



A Monthly E-Newsletter

Vol 07 Issue 02
February 2026

The Bottom Line

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KEY METRICS

Indices

BSE SENSEX	82,270	-2.84%	▼
NSE NIFTY50	25,321	-2.38%	▼
NASDAQ Composite	23,462	0.18%	▲
NIKKEI 225	53,323	5.93%	▲

Currency

USD/INR	91.69	-2.14%	▼
Euro/INR	108.66	-3.83%	▼
GBP/INR	125.52	-3.83%	▼
JPY/INR	0.59	-3.25%	▼

Note: The month-on-month movement as on January 30, 2026, is represented in percentages
Source: NSE.com, BSE.com, NASDAQ.com, NIKKEI.com, Investing.com



DIRECT TAX

Circulars/Notifications

Judicial Rulings

TRC alone insufficient to claim DTAA benefits; GAAR overrides treaty protection for impermissible arrangements

Supreme Court in a landmark ruling, held that a TRC is merely an 'eligibility condition' and not sufficient proof of residency for claiming treaty benefits under the India-Mauritius DTAA. The Court upheld the AAR's rejection of Mauritius entities seeking capital gains exemption on sale of shares of a Singapore company (deriving substantial value from India) to a US acquirer, which were acquired before the GAAR cut-off date. However, it held since the actual sale occurred after the cut-off date, any tax benefit obtained thereafter remains subject to GAAR scrutiny, regardless of when the investment was originally made. Thus, the CBDT Circular No. 789 stands superseded by subsequent statutory amendments. It rejected the exemption claim, characterising the arrangement as 'impermissible', since the taxpayer sought exemption in both India and Mauritius, thereby defeating the purpose of the DTAA. The ruling affects Mauritius-routed investments by requiring proof of real commercial substance beyond mere TRC possession.

Tiger Global International II Holdings (Supreme Court of India)

Share substitution on amalgamation taxable as business income if commercially realisable

Supreme Court held that shares received in an amalgamated company in substitution of shares held as stock-in-trade are taxable as business income if they are commercially realisable. The Court prescribed a three-part test : (a)

the old stock must cease to exist; (b) the new shares must have an ascertainable market value; and (c) the new shares must be freely tradeable and immediately realisable for money, only. Taxability arises only upon actual allotment of new shares. No tax arises where shares are subject to disposal restrictions or lack genuine marketability. While capital assets enjoy amalgamation exemption, no such exemption exists for stock-in-trade. The burden is on the tax authorities to establish commercial realisability. The matter was remanded to verify whether the shares were truly held as stock-in-trade and whether the substituted shares met the realisability test.

M/s Jindal Equipment Leasing Consultancy Services Limited (Supreme Court of India)

No Virtual Service PE - physical nexus essential in line with Clifford Chance

High Court ruled that the India-UK DTAA requires services to be rendered physically within India through employees or personnel to constitute a Service PE, and the treaty does not recognise any concept of a 'virtual service PE'. Relying on Clifford Chance ruling, the Court held that the phrase 'within the Contracting State' has a territorial meaning and cannot be expanded judicially to cover remote or virtual service models. Accordingly, the AO's denial of a 'Nil' withholding certificate based on a Virtual Service PE theory was set aside and remanded for fresh consideration.

Ernst and Young LLP (Delhi High Court)

Extended stay benefit applies only to persons already NR, not those shifting abroad mid-year

TRC alone insufficient to claim DTAA benefits; GAAR overrides treaty protection for impermissible arrangements

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No Virtual Service PE - physical nexus essential in line with Clifford Chance

Assessee based in India, took up employment in Singapore later in the year but had significant physical presence in India during preceding years. He claimed NR status by invoking the relaxed stay provision (182 days) claiming capital gains exemption under the DTAA, which was rejected by the tax authorities. The ITAT held that the relaxation applies only to those already situated outside India who visit India temporarily, and not to residents who move abroad during the year and thus, he could not be regarded as 'being outside India' at the start of the relevant year. The ITAT also found that even after applying the tie-breaker rules of the tax treaty, the Assessee's residence remained in India, given substantial investments and business interests, as his Singapore presence lacked permanence. Accordingly, NR status was denied under both domestic law and treaty provisions.

