nexdigm

Tax Street

A flagship publication that captures key developments in the areas of Tax and Regulatory environment

ITR WORLD TAX
RECOMMENDED FIRM
2025

December 2025

Introduction

Tax Street

We are pleased to present the latest edition of Tax Street – our newsletter that covers all the key developments and updates in the realm of taxation in India and across the globe for the month of December 2025.

- The 'Focus Point' elaborates upon processing of income-tax return and related notices
- Under the 'From the Judiciary' section, we provide in brief, the key rulings on important cases, and our take on the same.
- Our 'Tax Talk' provides key updates on the important tax-related news from India and across the globe.
- Under 'Compliance Calendar', we list down the important due dates with regard to direct tax, transfer pricing and indirect tax in the month.

We hope you find our newsletter useful and we look forward to your feedback.

You can write to us at taxstreet@nexdigm.com. We would be happy to hear your thoughts on what more can we include in our newsletter and incorporate your feedback in our future editions.

Warm regards,
The Nexdigm Team

Focus Point

Processing of Income-tax Return, Related Notices and Way Forward

Filing an Income-tax Return (ITR) is only the first step in compliance. After submission and verification, the return is processed by the Income-tax Department and taxpayers may receive communications or notices. Understanding the process helps ensure timely responses, avoids unnecessary stress and reduces the risk of penalties.

Below, we explain how the return is processed, the notices that may arise and the appropriate actions to take

Processing of Income-tax Returns

Once an ITR is filed and verified, it is processed by the Centralized Processing Centre (CPC) under Section 143(1) of the Income-tax Act. During this process, the CPC:

- Verifies arithmetical accuracy
- Matches income and tax payments (TDS, TCS, Advance Tax) with Form 26AS, AIS, and TIS
- Examines eligibility of deductions and exemptions

Based on this verification, the CPC computes tax payable or refund due. Following processing, an Intimation under Section 143(1) is issued, which may either accept the return as filed or show adjustments, resulting in a refund, tax demand, or no change. Common reasons for adjustments include:

- Mismatch in TDS or advance tax
- Incorrect deduction claims
- Arithmetical or clerical errors

Tax-payers should carefully review the intimation to confirm that all income, deductions, and tax credits are correctly reflected as per the Return of Income (ITR). For refunds, it is also important to verify that interest under Section 244A (if applicable) has been calculated accurately.

Way Forward

- If the intimation is correct, no action is required.
- If errors are identified, a rectification request under Section 154 should be filed within the prescribed time.
- If the adjustment is not permissible under Section 143(1), involves legal interpretation, or cannot be rectified, an appeal can be filed with the Commissioner of Income-tax (Appeals) within 30 days of receiving the intimation.

Proposed Adjustment under Section 143(1)(a)

Before making any adjustment during the processing of a return under Section 143(1), the Income-tax Department may issue an Intimation for Proposed Adjustment under Section 143(1)(a). These proposed adjustments generally arise when there is a difference between the figures reported in the tax audit report and the income or deductions declared in the filed return. Such adjustments may include disallowance of deductions or exemptions, corrections of apparent inconsistencies, or mismatches in income or tax credits based on the information available to the CPC.

The purpose of this intimation is to provide the tax-payer, an opportunity to respond before the adjustment is finalized. Tax-payers are required to examine the proposed adjustment carefully and submit their response online within the prescribed time, generally 30 days. If the tax-payer agrees, the adjustment will be made while processing the return. If the tax-payer disagrees and submits a proper explanation with supporting details, CPC may drop the proposed adjustment after due consideration.

Way Forward

- Review the proposed adjustment thoroughly with reference to the ITR filed.
- Respond within the specified time through the income-tax portal. Failure to respond may result in the adjustment being made automatically.
- Provide clear explanations and relevant supporting documents while disagreeing with the proposal.
- If the adjustment is made despite a valid response, the tax-payer may subsequently seek rectification under Section 154 or file an appeal before the Commissioner of Income-tax (Appeals), as applicable.

Timely and accurate response to a proposed adjustment notice under Section 143(1)(a) can prevent incorrect demands and unnecessary litigation.

Notice under Section 139(9) – Defective Return

A return may be considered defective due to missing information, incorrect ITR form selection, or non-submission of required statements (e.g., balance sheet)

Way forward:

- Rectify the defect within the specified time (generally 15 days)
- Failure to respond may render the return invalid and lead to non-compliance

Messages and Nudges from the Income-tax Department – CBDT's NUDGE Initiative

In addition to formal notices, tax-payers may also receive SMS or e-mail communication from the Income-tax Department as a part of the CBDT's NUDGE (Non-Intrusive Usage of Data to Guide and Enable) initiative. In December 2025, the CBDT issued a press release out-lining a targeted, risk-based compliance drive under this framework, reflecting the Department's increasing use of data analytics and risk management systems to identify potential inaccuracies in ITRs.

Under this initiative, cases for Assessment Year 2025–26 were identified where deductions or exemptions appeared potentially ineligible based on system-based risk indicators. Key areas flagged included claims of bogus donations to Registered Unrecognized Political Parties (RUPPs), quoting of incorrect or invalid PANs of donees, and errors in the extent or eligibility of deductions and exemptions claimed. These indicators suggested possible under-statement of income or ineligible refund claims.

Way Forward

With the due date for filing revised returns having expired on 31 December 2025, taxpayers who did not act on these nudges may still consider filing an updated return from 1 January 2026, subject to payment of additional tax, as permitted under the Income-tax Act.

