

Katalyst Kaleidoscope

February 2026: Tax and Regulatory Insights

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A. Income Tax Highlights

1. SC: Retention money not taxable as income in the year of withholding; SLP disposed of due to liquidation under IBC ¹

The assessee entered in a contract for commissioning of a transmission line, under which a portion of the contract value was withheld as retention money, payable only after the project was successfully concluded and certified. The Assessing Officer contended that this retention money should be deemed as income for the year under consideration.

The matter went up to the High Court which held that the Tribunal had correctly applied settled principles on accrual of income under the Income-tax Act. As the assessee’s entitlement to retention money depended on successful completion of contractual obligations, the income did not accrue merely because the amount was retained by the contractee; and consequently, the Revenue’s appeal was dismissed.

During the pendency of Special Leave Petition (SLP), Supreme Court noted that the assessee had entered liquidation proceedings under IBC and was sold as a going concern. The liquidator had successfully realized the assets and distributed the proceeds among stakeholders in accordance with the priority set out in Section 53 of the IBC.

In view of these developments, the Supreme Court found no reason to examine the issue on merits and disposed of the SLP, thereby leaving the High Court’s ruling in favour of the assessee undisturbed.

2. SC: Date of allotment is determinative for holding period in redeveloped flats; subsequent installment payments do not defer acquisition date²

The assessee, owner of a Mumbai flat since 1988, entered into a redevelopment agreement in 2006 and received an allotment letter for a new unit in November 2006. A formal agreement followed in 2010, covering the exchange area and a small additional purchased area. Although the building was completed in 2012 and the final installment for the extra area was paid in April 2013 and the flat was sold by the assessee in December 2013; the Assessing Officer treated the

¹Principal Commissioner of Income Tax v. EMC Ltd. [2026] 182 taxmann.com 407 (SC) dated January 8, 2026

²Mrs. Urmila Jagdish Mehta v. ACIT [2026] 182 taxmann.com 12 (Mumbai – Trib.) dated December 29, 2025

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gains as short-term, contending the holding period began only upon construction completion and final payment and Commissioner of Income Tax (Appeals) upheld this view.

The Tribunal rejected this view, clarifying that the holding period for a residential unit acquired under an allotment scheme begins on the date of allotment. Relying on various jurisdictional precedents of Bombay High Court and CBDT Circular Nos. 471 dated October 15, 1986 and 672 dated December 16, 1993; the Mumbai Tribunal noted that an allottee obtains title when the allotment letter is issued; subsequent installment payments and physical possession are merely follow-up actions and formalities.

Consequently, the Tribunal held that the assessee's rights crystallized in 2006, and the redevelopment was a continuation of ownership from 1988 rather than a fresh purchase. Mere payment of installments towards additional area, does not postpone the date of acquisition. Since the rights were held for over 36 months before the 2013 sale, the gains were classified as long-term capital gains in favour of the assessee.

Katalyst Comment:

This ruling provides significant relief for taxpayers in redevelopment-heavy markets like Mumbai by holding that the "clock" for capital gains does not reset due to construction delays or the purchase of marginal additional area. It underscores that legal crystallization of rights via an allotment letter overrides the physical completion date of the building.

3. Mumbai ITAT: Section 56(2)(x) cannot be invoked to tax capital appreciation at the stage of conversion of OCCRPS into equity shares³

The assessee, a Mauritius-based investment company, was allotted Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS) in Thomas Cook (India) Limited (TCIL) at a face value of ₹10 per share, with a predetermined conversion price of ₹47.30 per equity share fixed at issuance as per SEBI ICDR regulations. On conversion of these OCCRPS into equity shares, the Assessing Officer determined FMV at ₹66.15 per share and invoked Section 56(2)(x) to tax the difference between the FMV and the predetermined conversion price as "Income from Other Sources", alleging inadequate consideration.

