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YEAR IN REVIEW

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Foreword

It is a privilege to present this publication at a time when India stands at a pivotal moment in its economic trajectory. Over the past decade, the country has demonstrated remarkable resilience, navigating global volatility, harnessing its demographic advantages, and steadily strengthening its economic position to maintain its aspiration of becoming a USD 5 trillion economy.

In September 2025, Dhruva announced a strategic joint venture with Ryan, a US-headquartered PE-backed tax and advisory consulting Company with presence in more than 80 countries. Dhruva will operate with renewed focus in India, GCC, and Southeast Asian countries. Investment by Ryan, access to its global connections, and technology will usher in a new wave of growth for Dhruva in its second decade of existence as a premier tax and regulatory advisory entity.

On the global front, 2025 witnessed President Trump announcing the levy of selective tariffs as an economic tool to rebalance/reset US trading relations with its major partners. India was at the receiving end of 25% "reciprocal" duty, followed by an additional 25% levy linked to India's continued imports of Russian oil. Labour-intensive sectors such as textiles, gems and jewellery, seafood, and leather bore the brunt of these measures. India responded firmly in a non-escalatory manner, seeking to safeguard its national interest amidst potential economic disruption, while simultaneously accelerating efforts to diversify export destinations and usher in a wave of economic reforms to spur domestic growth.

The geopolitical landscape has seen some silver linings with the India-Pakistan conflict over the Pulwama massacre with a measured response, the Israel-Palestine conflict seeing a ceasefire, and frantic efforts now to end the Russia-Ukraine war. Yet the economic landscape remains under the cloud of unsafe geopolitics.

Domestically, the outlook remains robust. India clocked GDP growth of more than 8% in the first half of FY 26. It maintains its position as the fastest-growing major economy for another year. Reforms in the GST law with a reduction in levy for consumption-led sectors are likely to spur domestic demand and growth. The Government is in a reform mode to bring in critical enablers for competitiveness and sustainable growth. Continued reforms in taxation, digitisation of regulatory processes, and decriminalisation of economic offences underscore the evolution of a more mature, business-aligned policy framework. The year also saw the long-awaited implementation of the four new labour codes, reflective of today's dynamic labour market, including gig, contractual, and informal work.

A pivotal milestone in India's tax landscape was the enactment of the new Income-tax law, replacing a six-decade-old statute. The new law will be effective from April 1, 2026. It retains existing tax rates and tax policy but provides a new template that prioritizes clarity, simplicity, and ease of doing business.

India has continued to play an active role in the OECD/G20 BEPS initiative, seeking to align domestic rules with global standards. The 2025 OECD Model Tax Convention update further enhances tax certainty by clarifying remote-work PE thresholds (including the 50% home-office rule), refining guidance on the interplay between transfer pricing and interest-limitation provisions, and expanding the permissible use of exchanged information for related tax matters, among other changes.

In indirect taxes, 2025 saw a reboot of GST with major "GST 2.0" reforms, ushering in a trust-based, taxpayer-friendly regime. The reforms aim to enhance simplicity, certainty, and efficiency while safeguarding revenue. Operationalising the GST Appellate Tribunal was a foundational step, along with introducing the Health Security and National Security Cess Bill, 2025, to replace the GST Compensation Cess. Trade and product laws also saw significant movement. India signed a Free Trade Agreement ('FTA') with the United Kingdom, the India-European FTA ('EFTA') agreement became effective, and negotiations on FTA with the European Union advanced considerably.

Ultimately, 2025 stands as a testament to India's commitment to adapt, sustain stability, and reinforce its economic ambitions in a rapidly evolving global landscape.

We hope this publication provides meaningful insights to business leaders, policymakers, and stakeholders shaping India's next phase of economic development.

Warm regards,

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India 2025: A Year of Reform and Growth[1]

2025 emerged as a defining year for India. Even amid global uncertainty emerging from geopolitical tensions, US Tariffs, and election cycles worldwide, India maintained steady momentum on its domestic reform agenda. This article offers a snapshot of the key developments that shaped the year.

Rising India

India's growth trajectory remains robust, with rising FDI inflows reinforcing global confidence. GDP for the first half of FY 2025–26 surged to 8.7%, surpassing expectations.[2] This momentum is driven by strong domestic consumption, surging investments, and a resilient services sector. The Production Linked Incentive ('PLI') scheme has seen major expansions: Electronics and IT Hardware allocations rose from INR 5,777 crore to INR 9,000 crore, Automobiles and Auto Components jumped from INR 346.87 crore to INR 2,818.85 crore, and Textiles surged from INR 45 crore to INR 1,148 crore.[3] The National Framework will serve as guidance for states to promote Global Capability Centres. And elevate tier-2 and tier-3 cities into the global GCC landscape.

Geo-political dynamics

India is boosting its global trade position in 2025 as U.S.–China tensions and Middle East conflicts disrupt energy and trade routes. These challenges make countries look for stable partners, and India's neutral and dependable image attracts investment and long-term energy deals. FTAs with the EU, UK, and New Zealand will open doors to high-value markets, while India's push for green technology and digital innovation supports global sustainability goals. Discounted energy imports from Russia and strong Indo-Pacific partnerships give India an edge, helping it grow exports and build resilient, future-ready supply chains.

Direct tax amendments in the budget 2025

A major milestone in 2025 was the introduction of new Income-tax Act, 2025 ('the 2025 Act'), effective from 1 April 2026, a simplification of much of the existing tax law (the Income-tax Act, 1961 ('the 1961 Act')), however there were no substantive changes made under the new Act as the assumed mandate was to avoid any policy changes.

Budget 2025 prioritized boosting consumption by offering significant tax relief, raising the tax slab to INR 12 lakh under the new regime, standard deduction to INR 75,000, and Section 87A rebate to INR 60,000 for individuals.

Meanwhile, a paper by the policy think tank NITI Aayog proposed standardizing taxation for foreign companies. It recommends expanding optional presumptive-tax schemes to non-resident companies across more sectors. The paper also suggests fixing profit-attribution rates (for Permanent Establishment ("PE") analyses) in a range of 15%–30%, to provide more certainty for foreign investors.

Improved Tax Administration and Dispute Resolution ('DRP')

In parallel, the government advanced its broader litigation-reduction agenda by operationalizing the enhanced monetary thresholds for departmental appeals: INR 60 lakh for ITAT, INR 2 crore for High Court ("HC"), and INR 5 crore for the Supreme Court. In July 2025, the finance minister instructed the tax department to withdraw all appeals below these limits within three months, reinforcing the push toward faster dispute resolution and easing the burden of low-value tax disputes on taxpayers.[4]

1. This article is contributed by Ashish Agrawal - Partner, Anuj Shah - Principal, Komal Mehta - Manager and Rahul Patel - Senior Analyst
2. Press Note on Quarterly Estimates of Gross Domestic Product for the Second Quarter (July September) of 2025-26
3. PIB : Government Scales Up PLI Budget to Accelerate Manufacturing
4. PIB : Union Budget 2024-25 provided for an enhanced monetary limit for filing appeals related to Direct Taxes, Excise and Service Tax in various judicial fora

International tax

OECD expanded its Transfer Pricing Country Profiles in 2025 to cover 83 jurisdictions,[5] adding guidance on hard-to-value intangibles and simplified approaches for baseline marketing and distribution. These updates, building on BEPS and prior revisions, enhance comparability and align global practices with evolving OECD standards.

The OECD 2025 update clarifies rules on remote-work PE, profit attribution, and dispute resolution under the Mutual Agreement Procedure ('MAP'), while tightening alignment with OECD Transfer Pricing Guidelines. It introduces guidance on home-office PE and revises the Commentary on Article 9 (Associated Enterprises ('AE')). Changes to Articles 25 and 26 enhance tax certainty and transparency, though India remains cautious on mandatory arbitration. Meanwhile, the UN Model 2025 pushes stronger source-based taxation through Articles 12AA, 12C, and 5A.

Goods and Services Tax

On indirect taxation, GST reform remained a priority. The government reduced rates on automobiles, consumer durables, and cement from 28% to 18%; daily essentials and FMCG from 18%/12% to 5%; and health & life insurance sees a complete waiver, moving from 18% to Nil, and taking steps to reduce classification disputes. There was also a push for faster refunds. Work continued behind the scenes on what many refer to as "GST 2.0," aiming for a more streamlined and technology-enabled GST regime.

A landmark development was the issuance of the GSTAT (GST Appellate Tribunal) Rules, 2025 by the Central Board of Indirect Taxes and Customs ('CBIC'). That paves the way for operationalizing a dedicated appellate tribunal for GST disputes, a long-standing demand of businesses and taxpayers seeking quicker resolution in a staggered manner.

GIFT city

India strengthened its IFSC framework to position GIFT City as a global financial hub. Key reforms included extending the 100% tax holiday for IFSC units for 10 out of 15 years till March 2030, and reducing MAT to 9%. Capital market regulations were streamlined with an umbrella registration framework.[6] Relaxed eligibility norms for intermediaries and recognition of fintech qualifications. Mutual funds and ETFs relocating to IFSC were given tax-neutral status, while banking units received a competitive 15% tax rate post-holiday.[7]

Buzzing capital market

India's capital markets showed strong resilience in 2025, and the IPO frenzy continues unabated. While the equity markets were consolidating, gold prices crossed INR 1.30 lakh per 10 grams, and silver soared past INR 1.85 lakh per kg, hitting record highs, driven by global uncertainty and safe-haven demand. These gains, along with robust reserves and steady reforms, reinforce India's position as a secure and attractive destination for global investors.

Reserve Bank of India

The Reserve Bank of India (RBI) adopted a balanced approach in 2025. The monetary policy committee maintained a neutral stance, keeping a close watch on inflation and growth trends. At the same time, RBI took steps to ease liquidity, most notably by cutting the Cash Reserve Ratio ('CRR') significantly (to 3%) and adjusting the Statutory Liquidity Ratio ('SLR'). Concurrently, work on launching the Digital Rupee gained ground, reflecting India's push towards digital currency.

External Commercial Borrowings are loans from international markets that offer lower interest rates and longer repayment periods compared to domestic borrowing. RBI's draft External Commercial Borrowings ("ECB") Regulations allow borrowing up to the higher of

5. OECD publishes the third batch of updated transfer pricing country profiles with new insights on hard-to-value intangibles and simplified distribution rules
6. IFSCA.gov.in : IFSCA Authority Meeting
7. GiftCFO.com : Tax Benefits at GIFT IFSC

USD 1 billion or 300% of net worth, replacing the earlier USD 750 million cap. Minimum average maturity set at 3 years, with cost ceilings removed for market-linked pricing.

From the legal corners

The government continued with its longer-term agenda of simplifying the complex web of economic laws. In 2025, the implementation of criminal-law code rewrites and other legal reforms progressed further.

In tandem, the Ministry of Corporate Affairs ('MCA') amended rules governing corporate reorganizations: it expanded the scope for fast-track mergers and demergers under the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016. This aligns with the Budget 2025 announcement and promises to ease the burden on tribunals like the NCLT, enabling smoother corporate restructuring.

4 unified Labour codes were introduced, replacing 29 old labour laws to provide comprehensive coverage for workers. Key reforms include a national floor wage, mandatory payments, and a new wage definition requiring basic pay to be at least 50% of total salary. Social security benefits now extend to gig and platform workers, with ESIC coverage expanded to all 740 districts. Gratuity eligibility reduced to 1 year for fixed-term employees, work hours capped at 48 per week, and aggregators contributing 1–2% of turnover to a Social Security Fund. These changes aim to boost formal employment by 15% and expand social security coverage to 85% of workers within three years.

Trends: Supreme Court Jurisprudence[8]

Litigation under tax laws is widespread and often prolonged, with finality achieved when the Hon'ble Supreme Court ('SC') pronounces its orders. Over the last few years, tax professionals have closely tracked SC decisions to understand interpretative trends and how judicial thinking may be shifting. The year 2025 was no exception, with several important rulings on cross-border taxation, capital transactions, procedural timelines, and reassessment jurisdiction. The Court also revisited the MFN clause and clarified its continued relevance in treaty implementation.

Fixed Place PE – Economic Substance over Legal Form

In a significant ruling for asset-light business structures, the SC examined the existence of a fixed place PE in the case of Hyatt International.[9], a UAE-resident entity. Hyatt had entered long-term Strategic Oversight Service Agreements with Indian hotels, providing strategic planning, brand supervision, and operational oversight. The tax authorities concluded that Hyatt exercised substantive control over hotel operations—including staff inputs, policy oversight, and on-site managerial involvement—leading to attribution of income in India. Hyatt contended that its involvement was limited to high-level strategic guidance from Dubai, supported only by occasional visits and without any dedicated office space in India. However, the DRP, ITAT, and Delhi HC held that its activities extended beyond advisory functions.

The SC upheld these findings, stressing substance over form. It held that the absence of a formal office is not decisive where core functions are effectively carried out from the hotel premises. Applying the "disposal test" from *Formula One*[10] and distinguishing *E-Funds*[11], the Court noted Hyatt's long-term functional access, influence over key managerial decisions, and entitlement to revenue-linked fees, indicating substantive managerial presence in India.

This ruling has broad implications for asset-light global business models in hospitality, franchise, management advisory, and platform-based frameworks. Multinationals exercising sustained operational oversight in India, even without dedicated premises, may face heightened PE exposure and should reassess governance and transfer-pricing models to align with treaty interpretation grounded in commercial reality.

Reduction of Share Capital – Qualifies as 'Transfer' under Section 2(47)

The tax treatment of capital loss on reduction of share capital has long been disputed, with earlier rulings (including the ITAT Special Bench[12]) denying the loss, while later rulings[13] allowed it. In *PCIT v. Jupiter Capital Pvt. Ltd*[14], the SC addressed this long-standing issue. The taxpayer, holding 99.98% shares in its investee company, underwent an HC-approved capital reduction after the company's net worth eroded and claimed a long-term capital loss on the cancelled shares. The Assessing Officer denied the claim, arguing that no "transfer" occurred since the taxpayer's proportional ownership remained the same. The CIT(A) agreed, but the ITAT and Karnataka HC held that cancellation of shares in a capital reduction constitutes a "transfer". Aggrieved, the Revenue filed an appeal before the SC.

The SC affirmed this view, holding that proportionate capital reduction results in the extinguishment of rights in those shares, which falls squarely within the definition of "transfer" under section 2(47). The ruling settles a long-standing controversy and confirms that capital reduction leading to extinguishment may result in taxable capital gains or losses depending on the facts.

Limitation period for DRP-related assessments – Split verdict keeps law unsettled

The DRP mechanism, introduced as an additional review layer for non-resident and transfer-pricing cases, has

8. The Article is authored by Asmita Dsouza - Associate Partner and Nishit Shah - Principal
9. [2025] 478 ITR 238 (SC)
10. [2017] 394 ITR 80 (SC)
11. [2017] 399 ITR 34 (SC)
12. Bennett Coleman & Co. Ltd 133 ITD 1 (Mumbai SB)
13. Tata Sons Ltd. v. CIT [2024] 115 ITR(T) 272 (Mumbai - Trib.)
14. [2025] 170 taxmann.com 305 (SC)

raised an important question: Does the DRP process have to be completed within the same limitation period as normal assessments, or does it provide additional time to the tax authorities?

Courts across the country reached differing views. The Bombay and Madras HCs (in *Shelf Drilling* and *Roca Bathroom*) held that the entire assessment, including the DRP stage, must be completed within the regular time limit. The Revenue, however, argued that the DRP process is a special mechanism and therefore carries its own timeline independent of the general limit.

The controversy eventually came before the SC in *ACIT v. Shelf Drilling Ron Tappmeyer Ltd.*[15], the lead matter in the batch, where the Court delivered a split verdict. One of the judges held that the DRP process is part of the assessment itself and must conclude within the existing timeline, emphasising certainty and speedy resolution. However, the second judge held that the DRP mechanism provides an additional timeline, and it does not form part of the existing timelines for assessment, citing administrative realities and the scale of cases involved. Since the Bench delivered a split verdict, the issue has now been placed before a Larger Bench. In the interim, the earlier SC interim direction restraining reliance on the Bombay HC ruling continues, while the Madras HC decision remains operative.

As a result, the legal position remains unsettled. Reportedly, more than 12,000 assessments involving tax stakes of 1.3 lakh crore remain in abeyance. Multinationals and foreign companies using the DRP route may need to factor in this uncertainty in ongoing and future proceedings.

Reassessment Jurisdiction – FAO vs. JAO Controversy Reaches Supreme Court

Reassessment has become one of the most litigated areas in recent years, especially after the transition to the faceless regime. A key controversy concerns whether reassessment proceedings must be conducted by the Faceless Assessing Officer (FAO) or may continue with the Jurisdictional Assessing Officer (JAO).

