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Monthly Tax Bulletin

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As we step into the New Year, we wish our readers a happy, healthy, and prosperous 2026. The start of the year brings important policy signals, regulatory refinements, and judicial clarity across tax and related laws. The January 2026 edition of our Monthly Tax Bulletin captures these developments, reflecting a continued emphasis on transparency, digitisation, ease of compliance, and alignment with India's long-term vision of a *Viksit Bharat*.

Direct tax updates this month underscore the administration's data-driven, trust-based approach. The CBDT has reiterated mandatory disclosure of foreign assets and income under the CRS and FATCA, supported by step-by-step ITR guidance and expanded NUDGE campaigns targeting high-risk cases and bogus deduction claims. The Capital Gains Accounts (Second Amendment) Scheme, 2025, modernises the framework by expanding the list of eligible banks and enabling electronic deposits and closures. On the global front, the OECD's BEPS Action 5 peer review essentially endorses India's transparency framework. Judicially, the Supreme Court of India reaffirmed that DTAA provisions override Section 206AA for the TDS rates and applied a strict "derived from" test while denying Section 36(1)(viii) deductions on ancillary income.

Transfer pricing rulings issued during the month reinforce the principles of substance, consistency, and statutory discipline. Tribunals rejected the unwarranted re-characterisation of captive entities contrary to past positions and binding APAs, clarified that mark-ups cannot be applied to out-of-pocket expenses without following prescribed methods, and held that, in the post-omission of Section 92BA(i), certain payments cannot be treated as specified domestic transactions. Collectively, these decisions curb aggressive tax planning and strengthen taxpayers' certainty.

Under FEMA, the Reserve Bank of India liberalised the rules on carrying Indian currency to and from Nepal and Bhutan, permitting higher-denomination notes up to specified limits while easing the movement of Nepalese and Bhutanese currency. The amendment, effective November 2025, provides practical relief for cross-border travel and trade in the region.

Under GST, the withdrawal of the staggered filing mechanism for appeals before the Goods and Services Tax Appellate Tribunal, coupled with notification of bench allocations, has paved the way for regular and effective appellate functioning. On the trade policy front, India concluded landmark agreements with New Zealand and Oman, signaling a new generation of FTAs and CEPAs with deeper, more comprehensive commitments across goods, services, and financial services. Trade and customs developments further reflect a strong facilitation and integration agenda, with the operationalisation of an ICEGATE module for post-clearance revision of Bills of Entry. In addition, the pilot launch of export credit support schemes for MSMEs under the Export Promotion Mission represents a timely and pragmatic intervention to strengthen access to finance for MSME exporters.

We hope this concise overview helps readers quickly navigate the most relevant developments shaping the tax and regulatory landscape at the start of 2026.

Happy reading!

A.
Key developments under direct tax laws

Central Board of Direct Taxes (CBDT) circular/notification

- **Income Tax Department reiterates tax transparency and provides a step-by-step guide for reporting foreign assets and income**[1]

  The Income Tax Department has reiterated the importance of **tax transparency and compliance** in today's globalised economy. To strengthen this, the department has emphasised adherence to international frameworks, namely the **Common Reporting Standards (CRS)** and the **Foreign Account Tax Compliance Act (FATCA),** reminding taxpayers of their obligation to disclose foreign assets and income in their Income Tax Return (ITR). The key highlights are as follows:

  Understanding CRS and FATCA

  - The CRS is an initiative of the Organisation for Economic Co-operation and Development (OECD), requiring financial institutions to report information about financial accounts held by foreign residents to their respective tax jurisdictions.
  - This information is then exchanged with other jurisdictions on an annual basis.
  - Similarly, the FATCA enacted by the United States (U.S.), mandates that foreign financial institutions report accounts held by the U.S. taxpayers to the IRS.

  Information received by India

  - India receives detailed information about financial accounts held by its residents in foreign jurisdictions, including account holder details, balances, and income, such as interest, dividends, and other financial proceeds.
  - The aforesaid information aids the department in identifying taxpayers who may not have disclosed their foreign assets and income.
  - Failure to disclose such foreign assets and income may attract **penalties and prosecution under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.**

  Benefits of transparency in ITR

  - Builds trust with tax authorities and avoids unnecessary scrutiny.
  - Ensures legal security by preventing exposure to penalties and prosecution.
  - Enables taxpayers to claim tax relief on taxes paid outside India, thereby avoiding double taxation.
  - Contributes to national development through accurate tax compliance.

  Opportunity to file revised ITR

  The department grants taxpayers an opportunity to rectify omissions or inaccuracies by filing a revised return, ensuring complete and accurate disclosure of foreign assets and income.

  Disclosure requirements under Indian law

  All residents must report:

  - **Schedule Foreign Assets (FA) –** Details of FA and income from any source outside India
  - **Schedule Foreign Source Income (FSI) –** Details of Income from outside India and tax relief
  - **Schedule Tax Relief (TR) –** Summary of tax relief claimed for the taxes paid outside India

  The department, as part of its e-campaign, aims to remind its stakeholders of their obligation to disclose foreign assets and income reported under the CRS and FATCA. The department has provided a step-by-step guide on how to file the aforementioned schedules in the ITR.

- **CBDT notifies Capital Gains Accounts (Second Amendment) Scheme, 2025**[2]

  The Capital Gains Accounts Scheme, 1988, was earlier notified vide Notification No. G.S.R. 724 (E), dated 22 June 1988, and was subsequently amended vide Notification No. S.O. 2553 (E) dated 25 October 2012.

