A Monthly E-Newsletter

Vol 07 Issue 08
August 2026

The Bottom Line

WHAT'S INSIDE

KEY METRICS

Indices

BSE SENSEX	78,095	2.11%	▲
NSE NIFTY50	24,384	2.17%	▲
NASDAQ Composite	25,374	-3.20%	▼
NIKKEI 225	64,362	-8.14%	▼

Currency

USD/INR	95.39	-0.77%	▼
Euro/INR	109.97	-1.71%	▼
GBP/INR	128.60	-2.43%	▼
JPY/INR	0.61	-4.09%	▼

Note:The month-on-month movement as on July 31, 2026, is represented in percentages
Source: NSE.com, BSE.com, NASDAQ.com, NIKKEI.com, Investing.com

DIRECT TAX

Circulars/Notifications

Notifications

Cost Inflation Index notified for FY 2026-27

The Cost Inflation Index has been notified for the Financial Year 2026-27 as 384, under the Income-tax Act, 2025 for the purpose of calculation of index cost of acquisition.
Notification No. 85 of 2026, dated July 15, 2026

Protocol Amending India-Sri Lanka DTAA Notified

A protocol amending the India-Sri Lanka DTAA has been notified, revising the preamble to target treaty-shopping and tax evasion or avoidance. It also replaces the existing provision under Article for 'Limitation of Benefits' with a robust Principal Purpose Test, denying treaty benefits where obtaining such benefit was one of the principal purposes of any arrangement or transaction, thereby aligning the treaty with international tax standards. The protocol shall apply in India for income derived in tax years beginning on or after April 01, 2027.
Notification No. 88 of 2026, dated July 16, 2026

Judicial Rulings

Expatriate salary incurred exclusively for an Indian Branch is a deductible business expense, outside the purview of section 44C

The Assessee, a foreign body corporate registered under the Indian laws as a Branch, claimed a deduction for salary paid to expatriate employees deputed exclusively to the Branch. A part of the salary was initially borne by the overseas HO. The AO treated this as the HO's general and administrative expenditure as it was first paid abroad and restricted the deduction under Section 44C (which prescribes the limit on deduction of prescribed HO's expenses). The ITAT held that the applicability of Section 44C depends on the nature and character of the expenditure, not on the place or manner of payment. As the expatriates worked solely for the Branch and the salary was directly connected with its operations, it could not be regarded as HO expenditure requiring allocation between Indian and overseas operations. The ITAT further noted that the entire salary, including the portion borne by the HO, had already been offered to tax in India by the expatriates and so the reimbursement to the HO was not a payment for any independent service. The expenditure was independently allowable under the domestic tax laws as well as under Article 7 of the India-UK DTAA (whose more beneficial provisions prevail over section 44C), being incurred wholly for the Indian permanent establishment / Branch. Accordingly, the expatriate salary was allowed as a business deduction.
Standard Chartered Bank (ITAT, Mumbai)

ESOP cross-charge paid to a foreign parent is a deductible expense and not of capital nature

The Assessee, an Indian subsidiary, reimbursed its foreign parent towards ESOP costs relating to its employees under a cross-charge arrangement. The AO disallowed the expenditure by treating it as capital in nature since the shares were issued by the parent company. The ITAT held that the Assessee only incurred employee compensation costs and did not issue shares or acquire any capital asset or any long-term benefit. The expenditure was incurred wholly for retaining and rewarding employees engaged in its business. Accordingly, the ITAT held that ESOP cross-charge represents employee compensation and qualifies as a normal business expenditure.
Linde Engineering India Private Limited (ITAT, Ahmedabad)

Protocol amending India-Sri Lanka DTAA notified

Expatriate salary incurred exclusively for an Indian Branch is outside the purview of section 44C

Capital reduction cannot be recharacterized as a share buy-back in the absence of evidence of tax avoidance

Capital reduction cannot be recharacterized as a share buy-back in the absence of evidence of tax avoidance

The Assessee undertook a court-approved capital reduction and distributed funds to its shareholder. The AO treated the transaction as a share buy-back and accordingly levied tax along with consequential interest, alleging that the arrangement was a colourable device to avoid taxes. The ITAT observed that capital reduction and buy-back are distinct legal transactions governed by separate provisions and cannot be equated merely because both involve payment to shareholders. It further noted that the transaction had commercial substance, followed the prescribed legal process, and the applicable taxes on the distribution had already been discharged. Accordingly, the ITAT held that a genuine capital reduction cannot be recharacterized as a buy-back in the absence of evidence of tax avoidance.
Seaview Developers Private Limited (ITAT, Delhi)