Under the *e-Assessment of Income Escaping Assessment Scheme, 2022*[16] The law mandates that reassessment proceedings "shall be through automated allocation and in a faceless manner". However, conflicting HC rulings have emerged. While the Bombay, Telangana, Gauhati, and Rajasthan HCs (*Hexaware Technologies Ltd., Sharda Devi Chajjer, others*) held that reassessment must be conducted by FAOs in line with the aforesaid Scheme and that concurrent jurisdictions of JAO and FAO cannot exist, the Delhi and Gujarat HCs (T.K.S. Builders (P.) Ltd., Talati and Talati LLP) took a contrary view, upholding JAOs' jurisdiction.

The issue is now pending before the SC, where the Revenue's SLPs[17] Challenging the Telangana HC decision in *Suryalakshmi Cotton Mills* has been consolidated along with close to 1,000 connected matters.

Earlier this year, in *Prakash Pandurang Patil*[18] and *Deepanjan Roy*[19], the SC had dismissed the Revenue's SLPs on the same issue. The Revenue thereafter filed miscellaneous applications seeking the recall of the dismissal orders. The SC has allowed those applications, restored the matters, and tagged them along with the larger batch of appeals.

The SC's ruling will significantly impact the validity of reassessments in the faceless era. Given the volume of affected cases, taxpayers with similar controversies should monitor developments closely.

MFN Clause – SC Dismisses Curative Petition; Mumbai ITAT Applies Nestlé Ratio to MLI Context

In 2023, the SC in *Nestlé SA*[20] Held that benefits under the MFN clause in a tax treaty do not apply automatically and require a separate notification under domestic law. The SC dismissed both the review petition

15. [2025] 177 taxmann.com 262 (SC)
16. Notification No. 18/2022 dated 29 March 2022
17. [SLP (C) No. 27736/2023]
18. MA Diary No.46419/2025
19. MA No.2022/2025

(in 2024) and curative petition (in 2025), firmly settling that MFN advantages—whether lower withholding rates or extended treaty benefits—cannot flow without explicit notification under the Act.

Taking a cue from the SC order, and further reinforcing this principle, the Mumbai Tribunal in *Sky High Appeal XLIII Leasing Co. Ltd. v. ACIT*[21] Held that the Principal Purpose Test (PPT) under the BEPS Multilateral Instrument (MLI) cannot be applied unless the India–Ireland treaty is specifically amended through a domestic notification. This effectively extends the Nestlé principle to the MLI framework.

Collectively, these rulings confirm that international tax instruments, including MFN clauses and the MLI, take effect only when notified under domestic law, reinforcing procedural discipline in treaty implementation. This may generate additional litigation, given that India has not separately notified certain MLI-based modifications.

Key Matters Awaiting Supreme Court Determination

Several important tax controversies remain pending before the SC. Their outcomes will meaningfully influence the jurisprudence ahead. Noteworthy matters include:

- Reserved judgment in Tiger Global on the evidentiary value and sufficiency of a Tax Residency Certificate for treaty benefit claims
- Challenge to the validity of assessment orders issued without a Document Identification Number
- Whether a "transfer" occurs where shareholders receive shares of the amalgamated company in lieu of the amalgamating company
- Allowability of ESOP expenses as a tax-deductible business expenditure
- Long-standing debate on the interplay between the General Anti-Avoidance Rule and the Specific Anti-Avoidance Rule

Conclusion

Recent trends indicate that the SC's interpretative approach seeks to balance legislative intent with administrative practicality, especially in procedural matters. The pending decisions are likely to shape the tax landscape significantly, reinforcing the need for consistency, predictability, and a trust-based compliance framework. As these rulings unfold, 2026 is poised to be another important year for India's tax jurisprudence.

20. [2023] 458 ITR 756 (SC)
21. [2025] 179 taxmann.com 264 (Mumbai - Trib.)

Key Direct Tax Rulings and Impact[22]

During 2025, Indian courts and tax tribunals continued to refine the contours of domestic tax jurisprudence. This year's key rulings addressed controversies ranging from General Anti-Avoidance Rules ('GAAR') invocation and ESOP compensation to the treatment of redevelopment benefits and procedural lapses in faceless assessments.

GAAR cannot be invoked on transactions done through the stock exchange[23]

The Telangana HC held that the mere timing of purchase and sale of shares, whereby short-term capital loss was set off against long-term capital gains, itself cannot attract GAAR provisions. It was observed, amongst others, that all transactions were routed through the stock exchange and demat account, and were part of regular investment activities. The Revenue failed to establish any arrangement, misuse of law, or lack of commercial substance as required under the GAAR provisions. Since no material existed to prove an impermissible avoidance arrangement, the GAAR order was set aside.

Compensation for reduction in value of ESOP - a capital receipt, not taxable[24]

The Karnataka HC ruled that the payment for one-time voluntary compensation for loss in value of ESOPs due to corporate restructuring is a 'capital receipt' in the hands of employees. The Court observed that such compensation did not arise from employment or services and does not fall within the scope of 'salary' or 'perquisite' income.

Interest on earmarked funds temporarily held in deposits – a 'capital receipt.'[25]

The Delhi HC held that the interest earned on earmarked funds raised from shareholders for the acquisition of a coal mine and temporarily parked in an interest-bearing deposit should be considered as 'capital receipt' to be adjusted against the cost of assets. The HC observed that the funds were not surplus funds. The funds were raised in anticipation of the acquisition of the capital asset and refunded once the mine acquisition proposal was terminated. Accordingly, it should not be classified under the head 'income from other sources'.

Faceless assessment completed without issue of draft assessment order is invalid.[26]

The Bombay HC held that where a final assessment order is passed directly by the Faceless Assessing Officer without first issuing a draft assessment order to an eligible taxpayer, the order is invalid in law. The Court observed that the relevant provisions expressly mandate issuance of a draft order to enable the taxpayer to approach DRP. Since this mandatory procedure was not followed, the final assessment order was held to be a jurisdictional defect, and not a mere procedural lapse.

Surcharge in case of Maximum Marginal Rate ('MMR') applicable to Private Discretionary Trust, leviable at slab rates[27]

The Special Bench of ITAT at Mumbai held that in the case of private discretionary trusts whose income is taxable at MMR, surcharge must be levied as per the slab rates based on income prescribed in the Finance Act and cannot be automatically levied at the highest surcharge rate. The ITAT clarified that the expression 'Maximum Marginal Rate' refers only to the 'tax rate' applicable to the highest slab of income, and not to the highest rate of surcharge.

Tax Rebate is allowable against tax on short-term capital gains.[28]

The Ahmedabad bench of ITAT held that the rebate under section 87A[29] is available even against tax payable on short-term capital gains under section 111A. The ITAT

22. This Article is contributed by Ankit Gattani - Principal, Yash Daga - Manager, and Mohit Chawrai - Senior Associate
23. Smt. Anvida Bandi v. DCIT [2025] 177 taxmann.com 726 (Telangana)
24. Manjeet Singh Chawla v. CIT, TDS [TS-806-HC-2025(KAR)]
25. PCIT v. International Coal Ventures (P.) Ltd. [2025] 472 ITR 307 (Delhi)
26. Barentz India (P.) Ltd. v. Assessment Unit, NFAC [2025] 179 taxmann.com 582 (Bombay)
27. Araadhya Jain Trust v. ITO [2025] 173 taxmann.com 343 (Mumbai - Trib.) (SB)
28. Jayshreeben Jayantibhai Palsana v. ITO [TS-1054-ITAT-2025(Ahd)]
29. Provisions of the Act have been amended by Finance Act, 2025, pursuant to which the rebate under section 87A shall not be available against short term capital gains tax payable under section 111A going forward.

observed that the law does not contain any express restriction denying such a rebate. The ITAT further held that section 112A (tax on long-term capital gains) specifically restricts rebate, implying that the absence of a similar restriction in section 111A must be interpreted in favour of the taxpayer.

Customer acquisition costs incurred routinely are revenue expenditure and not capital in nature.[30]

The Delhi bench of ITAT held that customer acquisition cost (such as cost of startup kits, printing of startup kits / SIM cards / prepaid vouchers, porting charges, data entry, and handset subsidies) is allowable as revenue expenditure. The ITAT observed that the expenditure was incurred routinely in the normal course of business and did not result in creating any capital asset or enduring benefit.

Contribution to Common Effluent Treatment Plant ('CETP') held as deductible revenue expenditure[31]

The taxpayer engaged in manufacturing activities and claimed a deduction in respect of a contribution to CETP as per the SC directions. The ITAT granted a deduction by observing that without such payment, the taxpayer could not have carried out its manufacturing unit. Further, no depreciation could be claimed as the taxpayer was not the owner of CETP.

Foreign Tax Credit ('FTC') is admissible against exempt income or income adjusted against losses.[32]

The Delhi bench of ITAT allowed FTC in respect of taxes withheld in Japan, but no taxes were payable in India on account of deduction under section 10A or business losses. The ITAT held that the fact that the taxpayer is not paying tax, due to an exemption or deduction granted under the Act, or that it has suffered a loss, is not relevant for the purpose of deciding the allowability of the claim of FTC.

A new flat having a higher value, received on the redevelopment of an old flat not taxable under section 56(2)(x)[33]

The Mumbai bench of ITAT held that receipt of a new flat in lieu of an old flat surrendered under a redevelopment agreement, where the stamp duty value of the new flat was higher than the stamp duty value of the old flat, was not a case of receipt of immovable property for inadequate consideration to attract section 56(2)(x). At best, the transaction may fall under capital gains provisions, where exemption under section 54 (granting exemption on purchase of a residential property) could apply.

Conclusion

Taken together, these rulings highlight the judiciary's continued emphasis on substance over form, procedural fairness, and taxpayer-friendly interpretation where ambiguity exists. They also reinforce the need for clarity in GAAR application, faceless assessment procedures, and taxation of emerging commercial arrangements.

30. Tata Teleservices Limited v. ACIT [TS-1414-ITAT-2025(DEL)]
31. Siyaram Silk Mills Limited [TS-1625-ITAT-2025(Mum)]
32. Canon India Pvt Ltd v. DCIT [TS-1493-ITAT-2025(DEL)]
33. Anil Dattaram Pitale v. ITO [2025] 173 taxmann.com 51 (Mumbai - Trib.)

Key Indirect Tax Rulings and Impact[34]

As we reflect on the significant legal developments in the field of indirect taxes in 2025, several important rulings have been issued covering a range of topics and disputes. Some of the key judgments that have shaped the landscape of indirect tax law are discussed here.

Arrest and prosecution provisions under the GST law and Customs law are constitutionally valid.[35]

The SC upheld the constitutional validity of the arrest powers under Customs and GST and held that the power of taxation includes within its ambit the power to curb evasion.

It was held that the constitutional safeguards and procedural safeguards under the Code of Criminal Procedure, 1973 (CrPC) will apply in the case of arrests made under GST and Customs as well. For example, as regards the right of legal representation, it was inter-alia held that an advocate/authorized person may be present within visual distance during interrogation, but he cannot be within hearing distance of the proceedings, nor can there be any consultations with such advocate/ authorized person during the course of the interrogation.

The argument that the arrest provisions cannot be invoked without crystallizing the demand under recovery provisions was rejected. It was held that even without a formal order of assessment, arrest provisions can be invoked if the department is certain that it is a case of an offence with a sufficient degree of certainty. However, "the reasons to believe" must be explicit and refer to the material and evidence underlying such opinion.

It was also held that while judicial review of arrest remains available, it must be exercised sparingly. Intervention is warranted only if the arrest is malafide, lacks jurisdiction, violates statutory safeguards, or is arbitrary.

The judgment thus reinforces that while the Department retains robust powers to investigate and arrest, such powers must be exercised with strict adherence to "reasons to believe," procedural safeguards, and constitutional checks to ensure that enforcement never eclipses individual liberty.

GST does not apply to the assignment of leasehold rights[36]

Gujarat HC quashed SCNs and orders demanding GST on assignment of leasehold rights by lessees of plot of land allotted by Gujarat Industrial Development Corporation (GIDC) in favour of third-party assignees.

The Court noted the dual nature of the transaction, i.e., (i) when GIDC allots a plot of land to a lessee along with the right to occupy, construct on a long-term lease basis (99 years), and (ii) transfer of leasehold rights by such lessee-assignor in favour of assignee. The Court held that when the lessee is allotted land by the GIDC, no GST is required to be paid, as the same is exempt.[37].

However, in the case of transfer of leasehold rights, it was held that leasehold rights are "benefits arising out of land" and hence, qualify as immovable property as defined under the Transfer of Property Act. Therefore, assignment of leasehold rights qualifies as a sale of such immovable property and not a supply under the Central Goods and Services Tax Act, 2017 ('CGST Act').

This landmark ruling also reiterates the core principles governing the non-taxability of immovable property.

This ratio has been relied upon by the Bombay HC to quash the demand.[38] and grant interim protection[39] In similar disputes. The matter is now pending for SC's consideration.[40].

34. This article is authored by Jignesh Ghelani - Partner and Vinita Kothari - Manager
35. Radhika Agarwal vs. UOI & Ors. [TS-96-SC-2025-GST]
36. Gujarat Chamber of Commerce and Industry & Ors. Vs UOI & ors [TS-03-HC(GUJ)-2025-GST]
37. Entry no. 41 of Notification No. 12/2017
38. Panacea Biotec Limited Vs Union of India & Ors [TS-22-HC(BOM)-2025-GST],
39. Small Industries Association & Ors vs. The State of Maharashtra & Ors (Writ Petition No. 16665 OF 2024)
40. SLP diary No.33270 of 2025, No. 20007/2025 and No. 52380/2025

The final verdict in the matter by the Apex Court will have huge ramifications for the real estate sector, which is currently grappling with multiple notices on such account. The outcome of this issue will shape the legal landscape governing the taxation of the transfer of rights of such nature.

Omission of a provision disallowing IGST refund to exporters availing specific incentive schemes nullifies all pending proceedings.[41]

The case pertained to the challenge made to the validity of Rule 96(10), which restricted exporters from claiming a refund of IGST paid on exports where imports were made without payment of IGST by availing the benefit of export promotion schemes such as Advance Authorization (AA), Export Promotion Capital Goods (EPCG), etc.

The Gujarat HC held that the omission of Rule 96(10) of the CGST Rules[42] with effect from October 8, 2024, the rule would apply not only prospectively but also to all pending proceedings where final adjudication had not yet taken place. Since the amending notification did not contain any saving clause, the Court ruled that the rule must be treated as if it no longer existed for such pending matters. Accordingly, exporters whose refund claims were under dispute should be allowed a refund of IGST paid on export, as Rule 96(10) was omitted.

In deciding the matter, the Court examined the legal effect of omission of a rule and drew upon well-established jurisprudence from the SC's rulings, holding that Section 6 of the General Clauses Act, 1897, applies only to repeal of Central Acts or Regulations, not to omission or repeal of subordinate legislation such as rules. Therefore, when a rule is omitted without a saving clause, it is deemed to be completely obliterated from the statute book, as though it never existed, and any proceedings initiated under it cannot continue unless specifically preserved by a saving provision.

Applying this principle, the Court concluded that the omission of Rule 96(10) amounted to a repeal without saving, and consequently, all ongoing proceedings based on that rule automatically lapsed. Since the Petitioners' challenges and refund claims were still pending as of October 8, 2024, they were entitled to a refund of IGST paid on exports, and the authorities could not rely on the deleted rule to deny relief.

The judgment provides significant relief to exporters and paves the way for allowing refunds without restrictions tied to IGST exemptions on procurements, which was agitated by the trade community for a long time.

The principle laid in the judgment that the repeal of a rule without a saving clause effectively nullifies all pending proceedings has been followed recently by the Bombay HC[43]. Similar rulings have been issued by the Kerala HC[44] and Uttarakhand HC as well[45].

Dual levy of both service tax and entertainment tax on DTH broadcasting activities sustained[46]

SC upheld the State's right to levy entertainment tax on Direct-to-Home (DTH) services, even though the Centre also levies service tax on the DTH services. The Court applied the "aspect doctrine," allowing both the Centre and State to tax the service and entertainment aspect, respectively.

The SC held that DTH providers must pay both taxes as the activity involves two aspects – (i) the act of relaying the signals from the satellites of various broadcasters of TV channels (i.e., broadcasting) and (ii) the object of such relaying of the signals, which is the effect of the content delivered to the subscriber (i.e., entertainment).

