Tax Glimpses 2025

December 2025

Contents

Preface

The year 2025 marks a significant chapter in India's economic and tax landscape. Amidst global uncertainties and evolving geopolitical dynamics, India continues to demonstrate resilience and growth, with gross domestic product projections remaining robust and fiscal indicators reflecting stability. The World Bank has projected a growth outlook for India at 6.5% in 2025–26, citing stronger domestic conditions and the impact of goods and services tax (GST) rate cuts. However, it has reduced its forecast for 2026–27 to 6.3%, citing the impact of the US tariffs as a dampener to its growth.

The Union Budget 2025 introduced several measures aimed at simplifying tax laws, fostering ease of doing business and accelerating the nation's journey towards Viksit Bharat. Key priorities include infrastructure development, digital innovation, sustainability and next-generation reforms in areas such as labour, land and foreign investments.

Globally, tax administrations are embracing technology at an unprecedented pace. Artificial Intelligence and blockchain are redefining compliance and audit processes, while sustainability-linked tax incentives are gaining traction as nations strive to meet climate goals. In India too, ESG-focused tax measures — such as incentives for renewable energy investments, green bonds and carbon credit trading — are shaping corporate strategies and reinforcing the country's commitment to a low-carbon economy.

India continues to remain an active participant in global tax dialogues, particularly on BEPS 2.0 and digital taxation, ensuring that its policies are aligned with evolving international norms while safeguarding domestic interests.

On the tax front, 2025 has been a year of noteworthy developments. The introduction of the new Income-tax Act signifies a paradigm shift in India's direct tax framework, focusing on simplification, transparency and alignment with global best practices. Indirect tax reforms gained momentum with the operationalisation of the GST Appellate Tribunal (GSTAT) and the far-reaching decisions from the 56th GST Council meeting, which laid the foundation for GST 2.0 — a streamlined two-rate structure replacing the earlier multi-tiered regime. These changes, coupled with digital compliance tools and faster refund mechanisms, highlight the government's commitment to facilitate ease of doing business and reduce litigation.

On the trade front, tariffs announced by the US on select Indian industries have added complexity to global supply chains, prompting India to recalibrate its trade strategy. Currently, India is actively negotiating bilateral and multilateral trade agreements with key partners to secure market access, strengthen economic ties and mitigate tariff-related disruptions — highlighting its commitment to maintaining competitiveness in an evolving global trade environment.

The year 2025 also witnessed landmark regulatory developments in India's digital ecosystem and labour reforms in order to strengthen governance and protect citizens' rights. The Digital Personal Data Protection Act (DPDP), 2023, backed by the newly notified Digital Personal Data Protection Rules, 2025, have ushered in a comprehensive privacy framework, introducing consent management, data fiduciary obligations and stringent breach reporting norms. Additionally, the Promotion and Regulation of Online Gaming Act, 2025 reflects the government's resolve to curb monetary gaming risks while promoting e-sports and safe digital recreation — signalling a decisive step towards responsible governance of India's fast-growing digital market. The government has also implemented the four Labour Codes — on Wages, Industrial Relations, Social Security and Occupational Safety — consolidating 29 outdated laws into a unified framework that guarantees minimum wages, universal social security (including gig workers), safer workplaces and simplified compliance, marking one of the most comprehensive labour reforms since independence.

Tax Glimpses 2025 brings to you a concise analysis of the key changes that shaped the year, including significant judicial pronouncements, key legislative changes and regulatory updates, along with the outlook for 2026.

We hope you find this compilation useful and look forward to your suggestions.

As always, our best wishes for the coming festive season and beyond!

This report also includes links to various PwC Thought Leadership initiatives, such as:

- **Tax & Regulatory Insights**
- **Customs & Trade Newsletters**
- **India Budget 2025**
- **Asset and wealth management in Asia-Pacific region: Tax drivers and considerations in mergers and acquisitions**
- **US tariffs and India: An evolving story**
- **Eight years of GST: A time to reflect, a time to reform**
- **Booklet on the GSTAT (Procedure) Rules, 2025**

01

Significant litigation rulings

Tax controversy

Involvement in substantive operational control and implementation functions shall constitute a fixed place PE under Article 5(1) of the India-UAE tax treaty – Supreme Court

Civil Appeal No. 9766 of 2025

In this case, a UAE-incorporated company entered into long-term Strategic Oversight Services Agreements (SOSA) with Indian hotel owners, under which it provided comprehensive strategic planning and operational know-how to ensure international standards in hotel management. The taxpayer argued that its involvement was limited to strategic inputs from Dubai, with only occasional visits to India. Additionally, it did not have a fixed place of business in India as required under Article 5 of the India-UAE Double Taxation Avoidance Agreement (tax treaty). However, the Indian tax authorities alleged that the taxpayer's role extended well beyond advisory functions, encompassing direct involvement in key managerial and operational activities, including personnel management, procurement and financial oversight, with evidence of its employees' extended presence in India.

The Supreme Court upheld the Delhi High Court's findings, holding that the taxpayer's role under the SOSA went beyond strategic advisory, and established a continuous and coordinated operational presence in India. The Supreme Court emphasised that the continuity and functional presence under a 20-year contract satisfied the tests of stability, productivity and dependence as laid down in the Formula One decision[1], thus meeting the threshold for a fixed place permanent establishment (PE) under Article 5(1) of the India-UAE tax treaty. The court clarified that exclusive possession of premises is not required; shared or temporary use is sufficient if core business functions are carried out there. The relevant factor is the continuity of the business presence and not the duration of stay of individual employees. The Supreme Court also noted that the activities of a PE are to be independently evaluated for profit attribution, regardless of the entity's global profits or losses.

This decision underscores the importance of substance over form and need for overseas entities to carefully review their Indian operations and contractual arrangements considering PE risks and profit attribution requirements.

For further details please refer to our **Tax Insights**.

1 Formula One World Championship Limited v. Commissioner of Income Tax, International Taxation-3, Delhi & Anr. [2017] 15 SCC 602

PPT under MLI not enforceable in absence of specific notification under the Income-tax Act, 1961, amending the India-Ireland tax treaty – Mumbai bench of the Tribunal

ITA No. 1198/MUM/2025 & Ors.

In this case, an Irish-incorporated company leased aircraft to an Indian airline and claimed exemption from Indian tax on lease rentals under the India-Ireland tax treaty. The Indian tax authorities denied treaty benefits, invoking the principal purpose test (PPT) under the multilateral instrument (MLI), alleging the Irish entity was set up mainly to obtain treaty benefits and lacked commercial substance. They also sought to characterise the lease payments as royalty or interest, and alleged the existence of a PE in India. The taxpayer argued that MLI provisions, including the PPT, could not be applied without a specific notification under section 90(1) of the Income-tax Act, 1961 (the Act). It also argued that it had genuine commercial substance in Ireland. The Income-tax Appellate Tribunal (Tribunal) agreed with the taxpayer, holding that MLI provisions are not automatically enforceable in India and require express notification. In arriving at this conclusion, the Tribunal relied on the decision of the Supreme Court in Nestle SA.[2] It also found that the Irish company had real business operations, the leases were standard dry operating leases (not finance leases) and that no PE existed in India.

This ruling is significant for its interpretation of the MLI's application in India. The Tribunal clarified that anti-abuse provisions like the PPT under the MLI cannot be invoked unless the MLI is specifically notified under section 90(1) of the Act and its effect expressly incorporated into Indian law. The ruling has also been relied upon by the Delhi bench of the Tribunal in Kosi Aviation Leasing Limited[3]. This ruling also highlights the importance of demonstrating genuine commercial substance in the treaty-resident jurisdiction to defend against treaty abuse allegations. Additionally, it reaffirms that standard dry operating leases do not create a PE or constitute royalty or interest. Moreover, Article 8(1) of the India-Ireland tax treaty provides a broad exemption for lease rentals from aircraft used in international traffic, even if the aircraft are also used on domestic routes.

For further details please refer to our **Tax Insights**.

Assignment of leasehold rights outside the purview of GST – Gujarat High Court

Special Civil Application No. 11345 of 2023

The Gujarat High Court held that assignment of leasehold rights in Gujarat Industrial Development Corporation industrial plots under 99-year lease agreements by a lessee to a third party is a transfer of immovable property, not a supply of services. The assignment extinguishes all the assignor's rights, attracts stamp duty and falls outside the scope of section 7(1)(a) of the Central Goods and Services Tax Act, 2017 (CGST Act). Aligning with Schedule III and settled principles of property law, including the Transfer of Property Act, 1882 and applicable stamp duty statutes, the court rejected the levy of 18% GST on such assignments, emphasising legislative intent and the need to avoid double taxation.

This judgment provides clarity on the taxation of assignment of leasehold rights, affirming that it falls outside the ambit of GST since it is a transfer of immovable property. It contains a detailed interpretation of the scope of the exclusion of immovable property under GST. Where GST has already been paid on such assignments, questions regarding refunds remain unresolved and may require initiation of separate proceedings. Multiple High Courts and Advance Ruling authorities have passed orders on the same lines, relying on this decision.

For further details please refer to our **Tax Insights**.