INDIRECT TAX

Proposed e-Way Bill enhancements kept on hold

Apex Court upholds assignment of leasehold rights by lessee not liable to GST

Legal condition for ITC claim permissible only if tax paid by supplier held Constitutional by Supreme Court

Notifications / Circulars

Proposed e-Way Bill enhancements kept on hold

GSTN has kept on hold the enhancements to the e-Way Bill system that were to take effect from August 01, 2026. Taxpayers, transporters and technology service providers need not make any change in their systems and the earlier advisories along with the related clarifications stand withdrawn from the portal.

Advisory dated July 29, 2026

Judicial Rulings

Assignment of leasehold rights by lessee is not liable to GST

The Supreme Court declined to interfere with the ruling that assignment of leasehold rights in an industrial plot by the lessee to a third party is not liable to GST.

Gujarat Chamber of Commerce and Industry (Supreme Court of India)

ITC claim permissible only if tax paid by supplier

The Supreme Court upheld the validity of the condition that a recipient can claim ITC only where the tax has actually been paid to the Government by the supplier. The condition is neither unconstitutional nor liable to be read down.

Bhandari Scrap Traders (Supreme Court of India)

Relevant date for interest on delayed refund

Where the initial refund application was wrongly rejected and that rejection was set aside, interest on the refund must be computed from the date of the original application and not from the date of the fresh application filed after the Court's Order. The Department's illegal refusal cannot deprive the taxpayer of interest that would have accrued from the original date.

Kuehne Nagel Pvt Ltd (Gujarat High Court)

Pre-deposit for appeal before GSTAT

Where the First Appellate Authority reduces the original tax demand, a taxpayer who has already paid the pre-deposit of ten percent on the higher original demand at the first appellate stage, need not make any fresh pre-deposit for filing an appeal before the GSTAT, as the earlier deposit already covers the requisite amount of pre-deposit.

Manoranjan Dash (GSTAT, Cuttack)

E-way bill required for re-transportation for testing

Re-transportation of machinery back to the seller for testing under cover of a delivery challan, without generation of an e-way bill, is not exempt from the e-way bill requirement even though it does not involve any consideration. The failure to generate the e-way bill attracts penalty.

AAM India Manufacturing Corporation Pvt Ltd (Karnataka High Court)

Printing of manufacturer's name on packaging does not amount to use of brand name

Printing the corporate name and address on packaging to meet food safety and legal metrology requirements does not amount to use of a brand name. The exemption for unbranded goods therefore continues and the fact that the invoice carries the brand name does not make the goods branded.

Godrej Tyson Foods Ltd (GSTAT, Thane)

No interest if tax paid in electronic cash ledger

Where tax is deposited in the electronic cash ledger on or before the due date but the return is filed late, interest cannot be charged for the period after the deposit.

Anas Enterprise (Gujarat High Court)

CORPORATE & ALLIED LAWS

Circulars / Notifications

SEBI simplifies framework for transmission of securities to enhance ease of doing business

SEBI has issued a circular simplifying and standardising the framework for transmission of securities with the objective of enhancing ease of doing business and ensuring uniform practices across listed companies, depositories and registrars. The revised framework simplifies documentation requirements and introduces a streamlined mechanism for processing transmission requests. The revised framework is expected to reduce procedural delays and facilitate faster transmission of securities to legal heirs and nominees, thereby improving investor convenience while ensuring consistency across market participants.

SEBI Circular No. HO/38/13/11(14)2026-MIRSD-POD/I/17111/2026 dated July 23, 2026

Promoter holding freeze mechanism under Buy-back Regulations operationalized

SEBI has operationalised the mechanism for freezing holdings of promoters and promoter group entities (including their associates) at the ISIN level during the buy-back process under the SEBI (Buy-back of Securities) Regulations, 2018. The circular prescribes the operational framework to be followed by depositories while implementing the restriction, subject to specified regulatory exceptions. The framework aims to strengthen regulatory oversight, enhance transparency and ensure compliance with restrictions applicable during buy-back transactions. The circular is relevant for listed companies undertaking buy-backs, their promoters, depositories and other market intermediaries.

