP and RoSCTL scrolls within three days to mitigate exporter hardship

Instruction No. 05/2026–Customs, dated April 23, 2026

CBIC has issued Instruction No. 05/2026–Customs dated April 23, 2026, pursuant to observations made in the Subject Specific Compliance Audit (SSCA) report on the Rebate of State and Central Taxes and Levies (RoSCTL) scheme. The audit had observed considerable delays in the generation of RoSCTL scrolls and the consequential disbursal of rightful claims, resulting in undue hardship to exporters and adversely impacting the working capital cycle of the export sector.

Drawing reference to Instruction No. 21/2020–Customs dated December 16, 2020, which had prescribed a three-day timeline for crediting of duty drawback, the Board has now directed that an identical time limit shall apply to the generation of RoDTEP and RoSCTL scrolls. Field formations have been instructed to ensure strict compliance with the said timeline, thereby bringing parity in the disbursal mechanism

Important Updates

across export incentive schemes administered by Customs.

This instruction is a welcome administrative measure aimed at addressing systemic delays in the disbursal of export incentives. Standardising the scroll generation timeline at three days, on par with duty drawback, is expected to enhance liquidity for exporters and foster greater predictability in receivables. Exporters and trade professionals are advised to monitor scroll generation timelines on the ICEGATE portal and promptly take up instances of delay with the jurisdictional Commissionerates, with appropriate escalation to the Board where necessary, so as to fully realise the benefit of this directive.

Important Rulings

Telangana HC holds that a Managing Director cannot be denied appellate remedy on account of a composite DRC-07; directs issuance of separate orders and grant of temporary registration to enable independent appeal

[W.P. Nos. 9166 & 9354 of 2026; Telangana High Court; Judgment dated April 8, 2026]

A show cause notice was issued under Section 74 of the CGST Act alleging wrongful availment and passing of ITC by a company and its Managing Director (MD). The adjudicating authority passed a composite Order-in-Original dated 30.12.2025 and a single Form GST DRC-07, confirming tax demand of Rs.2.20 crore along with interest and penalty, and further imposed a personal penalty on the MD under Section 122(1A). Since the MD was not a registered person under GST, he was unable to file an appeal against the composite DRC-07, which effectively deprived him of a statutory appellate remedy.

The petitioner (MD) contended that a composite order and DRC-07 covering both the company and an unregistered individual is procedurally flawed, as it prevents the MD from exercising the right to appeal. It was further argued that separate charges were not clearly indicated against the MD in the show cause notice, affecting his ability to defend the case.

The Department acknowledged the procedural difficulty and submitted that separate DRC-07 orders could be issued for the company and the MD. It further relied on Rule 16A of the CGST Rules (as amended), enabling grant of a temporary identification number (TIN) through Form GST REG-12 to facilitate compliance and appellate proceedings

The Telangana High Court held that the MD cannot be deprived of the statutory right to appeal due to procedural defects in issuance of a composite DRC-07. Accepting the Revenue's submission, the Court directed issuance of two separate DRC-07 orders one for the company and another for the MD so as to enable independent appellate remedies.

Further, the Court directed that the MD be granted a temporary registration/identification number upon application under Rule 16A, thereby enabling him to file an appeal. It was also clarified that the limitation period for filing appeal shall commence only from the date of issuance of such fresh DRC-07.

Important Rulings

This judgment addresses a critical procedural gap in GST litigation concerning unregistered persons facing penalty proceedings. It reinforces that procedural lapses such as issuance of composite orders cannot override the statutory right to appeal. The recognition of temporary registration as a mechanism to facilitate appellate remedy is particularly significant. Tax authorities must ensure issuance of separate orders where liabilities are fastened on multiple persons, especially when one of them is unregistered. This ruling will serve as a key precedent in safeguarding procedural fairness and access to appellate remedies under GST.

GSTAT holds that an appeal wrongly filed before the Principal Bench owing to a bona fide jurisdictional error must be transferred seamlessly to the appropriate State Bench rather than dismissed

[APL/8/PB/2026; GST Appellate Tribunal, Principal Bench (Delhi); Order dated April 8, 2026]

The appellant filed an appeal in Form GST APL-05 before the GST Appellate Tribunal (Principal Bench) by incorrectly indicating that the matter involved issues falling exclusively within the jurisdiction of the Principal Bench. Upon examination of the records, it was found that the case did not involve such issues and was instead within the jurisdiction of the Delhi State Bench. The error occurred due to incorrect selection in Row No. 7 of the appeal form, resulting in filing before the wrong forum.

The appellant sought appropriate relief to avoid dismissal of the appeal due to a procedural error in selecting jurisdiction, which would otherwise require refiling and could cause limitation-related prejudice.

The GSTAT (Principal Bench, Delhi) held that the matter did not fall within its exclusive jurisdiction and ought to be heard by the Delhi State Bench. However, instead of directing dismissal or withdrawal of the appeal, the Tribunal adopted a pragmatic approach and directed the Registry to facilitate online transfer of the appeal to the appropriate State Bench.

The Tribunal further directed that such transfer must be carried out seamlessly in coordination with GSTN and NIC systems. It categorically observed that failure to ensure such transfer would amount to obstruction of the process of justice. The appeal was thus preserved and redirected without requiring fresh filing.

This order is a significant procedural precedent in GST litigation, emphasizing substance over technicalities. It recognizes that jurisdictional errors in electronic filing systems should not defeat substantive rights, particularly where such errors are bona fide. The direction for seamless system-driven transfer reflects judicial expectation from GSTN infrastructure to support litigation processes efficiently. Taxpayers and professionals can rely on this ruling to seek relief in cases of incorrect forum selection, especially in the evolving GSTAT framework where jurisdictional clarity is still developing.

Orissa HC holds that demand, interest and penalty are unsustainable where ITC stands voluntarily reversed prior to issuance of SCN; raising tax equivalent to such reversed ITC amounts to double taxation, and interest is not leviable where sufficient balance is available in the electronic credit ledger

[W.P.(C) Nos. 12682 & 12686 of 2025; Orissa High Court; Judgment dated April 8, 2026]

The petitioners, engaged in transportation and works contract services, availed ITC during FY 2017–18 from a supplier later alleged by the DGGI to be a non-existent entity issuing bogus

Important Rulingss

invoices. Upon intimation from the Department, the petitioners voluntarily reversed the entire ITC amount of approximately Rs.4.39 lakh through GSTR-3B returns prior to issuance of show cause notice. Despite such reversal and availability of sufficient balance in the electronic credit ledger, proceedings under Section 74 were initiated, culminating in confirmation of tax (equal to ITC already reversed), along with interest under Section 50 and penalty.

The petitioners contended that once ITC was voluntarily reversed prior to issuance of SCN, there was no tax implication and initiation of proceedings under Section 74 was unwarranted in absence of fraud or suppression. It was further argued that interest under Section 50 is leviable only where ITC is wrongly availed and utilised, and not merely availed. Since sufficient balance existed in the electronic credit ledger even after reversal, no interest liability arose.

The Department relied on DGGI alert indicating the supplier as a bogus entity and alleged fraudulent availment of ITC. It was contended that the reversal claimed by the petitioners was not properly substantiated and that proceedings under Section 74 were justified.

The Orissa High Court set aside the demand, interest and penalty in entirety. It held that raising tax demand equivalent to ITC already reversed amounts to impermissible double taxation. The Court observed that the adjudicating authority acted mechanically based on DGGI alert without independent verification or evidence establishing fraud or wilful suppression by the petitioners.