2 M/s Nestle Sa v. Assessing Officer Circle (International Taxation) [CIVIL APPEAL NO(S). 1420 OF 2023]

3 Kosi Aviation Leasing Limited v. Assistant Commissioner of Income Tax, ITA No. 994/DEL/2025

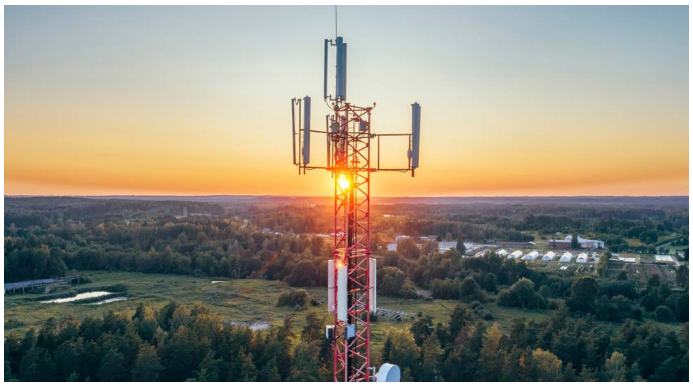
ITC allowed on telecom towers – Delhi High Court

W.P.(C) 13211/2024 & Ors

The Delhi High Court, relying on the principles laid down in the recent Supreme Court decision in the case of Safari Retreats[4], held that telecom towers are to be considered movable property. It allowed input tax credit (ITC) on goods and services used to construct telecom towers, holding that section 17(5)(d) of the CGST Act does not apply because the towers are not immovable. The court observed that the exclusion from 'plant and machinery' in the Explanation to section 17(5) of the CGST Act does not, by itself, render them immovable. The court quashed orders denying ITC and clarified that the Supreme Court's generic principles would apply under GST as well.

This decision is timely, resolving industry's uncertainty about whether the Supreme Court's decision on telecommunication towers being movable property under the pre-GST laws applies under GST. The decision grants much-awaited relief for taxpayers in the telecommunication industry and those providing infrastructure to telecommunication service providers.

For further details please refer to our **Tax Insights**.



GST on mining lease royalties upheld, declaring royalty as contractual consideration and not tax, following nine-judge bench Supreme Court decision – Patna High Court

Civil Writ Jurisdiction Case No.3531 of 2022

The Patna High Court has upheld the levy of 18% GST on royalties paid for mining leases since the inception of GST, holding that the grant of mineral rights under a lease is a supply of services under section 7(1)(a) of the CGST Act and that royalty is a contractual consideration and not a tax. Classifying the activity under service code 997337, the court confirmed the 18% rate from 1 July 2017 onward, rejected parity with liquor license exemptions and clarified that tax liability arises upon the exercise of mineral rights (removal or consumption of minerals), not merely on grant. The court narrowly construed Serial No. 64 exemption to one-time, pre-1 April 2016 assignments, excluding post-2016 yearly agreements and work orders. Constitutional challenges also failed, with Article 246A recognised as a special provision validating GST on such transactions.

This judgement heavily relies on the findings in the judgement by the nine-judge bench of the Supreme Court [a judgement under the Mines and Minerals (Development and Regulation) Act, 1957], while upholding the levy on GST on mining lease royalties. The judgment reinforces the constitutional right to levy GST on royalties paid for mining leases, clarifying that such royalties are a consideration for services rather than a tax. This decision has significant implications for the mining industry, potentially increasing the cost of operations.

For further details please refer to our **Tax Insights**.

4 Chief Commissioner of Central Goods and Service Tax & Ors v. M/s Safari Retreats Private Limited & Ors. [Civil Appeal No. 2948 of 2023 & Ors]

Short term capital gains on the sale of Singapore entity shares by a Singapore tax resident not taxable in India under Article 13(5) of the India-Singapore tax treaty – Mumbai bench of the Tribunal

ITA No.2378/Mum/2022

In this case, a Singapore tax resident holding company sold the shares of another Singapore entity, resulting in short-term capital gains. The underlying Singapore entity held shares in Indian companies, raising the issue of whether the transaction constituted an indirect transfer of Indian assets taxable in India. The taxpayer, holding a valid Singapore Tax Residency Certificate (TRC), claimed exemption from Indian tax under Article 13(5) of the India-Singapore tax treaty, which grants exclusive taxing rights to Singapore for such capital gains. The Indian tax authorities challenged the exemption, arguing that the effective management was in the US, and that the transaction was taxable in India under domestic law and the India-US tax treaty. However, the Tribunal accepted the TRC as conclusive proof of Singapore residency and found that the India-Singapore tax treaty does not contain a look-through clause for indirect transfers. Thus, the gains were not taxable in India.

This ruling by the Mumbai bench of the Tribunal underscores that a valid TRC is generally sufficient to claim tax treaty benefits unless there is clear evidence of a colourable device or abuse. It affirms that tax treaty provisions, if more beneficial, override domestic law. Specifically, Article 13(5) of the India-Singapore tax treaty grants exclusive taxing rights to Singapore for capital gains from the sale of shares not otherwise covered, including those resulting in indirect transfers of Indian assets. The absence of a look-through provision in the tax treaty means such indirect transfers are not taxable in India, providing clarity and certainty for cross-border transactions involving Singapore entities.

For further details please refer to our **Tax Insights**.

'Transaction wise' approach adopted by taxpayer upheld, allowing it to claim exemption for capital gains under the India-Mauritius tax treaty and carry forward of capital loss under the Income-tax Act, 1961 – Mumbai bench of the Tribunal

ITA No.3097/Mum/2023

A Mauritius-resident investor sold shares of unlisted Indian companies in several tranches, resulting in both capital gains and capital losses. The taxpayer claimed exemption from Indian tax on gains under the India-Mauritius tax treaty and sought to carry forward capital losses under the Act, treating each sale as a separate source of income. However, the Indian tax authorities aggregated all gains and losses, set-off the exempt gains against losses, and reduced the amount of loss eligible for carry-forward, arguing that the computation must follow the Act's mechanism. The taxpayer relied on section 90(2) of the Act and relevant case law to assert that the tax treaty's beneficial provisions override the Act, and that exempt income under the tax treaty should not be considered for set-off.

The Tribunal ruled in favour of the taxpayer, affirming that each transaction can be treated as a separate source of income and that capital gains exempt under the tax treaty cannot be set-off against capital losses for the purpose of carry-forward under the Act. The Tribunal emphasised that the tax treaty's beneficial provisions must be respected, and that exempt income under a tax treaty does not form part of total income for computation purposes. Consequently, the taxpayer was allowed to carry forward the full amount of capital loss. Additionally, Revenue's approach of aggregating and setting-off exempt gains against losses was rejected as contrary to the tax treaty and section 90(2) of the Act.

For further details please refer to our **Tax Insights**.

Reassessment held to be justified for issues remaining unexamined in regular assessment – Bombay High Court

[2025] 170 taxmann.com 243 (Bombay)

In this case, an individual taxpayer's return for the financial year (FY) 2015-16 was initially scrutinised only for deductions under Chapter VI-A. Subsequently, based on new information from the Central Bureau of Direct Taxes' Risk Management Strategy regarding undisclosed cash receipts and credit card transactions, the Indian revenue authorities-initiated reassessment proceedings. The taxpayer challenged the reassessment, arguing that the issues had already been addressed and that the authorities lacked jurisdiction under section 148 of the Act, citing various High Court precedents. However, the Revenue maintained that reassessment was based on new information which had not been examined during the original, limited-scope assessment.

The Bombay High Court upheld the validity of the reassessment, emphasising that reassessment is permissible for issues not covered in the original assessment, particularly when new information emerges after the assessment is completed. The Bombay High Court found that the original assessment's limited scope did not preclude the authorities from acting on subsequently received information, provided the proper approval process was followed.

This decision highlights the significance of the scope of the original assessment and affirms that reassessment can be justified when new, relevant information comes to light post-assessment.

For further details please refer to our **Tax Insights**.

Tax certainty

Receipts from cloud-computing services are not taxable as 'royalty' or 'FIS' – Delhi High Court

ITA 150/2025 & CM APPL 29405/2025

A US-based taxpayer provided cloud-computing services to Indian customers. The Indian tax authorities sought to tax these payments as royalty or Fees for Included Services (FIS) under the India-US tax treaty, arguing that the payments were for the use of intellectual property and technical support. The taxpayer maintained that customers only received a limited, non-exclusive right to access the services, with no rights to exploit, modify, or commercially use the underlying technology or intellectual property.

The Delhi High Court held that such payments for standard, automated cloud-computing services do not constitute royalty or FIS under the India-US tax treaty, as customers do not acquire rights to exploit intellectual property or receive technical know-how. Relying on precedents from the Supreme Court and high courts, including decisions in the cases of Engineering Analysis, Salesforce.com, and Urban Ladder, the court clarified that mere access to cloud services does not amount to granting the use of copyright or equipment, nor does it involve making available technical knowledge.

The decision affirms that payments for standard cloud services are not taxable as royalty or FIS, providing clarity and certainty for the cloud services industry.

For further details please refer to our **Tax Insights**.

