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Monthly Newsletter Series

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Capital gains on share buyback get new surcharge twist; income tax dept explains what it means for you

On March 26, 2026, the Income Tax Department clarified that one of the changes made through the government's amendments to the Finance Bill, 2026 introduces a surcharge on the additional income-tax that promoters have to pay on capital gains arising from buyback, in accordance with Section 68 of the Companies Act, 2013. The surcharge is set at 12%.

The Income Tax Department said on X (formerly Twitter): "It is clarified that Section 69 of the Income-tax Act, 2025 provides for tax rates only in respect of additional income tax on promoters in respect of capital gains on such buyback. Therefore, the rate of 12% will apply only on additional income-tax to be paid by the promoters on aforesaid capital gains mentioned in Section 69(2) (b)."

What does this mean for individuals who are not promoters of a listed company? This means that for individuals who are non-promoters, surcharge as per normal provisions will apply, if applicable on such capital gains.

<https://economictimes.indiatimes.com>

E-filing portal to facilitate compliance under both tax laws during transition: I-T Dept.

The Income Tax department on Monday said its e-filing portal will facilitate compliance under the old and Income Tax Acts, and all assessments, appeals, and other proceedings relating to earlier years will continue to be conducted under the old Act until their final resolution.

In a set of FAQs issued days before the implementation of the new Income Tax Act, 2025, the I-T department said taxpayers filing returns for AY 2026-27 (pertaining to the period governed by the old Act) in July 2026 will do so using the forms prescribed under the old Act.

At the same time, advance tax payments for Tax Year 2026-27, commencing from June 2026, will be made in accordance with the new Act.

<https://economictimes.indiatimes.com>

Delhi High Court asks CBDT to clarify tax on partners' bonuses, stays recovery

India's apex authority has been told by the court to step in amid a flurry of orders across the country demanding tax on bonuses and performance-driven remunerations received by partners of large tax, audit, consultancy and other professional partnership firms, including some belonging to Big 4 members.

Those grappling with such orders argue that the Income tax (I-T) department stands on flimsy ground as their firms have already paid tax on such payments.

Nonetheless, tax offices in Delhi, Mumbai, Chennai, Indore, Bhubaneshwar and few other cities have pursued the issue.

A partner with S R Batloi & Co (SRB), the audit arm of EY, and a partner of a Big 4 firm have separately moved the Delhi High Court, challenging the actions of the tax officers.

<https://economictimes.indiatimes.com>

All banking companies to deduct TDS on interest income beyond Rs 50,000 a year

The income tax department on Monday said "banking company" governed by the provisions of the Banking Regulation Act, 1949, will deduct TDS on interest income beyond the prescribed threshold.

Under the Income Tax law, the tax is to be deducted at source if the interest income from bank/post office deposits exceeds Rs 50,000 for ordinary citizens, or Rs 1 lakh for senior citizens, in a financial year.

In a post on X, the income tax department said under Section 402 of the new Income Tax Act, 2025, a "banking company" refers to a company to which the provisions of the Banking Regulation Act, 1949, apply.

<https://economictimes.indiatimes.com>

CBDT issues new circular simplifying DIN referencing in income tax communications

The Central Board of Direct Taxes (CBDT) on Tuesday issued updated guidelines for referencing computer-generated Document Identification Numbers (DIN) in income-tax communications. It

states that any correspondence such as notices, letters, orders, draft orders, or summons issued by income-tax authorities to taxpayers must reference a DIN. The circular also lists practical exceptions where DIN referencing may not be possible, including technical difficulties, field enquiries outside the office, or system unavailability. In such cases, the communication must explicitly state the reason and require post-facto approval within 15 days by a competent authority.

The concept of Document Identification Number in income-tax proceedings was introduced by the CBDT in 2019 to ensure transparency, accountability, and an audit trail in departmental communications. It mandated that every notice, order, summons, or letter issued by the Income-tax Department must carry a computer-generated DIN, failing which such communication would be treated as invalid or deemed never to have been issued, except in limited specified circumstances.