SC stated that both these aspects correlate with the service tax levy by the Union.[47] and the entertainment tax levy by the States[48]. The Court relied on established

41. Addwrap Packaging Pvt. Ltd. & Anr. vs UOI & ors [TS-525-HC(GUJ)-2025-GST]
42. Notification No 20/2024- CT effective from October 08, 2024
43. Hikal Limited vs UOI & Ors [TS-788-HC(BOM)-2025-GST]
44. Sance Laboratories Pvt. Ltd. v. UOI & Ors [TS-700-HC(KER)-2024-GST]
45. Sri Sai Vishwas Polymers vs UOI & Anr. [WP (MB) No. 103 of 2025]
46. State of Kerala and Anr. vs. Asianet Satellite Communications Ltd. & Ors. [Civil Appeal No. 9301 of 2013]
47. Residuary entry 97, List-I of the Seventh Schedule to the Constitution of India
48. Entry 62 – List II - tax on entertainments or amusements

constitutional jurisprudence inter alia from the Federation of Hotel & Restaurant Association of India.[49], to reiterate the principle of aspect theory.

This judgment reinforces the centrality of the "aspect theory" in Indian tax jurisprudence—a doctrine that allows multiple levels of Government to tax different facets of the same transaction.

The judgment could influence the taxability of other emerging digital services involving different facets/ aspects. The dual aspect theory may have limited application under the GST regime, given that multiple taxes now get subsumed into a single levy.

49. 1989(3) SCC 634

Indirect Tax Trends and Outlook[50]

The year 2025 has been an eventful one, ushering in next-generation GST reforms, including the introduction of a two-tier GST structure and significant rate rationalization. During his Independence Day address, Prime Minister Narendra Modi announced the GST 2.0 landmark reforms, describing them as a "Diwali gift" to the nation.

The GST trajectory for the year has been characterized by robust revenue collections, sustained economic growth, and enhanced ease of compliance through technological advancements. In line with the Prime Minister's vision, the GST Council, during its 56th meeting, recommended a comprehensive reform package encompassing rate rationalization, sweeping rate reductions with a focus on common-man-centric, labour-intensive industries, agriculture, and healthcare.

Key Trends in Indirect Taxation

GST rate rationalization

The GST rate reductions, effective from September 22, 2025, covering a range of items such as consumer durables, small cars, and household essentials, have provided substantial relief to consumers and are expected to further stimulate demand. In response to apprehensions concerning the non-passing of rate reduction benefits, the Finance Minister reaffirmed the assurances received from businesses that the entire benefit of such reductions would be duly passed on to consumers.

GST Collections

GST collections reached a record high of ₹1.89 lakh crore in September 2025, driven by major reforms that provided relief to traders and homebuyers, indicating no significant slowdown despite the impact of the US Tariffs. Furthermore, collections registered a 4.6% year-on-year (YoY) growth, rising to ₹1.96 lakh crore in October 2025, even after the implementation of rate cuts.

The robust revenue performance reflects the positive impact of key GST rate rationalization measures, which have been instrumental in stimulating consumption during the festive season.

Sanction of 90% provisional refund

Effective November 1, 2025, the Government has introduced an expedited refund mechanism allowing upfront release of 90% of the eligible refund amount for zero-rated supplies as well as refunds arising under the Inverted Duty Structure (IDS). This measure will ease liquidity pressure faced by exporters and those taxpayers under IDS, ensuring quicker access to working capital.

The initiative aligns with the Government's intent of reducing refund-processing timelines and enhancing the overall ease of doing business.

Fast-track and simplified GST registration

The fast-track registration mechanism for low-risk taxpayers, implemented from November 1, 2025, stands out as one of the key reforms aimed at significantly reducing approval timelines. The initiative, expected to benefit nearly 96% of new applicants, underscores the Government's commitment to a trust-based registration framework that prioritizes scrutiny of high-risk taxpayers while facilitating a simplified procedure for compliant businesses.

Technological Enhancement

The Government continues to leverage technologies such as Artificial Intelligence (AI) and Machine Learning (ML) to move towards a trust-based framework. New initiatives such as the implementation of the Invoice Management System (IMS), 90% automatic refunds, and the Simplified Registration Scheme align with the Government's vision of promoting faceless, technology-driven processes, thereby minimizing manual intervention.

50. This article is authored by Ranjeet Mahtani - Partner, Jignesh Ghelani - Partner and Vinita Kothari - Manager

The establishment of an online platform for appeal filing, along with the complete electronic functioning of the GSTAT, marks a progressive move towards creating a fully digitalized and transparent institutional framework.

Outlook for Indirect Taxation in India

Economic Resilience

According to the latest Economic Report released by the Ministry of Finance[51] India's growth outlook continues to strengthen despite a challenging global environment. E-way bill generation in September 2025 reached a record high, as businesses ramped up production and inventory in anticipation of festive season demand, supported by recent GST rate rationalization measures. The Ministry anticipates that pro-growth reforms and enhanced compliance under GST 2.0 will help sustain India's economic momentum, even amid global headwinds such as higher U.S. tariffs and trade uncertainties.

Trade and Tariffs

India solidified its global trade architecture in 2025 by finalizing several key agreements. A landmark FTA with the UK, signed in July, provides approximately 99% duty-free access for Indian exports and is projected to boost bilateral trade by $34 billion.

Further, the operationalization of the India-EFTA agreement from October 1 marks a strategic milestone, unlocking a committed 100 billion dollars in foreign investment and targeting the creation of one million domestic jobs. Despite the imposition of steep tariffs by the U.S. in August 2025, bilateral trade talks have continued. In parallel, from a risk mitigation standpoint, due to U.S. tariff volatility, India has accelerated FTA negotiations with other key jurisdictions.

Agreeing with the European Union is a top priority, with a deal anticipated by year-end. This diversification strategy also includes advancing trade talks with other jurisdictions, including ASEAN, New Zealand, Chile, and the Gulf Cooperation Council, to secure India's position as a global trading hub.

GSTAT

More than eight years since GST was implemented, the Goods and Services Tax Appellate Tribunal ('GSTAT') is set to become completely operational. The filing window has been opened, and hearings are proposed to commence by the end of December 2025. The introduction of a staggered appeal filing mechanism aims to ease the administrative burden on the system and ensure a smooth filing experience for litigants.

Online Gaming

The hearing in the online gaming case, touted as one of the most significant controversies in the history of India's indirect tax regime, concluded after spanning several months. While the final judgment is now keenly awaited, the Government has introduced a blanket prohibition on online money gaming.[52]. Additionally, during its 56th meeting, the GST Council decided to increase the GST rate on online money gaming to 40%, a move that has further exacerbated the challenges faced by the sector, already grappling with concerns over its survival.

Change in 'place of supply' for Intermediary

The GST Council, during its 56th meeting, recommended the omission of Section 13(8)(b) of the IGST Act, 2017, which currently defines the place of supply for intermediary services as the location of the supplier. Upon notification of this amendment, the place of supply for intermediary services will be determined by the general/ default rule, i.e. location of the recipient.

51. Monthly Economic Review (Sept 2025)
52. Promotion and Regulation of Online Gaming Act, 2025

Services provided by Indian intermediaries to foreign recipients shall therefore qualify as 'export of services' and be capable of zero-rating. The proposed amendment should enhance the global competitiveness of Indian intermediaries and put to rest the litigation surrounding the issue.

Conversely, services received by an Indian entity (taxpayer) from overseas intermediaries will now be taxable under the reverse charge mechanism. This is because the place of supply, in such cases, will be the location of the recipient of services (i.e., India) and not the location of the foreign service provider.

Conclusion

GST 2.0 reforms underscore continued commitment by the Government to simplify GST structure and stimulate overall economic growth, which aligns with the Government's vision of 'Viksit Bharat'. Clarification on the treatment of post-sale discounts offered by manufacturers to dealers has been welcome. Statutory amendment in the place of supply of intermediary services will make Indian intermediary-service exporters competitive, even while creating a reverse charge burden on similar imports. Trade facilitation measures such as operationalization of GSTAT, simplification of the GST registration process, and sanction of 90% of refund claims pave the way for a modern tax regime built on pillars of automation, transparency, and trust.

Emerging Contours of the Direct Tax Landscape[53]

India's direct tax landscape has undergone several reforms over the years, but the year gone by has been a noteworthy year, reshaping both enforcement priorities and taxpayer compliance behaviour. The period was marked by (i) rising invocation of the GAAR, (ii) reinvigorated investigative action through block assessments and an expanding footprint of search operations, and (iii) litigation-mitigating reforms such as extended timelines for filing updated returns ('ITR-U') and compressed reassessment windows. At the same time, the first appellate forum – CIT(A) continued to remain heavily clogged with over 5.39 lakh pending appeals as of March 2025[54], underscoring the need for more efficient litigation management to prevent Revenue and taxpayer disputes from being trapped in prolonged pendency.

The Ascendance of GAAR: From Dormancy to Aggressive Application

GAAR, introduced vide the Finance Act, 2012 (effective from 1 April 2017), was initially received with substantial apprehensions. The early years were marked by extreme caution in application. However, over the last 24–36 months, GAAR has moved from being a dormant anti-avoidance tool to an assertively applied instrument in restructuring cases and complex third-party and intra-group arrangements.

Hinduja Global Solutions Limited ('HGSL') Case: A Watershed Direction[55]

The survey conducted at HGSL triggered a reference to the GAAR Approving Panel ('the Panel'). This institutionalized process – chaired by an HC judge – serves as a safeguard against administrative overreach. A defining moment came on 30 October 2025, when the Panel held that the NCLT-approved demerger of NXTDigital Ltd. into HGSL constituted an 'impermissible avoidance arrangement.' According to the Panel, the principal purpose of the transaction was to enable the set-off of accumulated business losses against capital gains of approximately INR 3,000 crore arising from HGSL's 2021 divestment of its healthcare division.

The decision is path-breaking for three reasons:

- **Regulatory/tribunal approval is no shield:** GAAR may apply even to transactions sanctioned by statutory bodies.
- **Substance-over-form analysis strengthened:** The Panel scrutinized commercial purpose, timing, and tax benefit alignment with notable sophistication.
- **Materiality threshold articulated:** The significant tax impact underscored the department's focus on high-value avoidance structures.

A Wider Pattern of GAAR Intensification

Although data underlying the GAAR proceedings are kept confidential, the outcome demonstrates jurisprudence reflecting a palpable uptick in GAAR-based assessments, supported by enhanced analytics, improved risk-profiling, and stronger intelligence flows. The 2025 Act further expands the scope of GAAR by allowing the Assessing Officer to issue a notice for reassessment *at any time,* beyond the ordinary limitation period, where such reassessment is required to give effect to a direction issued by the Panel, if *the original reference to the Panel was itself made within the prescribed time limits*. This signals a legislative intent to ensure that sophisticated avoidance schemes remain examinable regardless of statutory time limits.

Reinvigorated Investigation: Block Assessments & Intensified Search Operations

Parallel to GAAR's resurgence is a marked strengthening of investigative mechanisms, most notably through extensive digital data mining. This has led to a substantial rise in search and seizure operations, which are subject to a new block assessment regime reintroduced by the Government.

53. The Article is authored by Sandeep Bhalla - Partner, Bharati Gandhi - Principal and Darshan Kanodia - Senior Associate
54. CBDT's Central Action Plan for FY 2025-2026 published in September 2025
55. Based on media sources: NDTV profit : Hinduja Global–NxtDigital Merger Faces Major Setback As Tax Panel Calls Deal 'A Tax Dodge

Block Assessments: Structural Framework Transformation

The Finance (No. 2) Act, 2024, revived the block assessment mechanism, long abandoned in 2003 after the shift to the search assessment regime. The new block assessment, introduced with effect from 1 September 2024, covers six preceding years plus the period from 1 April to the date of the last authorization of search. It consolidates assessment for the entire block into a single proceeding. A dedicated form 'ITR-B' has been notified for such cases, enabling streamlined declaration of undisclosed income unearthed during searches.

Post-September 2024: Intensified Investigative Operations[56]

Following the reintroduction of block assessments, the tax department has significantly intensified search operations across sectors. Major raids carried out pan-India in 2025 include real-estate groups, wealth management conglomerates, a leading pharmaceutical company, an IT/ITES provider, and a business house from the metal–iron & steel sector – unearthing large undisclosed transactions, tax evasion, and cash seizure.

Investigative Statistics and Analysis[57]

During FY 2024-25, the Income-tax department conducted 465 surveys, detecting INR 30,444 crore of undisclosed income. This represents modulation from prior years: FY 2023-24 737 surveys conducted, detecting INR 37,622 crore (with 1,437 group searches yielding INR 1,766 crore asset seizures); FY 2022-23 1,245 surveys detecting INR 9,805 crore.

These operations highlight sectoral breadth and a sharper approach supported by enhanced digital forensics and inter-agency information exchange.

Litigation Mitigation: Updated Returns & Rationalized Reassessment Timelines

Complementing the investigative rigour, the government has introduced measures to reduce disputes, promote voluntary compliance, and cap prolonged uncertainty.

The window for filing the updated return has been extended from 24 to 48 months.

The Finance Act, 2025, doubled the time available to file updated returns from two to four years after the end of the assessment year. Graduated penalty slabs (25–70%) encourage early correction while still enabling late self-rectification.

The extended window:

- Allows taxpayers to rectify genuine errors—particularly in cross-border or complex transactions.
- Reduces the load on reassessment proceedings, conserving administrative bandwidth.
- Reflects the success of the earlier regime, under which over 90 lakh updated returns were filed, generating additional revenue of over INR 9,000 crores .

Reassessment Timeline reduced to 5 years.

The Finance (No. 2) Act, 2024, formally curtailed the 10-year reassessment horizon to five years, significantly enhancing certainty for businesses.

A shorter window:

- Closes the door on late, stale, and litigation-prone reassessment notices.
- Aligns India with global best practices on tax finality.
- Ensures administrative focus on recent, high-risk cases rather than decade-old issues.

This shift corrects the earlier fragmentation. Instead of multiple sequential reassessments that spawned prolonged litigation, block assessments now allow synchronized evaluation, faster closure, and higher-quality investigation.

56. Based on media sources
57. Economic Times: Income Tax dept detected INR 30,444 Cr undisclosed income, conducted 465 surveys in FY25.
58. PTI News: Over 90 lakh updated tax returns filed

Towards a Stabilized Ecosystem

India's direct tax administration trajectory over 24-36 months signals a fundamental reorientation toward stabilization, rationalization, and protracted litigation mitigation. Increase of GAAR application, exemplified by the proceeding in HGSL matter and amplified through reach-extending amendments in the reassessment regulations in GAAR matters, reflects a determination to combat aggressive tax planning while providing procedurally fair hearings before constitutionally legitimated forums (the GAAR Panel). For businesses and advisors, this new architecture calls for recalibrated compliance strategies, enhanced documentation, and a stronger commercial rationale for restructuring. India's tax administration now increasingly reflects global principles of fairness, timeliness, and certainty—anchored in a sophisticated, data-driven enforcement environment. Parallelly, the administration has also moved to unclog the first appellate stage through a targeted CIT(A) disposal plan, prioritizing high-value and ageing appeals to prevent disputes from stagnating in the system and cascading upward.

Trends in International Tax Jurisprudence (India Perspective)[59]

As India's international tax framework continues to evolve, recent jurisprudence has increasingly converged around three core principles: substance of the transactions, the primacy of treaty provisions, and the overarching need for certainty.

PE

In 2025, the judiciary will continue to shed insightful light on the analysis of the PE matters. The SC delivered a landmark decision in the case of Hyatt International Southwest Asia Ltd.[60] Holding that the taxpayer's activities under a Strategic Oversight Services Agreement (SOSA) with Indian hotels resulted in the creation of a Fixed Place PE under Article 5 of the India–UAE DTAA.[61]

Dependent Agent PE ('DAPE')

The Delhi HC in the case of SFDC Ireland Ltd.[62] held that the Indian subsidiary company (reseller of NR taxpayer's products) did not constitute a DAPE under Article 5 of the India-Ireland DTAA. The HC noted that the relationship between the taxpayer and the subsidiary is on a principal-to-principal basis. Neither party can bind the other, nor represent having such authority.

Multilateral Instrument ('BEPS MLI')

The BEPS MLI is a single multilateral instrument that operates in parallel with existing DTAAs to introduce BEPS-aligned anti-abuse provisions.

The Mumbai ITAT in Sky High Leasing Company Ltd. ('Sky High')[63] and Delhi ITAT in Kosi Aviation Leasing Ltd[64] held that a single omnibus notification does not suffice to integrate MLI changes into DTAAs and separate notifications for each DTAAs should be issued, following SC's decision in *Nestlé SA*[65].

These decisions have raised significant questions on the operation of BEPS MLI. Close attention is warranted, given its potential to shape how MLI is implemented domestically.

Principal Purpose Test ('PPT')

Recent Mumbai ITAT decisions in the case of Fullerton Financial Holdings Pte. Ltd. ('Fullerton')[66] And Sky High (supra) underscores that maintaining robust evidence to establish commercial substance supported by objective facts remains the strongest defence against PPT.

In both cases, the ITAT undertook a detailed examination of the taxpayers' operational and business history to bring out that the dominant purpose was not to obtain a tax benefit under DTAA.