GST on club services to members is ultra vires Constitutional provisions – Kerala High Court

W. A. No. 1659 of 2024

The Kerala High Court struck down sections 2(17)(e) and 7(1)(aa) of the CGST and Kerala GST Acts in so far as they purport to tax services by clubs or associations to their members, holding them ultra vires the Constitution. Reaffirming the principle of mutuality, the court said that supply or service requires two distinct persons; deeming provisions did not change the definition of 'service', including deemed services within its ambit. It also held the retrospective operation from 1 July 2017 to be illegal, violating fairness and the rule of law.

This judgement provides relief to similar associations and clubs, absolving them from paying GST on the services provided to their members based on the principle of mutuality. The government will have to undertake constitutional amendments to overcome this decision, if the Supreme Court also upholds this decision.

For further details please refer to our **Tax Insights**.

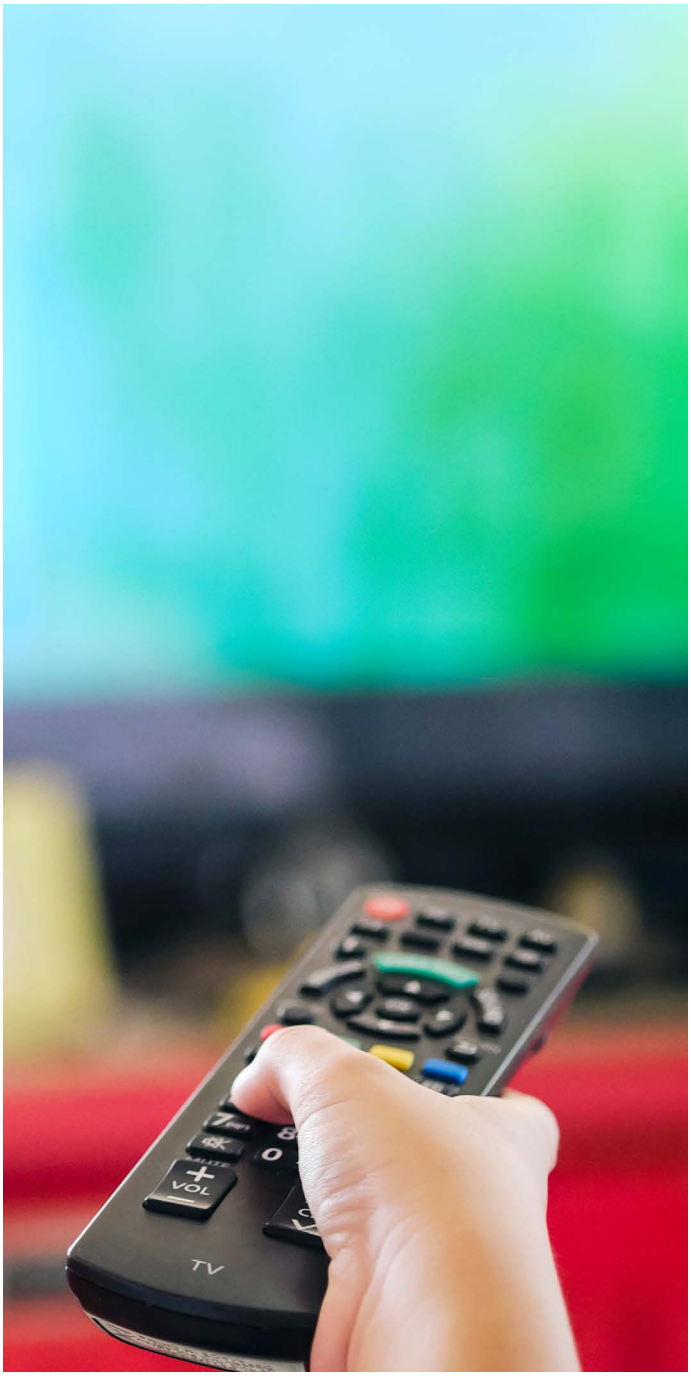
Indian arm of a global OTT service provider with no IP ownership or assumption of critical risks is a limited risk distributor – Mumbai bench of the Tribunal

ITA No. 6857/Mum/2024

The Mumbai bench of the Tribunal recently concluded that the Indian arm of a globally renowned over-the-top (OTT) digital streaming entertainment provider was a limited risk distributor against the Revenue's assertion that it was a risk-taking full-fledged entrepreneur. In arriving at this conclusion, the Tribunal thoroughly analysed the distribution agreement; the taxpayer's functions, assets and risk profile (FAR profile); and employee functions based on transfer pricing (TP) principles.

This is certainly a notable judicial precedent for taxpayers engaged in digital business models, which offers guidance on their characterisation from a TP perspective. It highlights the need to properly document the taxpayer's role in the entire value chain to facilitate accurate delineation of transactions and to characterise the taxpayer's business based on the FAR profile. It also cautions against arbitrary re-characterisation of the taxpayer's business without showing actual control or exploitation of underlying intangible assets and demonstrating that the entrepreneurial and investment risks are managed in India. While the jurisprudence for the taxpayers operating under a digital business model is still evolving, this ruling certainly offers some clarity with regard to business characterisation grounded on sound TP principles.

For further details please refer to our **Tax Insights**.



Ease of Doing Business

Bombay High Court permits interstate ITC transfer on amalgamation

WRIT PETITION NO. 463 of 2024

The Bombay High Court allowed transfer of unutilised CGST and Integrated Goods and Services Tax (ISGT) credits from a transferor in Goa to a transferee in Maharashtra pursuant to an amalgamation. The court held that unutilised ITC transfer under section 18(3) CGST Act read with rule 41 Central Goods and Services Tax Rules, 2017 is permitted without any same-state restriction, and section 25 CGST Act does not bar such inter-state transfers. It directed authorities to enable such transfers on the Goods and Services Tax Network (GSTN) going forward and permitted a physical or manual transfer in the interim in line with the core objective of the GST regime to create a seamless credit flow and avoid the cascading effect of taxes. The petitioner suo-moto had agreed to forgo the claim for the transfer of the unutilised State Goods and Services Tax (SGCT) amount; the court did not rule on SGST transferability.

Interstate transfer of unutilised CGST/ IGST on mergers/ amalgamations is permissible absent an express bar in law. GSTN's technical limits cannot override statutory entitlement; manual route is acceptable until facility is available in portal. This ruling does not set a precedent for SGST transfer or transfer of credits consequent to closure of business.

For further details please refer to our **Tax Insights**.

Amendment of BoE under section 149 held impermissible after five years; appeal under section 128 of the Customs Act the proper remedy – Kolkata bench of the CESTAT

2025-VIL-840-CESTAT-KOL-CU

The Kolkata bench of the Central Excise and Service Tax Appellate Tribunal (CESTAT) has ruled that importers cannot seek amendment of Bills of Entry (BoE) under section 149 of the Customs Act, 1962 (Customs Act) to claim exemption benefits after a substantial delay of five years, once the original assessment has attained finality. The CESTAT held that such requests, although termed as 'amendment', effectively amount to re-assessment, which is permissible only under sections 17(3), 17(4) and 17(5) of the Customs Act and within statutory timelines.

The CESTAT emphasised that amendment under section 149 of the Customs Act and correction of clerical errors under section 154 of the Customs Act are distinct from reassessment and cannot substitute the statutory appellate mechanism under section 128 of the Customs Act. Referring extensively to the Supreme Court judgment in ITC Limited[5] as well as other precedents, the CESTAT concluded that reassessment requires setting aside the original assessment through appeal; clerical correction provisions cannot be used to bypass this process.

As a result, the order of the Commissioner (Appeals) allowing the section 149 of the Customs Act amendment was set aside, and the Revenue's appeal was allowed.

Reassessment and amendment have different objective in law and cannot be interchanged to achieve what is not permitted. Furthermore, even if timeline for amendment is not prescribed in law, same needs to be sought within a reasonable time period. Amendment or even correction of clerical error, which has a limited scope, are not the alternative to claim benefit missed at the time of assessment which has attained finality. Only recourse is through appellate process as laid down in the law. Hence, due diligence needs to be exercised in such matters to claim a rightful benefit at the time of import or by way of appellate process subsequently.

5 ITC Ltd. v. Commissioner of Central Excise, Kolkata-IV [2019 (368) ELT 216(SC)]/ 2019-VIL-32-SC-CU

Self-assessment can be modified under sections 149 and 154 of the Customs Act; refund allowed following reassessment – Mumbai bench of the CESTAT

2025-VIL-1310-CESTAT-MUM-CU

The Mumbai bench of the CESTAT has held that modification of a self-assessment order is not restricted to the appellate route under section 128 of the Customs Act and can also be undertaken through other statutory provisions, including sections 149 and 154 of the Customs Act. In this case, the importer sought reassessment of two BoE shortly after filing, and the reassessment was carried out by debiting the Advance Authorisation. The refund claim for duty initially paid was rejected on the ground that reassessment was ab initio void without an appeal.

