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Your Monthly Guide to Staying Ahead

MAY 2026

TABLE OF CONTENT

Key Amendments to ITR Forms for FY 2025-26

The Income Tax Department has notified the ITR Forms for FY 2025-26 (AY 2026-27) with several important changes. These amendments are aimed at improving transparency, reducing reporting mismatches, and enabling faster processing of returns. Taxpayers are advised to keep the required information and supporting documents ready before filing.

1. ITR-1 & ITR-4 – Reporting of Two House Properties

Taxpayers filing ITR-1 and ITR-4 can now report income/loss from up to two house properties, subject to the prescribed conditions. Earlier, these forms permitted reporting of only one house property.

2. Separate Field for Unrealised Rent

A dedicated field has been introduced to report unrealised rent. This enables taxpayers to separately disclose rent that could not be recovered from tenants and claim relief, wherever eligible.

3. ITR-4 – Mandatory Bank Balance & Investment Details

Taxpayers opting for the Presumptive Taxation Scheme are now required to disclose:

- Closing bank balance as on 31 March 2026
- Details of specified investments and financial assets

4. Capital Gains – Simplified Reporting

The separate bifurcation of Long-Term Capital Gains before and after 23 July 2024, which was required in the previous year's ITR forms due to the Finance Act amendments, has now been removed, making capital gains reporting comparatively simpler.

5. ITR-3 – Separate Reporting for F&O & Intraday Trading

Taxpayers engaged in Futures & Options (F&O) and Intraday Equity Trading are now required to separately report turnover and profit/loss from these activities. This will improve reconciliation with broker statements and reduce reporting mismatches.

6. Additional Details for Donation Deductions

To claim deduction under Section 80G, taxpayers must now furnish:

- Transaction Reference Number
- Bank IFSC Code

Similarly, for deductions under Section 80GGC, the Name and PAN of the Political Party are required. Incomplete details may result in denial of the deduction.

7. Revised Return – Extended Time Limit & Section 234I

The due date for filing a Revised Return has been extended up to 31 March 2027. However, where a revised return is filed after 31 December 2026, an additional fee under Section 234I may become applicable, and the ITR forms now contain a separate field for reporting the same.

Government of India Notifies Wage Ceiling and Key EPF Parameters Under the Code on Social Security, 2020

1.Overview

The Government of India issued 8 notifications on 29 May 2026 through the Ministry of Labour and Employment, operationalising Chapter III (Employees' Provident Fund) of the Code on Social Security, 2020 (CoSS). These notifications establish the compliance framework and enforcement machinery for EPF under the CoSS, marking a formal shift away from the legacy Employees' Provident Funds & Miscellaneous Provisions Act, 1952.

2.Key Highlights

1. Wage Ceiling

The EPF wage ceiling has been retained at ₹15,000 per month under Section 2(89) of the CoSS — unchanged since August 2014. Employer and employee contributions at 12% each remain mandatory on wages up to this ceiling. No changes to existing payroll or contribution frameworks are required.

2. Interest on Delayed Payments

Under Section 127 of the CoSS, employers are liable to pay simple interest at 12% per annum on any unpaid amount, calculated from the original due date until actual payment. The notification is deemed effective from 21 November 2025 — the date the CoSS first came into force — thereby settling any ambiguity over interest liability during the intervening period.

3. Inspection Charges — Exempt Establishments

Under Section 143(6) of the CoSS, revised inspection charge rates apply to establishments exempted from the EPF Scheme, 1952 and/or the EDLI Scheme, 1976. All charges are due within 15 days of the close of each month.

Exempted From	Rate (% of Wages)	Min. Charge (₹)	Due Within
EPF Scheme, 1952	0.35% (Revised)	₹8,750	15 days
EDLI Scheme, 1976	0.005% (Unchanged)	₹1,250	15 days

4. Officer Designations [S.O. 2700(E), 2699(E), 2697(E), 2696(E)]

Four categories of EPF officers have been designated across multiple enforcement roles. Inspector-cum-Facilitators hold jurisdiction over the whole of India and are authorised to file complaints against Chapter III establishments.

Officer	Roles Designated
Central Provident Fund Commissioner	Authorised Officer, Recovery Officer, Inspector-cum-Facilitator, Damage-levying Officer
Additional Central PF Commissioner	Authorised Officer, Recovery Officer, Inspector-cum-Facilitator, Damage-levying Officer
Regional PF Commissioner	Authorised Officer, Recovery Officer, Inspector-cum-Facilitator, Damage-levying Officer
Assistant PF Commissioner	Authorised Officer, Recovery Officer, Inspector-cum-Facilitator, Damage-levying Officer
Enforcement Officer	Recovery Officer

3.Background

India's labour law framework was consolidated through four Labour Codes, merging 29 central enactments. The CoSS alone subsumes nine earlier laws, including the EPF Act. The phased rollout proceeded as follows:

- 21 November 2025 — All four Labour Codes implemented by GoI notification.
- 8 May 2026 — Final Rules under all four Codes notified.
- 29 May 2026 — Eight gazette notifications issued, completing the EPF compliance and enforcement framework under Chapter III of the CoSS.