Various high courts interpreted the circular strictly and quashed several reassessment notices and orders purely on technical grounds. Taxpayers relied heavily on this as a jurisdictional defect, while the tax department argued that DIN was only a procedural requirement and that minor lapses such as non-mention or incorrect mention should not invalidate otherwise lawful proceedings.

<https://www.financialexpress.com>

GST Updates – Appeal Filing Challenges, Pre-deposit Flexibility and GSTR-3B Compliance Changes

Recent developments on the GST portal have introduced both practical challenges and important improvements in compliance processes. Key updates are summarised below for your reference.

Appeal Filing in Case of NIL Demand Orders

An issue has been observed where taxpayers are unable to file appeals in cases where adjudication orders reflect a NIL demand. This typically arises when voluntary payments are made during the Show Cause Notice stage without admission of liability, and the adjudicating authority issues an order treating such payment as full discharge without determining the actual liability.

- GST portal records NIL demand in the Demand and Collection Register, thereby blocking appeal filing
- System validation restricts filing of APL-01 where disputed amount exceeds recorded demand
- Legally, the right to appeal under Section 107 continues even if payment is made without admission

In such cases, taxpayers should seek rectification of the order to ensure the demand is properly reflected before proceeding with the appeal.

Pre-deposit Flexibility Introduced

The GST portal has now addressed a key practical issue relating to pre-deposit requirements in appeal filing.

- Pre-deposit field (earlier fixed at 10%) is now editable effective April 6, 2026
- Allows adjustment where payment is already made or demand is incorrectly classified
- Final validation will be undertaken by the appellate authority

This change provides necessary flexibility and reduces procedural hardship during appeal filing.

GSTR-3B – Tax Liability Breakup Compliance

A system-driven update has been implemented for

reporting tax liabilities of earlier periods in GSTR-3B.

- Portal auto-populates “Tax Liability Breakup, As Applicable” based on GSTR-1 / IFF data
- Mandatory to open and save this tab before filing GSTR-3B from February 2026 onwards
- Requirement currently applies even where no prior period liability exists

As an interim measure, taxpayers are advised to review and save the tab to proceed with return filing until system refinements are implemented.

RBI Tightens ECB Reporting Framework — Stricter Timelines and Penalty Clarity Introduced

In a move aimed at strengthening compliance discipline in external borrowings, the Reserve Bank of India (RBI) has issued a Circular, introducing key changes to the reporting framework for External Commercial Borrowings (ECB) under FEMA. The revised directions come into effect from 1 April 2026.

The amendments primarily focus on streamlining reporting classification, tightening submission timelines, and clarifying late submission fee (LSF) mechanics, signalling RBI's continued shift towards a more robust and accountable compliance regime.

Key Changes Introduced

1. Reclassification of ECB Forms

Form ECB 1 and Revised Form ECB 1 have now been categorised as non-flow returns. Consequently, late submission fees (LSF) for these forms will be computed differently, aligning with their informational nature rather than transactional reporting.

2. LSF to Be Levied Per Return

The RBI has clarified that LSF will apply per instance of delayed return, particularly for Form ECB 2 filings under each Loan Registration Number (LRN). Each delay will be treated as a separate compliance lapse, increasing the cost of repeated non-compliance.

3. Tightened Submission Timeline

Authorised Dealer (AD) Category I banks must now submit ECB returns to RBI within 7 calendar days of receiving them from borrowers. This introduces a clear accountability framework and reduces processing lag.

4. Structured LSF Payment Process

LSF payments must be made via NEFT/RTGS only after receiving RBI acknowledgement of the return submission. Detailed payment instructions will be provided through RBI communication, ensuring traceability and procedural clarity.

Compliance delays will now carry sharper financial consequences, backed by tighter timelines and

and stronger oversight. For borrowers, the clarification that LSF applies per delayed return significantly raises the cost of non-compliance, making timely filings critical.

(A.P. (DIR Series) Circular No. 25 dated 30 March 2026)

Chennai ITAT Overrides Thin Capitalisation Rule in Favour of Treaty Non-Discrimination

In a significant ruling with wide implications for cross-border financing structures, the Chennai Bench of the Income-tax Appellate Tribunal (ITAT) in the case of Vestas Wind Technology India Pvt. Ltd. has held that India's thin capitalisation rules under Section 94B cannot override the non-discrimination clause under the India–Denmark tax treaty.