Indirect Transfer under DTAA

The Mumbai ITAT in eBay Singapore Services Pte. Ltd.[67] held that capital gains arising from the sale of shares of Flipkart Singapore, an entity deriving substantial value from Indian assets to another Singapore company, are exempt under Article 13(5)[68] of DTAA. The ITAT rejected the view taken by the revenue that the company's control and management were situated in the USA and hence, not entitled to benefit under the India-Singapore treaty.

Taxation rights of financial instruments (other than shares) under DTAA

Income from the following financial instruments was held not taxable in India under Article 13 of the respective DTAA since such income is not akin to income from alienation of "shares":

59. This article is contributed by Aditya Hans - Partner, Radhakishan Rawal - Senior Advisor, Zeel Gala - Associate Partner and Ashish Jain - Associate Partner, Swetha Madhan - Senior Associate
60. [2025] 176 taxmann.com 783 (SC)
61. Refer our Article on "Trends – Supreme Court Jurisprudence"
62. [2025] 171 taxmann.com 731 (Delhi)
63. [2025] 177 taxmann.com 579 (Mumbai - Trib.)
64. TS-1296-ITAT-2025(DEL)
65. [TS-616-SC-2023]
66. TS-1458-ITAT-2025(Mum)
67. [2025] 179 taxmann.com 346 (Mumbai - Trib.)
68. Residuary clause that allocates taxing rights to state of residence for any property not covered under any other clauses in Article 13 of DTAA

- Income from sale of equity-oriented mutual fund units (India–Mauritius DTAA) - Emerging India Focus Funds, Apex Financial Services (Mauritius) Ltd[69]
- Income from transfer of derivatives (India-Mauritius DTAA) - 3 Sigma Global Fund[70]
- Income from sale of right entitlements (India-Ireland DTAA) - Vanguard Funds Public Ltd[71]

DTAA vs Domestic Law: Benefits for the same head of income

The Mumbai ITAT, in Schwab Emerging Markets Equity ETF[72] directed the AO to extend the DTAA benefit for grandfathered long-term capital gain without the set-off of brought forward long-term capital loss. The ITAT also allowed to set off the short-term capital loss on shares (STT paid) against short-term capital gain on transfer of a capital asset (without STT payment). The ITAT observed that income from short-term or long-term assets is a different source of income, whereby DTAA or domestic provisions, whichever is more beneficial, can be applied respectively.

Beneficial Owner ('BO')

The Delhi ITAT, in Silverplass Holdings Ltd.[73], held that merely holding a TRC is insufficient to claim DTAA benefits of a concessional tax rate for 'interest' income; the taxpayer must also satisfy the BO test. The Cypriot investment company invested in Compulsory Convertible Debentures (CCDs) of an Indian AE and earned interest income. However, the ITAT found that the taxpayer acted as a conduit since it was a pure investment vehicle with a single investment and admitted that its shareholder exercised all ownership attributes (use, enjoyment, risk, and control). Consequently, the taxpayer was not the BO of the income, leading to the denial of DTAA benefits.

Relief of DTAA on Dividend Distribution Tax ('DDT')

The Bombay HC in Colorcon Asia Pvt. Ltd.[74] allowed the claim for a lower tax rate on DDT under Article 11 of the India–UK DTAA. It examined the legislative history of section 115-O and held that DDT is effectively a tax on dividend income of the shareholder, but its incidence has been shifted to the company purely for administrative convenience. HC further held that for the treaty benefit, the identity of the person on whom tax is levied is irrelevant.

OECD's 2025 update to the Model Tax Convention ('MTC')

The OECD has released the 2025 Update[75] to the MTC and its Commentaries. Importantly, it sets out two tests to determine when work-from-home ("WFH") arrangements could create a PE for a foreign enterprise:

i. a time test, assessing whether the employee spends ≥ 50% time working from another country during the twelve months
ii. a commercial reason test, examining whether such reasons are attributable to the enterprise.

However, where employees WFH purely out of personal choice without employer reliance, a PE should ordinarily not be created.

Other changes include refining TP guidance for financial transactions, broadening safeguards for information exchange, and confirming the role of competent authorities regarding the applicability of dispute resolution under GATS[76] and introducing optional rules for taxing extractive industries with a lower PE threshold.

69. [2025] 175 taxmann.com 1013 (Delhi - Trib.), Anushka Sanjay Shah- [TS-393-ITAT-2025(Mum)]
70. TS-928-ITAT-2025(Mum)
71. [2025] 173 taxmann.com 321 (Mumbai - Trib.)
72. [TS-757-ITAT-2025(Mum)]
73. [ITA No. 7396/Del/2016]
74. TS-1623-HC-2025(BOM)
75. Approved by the Council on 18 November 2025
76. General Agreement on Trade and Services

India has made reservations on several key issues. In particular, India does not agree with the proposed WFH PE conditions. India also reserved the right to apply domestic rules on profit attribution and TP despite the updated guidance.

Additionally, India has reserved its right to tax gains arising from both direct and indirect transfers under Article 13. This reservation signals India may seek greater flexibility to tax indirect transfers in future treaties.

Pillar Two Developments

Globally, the implementation of Pillar Two has continued to gain momentum with key jurisdictions across Europe, Asia-Pacific, the Middle East, and the Americas having enacted or substantially enacted the GloBE Rules. Year 2025 witnessed the second wave of adoption, including Singapore, the UAE, etc., enacting legislation. With the Under-Taxed Payments Rules ('UTPR') now effective in several European jurisdictions for fiscal years beginning on or after 31 December 2024, the practical reach of Pillar Two has widened considerably.

For Indian multinationals, the absence of domestic Pillar Two legislation does not prevent the rules from applying. Indian-headquartered groups operating in jurisdictions that have introduced a Domestic Minimum Top-Up Tax, an Income Inclusion Rule, or the UTPR will need to compute jurisdictional effective tax rates, evaluate potential top-up exposures, and meet compliance requirements in those countries.

A major domestic development during the year was the amendment to Ind-AS 12 by the MCA, introducing explicit disclosure requirements relating to Pillar Two income taxes. Though the amended standard allows an exception from recognising deferred tax assets or liabilities arising from the GloBE rules, entities must separately present any current tax expense related to Pillar Two and, where foreign legislation has been enacted or substantively enacted, must disclose qualitative and quantitative information on potential exposures. In this environment, tax provisioning and foreign compliance become immediate considerations for Indian groups.

Conclusion

India has embraced anti-tax avoidance rules and robust transfer pricing provisions, which reflect a collective push to ensure that profits are appropriately taxed where value is created. These precedents reflect India's sound judicial system and improve investors' confidence in the system. Further, the updates by the OECD and how India will incorporate these changes would define the Indian international tax landscape.

GIFT IFSC: India's Emerging Global Financial Gateway[77]

GIFT IFSC – Snapshot

The GIFT City – Gujarat International Finance Tec-City – is designed to serve as an international hub for finance and technology. At its heart, the International Financial Services Centre (IFSC) is a specially designated jurisdiction created to handle cross-border financial services. The International Financial Services Centres Authority (IFSCA) acts as a unified regulator for all activities in the IFSC – covering banking, capital markets, funds, insurance, and related services. The IFSC offers the combined advantages of world-class infrastructure, operational flexibility, a light-touch regulatory regime, and attractive fiscal incentives. The IFSC units benefit from a liberal foreign exchange regime, a 10-year income-tax holiday, exemption from indirect taxes and stamp duty, simplified corporate governance norms, and reduced compliance obligations under corporate law. Over the last few years, the Gift City has seen increased traction due to the continued expansion of eligible activities.

Permissible Businesses

The IFSC supports a wide range of financial services and technology-enabled businesses, including:

- Banking, insurance, fund-management, capital markets, and intermediary services (broker-dealers, investment advisers, clearing members);
- Finance companies, treasury centres, aircraft, and ship leasing entities;
- Global capability centres, FinTech entity, TechFin operations, and ancillary services;
- Book-keeping, accounting, tax, and financial crime ('BATF') services;
- International exchanges and payment-service providers; and
- Accredited foreign universities offering specialized programs in finance and technology disciplines.

Common Regulatory Requirements

Units within the IFSC are governed by the specific IFSCA regulations under which they are registered. In general, every IFSC unit must comply with the following:

- They must designate a Principal Officer responsible for overall operations and a Compliance Officer to manage compliance and regulatory engagement
- They must maintain functional office space, suitable infrastructure, and a workforce commensurate with business size;
- Anti-money-laundering ('AML'), risk-management, and periodic reporting requirements;
- Key managerial personnel and owners must satisfy 'fit-and-proper' criteria, covering integrity, financial soundness, and competence;
- Structural changes (e.g., changes in ownership or control) may need prior IFSCA approval;
- Business transactions and financial statements must generally be conducted and maintained in a freely convertible foreign currency or specified currency; Indian rupees are permitted only for administrative and statutory expenses; and
- IT and cyber-security standards must be met, including incident-reporting and business-continuity arrangements.

Business-Specific Requirements

Selected business-specific requirements are discussed below:

- Aircraft Leasing: Aircraft-leasing units may not acquire or lease assets from Indian residents if those assets will be used exclusively by Indian residents — except under defined exceptions (for example, an acquisition from a third-party entity, a sale-and-leaseback involving first-time import into India, or procurement from an Indian manufacturer). Prudential and net-worth norms apply.

77. This article is contributed by Paras Sheth - Principal and Juhi Aswani - Senior Associate

- Ship Leasing: Ship-leasing units may acquire or lease vessels from non-residents and deploy them for international and Indian clients. Transactions involving the transfer of ownership/lease of ship or ocean vessels from the Indian resident entities to IFSC units for providing services solely to Indian residents are restricted unless newly acquired from an Indian shipyard. Prudential and net-worth norms apply.
- Global In-house Centres (GIC): These may provide support services to non-resident group entities. Employee relocation from domestic entities is allowed only for supervisory roles, subject to a defined cap and prior approval from the IFSCA.
- Corporate Treasury Centres: These may offer treasury and risk-management services to specified group entities. A recent update permits the establishment of a dedicated holding company structure to optimise group structuring.
- Broker-Dealers: Under the capital-market intermediary umbrella, Broker-dealers may engage in proprietary and client-based trading and may facilitate access to the global markets through a regulated 'Global Access' route and arrangements with foreign stockbrokers.
- FinTech Entities: They may provide fintech solutions resulting in new business models, applications, processes, or products in financial services. FinTech units must demonstrate technological innovation at the core of their business model and have a deployable product with a revenue track record in at least one of the previous three financial years.
- BATF Service Providers: These may provide BATF services to non-resident clients only. The BATF Units are subject to certain additional substance requirements, such as not being formed by splitting up or reconstructing the existing domestic businesses, employee transfer from Indian group entities is capped (e.g., 20%) to ensure genuine substance at the IFSC, minimum office space ratio of 60 square feet per employee.
- TechFin & Ancillary Service Providers: These may provide a wide range of ancillary services or technology-enabled services, including BPO/KPO/LPO, customer support, payroll, cloud computing, and other tech-led services, to the non-resident entities – subject to an exception where services to the Indian entities may be provided for the limited purpose of setting up an office in the IFSC or overseas jurisdiction.
- Foreign Universities & Educational Institutions: These may register as branch or offshore campuses and offer academic/research programs in finance, FinTech, STEM (Science, Technology, Engineering, Mathematics) disciplines — to build a specialised talent pipeline for the IFSC ecosystem.

Recent Regulatory Updates

Some of the notable regulatory developments affecting the GIFT IFSC ecosystem during the current period are as follows:

- Draft framework proposed by IFSCA to mandate dematerialization of securities issued in the IFSC, with specified transition timing. The consultation paper notes that some IFSC-issuers continue to hold securities with domestic depositories, creating regulatory overlap, and proposes migration to IFSC-registered depositories by March 2026.
- The Fund-Management ecosystem saw several regulatory reforms, including the overhauled regulations, revised reporting formats, frameworks to facilitate co-investment by venture capital schemes/restricted schemes, a newly introduced mechanism for third-party fund management services (commonly known as 'platform play'), and a framework on stewardship code.
- During the year, IFSCA issued several consultation papers (for example, on GIC, foreign universities, fintech sandbox, and tokenization of real-world assets), signalling a continuing readiness to refine the regulatory architecture.

- In July 2025, the IFSCA introduced a dedicated framework on Transition Bonds, facilitating fundraising for hard-to-abate sectors such as steel, cement, aviation, and shipping in financing greener and cleaner technologies.
- In October 2025, the IFSCA introduced the Foreign Currency Settlement System ('FCSS'), a dedicated and regulated mechanism for settling transactions in foreign currencies. The FCSS reduces reliance on offshore correspondent-bank arrangements and enhances IFSC's standing as a competitive international financial centre.
- The IFSCA recently notified a certification requirement for designated directors and principal officers under its AML Guidelines.

These updates reflect a regulatory regime that continues to evolve and promote ease of doing business at GIFT City.

Outlook

With a proactive regulator, the GIFT IFSC continues to strengthen its position as a competitive international financial hub. The IFSC is poised to attract growing cross-border participation while encouraging Indian firms to establish dedicated operations, consolidating its role as a centre for international financial business.

M&A: Trends and Jurisprudence[78]

The M&A landscape in India during 2025 continued to echo global patterns, marked by a moderation in deal volumes but a clear tilt toward larger, strategic transactions. Notable developments included JSW Paints' acquisition of Akzo Nobel India, Emirates NBD's proposed majority stake purchase in RBL Bank, and Mahindra & Mahindra's move to gain control of SML Isuzu. At the same time, IPO activity remained strong, supported by a healthy pipeline.

Income-tax

Demerger not tax-neutral for failure to meet Section 2(19AA)

The Ahmedabad Tribunal[79] held that where assets of an undertaking were transferred without corresponding liabilities, it violated the conditions prescribed under section 2(19AA), making it non-tax-neutral.

FMV must be taken on the actual transfer date for Section 50CA

The Delhi Tribunal[80] held that in a capital reduction scheme involving cancellation of shares for cash consideration, the fair market value under Section 50CA must be determined strictly as on the actual date of transfer, i.e., when the capital reduction becomes effective and not an earlier date. If the FMV on the transfer date does not exceed the consideration, Section 50CA would not apply.

Shares are distinguished from mutual fund units

The Mumbai Tribunal[81] held that 'shares' are distinct from 'units of equity or debt-oriented mutual funds'. Consequently, capital gains arising from the sale of such mutual fund units were held to be not taxable in India under Article 13(5) of the India–Singapore tax treaty. This ruling provides significant relief to taxpayers resident in jurisdictions with similar DTAA provisions.

Capital reduction constitutes a 'transfer.'

The SC[82] Affirmed that the reduction of share capital in a subsidiary company resulting in a proportionate reduction in the holding company's shareholding constitutes a 'transfer' by way of sale, exchange, or relinquishment. Capital losses arising from such reduction were held to be allowable in the hands of the holding company.

Issuance of preference shares on demerger

The Delhi Tribunal[83] held that the issue of preference shares as consideration for demerger satisfies conditions of section 2(19AA) since shareholders include equity as well as preference shareholders and should not affect the allowability of carry forward of accumulated business losses and unabsorbed depreciation.

Step-siblings are regarded as 'relatives.'

The Mumbai Tribunal[84] held that the term 'relative' includes relationships by affinity, holding that step-brothers and step-sisters qualify as 'brother' and 'sister'. Gifts between step-siblings were therefore held to be outside the ambit of Section 56(2).

Companies Act, 2013

Fast-track mergers and demergers – scope expanded

With effect from September 4, 2025, the MCA has widened the eligibility for fast-track mergers under Section 233 by including unlisted companies with borrowings up to 200 crore, non-wholly-owned holding-subsidiary mergers, fellow subsidiaries, and mergers of foreign holding companies into their wholly-owned Indian subsidiaries; although the statutory requirement of 90% shareholder and creditor approval may still pose practical hurdles for many companies especially listed companies.

Further, demerger is also now explicitly allowed under the fast-track route.

78. This article is authored by Mehul Bheda - Partner, Nehal Jain - Principal, Ketan Sakhala - Principal and Paras Kothari - Manager
79. - Reckitt Benckiser Healthcare India Private Limited [ITA No. 1184/Ahd/2018 & ITA No. 1225/Ahd/2018]
80. RBS AA Holdings (Netherlands) B.V. [ITA No.2261/Del/2022]
81. Anushka Sanjay Shah [TS-393-ITAT-2025(Mum)]
82. Jupiter Capital (P.) Ltd. [2025] 170 taxmann.com 305 (SC)
83. Bharti Airtel Ltd. [2025] 171 taxmann.com 754 (Delhi - Trib.)
84. Rabin Arup Mukerjea [2025] 172 taxmann.com 855 (Mumbai - Trib.)