The Tribunal set aside the addition holding that Section 56(2)(x) is a deeming anti-abuse provision meant for gratuitous receipts and not for taxing the natural accretion of capital assets. The Tribunal rejected the revenue's view that the predetermined conversion price represented "consideration." It noted that the conversion price is only a regulatory benchmark relevant for cost of acquisition under Section 49(2AE), while the true consideration on conversion is the value of the OCCRPS surrendered, which naturally appreciates with the underlying equity.

³ Fairbridge Capital (Mauritius) Limited v. ACIT [ITA No. 1626/Mum/2025] dated January 20, 2026

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In reaching this conclusion, the Tribunal relied on the Supreme Court decision in *Reva Investment (P.) Ltd. v. CGT*⁴. The SC principle established that in exchange-like transactions, the inadequacy of consideration must be viewed in a broad commercial sense, and the valuation of what is given and what is received must be undertaken on a similar basis. Tribunal applied this "value-consistent" approach to confirm that since the OCCRPS and the equity shares operate on the same economic plane at the time of conversion, no taxable gift or benefit arises.

Katalyst Comment:

This judgement brings much-needed commercial logic to the application of anti-abuse provisions, which are often applied by the Revenue in a mechanical, arithmetic fashion. By emphasizing that conversion prices are "regulatory constructs" rather than "economic consideration," the Tribunal protects investors from being taxed on "phantom income" created by market appreciation. This reinforces the principle that Section 56(2)(x) should only target gratuitous value-shifting, not the natural growth of a legitimate investment.

4. Mumbai ITAT: Assignment of life interest in trust property does not trigger Section 50C deeming fiction.⁵

The assessee, an individual, held a 20% undivided share in an ancestral family trust property in Mumbai. Out of this share, the assessee assigned a 10% undivided interest to his nephew via a registered deed for a consideration of ₹28 lakhs. The Assessing Officer (AO) invoked Section 50C, asserting that the transaction amounted to a transfer of land or building, and sought to adopt the stamp duty valuation of approximately ₹1.11 crores as the full value of consideration. The CIT(A) also maintained that Section 50C was applicable to such transferable rights.

The Mumbai ITAT reversed the lower authorities' findings, holding that the subject matter of the transfer was a "life interest" under a trust and not "land or building". Upon examining the deed, the Tribunal found that the assessee did not transfer the corpus of the property, nor did the trust divest itself of ownership. The interest transferred was limited, determinable, and co-terminous with the life of the holder, which does not confer absolute ownership or dominion over the property. The Tribunal clarified that while Section 50C is a deeming fiction, it must be strictly construed and applies specifically to the transfer of "land or building," not to every form of interest or right connected to immovable property.

The Tribunal further distinguished this case from those involving leasehold rights, noting that a life interest is a succession-oriented arrangement rather than a commercial estate. Relying on the jurisdictional principle that taxing statutes must be read as per their natural construction, the ITAT concluded that the assignment of a life interest does not partake in the character of a

⁴ *Reva Investment (P.) Ltd. v. CGT* [2001] 116 Taxman 498 (SC) dated May 02, 2001

⁵ *Vanraj Ranchhoddas Merchant v. ITO* [2026] 182 taxmann.com 18 (Mumbai - Trib.) dated January 29, 2025

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transfer of land or building. Consequently, the invocation of the deeming fiction under Section 50C was held to be unwarranted, and the addition was directed to be deleted.

Katalyst Comment:

This ruling reinforces the "strict construction" rule for deeming fictions in tax law. By distinguishing between the corpus of an immovable property and a mere "life interest" arising from a trust, the ITAT has successfully limited the overreach of Section 50C. This also provides a critical shield for beneficiaries of family trusts, ensuring that the assignment of equitable or beneficial interests—which lack the absolute character of ownership—are not unfairly benchmarked against stamp duty valuations designed for outright property sales.

5. Delhi ITAT: Section 79 loss carry-forward permitted where ultimate beneficial ownership remains consistent post-amalgamation⁶

The assessee company had carried forward business losses of earlier years. The Assessing Officer invoked Section 79 and denied the carry forward on the ground that there was a substantial change in shareholding post amalgamation, with nearly 97% of the shares of the assessee company being transferred. The assessee company contended that despite the change in the immediate shareholding pattern, the ultimate holding and beneficial ownership remained with the same parent group throughout the restructuring.

