

TAX GURJARI

25-26 - VOL IV - MAR 26



AI IMPACT SUMMIT

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ALL GUJARAT FEDERATION OF TAX CONSULTANTS

Glimpses of Sixth Mofussil Program on 30/01/2026 at Jamnagar
Eminent Speakers : CA Punit Prajapati and CA Shridhar Shah



Glimpses of International RRC at Georgia from 17/01/2026 to 23/01/2026
Eminent Speakers : CA Kartikey Shah and CA S K Sadhwani





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CHAIRMAN'S MESSAGE



**CA (Dr.)
VISHVES A. SHAH**

Dear Readers,

It gives me immense pleasure to present Volume 4 of *Tax Gurjari*, released at a defining moment in the professional calendar. The month of March represents both culmination and commencement—closure of the financial year gone by and preparation for the year ahead. This edition stands as a testament to the collective intellectual strength, dedication, and evolving mindset of our tax professional community.

This volume features well-researched, insightful, and practice-oriented articles covering GST, Income Tax, emerging technological applications, and other contemporary issues that are shaping our profession today. Our enduring objective remains unchanged: to make *Tax Gurjari* a trusted companion for practical guidance, critical analysis, and professional inspiration in an increasingly complex regulatory environment.

I am particularly proud of the contributors to this volume, who have generously shared their expertise, research, and practical insights. Their articles go beyond theory and provide actionable perspectives that members can readily apply in their professional engagements. I extend my heartfelt congratulations and gratitude to each author for enriching *Tax Gurjari* with such depth and relevance.

I invite all readers to share their feedback, suggestions, and ideas, and to actively contribute to future editions of *Tax Gurjari*. Your engagement will ensure that the journal continues to evolve in step with the needs of our profession.

Let us move forward with confidence, collaboration, and optimism—embracing change with preparedness and turning challenges into opportunities for growth.

CA (Dr.) Vishves A. Shah

Chairman, Tax Gurjari Committee

All Gujarat Federation of Tax Consultants



PRESIDENT'S MESSAGE



**ADV.
ASHUTOSH THAKKAR**

Dear Readers,

It gives me great pleasure to present Volume 4 of our *Tax Gurjari*, released at a time when the tax and accounting fraternity stands at the threshold of yet another financial year. The month of March has always carried special significance for professionals, symbolising closure, compliance, and contemplation. March 2026 is no different, as it brings with it the dual responsibility of concluding the financial year while simultaneously preparing for the implications of the Union Budget and the evolving regulatory framework.

The Union Budget for the forthcoming financial year has once again reaffirmed the Government's emphasis on digitisation, transparency, and data-driven administration. While the intent of policy reforms is to simplify processes and enhance compliance, their implementation inevitably throws up interpretational and practical challenges. Professionals are now required to engage deeply with legislative amendments, delegated legislation, and administrative instructions to ensure that businesses transition smoothly into the new regime without unintended exposure or risk.

March also marks one of the most demanding phases of the professional calendar, with year-end tax planning, finalisation of accounts, and a host of compliance obligations converging within compressed timelines.

I express my sincere gratitude to the Authors and Contributors whose insightful articles form the backbone of this volume. Their contributions reflect not only technical excellence but also a deep understanding of ground-level realities, offering readers clarity amidst complexity. Such knowledge-sharing initiatives strengthen our collective capacity to respond effectively to change.

As we step into a new financial year, let us reaffirm our commitment to professional integrity, continuous learning, and constructive engagement with stakeholders. By embracing change with preparedness and foresight, and by contributing actively to the discourse that shapes tax policy and practice, we can continue to uphold the stature and relevance of our profession.

Warm regards,

Adv Ashutosh Thakkar
President
All Gujarat Federation of Tax Consultants



SECRETARY'S MESSAGE



CA PARTH DOSHI

Respected Members of the Prestigious Institution - *AGFTC*,

It is with immense honour and humility that I write to you as the Honorary Secretary of this esteemed federation. Serving in this key position and contributing to such a prestigious institution is a privilege I cherish deeply.

The Tax Professionals' fraternity is widely recognised as one of the most respected communities in society. People look upon us with regard and place their trust in us — a trust that is earned through the guiding light of knowledge we offer, and which we, in turn, draw from the rich knowledge inputs shared by our federation through its various initiatives.

AGFTC's objectives for this year are centred on knowledge enhancement, inclusive outreach, and membership growth. As tax professionals, it is our foremost duty to remain updated in this rapidly evolving knowledge landscape. To that end, the federation is committed to providing our members with ample opportunities to participate in Mofussil programmes, webinars, tax conclaves, and various other knowledge enhancement initiatives.

Tax Gurjari is one of the most novel and valued concepts introduced by the federation for the dissemination of knowledge among tax professionals. This year, we shall be incorporating articles covering recent updates in Tax Laws, Allied Laws, and Artificial Intelligence (AI) — subjects that directly or indirectly impact our members and the broader tax professional community. We also warmly invite our members to contribute insightful, thought-provoking, and practice-oriented articles. Your contributions may be submitted via email at advocateashutoshtakkar@gmail.com. This initiative will serve as an excellent platform to recognise and celebrate the wisdom of young and emerging tax professionals.

The 4th Edition of *Tax Gurjari* features a rich array of subjects, including Assessment Procedure; Tax Byte; A Unified TDS–TCS Ledger; Article on GST; Recent GST Changes Which Every Tax Professional Must Consider; The Supremacy of Procedure and Substance: A Deep Dive into ITAT Mumbai's Landmark Ruling in *Veda Real Estate Corporation (P.) Ltd.*; The Xiaomi Customs Case: Unpacking IP Royalties in Valuation; SEBI's New Related Party Transaction (RPT) Standards: A New Regime in Corporate Governance and Transparency; and AI as Your Personal Assistant in Tax Practice.

I am deeply grateful and sincerely obliged to all the learned experts who have so graciously contributed their articles to the Fourth Edition of *Tax Gurjari* for the year 2025–2026.

I am confident that the articles featured in this edition will serve as a valuable resource, enabling each of you to gain a meaningful edge in knowledge and empowering you to excel in your professional practice.

Happy Reading!

CA Parth Doshi

Hon. Secretary

All Gujarat Federation of Tax Consultants



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1. INTRODUCTION

The assessment procedure under the Income Tax Act, 1961 is not only a statutory system for computing tax liability; it is the operational essence of tax administration in India. It reflects decades of legislative evolution, judicial interpretation, technological innovation, and administrative refinement. Assessments ensure that disclosures made by taxpayers are accurate, verifiable, and capable of sustaining the legal and economic framework of taxation. An in-depth understanding of assessment procedure is indispensable for tax practitioners. The expanding scope of information reporting, cross-database analytics and risk-based selection demands stronger conceptual grounding and procedural clarity.

2. SECTION 139 – RETURN FILING FRAMEWORK

Section 139 is the statutory gateway into the assessment machinery. It governs the obligation to furnish returns, the consequences of delay, the conditions for carrying forward losses, and the compliance expectations from various categories of taxpayers.

1. **Mandatory Filing**

Mandatory filing is not merely a compliance formality. It creates a verifiable financial identity record. Companies and firms are required to file regardless of profitability because their economic existence has continuous tax relevance. A company in loss still undertakes transactions such as asset purchases, borrowing, investment, and inter-company dealings—all of which have implications for future taxation.

2. **Individuals and Thresholds**

Individual filing requirements have evolved from simple income thresholds to activity-based triggers. This aligns with the global shift toward transaction-based compliance. Consider a taxpayer whose total income is below the exemption limit but who has incurred large foreign travel expenditure. Such spending indicates economic capacity inconsistent with low income, justifying compulsory return filing.

3. **High-Value Transaction Triggers**

Examples include:

- Deposits exceeding Rs. 1 crore in current accounts
- Expenditure exceeding Rs. 2 lakh on foreign travel
- Electricity usage exceeding Rs. 1 lakh

These conditions are designed to identify tax potential using economic activity, not just income declared.

4. **Loss Returns: Importance in Practice**

Loss returns can alter tax liability over many years. For example: A business suffering a Rs. 50 lakh loss can potentially save future taxes worth Rs. 15 lakh or more through set-off. If such a return is filed late, the entire tax planning collapses. Hence, Section 139(3) is a compliance deadline with enormous financial implications.

5. Belated & Revised Returns

The legislative trend has been to shorten timelines to encourage early accuracy. A belated return today carries limitations:

- No carry forward of business loss
- Exposure to late fees
- Higher risk of mismatch under AIS/TIS

Revised returns, on the other hand, promote voluntary correction. Illustrative example:

If a taxpayer inadvertently omits interest income from bank deposits but subsequently detects it, the revised return mechanism allows proactive compliance without inviting penalty for concealment.

6. Returns for Special Entities

Sections 139(4A)–(4F) ensure filing by trusts, political parties, universities, hospitals, research bodies, business trusts, and AIFs. Even if income is exempt, their filing ensures transparency, especially since such institutions handle large public funds or investments.

7. Defective Returns — Procedural Flow

A defective return notice typically involves the following steps:

- CPC/Assessing Officer detects deficiency
- Intimation issued with 15-day window
- Taxpayer uploads corrected schedules / proof of tax payment
- Return is validated or treated as invalid

This procedure ensures natural justice without compromising compliance.

8. Updated Returns — Conceptual Utility

The updated return system is a model of collaborative compliance. Rather than waiting for departmental action, Taxpayers voluntarily disclose additional income with additional tax cost. This reduces litigation and encourages transparent revenue flow.

3. IDENTITY, VERIFICATION & SELF-ASSESSMENT (GREATLY EXPANDED)

PAN and Aadhaar integration is more than identification. It creates a unified digital compliance identity. Risk profiling, AI-driven verification, and predictive compliance models depend on accurate identities.

Section 140's verification rules ensure that responsibility is squarely placed.

Example: If a company without a managing director has multiple directors, questions often arise regarding the correct signatory. Incorrect verification may invalidate the return or lead to procedural objections.

Section 140A — Practical Illustration

Suppose total tax liability computed is Rs. 2,50,000 and TDS available is Rs. 2,40,000. Interest under Sections 234A, 234B, and 234C totals Rs. 6,000. The taxpayer must pay Rs. 16,000 as self-assessment tax before filing.

Failure results in:

- Defective return
- Interest continuing to accrue
- Potential demand notice later

4. POWERS OF INCOME TAX AUTHORITIES

Section 116 outlines the hierarchy. Understanding each authority is crucial for representation.

For example, while ITOs handle routine assessments, disputes requiring interpretation often involve higher authorities such as JCITs or PCITs.

Section 119 — Administrative Significance

CBDT circulars mitigate hardships and clarify ambiguities. Professional practice often requires invoking CBDT instructions where AO interpretations conflict with administrative guidance.

Section 131 — Practical Usage

Civil-court-like powers are invoked to:

- Summon suppliers to verify bogus purchases
- Examine entry operators under oath
- Require banks to produce account statements

This strengthens the evidentiary foundation of assessment.

