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Monthly Newsletter Series
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India's personal income tax collections now bigger than corporate tax mop-up

Income tax news: Personal income tax collections have surpassed corporate taxes for the first time in India's history. According to a report by JM Financial Institutional Securities, this is because of formalisation, digitisation and stronger compliance mechanisms.

The share of personal income tax in total direct taxes has gone up sharply from 38.1% in FY14 to 53.4% in FY24. Corporate tax collections have come down from 61.9% to 46.6% over the same period.

India's direct tax compliance has undergone a huge change in the last decade. Number of individual income tax return filers has gone up 2.3 times, from 30.5 million in FY14 to 69.7 million in FY23. When including those who pay tax through TDS without filing returns, the taxpayer base has nearly doubled from 53.8 million to 99.2 million.

<https://www.financialexpress.com>

Income Tax fraud worth Rs 500 crore unearthed in Pune: IT officials search for beneficiaries

The Directorate of Income Tax (Investigations) has unearthed an elaborate nexus of fraudulent income tax returns where tax professionals took advantage of the loopholes in the earlier system of filing returns to provide for deductions on the basis of unverified claims. The fraud executed is estimated to be over Rs 500 crores, said a senior officer from the Income Tax department.

According to the officer, tax professionals who operated in Pune and its surrounding regions lent their services to salaried professionals as "return specialist" and promised to provide the taxpayers unusually high returns.

Over a period of five years, these tax professionals filed over 10,000 claims. Investigators said they saw a similar pattern in the returns filed—deductions were claimed for housing loan interest and principal repayment, medical and insurance payment, investments into saving instruments, educational under the current system of filing returns.

The officer said the scrutiny of the returns, which is still ongoing, shows a consistent pattern—claims were made for deductions which were not lawfully done. "We have already taken action against tax professionals who indulged in the and are now working to identify individual taxpayers who have benefited from the bogus returns and will now face penalty and prosecution," said the officer.

"Tax payers would not be able to claim indemnity by blaming intermediaries. Any refund claimed in their name would be reviewed and penal provisions would be applied," said the officer. This would be one of the many cases of bogus deductions being unearthed in other parts of the country.

Earlier, the Income Tax department has come across manipulation of PAN, TDS credit or bogus trusts by way of deduction claims. However, officials investigating the Pune case said this is the largest fraud they have come across in recent years

<https://indianexpress.com>

The 56th Meeting of the GST Council, chaired by the Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman, was held at New Delhi on 3rd September 2025. The Council has recommended significant rate rationalisation and structural reforms to simplify GST and provide relief to taxpayers, particularly individuals, MSMEs, farmers and the healthcare sector.

1. Rationalisation of GST Rate Structure

The Council has recommended moving towards a simplified rate structure:

- **Standard Rate** – 18%
- **Special Rate** – 5% (covering essential/common-use goods and services)
- **Exempt / Nil Rate** – For specified goods and services (including select food products, health and life insurance, and lifesaving medicines)
- **Higher Rate (40%)** – For specified sin/luxury goods (e.g. tobacco products, certain luxury motor vehicles)

2. Key Recommendations – Goods

Healthcare & Pharmaceuticals

- **All individual health insurance and life insurance policies** (including ULIPs, term and endowment policies): **Exempt from GST.**
- **33 specified lifesaving drugs and medicines:** 12% → Nil.
- **3 drugs for cancer, rare and chronic diseases:** 5% → Nil.
- **All other medicines & pharmaceutical goods (Ch. 30):** 12% → 5%.
- **Medical apparatus & diagnostic devices:** 12%/18% → 5%.

Essential Commodities & Food Items

- **UHT Milk, Paneer (pre-packaged & labelled), Indian breads (roti, chapati, paratha, parotta, etc.):** 5% → Nil.
- **Packaged foods (namkeens, bhujia, sauces, pasta, noodles, chocolates, coffee, cornflakes, ghee, butter, preserved meat, etc.):** 12%/18% → 5%.

Household & FMCG

- **Hair oil, soaps, shampoos, toothpaste, toothbrushes, bicycles, kitchenware, tableware:** 12%/18% → 5%.