The Tribunal concluded that restricting interest deductibility solely based on payments to non-resident associated enterprises (AEs) violates treaty protection, thereby limiting the applicability of Section 94B in treaty situations.

Background

The taxpayer, an Indian company, had availed External Commercial Borrowings (ECB) from its Denmark-based group entity and paid interest thereon.

- The taxpayer initially disallowed interest under Section 94B (thin capitalisation rule).
- However, it later challenged the applicability of Section 94B based on the non-discrimination clause (Article 24) of the India–Denmark treaty.
- The Revenue sought to enhance the disallowance and contested the computation methodology.

Tribunal's Key Findings

1. Thin capitalisation rule violates non-discrimination clause

The Tribunal held that Section 94B is discriminatory in nature because:

- It restricts interest deductibility only where the lender is a non-resident AE,
- While no similar restriction applies to interest paid to resident entities under identical conditions.

This differential treatment based solely on residential status of the lender violates Article 24(4) of the treaty.

2. Treaty protection prevails in absence of specific carve-out

The Tribunal emphasised that:

- Some treaties (e.g., India–Australia) contain explicit carve-outs permitting thin capitalisation rules.
- The India–Denmark treaty does not contain such a carve-out.

Accordingly, domestic law cannot override treaty protection in such cases.

3. Arm's length interest is protected

The exception to non-discrimination under the treaty applies only where:

- Interest is excessive due to non-arm's length conditions (Article 12(7)).

In this case:

- The Revenue accepted that the interest was at arm's length,
- Therefore, disallowance based purely on EBITDA threshold was unjustified.

4. Clarification on computation under Section 94B

On the computational aspect, the Tribunal held:

- EBITDA must be based on actual depreciation, not accounting adjustments or netting off entries.
- Notional interest (Ind-AS adjustments) and capitalised interest already disallowed cannot be included again—avoiding double disallowance.
- Only actual deductible interest should be considered for Section 94B purposes.

This decision has significant implications for Multinational groups financing Indian subsidiaries through cross-border debt, companies relying on ECB structures, and taxpayers operating under favourable treaty jurisdictions without thin-cap carve-outs. It reinforces that treaty non-discrimination protections are substantive and enforceable. Domestic anti-avoidance provisions must yield where they conflict with treaty obligations.

(Vestas Wind Technology India Pvt. Ltd. v. ITO (ITA No. 320/Chny/2025))

Amendment to Accounting Standard (AS) 22 – Accounting for Taxes on Income

By the present notification, the Ministry of Corporate Affairs (MCA) has notified the Companies (Accounting Standards) Amendment Rules, 2026. The Notification revises Accounting Standard (AS) 22 to incorporate global tax developments arising from the Organisation for Economic Co-operation and Development (OECD)'s Pillar Two Model Rules

For multinational enterprises (MNEs), this amendment impacts on tax accounting, disclosure requirements.

Key Highlights of the Amendment

1. Companies are not required to recognize deferred tax assets or liabilities related to Pillar Two taxes.

2. New disclosure requirements.

- An enterprise should disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.
- An enterprise should disclose separately its current tax expense (income) related to Pillar Two income taxes.
- An enterprise should disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period which includes Jurisdictions where Pillar Two may apply, proportion of an enterprise's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits, and how an enterprise's average effective tax rate would have changed if Pillar Two legislation had been in effect.
- In periods when Pillar Two legislation has been enacted or substantively enacted but is not yet effective, an enterprise should disclose known or reasonably estimable information to help users of the financial statements understand its exposure to Pillar Two income taxes.

Effective Date of Amendment-

The amendments have come into effect immediately upon notification. However, certain disclosure requirements will apply for reporting periods

beginning on or after 01 April 2025. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2026.”