Section 133 — Third-Party Information

Today's assessments frequently involve AIS-based mismatches where information is obtained from:

- Banks
- Mutual funds
- Registrar of properties
- Credit card companies

Section 133 provides the legal backing.

5. SURVEY, SEARCH & SEIZURE

Section 133 A Surveys are primarily for verification. Common instances:

- Mismatch between declared stock and actual stock
- Cash discrepancies
- Non-maintenance of books

Surveys often lead to surrender of income or further investigation.

Sections 132 & 132A — Search & Requisition

These provisions are extremely detailed and must be applied carefully.

Illustration:

If credible information shows that a jeweller holds unaccounted gold, and there is likelihood of removal or non-production of documents, a search may be authorized.

The process includes:

- Entry into premises
- Search of physical and digital storage
- Seizure of assets

- Recording of statements
- Inventory preparation

Professional representation during and after search ensures procedural fairness.

Section 132B — Utilization of Seized Assets

The priority of adjustment of seized money is:

1. Existing liabilities
2. Liability arising from search assessment
3. Penalties or interest

Refunds require payment of statutory interest to deter misuse of seizure power.

6. ENQUIRY & SPECIAL AUDIT

Section 142(1) enquiries often precede scrutiny.

Typical information sought includes:

- Ledger extracts
- Bank statements
- Explanation of high-value transactions

Section 142(2A) — Special Audit

Illustration:

A real-estate developer maintains dozens of project-wise books, with joint development agreements, land purchases, valuation issues, and receipts. The AO may direct a special audit due to complexity.

The audit report becomes a critical part of assessment.

Section 142A — Valuation Reference

Used in cases involving:

- Property purchase below stamp duty value
- Unexplained construction cost
- Share valuation disputes

Section 142B ensures all such enquiries are faceless.

7. SUMMARY & SCRUTINY ASSESSMENT

Section 143(1) adjustments are limited but impactful. Common adjustments include:

- Mismatch of TDS entries
- Incorrect computation of deductions
- Disallowance of losses carried forward without timely return

Scrutiny under Section 143(3) is risk-based. Examples of risk criteria:

- Abnormal increase in unsecured loans
- High-value cash deposits

- Mismatch between GSTR-3B and ITR
- AIS/TIS discrepancies
- Low net profit ratio in high-turnover industries

A typical scrutiny timeline involves:

- Issue of 143(2) notice
- Questionnaire under 142(1)
- Submission of replies and evidence
- Video hearing (where applicable)
- Draft findings
- Final order

8. BEST JUDGMENT, JCIT DIRECTIONS & DRP

Section 144 applies where taxpayers:

- Ignore notices
- Do not produce books
- Fail to respond electronically

Best judgment does not mean arbitrary judgment. Courts insist that estimates must be reasonable.

Section 144A— JCIT Directions

These are binding and ensure accountability on both the AO and the assessee.

Section 144C— DRP Mechanism

DRP is powerful because:

- It can enhance variations
- It must pass a speaking order
- Proceedings are time-bound

Transfer pricing disputes are handled almost exclusively through this route.

9. REASSESSMENT MECHANISM

Sections 147–152 form a self-contained code after recent amendments.

Section 148A— Opportunity before Reopening

This ensures natural justice. The assessee receives:

- Information suggesting escapement
- Opportunity to object
- Reasoned order

Section 149— Time Limits

Three years for normal cases.

Five years where escapement is Rs. 50 lakh or more represented in asset or expenditure.

Section 150 — No Time Limit

Applies only where appellate/court directions indicate escapement.

Section 152 — Dropping Proceedings

Protects taxpayers from unnecessary reassessment.

10. RECTIFICATION, DEMAND & FACELESS ASSESSMENT

Section 154 allows rectification of:

- Arithmetical mistakes
- Incorrect carry-forward
- Apparent law application errors

Section 156 demand notice activates the tax-recovery chain.

Section 144B's faceless system introduces:

- Automated case allocation
- Multi-unit workflow
- Elimination of personal bias
- Electronic submissions and hearings

11. BLOCK ASSESSMENT

Chapter XIV-B reinstates the block assessment system. It specifically targets undisclosed income in search cases.

Block assessments focus on:

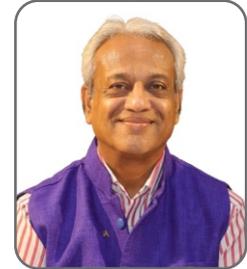
- Cash
- Jewellery
- Documents
- Digital data

Regular assessments of block years abate.

If block order is annulled, assessments revive—ensuring procedural fairness.

12. CONCLUSION

The assessment procedure, when analysed holistically, forms an ecosystem of statutory compliance, digital monitoring, administrative enforcement, and judicial oversight. This expanded version offers a deeper, professionally enriched, and publication-ready articulation suitable for expert readership and academic reference.



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A. GST not includible in Gross Receipts for Income Computation U/S 44BB: ITAT Mumbai

Oceanering International GMBH Vs DCIT (International Taxation) (ITAT Mumbai) (te 2 ITA no. 4670/MUM/2023)

Facts:

1. The assessee, a non-resident company registered in Switzerland, is engaged in the business of providing equipment and service for use in oil and gas drilling operation to various companies engaged in oil and gas exploration activities in India.
2. It filed its return of income for the impugned assessment year 2021-22 offering income to tax on presumptive basis in accordance with Section 44 BB of the Income Tax Act.
3. AO observed that the assessee has received payment on account of GST which has not been included under the gross receipts which have been offered to tax u/s. 44 BB.
4. Accordingly, the amount of Rs. 13,10,09,191/- was brought to tax as part of gross receipts for the purposes of presumptive income u/s. 44 BB. DRP upheld action of AO. Being aggrieved, the present appeal is filed.

ITAT Mumbai held as below:

1. GST being a mandatory 'statutory levy' cannot be said to be in the nature of 'charges'.
2. GST would not form part of gross receipts for the purposes of computing income under Section 44BB of the Act and the AO is hereby directed to exclude the amount of Rs 13,10,09,191/- towards GST while computing gross receipts in hands of the assessee.
3. In the result, ground of the assessee is allowed.

B. Relevance of information shared by GST with the IT authorities:

Issue:

Can the information shared by the GST department be a sufficient ground to reopen income tax cases?

The Bombay High Court, in the case of C. C. Dangi & Associates v. Union of India (170 taxmann 541) addressed the issue of whether information shared by GST authorities can serve as a justifiable ground for reopening an income tax assessment under Section 148 of the Income Tax Act.

Key observations of Hon Bombay HC:

1. **Distinct Jurisdictions:** The court emphasized that the Income Tax Act and the Central Goods and Services Tax (CGST) Act operate in separate domains, each with its own taxation schemes. Consequently, there is no inherent overlap or intermixing of their jurisdictions.
2. **Requirement of tangible evidence:** The Assessing Officer (AO) must possess tangible material indicating that specific transactions relevant to CGST are also pertinent to the assessee's income tax returns. This is particularly crucial if such transactions suggest that the assessee has not disclosed true and correct income.

3. **Independent Application of Mind:** The AO must apply their own mind to the information received and cannot act solely based on inputs from other agencies.

C. How to prove genuineness of purchases during assessments when there are allegations of bogus purchases?

An attempt has been made to compile a list of documents and counter strategies which may assist in rebutting allegations of bogus purchases during income tax assessments:

1. Basic KYC of Suppliers:

- a. Name and address
- b. PAN and GSTIN
- c. Copies of supplier registration (GST, MSME, etc.) Vendor onboarding documentation (if any)

2. Purchase Documentation:

Tax invoices with correct GST and other details Contracts or purchase orders, Delivery challans, Weighing slips or transport/lorry receipts, E-way bills (especially for inter/intra-state movement), Lorry receipts, Fastag evidence, Email or other correspondence confirming the order and delivery

3. Payment Trail:

- a. Payment proofs via banking channels
- b. Ledger accounts of parties
- c. Bank statements showing matching debits
- d. Source of funds (loan/capital inflow/internal accruals)

4. Stock and Consumption Records:

Stock register showing movement/consumption of purchased goods, Production register (for manufacturing units), Sales records showing onward sale or consumption Reconciliation of purchases with stock and sales.

5. Confirmations and Correspondence:

Confirmation of accounts from creditors (with PAN and address), Communication trail (email, WhatsApp, etc.) with vendors.

6. Financial Performance Metrics:

Gross Profit ratio analysis over multiple years, Consistency of GP/NP even during the alleged bogus period, Linkage of purchases to revenue earned.

7. Legal Rights in Case of Third-Party Allegations:

Request for third-party statement or investigation report, Exercise right to cross-examine such parties as per principles of natural justice, Challenge the statement if obtained behind your back or without corroborative evidence.

D. Determination of annual value under section 23(1) In case where property was vacant for the entire year explained

Facts: The assessee was engaged in development of malls, entertainment centers, multiplexes, etc. During the relevant assessment year, assessee had let out 253 units out of 261 units of the mall and balance 8 units were vacant during the entire year. For the let-out units, assessee offered rental Income under the head Income from house property and claimed that - it was eligible for vacancy allowance on the 8 units which remained vacant.

- However, according to the AO, the assessee was covered under the provisions of section 23(1)(a) as the incidence of taxation was on inherent capacity of the building and thus, the AO made additions computing deemed rent for the 8 units under consideration applying provisions under section 23(1)(a). The OT(A) upheld the order of the AO.

- On further appeal, the Hon'ble Mumbai ITAT In Classic Mall Development Company Ltd. V. ACIT, ! TA No.5320/MUM/2024, Order dated 21.03.2025 held that:

Section 22 of the Act charges the Income to tax under the head 'Income from House property' and section 23 provides the mechanism to compute the annual letting value (ALV) of the property.

Section 23(1)(a) provides for determining the ALV at a sum for which the property might reasonably be expected to let from year to year. The sum so referred is a fair estimate which the property might fetch when let.

Section 23(1)(b) deals with the situation where the property Is let. Thus, in a case where letting of property exists, annual value has to be deemed as per condition given in the said clause (b). For this, **actual rent, whether received or receivable is compared with the sum referred to in clause (a)** and higher or the two is adopted.

Section 23(1)(c) deals with the situation where the property is let and remain **vacant during the year, Vacancy referred in the clause envisages two scenarios, viz.**

- i) 'vacant during the whole of the year' or
- ii) vacant during any part of the year'. Thus, this clause by referring to the said two scenarios addresses the requirement of allowing deduction in computing the annual value on account of vacancy and unrealized rent.

For this, actual rent, whether received or receivable is compared with the sum referred to in clause (a) and lesser of the two is adopted.

In this clause (c), the condition is in reference to '**less**' for adopting the actual rent vis-a-vis sum referred in clause (a). By having reference to 'less' in this clause while comparing it with sum referred in clause (a), the period for which rent Is 'actually' not received on account of vacancy is factored in to arrive at the annual value.