On interest, the Court relied on Section 50(3), Rule 88B and CBIC Circular dated 17.07.2023 to hold that where sufficient balance exists in the electronic credit ledger, interest is not payable, particularly when ITC is reversed without actual utilisation. The Court further held that invocation of Section 74 was unjustified in absence of cogent evidence of intent to evade tax, and mere supplier default cannot automatically lead to such conclusion.

This judgment is a significant relief-oriented precedent in ITC litigation. It reinforces that voluntary reversal of ITC prior to SCN neutralises tax exposure and any further demand would amount to double taxation. The ruling also provides critical clarity on interest liability emphasising that mere availment without utilisation does not attract interest where sufficient ledger balance exists. Further, it restricts mechanical invocation of Section 74 based solely on third-party intelligence inputs. Taxpayers facing similar disputes involving alleged bogus suppliers and pre-SCN reversals can strongly rely on this decision to contest tax, interest and penalty demands.

Bombay HC holds that a refund rejection passed without issuance of deficiency memo and opportunity of hearing is void ab initio; the subsequent refund application must be decided on merits notwithstanding delay in appeal

[Writ Petition (L) No. 36200 of 2023 & batch; Bombay High Court; Judgment dated April 15, 2026]

The petitioner, engaged in shipping services, supplied services to an SEZ unit in December 2017 and paid IGST, thereby becoming eligible for refund under zero-rated supply provisions. A refund application was filed on August 28, 2018, which was rejected ex parte by order dated September 13, 2019 without issuance of deficiency memo or opportunity of hearing as required under Rule 92 of the CGST Rules. The petitioner subsequently filed a fresh refund application on

Important Rulings

February 12, 2020, on which a deficiency memo dated February 27, 2020 was issued. However, the department advised filing an appeal against the original rejection order. The appeal filed in March 2023 was dismissed as time-barred under Section 107. Aggrieved, the petitioner approached the High Court.

The petitioner contended that the original refund rejection order was void ab initio due to violation of Rule 92(3), as no deficiency memo or hearing was provided. It was argued that once such order is non-est, the subsequent refund application, already entertained by the department through issuance of deficiency memo, must be decided on merits. Further, delay in filing appeal should not defeat substantive rights, particularly considering COVID-related disruptions and procedural lapses of the department.

The Department contended that the appeal was rightly rejected as time-barred under Section 107 and that there was no jurisdiction to condone delay beyond the statutory period. However, it could not justify non-compliance with Rule 92 requirements in passing the original rejection order.

The Bombay High Court held that the original refund rejection order was unsustainable and non-est in law due to failure to comply with mandatory requirements of Rule 92(3), namely issuance of deficiency memo and grant of opportunity of hearing. The Court observed that procedural safeguards in refund adjudication are mandatory and cannot be bypassed.

Considering that the department itself had entertained the subsequent refund application and issued a deficiency memo, the Court directed that such application must be taken to its logical conclusion and decided afresh in accordance with law, without being influenced by earlier rejection or appellate orders. The Court also recognized that strict limitation should not defeat substantive rights in peculiar facts involving procedural lapses and pandemic-related delays.

This judgment reinforces the mandatory nature of procedural safeguards in refund adjudication under GST. It clearly establishes that non-compliance with Rule 92 particularly failure to issue deficiency memo and grant hearing renders the order void ab initio. Importantly, it provides relief where appeals are time-barred due to departmental lapses, emphasizing that substantive refund rights cannot be defeated on technical grounds. Taxpayers facing similar refund rejections without due process can rely on this ruling to seek restoration and fresh adjudication of their claims.

Rajasthan HC holds that GST registration in another State can be denied where the taxpayer is in default of filing returns under its existing registration in another State

[D.B. Civil Writ Petition No. 4042/2026; Rajasthan High Court; Judgment dated March 5, 2026]

The petitioner company sought GST registration in the State of Rajasthan under the CGST Act, 2017. The application was rejected by the Department on the ground that the petitioner had failed to file GST returns in the State of Tamil Nadu, where it was already registered. Aggrieved by such rejection, the petitioner filed a writ petition contending that non-compliance in one State cannot be a ground for denial of registration in another State.

The petitioner argued that GST registration is State-specific, and therefore, default in one State (Tamil Nadu) should not impact the right to

obtain registration in another State (Rajasthan). It was contended that each registration is independent and must be evaluated separately.

The Department contended that GST law, though State-wise administered, operates under a unified framework. A taxpayer who fails to comply with statutory obligations such as return filing in one State becomes a defaulter, and granting fresh registration in another State without curing such default would defeat the scheme of the Act.

The Rajasthan High Court dismissed the writ petition and upheld the Department's action. The Court held that although GST registrations are State-specific, the statutory framework is both State-centric and centrally integrated. A taxpayer who fails to comply with provisions of the Act in one State such as non-filing of returns would be treated as a defaulter and cannot be permitted to obtain registration in another State without first regularising such non-compliance.

The Court emphasized that permitting registration in another State despite existing defaults would allow taxpayers to bypass statutory obligations, which is impermissible under the GST regime.

This judgment establishes an important compliance principle under GST inter-State consistency of taxpayer conduct. It clarifies that GST registration, though procedurally State-specific, is substantively interconnected across jurisdictions. Non-compliance in one State can have adverse implications on registrations in other States. Businesses operating in multiple States must ensure strict compliance across all registrations, as defaults such as non-filing of returns or suspension of registration may hamper expansion or fresh registrations.

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ECL replacing IRAC Paradigm shift

Executive Summary

On April 27, 2026, the Reserve Bank of India issued the most consequential regulatory reform for Indian commercial banks since the Narasimham Committee recommendations of 1992. The Reserve Bank of India (Commercial Banks — Asset Classification, Provisioning and Income Recognition) Directions, 2026 replace the three decade old incurred loss provisioning framework with a forward-looking Expected Credit Loss (ECL) model, effective April 1, 2027.

The reform fundamentally changes when, how, and how much banks must set aside against potential loan losses. Under the outgoing IRAC norms, provisions were largely a function of time — banks waited for a loan to cross the 90 day default threshold before recognising material losses. The ECL framework demands that banks anticipate losses from Day 1 of origination, incorporating macroeconomic forecasts, probability weighted scenarios, and forward looking credit assessments.

The aggregate first time hit to bank profitability could exceed ₹60,000 crore (Vinod Kothari Consultants), driven primarily by the Stage 2 provisioning floor of 5% (500 basis points) — a twelve fold increase from the current ~40 basis points for SMA 1 and SMA 2 accounts. PSU banks are disproportionately exposed. The RBI rejected banks' requests to reduce the Stage 2 floor and to defer implementation beyond April 2027 (Macquarie Research). However, the one time provisioning impact will be adjusted against opening retained earnings on April 1, 2027 — not routed through the P&L — and banks may add back a declining fraction of the transitional adjustment to CET1 capital over four years (4/5 in FY28, declining to 1/5 by FY31). Nomura estimates that the concurrent revision of the standardised approach for credit risk could improve CET1 capital by 60–120 basis points for large banks, partially offsetting the hit.