General Guidance for Taxpayers

- Always verify notices on the official income-tax portal
- Adhere strictly to response deadlines
- Maintain records of filings and acknowledgements
- Avoid ignoring communications from the department
- Seek expert advice where matters involve interpretation or large amounts

Conclusion

- Income-tax notices are a part of the compliance eco-system and when handled properly, can be resolved smoothly. Timely response, correct documentation, and professional guidance go a long way in avoiding penalties and prolonged litigation.
- For any assistance in responding to income-tax notices or understanding return processing, tax-payers are advised to consult their tax advisor.

From the Judiciary

Direct Tax

Whether off-shore supply of equipment and off-shore design services by a foreign consortium member, executed under FOB contracts, can be taxed in India on the allegation of existence of a Permanent Establishment (PE)?

Alstom Transport SA [TS-1595-ITAT-2025(DEL)]

Facts

The Assessee-company was incorporated in France and was a tax resident of France. During the period relevant to assessment year under appeal, the Assessee had entered into international transactions with Delhi Metro Rail Corporation (DMRC) and Bangalore Rail Corporation Ltd. (BMRCL) for design, manufacture, supply, installation, testing, commissioning of 'Train Control, Signaling and Telecommunication Systems'.

The Assessee along with other consortium partners had entered into contract with DMRC and BMRCL. The Assessee had received payments in respect of off-shore supply of equipment and spare parts and off-shore designing and other services. The Assessee claimed that receipts in respect of off-shore designing and other services were not taxable in India.

The role of the Assessee under the consortium was restricted to off-shore supply of equipment/spares and off-shore design and engineering services. Invoices for off-shore supply were raised on FOB basis, where the title and risk in goods were passed outside India. The activities of installation, erection and commissioning in India were carried out by Indian consortium members, who were paid separately in INR.

AO's Arguments

- The Revenue contended that the Assessee had a PE in India on the ground that the Assessee was continuously involved in execution of metro rail projects in India.
- It was alleged that the off-shore supply of equipment and the off-shore design and engineering services were connected with activities carried out in India, income arising through it, is taxable in India.

Assessee's Arguments

- The AO placed reliance on earlier directions issued by the Dispute Resolution Panel (DRP) and proceeded on the same basis, without undertaking an independent or fresh examination of the consortium agreements and contractual arrangements for the relevant assessment years.
- It was emphasized that the Assessee was not the consortium leader and did not have any fixed place or installation PE in India.
- The Assessee further submitted that the off-shore supply transactions were completed outside India, with transfer of title and risk-taking place on an FOB basis.
- It was also stated that the off-shore design and engineering services were inseparably linked to the off-shore supply of equipment and therefore followed the same tax treatment.
- Additionally, the Assessee pointed out that the Assessing Officer had failed to comply with the earlier remand directions of the ITAT, which required a fresh and independent examination of the consortium contracts before drawing any conclusion on the existence of a PE.

Held

The Tribunal held that the Revenue failed to establish the existence of a PE in India for the relevant AY. It was observed that neither a Fixed Place PE nor an Installation PE was made out, and accordingly, the issue was decided in favor of the Assessee on the basis of the following reasons:

- The AO mechanically followed earlier assessment orders and DRP directions without carrying out a fresh and independent examination of the consortium agreements and contractual arrangements.

- The Assessee was not the consortium leader and did not exercise control over onshore installation activities carried out in India by Indian consortium members.
- Offshore supply transactions were completed outside India, with title and risk in the goods passing outside India on an FOB basis, negating any business connection in India.
- Installation, erection, and commissioning activities were undertaken exclusively by Indian consortium members, who were separately compensated for such activities.

Our Comments

The ruling highlights that offshore supplies executed on FOB basis and ancillary offshore services cannot be taxed in India in the absence of a year-specific PE in India and PE cannot be inferred merely from consortium participation or past assessments.

Whether DDT paid by taxpayer is to be governed by DTAA or to be dealt with only in accordance with Section 115-O of the Act?

Colorcon Asia Pvt. Ltd [TS-1623-HC-2025(BOM)]

Facts

Colorcon Asia Pvt. Ltd. (Assessee) is a wholly owned subsidiary of Colorcon Limited, United Kingdom (Colorcon UK). Colorcon UK was a tax resident of UK with a valid Tax Residency Certificate. The tax-payer paid dividend to Colorcon UK during Assessment Years 2016- 17 to 2019-20.

The tax-payer consequently paid DDT thereon at the rate specified under Section 115-O of the Act. The tax-payer filed an application before the Board for Advance Ruling ("BFAR") seeking an advance ruling on whether Colorcon India would be entitled to restrict the tax rate on dividends distributed to Colorcon UK at 10 per cent under Article 11 of the India-UK DTAA.

The BFAR held that the dividend tax rate prescribed under Article 11 of India-UK DTAA shall not restrict the tax rate of DDT. The BFAR observed that DDT does not fall within "Taxes covered" under Article 2 of India –UK DTAA and thus the same is outside the scope of DTAA between India and UK.

Aggrieved by this, the tax-payer filed an appeal before Bombay High Court (Bombay HC) against the BFAR ruling.