The Delhi ITAT upheld the order of the CIT(A), noting that Section 79 places emphasis on continuity of "beneficial ownership" of voting power, and the provision is aimed at preventing misuse of losses through change in ownership. Relying on the principle established in CIT v. AMCO Power Systems Ltd.⁷, the Tribunal clarified that Section 79 focuses on whether 51% of the voting power remains "beneficially held" by the same person, stressing beneficial ownership over mere legal title. In the present case, the Tribunal found that the ultimate beneficial ownership of the assessee-company continued to remain with the same group entity even after amalgamation.

The Tribunal observed that although the registered shareholders changed, the controlling interest and beneficial ownership did not shift to any new or unrelated party and accordingly, the conditions for triggering Section 79 were not satisfied. The Revenue also failed to bring any material on record to contradict the factual finding that the ownership remained consistent.

Therefore, the ITAT held that the assessee was entitled to carry forward and set off the brought forward losses, and Section 79 could not be applied merely because of a restructuring-driven change in shareholding where beneficial ownership remained unchanged.

⁶ ACIT v. Lurgi Indian International Services (P.) Ltd [2025] 181 taxmann.com 13 (Delhi - Trib.) dated January 26, 2025

⁷ CIT v. AMCO Power Systems Ltd [2015] 62 taxmann.com 350 (Karnataka) dated October 07, 2015

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Katalyst Comment:

This ruling, bolstered by the recent observations of the Select Committee on the Income-tax Bill, 2025, marks a decisive shift towards a "substance-over-form" approach in corporate reorganizations. The Select Committee explicitly recommended that taxpayers be allowed to carry forward losses even in cases of temporary or structural changes in shareholding, provided that continuity of interest is later restored or maintained at a beneficial level. By clarifying that Section 79 is a narrowly tailored anti-abuse provision meant to curb the predatory "buying of losses"—rather than a mechanical trap for internal group reorganizations—the Tribunal has affirmed that "beneficial ownership" is the true jurisdictional test.

6. Bangalore ITAT: No interest disallowance under section 36(1)(iii) where interest-free funds exceed non-interest-bearing advances⁸

The assessee had total borrowings of approximately ₹10.80 crores, on which it incurred an interest expenditure of ₹1.07 crores. During the assessment proceedings, the Assessing Officer (AO) observed that a significant portion of the company's assets consisted of non-current investments and advances to vendors rather than active inventory. Specifically, while the inventory stood at ₹5.38 crores, non-current investments were valued at ₹34.74 crores. The AO concluded that the borrowed funds were diverted toward these non-interest-bearing advances and disallowed the proportionate interest expenditure.

The matter went up to the Tribunal which examined the financial position of the assessee and found that it possessed substantial interest-free funds in the form of share capital and reserves, totaling more than ₹43.78 crores. It was undisputed that these interest-free funds far exceeded the ₹4 crores in advances for which the interest disallowance was being sustained. The Tribunal noted that as long as the interest-free funds available are sufficient to cover the non-interest-bearing investments, no nexus can be presumed between the interest-bearing borrowings and the advances.

The Tribunal held that the principle of the Bombay High Court in CIT v. Reliance Utilities and Power Ltd.⁹ squarely applies to this case, establishing that if a company has both interest-free and interest-bearing funds, the investment in non-interest-bearing assets is presumed to have been made out of the interest-free funds. Consequently, the Tribunal ruled that the disallowance of interest was not sustainable.