Key Pillars of the ECL Framework

- **Three Stage ECL Classification:** Every loan classified into Stage 1 (performing, 12 month ECL), Stage 2 (significant increase in credit risk, lifetime ECL), or Stage 3 (credit impaired / NPA, lifetime ECL). The existing 90 day NPA norm is retained for Stage 3 classification.
- **Forward Looking Provisioning:** ECL computed as PD × LGD × EAD using probability weighted macroeconomic scenarios (base, upside, downside). Minimum PD floor of 0.03%; backstop LGD of 65% (secured) / 70% (unsecured).
- **Prudential Floors:** Product wise and stage wise minimum provisioning floors act as regulatory backstops. Stage 1 floors range from 0.25% to 1.25%; Stage 2 floors from 0.25% to 5%; Stage 3 floors graded from 10% to 100%.
- **Effective Interest Rate (EIR) Method:** Interest income recognised using EIR on gross carrying amount for Stage 1 and 2; on net carrying amount for Stage 3. Mandatory for new loans from April 2027; legacy migration by March 2030.
- **Model Risk Management:** Comprehensive three tier framework (Front Line, Risk Management, Internal Audit). Board level committee including CFO and CRO to oversee ECL implementation. Model inventory, validation, back testing, and documentation mandated.
- **Enhanced Disclosures:** Ten detailed tables under Annex 4 covering credit

quality by stage, loss allowance reconciliation, ECL methodology, macroeconomic assumptions, SICR criteria, and management overlays.

- **Transition Arrangements:** One time hit adjusted against opening retained earnings (not P&L). CET1 add back over 4 years (4/5 → 3/5 → 2/5 → 1/5). Parallel reporting under old IRAC until December 31, 2027.

Applicability: All Commercial Banks (banking companies, corresponding new banks, SBI). Excluded: Small Finance Banks, Payment Banks, Local Area Banks, Regional Rural Banks. Scope covers loans, debt securities (excluding FVTPL), trade and lease receivables, loan commitments, off balance sheet credit exposures, financial guarantees, and any financial asset with a contractual right to receive cash.

The Three Stage Model

- **Stage 1 — Performing (12 Month ECL):** Captures all financial instruments where credit risk has not increased significantly since initial recognition. Loss allowance = 12 month ECL. Includes all newly originated loans and SMA 0 accounts (current or 0–30 DPD). PD measured over 12 month horizon. Minimum PD floor: 0.03%. SLR eligible investments and Central Government claims exempt. Prudential floors: 0.25% (farm credit, housing, SMEs) to 1.25% (project finance in construction phase).
- **Stage 2 — Under Watch (Lifetime ECL on Gross Amount):** Captures instruments where a Significant Increase in Credit Risk (SICR) has occurred but the asset is not yet credit impaired. This is the most consequential innovation — SMA 1 and SMA 2 accounts (30–90 DPD) now attract lifetime ECL with a regulatory floor of up to 5% (500 bps), a twelve fold increase from the current ~40 bps. 30 DPD backstop (60 DPD for revolving). SICR assessed using quantitative and qualitative indicators (18 illustrative factors in Annex 1). Cure period: Stage 2 to Stage 1 requires performing status for minimum 12 months.
- **Stage 3 — Credit Impaired (Lifetime ECL on Net Amount):** Captures NPAs. The 90 day NPA classification norm is retained. Interest income on net carrying amount. Borrower level tagging: all exposures classified NPA if one loan turns bad. Floors: Secured — 25% (0–12m) → 40% (12–24m) → 55% (24–36m) → 75% (36–48m) → 100% (>48m). Unsecured — 40% (0–12m) → 100% (12 months onwards). Mandatory write off / full provision at 48 months.

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ECL vs IND AS 109 / Ifrs 9 — Key Comparison

Parameter	Ind AS 109 / IFRS 9	RBI ECL Directions 2026
Core Approach	Pure principles based ECL; no regulatory floors	Hybrid: principles based ECL with mandatory regulatory prudential floors
Definition of Dfault	Entity defined; flexible; rebuttable 90 day presumption	Prescriptive: default = NPA as per Chapter II (90 day norm, not rebuttable)
ECL Measurement	PD × LGD × EAD; no minimum floors	Same formula; regulatory floors on PD (min 0.03%), backstop LGD (65%/70%), product wise ECL floors
Regulatory Floors	None — pure model output drives provisions	Extensive product wise floors across all stages **most significant departure**
Level of Application	Instrument level assessment throughout	Stage 3 = borrower level; Stage 1 & 2 = facility level
Sovereign Exemption	No special exemption	SLR eligible investments, Central Govt claims exempt from SICR and Stage 1 ECL
Model Governance	General governance; no specific framework	Dedicated Chapter V: three tier MRM, model inventory, validation, calibration
Transition	Retrospective with modified retrospective option	4 year CET1 add back; retained earnings adjustment; parallel reporting until Dec 2027

Key Takeaway: The RBI ECL framework broadly aligns with Ind AS 109 / IFRS 9 in concept but is more prescriptive and conservative. The hybrid nature means banks compute two numbers — model ECL and regulatory floor — and provision at the higher of the two, introducing an asymmetric bias toward higher provisions.

Impact On Loan Loss Accounting & Provisioning

- **Timing Revolution:** Under IRAC, meaningful provisions triggered only at 90 day default. Under ECL, Day 1 loss recognition is required from origination. As credit quality deteriorates, provisions escalate through Stage 2 lifetime ECL even before NPA. A AAA rated corporate and a BBB rated MSME borrower previously received identical treatment; under ECL they attract different provisions from Day 1.
- **From Rules to Models:** The shift from rule based flat rates to model driven ECL (PD × LGD × EAD with macroeconomic scenarios, probability weighting, time value discounting).

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Coverage

Regulatory floors act as backstops — if the model output is lower than the floor, the floor applies; if higher, the model output applies. This creates an asymmetric bias toward higher provisions.

- **The Stage 2 Impact (Biggest Change):** SMA 1 (30–60 DPD) and SMA 2 (60–90 DPD) accounts move from ~0.40% to 5.00% floor — a twelve fold increase. The SMA portfolio across the banking system is estimated at ~₹3.78 lakh crore. The differential provision of 4.6% on this alone translates to ~₹18,000 crore in additional provisions
- **EIR Revolution:** Processing fees and origination costs amortised over expected life instead of upfront recognition. For Stage 3 assets, interest income on net carrying amount (after deducting ECL allowance), resulting in lower recognised interest income on NPAs. Housing focused banks with large processing fee income will see significant short term P&L impact.

Estimated System Wide Transitional Impact

Impact Component	Est. Portfolio (₹ Lakh Cr)	Differential Provision Rate	Est. Additional Provision (₹ Cr)
Stage 1 — Standard Assets (model ECL > current flat rate)	~160.00	~0.10% – 0.25%	16,000 – 40,000
Stage 2 — SMA 1 & SMA 2 Portfolio	~3.78	~4.60%	17,000 – 18,500
Stage 3 — NPA Portfolio (higher floors for Sub Std & D1)	~5.50	~5% – 15%	27,500 – 82,500
Off Balance Sheet Exposures (newly in scope)	~25.00	~0.20% – 0.40%	5,000 – 10,000
Total Estimated Additional Provisions			**65,500 – 1,51,000**

Sources: RBI Financial Stability Report (Dec 2025); Vinod Kothari Consultants; Macquarie Research (Apr 2026); KCM estimates.