4.Key Takeaways

The notifications provide much-needed clarity on key compliance parameters under the CoSS, particularly in relation to EPF obligations such as wage ceiling, inspection charges and interest on delayed remittances.

Organisations should closely review these developments and align their compliance processes accordingly.

Interest on Borrowed Funds Routed to Group Entities — Supreme Court Settles the Debate

1. The Core Question

Can a taxpayer claim interest deduction under Section 36(1)(iii) when the borrowed funds don't directly fund its own operations, but are instead channelled through a group company?
The Supreme Court, in L.K. Trust vs. CIT (Civil Appeal No. 527/2012), answered with a clear yes — and in doing so, reaffirmed a taxpayer-friendly interpretation of "for the purposes of business."

2. Facts of the case

L.K. Trust borrowed ₹3.8 crores from Corporation Bank to acquire shares in Shaw Wallace & Company. However, the funds were first routed to a group company, Gayatri Holdings Pvt. Ltd., which then deployed them for the actual share purchase.
The Tax Officer disallowed the interest deduction, reasoning that the funds were never directly used in the taxpayer's own business. The CIT(A) agreed. The HC partly reversed the ITAT's pro-taxpayer ruling, disallowing interest proportionate to the amount lying with the group entity.
The Supreme Court stepped in — and overturned the High Court entirely.

3. What the Supreme Court Said

1. "For the purposes of business" — interpreted broadly The SC reiterated that this expression under Section 36(1)(iii) carries a wider scope than similar language elsewhere in the Act. The test is not whether the funds directly earned profit, but whether the borrowing was commercially expedient at the time it was made.
2. Composite business = unified analysis Where a taxpayer runs multiple interlinked activities (lending, investment, trading) with common management and pooled funds, the entire operation is treated as a composite business. Routing funds through a subsidiary or sister concern doesn't break the chain.
3. Purpose at the point of borrowing is what matters The SC made it clear — the deductibility of interest is determined by the intent and purpose when the loan was taken, not by tracing every rupee to its final destination.
4. Utilisation by a group entity ≠ automatic disallowance As long as the borrowing serves the broader business purpose, the fact that a sister concern ultimately deployed the funds does not disentitle the taxpayer from claiming the deduction.

- Prepare compliance records for inspection given that inspector-cum-facilitators now hold jurisdiction over the whole of India and are authorised to file complaints and levy damages.
- Train payroll and HR teams on the CoSS framework, the relevant section references, and updated compliance and reporting timelines.
- Seek professional guidance where there are open disputes, pending arrears, or ambiguity arising from the transition from the EPF Act to the CoSS.

Overall, these notifications underscore the GoI's intent to operationalise the CoSS without delay and to maintain continuity in EPF compliance expectations while building a more structured institutional and enforcement framework.

4.Why This Matters for Your Business

The Supreme Court has reinforced that tax law must be applied with commercial common sense — not mechanical literalism.

However, this ruling is not a blank cheque. To protect your position:

- Document the commercial rationale for the borrowing at the time of the loan
- Maintain a clear paper trail of fund flow between entities Ensure the arrangement has independent substance — it should reflect a genuine business decision, not a post-facto justification
- Be prepared to demonstrate the composite nature of business operations if challenged

5.The Practical Takeaway

This ruling has significant practical implications, especially for:

- Holding companies and trusts that invest through subsidiaries
- Groups with centralised treasury functions routing funds internally
- Businesses with composite operations across multiple verticals

The SC's reasoning protects genuine commercial arrangements from being disallowed on purely technical grounds

6.Key Legal References

Case/Provision	Relevance
Section 36(1)(iii) S.A. Builders vs. CIT (2007) Sharp Business Systems vs. CIT (2025) Madhav Prasad Jatia vs. CIT (1979)	Interest on borrowed capital deduction Commercial expediency test Reaffirmation of borrowing purpose test Scope of 36(1)(iii) vs. 57(iii)

GST Portal Communication System

Under the GST regime, communication between taxpayers and the department is now fully digitised and system-driven. Notices, clarifications, and responses are increasingly routed through the GST portal itself, making it critical for businesses to actively monitor and respond to such communications to avoid adverse consequences.