  Notification No. 161 of 2025 dated 19 November 2025

[1] Released on 20 November 2025
[2] Notification No. 161 of 2025 dated 19 November 2025

Now, the CBDT has notified the Capital Gains Accounts (Second Amendment) Scheme, 2025, under Sections 54(2), 54B(2), 54(D), 54F(4), 54G(2), 54GA(2), and 54GB(2) of the Income-tax Act, 1961 (IT Act). The key changes are as follows:

Paragraph/Form	Capital Gains Accounts Scheme, 1988	Capital Gains Accounts (Second Amendment) Scheme, 2025
Paragraph 1/Rule 1 - Short title, commencement and application	• Applicable to all assesses eligible for exemption under Sections 54, 54B, 54D, 54F, 54G, or 54GB of the IT Act.	• Inserted Section 54GA of the IT Act within the scope of exemption.
Paragraph 2/Rule 2- Definitions	• A deposit office refers to a branch or branch office of the State Bank of India, a subsidiary bank, or a corresponding new bank. • A depositor means an individual who is eligible under Sections 54, 54B, 54D, 54F, 54G, or 54GB of the IT Act.	• Expanded the definition of "Deposit office" by including a "banking company" as defined under Section 5(c) of the Banking Regulation Act, 1949. • Furthermore, the CBDT separately notified[3] that the central government has authorised all branches (except rural branches) of various banks to receive deposits and maintain accounts under the scheme. • Expanded the definition of "Depositor" to include assesses eligible under Section 54GA of the IT Act. • A new clause is inserted to define the meaning of "electronic mode".
Paragraph 3/Rule 3 - Deposits how to be made, and Paragraph 10 - Utilisation of the amount of withdrawal	• Includes deposits made by the depositor under Sections 54, 54B, 54D, 54F, 54G, or 54GB of the IT Act.	• Expanded to include deposits made under Section 54GA of the IT Act.
Paragraph 5/Rule 5 - Application for opening account	• The payment of the deposited amount is to be made either by cash, cross-cheque, or draft. • The effective date of the deposit shall be the date on which the cheque or draft is received by the draft office. • As per sub-para 7, interest shall accrue upon the receipt of cash or realisation of a cheque or draft.	• The amount now can be deposited via electronic modes. • The effective date of the deposit shall be the date on which the draft office receives the cheque or payment by electronic means. • Interest shall also accrue on the date of receipt of deposits by electronic modes.
Paragraph 7/Rule 7- Transfer and conversion of the account	• A depositor may open an account by applying Form B along with their passbook.	• The depositor may also apply Form B along with an electronic statement of account.
Paragraph 9/Rule 9 - Withdrawal from the account	• No provision of an electronic statement of account.	• Wherever 'passbook' is mentioned, an electronic statement of account shall be inserted.

[3] Notification No. 162 dated 20 November 2025

Paragraph/Form	Capital Gains Accounts Scheme, 1988	Capital Gains Accounts (Second Amendment) Scheme, 2025
Paragraph 13/Rule 13 - Closure of the account	• No such provisions	The following sub-paras are inserted: • Sub-para 7: The option of closure of account shall be furnished electronically either under a digital signature or electronic verification code on and from 1 April 2027. • Sub-para 8: The Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems), or any person authorised by them will: – Specify the procedure for filing and forward Form G and Form H to the Assessing Officer (AO). They will also specify the data structure, standards, and manner of generating electronic verification codes, referred to in sub-para (7), and be responsible for formulating and implementing appropriate policies in relation to the form.
Form A & C	• No such provisions	• The following are to be inserted in Form A and C: – Section 54GA after Section 54G – By electronic means after a demand draft • Under the heading "FOR THE USE OF DEPOSIT OFFICE", "(c) RTGS/IMPS/NEFT/Transaction No.…….. dated……". Shall be inserted in Form C.

- **CBDT launches 2nd NUDGE initiative to strengthen voluntary compliance in respect of Foreign Assets**[4]

  On 17 November 2024, the CBDT launched its first **Non-intrusive Usage of Data to Guide and Enable (NUDGE) initiative.** This reflected CBDT's commitment to a forward-looking, technology-enabled, and trust-based tax administration.

  The first campaign targeted select taxpayers reported by foreign jurisdictions under the Automatic Exchange of Information (AEOI) framework. These taxpayers were identified as holding foreign assets not disclosed in their ITR for the assessment year (AY) 2024-25.

  This resulted in positive outcomes, with 24,678 taxpayers (including several not directly nudged) revisiting their returns and disclosing foreign assets worth INR 29,208 crore, along with foreign-source income of INR 1,089.88 crore.

  Now, in continuation of the above, the CBDT has launched its **second NUDGE campaign.** This focuses on high-risk cases identified through the AEOI data, where foreign assets appear unreported in ITRs for AY 2025-26.

  Under this campaign:

  - SMS and email alerts will be sent from 28 November 2025 to identified taxpayers.
  - Taxpayers are advised to review and revise their returns by 31 December 2025 to avoid potential penalties.
  - The campaign emphasises accurate reporting in Schedule FA and Schedule FSI.
  - Accurate and complete disclosure is mandatory under the IT Act and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

  This reflects the prudent approach to tax administration and aligns with the vision of Viksit Bharat, fostering transparency, accountability, and voluntary compliance. The CBDT advises taxpayers to take advantage of this opportunity to ensure the complete and accurate reporting of their foreign assets and income.

[4] Press release dated 27 November 2025

- **OECD releases annual peer review reports on the "Exchange of Information" on tax rulings[5]**

  The OECD has issued its ninth annual peer review report under Base Erosion and Profit Shifting (BEPS) Action 5. It assesses how jurisdictions implement the transparency framework for the compulsory spontaneous exchange of information on certain tax rulings.

  The transparency framework is designed to provide tax administrations with timely information on the rulings granted to foreign related parties or a permanent establishment (PE). It enables an appropriate risk assessment, where a lack of information could otherwise give rise to BEPS concerns.