Assessee's Arguments

- DDT is nothing but tax on dividend (which is income of the shareholder) whose incidence has been shifted to the distributing company as per the provisions of Section 115-O. There is no change in its substantive concept or definition, and the shifting has occurred for "administrative convenience" only. Reliance was placed on the Supreme Court's decision of UOI v. Tata Tea[1] which held that DDT is tax paid on dividend itself.
- DDT is an "Additional tax" covered by the definition of "tax" as defined in Section 2(43) of the Act, which falls within the ambit of charging Section 4 of the Act. Section 4 of the Act operates subject to other provisions of the Act including Section 90. Consequently, the tax-payer argued that the provisions of the DTAA would operate even if inconsistent with the provision of the Act as per Section 90 supported by various jurisprudence.
- The tax-payer argued that being resident in India, it is eligible to seek relief under Article 1 of the India-UK DTAA. It was further argued that Article 2 of the DTAA has enlisted the taxes covered and it covers "Income Tax" including any surcharge thereon under the definition of "Tax" for the purpose of "Taxes covered in India". Article 2 also provides that the DTAA to apply to any identical or substantially similar tax in addition to or in place of tax.
- Furthermore, the tax-payer also contended that it satisfies all the conditions provided in Article 11 for restricting the tax rate on dividend to 10%.
- Any unilateral change made in the Act over the years merely in relation to the incidence of tax cannot alter or overwrite the beneficial provision of the DTAA. Reliance was placed on the Supreme Court decision in the case of Engineering Analysis Centre of Excellence (P) Ltd. v. CIT. [2]
- The taxpayer also relied upon the decision of Delhi ITAT in Giesecke & Devrient (India) (P.) Ltd. v. ACIT.[3] in support of its contention that the DDT rate is subject to tax rate provided under the DTAA.

Revenue's Arguments

- As per Section 115-O of the Act, it is evident that the incidence as well as charge in respect of DDT is only on the domestic company that declares, distributes, or has paid the dividend.
- DDT is an "additional income tax" on the domestic company and cannot be construed to mean as "tax" in the hands of non-resident shareholder earning dividend income. Reliance was placed on the Supreme court's decision in the case of Godrej and Boyce Manufacturing Company Limited v. DCIT.[4]
- The India-UK DTAA is silent and does not contemplate DDT as a tax on shareholders, similar to Indo-Hungary DTAA which specifically provides in the protocol that tax on distributed profits shall be deemed to taxes in the hands of the shareholders.
- Since there are no further terms or mutual agreement settling the mode of application of the limitations imposed in Article 11 by the DTAA itself, it cannot be held that rate of tax provided under Article 11(2)(b) of DTAA will supersede rate provided by Section 115-O.
- Under the scheme of tax treaties, no tax credit is envisaged in the hands of shareholders in respect of DDT payable and thus it cannot be equated with a tax paid by or on behalf of the shareholder.

[1] [2017] 398 ITR 260 (SC)
[2] [2021] 432 ITR 471 (SC)
[3] TS-522-ITAT-2020(DEL)
[4] TS-176-SC-2017

Held

- The DDT qualifies as an "additional tax" under Section 2(43) of the Act and thus falls within the ambit of the charging provision in Section 4, making it eligible for relief under Section 90 pursuant to the applicable DTAA. The Court further emphasized that a DTAA, being a mutual agreement between countries, must be given full effect, and unilateral domestic amendments cannot override or diminish the relief provided under the treaty.
- Since the Assessee satisfies all the conditions provided in Article 11 of the DTAA, DDT is specifically mentioned in Article 11 of the DTAA. Further, on a plain reading of Article 11, it is evident that the person on whom the tax on dividend is levied is an irrelevant and extraneous consideration for its application.
- Bombay HC distinguished the Supreme Court decision in the case of Godrej & Boyce (supra) by noting that the Supreme Court was dealing with disallowance under Section 14A of the Act, which is in a completely different context. The Bombay HC also observed that the decision of Total Oil India (P) Ltd. (supra) was also not well founded.
- Basis the above, the Bombay HC held that the DDT paid by Colorcon India would be governed by Article 11 of the India-UK DTAA and consequently, the dividend income shall be subject to a concessional tax rate of 10% in India.

Our Comments

The Bombay High Court has reaffirmed the principle that treaty provisions under Section 90(2) override domestic law where they are more beneficial to the Assessee. The Court has provided clarity on the interplay between domestic tax provisions and international treaties. This ruling sets a strong precedent for similar disputes involving cross-border dividend payments during the DDT regime.

Quotes and Coverage

2-day full and final settlement post employee's resignation now mandatory under Labour Codes — What it means for employers

Financial Express | Ramachandran Krishnamoorthy
30 November 2025
https://bit.ly/4sRTYTS

8th Pay Commission salary, pension hike: When will govt employees receive 8th CPC payments?

Economic Times | Ramachandran Krishnamoorthy
4 December 2025
https://bit.ly/4qYkUzg

Customs clean-up next: How India plans to simplify duties and cut costs

Mint | Prabhat Ranjan
9 December 2025
https://bit.ly/49GSram

Labour codes 2025: How your wage structure will change now – check impact on salary structure, PF, tax

Business Today | Ramachandran Krishnamoorthy
11 December 2025
https://bit.ly/4sLsSh9

AI Driven Supplier Risk Management: Banking Sector in India

CXO Today | Arjit Agarwal
12 December 2025
https://bit.ly/3LJYm6t

Indirect Tax

Whether uploading of show cause notices or adjudication orders on GST common portal by itself amounts to effective 'communication' to trigger limitation?

Bambino Agro Industries Ltd. and Others vs. State of Uttar Pradesh and Another [TS-1033-HC(ALL)-2025-GST]

Facts

- In a batch of writ petitions, the Allahabad HC was called upon to delve into the complaints / grievances raised by petitioners that they had not been served or communicated the show cause notice and / or adjudication orders issued by the State revenue authorities.
- As per the State revenue authorities, they have disbanded the practice of service of physical notices (through process server and post) since Section 169(1)(c) and (d) permit the revenue authorities to serve notices and orders on the registered tax-payers through electronic mode, except where registration itself may have been cancelled.