In a scenario where the property is 'vacant for part of the year', since 'actual rent' is to be taken into account, it will be only for that part of the year for which It Is let. In comparison to this, the sum referred to in clause (a) shall be for the entire year.

Further, in a scenario where the property is 'vacant for whole of the year', since 'actual rent' Is to be taken into account, it will be 'Nil', there being no tenant. However, the sum referred to In clause (a) shall continue to be for the entire year. Hence, by having reference to 'less' for comparison, aspect of vacancy Is factored in to arrive at the annual value of the property in this clause (c) which will be 'NII' in the scenario where property is 'vacant for whole of the year'.

Furthermore, for the purpose of clause (b) and clause (c), the Explanation to section 23(I) provides that amount of rent which the owner cannot realize shall not be included in the 'actual rent'.

Thus, It Is evident that clause (c) provides a protection In cases where, on account of vacancy, the rent received or receivable on a property which has been let out Is less than the sum referred to in clause (a).

A reading of section 23(1)(c) shows that it covers a situation where a property is let and is vacant for the whole of the previous year. Literal reading conveys coverage of property which is vacant for the whole of the year. Thus, phrase "vacant for the whole year" cannot be allowed to be rendered nugatory or redundant.

- Thus, a question arises, as to what determines "vacancy"? Literally, it denotes a temporary break for a period a property is let out. To effectively apply the situation of "vacant for the whole year" as envisaged in section 23(1)(c), intent of letting is of vital importance which needs to be considered, at the end of the assessee.

Thus, by applying the principles of purposive interpretation to section 23(1)(c) and not to render the words "vacant for the whole year" infructuous, the word "let" used in the said section has to be interpreted as Intended to be let or available to let.

Resultantly held that, the actual rent received or receivable by the assessee in respect of 8 units was Nil, there being no tenant for the property and thus, under the deeming provision or section 23(1)(c), in the case of a property which Is vacant for whole of the year, its annual value is to be taken at 'NII'.

E. GIFT CITY Income Tax benefits:

Introduction:

1. Gujarat International Finance Tec-City, popularly known as Gift City, is India's first International Financial Services Centre (IFSC).
2. It is home to banks, financial institutions, and other global businesses, offering them a conducive environment in which to set up their shop and run their operations smoothly.

Investment opportunities for NRIs:

1. **Offshore banking and deposits:** Banks and financial institutions established in the Gift City offer offshore banking deposits and foreign currency term deposits.
2. **Global equities and bonds:** Through the Gift City IFSC exchange, NRIs and OCIs can get access to global equities and bonds.
3. **Alternative Investment Funds (AIF):** AIFs set up in the Gift City offer exposure to several asset classes, including equities, debt securities, private equity, real estate and venture capital investments.
4. **Real Estate Investment Trust (REIT):** The Gift City IFSC exchange has listed REITs, which gives easy access to the Indian real estate market at a low cost.

Tax incentives available to NRIs:

1. **Concessional rates of tax on dividend income:** The TDS deducted on dividend income on Gift City investments will be lower than the TDS deducted in case of investments outside Gift City.
2. **Tax-free interest income:** Interest income earned from money lent out to IFSC units (foreign currency denominated deposits) is completely tax-free.
3. **Tax benefits on long-term bonds:** Rupee-denominated bonds that are listed on the IFSC exchange enjoy lower tax rates. Bonds listed before July 1, 2023, have a 4% tax rate, and bonds listed after this date have a 9% tax rate.
4. **Tax benefits on listed securities:** If an NRI or a Category III AIF located in IFSC transfers a specified listed asset, it is not considered a taxable transfer, and the gains are not taxed in India. (Section 47(viiab))
5. **Income earned on derivatives is tax-free:** Income earned from non-deliverable forward contracts, and over the counter derivatives entered with a banking unit are exempt from tax.
6. **Income earned on financial securities managed by fund managers:** Income earned by an NRI from financial instruments managed by a fund manager on behalf of the NRI in an account with a banking unit is exempt from tax as long as accrues outside India and is not considered to arise in India.
7. **No GST:** No GST will be charged on transactions done in the Gift City.
8. **No additional taxes:** No securities transaction tax, commodities transaction tax, and stamp duty for transactions done on IFSC exchanges.

Grey Areas

1. **GAAR / POEM:** Families need to be careful about place of effective management when structuring through IFSC vs. overseas entities — though IFSC solves many of the foreign POEM risks.
2. **Family Trusts:** Singapore allow some tax benefits for trusts/foundations for family offices. In GIFT City, trust regulations are evolving — no clear tax treatment yet for IFSC-based family trusts.

F. GIFT City Fund Companies Push for TCS Exemption to Attract Indian Capital

Introduction:

1. The purpose of GIFT City is to be an international financial hub. Its success relies on attracting a wide range of investors, both Indian residents and non-residents.

2. GIFT City is physically located in India. However, it operates under a distinct regulatory regime with its own incentives to attract foreign and domestic investments.

TCS Issue in the GIFT City:

1. GIFT City is treated as an offshore jurisdiction for foreign exchange purposes, which means any money sent by an Indian investor to a fund there is subject to the same TCS rules as other overseas transfers.
2. For investments, this means a TCS of 20% is levied on any amount exceeding 10 lakh in a financial year.
3. Fund companies operating within GIFT City have argued that the 20% TCS on remittances is a major barrier to attracting domestic capital, especially from High-Net-Worth Individuals (HNIs) who may instead choose to invest in international financial hubs like Dubai and Singapore.

The regulatory channel used by funds:

1. The funds first approached the IFSCA with their demand in July 2025. The IFSCA, which handles all requests from GIFT City entities, then formally relayed the request to the Finance Ministry.
2. The IFSCA has not received a formal commitment from the Finance Ministry regarding the TCS exemption.

Conclusion:

Implementing this exemption could be a key step in "onshoring" capital from high-net-worth Indians that would otherwise be invested in other overseas jurisdictions.

G. Local committees deal with Taxpayers grievances arising from high pitched scrutiny

1. In high-pitch assessments, tax officials issue orders for taxes and penalties far from the amount legally payable.
2. The result of high-pitch assessments can be devastating for small taxpayers who may not have the means to fight back against an unjust assessment.
3. The Central Board of Direct Taxes (the 'CBDT'), by its Instruction NO.17/2015 dated 09.11.2015 has provided for constitution of 'Local Committees to deal with Taxpayers' Grievances from High-Pitched Scrutiny Assessment' in each Pr. CCIT region.
4. Local Committees to deal with Taxpayers' Grievances from High-Pitched Scrutiny Assessment are required to be constituted in each Pr. CCIT region across the country including the Pr. CCIT(Exemption) and Pr. CCIT (International Taxation).
5. The Local Committee shall consist of 3 members of Pr. CIT/CIT rank. To have a perspective of processes involved in Faceless Assessment process, Local Committees so constituted in each Pro CCIT region and Pr. CCIT (Execution) shall have one Pr. CIT (AU) of the region. The Local Committee constituted under the Pr. CCIT (international Taxation) need not have a Pr. CIT(AU) as a member, as the assessments under the International Taxation charges are outside the purview of Faceless Assessment regime.
6. The other members may be selected from the pool of officers posted as Pr. CsIT/Pr. CIT(Central)/CIT(Judicial)/CIT(Audit)/CsIT(DR), ITAT of the respective Pr. CCIT region. For the Local Committees constituted under the Pr. CCIT(Exemption) and All Pr. CCsITIDGsIT/Pr. CCIT (Exemption) Pr. CCIT (International tax).
7. The report shall be submitted within two months from the end of the month in which petition is received. Suitable explanations could be called for from the assessing officer, if necessary. Also, the Pr. CIT may be instructed not to take coercive action for recovery of outstanding demand.

H. UAE issues guidelines to determine corporate tax liability for individuals

Introduction:

The UAE Federal Tax Authority has issued guidelines for determination of Corporate Tax liability on Individuals. The guide provides a "comprehensive and simplified" explanation and instructions for natural persons making income in the UAE.

The term natural person refers to a “living human person of any age, whether resident in the UAE or elsewhere”.

A Summary of the guidelines:

1. A natural person must register for corporate tax purposes and obtain a Tax Registration Number if their total turnover from business or business activities exceeds Dh1 million (\$272,294) within a calendar year from 2024.
2. Income from wages, personal investment and real estate shall not be considered as arising from business activities.
3. Where a UAE non-resident natural person conducts a business in UAE, he shall also be subject to corporate tax.
4. A natural person residing outside UAE may also be a non-resident natural person and not subject to corporate tax in case they derive state sourced income ie income derived from UAE but not through business activities conducted in UAE.
5. Corporate tax rate is 9%.
6. Interest deduction cap of 30% applicable to corporates is not applicable to natural persons and the entire interest expense is tax deductible.
7. Transactions of natural persons with related parties shall be required to follow the arm’s length principle.



A UNIFIED TDS–TCS LEDGER



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TDS (Tax Deducted at Source) and TCS (Tax Collected at Source) mismatch is one of the most recurrent compliance challenges. Despite technological enhancements like AIS, Form 26AS, Annual TDS/TCS statements, and automated CPC processing, taxpayers continue to face issues such as incorrect credit reflection, delayed filing by deductors, PAN errors, and section-wise misclassification. This paper proposes a **Unified TDS–TCS Ledger (UTTL)**—a centralized, real-time credit-matching engine that consolidates all deductions, collections, and credits into a single ledger.

Even in 2025, a taxpayer still depends on the deductor to:

- deduct correctly
- deposit correctly
- file the return in time
- file corrections

This dependency remains unchanged.

Even with AIS 2.0 and real-time data pipelines, the system still relies on TRACES for verification.

Mismatches occur at:section level, challan mapping level and correction statement stage. Mistyped PANs remain one of the biggest causes of mismatch.

Even today, TDS credit reflects accurately only after:

- quarterly return submission
- subsequent CPC-TDS processing
- later updates in AIS/26AS

This time lag keeps mismatch potential alive.

The TDS–TCS regime is the backbone of India’s tax collection system, contributing nearly **45–50% of total direct tax revenue**. Its objective is two fold:

1. **Collect tax in advance** rather than at year-end.
2. **Create a traceable audit trail** to reduce tax evasion.

Yet, taxpayers often encounter persistent issues:

- TDS deducted but not deposited
- Deposited but not reported in the correct section
- Incorrect PAN or mismatch in name
- Deductors filing late or not filing TDS returns
- TCS credits appearing in AIS but not in 26AS
- System-level delays in mapping challans to statements
- Wrong reporting under different subsections (e.g., 194C vs 194J)

These mismatches lead to:

- Denial of legitimate refunds
- Additional tax demand under Section 143(1)
- Protracted rectification and appeal processes
- Working capital blockage
- Compliance anxiety among taxpayers and professionals

Form 26AS, AIS, and TIS show TDS/TCS data but often differ. AIS sometimes reflects data sooner than 26AS, causing confusion. The system presumes that deductor uploads accurate data. If not, the deductee suffers—even when tax has been deducted from payment.