⁸ Essae Suhagraja (P.) Ltd. v. DCIT [2025] 181 taxmann.com 302 (Bangalore - Trib.) dated December 04, 2025

⁹ CIT v. Reliance Utilities and Power Ltd. [2009] 178 Taxman 135 (Bombay)/[2009] 313 ITR 340 (Bombay) dated January 09, 2009

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B. Corporate Law Highlights

1. Bengaluru NCLT: Scheme of Amalgamation sanctioned subject to updated appointed date and mandatory statutory undertakings¹⁰

The petitioner companies, Amazon Transportation Services (Transferor) and Amazon Seller Services (Transferee) filed a petition before the NCLT Bengaluru under Section 232 of the Companies Act, 2013 seeking sanction of a scheme of amalgamation. Unsecured creditors approved the scheme, while statutory authorities including the Regional Director, ROC, Official Liquidator, Income Tax Department and RBI raised observations on the appointed date, MSME dues, stamp duty, FEMA/RBI compliance, and employee safeguards.

The Tribunal noted that the companies furnished necessary undertakings and auditor certifications addressing all regulatory concerns, and the authorities did not press further objections. Accordingly, the NCLT held that there was no impediment to sanctioning the amalgamation scheme.

Despite the overall compliance, the NCLT rejected the petitioners' proposed backdated "Appointed Date" of April 1, 2023. The Tribunal found the justification for this date to be "cursory and unsubstantiated," especially given that both companies had already finalized and filed their audited financial statements for the year ending March 31, 2024. Consequently, the Tribunal modified the Appointed Date to April 1, 2024, to reflect the current financial position and ensure consistency with MCA circulars. The Scheme was approved as binding, with the Transferor Company standing dissolved without winding up.

Katalyst Comment:

This order highlights the NCLT's increasing scrutiny over the choice of "Appointed Date" in restructuring schemes. While companies often prefer backdated appointed dates for administrative or tax-loss synchronization, the Tribunal has signaled that such dates must be supported by robust, non-cursory justification, especially when more recent audited financials are already on record.

2. Bengaluru NCLT: Capital reduction sanctioned for returning surplus idle funds despite initial non-disclosure of secured creditors¹¹

The assessee company filed a petition under Section 66 of the Companies Act, 2013 seeking approval for reduction of its paid-up share capital by cancelling equity shares held by non-

¹⁰ Amazon Transportation Services Pvt Ltd, Bengaluru NCLT [2025] 181 taxmann.com 678 (NCLT-Beng.) dated December 15, 2025

¹¹ Lifestyle International Pvt Ltd, Bengaluru NCLT [2025] 181 taxmann.com 736 (NCLT-Beng.), dated December 15, 2025

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promoter shareholders. The company justified the reduction by stating it possessed surplus idle funds and current assets that were not required for its business purposes based on its current outlook. The proposal was approved by a special resolution passed at an EGM. Regulatory authorities raised concerns regarding creditor disclosures, secured charges, funding capacity, MSME dues, and FEMA/RBI compliance.

The Tribunal noted that the company subsequently filed undertakings, auditor and valuer certificates, creditor notices, and NOCs from secured creditors, and clarified that the reduction would not adversely affect creditors or its ability to meet liabilities. An unsecured creditor's objection was also settled amicably.

However, the NCLT expressed serious dissatisfaction with the company's casual approach in initially failing to disclose secured creditors and inconsistencies in filings, observing that such omissions undermined the seriousness of proceedings. As a punitive measure, the Tribunal imposed a penalty of ₹5 lakh to be deposited in the PM and Karnataka CM Relief Funds.

Accordingly, the NCLT sanctioned the capital reduction, subject to statutory filings, publication requirements, and compliance with FEMA/RBI norms and applicable tax provisions.

3. **Bombay HC: Single NCLT order sanctioning composite amalgamation scheme attract capped stamp duty; cannot be treated as separate transactions¹²**

Schaeffler India Limited (Petitioner) filed a composite scheme of amalgamation to merge two group companies, INA Bearings Pvt. Ltd. and LuK India Pvt. Ltd., with itself. Since the transferor companies were in different states, separate NCLT orders were obtained. When the Petitioner lodged the NCLT Mumbai order for adjudication in Maharashtra, the revenue authorities treated the merger of the two companies as two "distinct transactions". By applying Section 5 of the Maharashtra Stamp Act, they charged the maximum capped duty of ₹25 crore twice, raising a total demand of ₹50 crore.