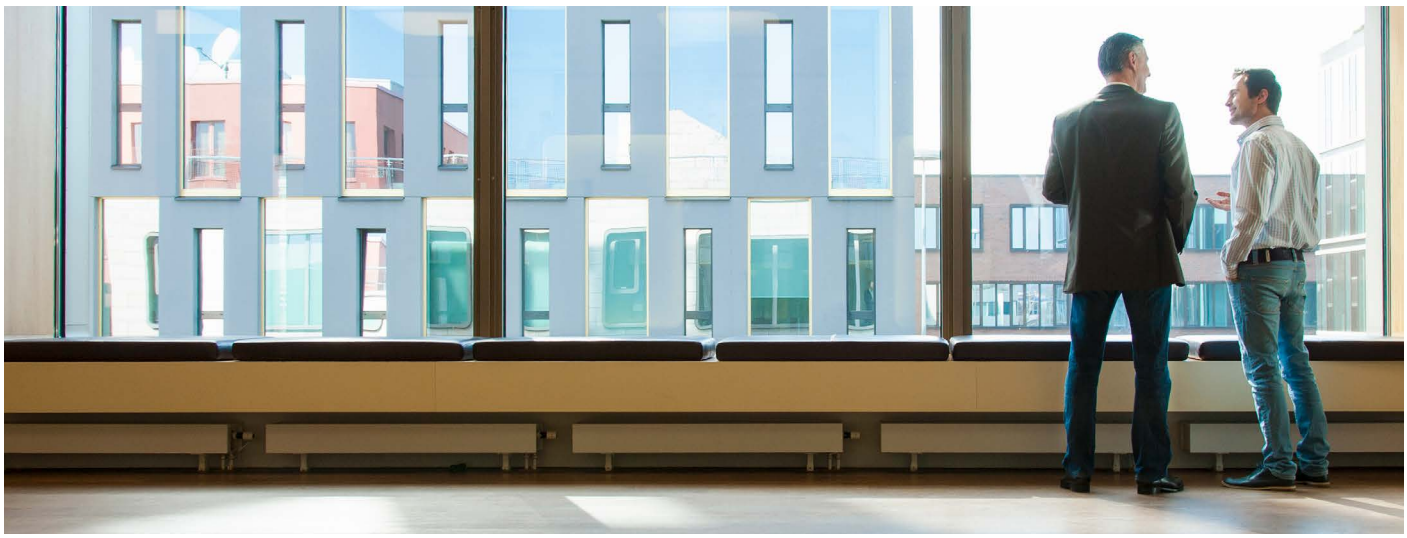
The CESTAT relied on the Supreme Court's decision in the case of ITC Limited[6] and the Bombay High Court's decision in the case of Dimension Data[7], noting that both judgments clarify that assessment orders may be modified through relevant statutory provisions other than section 128 of the Customs Act. Since the reassessment was completed in accordance with law, the importer was entitled to the refund of the original duty paid. The impugned order was set aside, and the appeal was allowed.

Modification of self-assessment is not confined to section 128; sections 149 and 154 of the Customs Act also provide valid legal routes for altering an assessment order.

Once the assessment is modified through any lawful mechanism, refund claims arising from such modification are maintainable.

The ruling clarifies the interplay between the decisions in the cases of ITC Limited and Dimension Data, reinforcing that reassessment by the proper officer under section 17(4) of the Customs Act, followed by amendment under section 149 of the Customs Act, is legally sustainable.

Authorities cannot reject refund claims solely on the ground that an appeal was not filed when reassessment has been validly carried out under other provisions of the Customs Act.



6 ITC Limited v. CCE, Kolkata [2019 (368) ELT 216(SC)]/ 2019-VIL-32-SC-CU

7 Dimension Data India Private Limited v. Commissioner of Customs 2021 (376) ELT 192 (Bom)/ 2021-VIL-60-BOM-CU

02

Navigating the challenges of the international tax landscape

The international tax landscape continues to evolve at a rapid pace, shaped by dynamic tax and regulatory changes, judicial pronouncements and the increasing complexity of cross-border transactions. As cross-border commerce accelerates and businesses expand globally, and as tax authorities converge on new standards including global sharing of information and data, 2025 has tested the contours of treaty interpretation and operational substance like never before. Recent developments highlight the importance, **inter alia**, of substance, transparency and adaptability in tax planning and compliance.

The Supreme Court's decision in the case of Hyatt[8] has changed the judicial trend, giving precedence to economic substance and actual control and conduct over form-based taxation. The court has opened a new era of interpretation that will now be followed in many other aspects of international taxation.

While the final ray of hope in the form of a curative petition in Nestlé's ruling[9] has been dismissed, a few recent rulings, based on the law pronounced in Nestlé, have opened another judicial pandora's box in the international tax arena. These rulings, **inter alia**, have taken the view that MLI provisions, including the PPT, cannot be enforced in India unless a specific notification under section 90(1) of the Act is issued to incorporate them into a tax treaty. Thus, until such notifications are issued, benefits under existing tax treaties remain protected from automatic modification through the MLI. These rulings have far-reaching implications for the interpretation of tax treaties, especially in the post-MLI era.

Another closely watched controversy relevant to the international tax community pertains to the validity of the TRC for availing treaty benefits. The Supreme Court decisions in the cases of Blackstone[10] and Tiger Global[11] is among the most keenly awaited judgments in the international tax community in this regard.

While Engineering Analysis[12] and Nestlé have ultimately been settled, there are evolving international tax issues — such as the virtual PE or evolving PE issue (e.g. in Clifford Chance[13], Mastercard[14], etc.), the secondment controversy and the taxability of cloud computing services — that are keeping the international tax community glued to India's international tax developments. Recent press also suggests that the government is engaging with stakeholders to understand tax areas where clarifications and changes could help enhance certainty and create a progressive regime for growth in data centers. The industry will keenly await the upcoming budget on 1 February 2026 to see what changes are introduced.

From a Transfer Pricing perspective, the Indian Advance Pricing Agreement (APA) programme maintains steady momentum. The seventh APA Annual Report (APA Report)[15], released earlier this year, captures marquee achievements for FY 2024–25. The programme's momentum remains strong, with a record-high number of APA signings in a single year, coupled with the highest bilateral and unilateral APA filings in a single year, including India's first multilateral APA. The

8 Hyatt International Southwest Asia Limited v. Additional DIT [CIVIL APPEAL NO. 9766 OF 2025]

9 M/s Nestle Sa v. Assessing Officer Circle (International Taxation) [CIVIL APPEAL NO(S). 1420 OF 2023]

10 Blackstone Capital Partners (Singapore) VI FDI Three Pte. Limited v. ACIT, Delhi [W.P.(C) 2562/2022]

11 Tiger Global International III Holdings v. The Authority For Advance Rulings (Income-tax) & Ors [W.P.(C) 6764/2020]

12 Engineering Analysis Centre of Excellence Private Limited v. CIT & Another [Civil Appeal Nos. 8733-8734 OF 2018]

13 Clifford Chance Pte Limited v. CIT [ITA. 2681/Del/2023 & 3377/Del/2023]

14 Mastercard Asia Pacific Pte. Limited v. Authority for Advance Rulings (AAR) [AAR No. 1573 of 2014]

15 Advance Pricing Agreement Programme of India Annual Report 2024-25

total number of signed APAs reached 815 as of 31 March 2025. While the prolonged processing period for concluding APAs remains an area for optimisation, the APA Report urges taxpayers to plan their APA strategy in advance. Overall, it highlights India's commitment to a predictable, collaborative and rule-based tax regime.

The scope of the Safe Harbour Rules also expanded recently. The Safe Harbour Rules, amended earlier this year, now feature higher monetary threshold limits for certain international transactions, an expanded definition of core auto components and applicability extended to FYs 2024–25 and 2025–26. While these amendments are a step in the right direction, the rules can be made even more attractive by rationalising profit margins and including more eligible transactions within their ambit.

Looking ahead

As we look ahead, the path through the international tax landscape will require a proactive and informed approach, balancing compliance with strategic business objectives. The interplay of evolving regulations, judicial scrutiny and global tax initiatives calls for heightened vigilance and agility from taxpayers. In this environment, certainty comes not from static structures but from resilient design, with treaty positions anchored in principle, substance demonstrably aligned with functions and risks and digital footprints managed with precision. Looking ahead, the mandate seems clear — embed substance, evidence it robustly and remain agile in relation to judicial and administrative signals that continue to redefine the international tax landscape.

03

GST 2.0: From rationalisation to trust – charting the next phase of India's indirect tax reform

Features of GST 2.0

The defining feature of goods and services tax (GST) 2.0 is the transition from adversarial enforcement to a trust-and-technology-enabled regime. Wider e-invoicing, real-time analytics and strengthened invoice matching will enhance the integrity and predictability of ITC and curb fake credits while expediting genuine credit availability. These digital improvements are already complemented by procedural simplifications. Provisional refunds, expedited registrations and automation of routine processes reduce uncertainty and working capital lock-ups, especially in the cases of export and inverted duty.

Dispute resolution: GSTAT Rules and timelines reshape the litigation strategy

The GST Appellate Tribunal (Procedure) Rules, 2025 (GSTAT Rules), effective from 24 April 2025, operationalise a long-pending appellate tier. They bring greater procedural certainty than the erstwhile framework of the Customs, Excise and Service Tax Appellate Tribunal. They specify the rules for electronic filing (in Form GST APL-05) with certified orders, fee caps, pre-deposit norms (10% with monetary ceilings and automatic stay), daily cause lists, limited adjournments, timelines for pronouncement (generally within 30 days of final hearing), structured post-order rectification and further appeals. The Principal Bench of the GSTAT at New Delhi will adjudicate on place-of-supply and other matters assigned to it, while state benches will adjudicate the remainder; single-member or division benches are allocated based on monetary thresholds and questions of law. Effective functioning still depends on appointments, infrastructure and portal readiness; nevertheless, the framework should materially expedite the disposal of the significant backlog and reduce recourse to High Courts.

