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TaX Edge

Your Monthly Guide to Staying Ahead

JULY 2026

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GST – Vendor Compliance: Supplier compliance can impact the buyer's ITC eligibility, making regular reconciliation essential.

ROC Compliance: CCFS-2026 extended up to 31 August 2026, providing additional time for eligible pending filings.

RBI – Digital Fraud Protection: New safeguards strengthen customer protection against digital banking fraud, with compensation provisions for eligible losses.

SEBI – Investor & Cyber Protection: Mutual fund transmission procedures have been simplified for nominees and legal heirs, while SEBI has cautioned against rising "Boss Scam" CEO/MD impersonation fraud targeting senior management and finance teams.

FCRA Rules 2026: Tighter requirements introduced for registration, disclosures, activity thresholds and audits.

FEMA – FLA Return: Entities with foreign assets or liabilities must ensure timely FLA Return compliance.

MoSPI – ASISSE: Selected Companies and LLPs receiving ASISSE notices must submit the required information within the prescribed timeline.

GIFT City Relief: Nil TDS On Specified Payments To IFSC Units

Under the earlier framework, Indian companies paying professional fees to fund managers in GIFT City's IFSC were required to deduct TDS upfront, with the IFSC unit then separately claiming a refund — despite this income already being eligible for a long-standing tax holiday. This created a procedural mismatch with legislative intent.

That mismatch has now been resolved.

On 10 July 2026, CBDT issued Notification No. 80/2026 [F. No. 275/19/2026-IT(B)], under Section 400(1) read with Section 147 of the Income-tax Act, 2025, exempting payers from TDS deduction on a defined list of payments to eligible IFSC units. The exemption applies retrospectively from 1 April 2026, covering the entire current tax year.

Why This Matters To You

- If your business pays interest, professional fees, brokerage, commission, or dividends to a GIFT City entity — a bank, fund manager, broker-dealer, or fintech unit — you may now be able to stop deducting TDS on those payments altogether, provided the IFSC unit gives you the right paperwork

- This is not a new concession but a procedural correction — the government is aligning day-to-day TDS compliance with a tax exemption (Section 147) that already existed for IFSC units, removing a compliance step that was inconsistent with the underlying exemption.

Who Benefits ? A Quick Map of the Categories

The notification is specific about which IFSC entities and which income streams qualify. Here is the breakdown, retaining the correct statutory anchor — Section 393 of the Income-tax Act, 2025, which is the new consolidated 'umbrella' TDS provision that replaced dozens of scattered sections (like the old 194A, 194H, 194J) under the 1961 Act:

List Of IFSC Entities

IFSC Entity Type	Exempt Payment	TDS Law Reference
Banking Unit	Interest on external loans, professional fees, referral fees, brokerage, factoring commission	Sec 393(1) & 393(2)
Insurance Intermediary	Insurance commission	Sec 393(1)
Finance Company / Unit	Interest on external loans, dividend income,factoring commission	Sec 393(1) & 393(2)
Fund Management Entity	Professional fees	Sec 393(1)
Broker-Dealer / Distributor	Dividends, distribution fees, transaction commission	Sec 393(1)
Investment Adviser/ Banker	Advisory and investment banking fees	Sec 393(1)
FinTech Entity	Technical fees, professional fees, commissions	Sec 393(1)
Custodian / Rating Agency/ Trustee / ITFS	Professional fees, trusteeship fees, operational commissions	Sec 393(1)

The Fine Print: 20 Years, One Form, and 14 Categories

The relief is neither unconditional nor permanent. Three features define how it operates:

- The 20-year window: Every eligible IFSC unit gets to pick a block of 20 consecutive tax years during which it wants this benefit. Outside that chosen block, ordinary TDS rules resume applicability. This mirrors the underlying Section 147 tax holiday, which itself runs for a chosen 10-out-of-20 (or similar) year period for IFSC entities.

- Form No. 1(N) is mandatory: An IFSC unit cannot simply assume the exemption applies it must proactively file a verified declaration in Form No. 1(N) with each payer, confirming its registration (with IFSCA, SEBI, or RBI, as applicable), its PAN, and the exact tax years it has opted into. Only once a payer has this form on file can it stop deducting TDS.

- Reporting obligations continue, only the deduction is dispensed with: Even where TDS is not deducted, the payer remains legally required to report every such non-deducted payment in its regular quarterly TDS statements, per Section 397(3)(b) read with Rule 219 of the Income-tax Rules, 2026. Reporting requirements remain fully in force — only the requirement to collect tax upfront that was never actually due has been removed.

Takeaway

This notification does not create a new tax break, it removes procedural friction around a tax exemption that already existed. If your business regularly deals with GIFT City entities, the practical step is straightforward: before your next payment, confirm whether a valid Form No. 1(N) is on file. If it is, TDS can be dispensed with; if it is not, TDS should continue to be deducted as usual until the form is received. Getting this right protects both your compliance record and your counterparty's cash flow.

Foreign Asset Data Now Reflected in Your AIS

For years, India has received financial data on its residents from foreign banks under the OECD's Common Reporting Standard (CRS) and the India-US FATCA arrangement — but this information sat within the tax department's systems, largely invisible to taxpayers. That has now changed.

On 8 July 2026, CBDT issued an Order (F. No. 225/73/2025-ITA-II) under Section 239 read with Rule 245(2) of the Income-tax Rules, 2026, authorising the DGIT (Systems), Delhi, to upload Automatic Exchange of Information (AEOI) data — referenced under Section 159 of the Income-tax Act, 2025 — directly into taxpayers' Annual Information Statement (Form No. 168).

The change matters less as a penal measure than as a signal: taxpayers can no longer claim ignorance that their foreign accounts were being tracked.

WHAT'S ACTUALLY NEW

Before : Foreign account data existed with the department, but rarely surfaced on a taxpayer's own AIS screen.

Now : Reportable foreign bank accounts, custodial investment holdings, interest income, and dividend income as reported by over 100 partner jurisdictions will appear directly in your AIS, giving you a mirror of what the taxman already sees.

A Facilitative Measure — With Two Important Caveats

- It is not the full picture: The AIS only reflects what partner countries have chosen to share, and only once they have shared it. A foreign asset that has not yet been reported by the relevant jurisdiction, or that falls outside the scope of CRS/FATCA, will simply not appear — and its absence from the AIS is not evidence that it need not be disclosed.

CBDT has clarified that this feature is intended to help taxpayers reconcile their own records before filing, rather than function as an automatic audit trigger. This is a genuinely taxpayer-friendly measure. However, two important caveats should be kept in mind:

- Schedule FA and Schedule FSI remain non-negotiable: Every resident and ordinarily resident (ROR) taxpayer must continue to fully declare all foreign bank accounts, financial interests, and foreign-sourced income in Schedule FA and Schedule FSI of their Income Tax Return — irrespective of whether the AIS happens to display that information. Non-resident taxpayers are not covered by this disclosure requirement, since Schedule FA applies specifically to ROR filers.

- The data has a time lag: As things stand, the portal displays AEOI data for calendar years 2022, 2023, and 2024, which is being cleared as a backlog within 90 days of the July order. Data for calendar year 2025 will follow once received from partner jurisdictions, expected to reflect on the portal around September–October 2026, after which the standard 90-day upload timeline will apply going forward each year.

What You Should Do This Filing Season

- Log in to the e-filing portal and review your AIS (Form 168) for any foreign account or income entries before you file your return.
- Cross-check every foreign bank account, brokerage account, insurance policy, or overseas asset you hold — even dormant or low-value ones — against Schedule FA.
- Absence from the AIS should not be read as safety: an asset not yet visible in the AIS may still be a valid, mandatory disclosure item.
- If you find a mismatch or a past omission, consider correcting it through a revised or updated return rather than waiting for a department query.

The broader message is one of transparency rather than enforcement. The tax department is sharing this information earlier, giving compliant taxpayers a genuine opportunity to self-correct. How this facility evolves will, as always, depend on how taxpayers respond to it.

Transition to the Income-tax Act, 2025.: What Changes for Existing Registrations ?

1 April 2026 marked more than the start of a new financial year — it was the date on which the Income-tax Act, 1961, after 65 years in force, was formally replaced by the Income-tax Act, 2025. A change of this scale naturally raises a practical question: does an approval, registration, or certificate obtained under the old law continue to remain valid? CBDT has moved quickly to address this question, and the position is reassuring.

THE HEADLINE TAKEAWAY

No existing registration, approval, or lower/nil TDS certificate lapses merely because the new Act has come into force. The transition has been designed as a continuation of existing compliance, not a reset.

Existing Provisions That Remain in Force

- Charitable trust registrations (Section 12AB): Trusts and institutions that already hold a valid registration under Section 12AB of the 1961 Act continue to enjoy that registration until its original expiry date. There is no need to rush into a fresh application merely because of the change in law. Looking ahead, once renewal falls due, it will be processed under the new Act's consolidated non-profit framework — Section 332 — which brings together provisions that used to be scattered across Sections 11, 12, 12A, 12AA, 12AB, 13, and 10(23C) of the old Act.

- Donor deduction approvals (Section 80G): Similarly, existing 80G approvals — the ones that let a donor claim a deduction for donations to your trust — remain fully valid. The new Act's equivalent home for this benefit is Section 354, but again, no immediate re-application is required.

- Lower or nil TDS certificates: If your business or profession already holds a certificate for lower or nil TDS deduction issued before 31 March 2026 under Section 197 of the old Act, that certificate does not lapse. It continues to be honoured by payers exactly as before, for the period it was originally issued.