Ruling

- Going through the provisions of Section 169, HC acknowledged that service of notice and orders via electronic means is permissible and valid. No priority exists among the five service methods outlined in Section 169(1), viz. direct tendering, service by registered post/speed post with acknowledgement due, email, publication in newspaper, or affixation.
- However, uploading documents on the common portal cannot be equated with these statutory modes, particularly in the absence of a clear legislative deeming fiction treating portal upload as service.
- The Court also rejected Revenue's reliance on the Information Technology Act, 2000 to deem service completion upon electronic availability on the portal. It held that the IT Act would apply only to matters not squarely covered under the Central / State GST Acts and cannot override the specific service modes under Section 169.
- Moreover, HC held that to the extent there is no system-generated acknowledgement or confirmation that the addressee has retrieved or downloaded the notice / order dispatched through electronic mode, no inference may be drawn as to the actual date and time of such service for the purposes of limitation. Also, no useful purpose may ever be served in enquiring about the same as it would involve impractical and wasteful deep forensic investigation.
- Accordingly, it concluded that effective 'communication' of the show cause notices and adjudication orders may be governed by actual or constructive 'communication' to the Assessee – of the contents of such notices and orders, strictly in terms of Section 169 specifically for the purpose of filing appeal or raising other challenge to an adjudication order, etc.
- Wherever an Assessee files an appeal declaring that it is within time from the date of actual communication, a presumption may arise in their favor, and the burden to prove otherwise would lie on the Revenue.
- Further, the Court directed, "*To avoid any conflict with respect to start point of limitation, it is provided - wherever the date of 'communication' may be determined or be claimed through electronic and physical mode, the date of communication through offline/physical mode may prevail over service through electronic mode, unless the contrary is proved, by either party.*"
- In view of the above, the HC allowed the writ petitions by concluding that mere uploading of notice or order on the common portal does not by itself amount to effective communication to trigger limitation period.

Our Comments

This judgement attains significance as it seeks to address the widespread practical challenges being faced by taxpayers vis-à-vis communication of notices and orders issued by the GST authorities.

The judgement underscores the importance of natural justice principles to protect the tax-payers' rights and to mitigate instances of ex-parte orders or time-barred appeals or initiation of recovery.

In line with the aforesaid verdict, it is recommended that taxpayers should document the actual date of receipt / downloading of electronic communication so that the statutory remedies are not curtailed

Alerts

MCA Rationalizes Yearly Director DIN KYC Compliance
2 January 2026
https://bit.ly/4pKzsBA

Key Highlights of GST Notification and Clarification Circulars in December 2025
7 January 2026
https://bit.ly/4a20OP2

Transfer Pricing

Deletion of Transfer Pricing Adjustment for payment of royalty under aggregation approach

Hi-Lex India Private Limited. [ITA no. 4288 / DEL / 2024] for Assessment Year (AY) 2020-21

Background

The Assessee has been engaged in the business of manufacturing mechanical control cables and window regulators for automobile industries.

The following international transactions of the Assessee were subject to Transfer Pricing (TP) assessment for AY 2020-21:

- Purchase of raw materials
- Purchase of spare parts
- Sale of goods
- Purchase of capital goods
- Payment of technical consultancy fee
- Payment of royalty

Considering the above transactions to be intrinsically linked, they were analysed by the Assessee by adopting aggregation approach using the Transactional Net Margin Method (TNMM) as the most appropriate method.

The Ld. Transfer Pricing Officer (TPO) during the course of the assessment proceedings rejected the economic analysis adopted by the Assessee and proposed a transfer pricing addition. The TPO also challenged the Assessee's approach to benchmark the international transaction of payment of royalty based on aggregate approach.

On a without-prejudice basis, the Assessee submitted a CUP analysis to benchmark payment of royalty transaction using 3 independent agreements with an average royalty rate of 6.17% of net sales, as against 3% in the Assessee's case. However, the Ld. TPO selected 5 comparables with an average royalty rate of 2.6% and proposed a transfer pricing adjustment for the differential royalty rate.

The Assessee filed an objection before Honorable Dispute Resolution Panel (DRP) wherein Hon'ble DRP upheld the adjustment made on account of the international transaction of payment of royalty by adopting transaction by transaction analysis.

Aggrieved by the Hon'ble DRP's directions, the Assessee filed an appeal before the Hon'ble Income Tax Appellant Tribunal (ITAT).

Contention of the Assessee before the Honorable ITAT:

The Assessee contended that the operating profit margin earned by the Assessee has already been held to be at arm's length by the Ld. TPO while passing the order based on Hon'ble DRP's directions. The said margin includes payment of royalty for the year under consideration as an operating expense. The Assessee contended that since the Profit Level Indicator (PLI) under the combined benchmarking approach for all international transactions, including payment of royalty, was accepted by the Ld. TPO to be at arm's length, no separate benchmarking for the royalty transaction was warranted. The Assessee placed its reliance on various judicial precedents to support its contention.

Revenue's contention before the ITAT:

The Revenue contented that payment of royalty being a separate international transaction is required to be benchmarked separately and hence the Ld. TPO has correctly benchmarked the said transaction.

Held by the Honorable ITAT:

The Hon'ble ITAT observed that the operating profit margins earned by the Assessee has already been held to be at arm's length basis the final order passed by the Ld. which includes payment of royalty as an operating expense.