The GSTAT Rules are a favourable and long-awaited development. With effective implementation and robust digital infrastructure, the GSTAT is poised to play a pivotal role in strengthening the GST dispute resolution mechanism in India. Companies should have proper documentation, accelerate reconciliation and audit readiness, and reassess open positions with a view to early settlement where appropriate.

Introduction of mandatory ISD mechanism

Since 1 April 2025, the Input Service Distributor (ISD) mechanism is mandatory under the revamped section 20 and rule 39. An explicit mechanism is available to transfer the common credit of reverse-charge invoices; however, the same is absent for forward-charge invoices. As a stop-gap solution and in the absence of any other mechanism being prescribed under the law, taxpayers may consider issuing a rule 54(1A) invoice to transfer the forward-charge credit as well. However, note that this does not align with a strict reading of the law and may lead to litigation.

Although the mandatory ISD mechanism has already come into effect, the law is still unclear and poses practical issues. Businesses need to navigate the ISD-related provisions carefully to ensure compliance. Since the ISD mechanism has already become mandatory in April 2025, the government should take note of the practical issues and provide a workable solution to facilitate ease of doing business.

Clarification on orders by CAAs

The Central Board of Indirect Taxes and Customs has clarified the following to standardise appellate and supervisory oversight in matters originating from the Directorate General of GST Intelligence (DGGI) and adjudicated by Common Adjudicating Authorities (CAAs): The Principal Commissioner or Commissioner under whom the CAA is posted will act as both reviewing (section 107) and revisional (section 108) authorities; appeals from such orders-in-original will lie before the corresponding Commissioner (Appeals). The same Principal Commissioner or Commissioner will represent the Department, with flexibility to authorise subordinates; moreover, they may seek DGGI comments before deciding on a review or revision.

This closes the procedural gaps; it should also streamline the departmental representation and taxpayer routing of appeals. However, guidance on portal workflows, consolidated appeals for multi-GST identification number orders and appropriation of ad-hoc payments towards pre-deposits would further ease implementation.

The road ahead: Realising full potential and completing the architecture

GST 2.0 directly addresses many key challenges by introducing a simplified two-rate structure, rationalising rates for key sectors, and prioritising faster refunds and efficient dispute resolution. These reforms are designed to reduce uncertainty, lower compliance costs and improve the ease of doing business, thereby supporting better capital planning and strengthening India's global competitiveness.

In addition, sectoral unification under GST would compound these gains. Prioritising the inclusion of aviation turbine fuel and natural gas within the GST ambit would reduce cascading, harmonise indirect tax incidence across value chains and create a level playing field across industries. By sharpening administrative efficiency and aligning incentives for compliance, the reforms promise to unlock demand, enhance competitiveness and anchor India's next phase of inclusive and investment-led growth.

04

Customs and trade reimagined: digital, simplified and globally competitive

India's customs and trade framework is undergoing a strategic transformation, pivoting toward a technology-driven, efficient and manufacturing-oriented regime. This shift is deeply integrated with the 'Make in India' initiative, aiming to promote domestic production and enhance global competitiveness. The government has undertaken a significant structural overhaul to simplify the tariff regime and enhance administrative clarity:

- **Tariff structure rationalisation:** The number of central customs duty slabs has been strategically reduced from 15 to 8 in the Union Budget 2025. Selected duty rates and cesses have been adjusted to maintain consistency and promote local value addition.
- **Compliance streamlining:** A major simplification involved consolidating 31 separate customs notifications into a single, comprehensive notification, significantly improving administrative clarity both for customs authorities and importers.

Additionally, key legislative and procedural amendments have been introduced to enhance predictability and promote voluntary compliance:

- **Defined assessment timelines:** The law now mandates a defined timeline for finalising provisional assessments — within two years, extendable by one year in specific cases — providing greater certainty.
- **Voluntary disclosure provision:** A new provision, effective 1 November 2025, allows for the voluntary disclosure of material facts after clearance. This enables importers and exporters to rectify declarations or pay differential duties without penalty, fostering a trust-based compliance model.

Furthermore, the digitalisation agenda is fundamentally transforming the compliance ecosystem, reducing transaction costs and improving ease of doing business through the following:

- **Unified electronic bond:** Introduction of a single electronic bond to cover multiple legal obligations, replacing various physical bonds.
- **Online refund mechanism:** Implementation of a fully automated, online process for customs duty refunds.
- **Mandatory digital payments:** All customs duties must be paid electronically via the ICEGATE portal.
- **Procedural updates:** Clarifications on processes such as post-export conversion of shipping bills.

Furthermore, India has shifted from a cautious stance to a proactive, strategic engagement in Free Trade Agreements (FTAs), focusing on securing equitable, balanced and commercially meaningful agreements. This new strategy prioritises agreements with major developed economies [such as the UK, EU and European Free Trade Association (EFTA) bloc] and key partners (such as the Australia and UAE), contrasting with the earlier focus on competitor economies. The core objective is to diversify global supply chains, secure market access for services and goods and attract foreign direct investment, often with clear investment commitments (as seen in the India-EFTA Trade and Economic Partnership Agreement). This push is crucial for achieving the nation's ambitious export and economic growth targets while carefully safeguarding the interests of its domestic manufacturing sector through judicious negotiations.

These measures collectively aim to simplify compliance, reduce transaction costs and reinforce India's ambition of building a competitive, self-reliant (Aatmanirbhar) manufacturing ecosystem. The focus remains on modernising the trade infrastructure to support economic growth and solidify India's position in global supply chains.

Looking ahead to 2026, India is expected to further strengthen its customs and trade architecture through deeper digital integration, outcome-oriented FTAs and greater convergence with global trade facilitation norms. The policy direction will likely focus on enhancing supply chain resilience, promoting trust-based compliance and positioning India as a strategic manufacturing and export hub in the evolving global value chain landscape.

05

Overview and evolving tax landscape of GCC in India

India has firmly established itself as the world's largest hub for global capability centres (GCCs), hosting nearly 3,000 centres and employing close to 2 million professionals. This scale reflects not only India's cost advantages but also the depth of its skilled talent pool and its ability to support complex global operations. Over time, GCCs in India have evolved beyond their traditional role as cost centres. They are now integral to multinational corporations' strategies, driving research and development (R&D), artificial intelligence initiatives, digital transformation programs, compliance frameworks, sustainability projects and cybersecurity capabilities. As GCCs assume greater strategic importance in global business models, they attract heightened regulatory visibility, making compliance and governance critical priorities.

State-level incentives and location strategy

A key factor in India's attractiveness as a GCC destination lies in the incentives that individual states offer. Karnataka provides capital and R&D subsidies, reimbursement of electricity duty, recruitment assistance and rebates for startups, typically available for five years. Telangana—as part of its information technology and information technology enabled services (IT-ITeS) incentive policy and centred around Hyderabad—offers capital and interest subsidies, power tariff concessions and expedited approvals through its Telangana State Industrial Project Approval and Self-Certification System; again, the state offers these for periods of five to seven years. Maharashtra—with Mumbai and Pune as major hubs—provides capital subsidies or rental assistance, payroll subsidy, electricity duty, R&D support and skill development incentives for five years. Tamil Nadu—as part of its IT-ITeS incentive policy—emphasises infrastructure subsidies, land concessions and incubation incentives for startups, with benefits lasting five to seven years. Gujarat—anchored by Ahmedabad and Gandhinagar—offers capital subsidies, operational expenditure subsidy, interest subsidy, employment generation incentive, provident fund reimbursement and power tariff concessions, typically for five years. Uttar Pradesh also has its own GCC policy, which offers capital subsidy, operational expenditure subsidy, payroll subsidy, interest subsidy, provident fund reimbursement, stamp duty exemption and R&D incentives for five years.

This competitive landscape has created a dynamic environment where GCC location strategies are increasingly shaped by tailored state-level tax breaks and infrastructure support, rather than by national schemes alone.

Tax and regulatory challenges

While the opportunities are significant, GCCs in India face a complex tax and regulatory environment. Transfer-pricing regulations require enhanced documentation and robust systems to validate intercompany pricing. There is room for further strengthening the safe-harbour limits, despite their recent expansion. For instance, routine transactions can be better shielded from scrutiny, and greater clarity on intangibles or data-centric services would be welcome.

PE risks have also expanded, particularly in the context of hybrid and remote work models. The High Court decision[16] in the case of Hyatt in 2023 underscored that a dependent agent PE can arise even when a local entity lacks explicit contractual authority to conclude contracts if it habitually exercises decisive influence on behalf of the foreign principal. This precedent highlights that activities such as negotiation, approval and facilitation of contracts—even without formal authorisation—may trigger PE status. GCCs must therefore reassess staffing models, delegation of authority, and the nature of customer or supplier interactions to mitigate unintended PE creation.