CET1 Capital Transitional Relief

Financial Year	CET1 Add Back (Fraction)	Example: If Hit = ₹1,000 Cr
FY 2027 28	4/5 (80%)	₹800 Cr added back to CET1
FY 2028 29	3/5 (60%)	₹600 Cr added back to CET1
FY 2029 30	2/5 (40%)	₹400 Cr added back to CET1
FY 2030 31	1/5 (20%)	₹200 Cr added back to CET1
FY 2031 32 onwards	Nil	Full impact absorbed

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PSU vs Private Banks — Asymmetric Impact

Parameter	Large PSU Banks (SBI, BOB, PNB)	Large Private Banks (HDFC, ICICI, Kotak)
Current PCR (approx.)	65–72%	75–85%
SMA Portfolio (% of advances)	2.5–4.0%	0.8–1.5%
Existing Contingency Buffers	Limited: provisions close to IRAC minimum	Significant: provisions above IRAC minimum
Estimated Stage 2 Impact	High: large SMA book × 4.6% differential	Moderate: smaller SMA book, buffers absorb
CET1 Headroom (above min 8%)	150–250 bps	300–500 bps
Estimated CET1 Impact (bps)	–80 to –150 bps (before add back)	–30 to –60 bps (before add back)
Model Readiness	Low: limited modelling infrastructure	Moderate to High: advanced analytics teams
Data Quality	Gaps in historical loss data, collateral records	Generally better data governance
Implementation Risk	HIGH	MODERATE

Well provisioned private banks may see a net surplus at transition — existing provisions and contingency buffers may exceed ECL requirements. The ECL framework rewards prudent provisioning behaviour. Banks with thin capital buffers, particularly mid-tier PSU banks, may need to raise fresh capital or curtail dividend payouts during the transition period

Implications For Statutory Auditors

- **ECL Model Assessment (SA 540):** Auditors must understand and assess PD, LGD, and EAD models including methodology, data inputs, calibration, validation, and back testing. Specialists may be needed under SA 620.
- **SICR Assessment:** Evaluate whether the bank's SICR criteria are appropriate, consistently applied, 30 DPD backstop properly implemented, rebuttals documented and approved by CRO.
- **Macroeconomic Assumptions:** Challenge the bank's scenarios, probability weights, and correlation between macro variables and default rates using independent economic forecasts.
- **Management Overlays:** High risk area for management bias. Verify overlays are documented, approved, time bound, and disclosed separately. Persistent downward overlays should trigger enhanced scrutiny.
- **Staging Accuracy:** Test whether accounts are correctly staged by verifying SICR triggers, DPD calculations, and borrower level NPA tagging. Incorrect staging can cause under provisioning by a factor of 10 or more.
- **Transition Audit (FY 2027 28):** Verify fair valuation of the entire loan portfolio, opening ECL computation, retained earnings adjustment, and CET1 add back calculation. A one time exercise of exceptional complexity.

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- **Disclosure Verification:** The 10 table Annex 4 disclosure framework requires extensive verification — particularly loss allowance reconciliation (Table 3), ECL methodology (Table 4), and management overlays (Table 6).

NFRA Expectations: Adequacy of audit procedures for complex estimates (SA 540), use of specialists (SA 620), documentation of auditor's assessment, evaluation of IT general controls over ECL systems, and reporting of material model weaknesses. Audit firms should proactively enhance their bank audit methodology before the first ECL reporting cycle.

Transition Roadmap

Date	Milestone	Action Required
April 27, 2026	Final ECL Directions issued	Banks begin implementation planning
June 30, 2026	Board approved implementation plan	ECL Oversight Committee constituted; PMO established
September 30, 2026	Model development phase	PD/LGD/EAD models built or procured; SICR criteria defined
December 31, 2026	Parallel run begins	ECL computed in shadow mode alongside IRAC; data quality remediation
March 31, 2027	Pre transition readiness	Model validation complete; disclosure templates ready; staff trained
April 1, 2027	**ECL FRAMEWORK GOES LIVE**	**Transition date — opening balance sheet under ECL; retained earnings adjustment**
June 30, 2027	First ECL regulatory reporting	Quarterly return under ECL; parallel IRAC reporting continues
December 31, 2027	Parallel reporting ends	Last IRAC reporting date; ECL becomes sole framework
March 31, 2028	First annual ECL disclosures	Annex 4 disclosures in annual financial statements
March 31, 2030	EIR migration complete	All legacy loans migrated to EIR from contractual rate
March 31, 2031	CET1	Last year of CET1 add back (1/5)

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Key Action Items

For Banks

- Constitute Board level ECL Oversight Committee and Implementation PMO by June 2026
- Conduct gap assessment: data, models, systems, people, governance
- Develop / procure PD, LGD, EAD models; define SICR criteria; build macroeconomic scenario capability
- Configure ECL engine in CBS; develop EIR computation module for new originations
- Begin parallel ECL computation alongside IRAC from December 2026
- Complete model validation, back testing, and staff training by March 2027
- Focus on reducing SMA portfolio through enhanced early warning systems
- Incorporate ECL cost into loan pricing from origination — risk sensitive pricing

For Audit Firms

- Build or hire credit risk modelling expertise — actuarial, statistical, data science capabilities
- Develop ECL specific audit programmes covering model assessment, staging, SICR, and disclosures
- Establish relationships with independent macroeconomic forecasting providers for benchmarking
- Create a library of industry PD/LGD benchmarks for challenging bank model outputs
- Train all bank audit engagement teams on ECL concepts, SA 540, and new disclosure requirements.
- Update LFAR templates to incorporate ECL specific observations
- Prepare for potential NFRA inspections focused on ECL audit quality from FY 2028 29 onwards
- Coordinate with internal auditors (SA 610) on their review of the model risk management framework

Prepared by the Banking & Financial Services Practice | K C Mehta & Co LLP | April 2026 | Confidential

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The 18 Illustrative SICR Indicators (Annex 1)

These are not automatic triggers. They are an illustrative list of information that may be relevant in assessing whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition. Banks must use these indicators (and any other relevant factors) to build their SICR assessment framework.

Category A: Market and Pricing Indicators

Significant changes in internal pricing factors of credit risk

Changes in the internal credit spread or pricing that would result if the same instrument were newly originated today. If the bank would charge significantly more to extend the same credit now, it signals that the bank itself sees higher credit risk than at origination.

Example: A corporate loan was priced at MCLR + 100 bps at origination. Based on the borrower's current risk profile, the bank would now price it at MCLR + 250 bps. This 150 bps widening indicates SICR

Other changes in rates or terms of an existing instrument

If the instrument were newly originated today, the terms would be significantly different, such as more stringent covenants, higher collateral requirements, lower LTV ratio, or higher income coverage requirements. These tighter terms reflect the bank's assessment that the borrower's credit quality has deteriorated.

Example: A housing loan originated at 80% LTV would now only be sanctioned at 60% LTV for the same borrower, reflecting perceived credit deterioration.

Significant changes in external market indicators of credit risk

This covers observable market signals including:

- Credit spread widening
- Credit default swap (CDS) prices increasing for the borrower
- Length of time or extent to which fair value has been less than amortised cost
- Other market information, such as changes in price of borrower's debt and equity instruments
- Borrower's securities have been delisted, or are under threat of delisting from an exchange due to non compliance or financial reasons.

Example: A listed corporate's bond yield widens by 200 bps relative to comparable rated bonds; its stock price drops 40% in 3 months; its CDS spread doubles. All of these are strong market based SICR signals.

Category B: Rating and Scoring Indicators

Actual or expected significant change in external credit rating

A downgrade (or expected downgrade) by a recognised credit rating agency (CRISIL, ICRA, CARE, India Ratings, etc.). The bank's internal policy must define how many notches of downgrade constitute SICR.

Example: Bank policy defines a 2 notch downgrade as SICR. A borrower rated 'A' is downgraded to 'BBB'. This triggers Stage 2 migration

Actual or expected internal credit rating downgrade or decrease in behavioural scoring

Similar to external ratings, but based on the bank's own internal rating system or behavioural scoring models. A deterioration in internal rating or score, even without an external rating change, can signal SICR.

Example: A retail borrower's behavioural score drops from 750 to 620 based on payment patterns, utilisation increase, and new credit enquiries. This triggers SICR assessment.