  The review covers 139 jurisdictions, including all-inclusive framework members and jurisdictions of relevance identified before 30 June 2024, out of which 29 cannot issue rulings in scope, and therefore, have no separate reports. It reflects the steps taken during calendar year 2024, relying on information provided by jurisdictions, peer inputs from exchange partners, and feedback from delegates to the Forum on Harmful Tax Practices.

  The report also notes that seven inclusive framework members are outside the scope of this framework. These jurisdictions did not impose a corporate income tax during the year under review and, therefore, cannot legally issue rulings within the scope of the transparency framework. Furthermore, no exchanges of information on rulings occurred with them under the framework.

  The framework requires spontaneous exchange of information on five categories of rulings, which are as follows:

  - Rulings related to certain preferential regimes
  - Unilateral Advance Pricing Agreement (APAs)/cross-border transfer pricing rulings
  - Rulings providing for downward adjustments of taxable profits
  - PE rulings
  - Related-party conduit rulings

  As per the report, the inclusion of these categories does not imply that such rulings constitute a preferential regime or a harmful tax practice. In practice, rulings often support taxpayer certainty and reduce the risk of disputes. Thus, transparency is required because a lack of information on a taxpayer's treatment abroad can create BEPS risks, and timely, standardised information helps tax authorities identify risk areas efficiently.

  The key findings of the report are as follows:

  - As of 31 December 2024, over 28,500 tax rulings, within the scope of the transparency framework, had been issued, including more than 2,300 in 2024.
  - More than 64,000 exchanges of information have taken place by 31 December 2024, including around 5,500 in 2024.
  - 113 jurisdictions received no recommendations, as they met all terms of reference. Furthermore, seven jurisdictions received just one recommendation.
  - A total of 46 recommendations were issued for 2024.
  - A total of 94 peer input questionnaires were submitted, supporting improvements in several jurisdictions.
  - Some jurisdictions initiated changes during 2025, which will be assessed in future reviews.

  India meets all the required elements of the transparency framework through its information-gathering process, review and supervision mechanism, and legal framework for spontaneous exchange. However, the only recommendation for India pertains to the delays in exchanging information on future APAs. Thus, India is recommended to continue its efforts to ensure that all such exchanges occur as soon as possible.

- **Press release pursuant to CBDT's NUDGE Initiative with regard to reviewing deduction claims.[6]**

  The CBDT had launched its **NUDGE** initiative, aimed at strengthening the accurate reporting of foreign assets and income, as well as high-risk disclosures, under the AEOI framework.

  Now, the CBDT has addressed a vital advisory under its ongoing NUDGE approach. This focuses on **bogus deduction claims under Sections 80GGC and 80G** of the IT Act.

  Key highlights from the press release:

  - Enforcement actions have revealed large bogus donation claims to registered unrecognised political parties (RUPP) and charitable institutions, which were used to reduce tax liabilities and claim refunds. The CBDT has also acted against intermediaries and agent networks involved in filing such returns on a commission basis.
  - Many RUPPs were non-filers at their registered addresses and not engaged in any political activity. Evidence suggests their use as conduits for routing funds, facilitating hawala transactions, cross-border remittances, and issuing fraudulent donation receipts. Follow-up searches also uncovered fake donations by individuals and bogus corporate social responsibility (CSR) by companies.

[5] Approved and declassified on 2 December 2025
[6] Press release dated 13 December 2025

- The CBDT, vide its strengthened data-driven approach, identified early suspicious claims and high-risk behaviour patterns, particularly for claims under Sections 80GGC and 80G. Data analytics indicate that many taxpayers may have claimed deductions for donations to suspicious entities or have failed to provide the necessary information to verify the genuineness of those entities.
- Many taxpayers have already revised their ITRs for AY 2025-26 and filed updated returns for past years.
- In this regard, the CBDT has launched a targeted NUDGE campaign offering an opportunity to update returns and withdraw any incorrect claims. SMS and email alerts are being sent from 12 December 2025 to identified taxpayers on their registered mobile numbers and email IDs. Every taxpayer is advised to ensure that their contact details are updated correctly in their filings to avoid missing any critical communications.

Judicial developments

- **Supreme Court (SC) dismisses the Revenue's SLP on the applicability of the beneficial TDS rate under DTAA[7]**

  Brief facts of the case

  - The dispute concerns payments made by taxpayers to foreign entities (specifically, affiliated companies in the U.S., Singapore, and the UAE) for various tax years. The AO treated these payments as royalty/fee for Technical Services (FTS) under the IT Act and the Double Taxation Avoidance Agreement (DTAA).
  - The AO relied on agreement clauses, LinkedIn profiles, sworn statements, and email communications to conclude that the services were not merely a commission but involved technical and consultancy elements. Accordingly, the AO concluded that the taxpayer is in default for failing to deduct tax under Section 195 of the IT Act and levied interest under Section 201(1A) of the IT Act for the failure to deduct tax.
  - The AO also invoked Section 206AA of the IT Act to apply a higher tax deducted at source (TDS) rate of 20% due to the non-availability of the non-resident's PAN.
  - On an appeal, the Commissioner of Income-tax (Appeals) (CIT(A)) upheld the AO's view that the payments were taxable and provided additional reasoning, categorising the payments as follows:
    - Software development services, customer database, and the maintenance of online data are treated as royalty.
    - Evaluation of clients, lead generation, and market analysis are treated as consultancy services.
  - The CIT(A) held that the payments were composite in nature and that the taxpayer should have sought a determination under Section 195(2) of the IT Act. Furthermore, the CIT(A) upheld the AO's levy of interest under Section 201(1A) of the IT Act for failure to deduct tax.
  - The CIT(A) rejected the AO's application of Section 206AA, holding that Section 206AA does not override Section 90(2) of the IT Act and that the beneficial DTAA rate would prevail.
  - The taxpayer argued that the payments constituted a sales commission, not chargeable to tax in India under the IT Act, and that the services did not accrue or were deemed to accrue in India under Section 5(2) of the IT Act. Furthermore, these services do not qualify as royalties or FTS under the IT Act or the DTAA, and even if treated as FTS, they fail the 'Make Available' condition under the India-U.S. DTAA.
  - The taxpayer also contended that the AO did not explicitly conclude whether the payment was royalty or FTS and emphasised that Section 206AA of the IT Act does not apply to non-residents.