16 India v. Hyatt International-Southwest Asia Limited [Case No. ITA 216/2020 & CM Nos. 32643/2020 & 56179/2022]

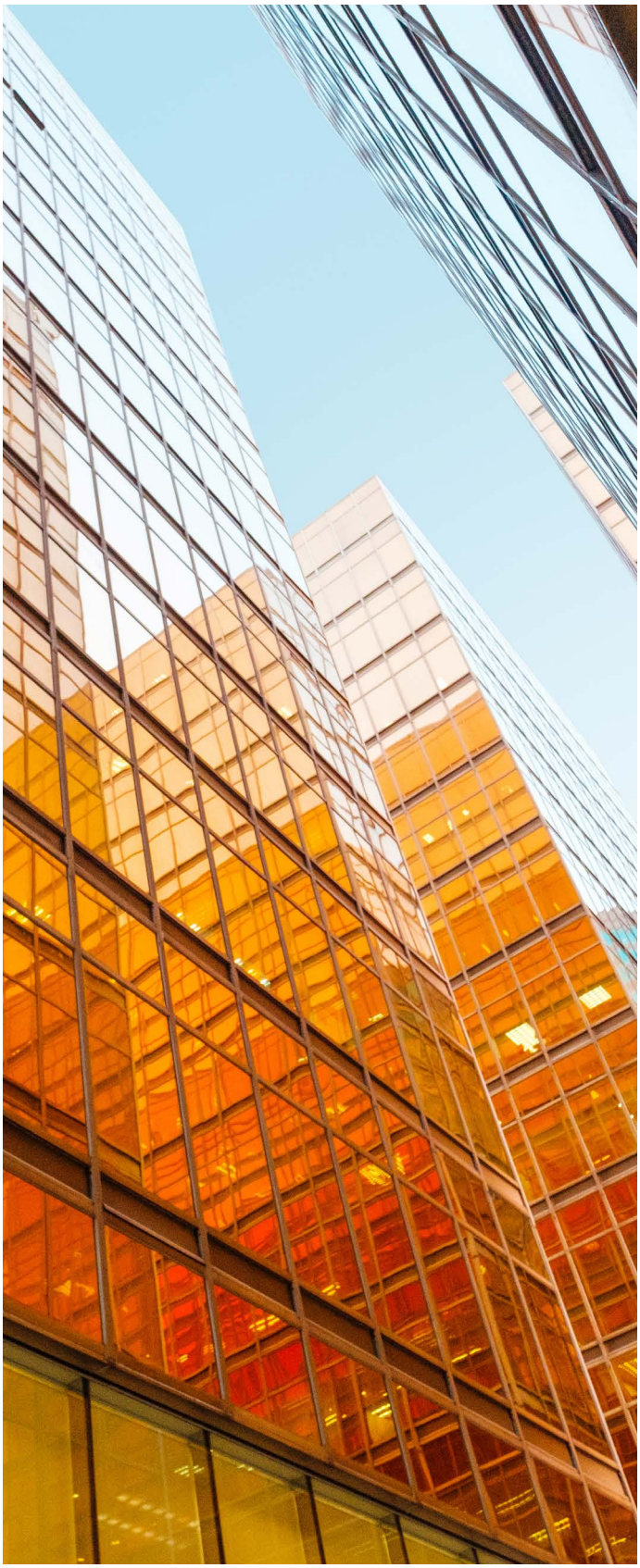
Another significant development is the introduction of Pillar Two under the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting 2.0 framework. This mandates a global minimum effective tax rate of 15% for multinational enterprises. This change requires GCCs to adjust profit attribution, comply with revised Indian guidance on tax credit mechanisms and manage dispute resolution processes linked to Pillar Two. Documentation and disclosure requirements have also intensified, adding to the compliance burden. In addition, GCCs must navigate India's indirect tax regime, including GST management and equalisation levy obligations, which increasingly need to be integrated into commercial pricing strategies. The interplay between state-level incentives, global tax alignment and digital taxation pressures means that GCCs must adopt holistic governance frameworks that balance opportunity with compliance risk.

The key considerations for GCCs in India are as follows:

- **Balance compliance with opportunity:** Transfer pricing, PE, goods and services tax, and Pillar-Two obligations demand robust systems.
- **Adapt to hybrid work realities:** Staffing and delegation models must mitigate PE risk.
- **Leverage incentives smartly:** State-level subsidies and tax breaks can significantly reduce costs.
- **Ensure global alignment:** Indian tax positions must be consistent with multinational group policies.

Strategic takeaways

India remains the preferred destination for GCCs worldwide, but in a complex compliance and regulatory environment, organisations must strengthen their transfer-pricing documentation, carefully evaluate PE risks in hybrid and remote models, and ensure consistency between Indian tax positions and multinational group policies. They must also optimise state-level incentives while integrating digital taxation obligations into their commercial strategies. The evolving landscape demands that GCCs move beyond tactical compliance to embrace strategic tax governance, ensuring that they can continue to leverage India's advantages while mitigating regulatory risks.



06

Reshaping India's Private Equity Landscape

India's private equity deal activity continued its upward trajectory in 2025 in both volume and value. Technology, healthcare, financial services and retail or consumer sectors attracted the bulk of the capital[17]. The private equity industry received much-needed tax and regulatory policy impetus throughout the year, with focus on certainty and ease of doing business.

From a tax perspective, the year began with long-awaited guidance from the tax authorities on the application of the PPT in India's tax treaties, which seeks to prevent tax treaty abuse. The tax authorities clarified that the PPT will apply only prospectively. Furthermore, with respect to India's tax treaties with Singapore, Mauritius and Cyprus, which contain treaty-specific grandfathering provisions for capital gains arising on investments made prior to 1 April 2017, the tax authorities clarified that such grandfathering provisions will remain outside the purview of the PPT. This guidance brings clarity and certainty to cross-border private equity investments.

Treaty eligibility remains a key issue that continues to dominate tax disputes. In a welcome development, the Tribunal in the case of SC Lowy P.I. (LUX) S.A.R.L., Luxembourg[18] allowed the benefits of the India-Luxembourg tax treaty to the taxpayer after considering the provisions of the PPT. This ruling is the first reported precedent that discusses the scope of the PPT.

Moreover, arguments were concluded before the Supreme Court in the Tiger Global case[19], in which the Revenue authorities have challenged a favourable High Court order on tax treaty benefits under the India-Mauritius tax treaty for a transaction where the shares of an Indian company were sold at an indirect level. The Supreme Court decision in this case is keenly awaited by the private equity industry. Treaty eligibility, especially in the context of transactions involving indirect sale of shares, is expected to remain a dominant theme in 2026, and large private equity deals may see extensive structuring on this aspect. The private equity industry should therefore expect deeper diligence in transactions from a commercial substance and beneficial ownership standpoint.

Anti-avoidance and Base Erosion and Profit Shifting again remain key points of discussion in the international tax fraternity and interest several private equity funds and their portfolio companies as they evaluate the effective tax rates in each of the multiple jurisdictions that they operate in.

Tax policy rationalisation and simplification measures announced in the 2025 Budget, such as abolishing tax collected at source on the sale of securities, have helped ease compliance burden. Furthermore, the amendment deeming investments held by Category I or Category II Alternative Investment Funds as a capital asset, at par with foreign portfolio investors, enhanced tax certainty and will reduce potential tax disputes. The government's policy support to the International Financial Services Centre eco system also continued as set out in detail in the next Chapter.

17 Source: https://www.pwc.in/assets/pdfs/deals-glance-q3-cy25.pdf

18 SC Lowy P.I. (LUX) S.A.R.L., Luxembourg v. ACIT [ITA No.3568/DEL/2023]

19 Authority for Advance Rulings (Income-tax) v. Tiger Global International II Holdings [2025] 170 taxmann.com 706 (SC)

This year, a journey of more than a decade to simplify the existing 1961 income-tax law culminated in the enactment of the new Income-tax Act, 2025. This enactment marks a bold reform. In the spirit of continuity and stability, the new law did not introduce any policy level changes. However, in the coming year, the private equity industry especially looks forward to clarity on the tax treatment of carried interest, in alignment with global best practices, especially considering the active tax litigation that already exists for domestic fund managers in India.

The GST 2.0 reforms introduced in September 2025 will help boost consumption and manufacturing growth across India and will benefit private equity portfolio companies as well.

Additionally, with an aim to provide greater flexibility in structuring the debt investments of Foreign Portfolio Investors, the Reserve Bank of India (RBI) in May 2025 withdrew the conditions relating to the short-term investment limit and the concentration limit. This move benefits private credit investments.

Another theme that has dominated the recent years is reverse flipping and the movement of headquarters of companies back to India. The theme is dominated on account of thriving public markets in India and attractive valuations in India.

Many companies in which private equity funds have made an investment, which moved their headquarters abroad a few years ago, now find it strategically and commercially beneficial to move back to India, including the intention of potentially investing in Indian capital markets. The trend is driven by more favourable regulatory reforms, including those around fast-track mergers. Even inbound mergers with a foreign company are now permitted under the fast-track route, subject to RBI approval. It is not currently clear whether deemed approval that the RBI accords under the Cross Border Merger Regulations would also apply on the same basis to fast-track mergers. A clarification or amendment by the RBI in this regard may therefore be welcome. Furthermore, in accordance with RBI regulations, there may be other means to achieve the commercial objectives of a restructuring of this nature, such as a share swap. To provide a greater fillip to such restructuring, it would be beneficial if the law were to provide express tax neutrality to such swap transactions.