New GST Feature – Portal-Based Communication Tracking

1. Communication Between Taxpayers (CBT Module)

- All notices, intimations, and queries are now available on the GST portal
- Accessible under:
  "Services → User Services → Communication Between Taxpayers"
- Covers:
  - Department notices
  - Supplier / recipient communications
  - System-generated alerts

2. Critical Compliance Requirement

No Separate Physical Intimation

- GST communications may not be separately sent via email or post
- Portal upload itself is treated as valid service of notice

Time-Bound Responses

- Notices come with strict deadlines
- Non-response may lead to:
- Ex-parte orders
- ITC reversals
- Penalties

3. System-Generated Notices – Increasing Trend

Auto-Triggered Notices Based on Data Analytics**

- Mismatch in GSTR-1 vs GSTR-3B
- ITC claimed vs GSTR-2B differences
- Supplier non-compliance
- E-invoice / return inconsistencies
- Minimal human intervention → faster and more frequent notices

4. Risks from Ignoring Portal Communications

- Missed Notices = Deemed Acceptance
  Failure to respond may weaken litigation position
- Financial Exposure
  Demand orders with tax + interest + penalty
- ITC Blockage / Reversal**
  Especially in mismatch or vendor default cases

Best Practices for Businesses

- Daily / periodic login to GST portal
- Assign responsibility for notice tracking & response
- Maintain proper documentation for replies
- Respond within timelines with well-supported submissions
- Use professional support for high-value or technical notices

Key Takeaway

GST compliance now extends beyond returns to active portal monitoring and timely response management

- Notices are system-driven and legally valid once uploaded
- Delays or inaction can directly lead to financial and legal consequences

Post-Sale Discounts (Sections 15 & 34)

- Recent amendments and clarifications under GST have made the treatment of post-sale discounts more practical for businesses.
- Earlier, GST reduction was allowed only if discounts were agreed before or at the time of sale and linked to invoices.
- Section 15 of the CGST Act governs the value of supply. It allows a discount to reduce the taxable value only if it is pre-agreed or linked to the invoice, and the buyer reverses the proportionate Input Tax Credit (ITC).
- Now, even if such conditions are not met, businesses can still offer post-sale discounts through financial credit notes without adjusting GST. However, GST liability can be reduced only when Section 15 conditions are satisfied.
- In cases where GST credit notes are issued, the buyer must reverse the related ITC. If only financial credit notes are issued, no ITC reversal is required.
- This change gives businesses greater flexibility in offering incentives like year-end or volume discounts while reducing disputes with tax authorities.
- Overall, the amendment aligns GST provisions with real business practices, but proper documentation and correct classification of credit notes remain essential

Rule 88B

Understanding interest on delayed GST payments just got easier with Rule 88B. Here’s a quick comparison:

Old Provision

- Interest was often charged on total GST liability (gross amount).
- There was confusion and disputes on whether Input Tax Credit (ITC) should be included.
- No clear method for calculating interest → led to litigation and inconsistent practices.

New Provision

- Interest is mainly charged on net tax liability (cash portion only).
- ITC portion is excluded, unless wrongly claimed or used.
- Provides a clear formula and method for interest calculation.

Intermediary Services – Change in Place of Supply

- The GST law has been amended to remove the special place of supply rule for intermediary services under Section 13(8)(b) of the IGST Act.
- Earlier, such services were taxed based on the supplier's location, which led to denial of export benefits and increased litigation for cross-border transactions.
- With this change, the place of supply will now be determined based on the general rule, i.e., the location of the recipient of services. This enables intermediary services provided to overseas clients to qualify as exports, thereby allowing businesses to avail zero-rating benefits and claim refunds of unutilised input tax credit.
- The amendment is expected to reduce disputes and bring clarity by aligning India's GST framework with global destination-based taxation principles. It will significantly benefit sectors such as IT/ITES, BPOs, and consulting firms by improving tax efficiency and competitiveness.
- Businesses should reassess their contracts, documentation, and tax positions to align with the revised provisions and evaluate potential refund opportunities under the new regime.

Rule 88A Amendment: Greater Flexibility in ITC Utilization

- In a significant move to ease GST compliance, Rule 88A of CGST Rules has been refined to provide taxpayers with enhanced flexibility in utilizing Input Tax Credit (ITC). This change is aimed at simplifying tax payments and improving overall efficiency for businesses.
- Under the earlier framework, taxpayers had to follow a relatively rigid sequence while utilizing ITC. After adjusting IGST liability, the remaining credit was subject to restrictions in its usage, often resulting in unutilized balances under CGST or SGST. This limited flexibility posed challenges in effective cash flow management.
- With the current amendment, the rule now allows taxpayers to use the remaining IGST credit towards either CGST or SGST in any order, based on their convenience. This eliminates the earlier constraints and enables better optimization of available credits.
- The amendment is expected to reduce working capital blockages and streamline GST compliance. By offering greater control over tax credit utilization, Rule 88A continues to support businesses in managing their tax liabilities more effectively.

GST 2.0 – New Tax Rates Simplified

New GST The government has revamped the GST system, calling it GST 2.0, effective September 22, 2025.

GST Rate	Cover (Examples)
0%	Essentials: milk, bread, 33 lifesaving medicines, school books
5%	Common items: toothpaste, soap, shampoo, packaged food, butter, ghee, bicycles, economy air tickets
18%	Most goods & services: mobile phones, laptops, restaurant meals, compact cars
40%	Luxury/sin goods: premium cars, motorcycles 350cc+, aerated drinks, online gaming, betting

Key Changes

- 12% slab removed: Items earlier at 12% now at 5% or 18%.
- 28% + cess replaced: Luxury items now taxed at 40%.
- Businesses affected: Need to update billing, ERP, pricing, and contracts. Misclassifying products can lead to penalties.