The Bombay High Court quashed the demand, ruling that stamp duty is levied on the "instrument" (the NCLT order) and not on the underlying transactions. The Court emphasized that Article 25(da) specifically recognizes the NCLT order as the taxable document. It held that a composite scheme is a single, integrated reconstruction that cannot be "inter se segregated" to multiply the levy. Furthermore, the Court noted that treating the merger of the second transferor company as a separate transaction in Maharashtra was unsustainable, especially since the relevant duty on the NCLT Chennai order had already been paid in Tamil Nadu.

¹² Schaeffler India Limited v. Chief Controlling Revenue Authority and Ors [Writ Petition No. 7496 of 2023], dated January 20, 2026

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The Court concluded that the maximum duty payable on the NCLT Mumbai order is capped at ₹25 crore as per the 2002 notification. Relying on the Full Bench decision in Reliance Industries¹³ Limited and the Gujarat High Court's view in Ambuja Cements¹⁴, the Bench clarified that the statutory cap applies to the instrument as a whole. Consequently, the Court directed the Revenue to refund the excess ₹25 crore collected from the Petitioner.

4. New Delhi NCLT: Class action maintainable against past and concluded transactions; Section 245 is a distinct, benevolent remedy for Indian investors independent of US jurisprudence¹⁵

A group of minority shareholders holding 4.99% of the share capital of Jindal Poly Films Limited filed a class action petition under Section 245 of the Companies Act, 2013. The petitioners alleged that the company's management engaged in a "complex web of transactions" designed to siphon assets to promoter-controlled entities, resulting in losses exceeding ₹2,500 crores. These transactions included the sale of financial instruments (Optionally Convertible Preference Shares and Redeemable Preference Shares) at "paltry" and "grossly undervalued" prices to a promoter trust and a related party, as well as the writing off of substantial loans provided to group companies. The Respondents challenged the maintainability of the petition, arguing it was a "derivative action" dressed up as a class action and that Section 245 only provides preventive relief for current or future acts, not past concluded transactions.

The Tribunal rejected the challenge to maintainability, holding that Section 245 is a benevolent and special remedy designed to protect shareholders and depositors against prejudicial conduct of the company's affairs. The Tribunal clarified that the statutory language allowing for "damages," "compensation," or "any other suitable action" explicitly empowers the Tribunal to adjudicate upon past and concluded transactions. Furthermore, the court noted that unlike American law, the Indian statute specifically permits class actions for conduct prejudicial to the interests of "the company" as well as its members, meaning reliefs sought in favor of the company do not disqualify a petition from being a class action.

Since the petitioners satisfied the 2% shareholding threshold and formed a justifiable prima-facie opinion of prejudicial conduct, the Tribunal dismissed the application for dismissal and admitted the petition for the issuance of notice. The Tribunal concluded that rejecting the petition at the threshold would defeat the object of the law and directed the mandatory publication of a public notice to all members of the class.

¹³ Chief Controlling Revenue Authority, Pune & Anr. v. Reliance Industries Limited [2016 SCC Online Bom 1428] dated March 03, 2016

¹⁴ Ambuja Cements Limited v. Chief Controlling Revenue Authority [C/SR/1/2020] dated February 10, 2023

¹⁵ Ankit Jain & Ors v. Jindal Poly Films Limited & Ors [CP No. 58/245/PB/2024] dated 05.02.2026

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Katalyst Comment:

This ruling is a significant victory for minority shareholder rights in India. By confirming that Section 245 can be used to seek compensation for past "siphoning" of assets and that it is not restricted by the "preventive" nature of other sections, the NCLT has opened a powerful door for litigation against sophisticated promoter misconduct. It effectively prevents companies from using technical arguments about "derivative vs. class action" to block minority owners from the courtroom.

