

**N. D. KAPUR & CO.
CHARTERED ACCOUNTANTS**

Monthly Updates

AUGUST 2025

S. No.	Particulars	Page number
(I)	CORPORATE LAW	1
(II)	INDIRECT TAXATION	2-9
(III)	DIRECT TAXATION	10-12

(I) CORPORATE LAW

COMPANIES (INDIAN ACCOUNTING STANDARDS) SECOND AMENDMENT RULES, 2025

The Ministry of Corporate Affairs (MCA), through its notification dated August 13, 2025, has issued the Companies (Indian Accounting Standards) Second Amendment Rules, 2025, amending the Companies (Indian Accounting Standards) Rules, 2015. These amendments are primarily aimed at aligning India's accounting framework with recent updates issued by the IFRS Foundation, ensuring greater clarity, consistency, and global comparability.

Key amendments include new disclosure requirements under Ind AS 107 and Ind AS 7 relating to Supplier Finance Arrangements, compelling companies to provide transparent reporting on their impact on liabilities and cash flows. Changes to Ind AS 1 refine the rules for classifying liabilities as current or non-current, particularly in light of covenant breaches and deferrals, by explicitly clarifying the circumstances under which a company retains the right to defer settlement. These amendments will be applied retrospectively from annual reporting periods beginning on or after April 1, 2025.

Additionally, Ind AS 12 introduces an exception for Pillar Two income taxes under OECD's global tax framework, exempting entities from recognising or disclosing deferred tax assets or liabilities arising from these rules. Technical corrections and clarifications have also been made to a broad set of standards, including Ind AS 101, 108, 109, 115, 10, 28, and 32, addressing inconsistencies, updating cross-references, and refining transitional provisions

(II) INDIRECT TAXATION

GOODS AND SERVICES TAX RATE RATIONALIZATION

The Central Government, on August 15, 2025, announced its proposal for significant reforms to the Goods and Services Tax (“GST”), which are intended to be implemented, with focus on three principal pillars, namely, structural reforms, rate rationalisation, and ease of living, with the overarching objective of advancing the vision of ‘Atmanirbhar Bharat’. The reforms are stated to bring relief to the common man, farmers, middle class and Micro, Small and Medium Enterprises (“MSMEs”). Group of Ministers (GoM) has suggested 2 slabs GST structure of 5% and 18%, with only a small item of goods attracting 40% GST, removing the earlier 12% and 28% GST rates.

PARALLEL PROCEEDINGS BY STATE AND CENTRAL AUTHORITIES WHEN PERMISSIBLE/NOT PERMISSIBLE

The Supreme Court in the matter of *Armour Security (India) Ltd. v. Commissioner (Special Leave Petition (C) No. 6092 of 2025)* dated 14.08.2025 upheld the Delhi High Court decision dismissed a Special Leave Petition filed by the petitioner challenging summons issued by the Central Goods and Services Tax (“CGST”) authorities under Section 70 of the CGST Act, 2017. The petitioner argued that since the State GST authorities had already issued a show-cause notice on the same issue of wrongful ITC claims, further summons by the CGST authorities were barred under Section 6(2)(b) of the Act. The Delhi High Court had earlier rejected this plea, holding that summons or investigations are precursors to proceedings and not “initiation of proceedings” under Section 6(2)(b).

While holding so, the Supreme Court observed (i) that all actions initiated for inquiry/gathering of evidence or information do not constitute ‘proceedings’ within the meaning of Section 6(2)(b) of the CGST Act; (ii) Expression ‘initiation of any proceedings’ occurring in Section 6(2)(b) refers to the formal issuance of SCN, and does not cover issuance of summons, or the conduct of any search, or seizure etc.; (iii) Twofold test for determining whether a subject matter is ‘same’ requires, (i) determining if an authority has already proceeded on an identical liability of tax or alleged offence by the assessee on the same facts, and (ii) if the demand or relief sought is identical; (iv) Expression ‘subject matter’ refers to any tax liability, deficiency, or obligation arising from any particular contravention which the Department seeks to assess or recover; (v) Any action arising from the audit of accounts or detailed scrutiny of returns must be initiated by the tax administration to which the taxpayer is assigned; (vi) Intelligence-based enforcement action can be initiated by any one of the Central or the State tax administrations; and (vii) Parallel proceedings should not be initiated by other tax authorities when one of the tax authority has already initiated intelligence-based enforcement action.