E-Way Bill

Major changes in the E-Way Bill system

GSTN has announced important changes to the E-Way Bill system aimed at improving transparency in the movement of goods and strengthening GST compliance.

1. What are the key changes?

Mandatory Ship-To GSTIN in Bill-To / Ship-To Transaction

From FY 25-26

- Where goods are delivered to a person or location different from the billing party, taxpayers will now be required to report the actual Ship-To GSTIN in the E-Way Bill.
- Where goods are delivered to a person or location different from the billing party, taxpayers will now be required to report the actual Ship-To GSTIN in the E-Way Bill.
- Example:
    - Bill-To GSTIN – Dealer
    - Ship-To GSTIN – Actual customer receiving the goods
- If the consignee is unregistered, "URP" (Unregistered Person) must be reported.

2. Introduction of E-Way Bill Closure Facility (voluntary Basis)

- GSTN is introducing a new facility to formally close an E-Way Bill after successful delivery of goods.
- This will help create a digital proof of delivery and establish a complete audit trail from invoice generation to final delivery.

3. Why is this important?

- Better tracking of actual movement of goods
- Improved reconciliation between Invoices, e-Invoices and E-Way Bills
- Enhanced transparency and compliance monitoring
- Stronger documentation for delivery confirmation

4.Impact on Businesses

- Branch Transfers
- Job Work Transactions
- Drop Shipment Models
- Warehouse & Depot Dispatches
- Third-Party Logistics (3PL) Arrangements

5.What should businesses do

- Review Bill-To / Ship-To transaction processes
- Update customer and consignee GSTIN master records
- Reconfigure ERP systems wherever necessary
- Train dispatch, logistics and accounts teams
- Establish SOPs for E-Way Bill closure after delivery

The changes are expected to take effect from 15 June 2026. Businesses should review their systems and processes in advance to ensure seamless compliance.

Digital Compliance (E-Forms)

The new MCA amendment mandates electronic filing of Forms AOC-1 and AOC-2 separately as standalone e-forms, enhancing digitisation and ensuring structured, accurate data reporting for all companies.

Old Provision:

- Previously, Forms AOC-1 and AOC-2 were filed together as part of Form AOC-4, which combined financial statements and other disclosures in a single form.
- This approach made data extraction and compliance monitoring less efficient due to unstructured data and bulk filing.
- The process was less transparent, and there was scope for errors due to consolidated filing.

New Provision:

- Separation into individual e-forms (AOC-1 for company particulars and AOC-2 for auditor's report) facilitates better data management and compliance tracking.
- Encourages digital transparency and simplifies the verification process by regulators.
- Applies from financial year ending March 31, 2025 onwards.

This move significantly strengthens MCA's digital compliance framework.

New Accounting Standard Updates (2026)

The MCA has amended Accounting Standard (AS) 22 to align with the OECD Pillar Two global minimum tax rules. This update introduces new disclosure requirements regarding deferred tax liabilities and assets related to global minimum taxes, ensuring transparency and compliance with international tax frameworks.

Old Provision:

- Previously, AS 22 focused on the recognition and measurement of deferred tax assets and liabilities based on domestic tax laws without considering global minimum tax concepts.
- There was no specific exemption or guidance related to deferred taxes arising from international minimum tax rules such as OECD's Pillar Two.
- Disclosure requirements were limited to domestic taxation without explicit references to global tax regimes.

Key Changes in 2026 Amendment:

- Enterprises are not required to recognize or disclose deferred tax assets or liabilities for taxes arising under the OECD Pillar Two framework.
- Enhanced transparency for multinational companies on their exposure to global minimum tax.
- Small and medium-sized firms are exempt from these additional disclosure requirements.

This amendment helps Indian companies better align with global tax regulations and reporting standards.

FCRA amendment bill to introduce a new authority to manage assets of NGOs that lose licence

The FCRA Amendment Bill, 2026 introduces a major change by creating a “designated authority” to manage assets of NGOs that lose their FCRA licence.

1.Creation of Designated Authority

A government-appointed body will take control of assets of NGOs whose FCRA registration is cancelled or expires.

2.Transfer of Assets

Assets (funds, properties, foreign contributions) will vest temporarily with this authority after cancellation.

3.Management & Disposal

The authority can manage, utilise, or dispose of these assets as per legal provisions.

4.Purpose of the Amendment

- Prevent misuse or diversion of foreign-funded assets
- Ensure funds are used for intended public purposes
- Improve accountability and oversight of NGOs

5.Impact on NGOs

- NGOs losing licence will lose direct control over assets
- Increases government supervision over foreign-funded activities.

In Simple Terms

If an NGO violates FCRA rules and loses its licence, its assets won’t remain with it—they will be taken over and handled by a government authority to prevent misuse.