SEBI Circular No. HO/49/14/13(11)2026-CFD-POD1/I/16864/2026 dated July 21, 2026

Extension of CCFS 2026 amnesty scheme by MCA

The CCFS 2026 enabled active companies regularise pending compliance filings and inactive companies to either apply for dormant status or for winding-up. For regularisation, the additional fee for late filing was substantially reduced and reduced normal filing fee was applicable for companies opting for dormancy or winding -up status. The validity of the Scheme has been extended till August 31, 2026, in view of the capacity enhancement and restoration activities undertaken by MCA.

Ministry of Corporate Affairs General Circular No. 03/2026 dated July 8, 2026.

AD banks authorised to open SRVAs

AD banks can now open SRVAs as an additional arrangement for invoicing, payment and settlement of exports and imports in INR, of its branch outside India or in a bank resident outside India. All permissible capital and current account transactions under Foreign Exchange Management Act can be settled through the SRVAs. Moreover, AD banks maintaining SRVAs can also exclusively open additional current accounts for settlement of export/ import transactions. Funding of SRVAs can be either through inward remittances or transfer from other repatriable INR accounts. Investment in debt instruments out of the balances held in SRVAs, shall be as per RBI Directions. Documentation and reporting of cross-border transactions through SRVAs will be as per RBI guidelines and details of SRVAs held by overseas correspondent banks with AD banks in India, must be updated periodically in the SRVA directory.

RBI/2026-27/203 A.P. (DIR Series) Circular No.19 dated July 17, 2026

SEBI streamlines securities transmission process to reduce procedural hurdles

Promoter holding freeze mechanism introduced for enhanced buy-back compliance

MCA extends CCFS 2026 window

CFO WATCH

Fraud risk management framework for Payments Banks strengthened

RBI through Payments Banks Fraud Risk Management Directions, 2026 require the Board and senior management of Payments Banks to establish a robust fraud risk management framework covering prevention, early detection, investigation, reporting, recovery, and staff accountability. Management is required to implement a Board-approved Fraud Risk Management Policy, constitute appropriate governance committees, deploy effective early warning signals and red-flagged accounts mechanisms, ensure compliance with principles of natural justice before fraud classification, strengthen data analytics and transaction monitoring, complete timely reporting to RBI.

New social security framework notified

The Ministry of Labour and Employment has notified the EPF Scheme, 2026, EPS, 2026, and EDLI Scheme, 2026, under the Code on Social Security. The new framework modernises compliance through digital processes, including e-filings, UAN-based account management, e-passbooks, and online claim settlement. It also consolidates provisions relating to provident fund, pension, and insurance benefits while prescribing employer contribution requirements, governance standards, exemption conditions, and streamlined administration. Employers should review coverage, update payroll and compliance systems, align internal policies, and ensure timely implementation of the revised statutory requirements.

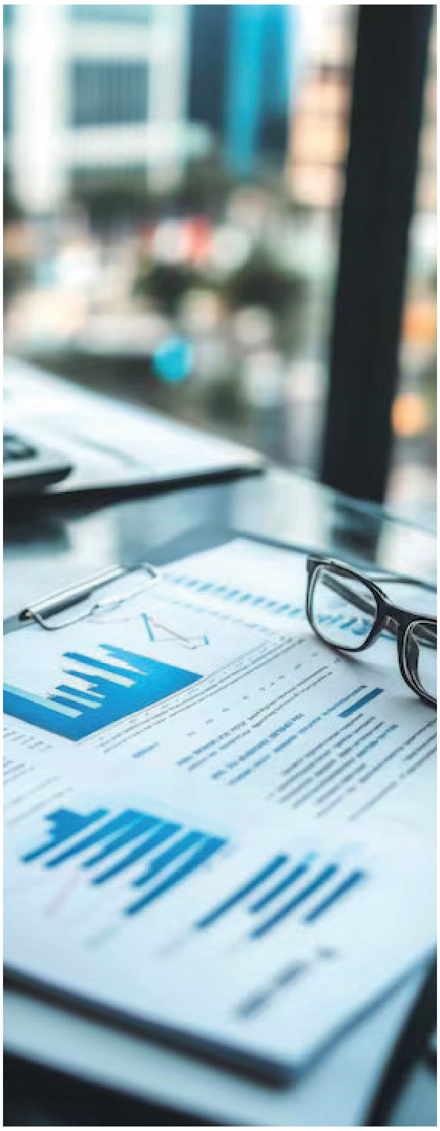
Revised financial reporting framework for listed insurers issued

IRDAI issued revised formats for the publication of financial results by listed insurers to align with the SEBI (LODR) Regulations, 2015. The updated formats apply to listed life, general, health insurers and reinsurers for quarterly and annual financial disclosures, including financial statements, limited review reports and newspaper publications. While the implementation of forbearance for FY 2026–27 continues under the existing reporting framework, insurers should review reporting templates, strengthen disclosure controls, update internal reporting processes, and ensure compliance with the revised disclosure requirements for timely and accurate regulatory reporting.