Deductors interact with:

- OLTAS for challans
- TRACES for returns
- GST systems for indirect tax TCS
- MCA filings for corporate data

Fragmentation creates mapping gaps. Common mistakes caused by human errors are- Wrong PAN entry, Incorrect assessment year, Wrong section codes, Double reporting and Missing amendments (correction statements not filed). Current system is batch-processed, not real-time. Time lags create mismatch opportunities.

A **Unified TDS–TCS Ledger (UTTL)** is a consolidated “one-source-of-truth” for:

- Deductions
- Collections
- Deposits
- Credits
- Reconciliations
- Refund interactions

It integrates **OLTAS + TRACES + AIS + 26AS + PAN** into a single smart ledger. This will eliminate mismatches before they arise.

Key Features of the UTTL System

1. **Real-Time Ledger Updating-** Replaces quarterly dependency with immediate credit reflection.
2. **Section-Wise Auto-Classification-** AI determines correct TDS section using transaction metadata.
3. **Error-Proof Mechanism-** PAN mismatches blocked at source → zero PAN errors.
4. **Self-Healing Ledger-** If deductor files correction, ledger auto-updates without human intervention.
5. **Multi-Layer Authentication-** Each deduction requires:
 - Bank validation
 - PAN validation
 - Section validation
 - Amount reason ability checks
 - Digital signature

Benefits of UTTL for Stakeholders

1. **For Taxpayers**
 - Instant visibility of TDS/TCS
 - Fewer mismatches → fewer notices
 - Faster refunds
 - No need to chase deductors for corrections

2. For Deductors

- Reduced penalties and defaults
- Automated compliance via API
- Elimination of quarterly reporting pressure

3. For the Government

- Reduced litigation
- Higher trust in revenue numbers
- Lower administrative cost
- Ability to track high-risk transactions instantly

4. For Banks & Payment Gateways

- Value-added compliance services
- Reduced back-end reconciliation issues

Comparison: Current System vs UTTL

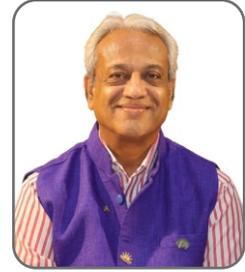
Feature	Current System	Proposed UTTL
Credit availability	After quarterly filings	Real-time (instant)
PAN mismatch	Frequent	Auto-blocked
Correction statements	Mandatory	Rarely needed
Challan mapping	Often mismatched	Auto-validated
AIS/26AS	Primary ledger	View-only
Compliance burden	High	Low
Refund delays	Significant	Minimal

A **Unified TDS–TCS Ledger** can transform India's tax credit ecosystem. By integrating real-time deduction, deposit validation, PAN verification, and smart matching, UTTL eliminates the root causes of mismatches. Budget 2026 presents a timely opportunity for policymakers to consider this reform.

The proposed UTTL will:

- Improve compliance
- Reduce litigation
- Accelerate refunds
- Enhance taxpayer trust
- Create a simple, transparent, efficient TDS/TCS ecosystem

It aligns with India's digital governance vision and moves the tax administration from reactive correction to **proactive prevention**.



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Buyer cannot Be Denied Credit if Supplier Defaults on Tax – A summary of relevant useful judgements are presented herein below :

GST Case Law Table

Sr. No.	Court	Case Name	Case No.	Date
1	Allahabad High Court	M/S Safecon Lifescience Private Limited Vs Additional Commissioner Grade 2	WRIT TAX No. 389 of 2023	September 9, 2025
2	High Court of Calcutta	Suncraft Energy (P.) Ltd. v. Assistant Commissioner, State Tax	MAT 1218 OF 2023 WITH I.A NO. CAN 1 OF 2023	August 02, 2023
3	Kerala High Court	M/s Mina Bazar Railway Station Road vs State Tax Officer	WP(C) NO. 30670 OF 2023	September 19, 2023
4	Calcutta High Court	GARGO TRADERS vs THE JOINT COMMISSIONER, COMMERCIAL TAXES (STATE TAX)	WPA 1009 of 2022	June 12, 2023
5	HIGH COURT OF ANDHRA PRADESH	Arhaan Ferrous and Non-Ferrous Solutions Pvt. Ltd Vs Deputy Assistant Commissioner	WRIT PETITION NO: 15481,15482,15486 AND 15487 OF 2023	August 3, 2023
6	Madras High Court	M/s. D. Y. Beathel Enterprises v. the State Tax Officer	W.P. (MD) Nos. 2127, 2117, 2121, 2152, 2159, 2160, 2168, 2177, 2500, 2530, 2532, 2534, 2538, 2539, 2540, 2503 & 2504 of 2021	February 24, 2021
7	Calcutta High Court	Vishal Kumar Arya. Vs Assistant Commissioner, State Tax, Ultadanga Charge &Ors.	M.A.T. No.2004 of 2022 with I.A. No. CAN 1 of 2022	January 20, 2023

Sr. No.	Court	Case Name	Case No.	Date
8	Calcutta High Court	Assistant Commissioner of State Tax vs. LGW Industries Ltd. & Ors.	MAT 855 of 2022 with IA CAN 1 & CAN 2 of 2022	September 16, 2022
9	Calcutta High Court	Sanchita Kundu v. Assistant Commissioner of State Tax	W.P.A. 7231 of 2022	May 5, 2022
10	High Court of Orissa	Bright Star Plastic Industries v. Additional Commissioner of Sales Tax	W.P.(C)No.15265 of 2021	October 4, 2021
11	Madras High Court	Sri Ranganathar Valves (P.) Ltd. v. Assistant Commissioner	WP Nos.25879 to 25884 of 2016	August 6, 2021
12	High Court of Punjab and Haryana	M/s Gheru Lal Bal Chand vs The State of Haryana and another	CWP 6573 of 2007	September 23, 2011
13	Allahabad High Court	R. T. Infotech v. Additional Commissioner	Not specified	ITC cannot be denied due to seller's tax default; tax liability on vehicle owner seller.
14	Tripura High Court	Unknown (Bona Fide Purchaser)	Not specified	Bona fide buyer not denied ITC due to seller's return filing default; only in collusive or bogus cases.

Whether Scrutiny under GST in terms of Section 61 of CGST Act is compulsory?

The position with respect to scrutiny of returns under GST in terms of Section 61 of CGST Act seems far from being settled considering the ongoing dilemma. From taxpayer standpoint, it is preferred that the procedure to scrutinize the returns in terms of Section 61 of CGST Act is followed. The same would provide the taxpayer a fair chance to clarify or rectify its inadvertent mistake made in GST returns considering there is no facility for revision. On the other hand, the officer may consider directly issuing SCN in terms of Section 73/74 or 74A of CGST Act considering that GST is a self-assessment tax and hence any error or omission would invite invocation of adjudication provisions. Additionally, the penalty would also get levied.

A notice in Form GST ASMT-10 is issued when proper officer selects a taxpayer whose GST returns are to be scrutinized (GSTR-1, GSTR-3B, and GSTR-2B), in terms of Section 61 of the CGST Act and Rule 99 of CGST Rules. In the said notice, the taxpayer shall be informed about the discrepancies, tax, interest, or amounts involved may be quantified (where possible) and shall be provided an opportunity to clarify the same. If the taxpayer's explanation is found acceptable, no further action is taken. However, if the taxpayer fails to justify discrepancies or fails to take the corrective measure in his return for the same, the proper officer may initiate appropriate action

including those under section 65 or section 66 or section 67 or proceed to determine the tax and other dues under section 73, 74 or 74A.

In the recent judgment of Guwahati High Court and Madras High Court, the position with respect to following the procedure prescribed under Section 61 of CGST Act read with Rule 99 of CGST Rule is discussed. We have briefly narrated the same as below:

In the case of *M/s. PepsiCo India Holding Pvt. Limited vs. the Union of India & Ors.*, the Additional Commissioner Office of Principle Commissioner GST and Excise Commissionerate, Guwahati High Court [2025 9 TMI 1593], the assessee was alleged to wrongfully avail and utilize ITC as there was mismatch on account of reconciliation between ITC availed as per returns and expenses as per financials (Difference in Table 14 of GSTR-9C). The mismatch in ITC was intimated by the officer through notice issued under Section 73 of CGST Act.

In the PepsiCo case, the Guwahati High Court affirms that ASMT-10 is a crucial procedural safeguard. The Court held that the notice under section 61 serves as a preliminary communication informing the taxpayer of discrepancies identified during scrutiny. It provides an opportunity to rectify errors voluntarily before initiating any other proceeding. The procedure prevents arbitrary exercise of power by tax authorities. The Court underscored that the assessment procedure as prescribed in terms of Section 61(3) of CGST Act must be followed scrupulously rather than directly issuing notice under Section 73 of CGST Act.

In contrast, in the case of *Mandarina Apartment Owners Welfare Association v. Commercial Tax Officer / State Tax Officer*, Madras High Court [2024 7 TMI 1158], a different perspective was brought forth on the mandate of following the scrutiny procedure as per Section 61 of CGST Act and Rule 99 of CGST Rules, deeming the same notice ASMT-10 as non-mandatory. Herein, one of the writs decided by Court, the issue was with respect to issuance of notice under Section 73 of CGST Act alleging lower sales turnover as compared to purchase turnover. It was argued that the department failed to give a pre-intimation to the taxpayers and hence the said adjudication notice under section 73 is arbitrary.

The Madras High Court observed that Section 61 of CGST Act uses permissive language (“may scrutinize”), not mandatory language. ASMT-10 notices are only required when officers specifically select returns for scrutiny and finds questionable discrepancy. The notice may contain quantified tax, interest or any other amount wherever possible. Also, reassessment or adjudication under this section is not possible. Hence, the only objective achieved by the said notice is firstly, it enables the proper officer to select and scrutinize returns and conclude there are no discrepancies. Secondly, if there are discrepancies, the taxpayer is granted a chance explain or accept the discrepancy. It is emphasized that section 61 and section 73, 74 of CGST Act serve independent purposes. Assessment proceedings under Section 73 can be initiated based on information from various sources, not just scrutiny. The phrase “where it appears to the proper officer” in Section 73 allows adjudication without necessarily going through the scrutiny process.

Key Takeaway:

GST operates on a self-assessment model, where taxpayers are responsible for calculating and paying their taxes. Since there is no provision for revising returns under GST, and notices under Sections 73 and 74 of CGST Act carry harsh penalties, the scrutiny of returns in Form GST ASMT-10 process serves a pre-intimation tool. Also, considering the amendment in Rule 142 of CGST Rules wherein pre-SCN intimation in Form GST DRC-01A is made optional, it becomes even more important to take shelter under Section 61 of CGST Act. The scrutiny process under Section 61 of CGST Act is the primary mechanism for verifying return accuracy. It aligns with the legislative intent behind Chapter XII (Assessment) of the CGST Act, which establishes a systematic framework before moving to demands and recovery provisions. Based on the evolving jurisprudence, we believe ASMT-10 should generally be issued to maintain procedural fairness and transparency.

