KATALYST ADVISORS

Katalyst Kaleidoscope

July 2026: Tax and Regulatory Insights

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A. Income Tax Highlights

1. ITAT Mumbai[1]: Disallowance of carry forward tax losses as preliminary requirements of tax neutral demerger were not met

The assessee, formerly known as Thomas Cook Insurance Services Ltd., was the resulting company in a High Court approved scheme of arrangement involving the demerger of the resorts and timeshare undertaking of Sterling Holiday Resorts India Ltd into the assessee and the amalgamation of the residual business of Sterling Holiday Resorts India Ltd into Thomas Cook (India) Ltd, pursuant to which Sterling Holiday Resorts India Ltd ceased to exist. Pursuant to the scheme, the assessee's holding company, Thomas Cook (India) Ltd, issued shares to the shareholders of the demerged company, while the demerged undertaking was transferred to the assessee.

The assessee claimed carry forward and set-off of accumulated business losses and unabsorbed depreciation under Section 72A(4) of the Income-tax Act, 1961. The AO disallowed the claim on the ground that the conditions of Sections 2(19AA) and 2(41A) were not satisfied, as the assessee (the resulting company receiving the undertaking) had not issued shares to the shareholders of the demerged company. The CIT(A) upheld the disallowance.

On appeal, the ITAT upheld the disallowance, holding that the provisions of Sections 2(19AA), 2(41A) and 72A(4) must be interpreted strictly. It observed that the resulting company receiving the demerged undertaking was required to issue shares to the shareholders of the demerged company, and issuance of shares by the holding company could not be treated as compliance with the statutory conditions. Further, there was a substantial difference between a holding company and a subsidiary thereof having their own independent legal existence vested with relevant rules and regulations. The holding company cannot issue shares on behalf of the subsidiary and its obligations are restricted to its own legal liabilities and obligation under the law. Since the mandatory requirements for a tax-neutral demerger were not fulfilled, the assessee was not entitled to carry forward and set off the accumulated business losses and unabsorbed depreciation of the demerged undertaking.

Katalyst comment:

The ruling appears to deviate from the settled judicial approach adopted in earlier decisions concerning the interpretation of tax-neutral restructuring provisions. In particular, the interpretation of section 2(19AA) of the Act adopted in the ruling does not align with the principles

[1] ITA No. 941 & 843/Mum/2024; Sterling Holiday Resorts Ltd order dated 25th June 2026

laid down by the Supreme Court in Shri Balaganesan Metals [2] and Shri Illuri Subbayya Chetty & Sons[3], wherein the expression "any" was held to warrant a liberal construction in order to give effect to the legislative intent.

By adopting a restrictive interpretation, the ruling narrows the scope of section 2(19AA) in a manner that does not seem consistent with the legislative objective underlying tax-neutral restructuring provisions.

2. ITAT Bangalore[4]: Allows Sec. 54F deduction despite delayed sale-deed given substantial payment made within prescribed period

The assessee sold an immovable property and claimed exemption under Section 54F of the Income-tax Act, 1961 by investing the sale proceeds in an under-construction residential flat. The AO denied exemption on the premise that Assessee was required to purchase the new residential property within two years from the date of transfer, whereas the registered sale deed of the new flat was executed after two years of transfer. The CIT(A) upheld the disallowance.

The assessee appealed to the ITAT. On appeal, the ITAT held that exemption under Section 54F cannot be denied merely because the registered sale deed was executed after the prescribed two-year period where the assessee had booked an under-construction flat and made substantial payments within the statutory timeline. The ITAT opined that where a property is booked with a builder and consideration is paid in instalments linked to construction, the transaction can be regarded as falling under the 'construction' limb rather than the 'purchase' limb of Section 54F.

The ITAT relied on CBDT Circular No. 471 dated October 15, 1986 and Circular No. 672 dated December 16, 1993 and stated that allotment or construction schemes of builders and similar institutions are to be treated as cases of construction for Sections 54 and 54F, thereby allowing a period of three years from the date of transfer.