Noteworthy NCLT Rulings

Merger rejected due to lack of financial viability

The Mumbai Bench of NCLT[85] rejected an amalgamation scheme despite procedural compliance, citing substantive concerns such as the negative net worth of both companies, the lack of business activity in the transferee, questionable financial viability, related-party transactions, and possible NBFC classification of the transferor company. The Tribunal held that the scheme was neither fair nor in the public interest and appeared to be aimed solely at reducing compliance costs.

Securities premium cannot be reclassified.

The Kolkata Bench of NCLT[86] dismissed a capital reduction scheme proposing to use and reclassify the securities premium account as retained earnings for redeeming preference shares, holding that Section 66 does not permit such reclassification, and Section 55 requires redemption only out of profits. The Tribunal held that a securities premium is restricted to capital-nature uses and cannot substitute retained earnings.

Strategic group merger upheld despite tax objections

The Mumbai Bench of NCLT[87] sanctioned a group-level amalgamation aimed at business revival, operational efficiency, and cost optimisation. It rejected the Income Tax Department's allegation of tax avoidance, noting that Section 72A expressly permits utilization of carried-forward losses subject to statutory conditions. As no prejudice to stakeholders was established, the scheme was held to be fair and lawful.

Valuation objections are insufficient to reject the merger

The NCLAT[88] overturned the NCLT's order, holding that when an expert valuation supports the swap ratio and shareholders and creditors have given near-unanimous approval, the Tribunal cannot override their commercial wisdom; valuation concerns raised by the tax department were insufficient to refuse the scheme.

NCLAT held that Section 66 permits reduction "in any manner."

The NCLAT[89] set aside the NCLT Mumbai's rejection of a capital reduction scheme where consideration for the cancellation of equity shares was discharged through an interest-bearing unsecured loan. It held that Section 66 permits capital reduction "in any manner".

SEBI

SEBI continued its efforts to strengthen the public markets regulatory framework while balancing ease of doing business.

SEBI ICDR

- SEBI introduced enhanced restrictions on secondary sale of shares by shareholders of companies lacking a profitability track record after filing of the DRHP.[90]
- It also streamlined the rights issue framework by reducing disclosure and compliance requirements, eliminating the need for SEBI observations on draft letters of offer, and shortening timelines to 23 days from board approval.[91]

Further, SEBI[92] proposed rationalisation of minimum public offer requirements and timelines for achieving minimum public shareholding, linked to post-IPO market capitalisation.

Share-Based Employee Benefits and Sweaty Equity

Founders and employees identified as promoters or members of the promoter group in the DRHP are now permitted to continue holding stock options, SARs, and similar benefits, provided such grants were made at least one year prior to DRHP filing.[93]

85. Antelope Mercantile Private Limited [LSI-1305-NCLT-2025-(MUM)]
86. Modern Hi-Rise Private Limited [C.P. No. 238/KB/2024]
87. The Kolhapur Steel Ltd. [C.P.(CAA)/76(MB)2025 in C.A.(CAA)/221(MB)2024]
88. Indiabulls Real Estate Limited Ors [Company Appeal (AT) No. 120 of 2023 & I.A. No. 1650, 2942 of 2024
89. Ulundurpet Expressways Pvt Ltd, Company Appeal (AT) No.53/2024
90. Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025 w.e.f. 08.03.2025
91. Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025 w.e.f. 08.04.2025
92. PR No. 62/2025, SEBI Board Meeting September 12, 2025
93. Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) (Amendment) Regulations, 2025 w.e.f. 08.09.2025

Foreign Exchange Management Act ('FEMA')

Draft ECB Regulations – Rationalised and Simplified

RBI's Draft ECB Regulations[94] mark a significant liberalisation of India's external borrowing framework. Key changes include:

- Scope of eligible borrowers expanded to all persons resident in India incorporated under a Central or State Act (excluding individuals).
- Recognised lenders providing ECB widened to include any person resident outside India, including individuals, related parties, and group entities, on an arm's-length basis.
- Borrowing limits increased to the higher of USD 1 billion or 300% of net worth.
- End use rationalised, permitting acquisition financing, mergers, amalgamations, schemes of arrangement, and real-estate development.
- Companies and body corporates are allowed to on-lend ECB proceeds to group entities for any permitted end-use.

Stamp Duty

Key amendment in Gujarat[95]

The definition of 'conveyance' has been expanded to include orders relating to mergers, demergers, and arrangements under Sections 230–234 of the Companies Act, IBC resolution plans, and similar statutory orders. Stamp duty on agreements for the takeover of management or control through share transfers has increased to 2%. Stamp duty on merger and demerger orders now ranges from 10,000 to 50 crore, and stamp duty on unlisted shares issued pursuant to mergers or demergers will be computed on market value or collector-determined value rather than face value.

Key amendment in Maharashtra[96]

Stamp duty must now be paid upfront prior to filing adjudication applications. Excess duty paid is refundable within 45 days of final determination, without interest.

94. Draft - Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025
95. Gujarat Stamp (Amendment) Act, 2025 issued on March 20, 2025
96. Maharashtra Stamp (Amendment) Act, 2025 issued on March 18, 2025

Transfer Pricing Trends in 2025[97]

2025 has been a pivotal year for India's transfer pricing landscape, characterised by meaningful legislative shifts, enhanced certainty mechanisms, and key judicial pronouncements. The year witnessed the introduction of an optional block TP assessment framework, the expansion of safe harbour provisions, and a record number of Advance Pricing Agreements ('APAs') that fortified taxpayer certainty. On the jurisprudence front, several significant rulings shaped the interpretative contours of transfer pricing law.

Key amendments in the TP regulations:

Introduction of Block assessment

The Finance Act, 2025, introduced an optional block assessment mechanism with the objective of reducing repetitive litigation and bringing greater efficiency to TP assessments for taxpayers with recurring international transactions. Under the 'optional' block assessment framework effective from AY 2026-27 onwards, the arm's length price (ALP) determined for a single year will be applied to the subsequent two years, thereby creating a three-year certainty window.

The option, however, is not available in cases involving search proceedings, ensuring that the mechanism is limited to routine, low-risk scenarios.

Faceless scheme for TP proceedings postponed

The rollout of the faceless transfer pricing assessment scheme has been deferred. This postponement provides the Government with additional time to design a more robust, technology-enabled framework before introducing full-scale Faceless TP proceedings.

Expanding the scope of Safe Harbour rules

The safe harbour regime has been widened to enhance coverage and reduce compliance burdens. The present safe harbour rules provide for 18% to 24% profit margins for IT-related businesses such as software development, IT-enabled services, Knowledge Process Outsourcing, and contract R&D services having a turnover of less than INR 200 crores. The turnover threshold has now been increased to INR 300 crore for two assessment years, i.e., AY 2025-26 and AY 2026-27, expanding the applicability to the taxpayers having higher turnover.

In the manufacturing sector, the rules continue to prescribe a 12% safe harbour margin for the manufacture and export of specified core auto components. Importantly, the scope of "core auto components" has now been expanded to include lithium-ion batteries used in electric and hybrid vehicles[98], thereby extending safe harbour coverage to manufacturers in the rapidly growing EV supply chain.

Additionally, the Central Government has extended the existing arm's length price tolerance range—1% for wholesale trading and 3% for all other cases—for FY 2024–25[99], maintaining continuity and reducing the risk of unintended TP adjustments.

International Tax Certainty Framework: *Advanced Pricing Agreement ('APA') & Mutual Agreement Procedure ('MAP')*

Advanced Pricing Agreement

FY 2024–25 marked a milestone year for the APA program, with India recording its highest number of APA signings to date. The cumulative number of APAs signed has reached 815.

During FY 2024–25, India executed 174 APAs, comprising 64 Bilateral APAs, 1 Multilateral APA (MAPA), and 109 Unilateral APAs. This reflects a meaningful rise compared to FY 2023–24, highlighting taxpayers' increasing preference for long-term certainty through APAs.

Unilateral APAs were dominated by transactions involving IT-enabled services (ITES), Back-office ITES, Management / corporate support services, and Software development services (SDS). On the other hand, Bilateral APAs primarily covered reimbursements of expenses to AEs, provision of ITES, and SDS.

97. This article is contributed by Sudhir Nayak - Partner, Sunil Nayak - Principal, Jubin Joseph - Manager and Maitri Pujara - Senior Associate
98. Notification No. 370142/6/2025-TPL
99. Notification No. 157/2025/F. No. 500/1/2014-APA-II

These trends continue to reflect India's strong APA activity in service-oriented sectors, particularly for captive service providers.

Mutual Agreement Procedure

Over the years, India has made substantial progress in concluding MAP cases with its treaty partners, thereby enhancing certainty for both taxpayers and tax administrations. The 2024 statistics[100] reflect continued improvement in the efficiency and effectiveness of India's MAP program.

Particulars	Opening cases as of January 2024	New cases	Closed cases	Balance as of December 2024
Cases started before 2016	30	0	10	20
Cases have started since 2016	307	77	86	298
Total	**337**	**77**	**96**	**318**

India successfully resolved 96 TP-related MAP cases in the year 2024, with no instance of denial of MAP access, reaffirming its commitment to cooperative dispute resolution.

India's MAP partners include jurisdictions such as Australia, Switzerland, Germany, France, the United Kingdom, Italy, Japan, Korea, Sweden, and the United States, among others.

Further, the average time to resolve TP MAP cases improved slightly, reducing from 32 months in 2023 to 30.9 months in 2024, underscoring incremental efficiency gains.

Key Judicial Rulings

The year 2025 saw several important judicial pronouncements impacting India's transfer pricing landscape, including the SC ruling in ***ACIT v. Shelf Drilling Ron Tappmeyer Ltd.***[101]. The SC delivered a split verdict on the applicability of statutory timelines for concluding assessments involving DRP. One judge held that the DRP is embedded within the assessment framework and must therefore adhere to the statutory timelines. The other judge disagreed, observing that the law provides for an extended timeline for DRP proceedings and, hence, should not be subjected to general timelines for assessment. Given this divergence, the issue has now been placed before a larger Bench for a definitive ruling.

In addition, a series of decisions from the Mumbai ITAT provided clarity on the characterization of entities, financial transactions, and benchmarking approaches.

The Mumbai ITAT upholds the OTT Service Provider as an LRD[102]

The ITAT examined the functional and risk profile of Netflix Entertainment Services India Pvt. Ltd. (Netflix India), which operated as a non-exclusive, limited-risk distributor providing customers with subscription-based access to content hosted, controlled, and managed entirely by its overseas AEs. Netflix India's role was limited to distribution-related functions, supported by a small team and minimal assets.

However, the TPO and DRP rejected the LRD characterisation and adopted a full-fledged distributor model. Relying on contractual terms, the Revenue alleged that Netflix India undertook substantive functions such as content storage, technology management, customer support, and marketing. Using the Other Method, the TPO allocated 57% of revenue to the AE and 43% to Netflix India, based on weighted functional scoring.

The Mumbai ITAT reversed the order by holding that Netflix India did not perform any Development, Enhancement, Maintenance, Protection, or Exploitation

100. 2024 MAP statistics' released by OECD in November 2025
101. [2025] 177 taxmann.com 262 (SC)
102. Netflix Entertainment Services India - ITA No.6857/Mum/2024

('DEMPE') functions, nor did it control content, technology, or intellectual property. The ITAT held that Netflix India undertook only routine distribution functions, consistent with an LRD profile. Other methods should be used sparingly, and only when it provide a higher degree of reliability than established methods. It also held that recharacterization is impermissible unless the arrangement is a sham or a colourable device. TP adjustments cannot be made based on hypothetical or notional income.

Mumbai ITAT upholds CCDs characterisation as a 'debt instrument' until conversion.[103]

The taxpayer had issued rupee-denominated CCDs to its AE and paid interest benchmarked under the CUP method. The TPO and DRP treated the CCDs as hybrid instruments, bifurcating them into debt and equity components based on IND AS disclosure, and determined the arm's length interest on the equity portion as NIL.

The ITAT held that CCDs remain debt until conversion, regardless of treatment under Ind AS. The Mumbai ITAT rejected recharacterization of the CCDs as equity and remanded the matter back for fresh benchmarking of interest payment.

Mumbai ITAT upholds benchmarking of corporate guarantee and interest on outstanding receivables.[104]

The taxpayer, a manufacturer and exporter of latex natural rubber and elastic rubber plastics, had extended a corporate guarantee on behalf of its AE but did not charge fees. TPO applied the CUP method based on the latest bank guarantee rates of various banks and determined arm's length commission at 1.4% per annum after making an adjustment. The ITAT rejected the taxpayer's argument that a corporate guarantee is a 'shareholder activity' (as the benefit is passed on to the AE) and the guarantee fee should be restricted to 0.5%.

The ITAT further held that an addition for delayed realisation (i.e., beyond the credit period) interest shall be computed for each invoice as against the average delay on an aggregate basis. The ITAT held that the working capital adjustment will not factor in invoice-wise abnormal delay in realising debtor beyond the industry standard.

Takeaway

The developments in 2025 reflect India's continued focus on enhancing certainty, strengthening dispute resolution mechanisms, and aligning transfer pricing administration with global best practices. With expanding safe harbours, record APA/MAP closures, and important jurisprudence, taxpayers can expect greater predictability in the years ahead. As the ecosystem evolves, proactive TP planning and robust documentation will remain essential.

103. Goldman Sachs (India) Finance Pvt. Ltd - ITA No.6766/Mum2024
104. Garware Fulflex India Pvt. Ltd. - ITA No. 6751/MUM/2024]

New Income-tax Act, 2025[105]

The year 2025 marks a defining year in India's direct tax landscape. The Honourable Finance Minister proposed the introduction of the new Income-tax Bill, replacing the six-decade-old Income-tax Act, 1961, reaffirming the government's commitment to tax reforms, being recognised as one of the key elements to realise the vision of *Viksit Bharat*.

The first draft of the Income-tax Bill, 2025, was tabled in parliament in February 2025. Within a short span of six months, the Parliamentary Select Committee released an extensive report exceeding 4500 pages.

Consistent with the government's mandate of effecting 'no major policy changes', the Select Committee suggested 566 textual and structural refinements. However, stakeholders' recommendations for substantive policy matters were not accepted, given the mandate of no policy change.

Subsequently, the Finance Minister introduced the Income-tax (No. 2) Bill, 2025 as a 'Money bill', which was enacted as the Income-tax Act, 2025, upon receiving presidential assent on 21 August 2025. The 2025 Act is slated to be effective from 1 April 2026. The new income-tax rules commensurate with the 2025 Act are likely to be released in January 2026[106].

Key Framework

The 2025 Act is introduced with an intended objective to make the law simple to understand for taxpayers and tax administration, leading to tax certainty and reduced litigation. Some of the illustrative simplification measures are summarized as follows:

Remove Redundancy - The 2025 Act eliminates redundant / obsolete provisions, reducing the number of sections from 819 to 536, reorganised into 23 chapters (earlier 47 chapters).

Jargons simplified - The legal complexity surrounding interpretation has been pared down with textual and structural simplification. The 2025 Act replaces terms such as 'notwithstanding', 'in accordance with', with simpler expressions 'irrespective of' or 'as per'. The 'explanations' and 'provisos' are embedded directly in the main section.

Unified 'Tax Year' - The dual construct of 'assessment year' and 'previous year' is replaced with the unified term - 'tax year', making the law more accessible.

Tabular / formulae concepts - Complex areas such as presumptive taxation, cost-of-acquisition provisions, withholding provisions, etc., are now explained/ set out in formula concepts/ tabular form, offering simplicity in understanding and reducing scope for interpretational disputes.

Schedules - The exemption provisions are reorganised into dedicated schedules, categorised by eligible income streams and taxpayers.

Repeals and Savings - Beyond structural reorganisation, the 2025 Act also lays down transitory 'Repeal and Savings' provisions ensuring operational/ procedural continuity. Illustratively, the approvals, recognitions, and unutilised losses under the 1961 Act will continue under the new framework. The assessment proceedings up to FY 2025–26 will be governed by the 1961 Act, ensuring procedural continuity.

Interpretation and Jurisprudence

The Courts have time and again upheld 'literal interpretation' as the golden rule of interpretation of taxing statutes. Yet, the 2025 Act's extensive linguistic overhaul, introduced under a 'no major policy change' mandate, creates an interesting interpretational inflection point.

Whether the judicial authorities recognise and uphold the existing jurisprudence under the old Act, given the mandate of no policy change, or stick to the literal rule while interpreting the 'new' language/ construct (e.g. tabular, formulae provisions) of the 2025 Act would be keenly watched.