Binny Bansal (Bangalore ITAT)

INDIRECT TAX

Circulars / Notifications / Press Releases

Judicial Rulings

Receipt of consideration mandatory for zero-rated supply

Export of services without receipt of consideration is taxable under GST as one of the conditions of zero-rated supply is receipt of foreign exchange.

DHL Express India Pvt Ltd (Delhi High Court)

ITC cannot be denied in a bona-fide transaction

Where the transaction is bona-fide, but the supplier has failed to remit the tax to the government, ITC is not deniable to buyer if GST has been paid by buyer to the supplier.

Sahil Enterprises (Tripura High Court)

Delay in filing annual return

General penalty not leviable for delay in filing GST annual return where late fee already prescribed under law.

TVI R P G Traders (Madras High Court)

Limitation period not applicable for refund of pre-deposit

Refund of statutory pre-deposit for filing appeal is a right vested on assessee after appeal is decided in its favour. Time period of 2 years shall not be applicable.

BLA Infrastructure Pvt Ltd (Supreme Court of India)

Timelines for filing refund application are directory in nature

Rejection of refund application solely on ground of expiry of limitation period is not sustainable as the timelines are directory in nature.

Celebrity Structures India Pvt Ltd (Karnataka High Court)



Corporate veil cannot be lifted merely due to common directorship

Common directorship cannot justify lifting corporate veil to recover tax dues of one company from another.

Ramms India Pvt Ltd (Karnataka High Court)

Distribution of ITC by ISD

Rule 39(1)(a) of Central GST Rules, 2017, which mandates ISD that ITC available for distribution in a month shall be distributed in the same month, is ultra vires Central GST law.

BirlaNu Limited (Telangana High Court)

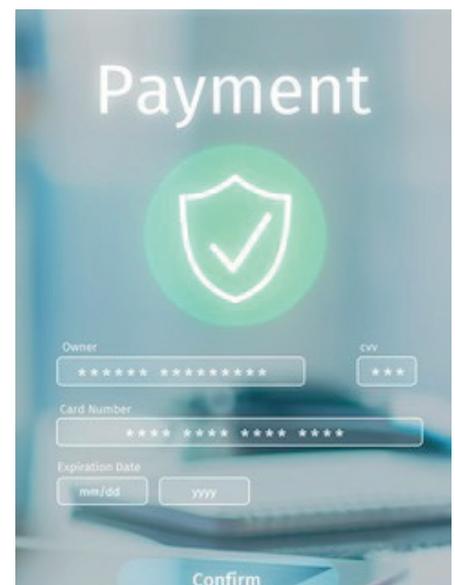
Timelines for filing refund application

For determining limitation period for filing a refund application, the date of initial refund application to be considered and not the date of

ITC cannot be denied in a bona-fide transaction

Limitation period not applicable for refund of pre-deposit

Corporate veil cannot be lifted merely due to common directorship



filing of revised refund application pursuant to deficiency memo.

Homag India Pvt Ltd (Karnataka High Court)

Best judgement assessment not permitted

While passing an Order under Section 74 of the Central GST Act, 2017, the officer cannot resort to best judgment assessment in the absence of any express provision under the law permitting it.

Amritha Marketing (Madras High Court)

CORPORATE & ALLIED LAWS

Circulars / Notifications

SWAGAT-FI Framework Simplifies FVCI Registration and Compliance

The SWAGAT-FI framework provides a unified registration portal for FVCIs, who can now submit registration requests, approvals, and periodic compliance reports through a single window, reducing regulatory time and complexity. This is particularly relevant for foreign parent companies holding stakes in Indian private limited subsidiaries via FVCIs.