The Supreme Court also laid down the following guidelines in cases where, after the commencement of an inquiry or investigation by one authority, another inquiry or investigation on the same subject matter is initiated by a different authority.

1. Where assessee becomes aware that the matter being investigated is already the subject of an inquiry/investigation by another authority, the assessee is to inform in writing to the authority that has initiated the subsequent investigation.
2. Tax authorities need to verify the claim and are within their rights to conduct an inquiry or investigation until it is ascertained that both authorities are examining the identical liability/contravention.
3. When subject matter is found different, the authorities need to intimate the taxpayer along with reasons.
4. In case of same subject matter, authorities need to decide *inter-se* which of them shall continue with the inquiry or investigation. In case of non-decision, the first authority to take the matter for conclusion.

RECOMMENDATIONS OF 56TH GST COUNCIL MEETING

The GST Council in its 56th meeting on 3rd September 2025 made the recommendations relating to changes in GST tax rates; provide relief to individuals, common man, aspirational middle class and measures for facilitation of trade in GST. The reduced GST rates may be effective from 22nd September 2025.

Current Structure

4-tiered tax rate structure with multiple rates (5%, 12%, 18%, 28%)

New Structure

2-rate structure with Standard Rate of 18% and Merit Rate of 5%

Special Category

De-merit rate of 40% for select goods (Sin”and few Luxury Goods) and Services.

Item Category	Cess update after GST Council Meeting	Effective Date
Coal	Compensation cess removed; GST increased to 18%	Effective immediately (announced at meeting)

General Goods (most)	Compensation cess removed; simplified GST slabs of 5% and 18%	September 22, 2025
Tobacco & Sin Goods	Compensation cess continues until loan/interest repayment (target: December 2025)	Until repayment completed
Luxury Goods	A new special GST slab of 40% has been introduced for luxury and sin goods. These goods now attract only flat rate, with no additional cess.	September 22, 2025

INSURANCE RELIEF FOR THE GENERAL PUBLIC:

Type of Insurance	Old GST Rate	New GST Rate
All individual life insurance policies (term life, ULIP, endowment)	18% with ITC	Nil (Exempt)
All individual health insurance policies (including family floater and senior citizen policies)	18% with ITC	Nil (Exempt)
Reinsurance of individual life and health policies	18% with ITC	Nil (Exempt)

Relief on Daily Use Items for the Common Man

Personal Care Products

Reduction from 18% to 5% on hair oil, toilet soap bars, shampoos, toothbrushes, toothpaste, bicycles, gyms, salons, yoga centres, kitchenware and other household articles, etc.

Food Items:

Reduction on packaged namkeens, bhujia, sauces, pasta, instant noodles, chocolates, coffee, preserved meat, cornflakes, butter, and ghee from 12%/18% to 5%.

Essential Appliances

Reduction from 28% to 18% on air-conditioning machines, TVs, dishwashing machines, small cars, and motorcycles equal to or less than 350 CC.

Milk & Dairy Products: GST Changes

Product	Old GST Rate	New GST Rate
Ultra-High Temperature (UHT) milk	5%	Nil (Exempt)
Chena or Paneer (pre-packaged and labelled), Breads	5%	Nil (Exempt)
Butter, Ghee, and Dairy spreads	12%	5%
Cheese	12%	5%
Condensed Milk	12%	5%

BENEFITS FOR THE HEALTHCARE SECTOR:

Lifesaving Drugs

33 lifesaving drugs reduced from 12% to NIL and 3 drugs for cancer and rare diseases from 5% to NIL

Medical Equipment

Reduction from 18% to 5% on various medical apparatus and devices

Medical Supplies

Reduction from 12% to 5% on diagnostic kits, Glucose monitors, Bandages, and other supplies

AGRICULTURAL AND RURAL BENEFITS:

Product	Old GST Rate	New GST Rate
Agricultural Machinery (Reduction on tractors, Agricultural machinery for soil preparation, harvesting equipment, and composting machines, boosting farm mechanization)	12%	5%
Fertilizer Sector (Correction of inverted duty structure by reducing GST on sulphuric acid, nitric acid, and ammonia, benefiting fertilizer production.)	18%	5%
Food Processing (Specific reductions for various food processing machinery and packaging materials to support the rural food industry.)	Varies	Reduced