Agriculture & Labour-Intensive Sectors

- **Tractors and agricultural machinery:** 12% → 5%.
- **Handicrafts, marble, granite, intermediate leather goods:** 12% → 5%.

Construction & Infrastructure

- **Cement:** 28% → 18%.
- **Correction of inverted duty structure** in textile (man-made fibre 18% → 5%; yarn 12% → 5%) and fertiliser sector (sulphuric acid, nitric acid, ammonia 18% → 5%).

Automobiles & Consumer Durables

- **Small cars (≤ 350cc), motorcycles, ACs, TVs (up to 32”), dishwashers:** 28% → 18%.
- **Buses, trucks, ambulances, three-wheelers, auto parts:** 28% → 18%.

3. Key Recommendations – Services

- **Hotel accommodation (value ≤ ₹7,500 per unit per day):** 12% → 5%.
- **Beauty, fitness and wellness services (gyms, salons, barbers, yoga centres, etc.):** 18% → 5%.

4. Institutional & Legal Measures

- **Goods & Services Tax Appellate Tribunal (GSTAT):** To be operationalised for accepting appeals by **September 2025**; hearings to commence by **December 2025**.
- **Clarifications & Amendments:** FAQs to be issued; valuation rules aligned; explanations added to definition of “specified premises” in restaurant services.

5. Effective Date of Implementation

- **22nd September 2025** – GST rate changes on goods and services (excluding pan masala, gutkha, Scigarettes, tobacco, etc. which will continue at existing rates until cess obligations are discharged).

Institutional & Legal Measures

Operationalization of GST Appellate Tribunal (GSTAT)

- GSTAT to be operational by **September 2025**; hearings to commence **December 2025**.
- Appeals permitted until **30th June 2026**.
- Expected to reduce pendency at High Courts and provide faster resolution of GST disputes.

Refund Process Reform

- **Provisional Refunds:** 90% refund of unutilised ITC (exports & inverted duty) to be granted upfront, based on **system-driven risk evaluation** (instead of officer discretion). Effective **1st November 2025**.
- **Small Refunds Allowed:** Earlier refunds below ₹1,000 disallowed – now permitted.
- Major boost for **SME exporters and courier-based small-ticket exporters**.

Simplified Registration for Small Taxpayers

- **Automatic GST registration within 3 days** for low-risk applicants (monthly liability < ₹2.5 lakh).
- Scheme effective **1st November 2025**.
- Expected to cover ~96% of new registrations.

E-Commerce Sellers – Relief on Multi-State Registration

- Proposal to relook at requirement of separate registration in each state where inventory is stored.
- Aims to reduce compliance burden for small e-commerce sellers.

Place of Supply for Intermediaries

- **Current Rule:** Intermediary services (agents/brokers) taxed at supplier's location – even if recipient is outside India.
- **Proposal:** Align with general rule; **place of supply = recipient's location**.
- Will improve competitiveness of Indian intermediaries serving overseas clients.

RBI Eases Framework for International Trade Settlement in Indian Rupees

In a significant move to further promote the internationalisation of the Indian Rupee (INR), the Reserve Bank of India (RBI) has announced a relaxation in the operational framework for trade settlements in INR.

Authorised Dealer (AD) Category-I banks are now permitted to open Special Rupee Vostro Accounts (SRVAs) of overseas correspondent banks without seeking prior approval from the RBI.

Earlier, AD banks were required to approach the RBI for such approvals. This procedural relaxation simplifies the process, enabling faster and smoother facilitation of cross-border trade transactions in Indian Rupees.

The RBI had introduced the framework for International Trade Settlement in INR through its circular dated July 11, 2022. The mechanism aimed to boost trade in local currency, reduce reliance on third-country currencies, and strengthen the global acceptability of the Rupee.

SRVAs play a crucial role in this system by enabling overseas banks to maintain accounts with Indian banks for settlement of international trade transactions in INR.

Implications

- **For AD Banks:** Greater autonomy and operational efficiency in setting up SRVAs.
- **For Businesses:** Exporters and importers can expect faster settlement processes and fewer administrative delays when engaging in INR-denominated trade.
- **For the Economy:** This move supports India's long-term vision of promoting the Rupee as a preferred currency in international trade, enhancing financial stability, and reducing exchange rate risks.