SEBI Circular No. HO/19/34/14(5)2025-AFD-POD2/1/199/2025 dated January 16, 2026

Trusted Foreign Investors Get Single-Window Access Under New Market Framework

SEBI has established a single-window system for eligible foreign investors, allowing them to invest

in Indian companies, including private limited subsidiaries, more efficiently. This reduces compliance hurdles, accelerates approval timelines, and ensures that foreign investors can invest in their Indian subsidiaries without procedural delays.

SEBI Circular No. HO/19/34/14(5)2025-AFD-POD2/1/2703/2026 dated January 16, 2026

RBI revamps export-import compliance framework under FEMA

RBI has introduced the Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2026, which consolidate and modernize foreign exchange norms for trade in goods and services. The unified framework replaces the decade old regulations, simplifying compliance procedures, extending export

SWAGAT-FI framework simplifies FVCI compliance

SEBI opens a fast lane for foreign investors

RBI notifies consolidated FEMA (Export & Import) Regulations, 2026

proceeds realisation timelines, and enhancing digital monitoring through authorised dealer banks. The new regulations are set to come into effect from October 1, 2026.

RBI Notification No. FEMA 23(R)/2026-RB dated January 13, 2026



CFO WATCH

Refined concentration risk framework for high-quality infrastructure lending by NBFCs

RBI has issued directions refining the existing framework by introducing a new category of high-quality infrastructure projects. NBFCs may classify infrastructure lending under various categories if projects have completed at least one year of stable operations, exposures are standard, revenues are contractually backed by government or statutory authorities and robust security and cash-flow protections are in place. Additional safeguards include adequate funding arrangements and lender consent for critical borrower actions.



Master Circular Strengthens ESG and BRSR Disclosure Discipline

SEBI has issued a Master Circular under the LODR Regulations consolidating and clarifying compliance expectations for listed entities. From an ESG perspective, the circular reinforces the need for timely, consistent, and evidence-backed disclosures, thereby enhancing the credibility of BRSR reporting and readiness for assurance. Listed entities should use this as an opportunity to refresh their disclosure inventory and compliance calendar, clearly defining ownership, approval workflows. Additionally, Boards and Committees should strengthen documentation supporting judgement-intensive disclosures such as targets, estimates, and transition narratives and undertake a focused quality review.

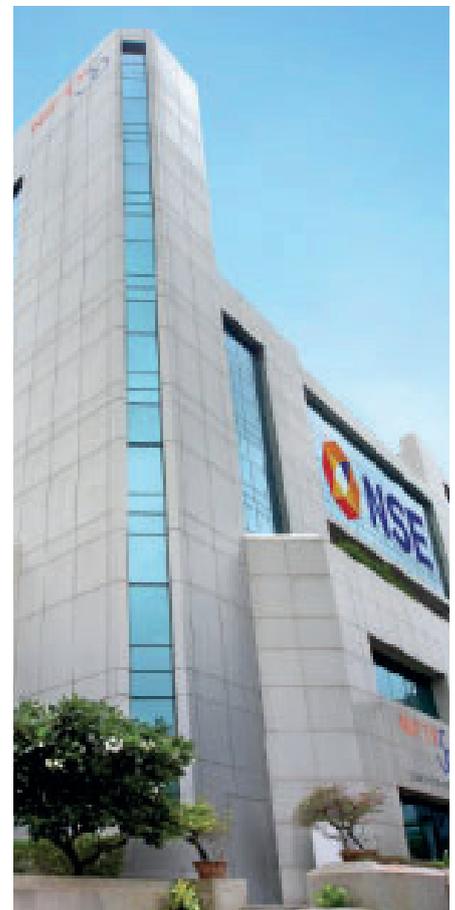
NSE Expands Single Filing System to Integrated Financial Results

Initially introduced from 1 October 2024, the system enabled filings on one exchange to be automatically mirrored on others. The latest update extends API-based single filing to integrated financial results under Regulation 33, covering quarterly and annual submissions, while clarifying that listed entities must directly respond to exchange queries, thereby streamlining compliance and avoiding duplication.