- Pending applications don't fall into a legal black hole : Where an application for a lower/nil TDS certificate, or for 12AB/80G registration, was filed on or before 31 March 2026 but was still pending when the new Act took effect on 1 April 2026, the department will simply carry it forward: if the benefit relates to an earlier tax year, it continues to be processed under the old 1961 Act (by virtue of the transitional provisions in Section 536(2) of the new Act); if it relates to Tax Year 2026-27 onward, it is administratively treated as though filed under the corresponding provision of the new Act — with no need to file it all over again.

- Refunds, losses, and MAT credit : Pending income tax refunds, carried-forward business losses, and Minimum Alternate Tax (MAT) credit accumulated under the old Act are not wiped out either. They continue to be honoured and set off exactly as the old rules intended.

One Practical Reminder

- While the transition does not require fresh applications, it does require continued attentiveness. If the tax department seeks additional documents or clarification on a pending matter, such requests still require a prompt response — the continuity CBDT has provided is automatic, but it does not extend to ignoring departmental correspondence.
- Businesses should also start getting familiar with new section numbers (for example, Section 393 for TDS, Section 332 for trust registration, Section 354 for donor deductions) since these will govern all fresh compliance from Tax Year 2026-27 onward, even though FY 2025-26 return filing this July still uses the familiar old numbering.

Section 80JJAA Deduction

Section 80JJAA of the Income Tax Act provides a deduction to encourage employers to recruit new or additional employees, thereby supporting employment generation across sectors of the Indian economy. The provision is available to all assessees whose total income includes profit or gains from business.

Eligibility Criteria

To claim a deduction under Section 80JJAA, the taxpayer must satisfy the following conditions:

1. Nature of the business — The business must not have been formed by splitting up or reconstructing an existing business. However, a business formed through re-establishment, reconstruction, or revival remains eligible.

2. Mode of acquisition — The business must not have been acquired by the taxpayer through transfer from another person or as a result of business reorganisation.

3. Compliance requirement — The taxpayer must file the income tax return before the due date, accompanied by a report from a Chartered Accountant in Form 10DA.

Quantum of Deduction

Eligible taxpayers may claim a deduction equal to 30% of the additional employee cost, available for three consecutive assessment years.

Definition of an "Additional Employee"

An additional employee is one employed during the previous year whose employment results in a net increase in the total employee count as on the last day of the preceding year. The following are excluded from this definition:

- Employees with total emoluments exceeding ₹25,000 per month
- Employees for whom the entire contribution under the Employees’ Pension Scheme is paid by the Government
- Employees employed for fewer than 240 days during the previous year (150 days in the case of apparel manufacturers)
- Employees who do not participate in a recognised provident fund

Meaning of "Additional Employee Cost"

Additional employee cost refers to the total emoluments paid or payable to additional employees during the previous year. For an existing business, the additional employee cost is treated as nil if:

- There is no increase in the total number of employees compared to the last day of the preceding year; or
- Emoluments are paid other than by account payee cheque, account payee bank draft, or ECS through a bank account.

In the first year of a new business, emoluments paid or payable to employees hired during that year are deemed to constitute the additional employee cost.

Definition of "Emoluments"

- Employer contributions to any pension fund, provident fund, or other statutory fund for the employee's benefit
- Lump-sum payments made at the time of termination of service, superannuation, or voluntary retirement — including gratuity, severance pay, leave encashment, voluntary retrenchment benefits, and commutation of pension

Illustrative Example

ABC Manufacturing Ltd. employed 200 regular workers as on 31 March 2026. During FY 2026–27, the company hired 25 additional eligible employees, each earning a monthly salary of ₹20,000 (within the ₹25,000 threshold), all enrolled in the recognised provident fund and continuing in employment for more than 240 days during the year.

- Additional employee cost = 25 employees × ₹20,000 × 12 months = ₹6,00,000
- Deduction @ 30% = ₹1,80,000

ABC Manufacturing Ltd. can claim this ₹1,80,000 deduction in each of AY 2027–28, AY 2028–29, and AY 2029–30 — a cumulative deduction of ₹5,40,000 over three years — provided the headcount increase and all other conditions continue to be satisfied.

FAQ

Q. If an eligible employee resigns during the three-year claim period and is replaced by another employee, can the deduction still be claimed?

A. Yes. The deduction is linked to the additional employee cost recognised in the original year of hiring, not to the continued employment of the same individual. As long as the overall conditions of Section 80JJAA were satisfied when the cost was first incurred, the deduction for the remaining years is not forfeited merely because a specific employee subsequently leaves and is replaced.

Delhi High Court: Section 56(2)(x) Does Not Apply to a Company's Own Share Buyback

Few areas of tax law generate as much uncertainty as share buybacks, largely because the governing rules have changed significantly over the last two years. A recent Delhi High Court ruling addresses a question that had remained unresolved for companies for some years: can a company be taxed merely for buying back its own shares below fair market value? The Court's answer is a decisive one in favour of taxpayers.

Background: The Evolution of Buyback Taxation

Until 30 September 2024, the rule was simple. When a company bought back its own shares, the company itself paid a buy-back distribution tax under the erstwhile Section 115QA, and shareholders who tendered their shares received the proceeds completely tax-free in their own hands. From 1 October 2024 onward, that regime was overhauled entirely. Section 115QA no longer applies to buybacks carried out on or after that date. Instead, the entire buy-back proceeds are now treated as dividend income in the hands of the shareholder, taxed under Section 2(22)(f) at their applicable slab rate, with TDS deductible at source under Section 194 (now consolidated under Section 393 of the new Act). Shareholders get no deduction for their original cost of acquiring the shares against this dividend income — that cost can only be claimed separately as a capital loss, which can be carried forward but never set off against the dividend itself. In effect, the tax burden has shifted decisively from the company to the shareholder.

Why The Old Case Still Matters Today

Even though this High Court dispute relates to a 2017-18 buyback under the pre-October-2024 regime, its central legal principle is regime-neutral: it settles, once and for all, whether a company can additionally be taxed under a completely different provision — Section 56(2)(x) — merely for buying back its own shares below fair market value. That question remains just as live under today's dividend-taxation regime as it was under the old Section 115QA framework.

The Facts: A ₹16.33 Crore Question

Globe Capital Market Ltd., a company engaged in share broking and trade clearing, bought back 28,62,500 of its own equity shares in Assessment Year 2018-19, at ₹313.40 per share. The fair market value of those shares, computed under Rule 11UA, worked out to ₹370.46 per share — a difference of ₹57.06 per share. During a search assessment under Section 153A, the Assessing Officer seized on this gap and treated it as the company having 'acquired property' at less than fair market value, adding the resulting differential — ₹16.33 crore — to the company's taxable income under Section 56(2)(x).

The Revenue's argument rested on a literal reading of the law: shares are explicitly defined as 'property' under Section 56(2)(x), and the provision draws no distinction between a company acquiring someone else's shares versus buying back its own. If any acquisition of shares below fair market value is taxable, the Revenue argued, a buyback should be no exception. Both the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal disagreed and ruled in the company's favour, prompting the Revenue to escalate the matter to the Delhi High Court.

The Court's Reasoning: A Company Cannot 'Acquire' What It Extinguishes

A Division Bench of the Delhi High Court, comprising Justices Dinesh Mehta and Vinod Kumar, dismissed the Revenue's appeal, and the Court's reasoning merits closer examination as it illustrates how courts look past the literal wording of a statute to its underlying legal substance.

- Buybacks follow a special statutory route: A company can only buy back its own shares through the specific mechanism laid down in Section 68 of the Companies Act, 2013. Outside this route, such a transaction has no legal existence at all under company law.

- Shares are 'property' only from a holder's point of view: The Court accepted that shares can indeed be 'property' when held by a third-party shareholder. But from the perspective of the company that issued them, a share is not an asset sitting on its books — it is simply evidence of a shareholder's capital contribution to the company.

- Extinguishment, not acquisition: A buyback is, in substance, a reduction of share capital. Section 68 of the Companies Act expressly requires that bought-back shares be extinguished and physically destroyed. As the Court framed it, a buyback is, in effect, the converse of purchasing an asset — at the very moment the transaction is completed, the so-called 'property' ceases to exist.

- Substance over form: Tax treatment, the Court held, must track the true legal character of a transaction under company law — not a mechanical, out-of-context reading of a tax definition. Since the premise of 'acquiring an asset cheaply' doesn't hold up when the asset is destroyed in the same breath, Section 56(2)(x) simply has no application here.

WHAT THE COURT ULTIMATELY HELD

Section 56(2)(x) has no application to a company's buyback of its own shares, and the ₹16.33 crore addition made by the Assessing Officer was rightly deleted by the lower authorities.

Reading the Ruling Alongside Today's Rules

This ruling remains fully relevant even after the 1 October 2024 overhaul of buyback taxation, precisely because its logic — that a company does not 'receive property' when it buys back and cancels its own shares — is entirely independent of who ultimately bears the tax. What has changed is only where the tax now lands: today, the entire buyback proceeds are taxed as dividend income in the shareholder's hands, with TDS under the consolidated TDS provisions of the new Act, potentially a steeper outcome for shareholders in higher tax brackets compared to the pre-2024 regime. But this Delhi High Court ruling continues to shield the company itself from ever facing a second, separate Section 56(2)(x) addition on the same transaction — a standalone protection that survives regardless of which shareholder-taxation regime happens to be in force.