  Before the ITAT Bangalore

  - The Income Tax Appellate Tribunal (ITAT) observed that the core issue raised by the taxpayer (whether the payments were sales commission and therefore not chargeable to tax in India) was not adjudicated by the CIT(A) at all.
  - The ITAT emphasised that any quasi-judicial authority must dispose of all claims through a speaking and reasoned order, which was not done in this case. Accordingly, the ITAT set aside the CIT(A)'s order and remanded the matter for fresh adjudication, directing the CIT(A) to pass a reasoned order after providing both parties with an adequate opportunity to be heard.
  - Further, the ITAT noted that the contention of the Revenue was the CIT(A)'s finding on the applicability of Section 206AA of the IT Act. On this point, the ITAT concurred with the CIT(A)'s view that Section 206AA does not override the treaty provisions under Section 90(2) of the IT Act, so the TDS rate under the DTAA (or under the IT Act, whichever is lower) applies. The ITAT further clarified that if TDS is ultimately found applicable upon fresh adjudication, the applicable rate must be as per the DTAA or the IT Act, whichever is more beneficial to the taxpayer.

  Before the Karnataka HC

  - The Revenue filed an appeal before the Karnataka HC, challenging the ITAT's decision, primarily on the applicability of Section 206AA of the IT Act.
  - The HC noted that the issue was identical to the one decided in the CIT vs. Wipro Ltd8 case, wherein it was held that the DTAA overrides Section 206AA for determining the TDS rates. Following that precedent, the HC dismissed the Revenue's appeal, answering the substantial question of law in favour of the assessee.

  Before the SC

  - The SC noted that the issues raised in these special leave petitions (SLPs) were squarely covered by its earlier decision in the CIT vs. Air India Ltd9 case, where similar petitions were dismissed.
  - Applying the same principle, the court found no reason to interfere with the HC's decision and dismissed the SLPs. This effectively affirms that the DTAA provisions supersede Section 206AA for the purpose of determining the applicable TDS rates.

7 CIT vs. M/s Manthan Software Services Pvt. Ltd. (SLP(C) Nos. 21435/2023 & connected petitions)
8 [TS-5952-HC-2022(Karnataka)-O]
9 [SLP(C) Diary No.19016/2023]

- **SC: Ancillary income not eligible for Section 36(1)(viii) deduction, strict "derived from" test applied[10]**

  Brief facts of the case

  - The taxpayer, a statutory corporation, sought a deduction under Section 36(1)(viii) of the IT Act with respect to three income streams: (i) Dividend on investments in redeemable preference shares, (ii) Interest on short-term deposits with banks, and (iii) Service charges received for monitoring Sugar Development Fund loans.
  - The AO took the taxpayer's return of income for scrutiny and observed as under:
    - While examining the claim for deduction under Section 36(1)(viii) of the IT Act, the provision allows for a deduction of 40% of profits. Still, it strictly limits this benefit to profits derived from the business of providing long-term finance.
    - The taxpayer was generally engaged in financing, and not all income receipts qualify for this specific statutory deduction. Thus, none of the three incomes could be characterised as profits derived from the business. Therefore, the deductions claimed were disallowed.
  - On an appeal, the CIT(A) upheld the disallowances, relying on the legislative intent and the definition of "long-term finance" in the Explanation to Section 36(1)(viii) of the IT Act.
  - The ITAT and HC subsequently affirmed this view.

  Before the SC

  - The SC discussed the Finance Act, 1995, and how it deliberately narrowed Section 36(1)(viii) of the IT Act. Earlier, deductions were allowed on total income, enabling financial corporations to claim benefits for diversified activities. In this regard, the Parliament amended the law to restrict the deduction strictly to profits derived from the business of providing long-term finance.
  - The taxpayer argued for a broad reading of "derived from," relying on the case of CIT vs. Meghalaya Steels Ltd11, suggesting that the receipts flowing from business and chargeable under Section 28 should qualify for the said deductions. Further, that distinction between "attributable to" and "derived from" is artificial when the business is indivisible.
  - The SC, in this regard, observed that reliance on Meghalaya Steels (supra) is misplaced. The case involved Section 80-IB of the IT Act and specific government subsidies given to reimburse the company for actual operational costs, such as transport, power, and insurance, which had a direct nexus with business profits. It did not dilute the strict interpretation of "derived from." In contrast, Section 36(1)(viii) of the IT Act is far narrower.
  - The court refused to accept the taxpayer's argument that the business was a "single, indivisible integrated activity" and relied on the case of Orissa State Warehousing Corpn. vs. CIT12, which rejects integrated-activity theories.
  - Regarding dividends on investments in redeemable preference shares, the court observed that preference shares are considered share capital under the law and cannot be treated as loans. Furthermore, the court relied upon the Constitution Bench's decision in the case of Bacha F. Guzdar vs. CIT13 for demonstrating that the immediate source of dividend is the shareholder relationship, not lending. Since Section 36(1)(viii) of the IT Act includes interest on long-term loans, extending the benefit to dividends would defeat the legislative intent.
  - Regarding interest on short-term bank deposits, the court observed that classification as business income does not automatically qualify for deduction under Section 36(1)(viii) of the IT Act, which operates on a much narrower plane. The provision requires profits derived from the business of providing long-term finance and targets active lending, not passive investment of surplus.
  - Regarding service charges on the Sugar Development Fund loans, the court observed that a deduction under Section 36(1)(viii) of the IT Act is predicated on the financial corporation providing the finance. Herein, the funds belong to the government of India, and the taxpayer bears no risk and utilises no capital of its own. Furthermore, the proximate source of this income is the agency agreement with the government, rather than the lending activity. Therefore, a fee for agency services cannot be equated with profits derived from the business of providing long-term finance.
  - The SC thereby dismissed the appeals and held that a vital judicial distinction exists between the general genus of 'Business Income' and the specific species of 'profits derived from the business of providing long-term finance.' Viewed through this lens, none of the disputed receipts satisfy the strict statutory definition.
  - Note: As per the **Finance Act, 2007,** the deduction under Section 36(1)(viii) of the IT Act was reduced from 40% to 20% of the profits derived from an eligible business.