105. Article is contributed by Abhishek Mundada - Partner and Rushi Shah - Principal
106. The Hindu : ITR forms, rules under new Income Tax Act to be notified by January

Key Legal Changes and Potential Issues

While the policy framework remains largely intact, several textual refinements and, more particularly, the responses from the Ministry of Finance ('MoF') during the Select Committee interactions could potentially be in contradiction to the Government's dictate of 'no major policy changes' and may have interpretational implications. A few situations are highlighted below:

AE meaning- The law continues to provide both subjective and objective tests for determining an 'associated enterprise'. Under the 1961 Act, the majority of the court rulings have held that the subjective test could not be invoked independent of satisfaction of the objective threshold limits (e.g. 26% voting rights, 50% board control, etc.). However, the 2025 Act marks a departure from this proposition. The revised definition provides for independent testing of the subjective test relating to participation in capital, control, or management to determine the AE relationship. Ambiguity nevertheless persists regarding the threshold for applying the subjective test.

Interpretation of DTAA terms- Under the 1961 Act, terms not defined in a DTAA are to be interpreted with reference to the provisions of the domestic tax law (i.e. 1961 Act) or relevant tax notifications. Aligning with OECD guidance, the 2025 Act extends this hierarchy by providing that, where such terms remain undefined even under the 2025 Act or tax notifications, they must be construed in accordance with other Central Laws, unless the context otherwise requires. However, it may ignite debate on whether such an interpretation amounts to a unilateral modification of treaty terms and whether the 'context' requirement under the DTAA permits recourse to broader central legislation.

Tax neutrality ambiguity for fast track Demergers?- The legislature introduced inter alia a simplified fast-track (i.e. non-NCLT route) demerger mechanism under section 233 of the Companies Act, 2013, to promote administrative efficiency and ease of doing business. The definition of demerger under the tax laws didn't have a specific section reference for fast-track demerger (i.e. section 233). Stakeholders recommended extending explicit tax-neutrality to such fast-track demergers undertaken under the aforesaid section 233.

Despite the recommendation from another arm of the Government (i.e. MCA), the MoF, however, declined the suggestion essentially on the grounds that the process is not court-monitored [even though the process goes through appropriate regulatory monitoring (i.e. by the Regional Director, MCA)]. The lack of clarity on a specific tax exemption may undermine the very purpose of enabling this streamlined route. Notably, the definition of 'amalgamation' under the Act does not have any specific section reference to the Companies Act's provisions dealing with any type of amalgamation. Thus, while the tax neutrality of fast-track amalgamation ought not to be impacted (subject to the fulfilment of other specified conditions), the observations of MoF may potentially give rise to similar challenges regarding tax neutrality for fast-track amalgamations.

Tax (un) certainty on waiver of loan?– MCA and other stakeholders represented to the Select Committee seeking an exemption for the waiver of loans of distressed entities. However, the proposal was not considered by MoF largely on the presumption that such companies generally have a sufficient balance of accumulated losses to absorb the income, resulting in no tax liability. The uncertainty is severely impacting the success of the resolution of cases under the Insolvency and Bankruptcy Code, 2016 (IBC) and likely to germinate huge level of litigation.

Overhaul of tax-exempt Charitable activity provisions- The 2025 Act introduces the concept of a 'Non-Profit Organisation' (NPO), replacing the earlier varied regime applicable to charitable institutions (e.g., trusts, educational institutions, hospitals). While the overall framework remains largely consistent, certain amendments materially increase the consequences of non-compliance. For instance, violation of the prescribed investment modes may trigger 30% tax on the 'fair market value' of the investment itself, compared to tax on such 'income' under the 1961 Act.

'Gift tax' issues unaddressed- Recommendations were made for specific exemption from applicability of anti-abuse 'gift tax' provisions [section 56(2)(x)] for bona fide transactions such as fresh issue of shares, right / bonus shares, transactions undertaken pursuant to a statutory framework, waiver of loan, distressed sale under IBC, etc. The recommendation was not accepted as it was felt that the term 'bona fide' itself is subjective and could be open to litigation.

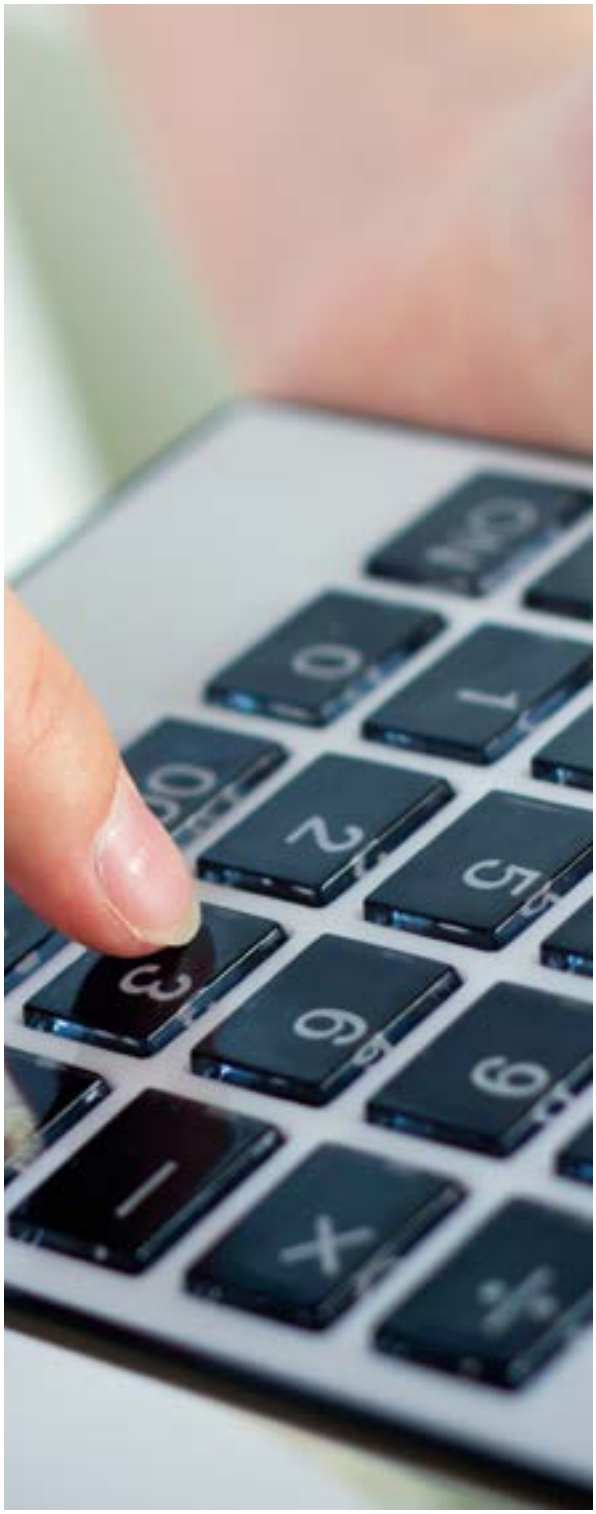
Missed Opportunities and Takeaways

With the announcement of the introduction of the new Income-tax Act in the 2025 Budget speech, Industry stakeholders were eagerly anticipating that the overhaul of the 1961 Act would align the tax framework with modern business practices and provide long-awaited clarity on several recurring tax controversies. The list of key missed opportunities could include no thrust to changing the dispute resolution & litigation system, lack of compliance simplification, ease in bona fide business restructuring, and the BEPS roadmap.

Nevertheless, the introduction of the 2025 Act still represents a watershed in India's tax reform journey — a structural clean-up that lays the foundation for future policy evolution aligning with an evolving economic environment.

While the 2025 Act simplifies compliance, its success will hinge on its effective implementation. The forthcoming rules and notifications, expected by January 2026, will play a critical role in reducing compliance burden and increasing ease of doing business - defining the next phase of India's tax reform story.

It will be interesting to watch whether the recommendations of the Select Committee made after due deliberations and representations, which were not accepted on the ground that there is no mandate for policy change, will see the light of day without much delay.



Recent Trends in Succession Planning: Modern Approaches to Continuity and Legacy[107]

Family businesses have long been the backbone of India's economy, driving industries and shaping the nation's growth. Yet despite their vital role, the long-term survival of these enterprises remains surprisingly low. Globally, family wealth endures beyond the third generation in fewer than 10% of the cases, a reality that underscores a deeper truth: prosperity that is not structurally preserved rarely endures. India is no exception.

This reality is prompting families to reassess what true continuity really entails. Increasingly, there is recognition that legacy cannot be safeguarded through a short-term approach focused on distributing assets among family members. Instead, families are adopting a longer-term ambition to preserve and transmit across multiple generations. The values, principles and culture that created wealth. Achieving this kind of legacy calls for careful planning, deliberate structures and a long-term perspective. This article highlights several key trends shaping this shift.

Shift in Mindset: Thinking Beyond Next Generation

The most profound change in succession planning today is a shift in mindset from simply dividing wealth to building a Legacy and from ownership to embracing Stewardship. Families are no longer treating succession as a transactional process. Instead, they are asking deeper questions: What will our family stand for decades from now? How can future generations preserve and grow what we have built? The focus has expanded beyond financial inheritance to passing on family capital: values, vision, culture and purpose.

At the heart of this transformation is the Stewardship mindset. Long practised in Japanese and European business families, this is now gaining strong traction in India. It emphasises that Wealth belongs to the Family, not the individual and that each generation has a responsibility to nurture, protect and grow the Legacy for those who follow. This mindset naturally discourages distribution beyond what is reasonably required, curbs consumption-led erosion of wealth and strengthens long-term stability. Today, families are adopting more structured and forward-looking strategies that protect not just assets, but the essence of their enterprise and identity - treating wealth not as an entitlement, but as a responsibility to be preserved, protected, and passed on.

Centralizing Wealth

To embrace this philosophy of stewardship, many families are now adopting structures designed to prevent ownership fragmentation and ensure long-term stability. A key trend is the consolidation of critical business assets, especially shares in operating companies, into a single private trust, which limits outright distribution of ownership and wealth. Financial security for current and future generations is maintained through controlled distributions that meet both immediate and long-term goals. Rather than distributing ownership individually, this approach allows beneficiaries to enjoy income and benefits while keeping the core assets centralized, professionally or jointly managed and protected from disputes, claims or other external risks. Most importantly, it enables wealth to be preserved and transferred seamlessly across generations. Increasingly, families are exploring such customized structures that facilitate consolidation while navigating the legal, tax and regulatory complexities involved, particularly in the context of listed companies.

Family Governance

Alongside consolidation, professionalisation has become a cornerstone of modern succession planning. As a result, many families are adopting formal governance structures, family charters and constitutions that outline roles, decision-making processes, voting rights, participation criteria, capital-withdrawal norms, lifestyle guidelines, exit policies, dispute-resolution mechanisms, etc. This shift is driven both by evolving family dynamics and the expectations of investors and financial partners who value transparency, stability and well-documented succession frameworks. Robust governance brings discipline, predictability, and long-term sustainability to family enterprises.

107. This article is authored by Umesh Gala - Partner, Deepesh Chheda - Partner and Arpit Doshi - Principal

Preparing the Leaders of Tomorrow

Another noticeable trend is the growing emphasis on early mentoring and grooming of the next generation. Families are encouraging younger members to gain global exposure, study abroad and build external work experience before stepping into the family enterprise. Some are gradually introducing them to business through simple yet meaningful steps such as attending board meetings as observers, contributing to family projects or shadowing senior leaders.

Meritocracy is also reshaping leadership transitions. Families now expect successors to demonstrate capability and preparedness before assuming key roles. Interestingly, next-generation aspirations are also evolving, and families increasingly recognise that not all members may want to join the core business. These realities are now being thoughtfully integrated into succession plans.

Constructive Philanthropy

To preserve their legacy and cultivate a sense of responsibility, families are increasingly identifying social causes through which they can build impact-oriented institutions that embody their core values. Family members are encouraged to engage with these initiatives, which are regarded as integral to safeguarding the family's legacy. Meaningful contributions are recognised and rewarded on par with leadership roles in family enterprises. This approach fosters purposeful involvement in philanthropy while maintaining alignment with shared family principles, extending the family's legacy beyond its own members and helping create enduring social impact.

Singles, Divorced and Heirless Individuals

An often-overlooked segment in succession planning includes individuals who are single, divorced or without direct heirs. Traditional inheritance models built around family lineage do not fully address their unique needs. For these individuals, succession is less about passing wealth to descendants and more about ensuring that their life's work continues to create meaningful impact. Thoughtful planning enables them to preserve and direct their legacy, even without a family to inherit it.

A common challenge for heirless individuals and charitable structures is the restriction on tax-neutral beneficiaries. Current laws prevent charities from being named as beneficiaries without tax implications. This calls for innovative, carefully structured solutions and also highlights the need for updated legal and tax frameworks that recognise charity as a legitimate means of preserving one's legacy.

Protecting the Youngest Generation

A parallel trend is the increased focus on securing the future of minors and grandchildren. As marital relationships take a longer time to stabilise and separations create uncertainty, families are increasingly setting up dedicated education and welfare trusts to ensure that a child's schooling, higher studies and essential needs are protected from any family disputes, parental disputes, emergencies or other financial pressures. These structures offer peace of mind by guaranteeing that a child's developmental journey shall continue uninterrupted, regardless of the surrounding circumstances.

Cross-Border Readiness

Globalisation is reshaping how families think about succession planning. With next-generation members studying, living or building careers abroad, families are seeking structures that remain effective and compliant across multiple jurisdictions. Modern succession plans need to consider changing residencies, citizenships and exposure to international tax regimes such as the US throwback tax, UK inheritance tax, etc., while also navigating local cross-border regulations like FEMA. Today, robust succession planning must be both firmly rooted domestically and flexible enough to adapt internationally.

New Era of Thoughtful Succession

Taken together, these trends reveal a powerful truth: succession planning is no longer just about deciding 'who gets what'. It has evolved into a holistic, future-focused framework that weaves together family values, governance, professional management, asset protection, social causes, global mobility and intergenerational alignment.

In India, this shift carries particular significance. Family enterprises remain the backbone of the country's economic landscape, and they now stand at a defining moment of intergenerational transition. As per an HSBC report, nearly 70% of Indian billionaires are at the cusp of passing USD 1.5 trillion in wealth to the next generation - an amount exceeding one-third of the nation's GDP[108]. How this wealth is transitioned will shape not only individual families but the future architecture of Indian enterprise.

The challenge now lies in converting intention into action, emotion into structure, and tradition into transition - a shift that will determine which families build legacies that truly last.

108. HSBC Report

UAE Tax Landscape 2025: Fast Evolving and Globally Aligned[109]

The UAE has moved decisively from a low-tax environment to a rules-based, internationally aligned system that has reinforced the country's appeal as a hub for regional headquarters, trading operations, investment structures, and private wealth. The following sections outline the key UAE tax developments most relevant to Indian multinationals and family groups with cross-border interests.

Corporate Tax (CT): Welcome Amendments, Interpretive Depth, and Administrative Maturity

Since its implementation in 2023, the UAE CT regime has continued to refine core provisions. Free zone taxation rules were clarified through a broader definition of qualifying commodities, now covering industrial chemicals, related by-products and environmental commodities, strengthening the UAE's position in commodity and logistics-focused sectors. The participation exemption amendments brought clarity for groups holding substantial portfolio investments, reaffirming the AED 4 million minimum threshold. Real estate groups benefited from further guidance, notably that depreciation is available for investment properties measured at fair value (to bring parity with the cost method of accounting) and detailed transitional relief rules to ring-fence pre-CT gains on properties held or under development. Continuing its efforts to reinforce the UAE's appeal as an investment hub, a new decision makes income earned by qualifying investment funds (QIF) fully exempt in the hands of both the QIFs and its investors (except for certain specified investors with ownership in the QIF exceeding specified thresholds).

Following the effective first filing cycle in 2025, taxpayers were required to lock in key positions relating to free zone qualification, transitional elections and pre-CT restructurings. In parallel, the Federal Tax Authority has begun issuing targeted audit notices, information requests and penalty reminders, indicating a data-driven and analytical compliance environment.

Domestic Minimum Top-Up Tax (DMTT): Aligning to Global Norms

The UAE's DMTT regime, effective 1 January 2025, mirrors the OECD Model Rules and requires in-scope multinational groups to maintain a 15% effective tax rate in the UAE. Key technical considerations include the treatment of free zone entities, transitional safe harbours, and timing differences that may temporarily affect Effective Tax Rate ("ETR") calculations. For Indian-headquartered groups, the interaction between UAE DMTT outcomes and FTC provisions under the India–UAE treaty has become especially important. Further administrative guidance is expected, with the first DMTT filings and payments due in 2027, allowing time for readiness reviews and entity-level modelling.

Transfer Pricing (TP): Increased Focus and Expansion of Certainty

During the year, the first cycle of TP documentation and reporting provided useful insights into how economic substance, contractual terms, and actual conduct are evaluated together. Intercompany financing, service arrangements, asset ownership, and risk assumption featured prominently in technical discussions, reflecting the increasing depth of UAE TP administration. During the year, the UAE TP regime moved into a more advanced phase with the rollout of the Advance Pricing Agreement programme and detailed guidance on the Mutual Agreement Procedure.