However, authorities may proceed to issue SCN directly in specific circumstances such as information gathered through sources other than GST returns, or the taxpayer has prima facie tried to defraud the tax authorities. The revenue's interest in preventing tax evasion must be balanced against the taxpayer's right to be heard. Hence, the decision to bypass ASMT-10 is to be followed judiciously, with adequate reasons recorded. The judicial opinion remains divided on whether ASMT-10 is mandatory in all cases. Until the Supreme Court provides definitive clarity or the legislature amends the law, taxpayers and practitioners must navigate this uncertainty with prudence and awareness.



RECENT GST CHANGES WHICH EVERY TAX PROFESSIONAL MUST CONSIDER



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The GST regime in India has been undergoing several structural and compliance-centric changes. While many substantive rate and structure reforms (like GST 2.0) began from 22 September 2025, several important GST Rules and compliance enhancements became effective from January 2026. These changes have significant implications for valuation, returns, interest, input credit utilisation, reporting, and sin-goods taxation.

1. Annual GST Returns:

Late fees automatically applied for GSTR-9 & GSTR-9C. Now portal will calculate penalties based on turnover, so filing still will be allowed but costly if delayed.

For the relevant financial year, the last date was already over. Even after that date, yes, you can file GSTR-9 and 9C, but now late fee will apply. Late fee for GSTR-9 is as per turnover category. For GSTR-9C, late fee is charged per day, with a maximum cap linked to turnover. Now the late fee has been inserted inside the forms, and even in 9C a new table has come. This means the portal will calculate automatically, and if you file after the due date, you will have to file with late fee.

2. Time-Barred Returns:

This restriction applies to:

- GSTR-1
- GSTR-3B
- GSTR-4
- GSTR-5, 6, 7, 8, and 9

GST returns older than 3 years can no longer be filed after January 1. That includes GSTR-1, GSTR-3B, and others. The portal has started continuous blocking of such returns. As periods move forward, the portal will keep blocking whatever falls into the live three-year time limit.

If you have pending returns older than three years, they'll become permanently unclaimable.

3. ITC / Ledger Validation:

The GST portal has begun enforcing ledger checks and validation from January 2026.

Strict balance checks before GSTR-3B filing. Filing will be blocked if ledger conditions aren't met.

If these ledgers show negative balance and you try to claim RCM ITC or reversal and re-claim ITC, the portal will block your GSTR-3B. You will not be allowed to file GSTR-3B. Also, if these ledgers have negative balance, you will have to settle that first. Practical meaning: even if your working is ready, filing can be blocked due to ledger position.

4. Reverse Charge / RCM:

Must clear negative credit ledger or pending RCM before filing. Portal will block filing until dues cleared. This is a shift from earlier years when the portal might allow filings despite mismatches.

5. Bank Account Details:

As per the new GST rules 2026 from 1st Jan, one change that's easy to overlook but very impactful:

- **GST registration can now be automatically suspended** if you haven't furnished bank account details in your GST profile.
- When suspended, you cannot file returns or generate e-way bills until you update this information.

Suspension will be automatic, and once you add bank details, activation will also be automatic. So please do not let this happen. Open the bank account, and go to the GST portal and add bank account details through amendment.

6. Aggregate Annual Turnover (AATO):

Businesses must recheck AATO for registration eligibility

GST registration required if turnover > Rs. 20 lakh (or Rs. 40 lakh for certain conditions) You may need to register even if you previously weren't required.

New year has begun, so calculate your annual aggregate turnover. Even if you are not registered, check whether your PAN India turnover is crossing the registration threshold. If you cross the threshold, registration is mandatory within the prescribed days. Annual aggregate turnover is important for many other GST compliances as well. Also, if your turnover crosses the specified limit, e-invoicing can become mandatory from the next period, so you must monitor turnover time to time.

This affects small traders and service providers who hover around the threshold.

7. GST Rates / Slabs:

While most rate changes took effect in 2025 under the GST 2.0 reform, the new year carries forward the simplified slab structure:

- The GST slabs were rationalized to **0%, 5%, and 18%** for most goods and services.
 - **A 40% rate remains** for specified luxury or "sin" goods.
- 0% – essentials; 5% – merit goods; 18% – standard; 40% – luxury/sin goods (e.g., tobacco)

8. Tobacco / Cigarettes:

Cigarette and tobacco taxation rules have been significantly updated, with changes scheduled from **1 February 2026**. These include new GST rate assignments (18% or 40%), elimination of GST compensation cess and revamped excise/valuation mechanisms.

Businesses must update invoicing and pricing accordingly.

9. Portal Enforcement:

Returns blocked for mismatches, missing bank details, or pending liabilities

Strict validation ensures compliance; adjustments cannot be postponed

10. Business Compliance Actions

File late returns, reconcile ITC, update bank details, verify rates & codes

Proactive compliance avoids penalties, blocked returns, or registration suspension

11. MSME / Small Business Impact

Direct effect on return filing, ITC claims, invoicing, and cash flow

Even small gaps can disrupt operations; reassessment of registration required



THE SUPREMACY OF PROCEDURE AND SUBSTANCE: A DEEP DIVE INTO ITAT MUMBAI'S LANDMARK RULING IN VEDA REAL ESTATE CORPORATION (P.) LTD.



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Introduction: A Shield Against Arbitrary Taxation

In the intricate landscape of Indian tax jurisprudence, the tension between the Revenue's power to investigate and the taxpayer's right to a fair, evidence-based process is constant. The recent judgment by the Mumbai Bench of the Income Tax Appellate Tribunal (ITAT) in Veda Real Estate Corporation (P.) Ltd. vs. Deputy Commissioner of Income-tax [2025] 180 taxmann.com 331 stands as a monumental precedent. The ruling is a masterclass in interpreting both the substantive law regarding "unexplained investments" and the procedural mandates of the digital age, specifically the Faceless Assessment Scheme and the Document Identification Number (DIN) protocol. By quashing a high-value reassessment, the Tribunal has sent a clear message: tax additions cannot survive on the "crutches" of uncorroborated digital fragments and procedural shortcuts.

1. Factual Matrix:

The Genesis of the Dispute, the case pertains to Assessment Year (AY) 2012-13. Veda Real Estate Corporation (P.) Ltd., a company within the Seksaria Group, was primarily involved in land acquisition for real estate development. The controversy began with a search and survey operation conducted by the Investigation Wing in October 2021 on the Seksaria Group.

During the search, a laptop belonging to Mr. TarunSeksaria (TNS) was seized. This laptop contained several Excel-based Management Information System (MIS) sheets. The Revenue alleged that these sheets contained coded entries reflecting "on-money" or cash payments made for land acquisitions.

The Revenue's Case:

The Excel Sheets:

The Assessing Officer (AO) identified entries totalling several crores, which were interpreted as cash investments over and above the registered value of the land.

The Statements:

During the search, Mr. TNS and Mr. Nandkumar Kudilal Seksaria (NKS) gave statements under Section 132(4)/131 of the Income-tax Act, purportedly admitting to these cash transactions.

The Addition:

Based on these digital findings and the initial admissions, the AO reopened the assessment for AY 2012-13 and made substantial additions under Sections 69A and 69B (Unexplained Money/Investments).

2. The Legal Challenges:

A Two-Pronged defence, the assessee company, challenged the assessment order on two fundamental levels:

Substantive Merit:

The additions were based on "dumb documents" and retracted statements without any corroborative evidence.

Jurisdictional and Procedural Validity:

The reassessment process itself was flawed because it bypassed the mandatory Faceless Assessment Scheme and violated the CBDT's DIN requirements.

3. Substantive Analysis:

The Fallacy of "Dumb Documents", the most significant aspect of this ruling involves the treatment of digital evidence in the form of Excel sheets. The ITAT scrutinized whether a mere entry in a spreadsheet, found on a third-party laptop, could be treated as conclusive evidence of undisclosed income:

A. Retraction of Statements

The Tribunal noted that both TNS and NKS had formally retracted their statements shortly after the search. They claimed the initial admissions were made under extreme pressure, sleep deprivation, and without access to records.

The Law:

The ITAT reiterated that while a statement under Section 132(4) has evidentiary value, it is not "gospel truth" if it is retracted with a valid explanation. The burden then shifts to the Revenue to provide independent evidence to support the retracted admission.

B. The Nature of the Excel Sheets

The ITAT found that the Excel sheets were not maintained by the directors of the assessee company but by an employee of a group concern. More importantly:

Projections vs. Reality:

The sheets were described as "projections" and "estimates" for potential land deals rather than records of actual payments.

Lack of Corroboration:

The AO did not contact the alleged sellers of the land, did not find any corresponding cash in the possession of the sellers, and found no evidence of the source of the alleged cash in the bank accounts of the assessee.

Dumb Document Doctrine:

Relying on the landmark *Common Cause vs. Union of India* and *CBI vs. V.C. Shukla* cases, the ITAT held that loose sheets, cryptic digital entries, and unverified files are "dumb documents." They cannot, in isolation, prove that a transaction took place.

4. Procedural Fatality I:

The Eclipsing of Local Jurisdiction, the Tribunal's analysis of Section 151A and the Faceless Assessment Scheme is perhaps the most consequential part of the judgment for future litigation. The Shift to Faceless Reassessment, in 2022, the Central Government notified a scheme for faceless reassessment. The scheme mandates that the issuance of notice under Section 148 and the subsequent assessment must be handled through a centralized, automated system to ensure transparency and eliminate personal bias.

The Jurisdictional Error, in *Veda Real Estate's* case, the notice under Section 148 was issued by the Jurisdictional Assessing Officer (JAO)—the local officer—rather than the Faceless Assessing Officer (FAO).

The ITAT's Stance:

The Tribunal held that once the Faceless Scheme was notified, the JAO's power to issue reassessment notices was "eclipsed." The law is specific: a notice issued by an officer lacking jurisdiction is not a mere "procedural irregularity" that can be cured under Section 292B; it is a nullity in the eyes of the law and hence, the entire reassessment proceeding was quashed as void ab initio.

5. Procedural Fatality II:

The DIN Mandate, the ITAT also addressed a highly technical but vital requirement: the Document Identification Number (DIN).

The CBDT Circular No. 19 of 2019

This circular made it mandatory for every communication (including assessment orders and notices) issued by the Income Tax Department to bear a computer-generated DIN. If an order is issued without a DIN (except in rare, documented exceptional circumstances), it is treated as "invalid and deemed never to have been issued."

The Lapse in the Present Case, the assessment order was dated March 28, 2023. However, the records showed that the DIN was only generated on March 30, 2023.