Hon'ble ITAT placing reliance on judicial precedent in the case of Hon'ble High Court (HC)[5], opined that a separate adjustment pertaining to the international transaction of payment of royalty is not warranted, since, the Ld. TPO has already determined the aggregated transaction to be at arm's length which includes payment of royalty as an operating expense and thereby deleted the additions made in relation to the transaction relating to the payment of royalty.

Our Comments:

Each method for determining the arm's length price is a separate and complete test for evaluating an international transaction. While royalty transactions shall typically be analyzed on a transaction-by-transaction basis, particularly where they are independently identifiable and comparable data is available. However, an aggregation approach may be adopted where the royalty transaction is closely linked with other international transactions and cannot be reliably evaluated separately. The choice of approach depends on the facts, functional inter-linkage, and reliability of benchmarking.

[5] MagnetiMarelli Powertrain India Private Ltd. Vs. DCIT (2016) 75 taxmann.com 213 (Delhi)

Tax Talk

Indian Updates

Direct Tax

M&A Tax Update

ITAT Delhi Upholds Cost & Indexation Benefits for Shares Received via Family Settlement and Tax-Neutral Demerger

181 taxmann.com 423 (Delhi - Trib.)

Facts

The Assessee, KCT Papers Ltd., was part of a court-approved group restructuring involving demerger under Sections 391–394 of the Companies Act. Pursuant to the scheme, the Assessee received equity shares of Ballarpur Industries Ltd. (BILT), which were originally held by the demerged company. Subsequently, BILT undertook a buy-back of its shares, and the Assessee tendered its shares under the buy-back offer, giving rise to capital gains for AY 2008-09.

The Assessing Officer computed capital gains under Section 46A but denied the benefit of indexation and period of holding from the previous owner, treating the date of demerger as the date of acquisition. The Commissioner (Appeals) allowed the Assessee's claim, leading to Revenue's appeal before the Tribunal.

Assessee's Arguments

The assessee contended that:

- The receipt of shares pursuant to a court-approved demerger is not regarded as a "transfer" under Section 47.
- In terms of Section 49(1)(iii)(e), the cost of acquisition and the period of holding of the shares must be taken as that of the demerged company.
- Consequently, for computing capital gains on buy-back under Section 46A, indexation must be allowed from the date when the previous owner acquired the shares.

Revenue's Arguments

The Revenue argued that the Assessee acquired the shares only on the appointed date of demerger, and therefore the cost and holding period should begin from that date. Indexation prior to demerger was not permissible, particularly when the gains arose from a buy-back.

Tribunal's Findings

The ITAT Delhi dismissed the Revenue's appeal, holding that:

- Buy-back of shares is expressly treated as a transfer under Section 46A, but the mode of acquisition of shares remains governed by Sections 47 and 49.
- Where shares are acquired through a tax-neutral demerger, the Assessee steps into the shoes of the previous owner for both cost and holding period.
- The Assessee was therefore entitled to indexation from the date the shares were originally acquired by the demerged company.
- The computation adopted by the Assessing Officer was contrary to the statutory scheme and settled law.

Capital Reduction and Share Cancellation: ITAT Delhi Affirms Actual Cost and Disallows Section 50CA Invocation

ITA No.2261/Del/2022.

Facts:

RBS AA Holdings (Netherlands), a Dutch tax-resident company, held 23.10 crore shares in its Indian subsidiary, RBS Prime Services (India) Pvt. Ltd., acquired in FY 2013-14 at INR 13.02 per share. In FY 2017-18, 14.67 crore shares were cancelled under a capital reduction scheme approved by the NCLT, for INR 10.09 per share. The Assessee treated this as a transfer of capital asset and claimed a long-term capital loss by applying Section 48 of the Income-Tax Act, computing full value at actual consideration and cost at INR 13.02 per share. Further, dividend income of INR 53.94 crore was claimed exempt under Section 10(34). The AO rejected this computation and assessed capital gains of INR 378.9 crore. The DRP upheld the AO's view, and the matter was appealed before the ITAT.

Assessee's Arguments

The Assessee contended that:

- The actual purchase price (INR 13.02) should be the cost of acquisition, not face value.
- Section 50CA should not apply because the actual consideration was higher than fair market value; the valuation report supported this.
- Dividend received should be excluded from value to avoid double taxation.
- The transaction was bona fide, not a colorable device for tax avoidance.

Revenue's Arguments

- Used face value (INR 10) from financials as cost basis.
- Re-computed fair market value under Rule 11UA, invoking Section 50CA.
- Alleged tax avoidance arrangement to re-patriate funds.

Tribunal's Findings

The ITAT Delhi dismissed the Revenue's appeal, and held that:

- The Assessee purchased the shares legitimately in 2013 and reflected cost in books; no tax avoidance found;
- Section 50CA was inapplicable as actual consideration exceeded fair market value;
- The appeal was allowed, granting relief to the Assessee.

Accordingly, the long-term capital loss claimed by the Assessee was upheld.

Upcoming Events and Webinar

India Taxation Summit 2026
23 January 2026
Biz Integration | Maulik Doshi, Prabhat Ranjan

When the Tiger Roared: A Tax Ruling That Shook Global Investors
27 January 2026
Nexdigm | Maulik Doshi
https://bit.ly/49D4CX1

Key Highlights of Union Budget 2026
03 February 2026
Nexdigm | Amit Amlani

Decoding Union Budget 2026
04 February 2026
Nexdigm & Centrum | Shraddha Shah

Tax Talk

Indian Updates

Indirect Tax

Customs

Extended Sea Cargo Manifest and Trans-shipment Regulations (SCMTR) timelines and enhanced compliance requirements

Notification No. 79/2025-Customs (N.T.) dated 31 December 2025
Circular No. 30/2025-Customs dated 3 December 2025

The transitional period under SCMTR, 2018 has been extended till 31 March 2026, requiring continued electronic filing of accurate declarations in the prescribed SCMTR format. Stuffing messages were made live for all locations from 25 September 2025. Further, DG Systems will onboard SEZ units and complete remaining SCMTR functionalities, while field formations will conduct regular outreach and issue trade notices.