RBI Strengthens Framework on Unauthorised Electronic Banking Transactions

The Reserve Bank of India (RBI) has proposed a significant overhaul of its 2017 guidelines on customer liability in unauthorised electronic banking transactions. This revision comes in response to the rapid expansion of digital payments and increasing cyber fraud risks in India.

Key Highlights of the Revised Framework:

1. Introduction of Compensation Mechanism:

- RBI has proposed a formal compensation structure, particularly for small-value fraudulent transactions.
- This marks a shift from a purely liability-based approach to a customer-protection-oriented framework.

Insight:

This move is expected to enhance customer trust in digital banking, especially among first-time users and rural populations, where fear of fraud remains a key barrier.

2. Institutional Push for AI-Driven Fraud Detection:

- The establishment of Indian Digital Payment Intelligence Corporation (IDPIC) reflects RBI's strategic shift toward technology-led supervision.
- IDPIC will leverage:
- Artificial Intelligence (AI)
- Machine Learning (ML)
- Big Data Analytics

Objective:

Real-time detection, prevention, and analysis of fraud in digital payments

Insight:

India is moving towards a centralised fraud intelligence architecture, similar to global best practices, which will significantly reduce response time to cyber threats.

3. Crackdown on Mule Accounts:

- RBI has deployed "MuleHunter.AI", an advanced AI/ML-based solution to detect mule accounts used for layering and diverting illicit funds.
- Currently implemented across 26 banks, with plans for further expansion.

Insight:

Targeting mule accounts addresses the root infrastructure of financial fraud, not just individual incidents—making this a preventive rather than reactive strategy.

4. Strengthening Bank-Level Controls:

Banks have been advised to:

- Implement real-time transaction monitoring systems
- Use AI/ML tools for fraud pattern recognition
- Apply network analytics to identify interconnected fraud networks

Insight:

This effectively increases compliance responsibility on banks, pushing them toward RegTech adoption and continuous monitoring rather than periodic checks.

5. Financial Literacy & Cyber Awareness Initiatives:

RBI and other regulators are intensifying efforts to educate citizens:

- Centre for Financial Literacy (CFL):
  Over 2,400 centres operational across India
- Financial Literacy Week (FLW):
  Annual nationwide awareness initiative
- "RBI Kehta Hai" Campaign:
  Multi-language outreach promoting safe banking practices

Additionally, Securities and Exchange Board of India (SEBI) supports awareness through:

- "SEBI vs SCAM" Campaign
- Saa₹thi mobile app for investor education

Insight:

Regulators are recognising that technology alone cannot prevent fraud—informed users are equally critical in building a secure financial ecosystem.

Overall Impact & Strategic Takeaways

- Shift from reactive fraud handling → proactive fraud prevention
- Increased reliance on AI-driven regulatory infrastructure
- Stronger consumer protection and compensation mechanisms
- Enhanced accountability for banks and financial institutions
- Focus on financial literacy as a core defence layer

Conclusion:

The RBI's revised framework signals a major evolution in India's digital banking regulation, aligning with the scale and complexity of modern financial systems. By combining technology, regulation, and awareness, the central bank aims to build a resilient and trust-driven digital payments ecosystem.

Safer Digital Payments: India Strengthens Banking Security

As digital transactions continue to grow rapidly across India, new steps are being taken to make online banking safer and more reliable for users.

The Reserve Bank of India (RBI) has introduced an updated framework to address unauthorised electronic banking transactions, reflecting the increasing need for stronger safeguards in the digital payments' ecosystem.

One of the major highlights is the introduction of a compensation mechanism for small-value fraudulent transactions, ensuring quicker relief for affected customers.

The framework also emphasizes the use of advanced technologies like Artificial Intelligence (AI) and Machine Learning (ML) to monitor transactions in real time and detect suspicious activities. Tools such as MuleHunter.AI are being deployed to identify and prevent the use of mule accounts often linked to fraud.

- A dedicated body, the Indian Digital Payment Intelligence Corporation, will play a crucial role in:
- Tracking and analysing fraud patterns
- Enhancing coordination between financial institutions
- Strengthening overall digital payment security

Banks have also been directed to upgrade their systems by implementing real-time monitoring and stronger fraud detection mechanisms.

Mutual Fund Valuation Reform (Gold & Silver)- Effective from: April 2026

The Securities and Exchange Board of India (SEBI) has mandated that mutual funds must now value their gold and silver holdings based on domestic spot prices, instead of relying on international benchmarks.

1. What Was the Old System?

Earlier, mutual funds used:

- Global prices (like London Bullion Market rates)
- Converted into INR using exchange rates

2. What Is the New Rule?

Now, mutual funds must use:

- Domestic spot prices (Indian market prices)
- Prices discovered within Indian commodity markets

3. For Example

- Old Method (Global Pricing):
- Gold price (global): $2,000/oz
- New Method (Domestic Pricing):
- Gold valued based on Indian spot price (₹/10g)

This move strengthens

- Trust in mutual funds
- Transparency in valuation norms
- India’s shift toward self-reliant financial benchmarks

Easing Rules for Foreign Portfolio Investors:

- In a significant move, SEBI has introduced a net settlement system for Foreign Portfolio Investors (FPIs), set to be implemented from December 2026.