Held:

The Tribunal followed the Hon'ble Delhi High Court's decision in *Brandix Mauritius*, holding that the DIN must be generated before or at the time of the issuance of the order. A "post-facto" generation of a DIN does not satisfy the law. Consequently, the assessment order was legally non-existent.

6. Implications for Taxpayers and the Revenue The Veda Real Estate decision serves as a comprehensive guide for modern tax litigation. It highlights several critical takeaways:

Digital Evidence requires a "Human Touch":

The Revenue cannot simply point to a computer file and demand tax. They must prove that money actually changed hands. This requires examining third parties, tracking the flow of funds, and finding physical corroboration.

Retractions Matter:

If a taxpayer retracts a search-time statement by providing a logical explanation of coercion or factual error, the Revenue cannot rely solely on that statement for additions.

Procedure is Substance:

The move toward "Faceless" assessments and "DIN-based" communications is not merely administrative. These are statutory protections for the taxpayer. Any deviation by the Revenue—even by a few days in DIN generation—will lead to the collapse of the entire case.

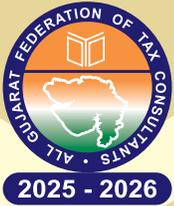
Strict Interpretation of Section 151A:

The Tribunal has made it clear that the Faceless Scheme is the only valid path for reassessments. Local officers who continue to issue notices in the old format are overstepping their legal bounds.

7. Conclusion:

The Triumph of Due Process, the ITAT Mumbai's decision in *Veda Real Estate Corporation (P.) Ltd.* is a victory for the rule of law. It reinforces the principle that the power to tax is not the power to guess. By insisting on high standards of evidence for digital documents and absolute compliance with procedural safeguards, the Tribunal has ensured that the "faceless" era of Indian taxation is also an era of increased accountability.

For the taxpayer, this judgment provides a robust defense against additions based on unverified digital data. For the Revenue, it serves as a stern warning: in the digital age, a "paper trail" (or a digital one) is only as strong as the corroborative evidence and the procedural integrity that supports it.



THE XIAOMI CUSTOMS CASE: UNPACKING IP ROYALTIES IN VALUATION



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I. Introduction

India's current global trade strategy is built on a dual promise—facilitation with accountability. On the facilitation side, the Government has positioned the Foreign Trade Policy (FTP) 2023 as a “process re-engineering and automation” framework to improve ease of doing business and modernise trade administration. In parallel, Customs has been pushing technology-led reforms under “Turant Customs,” including Faceless Assessment, to make clearance faster, more predictable, and less interface-driven. This facilitation narrative is further reinforced through performance-monitoring tools such as the National Time Release Study (NTRS) and time-bound targets under the National Trade Facilitation Action Plan (NTFAP). Together, these measures signal a clear policy intent to reduce dwell time and logistics friction. On the manufacturing and export-competitiveness front, schemes like the Production Linked Incentive (PLI), including for large-scale electronics and mobile manufacturing, reflect India's ambition to embed itself more deeply into global value chains.

It is against this backdrop of India's pro-trade and pro-manufacturing policy framework that the Xiaomi customs valuation dispute assumes particular significance. While India continues to facilitate faster and more seamless cross-border trade through policy reforms and procedural simplification, the case highlights the parallel sharpening of regulatory scrutiny. In particular, it underscores heightened focus on valuation discipline, transparent disclosure of intellectual property and royalty arrangements, and the identification of real economic control in contract-manufacturing structures. The ruling therefore reflects a compliance counterbalance that businesses must internalise when operating within India's facilitation-first, yet enforcement-ready, trade ecosystem.

In this context, the Customs, Excise and Service Tax Appellate Tribunal (CESTAT), Chennai, recently delivered a noteworthy judgment in Customs Appeal No. 40085/2024 involving Xiaomi Technology India Pvt. Ltd. and the Principal Commissioner of Customs. The dispute arose from an investigation conducted by the Directorate of Revenue Intelligence (DRI), which alleged evasion of customs duty on account of non-disclosure of royalty and licence fee payments connected to imported goods. The Tribunal's decision addresses critical issues relating to customs valuation, beneficial ownership, and disclosure obligations in technology-driven, contract-manufacturing business models.

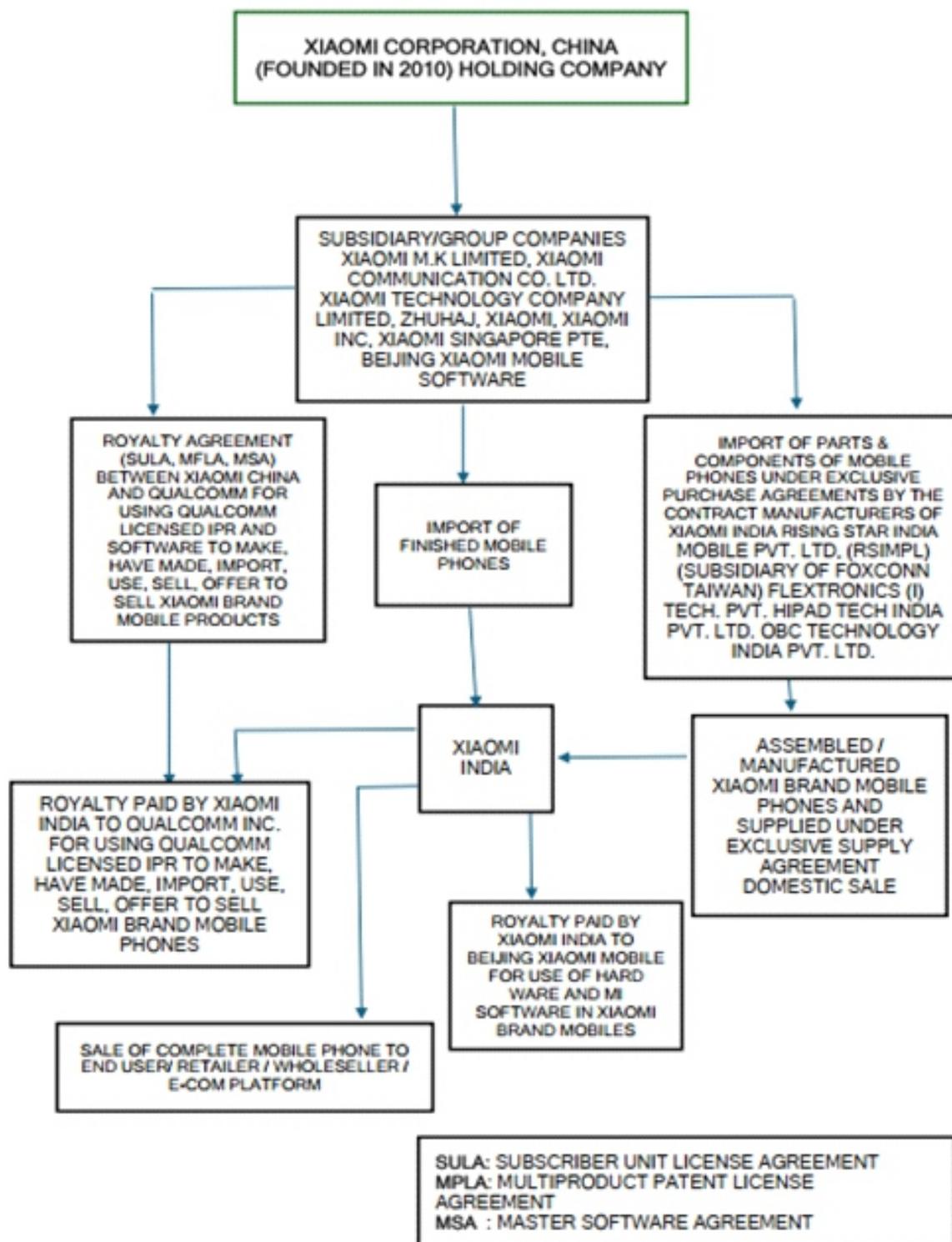
Xiaomi India failed to disclose royalty agreements to the Special Valuation Branch (SVB). Payments were made under agreements such as Subscriber Unit License Agreement (SULA), Multiproduct Patent License Agreement (MPLA), Master Software Agreement (MSA), License and Royalty Arrangement Agreement (LRAA). The department alleged suppression of facts and wilful misstatement.

II. Contractual Arrangement made by Xiaomi

The arrangement depicted in the accompanying flow chart reflects Xiaomi's business model. Xiaomi Corporation, China functions as the ultimate holding company, with various group and subsidiary entities managing intellectual property, software, and component-related functions. Xiaomi India operates as the central entity in India and obtains critical technology and intellectual property licences under agreements such as the Subscriber Unit License Agreement (SULA), Multiproduct Patent License Agreement (MPLA), and Master Software Agreement (MSA), primarily involving Qualcomm and Xiaomi group companies, against payment of royalties.

Mobile phone components are imported by Contract Manufacturers (CMs), who assemble the devices exclusively for Xiaomi India under controlled manufacturing and supply arrangements. The assembled mobile phones are supplied to Xiaomi India, while separate royalty payments are made for the use of patented technology, hardware, and software embedded in the devices. Xiaomi India then sells the finished mobile phones in the domestic market through retailers, wholesalers, and e-commerce platforms, while retaining effective control and bearing the overall economic risk of the business.

FLOW CHART OF THE BUSINESS MODEL OF XIAOMI INDIA



III. Tribunal's Evaluation of Facts and Legal Position

Xiaomi contended that the **CMs were the real importers** since they procured components in their own name and on their own account. However, the Tribunal rejected this contention and held that the **CMs functioned under the pervasive and strict control of the Xiaomi entities**. *The contractual arrangements significantly curtailed the CMs' rights over the imported goods, including restrictions on resale without Xiaomi's prior consent and clauses providing for reimbursement of taxes and duties.* In substance, the Tribunal observed that **constructive possession as well as effective control over the imported components continued to vest with Xiaomi India**. Accordingly, the overall arrangement was found to be **in the nature of a job work relationship rather than an independent sale transaction**, thereby **negating the claim that the CMs were the real importers**.

The Tribunal examined whether **Xiaomi India qualified as the beneficial owner of the imported goods** by placing reliance on the **amended definition of "importer" under Section 2(26) of the Customs Act**, which expressly includes a beneficial owner—namely, *any person exercising effective control over the goods*. It was noted that **Xiaomi India reimbursed the CMs for all customs duties, taxes, and even legal expenses, clearly indicating that the financial incidence rested with Xiaomi India**. Further, **Xiaomi India held the critical intellectual property licences essential for the manufacturing process, reinforcing its decisive role in the import and production chain**. The presence of *ring-fencing clauses in the agreements* further demonstrated that **the ultimate financial risks and obligations were borne by Xiaomi India**. To negate Xiaomi's argument that the concept of beneficial ownership was confined merely to cases of *Importer-Exporter Code (IEC) lending*, the Tribunal also drew support from **internationally accepted standards laid down by bodies such as FATF and OECD**, thereby **affirming that Xiaomi India was indeed the beneficial owner of the imported goods**.