Going forward, as more data becomes available to the authority through filings and digital channels, the emphasis on documentation quality and defensible economic narratives is inevitable.

VAT: Interpretive Refinement and a Major Digital Transformation

The UAE used 2025 to settle several grey areas in VAT affecting businesses. We finally saw clearer guidance on virtual assets, mixed-use input tax apportionment,

109. The Article is authored by Nimish Goel - Leader, Middle East, Kapil Bhatnagar - Partner and Rakesh Jain - Partner

and how to distinguish between composite and multiple supplies. Zero-rating conditions for exports and international transport were tightened, giving companies more clarity on documentation and evidentiary requirements.

A few compliance irritants were also addressed. Financial institutions benefited from clarification around SWIFT messaging and related input tax recovery. The compliance around the reverse-charge mechanism became simpler too, with the Federal Tax Authority ("FTA") confirming that a valid overseas supplier invoice can, in many cases, replace the need to self-issue a tax invoice.

The most significant development, since VAT introduction in 2018, was the formal launch of the e-invoicing programme. The UAE has committed to a Peppol-based model, with mandatory adoption beginning in January 2027 for larger businesses and a phased rollout thereafter. For most taxpayers, this will mean a review of ERP readiness, internal controls, and how transaction data flows through the organization.

Customs: New 12-Digit HS Codes and US Tariffs Reshaping Trade Flows

The UAE shifted from the traditional 8-digit tariff to a new 12-digit HS code structure. With Dubai and Abu Dhabi Customs jointly adopting the expanded nomenclature, the number of tariff lines has increased substantially, making businesses to revisit product classifications and reassess duty impact.

Rising US tariffs on certain Asian imports have prompted some groups to consider the UAE for light processing, assembly, or re-packaging to optimise tariff exposure. Free zones with manufacturing capabilities are receiving increased interest, particularly where a qualifying transformation can support a shift in origin and reduce the effective duty impact.

Excise Tax: Sugar Content-Based Levy

Excise compliance stayed largely system-driven, with the key reform being the shift to a tiered, sugar-content-based levy on sweetened beverages from 1 January 2026. Higher sugar content will attract higher excise, increasing the relevance of accurate product specifications and lab-verified sugar profiles for manufacturers, importers, and warehouse keepers.

Personal and Family Wealth Structures: Making the UAE more attractive

The UAE continued to clarify the tax treatment of personal and family wealth structures, including foundations and private wealth management vehicles. Recent clarifications issued by the authority have helped outline the tax consequences of holding operating businesses, real estate, or passive investments through these structures. The tax residence rules for individuals and entities have attracted interest for those looking to make the UAE their preferred tax jurisdiction.

Conclusion: Looking towards 2026 and beyond

As 2026 approaches, Indian and global multinationals and family groups will look to strengthen integration of tax and finance functions, prepare for e-invoicing and the DMTT, and ensure coherent TP and CT implementation within their systems. Collectively, these shifts reinforce the UAE's standing as a modern, competitive jurisdiction for regional headquarters, investment platforms, and long-term wealth structures.

Singapore – Tax landscape[110]

By 2025, Singapore continued to navigate a mixed but broadly resilient economic path. After a strong 2024 with about 4.4% GDP growth (up from 1.8% in 2023), the growth momentum carried into 2025.

According to a press release from the Ministry of Trade and Industry (MTI) in late November 2025, the full-year 2025 GDP is projected to grow at around 4.0%. Growth has been mainly driven by the manufacturing, wholesale trade and finance & insurance sectors. Within manufacturing, growth was led by the electronics, transport engineering and biomedical clusters.

2025 saw a rapid acceleration of AI adoption and investment in Singapore's enterprise and innovation ecosystem. As per recent research[111], organisations are spending an average of S$18.9 million per company on AI this year, achieving an average return on investment of 16%, with many expecting ROI to rise further over the next two years. More broadly, a survey[112] Suggests the number of businesses using AI in Singapore increased by roughly 20% in 2025 to about 170,000 firms, spanning industries such as finance, tech and healthcare.

While global trade headwinds, supply-chain reconfiguration and competition for AI talent remain risk factors, Singapore's diversified economy and strategic policy measures keep it well placed to capitalise on both traditional strengths and emerging AI-led growth opportunities.

This article highlights the major tax developments over the past year that may be of interest to businesses and investors operating in Singapore.

JOhor-Singapore Special Economic Zone

Malaysia and Singapore have collaborated to establish a special economic zone in the southern Malaysian state of Johor — the Johor-Singapore Special Economic Zone ("JS-SEZ") — to strengthen bilateral economic integration and attract global investment. The JS-SEZ agreement was signed on 7 January 2025.

The JS-SEZ aims to harness the complementary strengths of both countries to accelerate economic activity and enhance investment flows. The zone targets 50–100 major projects across 11 key sectors (including manufacturing, logistics, food security, tourism, energy, the digital economy, the green economy, financial services, business services, education and health) and is expected to create approximately 20,000 skilled jobs. To alleviate cross-border congestion, planned enhancements include mandatory vehicle entry permits (VEPs) for Singapore-registered vehicles, QR-code immigration clearance and upgrades to transport infrastructure. Johor also intends to attract talent with competitive remuneration, supported by business-friendly measures to simplify operations and support sustainable growth within the JS-SEZ.

Compelling tax incentives have been introduced to position the JS-SEZ as a prime investment destination. Multinational companies establishing offices within the zone may benefit from a 5% corporate tax rate for up to 15 years, while qualified knowledge workers may enjoy a preferential 15% personal tax rate for 10 years. Reduced entertainment duties will also encourage investment in the tourism and leisure sectors.

Singapore businesses expanding into the JS-SEZ can leverage the Market Readiness Assistance grant, which subsidises up to S$100,000 per company per new market to cover expenses related to overseas market promotion, business development and market establishment until 31 March 2026.

Introduction of Refundable Investment Credit (RIC) in Singapore

The RIC scheme was formalised under the Income Tax (Refundable Investment Credits) Regulations 2025, effective 1 September 2025. It is structured as a qualified refundable tax credit compliant with the OECD GloBE (Pillar Two) framework and awarded on a case-by-case basis by the Singapore Economic Development Board (EDB) and Enterprise Singapore.

110. This article is authored by Dilpreet Singh Obhan - Partner and Niket Shah - Senior Manager
111. SAP research: Singapore firms see strong returns on AI, but future value hinges on skills and data readiness - SAP Southeast Asia News Center
112. AI adoption grows 20% in Singapore as 170,000 businesses embrace the technology - Tech Edition

Companies may offset the RIC against corporate income tax, including domestic and multinational top-up taxes, as well as related penalties and surcharges. Unutilised credits may be refunded in cash through an irrevocable election, with payouts of 20% in year 2, 30% in year 3, and 50% in year 4 from the claim application.

Qualifying activities

Projects must support Singapore's strategic growth priorities, including advanced manufacturing, international trade, digitalisation, AI, supply chain management, mobility, and the green economy. Qualifying activities include

- Investments in new productive capacity
- Expansion of digital, professional or supply chain services
- Regional headquarters or centres of excellence
- R&D and innovation
- Decarbonisation efforts
- Commodity trading activities.

Qualifying expenditures

These include manpower, capital expenditure, professional fees, logistics and freight, materials and consumables, intangible assets, training, and financing costs.

Rates for computation of RICs

Tiered support of 10%, 30% or 50% is provided based on project scale, investment nature, and overall economic impact, including environmental sustainability of the company's trade.

Taxation of gains from the sale of foreign assets

Effective 1 January 2024, Singapore introduced Section 10L of the Singapore Income Tax Act ("SITA"), bringing gains received in Singapore from the sale or disposal of foreign assets by certain in-scope entities into the income tax net. Under this regime, foreign-sourced disposal gains are exempt only if the entity has adequate economic substance in Singapore.

Since its implementation, IRAS has issued advance rulings clarifying how Section 10L applies in practice, particularly on which entities qualify as "excluded entities". Advance Ruling Summary No. 18/2025 (published 1 September 2025) confirmed that revaluation gains arising on liquidation, where shares in overseas investments are distributed in specie to a foreign parent, fall outside Section 10L, as no consideration is received in Singapore.

Separately, IRAS removed FAQ 22 from its e-Tax Guide, which addressed whether receipt of a promissory note in Singapore constitutes remittance of gains under Section 10L. This removal suggests IRAS is re-evaluating whether physical receipt of a promissory note should be treated as a deemed remittance.

IRAS published the Transfer Pricing Guidelines (Eighth Edition) in Singapore

On 19 November 2025, the IRAS published Transfer Pricing Guidelines (8th Edition) ("**TPG 8**"), introducing enhanced transfer pricing requirements and aligning more closely with global tax developments.

The revised guidelines particularly emphasises on intra-group financing, simplified transfer pricing documentation preparation, strict pass-through costs and Mutual Agreement Procedure ("MAP") rules, raising the bar for economic substance and documentation quality. IRAS also introduced a pilot Simplified & Streamlined Approach ("SSA"), which is a safe-harbour regime for qualifying routine distribution and marketing functions (from 1 January 2026 to 31 December 2028), which could reduce benchmarking burden and audit risk.

One important update in TPG 8 is related to domestic related-party loans. Under the previous edition for such loans, taxpayers were obliged to adopt IRAS's indicative margin or conduct a full transfer-pricing analysis to determine interest rates for such loans. Following feedback from taxpayers and advisors to allow interest-free related party domestic loans, this obligation has now been dispensed with unless the borrower or lender is in

the business of borrowing or lending. Specifically, IRAS has clarified that it will no longer make transfer-pricing adjustments for domestic related party loans where the borrower or lender is not in the business of borrowing or lending. Where the loan is interest-free, any claim for deduction of interest expense will be assessed under section 14(1)(a) of the SITA and subject to interest restriction, where appropriate.

For cross-border outbound related-party loans, IRAS has clarified that it will make transfer pricing adjustments only when interest is remitted into Singapore. If the loan is interest-free, no transfer pricing adjustment will be done since no interest is remitted. Similarly, for cross border inbound related party loan where the taxpayer in Singapore is the borrowing party and no interest is charged by the lending party or the interest charged is below arm's length amount, IRAS will not impute an arm's length interest expense as it is not tax deductible.

Apart from the above, IRAS has also made stricter conditions on relying on a qualifying past TPD. TPG 8 now requires a formal declaration along with the existing conditions that simplified TPD can only be prepared where there are no material changes to the transaction.

Global Capability Centres[113]

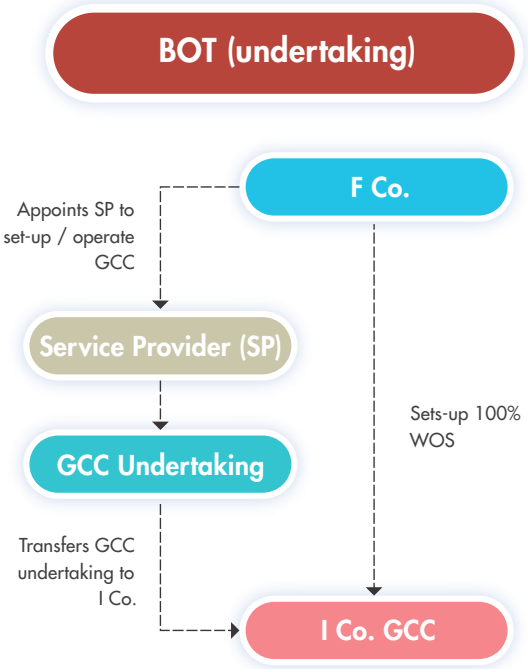
Overview

India has emerged as a strategic destination for Global Capacity Centres ('GCC'), progressing beyond traditional back-office support to manage complex functions such as IT, finance, engineering, analytics, R&D and product-linked segments. With over 1,700+ centres employing nearly two million professionals across Bengaluru, Hyderabad, Pune, Mumbai and NCR, and gradually expanding into Tier-2 cities, the GCC ecosystem continues to scale rapidly. Talent availability, cost efficiency, policy support and digital infrastructure are driving organisations to increase the volume and complexity of work transitioned to India. As more firms establish or expand centres, thoughtful design of the legal entity, operating model, funding, transfer pricing and repatriation arrangements becomes critical for long-term, compliant operations.

BOT model and PE risk

Historically, multinationals have used models ranging from fully outsourced third-party relationships to 100% captive subsidiaries. A hybrid variant now gaining strong traction is the Build-Operate-Transfer (BOT) model, which allows fast, low-risk scaling and transfer of ownership once stabilisation milestones are achieved. Under BOT, a specialist partner sets up and operates the centre, including talent, infrastructure and delivery management, before transitioning the set-up to the global group.

In a BOT structure, functions are purposefully divided: the BOT partner maintains the full execution team and oversees daily operations, while the foreign parent's Indian subsidiary focuses mainly on governance, alignment, and milestone monitoring. This creates a two-layer system where the governance body works closely with a workforce it does not directly employ. From a tax and transfer-pricing perspective, disciplined management is crucial to reducing PE exposure for the foreign parent. The structural risk stems from the fact that the BOT partner contractually employs the operational workforce, while management and oversight lie with the



- *F Co. appoints SP to build and operate GCC operations as separate undertaking.*
- *F Co. sets-up I Co. to take over GCC operations.*
- *After a certain period > SP transfer GCC undertaking to I Co.*

Indian subsidiary. Without clear boundaries, this can lead to the perception that the Indian entity is directing or controlling the BOT workforce, or acting on behalf of the foreign company, potentially indicating a fixed-place PE. The issue is not oversight itself but the level of influence; for example, senior management in India unofficially guiding or shaping daily decisions can suggest substantial managerial control.

Accordingly, PE safeguards must be embedded contractually and mirrored in day-to-day conduct. The Master Services Agreement and operational documents should confine the Indian subsidiary's role to governance, quality monitoring and reporting, with authority over hiring, performance management, task allocation and delivery retained solely by the BOT provider until transition. A defined and documented reporting line,

113. This article is contributed by Aditya Hans - Partner, Ashish Jain - Associate Partner, Sangita Prakash - Associate Partner and Ashna Tibrewal - Analyst

controlled sign-off workflows and email protocols routed to the foreign parent help evidence compliance. These safeguards remain critical until the transition milestone is reached, after which the centre is formally handed over to the group, marking the completion of the BOT phase.

Even where a PE allegation arises in a BOT structure, the extent of additional profit attribution depends on whether the Indian subsidiary is already remunerated at arm's length for the functions it performs. If the TP model accurately reflects the subsidiary's role, typically governance, oversight, quality monitoring and risk alignment rather than operational delivery, the scope for attributing further profits to a PE becomes significantly limited. This approach is reinforced by the SC's decision in the case of *Morgan Stanley (SC)*[114], which held that once arm's-length remuneration is established for the Indian entity, no further profits should be attributed, even if a PE is found. A well-designed model, supported by detailed functional analysis and a clear demonstration that strategic and operational control rests with the foreign parent, strengthens the argument that the economic value created in India has already been appropriately compensated.

Risk of Inflated Profit Attribution Through BOT Workforce Costs

A practical risk in BOT arrangements is the possibility of the tax authorities arguing that, because the Indian subsidiary interacts closely with the BOT partner's team, the operational workforce costs of the BOT provider form part of the Indian entity's "cost base" for transfer pricing or PE-attribution purposes. Such an approach can artificially inflate the Indian entity's profits, sometimes to absurd multiples of 4 to 5 times the entity's own operating costs and create unsustainable tax outcomes.

This position is conceptually flawed and unsupported by judicial principles. An analogous situation was addressed in the GAP International[115] ruling, where the Revenue attempted to benchmark the Indian subsidiary's remuneration for providing sourcing support services against the FOB value of goods sourced from third parties for the foreign principal, costs over which the Indian entity had no ownership or risk. The ITAT rejected this approach as commercially unrealistic, holding that remuneration must be linked only to the entity's own operating costs when it performs coordination or oversight functions without assuming economic risk.

The same logic can be applied in a BOT structure: the BOT partner's workforce is contractually employed, supervised and remunerated by the independent service provider, and the Indian subsidiary neither controls their employment terms nor bears delivery risk. Including these third-party costs in the subsidiary's cost base would distort its economic profile and violate established arm's-length principles. The appropriate approach is to benchmark the Indian subsidiary independently, recognising that it performs high-value oversight rather than operational execution, warranting a suitable mark-up on its own cost base, not on the BOT partner's expenses. However, in the absence of appropriate documentation, the possibility of litigation at a lower level on this issue cannot be ruled out.

Indirect Tax and Incentive Schemes for GCCs

Schemes like Special Economic Zones ('SEZ') and Software Technology Parks of India ('STPI') make location a strategic variable. SEZs remain the most efficient from a GST standpoint, offering duty-free import of goods, complete GST exemption on domestic procurements, and zero-rated treatment for export services without necessitating refund claims. The absence of GST accumulation materially improves cash flow, though SEZs require units to maintain positive Net Foreign Exchange.