- Under the earlier system, FPIs had to settle each buy and sell transaction separately, requiring substantial capital for daily trading activities. The new framework allows investors to offset their buy and sell positions, settling only the net difference.

- For example, if an investor buys shares worth ₹100 crore and sells ₹90 crore on the same day, they will now need to settle only ₹10 crore instead of the full ₹100 crore.

This reform is expected to:

- Reduce capital requirements
- Lower transaction costs
- Improve liquidity in the market
- Enhance India’s attractiveness for global investors

Overall, the move aligns India’s market infrastructure with global standards and marks a major step toward improving ease of doing business in the securities market.

Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026

Overview

The Reserve Bank of India (RBI) has notified the Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026, effective 16 February 2026 . The amendments introduce significant changes to the External Commercial Borrowing (ECB) framework, with a focus on rationalisation, enhanced flexibility, and strengthened regulatory oversight.

1.Expanded Borrower and Lender Base

The revised framework broadens the eligibility criteria for both borrowers and lenders. All persons resident in India (excluding individuals), subject to applicable laws, are now permitted to access ECB. Additionally, entities undergoing restructuring or insolvency resolution may raise ECB where explicitly permitted under approved plans. Entities under investigation may also access ECB, subject to prescribed disclosure requirements.

2.Revised Borrowing Limits

The regulations introduce a revised borrowing threshold, permitting ECB up to the higher of:

- USD 1 billion; or
- 300% of the borrower's net worth (based on the latest audited financials).

Certain regulated entities may be eligible for specific exemptions.

3.Rationalisation of Maturity Requirements

A uniform minimum average maturity period (MAMP) of three years has been prescribed. However, the manufacturing sector has been provided limited flexibility to raise ECB with shorter maturities (1–3 years), subject to specified thresholds. Embedded options such as call and put options are restricted prior to the completion of MAMP.

4.Market-Linked Cost Framework

The earlier all-in-cost ceiling has been replaced with a market-aligned pricing framework. For ECBs with shorter maturities, cost parameters will align with trade credit norms. Transactions involving related parties are required to adhere to arm's length principles, reinforcing transfer pricing discipline.

5.Currency Flexibility

Borrowers are permitted to raise ECB in foreign currency or Indian Rupees, with the flexibility to convert between currencies, subject to prescribed safeguards to mitigate exchange rate risks.

6.End-Use Restrictions

The amended regulations provide a clearer articulation of restricted end-uses, including investments in real estate (with limited exceptions), capital market instruments, and other specified activities. However, certain relaxations have been introduced for bona fide corporate restructuring transactions.

7.Utilisation and Fund Management

ECB drawdowns are contingent upon obtaining a Loan Registration Number (LRN). The framework prescribes detailed guidelines for routing, utilisation, and temporary parking of funds, including deployment in short-term deposits or debt instruments pending utilisation.

8.Enhanced Reporting and Compliance Framework

The reporting regime has been streamlined through the introduction of standardised forms (ECB-1, Revised ECB-1, ECB-2) with defined timelines. The regulations also introduce the concept of "untraceable borrowers", triggering escalated regulatory action in cases of persistent non-compliance.

9.Strengthened Regulatory Oversight

The amendments reflect a calibrated shift towards greater transparency, enhanced monitoring, and improved regulatory control, particularly with respect to end-use tracking and compliance enforcement.

Our Comment

The ECB Regulations, 2026 represent a significant recalibration of India's external borrowing framework, balancing liberalisation with prudential safeguards. While the measures are expected to facilitate improved access to global capital, they also introduce heightened compliance and governance expectations.

From a practical standpoint, corporates may need to:

- Reassess existing and proposed ECB structures
- Strengthen internal compliance and reporting mechanisms
- Evaluate treasury and funding strategies in light of market-linked pricing
- Ensure robust documentation for related-party transactions

Overall, the revised framework underscores RBI's intent to promote productive capital inflows while mitigating systemic risks and ensuring regulatory discipline.

Summary of FEMA Export and Import Regulations, 2026

1. Specified Authorities for Reporting of Exports

The Regulations define "specified authorities" responsible for export reporting based on the nature of transaction:

For Goods

- Domestic Tariff Area (DTA): Commissioner of Customs
- Special Economic Zone (SEZ): Development Commissioner of SEZ

For Services

- DTA: Authorised Dealer (AD) Bank
- SEZ: Development Commissioner of SEZ

For Software Exports

- DTA: AD Bank or Software Technology Parks of India (STPI)
- SEZ: Development Commissioner of SEZ

Clarification: The term "services" includes "software" under these regulations

2. Reporting of Exports

- All export transactions must be reported through the Export Declaration Form (EDF).
- EDF requirement extended to services, including software exports.
- Filing timeline: Within 30 days from the end of the month in which the invoice is raised.
- For goods exported via EDI system, EDF filing is deemed completed through the shipping bill.
- Consolidated EDF filing allowed for multiple service exports within the same month.
- AD Banks may grant extensions for delayed EDF submission based on valid justification.