[10] National Cooperative Development Corporation vs. ACIT (TS 1633 SC 2025)
[11] [(2016) 6 SCC 747]
[12] [(1999) 4 SCC 197]
[13] [(1954) 2 SCC 563]

B.
Key developments under transfer pricing law

Judicial developments

- **ITAT rejects TPO's re-characterisation of assessee as contract R&D service provider[14]:** The assessee is a captive software development service provider, characterising itself as a 'software development service provider' and applied TNMM using OP/OC as the PLI. During the assessment, the TPO obtained global TP documentation from the U.S. tax authorities and recharacterised the assessee as a contract R&D service provider, resulting in an upward TP adjustment. On appeal, the Tribunal noted that the global documentation was already on record, and its admission did not warrant a remand. It observed that the assessee had consistently been treated as a software development service provider in earlier and subsequent years, and the BAPA entered into with the CBDT explicitly recognised this characterisation. A clarification from the group's Chief Tax Officer confirmed that the assessee provides support services on a cost-plus basis without performing R&D functions. Based on the BAPA, clarification letter, and past TP orders, the Tribunal held that recharacterisation was unjustified and directed the deletion of the adjustment.
- **ITAT directs computation of operating margin without excise duty, sales/income-tax, remits TP -adjustment qua SDT[15]:** The assessee, engaged in manufacturing inverters and UPS in a backward area of Himachal Pradesh, enjoyed government incentives, including excise duty and CST exemptions, and claimed deduction under Section 80-IC in its return. The TPO made an entity-level adjustment on SDTs, presuming excess profit due to incentives and the filing of Form 3CEB by the assessee. On appeal, the Tribunal directed the AO/TPO to compute operating margins, excluding excise duty, sales tax, and income tax, relying on the *Sheela Foams* ruling. The Tribunal accepted the assessee's claim that the excise duty exemption constitutes a capital receipt under normal provisions and Section 115JC. The Tribunal clarified that filing Form 3CEB does not automatically establish an arrangement under Section 80-IA(10). The issue of the TP adjustment was restored to the AO for fresh verification of financials and arrangements.
- **HC dismisses the Revenue's appeal against the ITAT order, deleting addition on account of mark-up on out-of-pocket expenses[16]:** The dispute concerned a TP adjustment resulting from the application of mark-up on out-of-pocket expenses related to salary and other expenses. The AO treated these expenses as part of the service cost and applied the same method as that applied for service costs, which the ITAT deleted because the TPO had not used any method prescribed under the Income Tax Act to determine the ALP. The Revenue argued that such costs were integral to the services rendered and should have attracted the same mark-up, contending that the Tribunal erred in its reasoning. However, the HC noted that the finding regarding the non-application of the prescribed methods was undisputed and relied on the ruling in the Kodak India case, which held that failure to apply the correct procedure cannot be cured by giving the TPO a second chance. Since the Revenue did not request another opportunity before the Tribunal and no substantial question of law was involved, the court dismissed the appeal.
- **ITAT deletes SDT adjustment made qua interest on Inter Corporate Deposit (ICD)[17]:** The assessee, a wholly owned subsidiary of Tata Steel BSL Ltd (TSBSL), is engaged in the production and distribution of electricity. During the relevant year, it received an ICD from TSBSL at an interest rate of 10% per annum, whereas its TP study disclosed an SBI PLR of 13.27%. The TPO, applying CUP, made an adjustment on the ground that a lower interest rate shifted profits to an eligible unit under Section 80-IA. The assessee contended that interest payment does not qualify as an SDT after the omission of Clause (i) of Section 92BA by the Finance Act 2017. The Tribunal agreed, holding that post-omission, the payments debited to the P&L account cannot be treated as SDTs, and relied on the rulings in the case of Relaxo Footwear and Texport Overseas, which clarified that the omission renders the provision as if it never existed. Consequently, the reference to the TPO and application of Section 92BA were declared invalid, and the TP adjustment was deleted.

[14] Scientific Games India Pvt Ltd [ITA No. 60/Chny/2019]
[15] Balaji Powertronics [ITA No. 2743/Del/2022]
[16] Capgemini India Pvt Ltd [ITA No. 1087 OF 2024]
[17] Tata Steel Ltd [ITA No. 4171/DEL/2024]

C.
Key developments under FEMA

- **RBI amends FEMA regulations w.r.t. export and import of Indian currency to or from Nepal and Bhutan:** The Reserve Bank of India (RBI) has issued the Foreign Exchange Management (Export and Import of Currency) (Amendment) Regulations, 2025 vide Notification No. FEMA 6 (R)/(4)/2025-RB dated 28 November 2025. This amendment substitutes the existing provision under Regulation 8 of the Foreign Exchange Management (Export and Import of Currency) Regulations, 2015 ('Principal Regulations').

  As per the said notification, the RBI has permitted individuals who are not citizens of Pakistan and Bangladesh to carry Indian currency notes of denominations above INR 100 up to INR 25,000 when traveling to or from Nepal or Bhutan. There is no restriction on lower denomination notes up to INR 100. In addition, individuals may also transport Nepalese or Bhutanese currency to and from India without any specific limits.