Is It Mandatory to Reverse GST ITC on Assets Sold?

In brief: Yes — but not the full credit. When a capital asset on which ITC was claimed is sold, only the portion of credit relating to its remaining useful life needs to be reversed, not the entire amount originally claimed. With GST scrutiny on capital transactions increasing in 2025, businesses can no longer treat this as an optional step.

In Focus

- Capital goods — machinery, vehicles, furniture, computers and similar assets used in the business — often carry a significant amount of ITC claimed at the time of purchase. Rule 43 of the CGST Rules governs what happens to that credit when the asset is subsequently sold or otherwise disposed of before the end of its useful life.

- The underlying logic is straightforward: ITC is meant to correspond to the period the asset actually serves the business, so if it is sold before its full useful life is exhausted, the credit relating to the remaining, unused portion of that life must be reversed.

- For this purpose, capital goods are deemed to have a useful life of five years from the date of the invoice. If an asset is sold before this period is over, the reversal is computed on a pro-rata basis for the remaining months, and this reversal amount is compared with the actual GST payable on the sale consideration — whichever of the two is higher is the amount required to be paid.
- This rule applies specifically to capital goods that were used, or are capable of being used, for both taxable and exempt supplies, or partly for business and partly for non-business purposes — the exempt or non-business portion of the credit is what ultimately needs to be reversed or accounted for.

- It is also important to recognise that Rule 43 does not operate in isolation. Rules 42 and 44, along with the 180-day payment rule for input tax credit, together form a broader reversal framework that applies well beyond the simple sale of a capital asset — including situations where inputs or services are diverted to exempt supplies or personal use, or where a supplier invoice remains unpaid beyond 180 days.

- Meeting the basic eligibility conditions for ITC at the time of purchase does not, by itself, protect the credit from a later reversal obligation if the asset's use changes or it is disposed of early.

Illustrative example: computing reversal on sale of a capital asset

Particulars	Detail
ITC availed on purchase of machinery	₹5,00,000
Deemed useful life	5 years (60 months)
Machinery sold after	36 months
Remaining useful life	24 months
ITC reversal (pro-rata for remaining life)	₹5,00,000 × 24/60 = ₹2,00,000
GST on transaction value of sale (say)	₹1,50,000
Amount payable (higher of the two)	₹2,00,000

Common Issues Businesses Face

- Asset sales recorded and invoiced for GST purposes, but the separate Rule 43 reversal calculation on remaining useful life is missed entirely.
- Reversal computed on the full ITC originally claimed instead of only the pro-rata amount for the remaining useful life.
- No comparison made between the computed reversal and GST on the actual sale value, resulting in underpayment.
- Assets that were used for both taxable and exempt supplies not tracked separately, making the reversal calculation error-prone at the time of sale.
- Confusion between Rule 43 (sale of asset) and Rule 40(2) (asset written off in books but not sold), leading to the wrong provision being applied

What You Should Look Into

Maintain a capital asset and ITC tracker that records the useful life, ITC claimed, and business-use pattern of each significant asset, so that a reversal calculation is triggered automatically whenever an asset is sold or disposed of. Compute the Rule 43 reversal, compare it against GST on the sale value, and report the higher of the two, so the position is defensible if reviewed later. Where an asset is written off rather than sold, separately assess whether Rule 40(2) applies to that specific case before assuming the same treatment as a sale.

FAQ

Q: Does the same reversal rule apply if the asset is written off in the books instead of being sold?

A: No, a different provision applies. Where a fixed asset is written off in the books rather than sold, the reversal is governed by Rule 40(2) of the CGST Rules, not Rule 43. Depending on the specific facts of the write-off, reversal may or may not be required — this needs to be assessed case by case rather than assuming the same treatment as a sale.

GSTR-3B vs Books vs GSTR-9 — Why Year-End Differences Trigger Notices

In Focus

- GST compliance runs on three parallel records, and each one serves a different purpose. GSTR-1 is the invoice-wise statement of outward supplies filed monthly or quarterly. GSTR-3B is the summary return used to declare tax liability, claim input tax credit and actually pay tax to the government.

- GSTR-9 is the annual return that consolidates the entire financial year's transactions into one composite picture. Books of account, meanwhile, are the taxpayer's own internal record of what actually happened in the business.

- Because GSTR-3B and GSTR-1 are filed monthly or quarterly while GSTR-9 is filed only once a year, small period-wise errors — a sale reported in the wrong month, a credit note missed, a duplicate entry, an invoice reported under the wrong GSTIN — do not get caught in real time. They simply accumulate

- By the time GSTR-9 is prepared, the return is effectively forced to reconcile twelve months of activity across three different data sets at once, and every unresolved variance becomes visible in a single filing.

- This is why differences between books, GSTR-2B/GSTR-3B and GSTR-1 are treated by the department as red flags. Unreported outward supplies, incorrect invoice values, duplicate or missing entries, and mismatched ITC claims are the most common causes, and they are exactly the patterns GST officers look for when selecting cases for scrutiny.

- The risk is compounded by the fact that GSTR-9, once filed, is final and cannot be revised. Any variance that is carried into it — even an honest clerical error — becomes a permanent entry on record, and the only way to correct it afterward is through additional tax payment, a departmental notice, or both.

Illustrative Example: How a small monthly gap becomes a year-end issue

Month	Books Turnover (₹)	GSTR-1 Turnover (₹)	GSTR-3B Turnover (₹)	**Remarks**
April	10,00,000	10,00,000	10,00,000	Matched
May	12,00,000	11,40,000	11,40,000	Credit note of ₹60,000 not linked in books
…	…	…	…	Gap repeats across several months
Year-end (GSTR-9)	1,45,00,000	1,42,80,000	1,42,80,000	₹2.2 lakh cumulative variance surfaces at annual filing

Common Issues Businesses Face

- Sales recorded in books in one month but reported in GSTR-1 in the following month, especially around month-end cut-offs.
- Credit notes and debit notes issued to customers but not updated in the accounting software before the return is filed.
- E-invoices auto-populating GSTR-1 while the corresponding entry in Tally/ERP is passed later or with a different value.
- HSN summary and turnover in GSTR-9 not tying back to the audited financial statements, triggering scrutiny under GSTR-9C.
- RCM liability paid through cash ledger but not reflected consistently across GSTR-3B and books.

What You Should Look Into

Run a three-way reconciliation of books, GSTR-1 and GSTR-3B every month rather than waiting until year-end, so that variances are caught and corrected within the same tax period wherever the law permits. Before filing GSTR-9, carry out a dedicated pre-filing health check that lists every open variance, quantifies the tax impact, and decides whether it should be corrected through a DRC-03 voluntary payment or explained with supporting reconciliation statements. If a notice is still received, respond with a structured, evidence-backed explanation rather than a reactive one, so that genuine timing differences are not mistaken for suppression of turnover.

FAQ

Q: Why do mismatches only surface at year-end while filing GSTR-9?

A: GSTR-9 cannot be filed without first completing GSTR-1 and GSTR-3B for the entire financial year, so it functions as a mandatory annual reconciliation checkpoint. Since GSTR-3B and GSTR-1 are filed monthly or quarterly while GSTR-9 is filed only once, any small errors between books and the two returns that went unnoticed through the year accumulate silently and are exposed only when the full year's data is consolidated at the annual filing stage.

Vendor Non-Compliance — Can the Buyer Lose ITC?

In brief: A purchase can be completely genuine — real goods, a valid invoice, payment made in full — and the buyer can still lose Input Tax Credit if the vendor fails to file returns or pay tax on that supply. Under GST, ITC is not purely a function of your own compliance; it depends on your supplier's behaviour too

In Focus

- One of the least understood aspects of GST is that Input Tax Credit is a matched, two-sided entitlement. It is not enough that the buyer holds a valid tax invoice and has made payment — the credit is only fully secure if the supplier has also reported the corresponding outward supply and discharged the tax.

- When a vendor defaults on filing, issues a fake or non-existent invoice, or creates a reconciliation mismatch between what they reported and what appears in the buyer's GSTR-2B, the buyer's credit becomes vulnerable to being blocked, reversed, or demanded back with interest.

- This is one of the most frequent reasons Indian businesses face blocked ITC today, and it is largely outside the buyer's direct control

- It can arise from a supplier simply not filing GSTR-1 or GSTR-3B on time, from a supplier who has been flagged as a risky or cancelled GSTIN, or from more deliberate issues such as circular trading and fake invoicing rackets that the buyer had no knowledge of.

- The law does provide some protection. Section 16(2)(c) of the CGST Act is generally understood to mean that ITC should not be denied to a genuine buyer merely because the supplier defaulted, provided the transaction itself is bona fide and properly documented.

- Courts and appellate authorities have, in several cases, read this provision in favour of honest taxpayers. However, relying on litigation after the fact is expensive, slow and uncertain — the more effective approach is to actively manage vendor risk before a mismatch ever reaches a notice stage

Common Issues Businesses Face

- Vendor's GSTIN gets suspended or cancelled mid-year without the buyer being informed.
- Invoices appear in the buyer's purchase register but never show up in GSTR-2B, delaying or blocking credit.
- Small and unorganised vendors filing returns late every month, creating a recurring gap in the buyer's monthly reconciliation.
- Credit notes issued by vendors not matched with the buyer's records, leading to double reversal.
- No contractual clause requiring vendors to remain GST-compliant, leaving the buyer with no recourse if credit is denied.