The directions are issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999, and come into force with immediate effect. The RBI's decision to do away with prior approval requirements for SRVAs marks another step towards greater ease of doing business and

internationalisation of the Indian Rupee.

RBI/2025-2026/71 A.P. DIR Series Circular No.08 dated August 05, 2025

RBI Allows Foreign Entities to Invest Rupee Balances from SRVAs in Government Securities

The Reserve Bank of India (RBI) has taken another step forward in deepening the role of the Indian Rupee (INR) in global trade and finance. In its latest circular, the RBI has permitted persons resident outside India who maintain Special Rupee Vostro Accounts (SRVAs) to invest their rupee surplus balances in Central Government Securities, including Treasury Bills.

Previously, balances in SRVAs, maintained by overseas entities for international trade settlement in INR, were largely limited to trade-related transactions. Now, such balances can be deployed in government securities, providing foreign participants a safe and regulated avenue to utilise idle INR funds.

Why It Matters

- **For Overseas Partners:** This offers a secure, yield-bearing option for managing surplus rupee balances, reducing concerns about holding non-interest-bearing funds.
- **For Indian Markets:** Greater participation in Government Securities (G-Secs) is expected to enhance liquidity, support government borrowing programmes, and strengthen confidence in INR-denominated assets.
- **For Internationalisation of INR:** By expanding the use cases of SRVAs, the RBI is reinforcing its long-term strategy of promoting the rupee as a preferred settlement currency in global trade.

The directions come into force with immediate effect. Operational guidelines have already been incorporated into the updated Master Direction issued by the RBI. The RBI's decision to allow foreign entities to invest SRVA balances in government securities marks a pivotal step in integrating INR trade settlements with India's capital markets, while simultaneously boosting the global footprint of the rupee.

RBI/2025-26/72 A.P. DIR Series Circular No. 09 dated August 12, 2025

Rajasthan HC Affirms Treaty Exemption on ECB Interest Paid to Mauritius Lender

In a significant decision reinforcing the alignment of treaty benefits with domestic approvals, the Rajasthan High Court in *Shree Cement Ltd. v. DCIT* has held that interest on External Commercial Borrowings (ECBs) availed from a Mauritius tax resident is exempt from tax in India under Article 11(4) of the India–Mauritius tax treaty, provided the loan complies with prescribed ECB guidelines and carries a Loan Registration Number (LRN) issued by the RBI.

Shree Cement Ltd. borrowed funds from a Mauritius-based bank under an ECB agreement. The loan was duly registered with the RBI, and an LRN was allotted in line with ECB regulations. The taxpayer applied for a Nil withholding tax certificate arguing that, under the treaty, such interest was not taxable in India. The Revenue, however, directed tax deduction at a concessional 5% rate under Section 194LC of the Income-tax Act, contending that “deemed approval” under domestic law did not extend to treaty exemptions.

High Court Ruling

The Court ruled in favour of the taxpayer, clarifying:

- Deemed Approval = Treaty Approval:** CBDT Circular No. 07/2012, which grants “deemed approval” for ECBs meeting prescribed conditions, is sufficient to meet the treaty requirement of Government approval.
- No Dual Approval Needed:** Since the Treaty does not specify a separate approval mechanism, the approval already recognized under domestic law holds good for treaty purposes.
- Revenue's Approach Inconsistent:** Accepting RBI approval for concessional domestic taxation but denying its relevance for treaty relief was found to be contradictory and against the principles of ease of doing business.
- Refund of Wrongful TDS:** Tax collected under protest, without authority, must be refunded to the taxpayer.

This ruling confirms that interest on ECBs raised in compliance with RBI guidelines is fully exempt under the India–Mauritius treaty, avoiding unnecessary withholding obligations. It reduces procedural duplication by recognising a single approval process

as valid for both domestic and treaty purposes. The judgment strengthens investor confidence in India's adherence to treaty commitments, particularly for cross-border financing structures.