  This amendment will be effective from the date of its publication in the Official Gazette, i.e., 28 November 2025.

D.
Key developments under GST law

Legislative developments

- **GSTAT withdraws staggered filing for GST appeals:** The GSTAT, along with its e-filing portal, was made operational on 24 September 2025. To manage the expected high volume of appeal filings in the initial phase, a staggered filing mechanism was introduced. Under this, appeals could be filed only within specific windows based on the date of the original appellate or revisional order, with a final cutoff date of 30 June 2026.

  Upon reviewing the operational readiness of GSTAT, the staggered filing requirement has been withdrawn, effective 18 December 2025. Taxpayers can now file appeals on the GSTAT portal without adhering to the earlier phased timelines. Furthermore, appeals already filed under the staggered schedule, which will remain valid until 18 December 2025, will remain unaffected. This step aims to simplify access to appellate remedies and ease procedural hurdles under GST.

  (Please click here to read the order)

- **Allocation of GSTAT benches to judicial and technical members[18]:** To operationalise the functioning of the GSTAT, the Ministry of Finance has issued an order[19] allocating benches to judicial and technical members (centre and state). All members have been directed to assume charge at their respective allotted benches starting 21 January 2026.

  This marks a key milestone in making the GSTAT functional, with appellate proceedings expected to commence shortly thereafter.

  (Please click here to read the order)

Goods and Services Tax Network Advisory

- **Auto-population of values in Table 3.2 of GSTR-3B from November 2025:** To enhance consistency in the GST return filing, GSTN has issued an advisory regarding the auto-population of the inter-state supplies to unregistered persons, composition taxpayers, and UIN holders in Table 3.2 of GSTR-3B. From the November 2025 tax period, the values in this table will be system-generated based on the declarations in GSTR-1/GSTR-1A/IFF and will become non-editable.

  To make any corrections, taxpayers must file GSTR-1A for the same period, which will auto-update Table 3.2 in GSTR-3B. Taxpayers are therefore advised to carefully verify entries in GSTR-1/GSTR-1A/IFF before filing to ensure accurate reflection in GSTR-3B and avoid repeated amendments.

  (Please click here to refer the advisory)

- **Enforcement of ledger-based validations for ITC re-claim and RCM ITC in GSTR-3B:** In order to ensure accurate reporting of the Input Tax Credit (ITC) reversals and subsequent re-claims, as well as to minimise clerical errors in GSTR-3B, GSTN has issued an advisory introducing ledger-based system validations linked to the ITC reclaim ledger and the RCM Liability/ITC statement. These system-driven statements were previously introduced to track temporary ITC reversals and RCM-related credits, with mismatches resulting in only warning messages in the past. Despite such mismatches, taxpayers were still permitted to file Form GSTR-3B.

[18] Office Order No. 03/2025
[19] Office Order No. 03/2025 dated 26 December 2025

Now, due to the enforcement of system validations, negative balances or excess ITC claims will not be permitted. The filing of GSTR-3B will be blocked unless ledger balances are regularised. Specifically, the ITC re-claimed in Table 4(D)(1) cannot exceed the available balance in the ITC reclaim ledger, plus the current-period reversals. At the same time, the RCM ITC claimed in Tables 4(A)(2)/(3) cannot exceed the RCM liability paid and balance reflected in the RCM ledger. In the cases of existing negative balances, taxpayers must mandatorily reverse the excess ITC or discharge additional RCM liability, failing which GSTR-3B filing will be restricted.

(Please click here to refer to the advisory and FAQs)

Judicial developments

- **Gauhati HC reads down Section 16(2)(aa), holds that ITC cannot be denied without hearing the bonafide recipient[20]:** The Gauhati HC has read down Section 16(2)(aa) of the CGST Act, holding that bonafide recipients cannot be denied ITC solely due to the supplier's failure to furnish invoice details in GSTR-1. The court acknowledged that the provision was introduced to strengthen compliance and curb fraud. Still, it stressed that conditioning the ITC on the supplier-side reporting imposes an unreasonable burden on purchasers who lack the statutory means to enforce such compliance.

  While upholding the legislative intent behind the provision, the court declined to strike it down, but clarified that it must be interpreted in harmony with the overall GST framework. The reading down shall remain effective until the CBIC introduces a workable mechanism to address the practical challenges arising from non-compliance by suppliers.

  (Please click here to refer to the alert)

- **SC upholds GST exemption on renting of residential premises used as hostels[21]:** The SC has upheld the Karnataka HC's ruling that renting residential properties for use as hostels qualifies for GST exemption under Entry 13 of Notification No. 9/2017–IGST (Rate). It clarified that the exemption is based on the nature of the use as a residential dwelling for residence, and not on whether the lessee is the actual occupant. The court rejected the Revenue's argument that subletting disqualifies the exemption, noting that this would unfairly burden end-users, such as students.

  The exemption was held valid for the period 2019–2022, as all conditions were met. However, following the amendment on 18 July 2022, which excluded rentals to registered persons, the exemption no longer applies. The Revenue's appeal was accordingly dismissed.

  (Please click here to refer to the ruling)

- **Karnataka HC rules composite SCN covering multiple financial years invalid under GST[22]:** The Karnataka HC has held that a consolidated show cause notice (SCN) covering multiple financial years under Section 74 of the CGST/KGST Act is illegal and without jurisdiction. The court ruled that GST assessments are inherently year-specific, and combining the demands for FY 2019–20 to FY 2023–24 into a single SCN undermines the statutory framework and limitation provisions, thereby depriving the taxpayer of the opportunity to provide year-wise explanations.

  The HC also observed that such composite SCNs blur the distinction between Sections 73 and 74 and are contrary to the legislative intent. This has now been clarified through the introduction of Section 74A. Noting consistent precedent and the prejudice caused to taxpayers, the court quashed the SCN and all consequential proceedings.