What You Should Look Into

Reconcile GSTR-2B against your purchase register every month, so that non-reflecting invoices are identified and followed up with vendors within the same period rather than months later. Build a vendor compliance check into your onboarding process, and consider contractual safeguards — such as tax indemnity and withholding clauses — that shift the financial risk of vendor default back onto the vendor. Where a notice has already been received for ITC reversal on account of a supplier's default, a documented, fact-based response relying on the protection available under Section 16(2)(c), along with evidence of the transaction's genuineness, is generally the right starting point

FAQ

Q: Can a buyer lose ITC even with genuine purchases and proper documentation?

A: Yes, this is a real and fairly common risk. A bona fide buyer with complete documentation can still lose ITC if the supplier is non-compliant — for example, by not filing returns, not paying tax, or issuing invoices that do not meet technical requirements. Even a technical defect, such as incorrect HSN reporting, can render an invoice defective and put the related credit at risk. This makes regular vendor monitoring and reconciliation essential, rather than something to address only after a notice is received.

Can ITC Be Claimed After a Departmental Notice?

In brief: Receiving a departmental notice does not automatically mean the related ITC is lost. Whether credit can still be claimed or retained depends heavily on which section the notice is issued under and whether the underlying supplier actually paid the tax — treating every notice the same way is one of the costliest mistakes businesses make

In Focus

- A common misconception is that any tax paid in response to a Show Cause Notice automatically disqualifies the related ITC.
- In reality, this restriction applies specifically to payments made under Section 74, which deals with cases involving fraud, wilful misstatement, or suppression of facts to evade tax.
- Where a notice or payment falls under other provisions — for instance, a routine mismatch flagged under Section 73, which covers cases without an allegation of fraud — ITC can still be availed, subject to the usual conditions being met.
- The validity of an ITC claim ultimately hinges on whether the supplier actually paid the GST on the underlying supply, either directly in cash or through eligible credit, and reported the transaction correctly in their returns.
- This is precisely why mismatch notices are issued in the first place — the department flags cases where the buyer has claimed credit that does not reconcile with what the supplier has reported or paid.
- When such a notice arises purely because a supplier defaulted on payment or filing, rather than because of any fault of the buyer, a structured response — demonstrating the genuineness of the purchase and the buyer's own compliance — is generally more appropriate than an automatic reversal of the credit.
- Ignoring such notices, or responding to them without a clear strategy, carries real consequences. Unresolved cases can escalate into formal proceedings under Sections 73, 74, or 122, and in more serious situations, the department has the power to block the electronic credit ledger, which can disrupt the business's ability to use ITC for its ongoing operations until the matter is resolved.
- Because each notice needs to be assessed on its own facts — the section it is issued under, the reason for the mismatch, and the buyer's own documentation — a blanket, one-size-fits-all response is rarely the right approach.

Illustrative example: how the section under which a notice is issued changes the outcome

Notice / Payment Section	Nature of Case	Can ITC Still Be Claimed?
Section 73	Genuine error, no fraud alleged	Generally yes, subject to conditions
Section 74	Fraud / wilful misstatement alleged	Restricted — ITC generally not available on such payment
Section 122	Penalty proceedings for specific defaults	Assessed separately from the ITC position itself

Common Issues Businesses Face

- Treating every GST notice as a Section 74 (fraud) matter and reversing ITC automatically, even where no fraud is alleged.
- Not verifying whether the mismatch is due to a supplier's default before responding, and missing the chance to invoke Section 16(2)(c) protection.
- Delayed or generic responses to notices, allowing the matter to escalate to formal proceedings or blocking of the credit ledger.
- Insufficient documentation retained at the time of purchase (e-way bill, delivery proof, payment trail) to demonstrate genuineness when a notice is later received.
- No internal process to track notices received across multiple GSTINs of the same business, causing deadlines to be missed.

What You Should Look Into

Start by identifying the correct section under which a notice has been issued and the underlying reason for the mismatch, before deciding on a response strategy — this alone often changes the outcome significantly. Assemble the supporting documentation needed to demonstrate a transaction's genuineness, file structured responses within statutory timelines, and track every notice across your GSTINs on a single log so that none are missed. Where credit has already been reversed unnecessarily, evaluate the options available to reclaim it.

FAQ

Q: If we receive a notice for an ITC mismatch caused by our supplier's default, should we reverse the credit immediately?

A: Not necessarily. ITC generally cannot be availed on tax paid pursuant to a notice specifically under Section 74, which covers fraud or wilful misstatement — but this restriction does not automatically extend to every notice. Where the mismatch has arisen purely because a supplier failed to file or pay tax, and the purchase itself is genuine and properly documented, a structured response demonstrating this is usually the more appropriate first step, rather than an automatic reversal of the credit.

Important note

GST on Director Remuneration — Current Position

In brief: Whether GST applies to what you pay a director depends less on the amount and more on how that director is engaged with the company. The employee versus non-employee distinction — and how the payment is treated for TDS — decides whether GST, and specifically Reverse Charge, comes into play.

- Directors are typically compensated through a mix of salary, sitting fees, commission and professional fees, and GST treats each of these differently depending on the underlying relationship between the director and the company.
- Where a director is also an employee of the company — receiving remuneration that is processed through payroll and subject to TDS under Section 192 — that payment is generally treated as being outside the scope of GST, on the basis that services rendered by an employee to the employer in the course of employment are not a supply.
- The position changes where the director is not an employee.
- This typically covers independent, non-executive or nominee directors who are paid professional fees, sitting fees for attending board meetings, or commission linked to profits, and where TDS is deducted under Section 194J (professional fees) rather than Section 192 (salary).
- Such payments are treated as a supply of services by the director to the company, and because the director is an unregistered individual providing this service, the liability to pay GST shifts to the company itself under the Reverse Charge Mechanism (RCM).
- In practical terms, this means the company must self-invoice, discharge GST under RCM at the applicable rate, and separately claim the corresponding input tax credit, subject to the usual eligibility conditions.
- Because the same individual may sometimes be both an employee-director and also receive separate sitting fees or commission in a non-employee capacity, companies often end up applying the wrong treatment to part of the payment.
- Getting the categorisation right — payment by payment — is therefore essential, and it needs to be reviewed each time a director's role or manner of compensation changes.

Illustrative example: categorising director payments

Payment Type	TDS Section	Nature of Relationship	GST under RCM?
Monthly salary	192	Employee-director	No
Sitting fees for board meetings	194J	Non-employee / independent director	Yes
Commission on profits	194J	Non-employee director	Yes
Professional / consultancy fees	194J	Non-employee director	Yes

2. Common Issues Businesses Face

•Treating all director payments as salary by default, even where part of the payment is really for professional or advisory services.
•Not applying RCM on sitting fees paid to independent directors because the amounts appear small and are overlooked.
•Confusion where a whole-time director also receives commission — only the non-employment portion attracts RCM, not the entire payment.
•Failure to raise a self-invoice for RCM liability, which can affect the validity of the ITC claimed on it.
•Not revisiting the classification when a director's role changes from executive to non-executive during the year.

3. What You Should Look Into

Review your board's remuneration structure payment by payment — not just role by role — to correctly identify which components fall within employment and which attract GST under RCM. Set up a self-invoicing and RCM payment process each month, ensure the corresponding ITC is correctly claimed, and flag any change in a director's status during the year that should trigger a change in GST treatment. Where past periods have been treated incorrectly, quantify the exposure early and evaluate the most appropriate way to regularise it.

4. FAQ

Q: Does GST under RCM apply to the sitting fees paid to all directors?

A: It applies specifically to directors who are not employees of the company — typically independent or non-executive directors — because their sitting fees and commission are treated as a taxable supply of service on which the company must pay GST under Reverse Charge. Remuneration paid to a director who is also an employee, and processed as salary, is generally outside the scope of GST and does not attract RCM.

From FY 25-26

CCFS 2026 Extended to 31 August: More Time to Clear Pending AOC-4, MGT-7 and Other ROC Filings

Introduction

The Ministry of Corporate Affairs (MCA) has extended the validity of the Companies Compliance Facilitation Scheme, 2026 (CCFS-2026) from 15 July 2026 to 31 August 2026, vide General Circular No. 03/2026 dated 8 July 2026. The extension was granted in view of capacity enhancement and restoration work at the MCA data centre following a fire incident on 5 June 2026.

CCFS-2026 was originally introduced vide General Circular No. 01/2026 dated 24 February 2026, under Section 460 read with Section 403 of the Companies Act, 2013, and became operative from 15 April 2026. It is a one-time facilitation scheme allowing companies to regularise pending statutory filings at a substantially reduced additional fee. With this extension, companies now have roughly seven additional weeks to take advantage of the scheme before standard late fees resume.

What the Scheme Offers

CCFS-2026 gives companies three distinct relief routes, all available up to the extended closing date of 31 August 2026:

- Regularise pending annual filings at 90% fee waiver: Companies can file overdue MGT-7, MGT-7A, the AOC-4 series (AOC-4, AOC-4 CFS, AOC-4 NBFC (Ind AS), AOC-4 CFS NBFC (Ind AS), AOC-4 XBRL), ADT-1, FC-3 and FC-4 — as well as corresponding forms under the erstwhile Companies Act, 1956 (Forms 20B, 21A, 23AC, 23ACA, 66 and 23B) — by paying the normal filing fee plus only 10% of the applicable additional fee.
- Obtain dormant status: Inactive companies can file e-form MSC-1 to be declared a 'dormant company' under Section 455, at 50% of the normal filing fee, allowing them to remain on the register with minimal compliance.
- Apply for strike-off: Companies wishing to exit the register altogether can file e-form STK-2 during the currency of the scheme at 25% of the applicable filing fee.
- Immunity from penalty: Where MGT-7/MGT-7A (Section 92) or AOC-4 series filings (Section 137) are completed before a notice is issued, or within 30 days of such a notice, the related proceedings are concluded with no penalty levied.