3. Manner of Receipts and Payments

- Transactions must comply with the FEMA (Manner of Receipt and Payment) Regulations, 2023.
- AD Banks must:
    - Verify the genuineness of transactions before processing
    - Update or close entries in:
        - EDPMS (Export Data Processing and Monitoring System)
        - IDPMS (Import Data Processing and Monitoring System)

Relaxation for Small Transactions

For transactions up to INR 10 lakh:

- Closure permitted based on self-declaration
- Quarterly declarations allowed for bulk closure

4. Export Realisation Timelines

- Export proceeds must be realised within:
- 15 months:
- From shipment date (goods)
- From invoice date (services)
- From sale date (warehouse exports)
- 18 months if invoiced/settled in INR
- For project exports, timelines follow contractual terms
- AD Banks may grant extensions upon valid request

5. Reduction / Write-off of Export Proceeds

- AD Banks may allow:
  - Reduction
  - Non-realisation
  - Write-off based on satisfactory justification
- For transactions up to INR 10 lakh, reduction allowed via self-declaration

6. Set-off of Receivables and Payables

- Set-off permitted between:
  - Export receivables and import payables
  - Same or related overseas entities (group/associate companies)
- Must be completed within prescribed or extended timelines

7. Third-Party Payments

- Third-party receipts and payments are permitted
- Subject to AD Bank being satisfied about the bona fides of the transaction

8. Import Payment Settlement

- Import payments must be completed as per contractual timelines
- AD Banks will monitor via IDPMS
- Extensions may be granted upon valid justification

9. Advance Payments & Delayed Payments

Routing of Transactions

- Advance receipts/payments must be routed through the same AD Bank
- Change allowed with intimation to both AD Banks

Interest Restrictions

- Interest must comply with Trade Credit all-in-cost ceiling under FEMA Borrowing & Lending Regulations, 2018

Advance Remittance for Imports

- Permitted after verifying genuineness
- AD Banks may require: Standby Letter of Credit (LC) or Bank Guarantee beyond thresholds

Specific Restrictions

- No advance remittance allowed for import of gold and silver

10. Non-Materialised Imports

- Advance payments must be repatriated if import does not materialise
- Failure to repatriate leads to:
- Future imports requiring:
- Standby LC, or
- International bank guarantee

11. Unrealised Export Proceeds

- If proceeds remain unrealised beyond:
- 1 year after due date
- Future exports allowed only against:
- Full advance payment, or
- Irrevocable LC

12. Project Exports

- AD Banks may approve receipts/payments based on:
- Underlying contract
- Genuineness of the project

13. Merchanting Trade Transactions (MTT)

- Transaction cycle must be completed within 6 months
- AD Banks may allow extensions

Payment Conditions

- Payments to overseas seller only
- Receipts from overseas buyer only
- Third-party involvement allowed with approval

Monitoring

AD Banks must:

- Ensure genuineness
- Update/close EDPMS/IDPMS entries

14. Reporting & Monitoring (EDPMS / IDPMS)

- AD Banks are required to:
- Record transactions within 5 working days
- Monitor and follow up for closure
- Close entries: On realisation (exports), On payment (imports)
- Allow closure of: Advance transactions, Reduced-value transactions, MTT entries (upon satisfaction)
- Report all transactions in FETERS

15. Mandatory SOPs & Transparency for AD Banks

- AD Banks must implement:
- Detailed internal policies and SOPs
- Clear timelines, documentation, and charges
- Defined approval hierarchy
- Grievance redressal and escalation mechanisms

Customer Protection

- No penalties/charges for regulatory delays
- SOP and key policies must be published on bank websites

16. Key Action Points for Stakeholders

Before implementation (effective 1 October 2026), stakeholders should:

- Review and align existing transactions with new regulations
- Update:
  - Export realisation timelines
  - Import payment structures
- Strengthen internal systems for:
  - Service export reporting (including software)
- Ensure timely settlement of:
  - Advance receipts and payments
- Align processes with:
  - AD Bank SOPs and compliance frameworks

IT Amendment 2026: Strengthening Governance of Synthetic Content (SGI)

The 2026 amendment to India's IT framework introduces a comprehensive regulatory approach to address the growing risks associated with deepfakes, AI-generated content, and misinformation. As synthetic media becomes increasingly sophisticated, the amendment aims to strike a balance between technological innovation and user protection.

As per the official notification, the amendment brings clarity in definitions, enhanced due diligence obligations, greater transparency requirements, and significantly reduced timelines for grievance redressal for intermediaries.

1.Recognition and Scope of SGI

A key feature of the amendment is the formal introduction of "Synthetically Generated Information (SGI)", defined as any audio, visual, or audiovisual content that is digitally created or algorithmically altered in a manner that makes it indistinguishable from real-world content.