Category C: Borrower Specific Financial Indicators

Existing or forecasted adverse changes in business, financial or economic conditions

Conditions that are expected to cause a significant change in the borrower's ability to meet debt obligations. This includes:

- Actual or expected increase in interest rates affecting the borrower
- Actual or expected significant increase in unemployment rates (for retail portfolios)

Example: RBI raises repo rate by 150 bps. A borrower with floating rate loans and thin interest coverage (ICR less than 1.5x) is assessed as likely to face debt servicing stress.

Actual or expected significant change in operating results of the borrower

This is a comprehensive financial health check covering:

- Declining revenues or margins
- Increasing operating risks
- Working capital deficiencies
- Decreasing asset quality
- Increased balance sheet leverage
- Liquidity problems
- Management problems or changes in scope of business or organisational structure (for example, discontinuance of a business segment)

Example: A borrower's EBITDA margin drops from 18% to 8% over two quarters. Working capital cycle stretches from 90 to 180 days. Debt to equity ratio rises from 1.5x to 3.5x. These are clear SICR signals

Significant increases in credit risk on other financial instruments of the same issuer or borrower

If the bank holds multiple exposures to the same borrower (for example, term loan, working capital, and investment in bonds), and credit risk on one instrument increases significantly, it signals potential SICR on all instruments from that borrower.

Example: A bank holds both a term loan and bonds of the same corporate. The bond's market price drops sharply and its yield spikes. This should trigger SICR assessment on the term loan as well.

Actual or expected significant adverse change in regulatory, economic, or technological environment

External environment changes that materially affect the borrower's ability to repay, such as:

- Regulatory changes (for example, ban on a product, environmental regulations)
- Economic shifts (for example, commodity price crash for a commodity dependent borrower)
- Technological disruption (for example, decline in demand due to technology shift)

Example: A thermal power company faces SICR when new government policy mandates phase out of coal-based plants by 2035, significantly threatening its revenue model.

Category D: Collateral and Guarantee Indicators

Significant changes in value of collateral or quality of third party guarantees or credit enhancements

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A decline in collateral value or guarantee quality that reduces the borrower's economic incentive to repay or increases the probability of default.

Example: A housing loan borrower's property value drops 30% due to a real estate downturn. The LTV ratio moves from 75% to over 100% (underwater), increasing default incentive.

Significant change in quality of guarantee provided by a shareholder or parent

If a parent entity or shareholder who was providing implicit or explicit financial support loses the incentive or ability to prevent default through capital or cash infusion.

Example: A subsidiary's loan was backed by implicit support from a strong parent company. The parent itself gets downgraded to 'BB' and faces a liquidity crunch. The subsidiary's SICR must be reassessed.

Significant changes in financial support from parent entity or affiliate, or change in quality of credit enhancement

Reductions in support structures, including:

- Withdrawal of parent guarantee
- Deterioration of guarantor's financial condition
- For securitisations, subordinated interests may no longer absorb expected credit losses

Example: A group company's guarantee on a borrower's loan is withdrawn due to group restructuring. The borrower's standalone credit profile is significantly weaker. This triggers SICR.

Category E: Contractual and Behavioural Indicators

Expected changes in loan documentation, including expected breach of contract

This covers anticipated covenant waivers, amendments, interest payment holidays, interest rate step ups, requirements for additional collateral or guarantees, delays in review or renewal of loan accounts compared to the predetermined schedule, or other changes to the contractual framework.

Example: A borrower requests waiver of its debt service coverage ratio covenant. The bank expects to grant an interest payment holiday for two quarters. These expected concessions signal SICR

Significant changes in expected performance and behaviour of the borrower

This includes:

- Changes in payment status of borrowers in the group
- Increase in expected number or extent of delayed contractual payments
- Significant increases in expected number of credit card borrowers approaching or exceeding their credit limit
- Borrowers expected to be paying only the minimum monthly amount

Example: In a retail credit card portfolio, the proportion of customers paying only the minimum amount due rises from 8% to 18% over three months. This is a collective SICR signal for that segment

Changes in bank's credit management approach in relation to the instrument

When the bank's own credit risk management practice becomes more active or focused on managing the instrument, including closer monitoring, intervention with the borrower, or placing the account on a watch list.

Example: The bank's credit monitoring team places a borrower on the 'enhanced surveillance' list and increases monitoring frequency from quarterly to monthly. The bank's own actions signal SICR.

Bank's stressed exposures classified under 'Watch list' or equivalent classification

Exposures reported to the Board or Board level Committees based on Board approved policies as being under stress. This is a direct link between the bank's internal risk governance and SICR determination.

Example: A borrower is classified as SMA 1 and placed on the bank's internal 'Watch list' as per Board approved early warning signal (EWS) framework. This is a strong SICR indicator.

Category F: Past Due and Fee Indicators

Past due information

This is straightforward. It refers to the days past due (DPD) status of the financial instrument. While the 30 DPD rebuttable presumption is the backstop, actual past due status at any level is relevant information for SICR assessment.

Example: An account that was always current starts showing 15 to 25 DPD patterns over multiple months. Even though it has not breached 30 DPD, the deteriorating payment pattern is relevant for SICR.

Any delay in payment of fee or charges from the due date as per internal policy

Beyond principal and interest, delays in payment of fees, charges, or other non principal or interest obligations can also indicate credit stress. The bank's internal policy determines the relevance and threshold.

Example: A borrower consistently delays payment of processing fees, commitment fees, or insurance premium top ups. These seemingly minor delays can be early warning signals of broader financial stress.

How Banks Should Operationalise These 18 Indicators

Aspect	Requirement
Policy	Board approved SICR policy must define which indicators are used, thresholds, and how they interact.
Consistency	Parameters must be applied consistently across similar exposures (Para 30).
Documentation	All criteria, methodology, and rebuttal rationale must be documented (Para 29, 36).
Individual vs. Collective	Assessment can be individual or collective based on shared credit risk characteristics (Para 31).

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Aspect	Requirement
\Not exhaustive	This list is illustrative, not exhaustive. Banks may use additional relevant indicators.
Quantitative + Qualitative	Mix of quantitative (DPD, ratings, financial ratios) and qualitative (management quality, regulatory environment) indicators.
Rebuttable Presumption	30 DPD (term) / 60 days (revolving) is the backstop. Rebuttal requires documented evidence (Para 33 to 36).

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GRC

Enhancing Board Oversight

Avoiding Judgment Traps and Biases

An Indian Regulatory Perspective

Based on the COSO Thought Paper (March 2012)

April 2026

PART 1

Why Board Oversight Matters: The Indian Context

India has witnessed several high profile corporate failures that exposed serious lapses in board oversight. The Satyam Computer Services fraud (2009), the IL&FS crisis (2018), and the Punjab National Bank (PNB) scam involving Nirav Modi are stark reminders that even companies with seemingly robust governance structures can fail when boards do not exercise sound judgment.

The COSO paper notes that "even boards and audit committees that possess many of the characteristics deemed to be effective best practices for board governance are sometimes misled by management who have fraudulently distorted the organization's financial statements." This observation holds true in the Indian context as well.

In response to these failures, Indian regulators have progressively strengthened the governance framework through legislative and regulatory measures.

The Legislative and Regulatory Framework

- **Companies Act 2013:** The Act codified directors' fiduciary duties under Section 166, mandated independent directors under Section 149, and established the Audit Committee under Section 177. Schedule IV provides the Code for Independent Directors, requiring them to bring independent judgment on issues of strategy, performance, risk, and integrity of financial information.
- **SEBI LODR Regulations 2015:** These regulations mandate the establishment of key board committees (Audit Committee under Regulation 18, Nomination and Remuneration Committee under Regulation 19, Risk Management Committee under Regulation 21) and require at least two thirds of audit committee members to be independent directors. The regulations also prescribe detailed roles for the audit committee including reviewing the auditor's performance, independence, and effectiveness of the audit process.
- **ICAI Standards on Auditing:** SA 260 (Revised) governs communication between auditors and Those Charged with Governance (TCWG). SA 265 requires auditors to communicate significant deficiencies in internal control to TCWG. These standards create a two way communication channel that supports effective board oversight.
- **NFRA Circulars:** NFRA has issued several important circulars including the Circular on Effective Communication Between Statutory Auditors and TCWG (January 2026), the Circular on Maintenance and Archival of Audit Files (December 2025), and the Circular on Responsibilities of Principal Auditors in Group Audits (October 2024). These circulars reinforce the importance of robust auditor governance interaction.