How This Affects You

- More runway to close old defaults: Companies with pending annual filings from earlier years now have until 31 August 2026 — rather than 15 July — to file at a fraction of the normal additional fee.
- Cost savings are significant: Additional fees on AOC-4 and MGT-7 accrue at ₹100 per day per form with no upper cap outside the scheme; under CCFS-2026, only 10% of that accumulated additional fee is payable.
- AGM defaults are not covered: Non-conduct of the AGM under Section 96 falls outside CCFS-2026 and must be addressed separately through compounding — filing AOC-4/MGT-7 under the scheme does not cure an AGM default.
- Not every company qualifies: Companies already under a final strike-off notice, or that have already applied for strike-off or dormant status, and certain other excluded categories, cannot avail this scheme — eligibility should be checked before relying on it.
- Standard penalties resume sharply after 31 August: Once the scheme closes, the full ₹100/day additional fee (uncapped) resumes, and ROCs have been directed to act against remaining defaulters — this is a hard deadline, not an indicative one.
- CSR-2 filing: Note that CSR-2 is now filed as part of AOC-4 itself on the MCA V3 portal, not as a separate form.

Frequently Asked Questions

1. What is the new closing date for CCFS-2026?

31 August 2026. The scheme was originally due to close on 15 July 2026 but has been extended by MCA General Circular No. 03/2026 dated 8 July 2026.

2. Why was the scheme extended?

MCA cited capacity enhancement and restoration activities at its data centre following a fire incident on 5 June 2026, which had affected portal operations.

Exceptional vs. Extraordinary Items — Schedule III

Schedule III to the Companies Act, 2013 requires separate disclosure of items that are unusual in nature or size, but it draws a sharper line than many preparers realise. The term "extraordinary items" no longer exists in Ind AS or in the Schedule III format — it was withdrawn with Ind AS 1 / AS 5 revisions. Only "exceptional items" survive as a line item, and mislabelling continues to be a recurring audit observation.

The Core Distinction

Extraordinary Items (obsolete concept)	Exceptional Items (current requirement)
Arose from events clearly distinct from ordinary activities	Arise from an entity's ordinary activities, but are abnormal in size or incidence
Presented below profit before tax, net of tax	Presented as a separate line within profit before tax
Not permitted under Ind AS 1 / revised AS 5	Explicitly required to be disclosed under Schedule III, Division I and II
Example once cited: loss on expropriation of assets	Example: a one-time VRS cost, a large impairment, or a major fire loss

What Typically Qualifies as "Exceptional"

- Impairment losses / write-downs of a material, non-recurring nature (e.g., goodwill impairment, plant write-off).
- Restructuring costs, including VRS/severance packages tied to a specific one-time scheme.
- Gains or losses on disposal of a business segment, undertaking, or significant fixed asset.
- Litigation settlements or insurance claim receipts/payouts of unusual magnitude.
- Costs arising from a natural calamity, fire, or similar event affecting operations.

Common Errors Seen in Practice

From FY 25-26

- Mislabelling: using the term "extraordinary item" in notes or MD&A even though the format has no such line — flagged routinely by statutory auditors and in peer review.
- Netting: presenting exceptional items net of related tax effect on the face of the P&L, instead of showing the item pre-tax with tax impact disclosed separately in notes.
- Under-disclosure: burying a material one-off item within "other expenses" instead of a dedicated exceptional item line, especially when it would otherwise flatter EBITDA.
- Recurring "exceptional" items: classifying the same nature of cost as exceptional year after year (e.g., annual restructuring) — auditors and analysts both challenge recurrence as evidence the item is, in fact, ordinary.

Practice Note

Schedule III does not define "exceptional item" exhaustively — judgment is required, but that judgment must be disclosed and consistently applied. Where an item is classified as exceptional, the accounting policy note should state the basis, and comparative-period consistency should be checked before sign-

Related Party Transactions — Frequently Missed Compliances

Related party transaction (RPT) compliance sits across three separate frameworks — Companies Act approvals (Section 188), audit committee oversight (Section 177), and financial reporting disclosure (Ind AS 24 / AS 18) — and gaps usually arise because these are tracked by different teams that do not reconcile against a common related-party list.

Compliance Points Most Often Missed

- Arm's-length exemption misapplied: transactions in the "ordinary course of business" AND at "arm's length" are exempt from Section 188 approval — but both conditions must be satisfied and documented; many companies assume exemption on ordinary-course grounds alone without a benchmarking basis on file.

- Omnibus approval lapses: audit committee omnibus approvals under Rule 6A must specify value limits and are valid only for one financial year — transactions continuing into the next year without a fresh omnibus approval is a common lapse.

- Interested director not recused: an interested director must not be present during Board discussion/voting on the RPT resolution, and this recusal needs to be minuted, not just assumed.

- Related party definition under-scoped: the Section 2(76) definition (and the wider Ind AS 24 definition, which includes KMP of the holding company, close family members, and entities under common significant influence) is broader than what most RPT registers capture — director relatives' firms/LLPs and step-down subsidiaries are frequent omissions.

- Threshold monitoring gaps: Rule 15 materiality thresholds under Section 188 (e.g., 10% of turnover for sale/purchase, 10% of net worth for leasing, 10% of turnover/net worth for selling/rendering services) require monitoring against trailing financials, not just the current transaction — aggregation of similar transactions during the year is often missed.

- Special resolution trigger missed: material RPTs (exceeding the same Rule 15 thresholds) require a special resolution and, for listed companies, related-party shareholders must abstain from voting — the abstention step is easy to overlook in notice drafting.

- Disclosure vs. approval confusion: Ind AS 24 disclosure of compensation, outstanding balances, and terms is required even for transactions that were exempt from Section 188 approval as arm's length — preparers sometimes assume exemption from approval also means exemption from disclosure.

Quick Reconciliation Check

- Does the RPT register reconcile line-by-line with Form AOC-2 and the Ind AS 24 / AS 18 disclosure note for the same year?
- Is there a Board/Audit Committee minute evidencing arm's-length and ordinary-course determination for each exempted transaction?
- Have loans/guarantees to related parties been separately checked against Section 185/186, which operate independently of Section 188?

RBI's New Banking Rules Effective July 1, 2026

A summary of the regulatory and banking-policy changes and what they mean for customers and investors

The Big Picture

Starting July 1, 2026, several regulatory and banking-policy changes took effect across India, covering digital payment security, credit card benefits, and compliance deadlines. The RBI introduced measures to strengthen consumer protection, including tighter safeguards against digital banking fraud and financial product mis-selling. Meanwhile, HDFC Bank and SBI Card revised reward and lounge-access policies, alongside changes to income tax filing and passport fee deadlines.

What's Actually Changing

RBI Safeguards Against Digital Banking Fraud (effective July 1, 2026):

•The RBI has issued draft Third Amendment Directions, 2026 under its Responsible Business Conduct framework, aimed at protecting customers from fraud in UPI payments, internet banking, mobile banking, card transactions, and ATM withdrawals.

•The rules apply to transactions from July 1, 2026 onward and cover commercial banks, while excluding small finance banks, payments banks, regional rural banks, and local area banks.

•Transactions authenticated via OTP, PIN, password, or card details are generally treated as authorised — including payments made under standing instructions.

•A transaction is treated as fraudulent where a third party uses credentials obtained through fraud, where a customer is coerced into authorising a payment, or where a customer is deceived into paying a scammer posing as a legitimate recipient.

•The draft defines bank negligence (e.g. weak systems, no fraud alerts) and customer negligence (e.g. sharing OTPs, ignoring alerts) separately, and introduces the concept of 'third-party breach' for failures by intermediaries such as payment aggregators or telecom providers.
For small-value fraud (loss up to Rs 50,000), an affected customer may get 85% of the net loss, capped at Rs 25,000, once in their lifetime — provided the fraud is reported to the bank and the National Cyber Crime Reporting Portal/Helpline (1930) within five days.

RBI’s Anti-Mis-selling Framework

- Customers mis-sold financial products such as insurance or investments by bank staff are eligible for full refunds and compensation for losses.
- Banks face increased compliance requirements, including stronger internal oversight and audits.

Credit Card & Banking Policy Shifts

- HDFC Bank: Domestic lounge access requires ₹60,000 quarterly spend, capped at 3 visits per calendar quarter.
- SBI Card: PhonePe co-branded PURPLE and SELECT BLACK cards now have reward caps and exclusions for certain transactions.

Administrative & Tax Updates

- ITR deadline: July 31, 2026, for FY 2025-26; late filing may attract penalties and affect compliance benefits.
- Aadhaar: UIDAI offers free email updates via its mobile app from July 1–December 31, 2026.
- Passport: Normal and Tatkaal fees increased from July 1, 2026, as per MEA.

Why It Matters

• For customers : Stronger recourse in cases of digital fraud, with a defined compensation mechanism for small-value losses — but eligibility depends on prompt reporting (within five days) to both the bank and the cyber crime portal/helpline.