Taxpayers availing ECBs from treaty jurisdictions like Mauritius can take comfort that RBI approval (including deemed approval with LRN) is sufficient to secure treaty exemptions. The decision provides much-needed certainty and eliminates redundant approval hurdles, furthering India's agenda of facilitating cross-border capital flows.

Shree Cement Ltd. v. DCIT (D.B. Civil Writ Petition No. 22244/2018)

Tribunal Clarifies PPT Cannot Be Invoked Without Domestic Notification for MLI Applicability

In a landmark decision with far-reaching implications for cross-border taxation, the Mumbai ITAT in *TFDAC Ireland II Limited v. DCIT (International Tax)* has held that the Principal Purpose Test (PPT) under the OECD Multilateral Instrument (MLI) cannot be invoked to deny treaty benefits unless the MLI provisions are specifically notified under Section 90 of the Income-tax Act, 1961.

The taxpayer, an Irish tax resident, engaged in aircraft leasing, entered into dry lease agreements with an Indian airline in 2019. For AY 2021–22, it filed a nil return claiming that lease rentals were business profits taxable only in Ireland under the India–Ireland DTAA (Article 7) or alternatively under Article 8 (aircraft operations). The Revenue denied treaty benefits, alleging that the taxpayer was a shell entity created to obtain treaty relief and invoked the MLI's PPT clause. It further argued that Aircraft presence in India constituted a fixed place PE and that leases should be recharacterized as finance leases, taxable as interest.

Tribunal's Key Findings

1. Notification Mandatory for MLI Provisions

- Relying on the Supreme Court's ruling in *Nestlé SA [458 ITR 756 (SC)]*, the ITAT held that MLI provisions are not self-executing.
- Absent a specific notification under Section 90, PPT and other MLI provisions cannot override treaty rights.

2. Substance & Commercial Rationale

- The Tribunal recognised that Ireland is a global hub for aircraft leasing, and the taxpayer had valid commercial reasons to operate there.
- Use of a special purpose vehicle (SPV) with outsourced management was not by itself evidence of treaty abuse.

3. No Permanent Establishment in India

- The aircraft leased to the Indian airline did not constitute a PE.
- Operational control lay entirely with the lessee; lessor's inspection/repo rights were standard contractual protections.

4. Article 8 Protection for Aircraft Leasing

- Treaty language expressly covers “rental of aircraft” alongside “operation of aircraft.”
- Since the aircraft were part of an international fleet, income fell within Article 8, taxable only in Ireland.

5. Operating Lease, Not Finance Lease

- No purchase option or residual value clause existed.
- Aircraft were to be redelivered at lease-end, consistent with an operating lease.
- RBI circulars and DGCA norms reinforced this classification.

The ruling underscores that India must issue separate domestic notifications for MLI provisions to apply to treaties. Genuine commercial arrangements, like Ireland-based aircraft leasing, will be respected even if structured via SPVs. The judgment reassures foreign investors that treaty benefits remain available unless explicitly overridden by law and is particularly significant for aviation finance and leasing companies, affirming India's commitment to treaty obligations in cross-border financing.

TFDAC Ireland II Limited v. DCIT (International Tax) (ITA No. 1198/Mum/2025)

List of notifications during the month of August, 2025

1. Companies (Indian Accounting Standards) Second Amendment Rules, 2025 were notified, thereby amended several Indian Accounting Standards (Ind AS) mentioned below: (Notification dated 13th August, 2025)

Effective date of notification is 19th August, 2025

Accounting Standard	Description
AS- 1	Presentation of Financial Statements
AS-7	Contribution contracts
AS-12	Accounting of Government Grants
AS-28	Impairment of assets
AS-32	Financial Reporting Standard
AS-101	First-time Adoption of Indian Accounting Standards
AS 107	Financial Instruments: Disclosures
AS 108	Operating Segments/Segment Reporting
AS 109	Financial Instruments: Recognition, Measurement and De recognition
AS-115	Revenue recognition for Contracts with Customers

2. Form RD-1 (Form for filing application with Central Government (Regional Director) has been substituted with new form. (Notification dated 26th August, 2025)

Compliance Calendar

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Due dates for the Month of October, 2025#