The COSO Model of Good Judgment: A Five Step Process

The COSO paper presents a five-step professional judgment framework, adapted from the KPMG Professional Judgment Framework. This

model provides a structured approach to decision making that, when properly followed, can significantly improve the quality, justifiability, and defensibility of board level judgments.

The five steps are simple and intuitive, yet the paper warns that they do not depict how people often actually make judgments. In practice, human tendencies and shortcuts frequently short circuit this process, leading to biased or suboptimal decisions.

Table 1: The Five Step Judgment Process with Indian Regulatory Parallels

Step	Description	Indian Regulatory Parallel
Step 1: Define the Problem and Identify Fundamental Objectives	Obtain a thorough understanding of the judgment or decision. Develop specific objectives and measurable criteria. Ask "what" and "why" questions to get to the root of the issue.	Section 134(3) of Companies Act 2013 requires the Board's Report to include explanation of material changes. Schedule IV requires independent directors to bring independent judgment on strategy and risk.
Step 2: Consider Alternatives	Invest appropriate time to consider different alternatives. Remember that a judgment can only be as good as the best alternative considered. Seek input from those with different perspectives.	Regulation 17(1) of SEBI LODR requires board composition with adequate independent directors to ensure diverse perspectives. SA 315 requires auditors to understand the entity's environment before assessing risks.
Step 3: Gather and Evaluate Information	Gather relevant information. Consider reliability, validity, and accuracy. Identify relevant technical literature. Assess consequences of alternatives.	Section 177(4) of Companies Act 2013 empowers the Audit Committee to call for information from officers. SA 500 prescribes standards for audit evidence. NFRA Circular (Dec 2025) on audit file maintenance.
Step 4: Reach a Conclusion	Before concluding, verify that a supportable process was followed. Be aware of conflict avoidance tendencies.	SA 260 (Revised) requires auditors to communicate significant findings to TCWG. NFRA Circular (Jan 2026) mandates at least two meetings between auditors and TCWG per year.
Step 5: Articulate and Document Rationale	Consider whether a sound process was followed. Document the rationale. Reflect on whether traps or biases influenced the conclusion.	SA 230 requires comprehensive audit documentation. Section 134(5) of Companies Act 2013 requires directors' responsibility statement. NFRA emphasises documentation driven audit quality.

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Common Judgment Traps: Lessons for Indian Boards

Rush to Solve

One of the most common judgment traps is the tendency to immediately solve a problem and to appear decisive by making a quick judgment. In group settings such as board meetings, this manifests as a push toward quick compromise and early consensus.

The COSO paper uses a powerful example: the board of ABC Manufacturing Inc. is called for an urgent weekend meeting where the CEO and CFO present an acquisition opportunity as a "slam dunk" and press for immediate approval. The pressure to appear decisive can lead the board to skip the critical early steps of defining the problem and considering alternatives.

Alfred Sloan, former chairman of General Motors, once said at a board meeting: "I take it we are all in complete agreement on the decision here. Then I propose we postpone further discussion of this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about."

Indian Regulatory Relevance: Schedule IV of the Companies Act 2013 requires independent directors to "bring an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct." This duty cannot be fulfilled if directors rush to consensus without adequate deliberation. Section 166(2) requires directors to act in good faith and in the best interests of the company, which necessitates a thorough judgment process.

Judgment Triggers

A judgment trigger is an assumed or inherited problem definition that leads decision makers to skip the early steps of a sound judgment process. Triggers often come in the form of an alternative masquerading as a problem definition. In the ABC Manufacturing example, the acquisition itself was the trigger, presented as the obvious solution without a clear definition of the underlying problem.

The remedy is to ask "what" and "why" questions. What is the fundamental problem we are trying to solve? Why is this particular alternative being proposed? Are there other alternatives that could achieve the same objectives more effectively?

Indian Regulatory Relevance: The Audit Committee under Section 177 of the Companies Act 2013 has the power to "investigate into any matter in relation to items specified in this section." This investigative mandate requires the committee to go beyond surface level presentations and probe into the fundamental rationale behind management proposals.

Groupthink

Groupthink occurs when members of a group suppress their own views, assuming that consensus signals good judgment. The COSO paper notes that "some seriously flawed judgments with calamitous outcomes have been attributed to groupthink," including the decision to launch the Challenger space shuttle in 1986.

A 2011 KPMG Audit Committee Institute survey found that one third of audit committee members believed that unhealthy groupthink tendencies influence their meetings.

Indian Regulatory Relevance: The SEBI LODR Regulations address this by requiring independent directors to constitute at least two thirds of the audit committee (Regulation 18). The mandatory separation of the roles of Chairperson and Managing Director for listed entities (Regulation 17(1B)) also helps prevent the dominance of a single

individual. NFRA's Circular of January 2026 specifically highlights that effective two way communication between auditors and TCWG is essential, and that mere last minute presentations to the Audit Committee without proper discussion do not satisfy the requirements of SA 260.

To be continued.....

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RBI

Master Direction - Reserve Bank of India (Unique Identifiers in Financial Markets) Directions, 2026

RBI/FMRD/2025-26/392 FMRD.MIOD.No.9/11.01.057/2025-26 dated March 27, 2026

India has started adopting global standards for promoting transparency in the financial markets, including the use of certain Unique Identifiers for financial transactions.

The Reserve Bank has mandated the implementation of Legal Entity Identifier ("LEI") and Unique Transaction Identifier ("UTI") for transactions in financial markets regulated by the Regulator. The directions for the implementation of these unique identifiers have been issued by the RBI through various circulars, which have now been consolidated in form of Master Direction.

Legal Entity Identifier ("LEI")

LEI is a 20-character unique identity code assigned to entities who are party to a financial transaction and regulated globally through Global Legal Entity Identifier Foundation ("GLEIF").

Usage:

1. All Over the Counter ("OTC") transactions by entities (other than individuals) in Government securities, money market instruments, foreign exchange instruments and derivatives.
2. Non-derivative foreign exchange transactions undertaken by users/clients of amount equivalent to or exceeding USD one (1) million (or equivalent thereof in other currencies).

Unique Transaction Identifier ("UTI")

UTI is a unique identifier assigned to an OTC derivative transaction with a view to enable Regulators to obtain a detailed view of the OTC derivatives market.

Usage:

UTI applicable for all OTC derivative transactions undertaken as per the following Directions notified by the RBI from time to time;

1. Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 & Master Direction – Risk Management and Inter-Bank Dealings.
2. Master Direction – Reserve Bank of India (Rupee Interest Rate Derivatives) Directions, 2025.
3. Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025.
4. Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022.

Effective date:

LEI applicability – Immediate

UTI applicability - from January 01, 2027

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

RBI/2025-26/253 A.P. (DIR Series) Circular No. 25 dated March 30, 2026

External Commercial Borrowing provisions have undergone a change with the notification of the Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026) in February 2026. The new provisions have brought in new formats for application to be made to the RBI for grant of Loan Registration Number ("LRN") as well as the renewal of ECB

RBI

and the reporting for utilization of drawdown proceeds.