• For banks : A higher compliance and technology burden — stronger fraud-detection systems, timely transaction alerts, and clearer internal audit trails will be needed to avoid negligence findings and compensation liability.

• For card users : HDFC Bank and SBI Card customers should reassess whether their spending patterns still justify these cards' premium benefits, given tighter lounge-access and reward-earning criteria.

• For investors in banking/financial stocks : These changes may raise compliance costs in the near term but are aimed at strengthening long-term customer trust; card issuers may see some impact on transaction volumes or customer churn depending on how reward/lounge changes are received.

FCRA Amendment Rules, 2026

What changed under the Foreign Contribution (Regulation) Rules and what it means for registered organisations

The Big Picture

The Ministry of Home Affairs (MHA) notified the Foreign Contribution (Regulation) Amendment Rules, 2026 on June 22, 2026, amending the parent Foreign Contribution (Regulation) Rules, 2011, with effect from the same date. The amendments tighten compliance for NGOs, trusts, and other associations that receive foreign funding in India, and arrive alongside a separate Foreign Contribution (Regulation) Amendment Bill, 2026 — introduced in the Lok Sabha on March 25, 2026 and still pending — which proposes a further, more sweeping overhaul of how foreign-funded assets are treated when an organisation's registration lapses. Together, the notified Rules and the pending Bill represent the most significant recalibration of the FCRA framework since the 2020 amendments.

What's New in the Rules

Purpose- and State-Specific Registration:

• A new sub-rule 9(1B) requires FCRA registration certificates to specify the exact purposes and the States/Union Territories in which an organisation is permitted to use foreign contributions.
• Associations already registered before June 22, 2026 have one year — until June 21, 2027 — to file Form FC-6F specifying the purposes and States/UTs they wish to retain.
• Any later expansion of scope requires a fresh Form FC-6F application, a governing-body resolution, and payment of a prescribed fee for each additional purpose or State/UT.

Quantified 'Reasonable Activity' Threshold:

• A new Rule 14A sets a monetary bar for what counts as 'reasonable activity' under Sections 14 (cancellation) and 16 (renewal) of the FCRA: an association must have utilised at least Rs 10 lakh of foreign contribution over the preceding two financial years, counting only foreign-funded activity.
• Falling short of this threshold creates a specific new risk factor for cancellation or non-renewal of registration, which is likely to weigh more heavily on smaller organisations.

Expanded 'Key Functionary' Definition and Foreign Nationals:

• Rule 2(1) gains a new clause (ca) broadening who counts as a 'key functionary' of a registered association.
• The Rules place new restrictions on foreign nationals serving as key functionaries of FCRA-registered organisations.

Enhanced Disclosure and Audit Requirements:

- Organisations face expanded disclosure obligations covering social media activity, publications, and details of the ultimate donors behind foreign contributions.
- Auditor certification must now carry a Unique Document Identification Number (UDIN), and a separate audited financial statement — also UDIN-tagged — is required specifically for foreign contribution accounts.
- The Rules explicitly bar the use of foreign contributions for proselytisation.

Who Remains Barred From Receiving Foreign Contributions:

Election candidates, sitting MPs/MLAs, political parties, judges, government servants, employees of state-owned corporations, and publishers, editors, or cartoonists of registered news media continue to be prohibited from receiving foreign funds.

The Pending Amendment Bill (Not Yet Law):

• The separate FCRA Amendment Bill, 2026 proposes that foreign-funded assets vest with the government not only when an organisation's registration is cancelled or surrendered (the current rule) but also when it simply expires without renewal.

As of July 15, 2026, there were 14,449 active FCRA registrations, alongside 22,498 cancelled and 15,212 expired registrations — the pool the Bill's expanded asset-vesting rule would apply to if enacted.

What It Means for You

• For currently registered organisations: The one-year window to file Form FC-6F (by June 21, 2027) is a hard compliance deadline — missing it, or mismatching stated purposes/States with actual activity, creates registration risk.

• For smaller organisations: The Rs 10 lakh 'reasonable activity' threshold under Rule 14A is a new, quantified bar that smaller or slower-spending associations may struggle to clear, raising their exposure to cancellation or non-renewal.

• For auditors and finance teams: The UDIN requirement and separate foreign-contribution financial statements add a recurring compliance and documentation step each filing cycle.

• For organisations with foreign staff or advisors: The tightened 'key functionary' rules may require a review of who currently holds governance or signing authority.

• For donors and international NPOs: Enhanced ultimate-donor disclosure and restrictions on inter-organisation transfers of foreign contributions mean donor due diligence and fund-routing arrangements may need to be revisited.

• If the pending Bill is enacted: The expanded asset-vesting trigger (covering non-renewal, not just cancellation/surrender) would materially raise the stakes of an administrative lapse — civil society and rights groups have already raised concerns that this goes beyond FATF's recommended risk-based approach and could constrain civil-society operating space.

SEBI Simplifies Mutual Fund Transmission Process

1. Investor-Friendly Measures to Ease Claims for Nominees and Legal Heirs

The Securities and Exchange Board of India (SEBI), through Press Release No. 41/2026 dated July 17, 2026, has announced a series of measures to simplify the transmission of mutual fund units upon the death of a unit holder. As part of its ongoing efforts to enhance investor convenience, SEBI has advised the Association of Mutual Funds in India (AMFI) to revise the existing operational standards, making the transmission process more efficient, transparent, and consistent across the industry.

2. Address Mismatches to No Longer Delay Claims

One of the major challenges faced during transmission is the mismatch between the recorded address of the deceased investor and the latest available address. Under the revised framework, Asset Management Companies (AMCs) are now permitted to rely on the most recent address, provided it is supported by appropriate documentary evidence. This change is expected to significantly reduce procedural delays and facilitate quicker processing of transmission requests.

3. Simplified Verification for Name and Signature Mismatches

One of the major challenges faced during transmission is the mismatch between the recorded address of the deceased investor and the latest available address. Under the revised framework, Asset Management Companies (AMCs) are now permitted to rely on the most recent address, provided it is supported by appropriate documentary evidence. This change is expected to significantly reduce procedural delays and facilitate quicker processing of transmission requests.

4. Uniform Practices Across the Mutual Fund Industry

To ensure effective implementation of the revised standards, SEBI has advised AMFI to conduct training for all stakeholders involved in the transmission process. The objective is to promote consistent practices across Asset Management Companies and improve the overall efficiency of claim settlement, thereby providing a smoother experience for investors and their legal heirs.

5. Why This Matters

The revised guidelines are aimed at reducing documentation-related hurdles, standardizing the treatment of common discrepancies, and ensuring that transmission claims are processed in a timely and transparent manner. These changes reflect SEBI's continued commitment to strengthening investor protection while simplifying regulatory procedures during what is often a challenging period for the claimant.

6. Key Takeaway

With these reforms, SEBI has taken another important step towards making the mutual fund transmission process more seamless and investor-centric. By addressing common issues such as address, name, and signature mismatches through standardized procedures, the regulator has paved the way for faster claim settlements and a more consistent experience across the mutual fund industry.

SEBI Alert: Protect Your Organisation from the Rising "Boss Scam"

1. A New Wave of Cyber Fraud Targeting Senior Executives

The Securities and Exchange Board of India (SEBI), based on inputs received from the Indian Cyber Crime Coordination Centre (I4C), has issued a cautionary advisory regarding the increasing incidence of "Boss Scam" or CEO/Managing Director impersonation fraud. This sophisticated cybercrime primarily targets finance teams and senior management of regulated entities and listed companies by exploiting trust, urgency, and modern technologies such as artificial intelligence.

2. What is a Boss Scam?

A Boss Scam is a form of cyber fraud in which criminals impersonate a company's CEO, Managing Director, or other senior executives to deceive employees into transferring funds or sharing sensitive information.
The fraudsters typically establish contact through email, WhatsApp, Microsoft Teams, or other social media platforms, creating a sense of urgency and authority. Employees, believing the instructions are genuine, may unknowingly transfer funds to fraudulent bank accounts.

3. How the Scam Works

AI-Powered Executive Impersonation

Cybercriminals are increasingly leveraging deepfake technology, AI-generated voice cloning, fake video calls, and counterfeit social media accounts to convincingly impersonate senior executives. These highly realistic communications are designed to pressure finance personnel into processing urgent fund transfers while discouraging independent verification.

Malicious ZIP File Attack

Another common tactic involves sending a compressed (.zip) file that appears to originate from the CEO or another trusted executive. The archive contains malicious executable files (.exe) or Dynamic Link Library (.dll) files. Once opened on a Windows device, the malware silently infects the system.

4. WhatsApp Hijacking – A Growing Threat

The malware deployed through these malicious files can hijack an employee's active WhatsApp Web session by stealing authentication tokens. Once access is gained, fraudsters begin communicating with finance or accounts personnel directly from the compromised account, making fraudulent payment requests appear completely legitimate.

In more advanced attacks, cybercriminals may even alter the victim's contact list by replacing the genuine CEO's phone number with the fraudster's number, making future fraudulent messages seem authentic.

5. Why These Attacks Are Successful

Boss Scams are effective because they combine authority, urgency, and sophisticated technology. Employees are often instructed to maintain confidentiality, citing reasons such as confidential business transactions or unpublished price-sensitive information (UPSI). This discourages independent verification and increases the likelihood of fraudulent fund transfers.