NBFC infrastructure lending norms updated, permitting differentiated treatment for projects

Master Circular Strengthens ESG and BRSR Disclosure Discipline

NSE Expands Single Filing System to Integrated Financial Results



MERGERS & ACQUISITIONS

Japan Shows Confidence in India: A Strategic M&A Moment in Financial Services

2025 has seen a remarkable surge in cross-border activity between Japan and India, with Japanese financial giants placing big bets on India's fast-growing financial services market. This trend was underscored by Mitsubishi UFJ Financial Group's recent agreement to acquire a 20% stake in Shriram Finance Ltd for about \$4.4 billion, one of the largest foreign investments in India's non-bank financial space this year.

This isn't a standalone event. The pace of Japanese capital flowing into India has accelerated sharply built on

deals like Sumitomo Mitsui Banking Corporation's purchase of a substantial stake in Yes Bank earlier in 2025 and Mizuho's acquisition of a majority position in Avendus Capital.

The significance of the Shriram Finance transaction lies less in its size and more in the strategic conviction it reflects toward India's retail lending and MSME credit landscape. With deep expertise in vehicle and personal finance, Shriram Finance is well positioned to benefit from the country's expanding middle class and sustained consumption-led growth.

Japanese financial institutions grappling with subdued domestic

growth and demographic challenges at home are increasingly looking outward. India's robust economic trajectory, coupled with policy reforms that welcome foreign investment, offers the scale and long-term growth potential that many Japanese banks have been seeking.

For India's M&A landscape, these developments are more than headlines: they signal a maturing market, drawing strategic capital that goes beyond passive investment to deep, long-term partnerships. The Shriram Finance deal could well be a bellwether for future Japan-India collaboration across banking, NBFCs, and wealth management.



IN THE NEWS

Beyond the Traditional Firm Leadership Dialogue

January 29, 2026

Ajay Sethi hosted a fireside chat with Rakesh Shaunak, Managing Partner & Group Chairman, MHA UK, the member firm for Baker Tilly in UK, discussing firm growth journeys, IPO versus private equity perspectives, global expansion strategies, and leadership lessons for the future.

IIA Bombay Chapter & ICAI - Internal Audit Training Knowledge Session

January 20, 2026

Chintan Nisar, ASA, delivered a virtual training session under the Internal Audit Functional Track, Specific Series, organised jointly by the IIA Bombay Chapter and ICAI. The session shared practical insights for today's internal audit professionals, emphasising structured assurance and evolving audit practices.

Soothe Healthcare - Osaki Medical Deal Advisory

January 08, 2026

Baker Tilly ASA India acted as the exclusive financial advisor to Soothe Healthcare Private Limited on its strategic partnership with Osaki Medical Corporation, Japan, and its 45 crore fundraise from UHNI family offices. The collaboration brings Japanese excellence in feminine hygiene and maternity care to India, while

reinforcing investor confidence in Soothe's premium, women-centric growth strategy.

India's Magnet Moment: Why The REPM Manufacturing Scheme is a Strategic Inflection Point

January 13, 2026

Author: Himanshu Srivastava, Baker Tilly ASA India

This article examines India's strategic initiative to develop domestic manufacturing of REPMs, critical components for electric vehicles, wind turbines, and defence equipment. It analyses how the government's ₹7,280 crore scheme addresses India's heavy import dependency, outlines the policy's performance-linked incentive structure, and explains why building integrated REPM manufacturing capacity represents a crucial step toward supply chain resilience, energy transition goals, and reducing geopolitical vulnerability in advanced technology sectors.

Is Supply Chain Management a mere Commercial Issue?