The most contentious issue before the Tribunal was whether **royalty payments were includable in the transaction value under Rule 10(1)(c) of the Customs Valuation Rules, 2007**, which mandates inclusion of *royalties and licence fees that are related to the imported goods and paid as a condition of sale*. Xiaomi contended that the royalties were paid for *Standard Essential Patents (SEPs) forming part of a portfolio and not attributable to specific imported components*, that such payments were *triggered only post-import upon sale of finished mobile phones*, and that *industry practice favoured whole-portfolio or whole-device licensing*. The Tribunal, however, found that **the royalties were inextricably linked to the imported components and were indispensable for their lawful and functional use**, observing that *without the requisite licences the imported parts would effectively be rendered unusable*. Relying on the **Explanation to Rule 10(1)**, the Tribunal held that **royalties relating to processes applied after import remain includable in the transaction value** and further clarified that **the timing of payment after import does not dilute the condition of sale**. The Tribunal also **categorically rejected the plea based on industry practice**, holding that **considerations of tax sovereignty cannot be subordinated to commercial convenience**.

The Tribunal upheld the invocation of the **extended period of limitation under Section 28(4) of the Customs Act** on the ground of **wilful suppression of material facts by Xiaomi**. It was specifically noted that **the royalty and licence agreements were not fully and truly disclosed** at the time of import. The Tribunal emphasized that **the statutory burden of complete and accurate disclosure rests on the importer**, particularly where the facts are within the importer's *special knowledge*. In this context, reliance was placed on **Section 106 of the Evidence Act** to reinforce the principle that *failure to disclose such critical information justified invocation of the extended time limit*.

On the issue of **confiscation, penalties, and interest**, the Tribunal upheld **confiscation under Section 111(m) of the Customs Act** on account of **misdeclaration of value arising from non-inclusion of royalty payments**. Consequentially, **penalties under Sections 112(a) and 114A** were imposed on **Xiaomi India as well as the CMs** for their respective roles in the contraventions. The levy of **interest on delayed payment of customs duty** was also sustained; however, **interest on IGST was set aside, noting the absence of an effective statutory machinery provision during the relevant period**. At the same time, the Tribunal **declined to impose penalty under Section 114AA**, holding that *there was no specific allegation or evidence of use of false or fabricated documents*.

IV. Core Principles and Industry Impact

The CESTAT ruling reinforces several foundational principles of Indian customs law. It reiterates that royalties intrinsically linked to imported goods constitute an essential element of assessable value and must be duly declared for customs valuation purposes. The decision further clarifies that beneficial ownership is a substantive concept grounded in effective control and economic reality, rather than a mere formal or contractual designation. It also affirms that extended limitation periods may validly be invoked where there is suppression or failure to make full and true disclosure of material facts. For multinational enterprises such as Xiaomi, the ruling underscores the critical importance of transparency in disclosing related-party transactions and intellectual property arrangements. At a broader level, it signals heightened regulatory scrutiny of contract manufacturing structures that may be designed to shift value or minimize tax incidence.

At the same time, India's rising stature as a global hub for mobile phone manufacturing and exports is firmly anchored in sustained government support through policy measures such as the **Production Linked Incentive (PLI) Scheme for electronics and mobile manufacturing**, which aims to integrate India into global value chains and boost domestic production and exports. Under the PLI framework, India has seen mobile manufacturing scale rapidly, attracting substantial investments and significantly increasing production and export volumes, reflected in mobile exports reaching approximately **US\$15.6 billion in FY 2023-24**, up from just US\$0.2 billion in 2014-15. Government data further show that electronics manufacturing has grown nearly six-fold over the last decade and mobile units have expanded from just a handful to more than 300 facilities. These policy gains underscore India's commitment to ease of doing business and competitive integration into global trade.

However, the **Xiaomi CESTAT ruling** highlights that this facilitation is matched by **stringent enforcement of customs law**, especially on issues of valuation, disclosure of related-party royalty and licence arrangements, and identification of beneficial ownership in contract manufacturing structures. The decision sends a clear message that while India welcomes multinational manufacturers to contribute to its export ecosystem, compliance with customs valuation norms and full transparency in import-related transactions are indispensable, reinforcing a balanced approach where trade promotion coexists with robust regulatory oversight.

1 Ministry of Commerce and Industry – FPT 2023 announcement – dtd. 31st Mar, 2023 – Website – PBI – Press Release: Press Information Bureau

2 Ministry of Finance – CBIC releases National Time Release Study (NTRS) 2023 report – dtd. 15th Jun, 2023 – Website – PBI - Press Release: Press Information Bureau

3 Xiaomi Technology India Pvt. Ltd. v. Principal Commissioner of Customs [TS-733-CESTAT-2025-CUST]

4 **Section 2(3A)** defines “**beneficial owner**” as “**beneficial owner**” means any person on whose behalf the goods are being imported or exported or **who exercises effective control** over the goods being imported or exported.

5 **Section 2(26) of the Customs Act, 1962** states “**importer**”, in relation to any goods at any time between their importation and the time when they are cleared for home consumption, includes **any owner, beneficial owner** or any person holding himself out to be the importer.

6 Financial Action Task Force (FATF)

7 Organisation for Economic Co-operation and Development (OECD)

8 **Rule 10(1)(c) of the Customs Valuation Rules, 2007** reads **Section 10. Costs and services.**– (1) In determining the transaction value, there shall be added to the price actually paid or payable for the imported goods, – ... (c) **royalties and licence fees related to the imported goods** that the buyer is required to pay, **directly or indirectly as a condition of the sale** of the goods being valued, to the extent that such royalties and fees are not included in the price actually paid or payable.

9 **Explanation to Rule 10(1)** — Where the royalty, licence fee or any other payment for a process, whether patented or otherwise, is includible referred to in clauses (c) and (e), such charges shall be added to the price actually paid or payable for the imported goods, **notwithstanding the fact that such goods may be subjected to the said process after importation of such goods.**

10 **Section 28(4) of the Customs Act, 1962** states – (4) Where any duty has not been levied or not paid or has been short-levied or short-paid or erroneously refunded, or interest payable has not been paid, part-paid or erroneously refunded, by reason of— (a) collusion; or (b) any **wilful mis-statement**; or (c) **suppression of facts**, by the importer or the exporter or the agent or employee of the importer or exporter, **the proper officer shall, within five years from the relevant date, serve notice on the person chargeable with duty or interest which has not been so levied or not paid or which has been so short-levied or short-paid or to whom the refund has erroneously been made, requiring him to show cause why he should not pay the amount specified in the notice.**

11 **Section 106 of The Indian Evidence Act, 1872.**– **Burden of proving fact especially within knowledge.**

When any fact is especially within the knowledge of any person, the burden of proving that fact is upon him.

12 **Section 111(m) of Customs Act, 1962.** – any goods which do not correspond in respect of **value** or in any other particular with the entry made under this Act ... shall be liable to confiscation.”

13 **Section 112(a) of Customs Act, 1962.** – any person,— (a) who, in relation to any goods, does or omits to do any act which act or omission would render such goods liable to confiscation under section 111, or abets the doing or omission of such an act, or (b) ... , shall be liable,— (i) ... ; (ii) in the case of dutiable goods, other than prohibited goods, subject to the provisions of section 114A, to a penalty not exceeding ten per cent. of the duty sought to be evaded or five thousand rupees, whichever is higher.

14 **Section 114A of Customs Act, 1962.** – If a person knowingly or intentionally makes, signs or uses, or causes to be made, signed or used, any declaration, statement or document which is false or incorrect in any material particular, in the transaction of any business for the purposes of this Act, shall be liable to a penalty not exceeding five times the value of goods.

15 Ministry of Commerce and Industry – India's Exports Reach Historic Heights – dtd. 1st Feb, 2025 – Website – PBI – Press Release: Press Information Bureau

16 Ministry of Electronics & IT – Electronics manufacturing grows six-fold, exports grow eightfold in the last 11 years – dtd. 5th Dec, 2025 – Website – PBI - Press Release: Press Information Bureau



SEBI'S NEW RELATED PARTY TRANSACTION (RPT) STANDARDS : A NEW REGIME IN CORPORATE MANAGEMENT AND OPENNESS



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What Are Related Party Transactions?

Related Party Transactions (RPTs) are deals between a company and people or businesses closely connected to it—like family members of directors, group companies, or major shareholders. Examples include selling goods to a director's family business or lending money to a subsidiary company.

Why Are RPTs Important?

Such transactions can be natural for business but can cause problems if not managed well. If companies don't share enough information, these deals can favour insiders and harm ordinary shareholders. Regulators want to stop misuse or unfairness by requiring clear rules and proper disclosures.

The Securities and Exchange Board of India (SEBI) has taken a bold step forward by changing the RPT Industry Standards. This could change the way Indian companies do business with each other. The new standards, which go into effect on 01/09/2025, are meant to find a balance between making it easier to follow the rules and making governance stronger. These changes really mean for companies, boards, and shareholders.

What is changed in the Rules?

- **Clear Categories:** The new rules divide these deals into three types based on their importance, making it easier for companies to know what they have to disclose.
- **Less Paperwork:** Only recent and relevant documents are needed; three years of data is no longer required for each deal.
- **Material Transactions:** Only big deals—above Rs. 1,000 crore or 10% of company's turnover—need full approval from shareholders. Small deals follow a simpler process. Before, businesses had to give three years' worth of financial information about the related party, even for small deals. Now, they only have to show data from the most recent year. This change cuts down on unnecessary paperwork while keeping the important information.

Also, requirements like peer benchmarking for royalty payments and mandatory bidding processes for asset sales have been removed. Companies can now use management justification instead of following strict rules, which gives them more time to focus on deals that are either very risky or very valuable.

- a. If a transaction is worth more than INR 1,000 crore or 10% of the annual consolidated turnover, whichever is lower, it is considered material.
 - b. For brand use or royalty payments, the bar is even lower: 5% of annual consolidated turnover.
- **Board Responsibility:** Now, directors and independent members must actively check if a deal is good for the whole company, not just rubber-stamp approvals.
 - **Shareholder Rights:** Companies must explain RPTs in plain language so that shareholders truly understand what is happening. Shareholders can access valuation reports by scanning a QR code.

RPTs are a double-edged sword when it comes to running a business. Some of these kinds of deals are legal and necessary for business, like a parent company giving a loan to a subsidiary. However, they can also hide deals that help insiders at the expense of minority shareholders.

The Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, which SEBI has been using to build its framework for RPT disclosures, require Audit Committees and, in some cases, shareholders to give their approval before they can be made public. However, there hasn't been a consistent format or clear benchmarks until now to make sure that all listed companies are open and can be compared.

The SEBI Master Circular in November 2024 changed that by setting out broad expectations for disclosure. There was still some confusion. After talking to stakeholders, SEBI put out the Revised RPT Industry Standards on 26/06/2025. These will now be the best way to disclose RPTs.