The Late Submission Fees ("LSF") applicable on delayed reporting against the said Forms are as follows:

Sr. No.	Type of Form	Late Submission Fees Amount (INR)
1	Form ECB / Form ECB 1 / Revised Form ECB	7500
2	Form ECB-2	7500 + (0.025% × A × n)

where;

a) "n" is the number of years of delay in submission rounded-upwards to the nearest month and expressed up to 2 decimal points.

b) "A" shall be the gross inflow or outflow (including interest and other charges), whichever is more.

c) LSF amount is per return.

Effective date: April 01, 2026

Reserve Bank of India (Trade Relief Measures) Directions, 2026

RBI/2025-26/263
DOR.STR.REC.No.455/21.04.048/2025-26
dated March 31, 2026

With a view to assuage the burden of debt servicing caused due to West Asian crisis and to ensure the continuity of business activity, the Reserve Bank of India has brought in certain trade relief measures for the Exporters:

- **Enhanced credit period of up to 450 days** for pre-shipment and post-shipment export credit disbursed till June 30, 2026.
- Where packing credit facilities have been availed by exporters on or before the date of issuance of these measures but dispatch of goods could not take place, the following alternatives have been suggested to Regulated Entities (i.e.) lending institutions for liquidation, including;
    - domestic sale proceeds of such goods; or
    - substitution of contract with proceeds of another export order

Effective date: Immediate

Risk Management and Inter-Bank Dealings (Revised)

RBI/2026-27/04 A.P. (DIR Series) Circular No. 03 dated April 01, 2026

Risk Management and Inter-Bank Dealings

RBI/2026-27/14 A.P. (DIR Series) Circular No. 07 dated April 20, 2026

With a view of looking at the rapidly changing economic conditions and the wild fluctuations in the currency markets globally, RBI has introduced certain restrictive measures such as instructing AD Banks not to offer non-deliverable derivative contracts involving INR to resident or non-resident users or not to permit a user to rebook any foreign exchange derivative contract involving INR, whether deliverable or non-deliverable or not undertake any foreign exchange derivative contract involving INR with their related parties.

However, the measures notified vide Circular issued on April 01, 2026 stated above stands withdrawn vide the AP DIR Circular of April 20, 2026.

The restrictions are now limited to only foreign exchange derivative contract involving INR with their related parties, with the exclusion of:

i. cancellation and rollover of existing contracts; and

ii. transactions undertaken with non-related non-resident users on a back-to-back basis.

Effective date: Immediate

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

RBI/2026-27/02 A.P. (DIR Series) Circular No. 01 dated April 01, 2026

Issuance of Guarantees to or on behalf of persons resident outside India are governed by the Foreign Exchange Management (Guarantees) Regulations, 2026 notified vide FEMA 8(R)/2026-RB dated January 6, 2026.

RBI has mandated that any person having the obligation to report a guarantee in terms of Regulation 7 of FEMA 8 (R) has to report and undertake the submissions to the AD Bank in the following manner:

a. 'Form GRN Issue' – For reporting issuance of Guarantee.

b. 'Form GRN Modification' – For reporting any subsequent change in guarantee terms, namely - guarantee amount, extension of period or pre-closure.

c. 'Form GRN Invocation' – For reporting invocation of guarantee.

Delayed reporting will be subject to levy of Late Submission Fees ("LSF"), the formula for which has been notified in the Notification No. FEMA 8(R)/2026-RB of the RBI.

Effective date: Immediate

Guidelines to facilitate faster cross-border inward payments

RBI/2026-27/08 CO.DPSS.ID.No.S20/06-08-017/2026-2027 dated April 09, 2026

Payments Vision 2025 of the Reserve Bank of India is an initiative to bring efficiency in the cross- border payments so as to align with the objective of the G20 roadmap.

One of the serious challenges identified by the RBI is slow processing time observed at the beneficiary's leg (i.e.) time taken post receipt of the payment at the beneficiary bank (credit being reflected in NOSTRO account) till credit to the beneficiary account.

With the view to shorten the time for credit to the beneficiary's account, the RBI has issued the following guidelines to AD Banks:

a. Banks have to immediately inform their customers of the receipt of cross-border inward transactions on receipt of inward message.

b. Banks have been instructed to undertake reconciliation and confirmation of credit in the Nostro account frequently either on near real time basis or at periodic intervals (not exceeding one hour).

c. Banks' to credit the inward payments received during the foreign exchange market hours within the same business day to the beneficiary's account and credit the inward payments received after market hours on the next business day as far as possible.

d. Banks to put in place a straight through process ("STP") for crediting the inward payments to the account of individual residents.

Coverage

RBI

Effective date: Six months from the date of Circular

Digital Payments – E-mandate Framework, 2026

RBI/DPSS/2026-27/396
RBI/CO.DPSS.POLC.No.S56/02.14.003/2026-27
dated April 21, 2026

The provisions of E-mandate Framework Directions become applicable on all Payment System Providers and Payment System Participants in respect of processing of recurring transactions, domestic or cross-border, using cards, Pre Paid Instruments ("PPI") and Unified Payments Interface ("UPI").

The framework lays out the broad contours on the e-mandate registration and revocation, processing of transactions, including the first such transaction, pre and post transaction notifications as well as transactions limits and the grievance redressal mechanism.

Some of the key highlights of the E-mandate framework are:

- E-mandate is a one time registration facility where the customer can select the validity period for the mandate.
- E-mandate amount can either be specific or variable as per the preference of the customer subject to the maximum permissible limits by RBI.
- The first transaction under an e-mandate shall require Additional Factor of Authentication ("AFA") validation.
- An issuer shall send a pre-transaction notification to the customer, at least 24 hours prior to the actual charge / debit.
- The issuer will have to provide the customer with a facility to opt-out of any particular transaction or the e-mandate.
- An issuer will have to send a post-transaction notification to the customer with minimum information such as the merchant's name, transaction amount, date and time of debit.
- All recurring transactions may be authorised without AFA upto INR 15,000/- per transaction beyond which AFA is mandatory.
- Higher ticket payments such as insurance premiums, subscription to mutual funds, and credit card bill payments may be made without AFA upto INR 1,00,000/- per transaction.

Effective date: Immediate

SEBI

Clarification regarding eligibility of members of the Institute of Cost Accountants of India to conduct annual audit of Investment Advisers

HO/38/12/12(1)2026-MIRSD-SEC-FATF/I/7933/2026 dated March 25, 2026

&

Clarification regarding eligibility of members of the Institute of Cost Accountants of India to conduct annual audit of Research Analysts

HO/38/12/12(1)2026-MIRSD-SEC-FATF/I/7934/2026 dated March 25, 2026

Securities and Exchange Board of India ("SEBI"), vide circulars dated March 25, 2026 has clarified the eligibility criteria for professionals conducting the annual compliance audit of Investment Advisers ("IAs") and Research Analysts ("RAs"). The circulars amend the existing provisions to explicitly include members of Institute of Cost Accountants of India ("ICMAI") in addition to Chartered Accountants ("CAs") and Company Secretaries ("CS") as eligible professionals for undertaking such audits.

The circular aims to broaden the pool of qualified professionals, enhance flexibility for regulated entities and streamline compliance processes.

Effective Date: Immediate

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

HO/49/(17)2026-CFD-POD2/I/8965/2026 dated April 08, 2026

As part of its ongoing efforts to enhance ease of doing business in the Indian capital markets, SEBI has been progressively streamlining the regulatory framework governing public offerings. Under the existing framework, lock-in was not permitted in the depository systems on pledged shares (non-promoter holding) which resulted in challenges for IPO bound companies to comply with pre-issue capital lock-in requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations"), without first removing the pledge. The removal required lender's consent, which was to be obtained from the shareholders.