  (Please click here to refer to the ruling)

- **West Bengal AAR rules that aerated beverages served in hotel restaurants form part of composite restaurant service[23]:** The West Bengal AAR has ruled that aerated beverages served within hotel restaurants constitute a composite supply of restaurant service under GST. The applicant, operating a hotel with in-house dining, supplied such beverages for in-premises consumption only, either with food or independently using restaurant staff, infrastructure, and customisations like ice or lemon.

  The AAR held that since the beverages are served and consumed within the restaurant setting, the transaction is service-centric. Citing Para 6(b) of Schedule II and Notification No. 11/2017–CT (Rate), it ruled that such supplies, even if ordered alone, are covered within the definition of restaurant service and taxable at 18% GST, provided the restaurant qualifies as a 'specified premises'.

  (Please click here to refer to the ruling)

[20] MCLEOD Russel India Limited (WP(C) No.5725 of 2022)
[21] Taghar Vasudeva Amrish (CIVIL APPEAL NO. 7846,7847 OF 2023)
[22] Pramur Homes and Shelters (WP No. 33081 of 2025)
[23] Summit Hotels & Resorts Private Limited (WBAAR 10 of 2025-26)

E.

Key developments under erstwhile indirect tax laws, Customs, Foreign Trade Policy, SEZ laws, FTAs, central and state incentives schemes, state amnesty schemes, etc.

Legislative/other developments

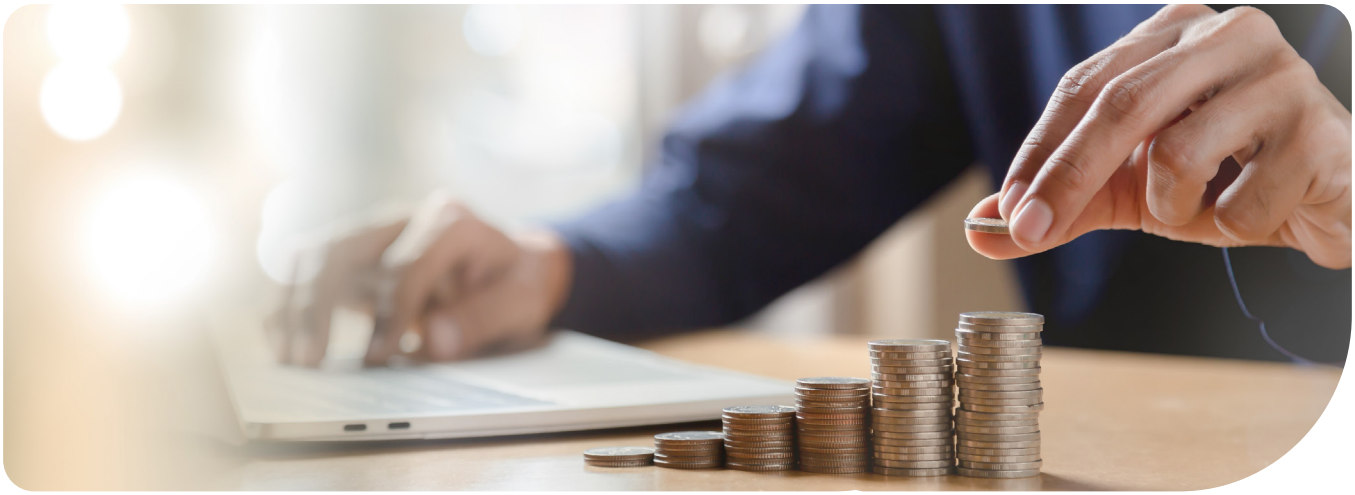
- **CBIC enables module on ICEGATE for post-clearance revision of Bills of Entry under Section 18A[24]:** Pursuant to the insertion of Section 18A in the Customs Act, 1962, by the Finance Act, 2025, the CBIC has operationalised a dedicated module on the ICES, accessible through ICEGATE, to enable post-clearance revision of Bills of Entry and related customs documents. The system allows importers to seek amendments, additions, or deletions after the out-of-charge stage, with all requests routed through the risk management system. A new Revision Officer role has been introduced to examine such applications, with refund-linked revisions mandatorily flagged for scrutiny and automatically integrated into the existing refund workflow. The system-level process has been established, marking a significant shift toward the structured, electronic handling of post-clearance corrections.

- **DGFT launches interest and collateral-backed export credit support schemes for MSMEs under Export Promotion Mission[25]:** With effect from 2 January 2026, the DGFT has operationalised two export credit support schemes under the Export Promotion Mission, aimed at strengthening the MSME exports by improving the access to bank finance and reducing the cost of export credit, being implemented on a pilot basis. The DGFT has issued detailed implementation guidelines as annexures to the respective trade notices and has invited stakeholder comments within 30 days of issuance, which will run concurrently with the pilot rollout.

  (Please click here for the detailed update)

- **India and New Zealand conclude landmark FTA, including Financial Services Annex:** India and New Zealand concluded negotiations on a comprehensive, balanced, and forward-looking FTA on 22 December 2025, marking one of India's fastest-concluded FTAs with a developed economy and aligning with the national vision of Viksit Bharat 2047. Positioned as a "new generation" trade partnership, the agreement focuses on people-centric growth, job creation, MSME participation, and long-term economic resilience, while incorporating safeguards for sensitive domestic sectors. The FTA aims to establish a stable and predictable framework to foster deeper bilateral economic engagement, with India-New Zealand merchandise trade projected at USD 1.3 billion in 2024-25 and total trade in goods and services at approximately USD 2.4 billion, including USD 1.24 billion in services trade, led by travel, IT, and business services. In this context, the Ministry of Finance announced[26] the conclusion of negotiations on the Financial Services Annex, which forms part of the trade in services chapter. The annex goes beyond standard GATS commitments and covers cooperation on digital payments and cross-border remittances, fintech collaboration through regulatory and sandbox frameworks, cross-border digital financial operations with safeguards for data protection and consumer privacy, non-discriminatory treatment for Indian financial institutions, support for cross-border back-office services, and enhanced market-access commitments in banking and insurance, including a liberalised bank branch licensing framework. The annex is expected to improve market access, regulatory clarity, and investment opportunities for financial service providers in both countries.