Amendment in tariff concessions under various Foreign Trade Agreements

Notification 50/2025-Customs, Notification 51/2025-Customs, Notification 52/2025-Customs and Notification 53/2025-Customs dated 30 December 2025

The Central Government has recorded its satisfaction that the amendment is necessary in public interest and has accordingly modified the earlier notifications issued for the following FTAs: India-Australia ECTA, India-EFTA (Switzerland), India-EFTA (Norway) and India-EFTA (Iceland). Consequently, importers and other stakeholders must now refer to the amended tariff concessions from the effective date of the notification.

Foreign Trade Policy

Revision in procedure for claiming Deemed Export benefits

Public Notice No. 35/2025-26 dated 10 December 2025

The Government has amended certain provisions to clarify procedures and jurisdiction for claiming deemed export benefits. Applications must now be filed online only in revised forms with the jurisdictional RA or SEZ / EOU authority, after full payment and for a single category of supply. The changes streamline terminal excise duty refunds, Advance Authorization procedures, and eligibility, and are effective immediately.

Standardization of EOU permission formats through new appendices

Public Notice No. 41/2025-26 dated 31 December 2025

DGFT has amended the standard formats for letters and permissions issued to EOUs, effective immediately, while allowing Development Commissioners limited flexibility.The amendment aims to bring uniformity, clarity, and ease of compliance in the administration of the EOU scheme.

DGFT's Market Access Support Scheme funds trade fairs, BSMs and delegations, with online proposals and compliance rules.

Trade Notice No. 19/2025-26 dated 31 December 2025

DGFT has launched Market Access Support (MAS) under EPM – Niryat Disha with immediate effect.
MAS provides structured support for BSMs, trade fairs, exhibitions, and delegations, with strong focus on MSME exports, and is being piloted via the Trade Connect ePlatform. Draft MAS Guidelines have been issued for 30-day stakeholder consultation, alongside pilot implementation, to build a results-driven market access framework.

Import authorisation process for restricted IT hardware under HSN 8471 via IMS portal, valid till 31 December 2026

Policy Circular No. 08/2025-26 dated 17 December 2025

The DGFT has notified the procedure for implementing the Import Management System (IMS) for restricted IT hardware (HSN 8471) for the year 2026. Importers can apply for authorization on the DGFT portal between 22 December 2025 and 15 December 2026, with approvals valid till 31 December 2026. The framework allows multiple applications, amendments during validity, and a mid-term review by MeitY.

Central Excise

Levy of Excise Duty on Chewing Tobacco, Jarda Scented Tobacco and Gutkha based on packing machine capacity

Notification No. 04/2025-Central Excise dated 31 December 2025

Certain tobacco products, including chewing tobacco, jarda and gutkha, have been notified as "notified goods" for the purpose of levy of excise duty under Section 3A, based on the capacity of production. The notification clarifies the scope by expressly including filter khaini and adopting an expansive definition of packing machines to curb potential duty evasion. These provisions will come into effect from 1 February 2026, thereby transitioning the covered manufacturers to a machine-based excise duty levy mechanism.

Maharashtra Industry, Investment and Services Policy - 2025

The Government of Maharashtra, on 31 December 2025 has notified the Maharashtra Industry, Investment, and Services Policy-2025. The policy aims to position Maharashtra as a global business destination, supporting its vision of a trillion-dollar economy by 2030 and "Developed Maharashtra 2047".

Tax Talk

Global Developments

Indirect Tax

European Union advances Carbon Border Adjustment Mechanism (CBAM) implementation

Excerpts from various sources

The European Union finalized the operational framework for the Carbon Border Adjustment Mechanism (CBAM) ahead of its full implementation from 1 January 2026. The mechanism will impose a carbon-linked levy on imports of carbon-intensive goods such as cement, steel, aluminum, fertilizers and electricity. Importers will be required to purchase CBAM certificates reflecting embedded emissions, aligning import taxation with EU domestic carbon pricing. Transitional reporting obligations concluded in December, marking a significant shift in customs-linked indirect taxation across the EU.

China announces reduction of import tariffs on selected goods from 2026

Excerpts from various sources

China announced plans to reduce import tariffs on approximately 935 product categories effective from 1 January 2026. The tariff reductions target advanced manufacturing inputs, medical products, and key consumer goods. The announcement reflects China's strategy to stimulate domestic consumption and industrial upgrading while adjusting its indirect tax framework to support trade liberalization.

Belgium confirms penalty-free transition period for mandatory B2B e-invoicing

Excerpts from various sources

Belgian authorities re-affirmed that mandatory B2B e-invoicing will commence from 1 January 2026, with a tolerance period until 31 March 2026 during which penalties will not be imposed for non-compliance, provided businesses demonstrate reasonable implementation efforts. The announcement provided clarity to tax-payers preparing system changes and internal controls for digital VAT compliance.