Fraud risk management framework for Payments Banks strengthened

New social security framework notified

Revised financial reporting framework for listed insurers issued



MERGERS & ACQUISITIONS

India's PE/VC Market Shifts Focus from Growth to Value

India's PE and VC market has entered a more measured phase in 2026, reflecting a shift in investor strategy rather than a decline in confidence. According to Venture Intelligence data, PE/VC investments reached USD 20.3 billion across 756 deals during January–July 2026, compared with USD 21.5 billion corresponding period last year, a 6% decline in investment value and a 12% drop in deal volume. Despite the moderation, July 2026 emerged as the strongest month for investments since the onset of the Russia–Ukraine conflict, signalling that investor appetite for quality assets remains intact.

The evolving investment landscape indicates that investors are becoming increasingly selective. Rather than chasing rapid growth, funds are prioritising businesses with strong governance, sustainable profitability, and clear value creation opportunities. This disciplined approach is driving greater interest in sectors such as financial services, healthcare, manufacturing, and enterprise technology, where long-term fundamentals continue to remain robust.

For the M&A ecosystem, this trend carries important implications. As capital becomes more selective, strategic acquisitions, platform investments, and industry consolidation are expected to gain prominence. Businesses with resilient cash flows, scalable operations, and sound corporate governance are likely to command stronger investor interest, even in a relatively cautious funding environment.

CYBER & DIGITAL BRIEF

Cyber Resilience Under Pressure

July 2026 was a powerful reminder that cyber threats continue to evolve in scale, speed, and sophistication. Organizations worldwide faced ransomware attacks, critical software vulnerabilities, AI-powered phishing campaigns, supply chain compromises, and attacks on essential public services. Yet despite the changing threat landscape, most successful attacks still exploit familiar weaknesses: human error, delayed patching, weak credentials, and inadequate preparedness. The message is clear: cyber resilience is no longer just an IT responsibility. It is a business imperative.

Ransomware Continues to Raise the Stakes

Ransomware remained one of the most disruptive cyber threats with modern ransomware groups increasingly stealing sensitive data before encrypting systems, creating a double-extortion scenario where organizations face both operational disruption and the risk of data exposure. Even when backups are available, stolen information can lead to reputational damage, regulatory scrutiny, and legal consequences.

Security Tools Are Becoming Targets

Cybercriminals are no longer focused solely on breaking into systems. They are increasingly attempting to disable security monitoring and detection tools before launching attacks. Much like a burglar disabling CCTV cameras before entering a building, these tactics can give attackers more time to operate undetected. The trend highlights why organizations must adopt layered security strategies rather than relying on a single technology for protection.

AI Is Making Attackers Faster and Smarter

AI is rapidly becoming a force multiplier for cybercriminals. Attackers are using AI to create convincing phishing emails, automate reconnaissance activities, identify vulnerabilities more efficiently, and accelerate various stages of cyberattacks. The result is a new generation of scams that appear professional, personalized, and highly credible. In today's environment, employees must verify unexpected requests, particularly those involving credentials, payments, or sensitive information, regardless of how legitimate they appear.

Supply Chain Risks Continue to Grow

A growing number of cyber incidents are originating through trusted vendors, technology providers, and service partners. Rather than attacking organizations directly, threat actors are compromising suppliers and leveraging those relationships to gain access to multiple customers. This approach allows attackers to maximize their reach while exploiting established trust. As a result, vendor risk management has become a critical business requirement rather than a mere compliance exercise.

Five Practical Takeaways

- Be cautious with unexpected emails, links, and attachments.
- Use strong passwords and enable Multi-Factor Authentication.
- Apply software and security updates promptly.
- Verify before sharing sensitive information externally or with AI tools.
- Report suspicious activity immediately to prevent escalation.