January 06, 2026

Author: Ameet Baid, Roshni Chaurasia & Chirag Rajput, ASA

In this article, supply chain management is examined beyond cost and logistics, highlighting how tax-efficient structuring plays a strategic role in long-term value

creation. It explains how Tax Efficient Supply Chain Management, when aligned with OECD-BEPS principles, economic substance and transfer pricing discipline can help multinational enterprises balance competitiveness with compliance while avoiding artificial profit shifting.

Principal Purpose Test in focus: When Commercial Reality Trumps Formal Presence

January 29, 2026

Author: Ameet Baid, Chandandeep Kaur & Ishmeet Kaur, ASA

In this article, a Mumbai ITAT ruling is examined to show how commercial substance and genuine intent can outweigh formal presence when claiming treaty benefits. It explains how grandfathered investments, economic substance, and effective control helped sustain capital gains exemption under the India-Singapore DTAA despite Principal Purpose Test scrutiny.



GLOSSARY

AAR

Authority for Advance Ruling

AO

Assessing Officer

BEPS

Base Erosion and Profit Shifting

BRSR

Business Responsibility and Sustainability Report

CBDT

Central Board of Direct Taxes

DIN

Director Identification Number

DTAA

Double Taxation Avoidance Agreement

ESG

Environmental, Social and Governance

FEMA

Foreign Exchange Management Act

FVCI

Foreign Venture Capital Investor

GAAR

General Anti Avoidance Rule

GST

Goods & Services Tax

ICAI

Institute of Chartered Accountants of India

IIA

Institute of Internal Auditors

IPO

Initial Public Offer

ISD

Input Service Distributor

ITAT

Income Tax Appellate Tribunal

ITC

Input Tax Credit

LODR

Listing Obligations and Disclosure Requirements

M&A

Mergers & Acquisitions

MSME

Micro, Small, Medium Enterprise

NBFC

Non-Banking Financial Company

NSE

National Stock Exchange of India

OECD

Organisation for Economic Co-operation and Development

PE

Permanent Establishment

RBI

Reserve Bank of India

REPM

Rare Earth Permanent Magnets

SEBI

Securities and Exchange Board of India

SWAGAT-FI

Single Window Automatic and Generalised Access for Trusted Foreign Investors

TRC

Tax Residency Certificate

UK

United Kingdom

US

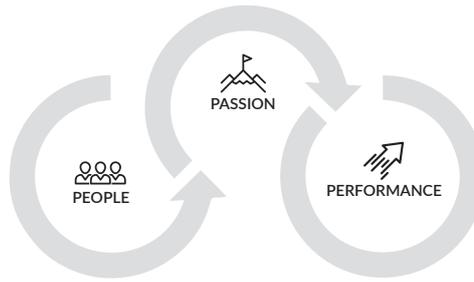
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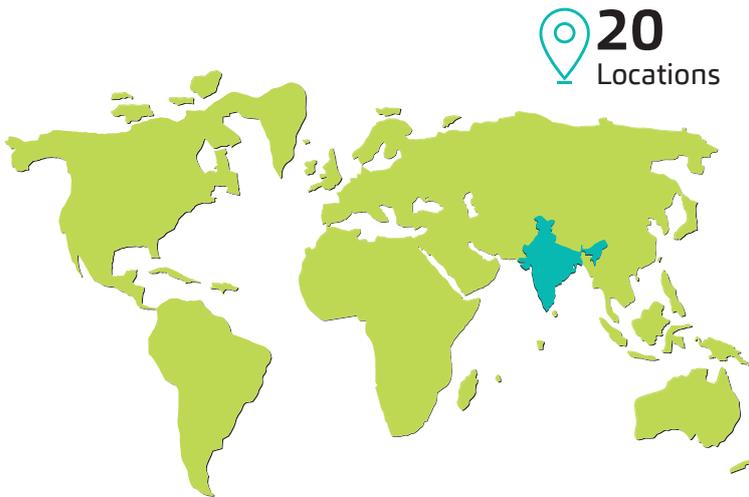
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