Canada publishes updated Customs Tariff 2026

Excerpts from various sources

Canada released its Customs Tariff 2026 in December 2025, out-lining duty rate changes effective from 1 January 2026. The update incorporates scheduled reductions under free trade agreements and technical amendments to product classifications, requiring importers to review compliance and pricing strategies ahead of the New Year 2026.

Transfer Pricing

Exemptions by the Australian Taxation Office (ATO) for public country-by-country reporting (CbCR) obligations

Facts

Australia's public CbCR regime applies to entity/group that is an Australian resident or has an Australian permanent establishment with global consolidated revenue >= AUD 1 billion. The rules apply for years beginning on or after 1 July 2024 wherein affected groups are required to publicly disclose jurisdiction-by-jurisdiction tax and financial information which includes revenue, profits, income tax paid and accrued, employee numbers, and tangible assets.

- **Process:** To avail such exemption, entities must apply in writing, explaining the basis for an exemption and providing supporting evidence and documentation in the prescribed exemption application form. Based on the facts of the case, the Commissioner of Taxation would decide whether to grant a full or partial exemption from public CbCR for the relevant period.
- **Period:** The ATO staff would aim to provide response to the application exemption within 28 days of receiving all the requisite information (unless the application is complex). The ATO staff must engage with the applicant before making an unfavorable decision.
- **Judicial Review:** The ATO will provide the basis for the exemption decision. This type of decision cannot be formally objected to under tax law. However, an entity can ask the Federal Court to review whether the ATO made the decision correctly. The Court cannot replace the ATO's decision, but it can send the decision back to the ATO to be made again according to the law.

Key considerations for exemption:

- **National security concerns:** where disclosure could affect Australia's (or another jurisdiction's) defense, security or law enforcement interests.
- **Legal conflicts:** if public reporting would breach Australian law or lawful obligations in foreign jurisdictions.
- **Commercial sensitivity:** where disclosure could cause severe competitive harm to the entity.
- **Threshold mismatches:** The extent to which public CbCR thresholds in foreign jurisdictions, fluctuations in currency exchange rates, or changes in ownership affect the entity's obligation to comply with public CbCR requirements for the relevant period.

Proposed changes to transfer pricing guidelines for inbound distributors - Australia

Definition of inbound distributor: Inbound distributors are Australian entities within a multi-national group that purchase goods, products, or services from related foreign parties and distribute them into the Australian market. They typically perform routine distribution functions (such as sales, marketing, logistics, and customer support), do not own significant intellectual property, and bear limited commercial risk, with key strategic decisions and valuable intangibles retained off-shore.

The ATO has released its proposed changes in the Practical Compliance Guideline (PCG) dealing with transfer pricing risk and compliance for inbound distribution arrangements. The proposed changes are open for consultation and feedback from interested parties until 13 February 2026. The proposed changes include:

- **Updated profit markers:** The ATO proposes to reduce the Earnings Before Interest and Tax (EBIT) margins of the Life Science (category 1 and 2 only) and Information & Communication Technology (ICT) sectors with the other sectors remaining the same.
- **Inclusion of distributors of digital products or services:** Proposes to include businesses that only distribute digital products or services, not help create them.
- **Focus on value creation:** The proposed guidance includes a revision to the classification of activities that generates incremental value within the life sciences sector (including pharmaceuticals) - indicating that the ATO sees more value creation in that activity and believes it should be rewarded with a higher profit margin.
- **Profit split approach:** The Guidelines clarify that where the most appropriate transfer pricing method is multi-sided, such as a profit split, the guidance may not be relevant to the distribution arrangement.
- **Introduction of "white zone":** Originally, the guidelines did not apply to entities whose arrangements were covered by Advance Pricing Agreement (APA) or had received high assurance within the last 3 years from the ATO during a review. The proposed Guidelines would cover such entities under white zone, provided the arrangement remains covered by an APA or has been reviewed in the last three years. The proposed guidance sets out the inclusion and eligibility criteria for the white zone in detail.

The proposed guidelines provide Australian inbound distributors clarity and assist them in assessing their position within the ATO's risk framework. While many inbound distributors may be classified within the high or medium risk zones, accordingly, it is important for these distributors to revisit and confirm the arm's length nature of their distribution arrangements and to ensure that transfer pricing documentation is prepared or appropriately enhanced to comply with ATO's requirements.

Compliance Calendar

Direct Tax
Indirect Tax

07 January 2026

- Securities Transaction Tax - Due date for deposit of tax collected for the month of December 2025
- Commodities Transaction Tax - Due date for deposit of tax collected for the month of December 2025
- Declaration under sub-section (1A) of Section 206C of the Income-tax Act, 1961 to be made by a buyer for obtaining goods without collection of tax for declarations received in the month of December 2025 in Form 27C
- Due date for deposit of Tax deducted/collected for the month of December, 2025. However, all the sum deducted/collected by an office of the government shall be paid to the credit of the Central Government on the same day where tax is paid without production of an Income tax Challan
- Due date for deposit of TDS for the period October 2025 to December 2025 when Assessing Officer has permitted quarterly deposit of TDS under Section 192, Section 194A, 194D, or 194H

10 January 2026

- GSTR-7 for the month of December 2025 to be filed by person liable to Tax Deduction at Source (TDS)
- GSTR-8 for the month of December 2025 to be filed by E-Commerce Operators liable to Tax Collection at Source (TCS)

11 January 2026

- GSTR-1 for the month of December 2025 to be filed by all registered tax-payers not under QRMP scheme