AUTOMOBILE INDUSTRY: GST RATE CHANGES

Product	Old GST Rate	New GST Rate
Small cars less than 1500cc and motorcycles ≤350cc	28%	18%
Buses, Trucks, Ambulances	28%	18%
Three-wheelers	28%	18%
Motor cars and other motor vehicles (Luxury)	28%	40%
Motorcycles >350cc (Luxury)	28%	40%
Aircraft for personal use	28%	40%
Yachts and vessels for pleasure	28%	40%
All auto parts	Varies	18% (Uniform)
Armored Sedan Car for President's Secretariat	N/A	Adhoc IGST and compensation Cess exemption

TEXTILE SECTOR: GST REFORMS:

Manmade Textile Sector

Item*	Old GST Rate	New GST Rate
Manmade Fibre	18%	5%

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Manmade Yarn	12%	5%
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**Measure to correct long-pending inverted duty structure*

Apparel & Made-ups

Item	Old GST Rate	New GST Rate
Apparel ≤₹2500	5%	5% (unchanged)
Apparel >₹2500	12%	18%
Made-up textiles ≤₹2500	5%	5% (unchanged)
Made-up textiles >₹2500	12%	18%

REAL ESTATE & WORKS CONTRACT:

Works Contract Services

Particulars	Old GST Rate	New GST Rate
Earth work (>75% of contract value) for Government	12% with ITC	18% with ITC
Sub-contractor to main contractor for Government earth work	12% with ITC	18% with ITC
Offshore works for oil & gas exploration	12% with ITC	18% with ITC

Construction Materials

Materials	Old GST Rate	New GST Rate
Cement	28%	18%
Sand lime bricks	12%	5%
Stone Inlay Worl	12%	5%

Other Recommendations:

- Reduction of GST from 18% to 5% on beauty and physical well-being services used by common man including services of gyms, salons, barbers, yoga centers, etc.
- GST Council recommends operationalisation of Goods and Services Tax Appellate Tribunal (GSTAT) for accepting appeals before end of September and to commence hearing before end of December 2025. The Principal Bench will also serve as the National Appellate Authority for Advance Ruling, ensuring consistency in rulings.
- **Omission of section 13(8)(b) of IGST Act (Place of Supply for Intermediary):** Services place of supply for intermediary services will be recipient's location, enabling export benefits for Indian service exporters.
- **GST Refunds for Low Value Exports:** Amendment to section 54(14) of CGST Act to remove threshold limit for refunds on exports made with tax payment, benefiting small exporters using courier/postal services.
- **Simplified Registration:** Automated registration within 3 working days for low-risk applicants and those with monthly output tax liability under ₹2.5 lakh. Also, in-principle approval for simplified GST registration for small suppliers on e-commerce platforms, eliminating need for principal place of business in each state.

(III) DIRECT TAXATION

PRESIDENTIAL ASSENT GRANTED TO REVISED INCOME TAX (NO. 2) BILL 2025 AND THE TAXATION LAWS (AMENDMENT) BILL 2025

The Income Tax Bill, 2025 (ITB 2025) was originally tabled in the Lok Sabha on 13 February 2025 with the stated objective of simplifying the complex language of the Income Tax Act, 1961 (ITA 1961) and removing redundant provisions, while maintaining continuity of tax policy. To ensure a thorough review of this important reform, a Parliamentary Select Committee (PSC) was constituted on the same day. After extensive consultations and deliberations, the PSC submitted its voluminous report of over 4,500 pages on 16 July 2025, which included detailed recommendations and an amended version of the ITB 2025. This amended draft was subsequently presented to the Lok Sabha on 21 July 2025 for further consideration.

The Government of India (GoI), while accepting most of the PSC's recommendations and factoring in inputs from other stakeholders, identified a need to consolidate the changes into a single, comprehensive draft. The primary purpose of this exercise was to eliminate drafting inconsistencies, ensure accurate legislative intent, and avoid confusion caused by the existence of multiple versions of the Bill. Consequently, the GoI decided to withdraw the ITB 2025 and table a fresh version, titled the Revised Income Tax Bill, 2025 (Revised ITB 2025), on 11 August 2025.

This Revised Bill, reflecting all accepted recommendations and corrections, was approved by the Lok Sabha on the same day and by the Rajya Sabha on 12 August 2025.

In parallel, the Government also introduced the Taxation Laws (Amendment) Bill, 2025 (Amendment Bill) to implement specific amendments to the ITA 1961, pending the enactment of the Revised ITB 2025. Both Houses of Parliament approved the Amendment Bill, and its provisions were also subsumed into the Revised ITB 2025 to ensure seamless legislative integration.