STPI units, although no longer eligible for direct tax holidays, continue to benefit from zero-rating of export services and upfront duty exemption on imports. GST refunds are generally available on domestic procurements, although refund timelines must be factored into working capital planning.

114. (2007) 292 ITR 416 (SC)
115. [TS-667-ITAT-2012(DEL)-TP]

In addition to indirect tax optimisations at the centre level, state governments have become pivotal actors in the GCC landscape, with several introducing structured GCC policies addressing both capital and operational needs.

Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu, Uttar Pradesh, and Maharashtra have rolled out GCC-specific policies offering combinations of capital subsidies, op-ex subsidies, payroll incentives, stamp duty, electricity duty exemptions and fast-track regulatory clearances, amongst others. These incentives substantially reduce the entry and operating costs of GCCs, especially in Tier-2 cities where real estate costs and attrition rates are lower. State policies are also increasingly coordinated with infrastructure initiatives, digital skilling programs, and local talent development mandates, thereby creating differentiated value propositions for GCC investors. These fiscal levers are increasingly shaping location decisions, particularly as Tier-2 cities emerge as viable cost-efficient alternatives.

Conclusion

As GCC models evolve and BOT structures become more prevalent, the tax and transfer-pricing focus is shifting from mere entity setup to the quality of functional allocation, documentation and behavioural discipline. Clear governance boundaries, well-evidenced oversight roles and a defensible arm's-length remuneration model together form the strongest safeguards against both PE allegations and inflated profit-attribution claims. At the same time, indirect tax considerations and incentive architectures have become equally influential in shaping GCC operating models, with SEZs, STPIs and state-level GCC policies materially reducing frictional tax costs, improving cash flows and strengthening location advantages. Ensuring that the Indian subsidiary is compensated on its own cost base, and not on the BOT partner's operational costs, remains fundamental in maintaining alignment with OECD principles and Indian jurisprudence. Ultimately, a thoughtfully designed TP framework, coupled with consistent on-the-ground conduct, allows multinationals to confidently scale GCC operations in India while maintaining tax certainty and compliance resilience.

Tariff Imposition by the U.S. and Recalibration of India's Trade Policy[116]

India's trade landscape witnessed a notable evolution in 2025, driven primarily by the United States' pivot toward an assertive reciprocal tariff regime embedded within a broader protectionist economic strategy. This global shift created an environment that encouraged India to accelerate its own strategic diversification efforts through new FTAs and liberalised regulatory measures. As reciprocal tariffs reached 50 percent by late August, India operationalized its EFTA Trade and Economic Partnership (effective October 2025), finalized the landmark India-UK FTA (July 2025), and advanced EU FTA negotiations toward year-end closure. India also accelerated regulatory modernization through the suspension of nearly 50 Quality Control Orders, addressing trade concerns about non-tariff barriers.

Beyond market diversification, India undertook a calculated geopolitical recalibration, with a strategic shift in China relations, and a reinforcement of the Russia partnership despite U.S. pressure on fuel imports.

These shifts mark 2025 as a pivot in India's transition from single-market trade dependency to a distributed and robust export ecosystem anchored across multiple strategic partnerships.

The Tariff Escalation: From 25% to 50%

The Trump administration's initial notification on reciprocal tariffs established a 26 percent levy on Indian goods.[117], subsequently adjusted to 25 percent, for most goods under the International Emergency Economic Powers Act (IEEPA). This reciprocal tariff framework fundamentally shifted U.S. trade policy from an MFN-based liberalisation approach to a clear protectionist framework.

In July 2025, this framework escalated significantly. President Trump announced an additional 25 percent penalty tariff on Indian goods, citing India's continued Russian crude oil imports as contradicting the US sanctions policy. Effective August 27, 2025, this created a composite 50 percent tariff burden on most Indian products reaching to the US, which were among the highest globally.

Additionally, the U.S. notified expanded steel, aluminium and copper tariffs of 50 percent, exercising its power under Section 232 of the Trade Expansion Act of 1962. The list of covered products was expanded by the Bureau of Industry and Security to include 400+ derivative products.

Further sector-specific tariff imposition of 25% was done on Automobiles and Automobile Parts.[118]. Further investigations for the application of Section 232 tariffs have been launched in the key product areas, including timber, semiconductors, pharmaceuticals, critical minerals, heavy trucks, aircraft, drones, etc.

Important to highlight that the Presidential power to impose reciprocal tariffs is already under challenge before the U.S. SC, with the hearing ongoing.

Sectoral Impact

According to the Global Trade Research Initiative (GTRI), sectors such as gems and jewellery, textiles, seafood, chemicals, and auto components are most affected. As per other analytics, Indian exports to the US decreased 12% year-on-year, reducing the US share of total Indian exports from nearly 24% to 15%. This decline reduced overall export growth by 4.2 percentage points despite India achieving 6.7% overall export growth through increased shipments to other jurisdictions like the UAE, China, Hong Kong, the U.K., Bangladesh and Spain.

Labour-intensive and small-scale sectors faced the steepest tariff rates, often exceeding 50%, resulting in severe export contractions. Gems and jewellery exports fell 74% year-on-year in September 2025; other MSME-intensive sectors like textiles, ready-made garments, etc., representing nearly one-third of US-bound exports, also recorded a significant decline.

116. This article is authored by Kulraj Ashpnani - Partner, Sangita Prakash - Associate Partner, Ashutosh Mishra - Manager
117. Executive Order 14257 of April 2, 2025
118. Proclamation 10908 of March 26, 2025

The tariff shock across sectors made India vulnerable to temporary export contraction and structural displacement of Indian exporters from global value chains to competitors from other jurisdictions offering lower input costs and fewer regulatory frictions. To address the market access constraints, India explored a sustainable response in FTA-enabled market diversification and regulatory modernization to reduce input costs and restore margin viability.

Developments in the India-U.S. Tariff Negotiations

India and the U.S. have been actively engaged in trade negotiations aimed at advancing a bilateral trade agreement (BTA), with the first tranche initially expected to be finalised soon. However, despite several rounds of discussions, the negotiations remain ongoing, with the following key issues, such as agricultural and dairy imports, Russian oil imports in India, etc., under deliberations, which may impact the timeline for formalising the agreement.

India has also formally notified retaliatory duties under WTO provisions in response to U.S. safeguard tariffs on the import of steel, aluminium, copper and auto components.

Strategic Diversification

In response to these tariff escalations, India has taken several steps to ensure that the affected sectors and the broader exporter community are able to withstand the evolving geopolitical situation and continue to grow even in these challenging conditions.

A. Acceleration under Free Trade Agreements

i. *Finalizations of India-UK FTA (July 2025)*– India and the United Kingdom concluded their historic FTA on May 6, 2025, formalized through ministerial signing on July 24, 2025. The agreement grants 99 percent of Indian manufacturing exports immediate or near-immediate duty-free access to UK markets, covering approximately 92 percent of UK import values.

ii. *Operationalization of India-EFTA Partnership Agreement (October 2025)*– India's Trade and Economic Partnership Agreement with the European Free Trade Association – comprising Iceland, Liechtenstein, Norway, and Switzerland, was formally operationalized on October 1, 2025.

iii. *Advanced negotiations under India-EU FTA India*– EU FTA negotiations have progressed substantially throughout 2025, reflecting momentum toward year-end finalization. The deliberations covered a wide range of chapters, including goods, services, investment, trade, sustainable development, rules of origin, and technical trade barriers. It also emphasized the need for clarity and predictability in the implementation of emerging EU regulatory measures, including the Carbon Border Adjustment Mechanism (CBAM) and the proposed new steel regulation.

India explicitly prioritized labour-intensive manufacturing sectors for preferential access and stressed transparent regulatory frameworks, reducing non-tariff barriers. India engaged substantively on EU concerns regarding Quality Control Orders, signalling willingness to undertake regulatory modernization.

B. Product regulatory streamlining

India has also systematically reviewed Quality Control Orders (QCOs) administered by the Bureau of Indian Standards (BIS), directly responsive to partner concerns regarding non-tariff barriers. As of October 2025, India had 190+ Quality Control Orders covering 700+ products. A high-level government panel led by NITI Aayog proposed the suspension of QCOs on over 200 products in early November 2025. Consequently, the Government of India has already suspended/ rescinded withdrew approximately 50 Quality Control Orders covering most of the recommended product categories by November 30, 2025. Review priorities concentrated on sectors including textiles, aluminium, steel, and chemicals, which focus on imported inputs and face bottlenecks due to restrictive QCO regimes.

C. Strategic recalibrations: Geopolitical realignments and the India-China-Russia nexus

A strategic convergence between India, Russia and China is also emerging and expected to reshape the world's economic architecture via the formation of a strategic triad. Each nation is expected to bring its unique strengths to this trinity, viz., China's manufacturing dominance, Russia's energy supremacy, and India's service economy and untapped markets.

This realignment of the economic model began to take shape with India participating in the SCO Summit after a gap of 7 years. This resulted in China lifting rate earth export curbs on India and re-opening of border trade through the three designated trading points. BIS is also expected to resume processing license applications from Chinese manufacturing facilities in the near future.

The trade relations further gained impetus post the Russian President visiting India in December 2025, wherein both nations signed memorandums of understanding broadening trade and collaboration across energy, agriculture, and pharmaceuticals, with a target of achieving $100 billion in bilateral trade by 2030.

Strategic Implications and Forward Outlook

The convergence of U.S. tariff escalation and India's rapid advancement of FTAs reflects a broader strategic recalibration of India's trade posture. As access conditions in the U.S. market tightened, India has proactively diversified its trade relationships, strengthened bilateral partnerships, and expanded its presence across developed and emerging markets.

These shifts indicate a structural transition in India's external trade strategy, from heavy reliance on a single market to a more distributed and resilient export ecosystem. India is also positioning its manufacturing base to integrate more deeply into global value chains.

The strategic diversification undertaken in 2025 marks a long-term reorientation of India's trade architecture, strengthening its capacity to navigate evolving global trade dynamics and enhancing its resilience.

Reforms Shaping India 2026[119]

As the calendar year draws to a close, India finds itself on the brink of sweeping legal and economic reforms that promise to redefine the business environment. The new Income Tax Act, 2025, effective from April 1, 2026, seeks to simplify taxation, reduce litigation, and enhance compliance clarity. Alongside this, the new Labour Codes, expected to become operational from the next financial year, consolidate multiple laws to balance worker welfare with business flexibility, while the GST reforms of 2025 introduce a streamlined two-slab system of 5% and 18%, rationalizing the burden on essential goods and making indirect taxation more transparent.

These sweeping tax and regulatory measures mark only the beginning of India's structural transformation. As the nation aligns itself with the vision of Viksit Bharat, there is a growing expectation that continued reforms built on the same foundation of simplification, transparency, and efficiency will further accelerate the country's growth trajectory. India now stands not just prepared for the opportunities ahead but poised to unlock an even more dynamic and resilient economic future.

This article captures wishlist of reforms that can increase the momentum of India's growth.

Corporate Tax

The industry is expecting a revisit to the anti-abuse provisions that unintentionally trigger taxation in regulated transactions. Corporate actions such as bonus issues, rights issues, capital reductions, open offers, liquidation, debt recovery or insolvency proceedings are subject to mandatory legal processes and should not attract unintended tax consequences.

The current tax framework does not explicitly extend exemptions to fast-track demergers. A specific carve-out would enable companies to pursue inorganic growth in a tax-efficient manner without being compelled to follow a prolonged, NCLT-driven route.

Taxpayers also expect implementation of Niti Aayog's recommendations, including broader presumptive taxation, extended safe-harbour rules and APAs for PE attribution. Further, taxpayers expect reforms in the GAAR framework to ensure its application is limited to transactions involving tax avoidance, rather than every corporate structuring.

The anticipated rules under the 2025 Act are expected to set the groundwork for a smooth transition by enabling technology-driven processes such as AI-assisted TDS reconciliation, an intuitive e-filing portal, faster refunds, and predictable timelines for faceless scrutiny. These improvements can reduce litigation, lower administrative load, and significantly strengthen voluntary compliance. Further rationalization of complex withholding tax provisions would also go a long way in simplifying the compliance burden.

FEMA

With increasing trade and investment flow between the countries, corporates and individuals expect further liberalization in the cross-border regulatory framework. Corporations and individuals hope for a pragmatic relook at the Outbound Investment and Liberalized Remittance Scheme (LRS) limits, with an upward revision of the current limit to account for inflation and evolving global financial needs.

On the outbound investments (ODI) front, businesses expect a more flexible and responsive regime, particularly in relation to financial commitment limits. The RBI is expected to ease the External Commercial Borrowing ('ECB') norms regarding eligible borrowers, recognized lenders, borrowing limits, cost of borrowing, end-use restrictions and reporting requirements to make the process simpler and transparent.

119. This Article is contributed by Mrugen Trivedi - Senior Advisor, Rushi Shah - Principal, Nishi Doshi - Senior Associate and Tapan Jhanwar - Senior Associate

SEBI Regulations

The proposed overhaul of the LODR Regulations is expected to address several long-standing ambiguities, particularly around monetary thresholds for disclosure obligations. SEBI may also introduce tiered turnover thresholds to calibrate reporting and disclosure requirements based on company size, thereby easing the burden on smaller listed entities. Further, the industry anticipates significant simplification in the procedure for promoter reclassification.

On the compliance front, SEBI is expected to roll out an integrated filing portal, enabling listed entities to submit disclosures seamlessly across stock exchanges and depositories.

Succession planning is essential for the smooth transition of business ownership across generations. To facilitate this, stakeholders expect SEBI to clarify that the transfer of listed shares to a family trust established exclusively for the benefit of close relatives does not trigger additional regulatory approvals, provided there is no change in control.

IFSC regulations

While extending tax holiday benefits beyond the current 10-year period remains a key expectation among IFSC stakeholders, enhancing ease of doing business is equally critical for sustaining the ecosystem's long-term growth. The IFSCA is expected to move toward a unified digital platform that consolidates all regulatory filings, significantly reducing compliance burden for market participants. Global institutions exploring a presence in GIFT City continue to prioritize the establishment of a robust international arbitration framework within the IFSC. Additionally, rationalization of regulatory fees is widely viewed as an important step to strengthen competitiveness and attract a broader participant base to the IFSC.

Land Acquisition Reforms

Taxpayers and industry are hopeful that the coming year will bring stronger political commitment and coordinated state-level action to finally push through long-pending land reforms. Systematic modernization of land records, along with the closure of gaps between allotment and actual possession, is seen as critical to improving stakeholders' trust. New institutional mechanisms to detect and curb benami holdings supported by greater involvement of local authorities are widely anticipated. Overall, these reforms are expected to bring much-needed transparency, legal certainty and operational efficiency to India's land governance framework.

Insolvency and Bankruptcy Code

The Insolvency and Bankruptcy Code (Amendment) Bill, 2025 (yet to be enacted), is expected to strengthen India's insolvency framework by empowering creditors, introducing group and cross-border insolvency provisions. Together, these measures signal a modernized legal framework aimed at fostering growth and stability.

Goods and Services Taxes

The "next-generation GST" reforms, initiated in the second half of the year 2025, are expected to shape the GST of 2026. While some measures, primarily concerning rate, have been implemented, other reforms are yet to be notified, which perhaps could be through the Finance Bill, 2026. The GST Council should address all unintended inverted duty scenarios.

Another expectation of the industry is the inclusion of petroleum products (petrol, diesel, natural gas and aviation turbine fuel) within the GST net. All eyes are on the smooth operationalization of the GST Appellate Tribunal (GSTAT) in 2026. An estimated four and a half lakhs appeals are scheduled to be filed – the Tribunal will begin with a backlog, and it is hoped that a plan of action will be formulated to deal with this backlog.

ITC on CSR spends, inward leasing services, canteen services and other such statutory and necessary business expenses deserve a policy relook. On the administrative side, the introduction of Section 74A to the Central Goods and Services Tax Act, 2017, reflects a conscious move towards trust-based tax administration, reinforcing that allegations of mala fide intent should be the exception rather than the norm.

Conclusion

India now stands at an inflexion point where the breadth of anticipated reforms reflects not just administrative intent but a deeper structural shift in the country's economic philosophy. The momentum created by recent legislative overhauls has elevated confidence that the coming year will translate long-pending policy aspirations into actionable improvements for businesses, investors and individuals alike.

Yet the true measure of progress will lie in how effectively these reforms are implemented on the ground. If executed efficiently, the next reform cycle will have the potential to redefine India's regulatory architecture, unlock new avenues for investment, and accelerate the country's transition towards a more competitive and resilient economy, firmly advancing the national aspiration of Viksit Bharat.

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