C. SEBI and Other Highlights

1. SEBI: One-year special window opened for transfer and dematerialisation of physical securities purchased prior to April 2019¹⁶

To enhance investor convenience and secure ownership rights, SEBI issued a circular opening a special one-year window for the transfer and dematerialisation ("demat") of physical securities. This window, operational from February 5, 2026, to February 4, 2027, specifically targets securities purchased before April 1, 2019. The facility extends to fresh transfer requests as well as those previously rejected or returned due to documentation or procedural deficiencies. However, the window excludes cases involving active disputes between parties or securities already transferred to the Investor Education and Protection Fund (IEPF). Under this framework, securities will be mandatorily credited to the transferee in demat mode only. These shares will be subject to a one-year lock-in period from the date of transfer registration, during which they cannot be transferred, pledged, or lien-marked. Listed companies and RTAs are obligated to process complete requests within 70 days from the date of receipt of request from the transferee with complete documentation.

2. NFRA: Strengthened Framework for Auditor Communication with Those Charged with Governance (TCWG)¹⁷

The National Financial Reporting Authority (NFRA) issued a circular on January 7, 2026, emphasizing the need to strengthen two-way communication between Statutory Auditors and Those Charged with Governance (TCWG), including Audit Committees (ACs). The circular recasts effective communication as a joint mandatory obligation of the Board, Audit Committee,

¹⁶ SEBI vide Circular No. HO/38/13/11(2)2026-MIRSD-POD/ I/3750/2026 dated January 30, 2026.

¹⁷ NFRA Circular No. NF-25013/3/2025 dated January 07, 2026

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Management, and Auditors. It introduces a shift from ritualistic, one-way updates to a structured, documented framework. Key recommendations include:

- **Formal Communication Framework:** The Board should document an overall framework identifying nodal persons, frequency of meetings, and escalation protocols.
- **Mandatory Meetings:** Auditors and TCWG are recommended to meet at least twice a year—once before the audit starts to discuss strategy and scope, and again well before the approval of financial statements.
- **Strict Documentation:** All significant communications must be in writing; oral discussions must be documented with specific details of participants and deliberations. Vague presentations or "no-comment-equals-acceptance" emails are explicitly deemed unacceptable.

NFRA mandates that specific high-risk areas—including audit strategy, materiality, significant accounting judgments, fraud risks, and internal control weaknesses—must invariably form part of the formal agenda. This granular focus aims to prevent "fait accompli" situations by ensuring governance bodies can initiate timely corrective actions. Non-compliance with these standards is no longer viewed as a mere procedural lapse but as a fundamental breakdown in the governance framework that protects public interest and investor confidence.

Katalyst Comment:

This circular significantly raises the bar for corporate governance in India by transforming audit communication from a "box-ticking" exercise into a high-stakes accountability mechanism. By demanding a written paper trail of deliberations, NFRA is ensuring that Boards and Audit Committees can no longer claim ignorance of critical audit findings or management overrides. For auditors, this provides a powerful regulatory shield to demand direct access to the Board, but it also increases their exposure; the absence of documented communication on a later-discovered fraud will now be prima facie evidence of professional misconduct.

3. SEBI: Consolidated Compliance Guidelines for SEBI (LODR) Regulations, 2015¹⁸

The Securities and Exchange Board of India (SEBI) has released an updated Master Circular to streamline compliance with the Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 ([available here](#)). This comprehensive document consolidates all relevant circulars issued up to December 30, 2025, providing a single point of reference for listed entities, stock exchanges, and other stakeholders. By rescinding earlier disparate instructions, SEBI aims to ensure that the provisions currently in force are easily accessible, thereby promoting effective regulation and investor protection in the securities market.

¹⁸ SEBI Master Circular No. HO/49/14/14(7)2025-CFD-POD2/l/3762/2026 dated January 30, 2026

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Key updates in this version include the implementation of "Integrated Filing" for governance and financial reporting to facilitate ease of doing business. The circular also introduces standardized reporting for Business Responsibility and Sustainability Reporting (BRSR) Core and ESG disclosures across the value chain, reflecting a global shift toward environmental and social transparency. Additionally, it clarifies the role of compliance officers, enhances procedures for verifying market rumors, and establishes uniform penal actions for non-compliance, ranging from daily fines to the freezing of promoter shareholdings for persistent violations. This consolidated directive serves as the primary compliance manual for all listed entities, stock exchanges, and depositories to ensure uniform adherence to the LODR Regulations.