It is a reinforced reality that cybersecurity directly impacts reputation, customer trust, regulatory compliance, operational continuity, and long-term business success. Organizations that focus on cyber hygiene, employee awareness, strong identity controls, timely patching, and resilience planning remain significantly better positioned to withstand modern cyber threats.

Stay Alert. Stay Secure.
Stay Resilient.

IN THE NEWS

CFO Story Club Conference 2026

July 10, 2026

Baker Tilly ASA India partnered with the CFO Story Club Conference in New Delhi, where finance leaders discussed the evolving role of the CFO, governance, and business resilience. As part of the conference, Subroto Bose joined the panel on "How CFOs Rethink Fundamentals & Shape Strategy," sharing perspectives on balancing capital discipline with long-term growth.

NNA Asia Interview on India–Japan Investment *July 13, 2026*

Ajay Sethi, Baker Tilly ASA India, spoke with NNA Asia on the growing interest of Japanese businesses in India, highlighting expanding investment from small and medium-sized enterprises, emerging sectoral opportunities, and the role of the firm's Japan Desk in supporting market entry and business expansion.

ICAI National Conference on Reimagining Internal Audit

July 18, 2026

Bhushan Sharma, Baker Tilly ASA India, was invited as a speaker at the National Conference on "Reimagining Internal Audit: From Assurance to Strategic Value," organised by the IASB of ICAI. He joined the panel on "Role Beyond Audit Committee – Meeting Stakeholder Expectations," sharing perspectives on the evolving role of internal audit in strengthening governance and creating strategic value.

Webinar on India Ascending: Trade, Growth & the New Global Order

July 08, 2026

Baker Tilly ASA India hosted the webinar "India Ascending: Trade, Growth & the New Global Order," where Rajiv Arya, Gautam Khurana, and Manish Gupta explored the impact of geopolitical shifts, evolving trade dynamics, and supply chain transformation on business growth, investment strategies, and India's expanding role in the global economy.

India–UK Comprehensive Economic and Trade Agreement

July 15, 2026

Baker Tilly ASA India highlighted the key implications of the India–UK Comprehensive Economic and Trade Agreement, outlining how the agreement is expected to strengthen bilateral trade, investment, talent mobility, and market access while creating new opportunities for businesses operating across both markets.

The Great Realignment: Eurosatory 2026 and the realities of India's defence integration *July 13, 2026*

Author: Kim Collaco, Baker Tilly ASA India

In this article, the global defence industry's shift toward co-development, resilient supply chains, and manufacturing diversification is explored through the lens of Eurosatory 2026. It highlights how India is emerging as a strategic hub for defence manufacturing, engineering GCCs, and technology partnerships, while outlining the regulatory and operational considerations for global defence companies.

GLOSSARY

AD
Authorized Dealer

AI
Artificial Intelligence

AO
Assessing Officer

CCFS
Companies Compliance Facilitation Scheme

CFO
Chief Financial Officer

DTAA
Double Taxation Avoidance Agreement

EDLI
Employees' Deposit Linked Insurance

EPF
Employees' Provident Fund

EPS
Employees' Pension Scheme

ESOP
Employee Stock Option Plan

GCC
Global Capability Centre

GST
Goods & Services Tax

GSTAT
GST Appellate Tribunal

GSTN
Goods and Services Tax Network

HO
Head Office

IASB
International Accounting Standards Board

ICAI
Institute of Chartered Accountants of India

INR
Indian Rupee

IRDAI
Insurance Regulatory and Development Authority of India

ISIN
International Securities Identification Number

IT
Information Technology

ITAT
Income Tax Appellate Tribunal

ITC
Input Tax Credit

LODR
Listing Obligations and Disclosure Requirements

M&A
Mergers & Acquisitions

MCA
Ministry of Corporate Affairs

PE
Private Equity

RBI
Reserve Bank of India

SEBI
Securities and Exchange Board of India

SRVA
Special Rupee Vostro Account

VC
Venture Capital

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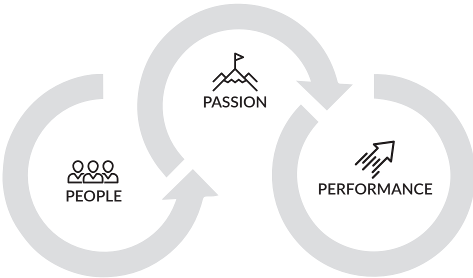

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