SEBI has amended the ICDR Regulations vide Notification dated March 21, 2026 to overcome this challenge by enabling pledged shares held by non-promoter shareholders to be recorded as "non-transferable" by depositories for the duration of the applicable lock-in period.

Effective Date: March 21, 2026

Review of requirement relating to registration for a Not-for-Profit Organization on Social Stock Exchange (SSE) and minimum subscription requirement for issuance of Zero Coupon Zero Principal Instruments

HO/49/14/(10)2026-CFD-POD1/I/9380/2026 dated April 15, 2026

SEBI has introduced two key relaxations under the Social Stock Exchange ("SSE") framework, aimed at encouraging greater participation by Not-for-Profit Organizations ("NPOs") and making fund-raising through the SSE more accessible. These changes were developed in consultation with the Social Stock Exchange Advisory Committee ("SSEAC") and partially amend the Master Circular dated January 19, 2026.

SEBI

The amendments are as follows:

1. Extension of the grace period of two years available to NPOs after registration on the SSE without undertaking any fund-raising activity to three years i.e. additional one year extension upon approval by the SSE.
2. Reduction of the minimum subscription threshold for Zero Coupon Zero Principal ("ZCZP") instruments from seventy-five percent to fifty percent provided the SSE satisfies itself through due diligence that the partially raised funds can still be deployed in a meaningful and viable manner, consistent with the objectives disclosed in the fund-raising document.

Importantly, in cases of under-subscription, NPOs are now required to disclose in their fund-raising documents how they plan to raise the remaining capital and the potential impact on their social objectives if the shortfall is not covered. If the minimum subscription threshold is not met, funds must be fully refunded to investors. These measures collectively signal SEBI's continued commitment to strengthening the SSE ecosystem while maintaining appropriate investor protections.

Contributed by

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

MCA

MCA update for Directors

Released on March 31, 2026

Ministry of Corporate Affairs ("MCA") has introduced significant changes to the DIR-3 KYC compliance framework with the objective of simplifying regulatory requirements and enhancing ease of compliance for Directors. Key highlights of the amendment:

Directors holding DIN as on 31st March shall now be required to file Form DIR-3 KYC WEB once every third (3rd) consecutive financial year, on or before June 30.

Directors holding DIN	Filing Date / Compliance Date	Remarks
On or before FY 2025-26 (i.e.) as on March 31, 2025:	Form DIR-3 KYC filed up to September 30, 2025	
a. No Change in KYC particulars	Form filing shall be due between April 2028 to June 2028	
b. Change in KYC particulars	Within 30 days of the change in the FY in which such change was effected.	
c. In case Form is not filed up to September 30, 2025	DIN needs to be reactivated with a Penalty of INR 5000/-	
from FY 2025-26:		
a. No Change in KYC particulars	Form filing shall be due between April 2029 to June 2029	Any Change in KYC will not affect the cycle of KYC compliance and will remain the same as if no change was effected
b. Change in KYC particulars	Within 30 days of the change in the FY in which such change was effected.	

- Any change in a Director's mobile number, email ID, or residential address must be updated within 30 days through DIR-3 KYC Web.
- Form DIR-3-KYC and DIR-3- KYC-Web has been substituted with Form DIR-3 KYC Web

MCA

- These measures aim to strengthen corporate governance while reducing repetitive compliance burden for Directors.

Applicability: March 31, 2026

Public Notice on Companies (Incorporation) Amendment Rules, 2026 – Draft Notification

Issued on April 08, 2026

MCA has released a public notice dated April 8, 2026, proposing the Companies (Incorporation) Amendment Rules, 2026 and invited comments on the draft Rules by May 09, 2026. These changes aim to simplify processes and boost the Ease of Doing Business. The most important updates are highlighted below:

- **Massive Form Consolidation**
  To reduce repetitive disclosures, several forms are being merged into two simplified e-forms:
  - Form E-CHNG: Merges INC-4, 22, 23, and 24 (for changes in Registered Office and Name)
  - Form E-CON: Merges INC-6, 12, 18, 20, 27, 28, and RD-1 (for conversions and approvals)
- **SPICe+ and DIN Updates**
  - More DINs: You can now apply for up to 5 DINs (increased from 3) during incorporation.
  - Simplified Consent: Subscribers to the MoA will have "deemed consent" to act as directors, removing extra paperwork.
- **Registered Office and Verification**
  - Flexible Documentation: Rule 25 is being updated to specifically cover owned, leased, and co-working spaces, with a wider range of acceptable documents like municipal khata or utility bills.
  - Risk-Based Verification: Registrar may cause physical verification through an authorized person, in the presence of two local witnesses and, if required, with assistance of local police.
- **Key Legal and Compliance Shifts**
  - One Person Companies ("OPC"): Proposed removal of the director's affidavit for conversion and the omission of specific criminal liabilities under Rule 7A.
  - Deceased Subscribers: New Rule 23B clarifies that if a subscriber passes away before paying for shares, their legal representative steps into their shoes.
  - Faster Communication: "Registered Post" requirements are being replaced by Speed Post and E-mail for serving notices.
  - AGILE-PRO-S: Obtaining EPFO, ESIC, and bank accounts through this form will now be optional, giving businesses more flexibility.

Companies (Registration Offices and Fees) Amendment Rules, 2026

Notification dated April 21, 2026

MCA notified Companies (Registration Offices and Fees) Amendment Rules, 2026 and revised fees for filing Form DIR-3 KYC by substituting Item VII in the Annexure.

VII. Fees for filing Form DIR-3 KYC WEB under Rule 12A of Companies (Appointment and Qualification of Directors) Rules, 2014-

MCA

Fees for filing Form DIR-3 KYC WEB	Amount (INR)
Form filed within timeline	NIL
Form filed after time-line / Form filed for re-activation of DIN	5,000
Form filed anytime for change	500 [for every filing]

Applicability: Date of publication in Official Gazette

FAQs on Companies Compliance Facilitation Scheme, 2026

Released on April 22, 2026

Companies Compliance Facilitation Scheme, 2026 ["CCFS-2026"] is a one-time scheme introduced to enable companies to file overdue annual returns, financial statements and other relevant e-forms by paying concessional fees.

The scheme is a form of incentive for delayed compliances wherein the penalty is considerably reduced for better compliance and reduce the burden of penalties on companies.

Entities who can avail this Scheme:

All Companies except:

- Companies against which final action for strike off has already been initiated;
- Companies that have already applied for strike off;
- Companies that applied for dormant status before commencement of the Scheme;
- Companies dissolved pursuant to Amalgamation; and
- Vanishing Companies

Relaxations covered under this Scheme includes:

Sr. No.	Compliance	Reduced Fees	Remarks
1	Annual filings, including MGT 7, MGT 7A, AOC 4, AOC 4 XBRL, FC 3 & FC 4, legacy forms such as 20B, 23AC, 23ACA, Form 66, Form 23B etc.	10% of the leviable fees as per standard penalty	Covers all pending annual filings, not being restricted to a single FY.
2	e-Form MSC-1	50% of normal Filing Fees	For Companies applying for Dormant Status
3	e-Form STK-2	25% of Filing Fees	For Companies applying for Strike off

Applicability: April 15, 2026 to July 15, 2026

MCA issued detailed FAQs on this Scheme for better clarity which can be referred from this link: *https://www.mca.gov.in/bin/dms/getdocument?mds=22HU6edu63wcOy-HQHHGsQ%253D%253D&type=open*

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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
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
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

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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
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
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