4. New Delhi SAFEMA: Investment in foreign shares under LRS allowed; however, extension of loans to foreign companies remains prohibited without RBI approval¹⁹

The Appellate Tribunal SAFEMA (New Delhi) adjudicated on a case involving three distinct contraventions of the Foreign Exchange Management Act (FEMA) by an individual resident. The noticee utilized the Liberalized Remittance Scheme (LRS) to remit funds to a Singapore bank account, which were subsequently used to invest in shares of an overseas company and to extend an interest-bearing loan to a foreign entity. Additionally, the noticee was charged with holding substantial foreign exchange in a Swiss bank account for over a decade without the requisite permission from the Reserve Bank of India (RBI). While the noticee had eventually repatriated the funds and paid taxes via the Income Tax Settlement Commission before the initiation of FEMA proceedings, the Enforcement Directorate (ED) pursued penalties for the historical violations.

The Tribunal's findings provided critical distinctions between different types of capital account transactions under the LRS. Regarding the overseas share investment, the Tribunal upheld the decision to drop the contravention, noting that such "capital investments" were permissible under RBI Master Circular No. 05/2009 without prior approval, provided they remained within the then-prescribed limit of USD 200,000 per financial year.

However, the Tribunal took a stricter view on the lending of funds to a foreign company. It held that while the LRS permits certain outflows, it does not grant a blanket permission to extend loans; specifically, Regulation 3 of the FEMA (Borrowing or Lending in Foreign Exchange) Regulations acts as a prohibitive bar that cannot be overridden by general LRS permissions without explicit RBI approval.

On the issue of the unauthorized foreign bank account, the Tribunal sustained a penalty of ₹88,00,000, finding it proportionate to the length of time (12 years) the funds were held abroad in violation of the 180-day repatriation rule. The Tribunal emphasized that FEMA is a civil regulatory law imposing strict liability, and the noticee's subsequent voluntary repatriation and tax payments did not absolve the established contraventions. Ultimately, the Tribunal dismissed the appeals, confirming that while LRS facilitates global investment, it remains subject to specific

¹⁹ Assistant Director E.D. v. Sanjiv Lamba [[2025] 181 taxmann.com 500 (SAFEMA - New Delhi)] dated December 10, 2025

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statutory restrictions regarding lending and the timely repatriation of unauthorized offshore holdings.

5. RBI: Proposed Exemption from registration for Small Type-I NBFCs with Asset Size up to ₹1,000 Crore²⁰

The Reserve Bank of India (RBI) has proposed to exempt Type-I NBFCs (those not availing public funds and having no customer interface) with an asset size of less than ₹1,000 crore from mandatory registration under Section 45-IA of the RBI Act, 1934. Recognizing their lower systemic-risk profile, this move aims to significantly reduce compliance friction, such as yearly audits and regulatory submissions, for these niche entities. Eligible firms, categorized as "Unregistered Type I NBFCs," must demonstrate they have not utilized public funds or engaged with customers for the past three financial years and have no intention to do so. This policy is slated to take effect from April 1, 2026, with a subsequent six-month window for existing eligible NBFCs to apply for de-registration.

Katalyst Comment:

This proposal is a major relief for family offices, private investment vehicles, and holding companies that often trigger the "50:50" principal business test but do not pose any risk to the public or the financial system. By exempting these entities from registration, the RBI is shifting its supervisory focus toward systemically important players while providing ease of doing business for smaller, proprietary-funded firms.

6. RBI: Comprehensive Overhaul of External Commercial Borrowing (ECB) Framework via FEMA First Amendment Regulations, 2026²¹

The Reserve Bank of India (RBI) vide Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026 has fundamentally substituted the existing ECB framework under Schedule I, introducing a more robust and liberalized regime for Indian residents borrowing from overseas lenders. A primary highlight is the insertion of Regulation 3A, which codifies a significantly detailed "negative list" of restricted end-uses, strictly prohibiting the utilization of borrowed funds for inter alia, trading in TDRs, and speculative real estate activities, while carving out narrow exceptions for strategic corporate actions like mergers and acquisitions.