Overall, 2025 delivered greater certainty and momentum for private capital in India. In 2026, the private equity industry expects sustained policy support to give a fillip to India's private equity ecosystem for continued growth and momentum.

07

IFSC's next gear: new rules, new access and new incentives

The International Financial Services Centres (IFSCs) Authority (IFSCA) has made significant regulatory and operational amendments that strengthen its position as a global financial hub. The IFSCA has announced key reforms that enhance investment flexibility, ease of doing business and market access.

- **New fund management regulations:** The IFSCA (Fund Management) Regulations, 2025, replaced the IFSCA (Fund Management) Regulations, 2022. The new regulations provide various changes to usher in further ease of doing business, clarify the intent of certain regulatory provisions and introduce safeguards as deemed necessary for the protection of investors' interest.

- **Third-party fund management:** The new framework allows third-party fund management services, i.e. a registered fund management entity in an IFSC can now manage schemes on behalf of a third-party fund manager under the terms of the framework.

- **Co-investment framework:** The IFSCA has issued a circular providing a framework to facilitate co-investment by venture capital schemes and restricted schemes through a special scheme.

- **Stewardship code:** Fund management entities and institutional investors are encouraged to adopt a stewardship code aligned with the IFSCA or other recognised regulators, promoting responsible investment practices.

- **Revised capital market intermediaries regulations:** In 2025, the IFSCA issued the revised IFSCA (Capital Market Intermediaries) Regulations, 2025, introducing key changes. These include, for example, lowered net worth thresholds for certain capital market intermediary and introduction of the new category of 'research entity'.

- **Stock brokers:** Brokers registered with the Securities and Exchange Board of India (SEBI) can now operate in IFSCs via separate business units without prior SEBI approval, with ring-fenced operations.

- **Global treasury centre:** The IFSCA issued a revised framework for undertaking activities of the Global/ Regional Corporate Treasury Centre (GRCTC) within the IFSC. This framework aims to align with international best practices, enhance ease of doing business and clarify operational requirements.

The IFSCA also announced enablers to support the infrastructure, efficient cross-border transactions and innovation in the Gujarat International Finance Tec-City (GIFT) IFSC.

- **Global access framework:** Streamlined rules have been introduced for broker dealers to offer global market access, with strict compliance and segregation requirements.

- **FCSS:** In October 2025, the IFSCA permitted the launch of a dedicated Foreign Currency Settlement System (FCSS). The FCSS enables local settlement of foreign currency transactions between IFSC banking units in real time or near real time, instead of routing through the traditional route.

- **TechFin and ancillary services:** The IFSCA issued the updated IFSCA (TechFin & Ancillary Services) Regulations, 2025 (where TechFin refers to technology and finance). These regulations provide an expanded list of permissible activities and key clarifications for the operating mechanism for TechFin and ancillary services entities in the GIFT IFSC.

The Government of India also supplemented the regulatory efforts of the IFSCA by providing necessary dispensations in the tax provisions. The Finance Act, 2025, provided several incentives for IFSC units:

- Extension of sunset dates prescribed in various sections from 31 March 2025 to 31 March 2030.
- Exemption to non-residents on income earned from non-deliverable forward, offshore derivative instrument or over-the-counter contracts with any IFSC unit, being a foreign portfolio investor or IFSC banking unit.
- Extension of tax-neutral relocation to retail funds and exchange traded funds in IFSC.
- Removal of the condition on indirect contribution by persons resident in India in eligible funds to avail the safe-harbour regime.
- Exemption of loans and advances between IFSC Global Treasury Centres and group entities (where the parent or principal entity is listed on stock exchanges outside India) from the purview of a 'deemed dividend', subject to conditions.
- Exemption on dividend income from a special purpose vehicle to an IFSC ship-leasing entity.
- Exemption on capital gains from the transfer of shares of a special purpose vehicle by an IFSC ship-leasing entity or non-resident.
- Exemption on capital gain from the transfer of shares of an intermediate IFSC ship-leasing entity by a non-resident.
- Exemption on proceeds received from life insurance policies purchased from IFSC insurance offices, subject to conditions.

Future outlook

Looking ahead, these developments create a transparent, efficient and investor-friendly environment, attracting global capital and fostering sustainable financial ecosystem growth in the IFSC. As market access deepens and friction in cross-border operations continues to reduce, the IFSC ecosystem is likely to scale in both breadth and depth, translating into higher volumes, more diversified product offerings and sustained growth in the overall IFSC business.

08

GenAI and disruption in tax function: an overview

Introduction

The tax function is on the brink of a profound transformation, propelled by the rapid adoption of Generative Artificial Intelligence (GenAI). Where finance departments once approached AI with scepticism, they are now embracing small, actionable GenAI-driven changes that are poised to reshape the finance and tax landscape over the next 12 to 18 months. For many early adopters, integrating GenAI into tax processes has become a strategic priority, fundamentally altering how tax teams operate, manage compliance and deliver value to their organisations. This disruption transcends traditional automation — it is about harnessing intelligence, speed and clarity to achieve outcomes previously thought impossible, setting a new benchmark for the next generation of tax functions.

Where does GenAI fit in the tax world?

Expanding beyond compliance

Historically, technology in tax functions focused on automating compliance-related activities such as data entry, report generation and basic calculations — areas where robotic process automation and rule-based systems excelled. The primary objective was to reduce manual effort, minimise errors and ensure timely filings.

With GenAI, the scope of automation is expanding well beyond compliance, unlocking new opportunities in tax planning and litigation management. Third-party tools are emerging that empower tax teams to achieve what was previously impossible, including:

- **Comprehensive research:** GenAI provides instant access to vast repositories of tax and regulatory content, including case laws, circulars, notifications and expert commentaries. What once required scanning thousands of documents and risked human error is now transformed — GenAI delivers real-time knowledge and insights on complex matters, much like a seasoned tax consultant.

- **Natural language search:** AI-powered, intuitive search capabilities allow users to query complex tax issues in plain language and receive precise, actionable insights. As GenAI tools become more sophisticated and are fed with richer tax and regulatory content, users can access information traditionally spread across numerous portals in a single, user-friendly interface.

- **Automated drafting:** GenAI can generate first-cut drafts for submissions, opinions, emails, SOPs and position papers, tailored to the user's style and requirements. Unlike generic language models, tax-specialised GenAI tools curate and analyse information in a manner consistent with the needs of tax professionals, mirroring the approach of a consultant.

- **Litigation lifecycle automation:** GenAI now enables end-to-end management of tax litigation, from extracting notices to drafting responses and monitoring case progress, all within a secure, collaborative environment.

Shifting focus to strategic value

The most significant change GenAI brings is the ability for tax teams to shift their focus from routine, time-consuming tasks to more strategic, value-adding activities. Even within compliance, GenAI offers numerous use cases for enhancing accuracy — such as analysing supplier invoices for credit eligibility or using transaction analysers to assess transactions from multiple tax perspectives, capabilities that were previously unattainable with conventional technologies.

Responsible adoption: maximising benefits

As organisations increasingly embrace GenAI, it is essential to approach its adoption thoughtfully to maximise its benefits. GenAI is most effective when used in collaboration with human expertise. Think of AI as a highly skilled digital colleague — exceptional at generating first drafts and providing intelligent insights, but whose work, like any team member's, should be carefully reviewed and refined. This collaborative approach ensures both accuracy and quality.

Concerns around data security are also being robustly addressed. Enterprise-grade AI models are designed with stringent safeguards to ensure confidentiality. These solutions guarantee that sensitive information remains protected and is not used for training large language models, giving organisations the confidence to leverage GenAI securely and responsibly.

The road ahead

Embracing AI is rapidly becoming essential for organisations seeking to remain competitive in the evolving tax landscape. Early adopters of GenAI stand to gain a significant advantage, positioning themselves at the forefront of innovation and efficiency. To successfully navigate this transformation, organisations should consider the following strategic steps:

- **Assess use cases:** Begin with a comprehensive, one-time assessment to identify high-impact areas where GenAI can deliver tangible value within the tax function.
- **Explore third-party tax platforms:** Evaluate the range of GenAI-enabled tax platforms available in the market to determine which solutions best align with your organisation's needs and objectives.
- **Invest in internal upskilling:** Prioritise the development of internal capabilities by enhancing AI literacy across the team. Focus on foundational skills such as prompt engineering and AI best practices to empower staff to leverage these tools effectively.
- **Collaborate with IT and GenAI teams:** Engage closely with IT and GenAI adoption teams to establish clear guidelines, best practices and governance frameworks for the responsible and effective use of AI technologies.
- **Integrate with broader GenAI initiatives:** Ensure that tax function initiatives are aligned and integrated with the organisation's wider GenAI strategy, maximising synergies and organisational learning.
- **Drive change management:** Foster a culture of openness and learning, particularly among junior team members. Emphasise that AI is not about replacing jobs but about augmenting human capabilities and enabling the tax function to deliver greater value to the business.

By taking these proactive steps, organisations can not only future-proof their tax functions but also unlock new opportunities for strategic growth and innovation.