<https://www.mca.gov.in/bin/dms/getdocument?mds=TnWMgJgDI2l%252B35etDWJ5oA%253D%253D&type=open>

Changes in DIR-3 KYC compliance framework

Key Highlights of the Amendment

- Directors holding a DIN as on 31st March of a financial year shall now be required to file Form DIR-3 KYC Web once every third consecutive financial year, on or before 30th June.
- Any change in a Director's mobile number, email ID, or residential address must be updated within 30 days through DIR-3 KYC Web along with the prescribed fee under the Companies (Registration Offices and Fees) Rules, 2014.
- Form DIR-3-KYC and DIR-3- KYC-Web has been substituted with Form DIR-3 KYC Web.

<https://www.mca.gov.in/bin/dms/getdocument?mds=5wBuXrnw5F5hFYBugmtq1Q%253D%253D&type=open>

Advisory for Name Reservation for Company and Limited Liability Partnership (LLP)

MCA has issued an Advisory for Name Reservation and Incorporation of Company and LLP on 12.03.2026 providing guidance on common issues observed in applications relating to name reservation, incorporation and change of name of companies and LLP.

<https://www.mca.gov.in/bin/dms/getdocument?mds=Yyau8%252FQveEEgOSo722nczw%253D%253D&type=open>

Compliance Calendar

by: Pinkesh Jain
pinkesh.jain@hscollp.in

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Due dates for the Month of May, 2026#

Regulation	Due Date	Compliance	Description
Companies Act, 2013	31-May-26	FC-04	Annual Return for Foreign Companies in India
LLP Act	31-May-26	Form 11	Annual Return for FY 2024-25 to be filed by an LLP in form 11
Income Tax Act, 1961	7-May-26	TDS/TCS	Due date for deposit of Tax deducted/collected for the month of April, 2026.
	15-May-26	TDS/TCS	Quarterly statement of TCS deposited for the quarter ending March 31, 2026
	30-May-26	TDS/TCS	Issue of TCS certificates for the 4th Quarter of the Financial Year 2025-26
	31-May-26	TDS/TCS	Quarterly statement of TDS deposited for the quarter ending March 31, 2026
	31-May-26	Form 61A	Due date for furnishing of statement of financial transaction (in Form No. 61A) as required to be furnished under sub-section (1) of section 285BA of the Act respect for financial year 2025-26
	31-May-26	Form 10	Statement in Form no. 10 to be furnished to accumulate income for future application under section 10(21) or section 11(1) (if the assessee is required to submit return of income on or before July 31, 2026)
	31-May-26	Form 10BD	Statement of donation in Form 10BD to be furnished by reporting person under section 80G(5)(iii) or section section 35(1A)(i) in respect of the financial year 2025-26
	31-May-26	Form 10BE	Issuing Certificate of donation in Form no. 10BE as referred to in section 80G(5)(ix) or section 35(1A)(ii) to the donor specifying the amount of donation received during the financial year 2025-26
Goods and Service Tax (GST)	10-May-26	GSTR 7	Summary of Tax Deducted at Source (TDS) and deposited for the month of April 2026
	10-May-26	GSTR 8	Summary of Tax Collected at Source (TCS) and deposited by E-Commerce Operator for the month of April 2026
	11-May-26	GSTR-1	Return of outward supplies of taxable goods and/or services for the Month of April 2026 (for Assesses having turnover exceeding 5 Cr.)
	13-May-26	GSTR 6	Return for Input Service Distributors for the month of April 2026
	20-May-26	GSTR-3B	Simple Monthly GSTR return for the Month of April 2026
PT Act 1975 (Employee)	30-May-26	PT Employees	PT Payment for the month of April, 2026
Employees' Provident Funds & Miscellaneous Provisions Act, 1952	15-May-26	PF Payment	PF Payment for the month of April, 2026
Employees' State Insurance Act, 1948 - (ESIC)	15-May-26	ESIC Payment	ESIC Payment for the month of April, 2026

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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Mumbai (HO)409 / 410, Dalamal
Chambers,
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3 Bhikaji Cama Place,
New Delhi – 110 066E: delhi@hscollp.in**Bangalore**Brigade IRV, 9th & 10th
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Bangalore – 560 066E: bangalore@hscollp.in**Pune**1A, 2nd Floor, City Vista,
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