Following this, on 21 August 2025, both the Revised ITB 2025 and the Amendment Bill received Presidential Assent. The Revised ITB 2025 is set to come into force on 1 April 2026, thereby repealing and replacing the ITA 1961, while the Amendment Act will be effective from 1 April 2025 or an earlier notified date.

Although the Revised ITB 2025 largely carries forward the policy framework of the ITA 1961, it does so in simplified and more accessible language, reducing ambiguities and redundant overlaps. Businesses and taxpayers, however, will need to carefully evaluate the new provisions to ensure timely compliance.

LACK OF INQUIRY” VS. “INADEQUATE INQUIRY

The Madras High Court, in the matter of *M/s. Arul Industries v. Assistant Commissioner of Income Tax (TCA No. 340 of 2016)*, dated 11.08.2025, ruled in favour of the assessee by setting aside the orders passed under Section 263 of the Income Tax Act, 1961. The matter arose from AY 2007–08, where Arul Industries, engaged in the manufacture and sale of kitchen utensils, had filed a NIL return. Subsequent to search operations under Sections 132 and 133A, assessments were completed under Sections 143(3) and

153C, with additions including depreciation on a business property and capital gains on sale of an old building. The Commissioner of Income Tax, invoking Section 263 of the Act, held that the assessment order was erroneous and prejudicial to the interests of Revenue, a view later upheld by the Income Tax Appellate Tribunal. However, the High Court observed that the Assessing Officer had examined the material facts, held discussions with the assessee, and drawn conclusions based on inquiry. At most, the issue related to “inadequate inquiry,” not “lack of inquiry,” which does not justify exercise of revisional powers under Section 263. Relying on settled precedents, the Court clarified that Section 263 cannot be invoked merely because the Commissioner holds a different view. The first question of law was answered in favour of the assessee and against the Revenue, and the appeal was allowed without costs.

NO FIXED PLACE PE ON ACCOUNT OF SECONDMENT OF EMPLOYEES

The Delhi Bench of Income-tax Appellate Tribunal (ITAT) has recently pronounced its judgment in *Mitsui Mining and Smelting Company Limited vs ACIT (ITA No. 1407/Del/2025)* in the context of secondment arrangements. ITAT has essentially held that presence of seconded employees in India will not constitute a fixed place permanent establishment (PE) in terms of India-Japan Double Taxation Avoidance Agreement (DTAA).

Mitsui Mining and Smelting Company Limited (‘Assessee’) is a Japanese company engaged in the business of manufacturing and sale of *inter alia* automotive parts and components. The Assessee has a subsidiary in India, under the name & style of Mitsui Kinzoku Components India Private Limited (‘**Indian subsidiary**’) which was engaged in the business of manufacture and sale of catalytic convertors that are used in automobile industry.

During the year 2021-22, the Assessee had seconded employees to Indian subsidiary. The seconded employees received part salary in India from Indian subsidiary and part salary in Japan from the Assessee. The Assessee received reimbursements from Indian subsidiary towards salary cost of seconded employees borne by it on behalf of the Indian subsidiary.

The Assessing Officer (AO) held that the employees of Assessee were exercising complete control over the physical premises of the Indian subsidiary and were also carrying out sales operation in India. It was also held that the Assessee being the employer exercised control over the seconded employees who held top managerial positions in Indian subsidiary and were exercising significant control/dominance over affairs of Indian subsidiary, on former’s behalf.

Hence, the Assessee had a PE in India. The view of the AO was subsequently upheld by Dispute Resolution Panel (DRP).

The ITAT held that a cumulative reading of secondment agreement and the employment release letter established that there was no employer-employee relationship between the Assessee and the seconded employees. The ITAT negated the existence of a fixed place PE by concluding that the Assessee was neither having any control over the seconded employees nor over the structure/assets of the Indian subsidiary.

Key terms of the underlying agreements on which reliance was placed by ITAT are summarized below:

1. Seconded employee shall be integrated into the business of the Indian subsidiary as its own employees for facilitation of latter's business operations.
2. Seconded employee shall work as a full-time employee of Indian subsidiary and work solely under the control, direction, skill, responsibility and supervision of Indian subsidiary.
3. Seconded employee shall work in their personal capacity and not for and on behalf of the Assessee.
4. Assessee was not liable to Indian entity for the actions of seconded employees.

Assessee did not have any right to use, maintain or dispose of any structure or asset of Indian subsidiary or any right over any employee of the Indian subsidiary.

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