NSIGHT

Monthly Newsletter

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INVENTURE ADVISERS

Protocol amending India-Sri Lanka DTAA notified

- The Central Government has notified Protocol amending the India–Sri Lanka DTAA, incorporating the Principal Purpose Test (PPT) to deny treaty benefits, where obtaining such benefits is one of the principal purposes of an arrangement or transaction. The Protocol entered into force on 19.6.2026 and will apply in India to income derived in financial years beginning on or after 1.4.2027.
  www.incometaxindia.gov.in/documents/d/guest/notification-88-2026-pdf

CBDT notifies CII for FY 2026-27

- The Central Board of Direct Taxes (CBDT), has notified the Cost Inflation Index (CII) for FY 2026-27 at 384 under Section 72(8)(a) of the Income-tax Act, 2025.
- The notified CII of 384 will apply for Tax Year 2026-27 and subsequent tax years, with effect from 1.4.2026. The CII is relevant for determining the indexed cost of acquisition and indexed cost of improvement, wherever indexation is permitted under the applicable provisions for computation of long-term capital gains.
  www.incometaxindia.gov.in/documents/d/guest/notification-no-85-2026-pdf

New form ITR-BN prescribed

- The CBDT has amended the Income-tax Rules, 2026 to insert Appendix IV prescribing ITR-BN for furnishing the return of income in block assessment proceedings. The amendment applies to searches initiated under sections 247 or 248 of the Income Tax Act 2025 on or after 1.4.2026.
  www.incometaxindia.gov.in/documents/d/guest/notification-97-2026-pdf

TDS relaxation for specified payments to IFSC Units

- The CBDT has provided a TDS exemption on specified payments made to eligible Units of the International Financial Services Centre (IFSC), in accordance with Section 400(1) read with Section 147 of the Income-tax Act, 2025, subject to certain conditions.
- The notification covers specified IFSC Units, including Banking Units, Finance Companies, Finance Units, Fund Management Entities, Broker Dealers, Investment Advisers, etc. The specified payments include interest on ECBs/loans, professional fees, brokerage, commission, dividend, investment advisory fees and other specified receipts.
  www.incometaxindia.gov.in/documents/d/guest/notification-80-2026-pdf

Important Ruling by Telangana HC on arm's length price of Royalty

Facts:

- The assessee company paid royalty to its associated enterprise (AE) at 2.51% on export sales for AY 2010-11. The rate was within the RBI-approved limit of 8% and below the Government of India approved rate under the royalty agreement.
- The TPO restricted the allowance of royalty to 1% of export sales, and disallowed royalty in excess of 1% on the basis that 2.51% was not at arm's length. The Tribunal confirmed the TPO's restriction to 1% following its earlier orders on similar issues for previous assessment years and, while doing so, took note of the assessee's acceptance of 1% for AYs 2007-08 and 2008-09 as part of its consideration in upholding the cap.
- On appeal to the High Court, the assessee contended that the Tribunal erred in relying on the assessee's acceptance of a 1% rate for AYs 2007-08 and 2008-09, asserting that such acceptance was a pragmatic, without-prejudice step and that each assessment year is a separate unit

HC Ruling

- The Hon'ble HC ruled that the assessee's reliance on regulatory approvals granted by the RBI and the Government of India is misplaced for following reasons:
  - Firstly, these approvals are granted for entirely different regulatory purposes. The RBI approval is concerned with foreign exchange regulations

and the remittability of foreign exchange, while the Government of India approval under the erstwhile FERA/FEMA regime was concerned with broader policy considerations relating to technology transfer and industrial development. These approvals do not and were never intended to determine the arm's length price for income tax purposes under the transfer pricing provisions of the Income Tax Act. The statutory scheme for determining arm's length price is distinct and independent and is governed by specific methodologies prescribed under Section 92C of the Income Tax Rules.

- Secondly, the fact that a particular rate has been approved by regulatory authorities does not create any presumption that the same rate represents the arm's length price. The regulatory ceiling merely indicates the maximum permissible rate for regulatory compliance purposes, not the actual market-driven price that independent parties would negotiate.

- As regards the comparative analysis presented by the assessee showing that the third parties and other subsidiaries paid higher royalty rates to their respective hubs, the Transfer Pricing Officer and the Tribunal examined this analysis and found it to be inadequate and unreliable for establishing comparability. The determination of arm's length price requires not merely a superficial comparison of royalty rates, but a detailed functional analysis examining the nature and extent of services rendered, the value of intangibles transferred, the benefits derived by the recipient, the economic circumstances of the parties, and numerous other factors that may affect pricing in transactions between independent parties.

  The record shows that the Transfer Pricing Officer conducted a detailed examination of the royalty payments and concluded that the rate of 2.51% was not at arm's length price based on the specific facts and circumstances of the assessee's case. The Tribunal also examined this determination and found no infirmity in the reasoning or methodology adopted by the Transfer Pricing Officer. The Tribunal's finding that the royalty at 1% of export sales represents the arm's length price is a finding of fact based on appreciation of evidence and materials on record.

- The Hon'ble Court also noted that while the AY 2006-07 involving a similar issue is pending before the Hon'ble Supreme Court, the assessee in the subsequent years 2007-08 and 2008-09 accepted the allowance of export royalty at 1% and did not challenge the same with respect to this issue. Moreover, after the passage of two subsequent years in which the assessee acquiesced to the 1% limitation, the assessee filed the present appeal for the assessment year 2010-11 raising serious doubts about the bonafides of the challenge and suggests an inconsistent approach adopted merely for litigation convenience rather than based on genuine commercial necessity or legal conviction.

- The Hon'ble HC held that no substantial question of law arises from the impugned order passed by the Tribunal. The Tribunal applied the correct legal principles and followed the proper methodology prescribed under the transfer pricing provisions.

  Gulf Oil Corp. Ltd. v. ACIT (2026) 186 taxmann.com 1134

COMPANY LAW Talk

Extension of CCFS-2026 Scheme

- The MCA had introduced the Companies Compliance Facilitation Scheme, 2026 (CCFS-2026) to provide an opportunity to companies to complete pending statutory filings. The Scheme was valid up to 15.7.2026. The validity of the Scheme has now been extended up to 31.8.2026.

  www.mca.gov.in/bin/ebook/dms/getdocument?doc=NjYzODY5ODM4&docCategory=Circulars&type=open

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INVENTURE ADVISERS

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InVenture Advisers is an integrated professional services firm providing a range of consulting, transaction advisory, assurance and tax services. Our role is to understand and solve the complexities involved in growth, consolidation, governance and compliance issues facing client organisations. We deliver solutions that help implement strategic plans, increase market share, reduce costs, procure projects, raise funds, acquire businesses, manage risks, optimize taxes, ensure governance and timely compliance.

For further information on how we can help address your tax issues and compliance requirements, please contact any of our expert team or write to us at enquiries@inventureadvisers.com.

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