²⁰ RBI Statement on Developmental and Regulatory Policies dated February 06, 2026

²¹ Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026 No. FEMA 3(R)(5)/2026-RB. dated February 09, 2026

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Given below are a few critical amendments made:

- Definition of 'eligible borrower' is expanded to include any person resident in India (other than an individual) that is incorporated, established, or registered under a Central or State Act.
- Borrowing limits has been increased to the higher of USD 1 billion or 300% of net worth, with these limits completely waived off for entities regulated by financial sector regulators.
- Manufacturing sector entities are permitted to raise ECBs with a shorter Minimum Average Maturity Period (MAMP) of 1 to 3 years for borrowings up to USD 150 million.
- Borrowers failing to submit returns for four consecutive quarters and found non-responsive at their registered office will be classified as "untraceable".
- Borrowers with pending investigations or appeals by law enforcement may continue to raise ECBs, provided they disclose such facts in the mandatory reporting forms.
- Explicit pathway is provided for the conversion of matured or unpaid ECB into non-debt instruments.

D. GST Highlights

1. Andhra Pradesh HC: Transfer of R & D unit on going concern basis is not a taxable supply²²

The assessee had transferred its Vizianagaram R&D unit to its Bengaluru unit under a BTA (Business Transfer Agreement) as a going concern for nil consideration and sought advance ruling on taxability and ITC transfer. The AAR held that the transaction qualifies as an exempt supply of services under the notification no. 12/2017-CT (Rate) and permitted ITC transfer whereas the AAAR reversed this view. In this regard, the Andhra Pradesh HC set aside the ruling of AAAR and held that the transfer of R & D unit on going concern basis along with all assets and liabilities is exempt from GST. The said transaction is the sale of a business itself and not the sale/supply of individual goods and permitted the transfer of ITC to the transferee unit.

2. Bombay HC (Nagpur bench): Assignment of leasehold rights with building is not a 'supply of service'²³

The assessee and its partners, held a piece of land on 95-year lease from MIDC, Nagpur and constructed a factory building thereon. Later, with prior consent of MIDC and upon payment of

²² Shilpa Medicare Limited vs Union of India & Ors [TS-46-HC(AP)-2026-GST] dated February 2, 2026

²³ Vidarbha Beverages & Ors. v. Union of India & Ors. [TS-87-HC(BOM)-2026-GST] dated February 17, 2026

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additional premium, assessee assigned the entire leasehold rights (whereby their rights stood extinguished) to a third-party assignee. In this regard, the Bombay HC (Nagpur Bench) held that the transaction in question is admittedly neither a lease nor a sub lease, rather, it is a complete assignment whereby the assessee's rights are extinguished and transferred to the assignee. Further, such transfer of leasehold rights, being benefits arising out of immovable property does not constitute supply in the course or furtherance of business as contemplated u/s 7(1)(a) and hence, no GST is payable on such assignment of leasehold rights in favour of a third party.

3. Andhra Pradesh HC: Issuance of single SCN for multiple years is impermissible²⁴

Andhra Pradesh HC has set aside the consolidated SCN issued covering multiple tax periods from F.Y. 2018-19 to F.Y. 2020-21 and held that a common SCN clubbing multiple taxation periods is impermissible in law. The HC placed reliance on the earlier decision of the same HC in S.J Constructions²⁵ wherein it was categorically held that tax assessment and determination for each financial year/tax period must be initiated through separate SCNs and that clubbing of different periods in one notice is unsustainable.

²⁴ Uber India Systems Private Limited v. Deputy Commissioner of Central Tax & Anr. [TS-88-HC(AP)-2026-GST] dated February 18, 2026

²⁵ W.P. Nos. 11028, 11206, 17671, 20792 of 2025 and decision dated September 16, 2025