Better communication with shareholders

Companies now have to give shareholders standardized, easy-to-understand information, such as QR codes that let them see outside valuation reports. This shows that SEBI wants RPTs to be more than just a boardroom issue; they want shareholders to be able to look into them as well.

If information is redacted because it is sensitive to business, boards must certify that even the redacted version is enough for informed voting. This strikes a balance between openness and protecting competition.

Relief for Industry: Making Compliance Easier

The standards are both strong and useful. For example:

- Insurance companies and housing finance companies, which were not on the list of companies that could get an exemption before, can now get the same benefits for some RPTs as banks and NBFCs.
- Companies don't have to keep track of every trade advance or inter-corporate deposit in detail anymore, unless they go over a certain amount.
- Some reasons, like explaining why investments lost money or why assets and liabilities don't match up, have been removed.

This makes it easier for companies to follow the rules, especially for big companies that have to deal with dozens of internal transactions every day.

How Does This Help?

- Protects Everyone: Minority investors get better information and more control over big decisions.
- Fewer Burdens: Companies spend less time on unnecessary documentation, focusing only on what matters.
- Fair Business: Management must honestly judge deals for long-term benefit and fairness, not just legality.

Easy Example

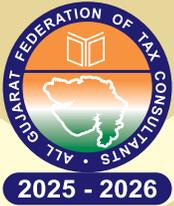
Suppose a company wants to sell an asset to another firm owned by a promoter's family. If it's a large deal, it must give shareholders all details, including reasons, values, and independent checks. Shareholders can then decide if the deal is fair before voting to approve it.

Assume : a publicly traded company quietly sells one of its most important assets to another company, only to find out later that the buyer is owned by the chairman's brother. What is the cost? A lot less than what it's worth on the market. Even though it was probably legal, investors are furious, and the stock drops overnight.

This situation may seem dramatic, but it gets to the heart of why Related Party Transactions (RPTs) are being watched so closely by regulators. If not watched, these deals can lead to favouritism, hidden profits, and bad governance. In India, where promoters have a lot of power over business decisions, the problem of openness in RPTs becomes even more important.

In Summary

SEBI's new rules make Related Party Transactions simpler, clearer, and fairer. They are designed to promote trust, stronger scrutiny, and better protection for all shareholders, while reducing unnecessary work for companies.



AI AS YOUR PERSONAL ASSISTANT IN TAX PRACTICE: YOUR EDGE IN DIGITAL ERA, WITH DPDP ACT COMPLIANCE IN MIND

Imagine this. It is late in the evening, you finally sit down with a cup of tea, and your inbox pings. A client has forwarded an urgent tax notice with a deadline only two days away. They forgot to share it earlier, and now the clock is ticking.

In the past, this meant a long night of drafting replies, scanning through provisions, reviewing judgments, digging into old files, and juggling multiple calls. Today, things look different. You can feed the basic facts into an AI tool like ChatGPT, and within seconds you get a clean, structured draft reply. It lays out the facts, picks out relevant sections, identifies possible judgments, and even ends with a proper closing prayer. All you need is a final review and your professional touch.

For many tax professionals, this has become the new normal.



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Introduction

After spending more than fifteen years in tax compliance and advisory work, I can say this confidently: AI is becoming the dependable assistant that never sleeps. Whether you are dealing with TDS mismatches, GST notices, accounting standards, transfer pricing queries, or income tax assessments, AI can lighten the load.

But tax work deals with highly sensitive client information like PANs, bank details, and income particulars. Clients trust us to protect their data. Mishandling it does not only break trust, it can also bring legal consequences. This is where India's Digital Personal Data Protection (DPDP) Act, 2023, strengthened with its 2025 Rules, plays a central role. The Act pushes for consent-based data use, minimal processing, and strong security practices.

This article is an attempt how AI supports tax professionals, where it should be used, where caution is necessary, and how the DPDP Act shapes the right way to use AI tools.

How AI Improves Tax Practice - Examples

1. Faster Drafting, Research, and Notice Handling

Tax work demands continuous drafting, reviewing, cross-checking, and reconciling data. AI has dramatically streamlined these tasks.

Take Rajesh, a tax professional based in Ahmedabad. He receives a GST notice about input tax mismatches. Earlier, his team had to manually check invoices, match entries in excel, gather supporting documents, and then draft a response. Now, AI scans the notice using OCR, identifies the core issue using natural language processing, retrieves matching data, points out mismatches, and prepares a clear draft reply.

Rajesh only needs to review, make corrections, and finalize. The job that once took half a day now takes under an hour.

2. Intelligent Dashboards That Replace Complex Excel Files

Many firms now use AI-powered dashboards that convert raw client data into clean visual summaries. Instead of filtering Excel sheets endlessly, you can instantly see:

- GST mismatches
- High-risk transactions
- Patterns in expenses
- Compliance gaps
- Aging of notices

For a multi-branch firm, centralizing notice management through AI means fewer backend staff, faster turnaround, and often a 20 to 30 percent reduction in cost.

Drafting Replies and Analysing Documents

Drafting show-cause notice replies is routine, but it can be time-consuming. If you give AI anonymised facts like: “Client has claimed Rs 5 lakh input tax credit backed by supplier e-way bill.”

AI can turn this into a full response: intro, facts, analysis, legal arguments, case laws, and conclusion.

But there's a warning. AI can hallucinate. There was a real incident where an assessing officer relied on AI-generated fake judgments, which invited strong criticism from the court. The lesson is simple: AI is great for drafting, but verification is always your responsibility.

For audits, AI tools can do sampling, read documents with OCR, identify duplicate entries, point out irregularities and raise red flags, and even highlight taxation related concerns. This shifts your workload from manual checking to focused review.

Dashboards and Additional AI Applications

AI dashboards connected to accounting systems like Tally can give you client overviews in real-time. For a tax professional handling 100 clients, you can instantly see:

- Compliance scorecards
- Red flags
- Month-wise details with comparison and key ratios
- Ratio analysis
- Segment wise reporting

You can also use AI to draft emails, summarize amendments, or create quick client briefs. Many experts believe AI will not replace tax professionals, but will remove 50 to 60 percent of routine work, increasing overall efficiency by more than 30 percent.

DPDP Act: What Tax Professionals Must Know

The DPDP Act protects “digital personal data” like names, emails, IDs, financial details, and anything that can identify a person. It applies to all data processed in India and even outside India if involving Indian citizens.

Core principles include:

- Take clear, informed consent
- Use minimal data
- Use data only for stated purposes
- Keep data accurate
- Store it only as long as needed
- Maintain strong security
- Stay accountable

Clients have rights to access their data, correct it, erase it when the purpose is over, nominate a representative, and file complaints.

Under the DPDP Act, penalties are significant, going up to Rs 250 crore for major violations.

Precautions for Tax Professionals Under DPDP

1. Always Anonymise Before Using AI

Never enter PANs, names, or bank details into public AI tools. Replace them with generic placeholders like “Client A” or “Resident aged 55”. Learn to use offline redaction tools instead of uploading sensitive data to free online PDF sites like ILovePDF.

2. Maintain Verifiable Audit Trails

Keep a record of what AI tool was used, why it was used, and who verified the output. This helps during audits and protects you legally.

3. Avoid Using Public AI Tools for Client Databases

Most public AI tools use inputs for model improvement, which is risky.

A real example: A firm uploaded raw client ledgers into ChatGPT. This exposed data to external servers. There are FIRs and notices also available which were used by someone without taking care of privacy.

Fix: Make sure AI service provider contracts include DPDP compliance clauses.

4. Handle Children's Data with Strict Care

If you deal with minor clients or dependents, obtain parental consent and delete data immediately after use.

Remember: Consent is the best tool for safe AI use

DPDP puts consent at the center of responsible data processing. Consent must be Free, Specific, Informed & Easy to withdraw.

Your engagement letters can include a simple clause like “We may use anonymised AI tools to assist in drafting responses or analysing data. You may withdraw consent at any time.”

In cases where a client withdraws consent, switch to manual processing or offline AI tools or can ask clients to remove the confidential data and provide documents which are fit for use.

Technology Tips: Safe ChatGPT Settings and Offline AI Options

These tips do not guarantee that there won't be violation of DPDP Act, but at-least we can demonstrate that the proper care is taken.

1. Safe Use of AI Tools

Few settings which can be updated are:

- Turn off “Improve the model for everyone”
- Use Temporary Chats for high privacy
- Clear history frequently
- Enable two-factor authentication
- Use custom instructions like: “Respond as an Indian tax expert”

But the best part is reading the user agreement for a particular AI tool and understanding the consequences.

A sample anonymised prompt may be like “Draft a response to a GST Section 73 notice involving a Rs 2 lakh disallowed purchase. Do not include any identifiable information.”

2. Offline AI Tools for Maximum Privacy

Local models like Llama or Mistral can run on a regular laptop through tools like Ollama or LM Studio. These work without internet, so your data never leaves your device. Offline dashboards using Python or other tools with local AI models are becoming popular among firms that want complete privacy.

Real-World Examples: The Good and the Bad

- A Delhi-based tax consultant used AI dashboards to identify unreported foreign income for a client, preventing penalties.
- In a well-known case, an assessing officer used fake AI-generated judgments. It showed how dangerous unverified AI output can be.
- A firm that handled more than 200 notices using AI and consent forms achieved 95 percent efficiency.
- Many professionals shifting to offline models now say, “Local AI gives me full control without any privacy worry.”

Way Forward

AI is reshaping tax practice. It makes drafting easier, speeds up analysis, and provides powerful insights with saving in time and energy. The DPDP Act ensures that this technology is used responsibly.

If you take the right steps like anonymising data, seeking consent, verifying outputs, and using safe tools, you can enjoy the benefits while protecting your clients and your practice.

As one professional put it, “**AI handles the routine. I handle the expertise.**”



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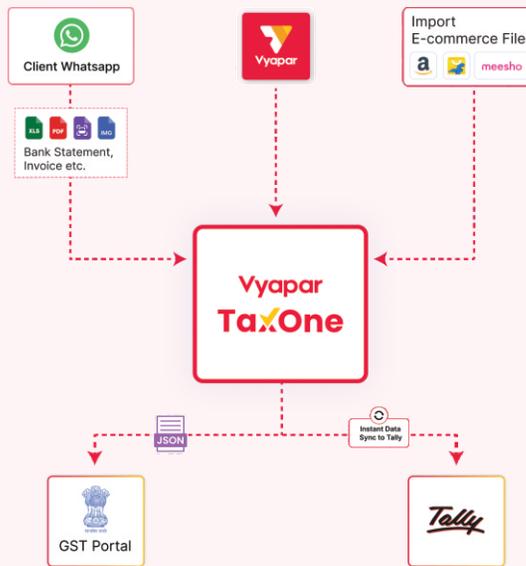


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