6. SEBI's Key Advisory for Organisations

To mitigate the risk of Boss Scams, SEBI has advised regulated entities and listed companies to strengthen their internal verification processes. Important precautions include:

- Independently verify all payment instructions received through WhatsApp, email, or social media by directly contacting the concerned senior official.
- Never authorize fund transfers solely based on digital messages or voice calls.
- Avoid opening compressed (.zip) files or executable attachments without verifying the sender's identity.
- Log out of inactive WhatsApp Web sessions and regularly review active connected devices.
- Educate finance and accounts teams about AI-enabled impersonation and emerging cyber fraud techniques.

7. Key Takeaway

The rapid advancement of artificial intelligence has significantly increased the sophistication of cyber fraud. Traditional verification methods are no longer sufficient when fraudsters can convincingly replicate voices, faces, and communication styles of senior executives. Organisations must therefore strengthen approval workflows, encourage independent verification, and foster cybersecurity awareness among employees.

SEBI's advisory serves as a timely reminder that a simple verification call can prevent substantial financial losses. As cybercriminals continue to evolve their tactics, vigilance, strong internal controls, and employee awareness remain the most effective defence against Boss Scams.

SEBI Proposes a Common Advertisement Code for Regulated Entities

1. A Step Towards Uniform, Transparent and Technology-Driven Advertising Standards

The Securities and Exchange Board of India (SEBI) has released a Consultation Paper proposing the introduction of a Common Advertisement Code (CAC) for specified regulated entities. The proposal aims to replace the existing fragmented and entity-specific advertising regulations with a single, harmonized framework applicable across the securities market. Once implemented, the Common Advertisement Code will be incorporated into the SEBI (Intermediaries) Regulations, 2008, covering entities such as Stock Brokers, Depository Participants, Mutual Funds/Asset Management Companies (AMCs), Investment Advisers, Research Analysts, Portfolio Managers, and Online Bond Platform Providers. The initiative reflects SEBI's continued efforts to simplify compliance while strengthening transparency and investor protection.

2. A Unified Framework to Simplify Compliance

At present, different categories of intermediaries are governed by separate advertisement guidelines, resulting in varying compliance requirements and regulatory complexity. Through the proposed Common Advertisement Code, SEBI intends to establish a uniform set of advertising standards for all regulated entities. A single code will eliminate inconsistencies across regulations, reduce compliance burden, and provide greater clarity regarding permissible promotional activities. The harmonized framework is also expected to create a level playing field for market participants while ensuring that investor-facing communications remain accurate, fair, and not misleading.

3. Key Proposals Under the Common Advertisement Code

One of the most significant changes proposed is the replacement of the mandatory prior approval requirement for advertisements with a post-issue reporting mechanism. Instead of obtaining approval before publication, regulated entities would simply be required to report advertisements to the concerned supervisory body within 24 hours of their release. This change is expected to considerably reduce procedural delays and enable faster dissemination of information without compromising regulatory oversight.

SEBI has also proposed permitting celebrities and public personalities to endorse regulated entities for brand-level promotions, subject to prescribed safeguards and conditions. In addition, regulated entities may be allowed to publicize ratings and rankings assigned by the Past Risk and Return Verification Agency (PaRRVA), enabling them to communicate independently verified distinctions while promoting transparency and informed decision-making among investors.

4. Greater Clarity Through Technology and Standardisation

The consultation paper further seeks to remove ambiguity by providing a clearer definition of what constitutes an advertisement. It also proposes publishing an illustrative list of routine communications—such as factual disclosures, investor service updates, and operational announcements—that would not be treated as advertisements. This distinction will help regulated entities avoid unnecessary compliance for non-promotional communications.

To support the new framework, SEBI has proposed the development of a common digital reporting portal by supervisory bodies. A centralized reporting platform would streamline advertisement reporting, improve operational efficiency, reduce duplication of compliance requirements, and facilitate more effective regulatory monitoring through technology-enabled supervision.

5. Impact on Market Participants

The proposed Common Advertisement Code represents an important step towards modernizing India's securities market regulations. By replacing multiple advertising codes with a single, technology-driven framework, SEBI seeks to strike a balance between ease of doing business and robust investor protection. Faster advertisement processes, standardized compliance requirements, and greater regulatory clarity are expected to benefit regulated entities, while investors stand to gain from more transparent, consistent, and reliable promotional communications.

SEBI invited comments from stakeholders on the consultation paper until 14 July 2026. After considering public feedback, the regulator is expected to finalize the framework, which could significantly reshape the advertising landscape for securities market intermediaries.

6. Insight

The proposed Common Advertisement Code marks a significant regulatory reform aimed at simplifying advertising compliance across the securities market. By introducing a unified framework, replacing prior approvals with post-issue reporting, and leveraging digital reporting mechanisms, SEBI seeks to reduce regulatory complexity without diluting investor safeguards. If implemented, the proposal is expected to enhance operational efficiency for intermediaries while promoting greater transparency, consistency, and credibility in investor communications.

ODI vs OPI – Investment Outside India Explained

1. Understanding India's Overseas Investment Framework under FEMA

As Indian businesses and individuals increasingly explore opportunities beyond domestic markets, overseas investments have become an integral part of wealth creation and business expansion. Whether it is acquiring a foreign company, investing in overseas listed stocks, or subscribing to units of foreign funds, such transactions are regulated under the Foreign Exchange Management (Overseas Investment) Rules, 2022 and the corresponding RBI Regulations.

The RBI classifies overseas investments into two broad categories—Overseas Direct Investment (ODI) and Overseas Portfolio Investment (OPI). Although both involve investing outside India, they differ significantly in terms of ownership, control, purpose, and regulatory compliance. Understanding these distinctions is essential for businesses, professionals, and investors to ensure compliance with FEMA provisions.

2. Understanding Overseas Direct Investment (ODI)

Overseas Direct Investment refers to an investment made by a person resident in India in the equity capital of a foreign entity with the intention of establishing a lasting business interest. Unlike passive investments, ODI generally enables the investor to participate in the management or exercise significant influence over the foreign entity.

Under the current regulations, an investment is generally treated as ODI when the Indian investor acquires 10% or more of the paid-up equity capital of the foreign entity or where the investor obtains control over that entity, irrespective of the percentage of shareholding.

ODI is commonly undertaken by Indian companies seeking global expansion through subsidiaries, joint ventures, acquisitions, or strategic business collaborations. Such investments facilitate access to new markets, technology, raw materials, and international customers while strengthening the global presence of Indian enterprises.

3. Understanding Overseas Portfolio Investment (OPI)

Overseas Portfolio Investment refers to investments made in foreign securities without acquiring significant ownership or management rights. These investments are primarily financial in nature and are intended for earning returns through appreciation in value or dividend income.

An investment is generally classified as OPI when the investor acquires less than 10% of the equity capital of a listed foreign company and does not exercise control over its operations.

Individuals investing in shares of global companies through the Liberalised Remittance Scheme (LRS), mutual funds purchasing foreign securities, or institutions investing in overseas listed companies without management participation are common examples of OPI.

Since OPI is a passive investment, the investor does not participate in decision-making or day-to-day management of the foreign company.

4. ODI vs OPI – Key Differences

Particulars	Overseas Direct Investment (ODI)	Overseas Portfolio Investment (OPI)
Objective	Business expansion and strategic investment	Financial investment for returns
Ownership	10% or more equity or control	Less than 10% equity without control
Management Rights	Investor participates in management	No management or voting influence
Nature of Investment	Long-term strategic investment	Passive investment
Typical Investors	Companies, LLPs, strategic investors	Individuals, mutual funds, institutional investors
Examples	Setting up overseas subsidiaries, acquiring foreign businesses	Investing in shares of Apple, Microsoft, Tesla, ETFs, etc.
Compliance Requirements	Extensive FEMA reporting and RBI compliance	Comparatively simpler compliance

5. Practical Examples

Example 1 – Overseas Direct Investment (ODI)

ABC Private Limited, an Indian company, acquires 30% equity in a manufacturing company located in Singapore and appoints two directors to its Board. Since the investment exceeds 10% and the Indian company participates in management, it qualifies as Overseas Direct Investment (ODI).

Example 2 – Overseas Portfolio Investment (OPI)

Mr. Raj, an Indian resident, invests USD 15,000 under the Liberalised Remittance Scheme in shares of Apple Inc. through an overseas brokerage account. His holding is significantly below 10% and he has no management
rights. Therefore, the investment is classified as Overseas Portfolio Investment (OPI).

6. Key Regulatory Considerations

The Overseas Investment framework introduced in 2022 aims to simplify overseas investments while ensuring adequate regulatory oversight. Before making any overseas investment, investors should consider the following:

- Ensure eligibility under FEMA and RBI regulations.
- Verify whether the investment qualifies as ODI or OPI.
- Route remittances through authorised dealer banks.
- Comply with prescribed reporting and disclosure requirements.
- Maintain documentary evidence for future regulatory verification

Failure to comply with FEMA provisions may attract penalties under the Foreign Exchange Management Act, 1999.

7. Why the Distinction Matters

The distinction between ODI and OPI is more than a technical classification—it determines the applicable regulatory framework, reporting obligations, permissible investment limits, and compliance procedures.
Businesses planning international expansion generally fall under the ODI regime, whereas individuals investing in overseas listed companies for diversification are usually governed by the OPI framework. Identifying the correct category ensures smoother transactions and helps avoid regulatory complications.