  (Please click here for the detailed update)



[24] vide Advisory No. 65/2025 dated 16 December 2025
[25] Trade Notice No. 20/2025-26 (interest subvention) and Trade Notice No. 21/2025-26
[26] vide Press Release dated 23 December 2025

- **India and Oman sign Comprehensive Economic Partnership Agreement (CEPA):** India and Oman signed the CEPA, marking a significant milestone in India's strategic engagement with the Gulf region and positioning Oman as a key gateway for Indian goods and services to the Middle East and Africa. The CEPA seeks to expand trade in goods and services, enhance market access, facilitate investment flows, promote professional mobility, and address non-tariff barriers. Oman has committed to eliminate tariffs on 98.08% of its tariff lines, covering 99.38% of India's exports by value, with near-universal immediate zero-duty access for Indian goods across major labour-intensive and priority sectors, such as textiles, leather, gems and jewellery, engineering goods, pharmaceuticals, medical devices, automobiles, and agricultural products. In comparison, India has offered tariff liberalisation on 77.79% of its tariff lines, protecting sensitive sectors through exclusions and tariff-rate quotas. The agreement also features ambitious services commitments across 127 sub-sectors, enhanced Mode 4 mobility provisions, opportunities for 100% FDI by Indian companies in major services sectors, and first-ever commitments by Oman on traditional medicine, along with regulatory cooperation on pharmaceuticals, standards, and certifications, reflecting a shift beyond tariff liberalisation towards deeper economic integration and value-chain participation.

  (Please click here for the detailed update)

- **Government of Maharashtra announces the Maharashtra Industries, Investment & Services Policy, 2025:** The government of Maharashtra has notified the Maharashtra Industries, Investment & Services Policy, 2025, to reinforce the state's position as a leading investment destination, accelerate manufacturing and services-led growth, and support its long-term objective of becoming a USD 1 trillion economy. The policy represents a structural shift from a manufacturing-centric approach to an integrated framework covering manufacturing, services, MSMEs, and investment facilitation, with strong emphasis on institutional capacity building, sustainability, and balanced regional development. It aligns with the Vikasit Maharashtra 2047 roadmap and national priorities on the ease of doing business, digital governance, and climate-resilient industrialisation. The policy is effective for five years or until a new policy is notified, and provides for an annual review and mid-course corrections based on implementation outcomes.

  (Please click here for the detailed update)

Judicial developments

- **SC held no customs duty on electricity supplied from SEZ to DTA[27]:** The SC has affirmed the Gujarat HC's decision pronounced in 2015 and ruled that customs duty cannot be levied on electricity supplied from a SEZ to a DTA in the absence of a charging event. It held that once the Gujarat HC, in its 2015 decision, had declared the levy of customs duty on such electricity to be without authority of law, the tax authorities could not continue to impose the same levy through later notifications, even if issued at different rates. The SC observed that the 2019 division bench of the HC, being a coordinate bench, was bound to follow the 2015 ruling or refer the matter to a larger bench if it had any doubts. The SC further noted that the HC erred in accepting the Union of India's argument that subsequent notifications remained valid merely because they were not expressly struck down in 2015. Accordingly, the court set aside the 2019 judgement of the Gujarat HC and directed a refund of the customs duty for the period 16 September 2010 to 15 February 2016.

  (Please click here for the detailed alert)

- **Karnataka HC holds that requirement of endorsement of invoices by SEZ officer to qualify as zero-rated not applicable for period before September 2018[28]:** The Karnataka HC has held that the endorsement of service-related invoices by the SEZ Officer under Rule 30(4) of the SEZ Rules, 2006, is not a pre-condition for the DTA-to-SEZ supplies of services to qualify as zero-rated under Section 16 of the IGST Act for the period before 21 September 2018. The court observed that the Revenue had erroneously relied on the amended Rule 30(4) of the SEZ Rules[29] and the SEZ circular[30], both of which are prospective. Since the taxpayer's transactions occurred between July 2017 and March 2018, the amended rule and subsequent circular had no application. Accordingly, the court quashed the demand raised solely on the ground that SEZ-endorsed invoices had not been furnished and held that the Revenue acted without authority of law in invoking provisions that were non-existent during the relevant period. The ruling reaffirms that procedural conditions introduced later cannot be retroactively applied to determine zero-rated eligibility.

  (Please click here to refer to the detailed alert)

- **CESTAT holds mutual fund subscription/redemption is not "trading of goods" and sets aside reversal and extended limitation[31]:** The CESTAT, New Delhi, set aside the service tax demand confirmed against an ISD for alleged non-reversal of the CENVAT credit on common input services, holding that subscription and redemption of mutual fund units is not "trading" (no transfer of title; units extinguish on redemption) and therefore not an "exempted service" under Section 66D(e). Consequently, Rule 6 reversal under CCR, 2004, was not required, and the extended limitation under Section 73(1) proviso was also held not invocable, following the Tribunal's earlier decision in the Siegwerk India Pvt. Ltd. case.

  (Please click here to refer to the ruling)

[27] Adani Power Ltd.(SLP(C) No.24729/2019)
[28] MK Travels (WP No. 12106 of 2023)
[29] made effective only from 21 September 2018
[30] dated 12 September 2019
[31] Godfrey Phillips India Ltd. (STA No. 51478 of 2022)

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