This includes:

- Deepfake videos
- AI-generated voice clones
- Artificially created images

Under Rule 21(A), SGI is explicitly categorized as "information," ensuring that synthetic content falls within the ambit of existing compliance and enforcement provisions

2.Clarifications on Safe Harbour and Compliance

The amendment clarifies that automated content removal carried out in accordance with the Rules will not affect safe harbour protection under Section 79(2) of the IT Act, resolving earlier uncertainties.

Intermediaries must now:

- Inform users every three months about their rights, obligations, and risks, including SGI-related concerns
- Act on urgent takedown notices within 3 hours
- Remove certain harmful content within 2 hours
- Resolve grievances within 7 days (earlier 15 days), with critical cases addressed within 36 hours

Further, earlier provisions requiring "best efforts" have now been strengthened into mandatory deployment of technical measures to prevent misuse.

3.Enhanced Due Diligence for Synthetic Content

Significant Social Media Intermediaries (SSMIs) face heightened responsibilities.

They must:

- Require users to declare whether content is synthetic
- Verify such declarations using automated tools
- Label and classify SGI before publication

Failure to comply at the pre-publication stage may be treated as a breach of due diligence, potentially impacting safe harbour protection.

Law enforcement requests must now:

- Originate from officers of Deputy Inspector General rank or above
- Be supported by written authorization

These changes necessitate 24/7 monitoring systems, real-time alert mechanisms, and robust compliance infrastructures.

4.Stricter Obligations for Social Media Platforms

Significant Social Media Intermediaries (SSMIs) face heightened responsibilities.

They must:

- Require users to declare whether content is synthetic
- Verify such declarations using automated tools
- Label and classify SGI before publication

Failure to comply at the pre-publication stage may be treated as a breach of due diligence, potentially impacting safe harbour protection.

Law enforcement requests must now:

- Originate from officers of Deputy Inspector General rank or above
- Be supported by written authorization

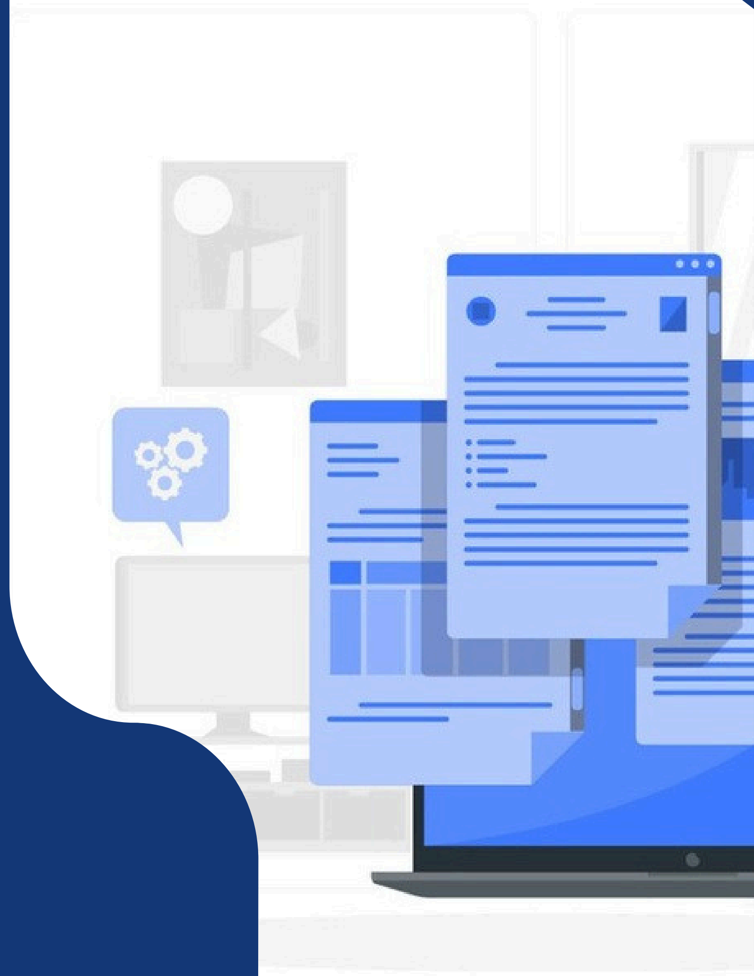
These changes necessitate 24/7 monitoring systems, real-time alert mechanisms, and robust compliance infrastructures.

5.Sectoral Impact Across the Digital Ecosystem

The amendment significantly impacts multiple sectors:

- AI & Content Platforms: Must invest in watermarking, metadata systems, and detection tools
- Social Media Companies: Need to redesign workflows for content declaration, verification, and labeling
- Media & Advertising: Must ensure transparency in synthetic content, especially in political or sensitive contexts
- Start-ups: May face higher compliance costs but benefit from clearer regulatory guidelines

Overall, the amendment promotes accountability, transparency, and structured innovation in the digital ecosystem.



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