Conclusion

AI places us at a watershed moment for the tax profession. Tax knowledge and experience are becoming increasingly democratised, and the key differentiator for tax functions of the future will be the ability to leverage technology effectively. The future of tax will belong not necessarily to those with the most tenure, but to those who can ask the right questions and use AI as a powerful tool for insight and value creation.

09

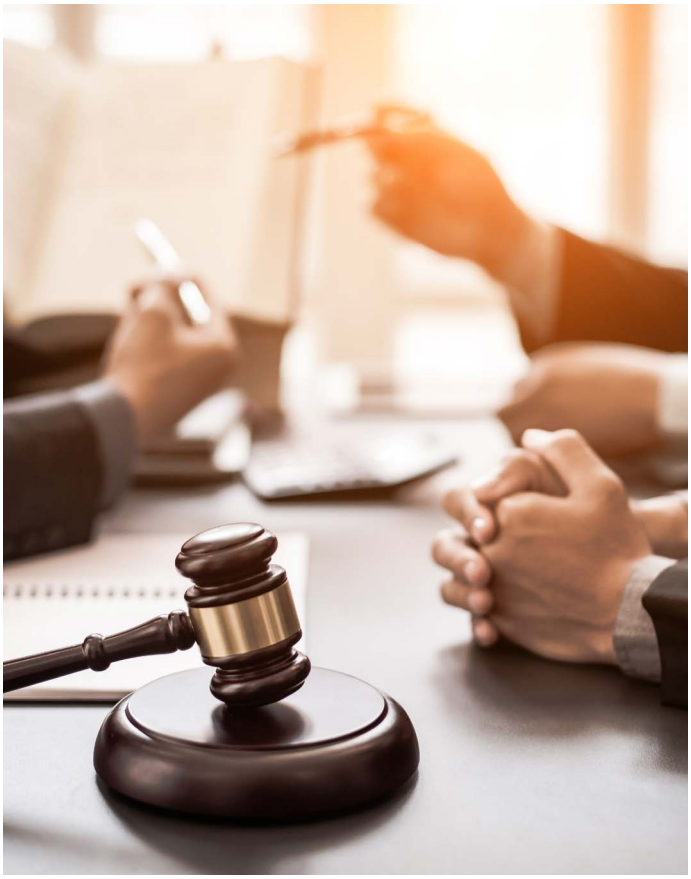
Regulatory changes – Ushering in a new era

The Union Cabinet, on 19 August 2025, approved the Promotion and Regulation of Online Gaming Bill, 2025 (Bill) to effectively regulate online gaming in India. After the Bill was passed by the Lok Sabha on 20 August 2025 and by Rajya Sabha on 21 August 2025, it received Presidential assent and became an Act, which came into force on 1 October 2025. This law aims to establish a national legal framework to promote and regulate the online gaming sector, including e-sports, educational games and social gaming. It also applies to the online money gaming services offered or operated from outside India targeting Indian users. The law empowers the Central Government to establish an authority to regulate online gaming, including the recognition and registration of games while promoting e-sports, educational and social games through various initiatives. It strictly prohibits online money gaming and related services including financial transactions, with severe penalties including imprisonment and heavy fines for violations, and holds company officers accountable.

The Ministry of Corporate Affairs notified significant amendments to the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, with effect from 4 September 2025. These amendments are expected to further simplify and accelerate the merger and amalgamation process for eligible companies, reduce regulatory delays and enhance transparency in compliance through a fast-track process. The inclusion of new categories, especially for certain unlisted companies and cross-border mergers, marks a significant step towards improving the ease of doing business in India.

The Government of India introduced the Digital Personal Data Protection Act, 2023 with the objective of creating a comprehensive framework for handling digital personal data, safeguarding the interests of individuals and ensuring the accountability of all organisations with respect to processing or using such personal data. On 3 January 2025, the Ministry of Electronics and Information Technology (MeitY) released the Draft Digital Personal Data Protection Rules, 2025 (Rules), inviting public feedback and comments. On 13 November 2025, MeitY has now notified the Rules along with its implementation timelines. Every organisation should align its policies, SOPs and procedures; contracts with vendors, employees and other stakeholders; as well as other key documents and technical measures with the DPDP law.

The Government of India, in a historic move on 21 November 2025, has also given effect to the Code on Wages, 2019; the Industrial Relations Code, 2020; the Code on Social Security, 2020; and the Occupational Safety, Health and Working Conditions Code, 2020 (hereinafter collectively referred to as the 'Labour Codes'), with an aim to improve the welfare benefits extended to the workforce. The implementation of these Labour Codes is a step towards providing wide opportunities for the women workforce, outlining prohibition of gender discrimination at the workplace and focusing on the safety and welfare of all workers.



In a significant move to attract greater foreign investment into India's sovereign debt market, the SEBI has simplified the compliance framework for foreign portfolio investors (FPIs) that invest exclusively in G-Secs effective from 8 February 2026. The reforms relax the investment limits for non-resident Indians, Overseas Citizen of India and resident Indians by allowing them to control such FPIs. These G-Sec-only FPIs are also exempted from investor group reporting requirements. These relaxations are expected to unlock a significant pool of capital, especially from Indian-origin fund managers, and support India's broader goal of deepening its bond market for inclusion of Indian G-Secs in global indices.

The SEBI has approved the Single Window Automatic & Generalised Access for Trusted Foreign Investors (SWAGAT-FI) framework, creating a simplified 'green channel' for large, stable and low-risk foreign investors. This framework will apply to sovereign wealth funds, central banks and regulated public retail funds such as pensions and insurance companies. The key features include a unified system for simultaneous FPI and foreign venture capital investor registration, thus allowing seamless investment across both listed and unlisted markets. The framework significantly reduces operational burden by extending the registration and know your customer renewal to ten years from the current three to five years. With the launch of a unified registration portal[20] by National Securities Depository Limited, this framework will substantially reduce onboarding time and costs, aligning India's FPI regime with global best practices for risk-based regulation.

The RBI is also gearing up to amend the regulations in relation to external commercial borrowing and is poised to bring in reforms which will expand borrower eligibility, market-determined pricing, revised borrowing limits with and aligning with borrower's financial strength and promote simplified end-use and reporting requirements.

To improve ease of doing business in India, streamline processes, introduce much-needed efficiencies and enhance preparedness to handle extant realities in the corporate and compliance world, the Government of India and various regulatory bodies are bringing in the necessary amendments and new laws. Corporate India needs to remain abreast of all these changes and adapt efficiently so as to contribute to building the nation together.

20 https://pilot.fpi.nsdl.com/landing

10

2026 outlook: Navigating tax reforms, digital compliance and emerging opportunities

As we step into 2026, India's economic and regulatory landscape is poised for transformative changes that will redefine business strategies and compliance frameworks. The new Income-tax Act is set to come into force on 1 April 2026. It aims to create a tax regime that is simpler, transparent and globally competitive, enabling businesses to thrive in an increasingly dynamic economic environment. Businesses can anticipate a more streamlined and structured law regime aimed at fostering growth.

Enforcement of the general anti-avoidance rule (GAAR) began in earnest in 2025, and this is expected to intensify in the coming year. This underscores the need for transactions to be backed by clear commercial rationale and demonstrable substance.

Indirect taxes are also undergoing a paradigm shift with GST 2.0 and the operationalisation of the GSTAT, steering India toward a trust-based, liberal and judicious framework. In the coming year, the introduced changes will focus on reducing compliance burdens, enabling ease of doing business, and leveraging technology for real-time monitoring and faster dispute resolution. This evolution is expected to improve ease of doing business and foster a more predictable tax environment, benefiting both domestic enterprises and global investors.

On the regulatory front, the government's recent actions signal a strong commitment to modernisation and digital governance. The notification of the Digital Personal Data Protection Rules, 2025 introduces stringent obligations for data fiduciaries, reinforcing privacy as a cornerstone of India's digital economy. In the coming year, organisations will need to prioritise robust data management systems and consent frameworks to avoid penalties and maintain consumer trust. Simultaneously, the passage of the Promotion and Regulation of Online Gaming Bill, 2025 marks a significant step in formalising the gaming sector, balancing innovation with responsible play. Businesses in this space will need to align with licensing norms and consumer protection standards to capitalise on the sector's exponential growth potential.

Labour reforms are another critical development shaping the 2026 outlook. The consolidation of 29 existing labour laws into four comprehensive Labour Codes promises greater transparency and efficiency in workforce management. These codes aim to simplify compliance for employers while safeguarding employee rights, creating a more agile and inclusive labour market. Companies should proactively review their Human Resource policies and digitalise compliance processes to stay ahead of regulatory expectations.

To summarise, 2026 will be a year of convergence — one where tax reforms, digital governance and sectoral regulations collectively shape a resilient and future-ready economy. Businesses that embrace these changes with agility, invest in compliance technology and adopt transparent practices will not only mitigate risks but also unlock new growth opportunities. The road ahead demands strategic foresight, collaborative engagement with policymakers and a commitment to innovation. As India positions itself as a global economic powerhouse, the coming year offers a unique chance for organisations to lead with confidence and purpose.

2026 promises to be a year of simplification, stability and sustainable growth — setting the stage for India's next forward leap in economic competitiveness.

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