13 January 2026

- GSTR-6 for the month of December 2025 to be filed by Input Service Distributors (ISDs)
- GSTR-5 for the month of December 2025 to be filed by Non-Resident Foreign Tax-payers
- GSTR-1 for the quarter of October 2025 to December 2025 to be filed by tax-payers under QRMP scheme

14 January 2026

- Due date for issue of TDS Certificate for tax deducted under Section 194-IA in the month of November, 2025 in Form 16B
- Due date for issue of TDS Certificate for tax deducted under Section 194-IB in the month of November, 2025 in Form 16C
- Due date for issue of TDS Certificate for tax deducted under Section 194M in the month of November, 2025 in Form 16D
- Due date for issue of TDS Certificate for tax deducted under Section 194S in the month of November 2025 in Form 16E

15 January 2026

- Due date for furnishing of Form 24G by an office of the Government where TDS/TCS for the month of December 2025 has been paid without the production of a challan
- Quarterly statement of TCS for the quarter ending 31 December 2025
- Quarterly statement in respect of foreign remittances (to be furnished by authorized dealers) in Form No. 15CC for quarter ending December 2025
- Due date for furnishing of Form 15G/15H declarations received during the quarter ending December 2025
- Furnishing of statement in Form No. 49BA under Rule 114AAB (by specified fund) for the quarter ending 31 December 2025

20 January 2026

- GSTR-5A for the month of December 2025 to be filed by non-resident Online Database Access and Retrieval (OIDAR) service providers
- GSTR-3B for the month of December 2025 to be filed by all registered tax-payers not under QRMP scheme

Compliance Calendar

Direct Tax
Indirect Tax

22 January 2026

- GSTR-3B for the quarter of October 2025 to December 2025 to be filed by tax-payers under QRMP scheme and having principal place of business in Category 1 States

25 January 2026

- Payment of tax through GST PMT-06 by tax-payers under QRMP scheme for the month of December 2025

31 January 2026

- Quarterly statement of TDS for the quarter ending 31 December 2025
- Quarterly return of non-deduction of tax at source by a banking company from interest on time deposit in respect of the quarter ending 31 December 2025
- Intimation by Sovereign Wealth Fund in respect of investment made in India for quarter ending December 2025
- Intimation by a pension fund in respect of investment made in India for quarter ending 31 December 2025

10 February 2026

- GSTR-7 for the month of January 2025 to be filed by person liable to Tax Deduction at Source (TDS)
- GSTR-8 for the month of January 2025 to be filed by E-Commerce Operators liable to Tax Collection at Source (TCS)

13 February 2026

- GSTR-6 for the month of January 2025 to be filed by Input Service Distributors (ISDs)
- Uploading B2B invoices using Invoice Furnishing Facility (IFF) under QRMP scheme for the month of January 2025 by tax-payers with aggregate turnover of up to INR 50 million
- GSTR-5 for the month of January 2025 to be filed by Non-Resident Foreign Taxpayers

24 January 2026

- GSTR-3B for the quarter of October 2025 to December 2025 to be filed by tax-payers under QRMP scheme and having principal place of business in Category 2 States

30 January 2026

- Quarterly TCS certificate in respect of quarter ending 31 December 2025
- Due date for furnishing of challan-cum-statement in respect of tax deducted under Section 194-IA in the month of December 2025
- Due date for furnishing of challan-cum-statement in respect of tax deducted under Section 194-IB in the month of December 2025
- Due date for furnishing of challan-cum-statement in respect of tax deducted under Section 194M in the month of December 2025
- Due date for furnishing of challan-cum-statement in respect of tax deducted under Section 194S (by specified person) in the month of December 2025

11 February 2026

- GSTR-1 for the month of January 2025 by all registered tax-payers not under QRMP scheme

- Category 1 states - Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana, Andhra Pradesh, the Union territories of Daman and Diu and Dadra and Nagar Haveli, Puducherry, Andaman and Nicobar Islands or Lakshadweep
- Category 2 states - Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha, the Union territories of Jammu and Kashmir, Ladakh, Chandigarh or Delhi

Easy Remittance Tool

by Nexdigm

Form 15CA/CB Automation

- Review of tax position by experts
- Issuance of bulk certificates through Automated tool
- Repository - Access to entire set of documents
- Access to Detailed transaction wise reports
- Representation Support
- Generation 15CA bulk files & utility to generate Form A2

About Nexdigm

Nexdigm is a privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise, enables us to deliver customized solutions tailored for our clients.

We provide integrated, digitally-driven solutions encompassing Business and Professional Services across industries, helping companies address challenges at all stages of their business lifecycle. Through our direct operations in the USA, Poland, the UAE, and India, we serve a diverse range of client base, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries. By combining strategic insight with hands-on execution, we help businesses not only develop and optimize strategies but also implement them effectively. Our collaborative approach ensures that we work alongside our clients as partners, translating plans into tangible outcomes that drive growth and efficiency.

At Nexdigm, quality, data privacy, and confidentiality are fundamental to everything we do. We are ISO/IEC 27001 certified for information security and ISO 9001 certified for quality management. Additionally, we comply with GDPR and uphold stringent data protection standards through our Personal Information Management System, implemented under the ISO/IEC 27701:2019 Standard.

We have been recognized over the years by global organizations, including the Everest Group Peak Matrix® Assessment, International Tax Review, World Commerce and Contracting, ISG Provider Lens™ Quadrant Report, International Accounting Bulletin, Avasant RadarView™ Market Assessment, and Global Sourcing Association (GSA) UK.
Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to ***Think Next.***

USA Canada Poland UAE India Japan

www.nexdigm.com

Reach out to us at ThinkNext@nexdigm.com

Follow us on