Regulation	Due Date	Compliance	Description
The Companies Act, 2013 / LLP Act	On or before 29th October, 2025	Form AOC – 4	Form for filing financial statement and other documents with the Registrar
	On or Before 29th October, 2025	Form AOC – 4 XRRL	Form for filing XBRL document in respect of financial statement and other documents with the Registrar
	On or Before 30th October, 2025	LLP Form 8	Form 8 Annual Return of Limited Liability Partnership for FY 2024-25
	On or Before 30th October, 2025	Form MSME I	Furnishing of half-yearly return with the registrar in respect of outstanding payments to Micro or Small Enterprise for the period from April, 2025 to September, 2025
Income Tax Act, 1961	7-Oct-25	TDS Payment	Due date for deposit of tax deducted/collected for the month of September, 2025.
	15-Oct-25	TDS Certificate	Due date for issue of TDS Certificate for tax deducted under section 194-IA, 194-IB, 194-M in the month of Aug, 2025
	15-Oct-25	TCS Certificate	Quarterly statement of TCS deposited for the quarter ending September 30, 2025
	15-Oct-25	15G/15H	Upload declarations received from recipients in Form No. 15G/15H during the quarter ending September, 2025
	30-Oct-25	TDS Payment	Due date for furnishing of challan-cum-statement in respect of tax deducted under section 194-IA/194-IB/194-M in the month of Sep, 2025
	30-Oct-25	TCS Certificate	Quarterly TCS certificate (in respect of tax collected by any person) for the quarter ending September 30, 2025
	31-Oct-25	Form 3CEAB	Intimation by a designated constituent entity, resident in India, of an international group in Form no. 3CEAB for the accounting year 2024-25
	31-Oct-25	TDS Return	Quarterly statement of TDS deposited for the quarter ending September, 2025
	31-Oct-25	Form 60	Copies of declaration received in Form No. 60 during April 1, 2025 to September 30, 2025 to the concerned Director/Joint Director
	31-Oct-25	ITR	Due date for filing of return of income for the assessment year 2025-26 if the assessee (not having any international or specified domestic transaction) is (a) corporate-assessee or (b) non-corporate assessee (whose books of account are required to be audited) or (c) partner of a firm whose accounts are required to be audited or the spouse of such partner if the provisions of section 5A applies
	31-Oct-25	Form 3CEB	Report to be furnished in Form 3CEB in respect of international transaction and specified domestic transaction.
	31-Oct-25	Tax Audit (TP Case)	Audit report under section 44AB for the assessment year 2025-26 in the case of an assessee who is also required to submit a report pertaining to international or specified domestic transactions under section 92E

Compliance Calendar

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Due dates for the Month of October, 2025#

Regulation	Due Date	Compliance	Description
Goods and Service Tax (GST)	10-Oct-25	GSTR 7	Summary of Tax Deducted at Source (TDS) and deposited for the month of September 2025
	10-Oct-25	GSTR 8	Summary of Tax Collected at Source (TCS) and deposited by E-Commerce Operator for the month of September 2025
	11-Oct-25	GSTR -1	Return of outward supplies of taxable goods and/or services for the Month of September 2025 (for Assesses having turnover exceeding 5 Cr.)
	13-Oct-25	GSTR -1	Quarterly return of outward supplies of taxable goods and/or services for the Quarter July to September, 2025
	13-Oct-25	GSTR 6	Return for Input Service Distributors for the month of September 2025
	20-Oct-25	GSTR-3B	Simple GSTR return for the Month of September 2025 (based on category of taxpayer)
PT Act 1975 (Employee)	31-Oct-25	PT Employees	PT Payment for the month of Sept, 2025
Employees' Provident Funds & Miscellaneous Provisions Act, 1952	15-Oct-25	PF Payment	PF Payment for the month of Sept, 2025
Employees' State Insurance Act, 1948 - (ESIC)	15-Oct-25	ESIC Payment	ESIC Payment for the month of Sept, 2025

The above due date calender contains compliances generally applicable to taxpayers and this calender has been compiled by HSCo on basis of data available on various portals and other sources. One should always check applicable compliances based on their business needs and should also check updated due dates, if any, on the government portal before making the compliance.

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