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- The RBI classifies overseas investments into two broad categories—Overseas Direct Investment (ODI) and Overseas Portfolio Investment (OPI). Although both involve investing outside India, they differ significantly in terms of ownership, control, purpose, and regulatory compliance. Understanding these distinctions is essential for businesses, professionals, and investors to ensure compliance with FEMA provisions.

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- Under the current regulations, an investment is generally treated as ODI when the Indian investor acquires 10% or more of the paid-up equity capital of the foreign entity or where the investor obtains control over that entity, irrespective of the percentage of shareholding.
- ODI is commonly undertaken by Indian companies seeking global expansion through subsidiaries, joint ventures, acquisitions, or strategic business collaborations. Such investments facilitate access to new markets, technology, raw materials, and international customers while strengthening the global presence of Indian enterprises.

3.Conclusion

India's overseas investment regulations strike a balance between encouraging global investment opportunities and safeguarding foreign exchange management. While Overseas Direct Investment (ODI) promotes strategic business expansion through ownership and control of foreign entities, Overseas Portfolio Investment (OPI) facilitates passive investment in international financial markets.
For investors and businesses venturing abroad, understanding the distinction between these two categories is the first step toward making informed decisions while remaining fully compliant with FEMA and RBI regulations.

Annual Return on Foreign Liabilities and Assets (FLA) under FEMA, 1999

1. An Important RBI Reporting Requirement for Indian Entities with Foreign Investments

As businesses increasingly expand their operations across borders, foreign investments have become an integral part of the Indian corporate landscape. Indian companies may receive investments from overseas investors or establish subsidiaries and joint ventures outside India. To monitor such cross-border financial positions, the Reserve Bank of India (RBI) mandates the filing of the Annual Return on Foreign Liabilities and Assets (FLA) under the provisions of the Foreign Exchange Management Act, 1999 (FEMA).

Although the FLA Return is only a reporting requirement and does not involve payment of any tax or fee, it is a significant regulatory compliance. Timely and accurate filing enables the RBI to maintain reliable statistics on India's foreign investment position while ensuring that reporting entities remain compliant with FEMA regulations.

2. What is the FLA Return?

The Annual Return on Foreign Liabilities and Assets is a statistical return submitted to the RBI containing information on an Indian entity's foreign liabilities and foreign assets as on 31 March of every financial year. Foreign liabilities generally represent investments received from non-residents, while foreign assets represent investments made by Indian entities outside India.

The information collected through this return assists the RBI in compiling India's International Investment Position and evaluating the country's external financial exposure. It also serves as an important source of data for policy formulation and analysis of cross-border investment trends.

3. Who is Required to File?

The filing requirement applies to every Indian company or Limited Liability Partnership (LLP) that has received Foreign Direct Investment (FDI), made Overseas Direct Investment (ODI), or has any outstanding foreign assets or foreign liabilities as on 31 March.

A common misconception is that the return is required only when fresh foreign investment transactions take place during the year. However, the reporting obligation is based on the existence of foreign assets or liabilities at the end of the financial year. Accordingly, even if no new foreign investment has been received or made during the year, the entity may still be required to file the FLA Return if such balances continue to remain outstanding.

4. Information Required for Reporting

The FLA Return requires comprehensive information relating to both the financial position of the entity and its foreign investment profile. The return includes details relating to foreign shareholding, overseas subsidiaries, joint ventures and associates, equity and debt investments, paid-up capital, reserves, borrowings, profit or loss, and other foreign assets and liabilities appearing in the financial statements.

Since the information reported is expected to be consistent with the entity's financial statements, businesses should review and reconcile the relevant figures before filing the return. Proper documentation and internal verification can help avoid reporting errors and subsequent revisions.

5. Filing Timeline and Reporting Process

The Annual FLA Return is required to be filed on or before 15 July every year for the financial year ending on 31 March. The return is submitted electronically through the RBI's FLAIR (Foreign Liabilities and Assets Information Reporting) Portal, which facilitates online filing, revision of returns and communication with the RBI.

Where the statutory audit has not been completed before the due date, the RBI permits entities to file the return using provisional financial statements. Once the accounts are finalized, a revised return may be submitted if there are any material changes in the reported information. This flexibility enables businesses to comply with the prescribed timeline without waiting for completion of the audit.

6. Why Timely Compliance Matters

While the FLA Return is primarily intended for statistical purposes, failure to file the return within the prescribed timeline constitutes a contravention under FEMA. Such non-compliance may invite regulatory scrutiny and penalties and could also create practical challenges during future foreign investment transactions, due diligence exercises, or regulatory approvals.

Maintaining timely FEMA compliance reflects sound corporate governance and demonstrates an entity's commitment to meeting its statutory reporting obligations. Businesses with foreign investment exposure should therefore incorporate the FLA Return into their annual compliance calendar alongside other important regulatory filings.

7. Compliance Tip

Businesses should not wait until the filing deadline to determine whether the FLA Return is applicable. A review of the shareholding pattern, overseas investments and outstanding foreign assets or liabilities immediately after the close of the financial year can significantly simplify the reporting process. Early coordination between the finance, secretarial and compliance teams also helps ensure that the information reported to the RBI is complete, accurate and consistent with the financial statements.

8. Conclusion

The Annual Return on Foreign Liabilities and Assets is an important annual compliance requirement for Indian entities having foreign investment exposure. Although it is often perceived as a routine reporting form, the return plays a crucial role in enabling the RBI to monitor India's foreign investment position and maintain comprehensive external sector statistics.

Entities receiving foreign investments or holding overseas investments should evaluate their reporting obligations every year, maintain accurate financial records and ensure that the FLA Return is filed within the prescribed timeline. A proactive approach towards this compliance not only helps avoid regulatory issues under FEMA but also strengthens the entity's overall compliance and governance framework.

ASISSE Notices: What Companies and LLPs Need to Know

Several Companies and LLPs have recently received notices from the National Statistical Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI), regarding the mandatory Annual Survey of Incorporated Services Sector Enterprises (ASISSE) for FY 2024–25.

Launched in April 2026, ASISSE is India's first nationwide statistical survey covering the incorporated services sector — including selected Companies and LLPs engaged in trade, transport, hospitality, IT, healthcare, education, and financial and professional services.

Is this a new compliance requirement?

No. ASISSE is not an MCA (ROC), GST, or Income-tax compliance. It is a statistical survey conducted by the NSO for the purpose of compiling official economic data.

Does every entity receive this notice?

No. Only a sample of Companies and LLPs are selected under the NSO's sampling methodology. Receipt of a notice does not imply scrutiny, investigation, or any indication of non-compliance

Is submission mandatory?

Yes. Entities that receive the notice are legally required to submit the requested information within the prescribed timeline

Why does the NSO require financial statements?

- The survey requires the following documents to compile official service sector statistics:
- Audited Balance Sheet
- Profit & Loss Account
- Notes to Accounts

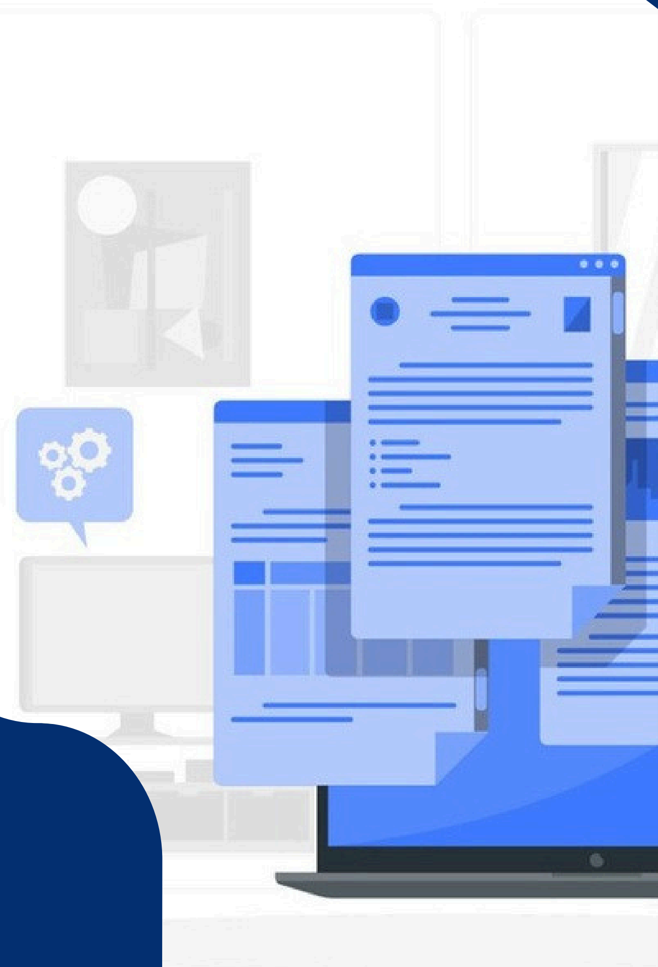
This information is used strictly for statistical purposes, is treated as confidential, and is published only in aggregated form — individual entity data is never disclosed

Mode of submission:

1. An authorised representative of the entity should visit the concerned NSO office.
2. Carry the financial statements and documents specified in the notice.
3. Follow any additional instructions and liaise with the concerned NSO officer, if required.

Action points for recipients:

- Review the notice carefully to understand the specific requirements and deadline
- Keep the requisite financial statements and supporting documents ready
- Ensure submission within the prescribed timeline
- Reach out to your consultant for assistance, if needed



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