The ITAT held that, since the genuineness of the payment and the eventual registration of the property in the assessee's name were undisputed and the assessee had substantially paid the consideration for the purchase of the flat despite the sale deed being registered at a later date, the deduction under Section 54F of the Income-tax Act was allowable.

[2] Shri Balaganesan Metals v/s. M. N. Shanmugham Chetty and Ors. reported in (1987) 2 SCC 707
[3] Shri Illuri Subbayya Chetty & Sons. vs. State of Andhra reported in [1963] 50 ITR 93 (SC)
[4] Viswanathan Padmanabhan [TS-965-ITAT-2026(Bang)] dated 1st July 2026

3. ITAT Mumbai[5]: Allows full debenture discount deduction in year of issue, rejects Revenue's amortisation plea

The assessee, a non-banking financial company engaged in lending and financing activities, issued non-convertible debentures (NCDs) aggregating at a discount and claimed the entire discount as a revenue expenditure in in the year of issue. The AO held that the discount on debentures represented an amount paid to the issue of debenture at a price lower than the nominal value and so the discount did not represent any payment made to anyone to constitute an expenditure. The AO further stated that since the benefit of the debentures extended over their tenure, the discount ought to be amortised over the life of the debentures and accordingly allowed only one – sixth amount of discount and disallowed the rest of it. On appeal, the CIT(A) deleted the disallowance.

On further appeal, the ITAT upheld the CIT(A)'s order and dismissed the Revenue's appeal. The ITAT held that the discount on the issue of NCD's constituted revenue expenditure allowable in the year of issue where the assessee opted to claim the entire deduction. The ITAT observed that revenue expenditure is ordinarily allowable in the year in which it is incurred and the Revenue cannot compel an assessee to amortise such expenditure over subsequent years. It further held that the accounting treatment adopted in the books is not determinative of tax allowability, which must be examined strictly in accordance with the provisions of the Income-tax Act. Since the assessee had consistently claimed the entire discount in the year in which the liability crystallised and there was no statutory requirement to amortise the expenditure, the AO was not justified in spreading the deduction over the tenure of the debentures.

4. ITAT Bangalore[6]: Allows ESOP discount for employee retention as deduction u/s 37;

The assessee, engaged in operating an internet-based platform connecting property owners and seekers, without the involvement of any broker, had claimed deduction under Section 37(1) in respect of the ESOP expenditure. The expenditure represented the discount on Employee Stock Options granted to employees as part of their remuneration for services rendered. The AO disallowed the claim on the ground that the expenditure was merely notional without any actual cash outflow, constituted a contingent and unascertained liability, and was in the nature of a short receipt of share premium, i.e., a capital receipt. The CIT(A) deleted the disallowance by relying upon the Karnataka High Court's decision in ***Biocon Ltd.***[7]

On appeal by the Revenue, the ITAT held that Section 37(1) does not require an actual cash outflow for claiming a deduction and it was sufficient if expenditure or business liability has been incurred wholly and exclusively for a business purpose. Further, the discount on ESOPs is not a contingent

[5] Anand Rathi Global Finance Limited [TS-988-ITAT-2026(Mum)] dated 4th July 2026
[6] Nobroker Technologies Solutions Pvt. Ltd [TS-1012-ITAT-2026(Bang)] dated 9th July 2026
[7] CIT Vs. Biocon Ltd., reported in (2020) 121 taxmann.com 351 (Karn.)

liability because employees render services during the vesting period and acquire enforceable rights upon vesting, while actual exercise of the option only quantifies the liability at a future date. The ITAT further held that the primary purpose of granting ESOPs is employee retention and motivation and, therefore, such expenditure cannot be regarded as a capital loss or a short receipt of share premium. Accordingly, the deduction of ESOP expenditure under Section 37(1) was allowed and the Revenue's appeals were dismissed.

Katalyst comment:

i. *Ind AS 102(Share-based Payment) deals with the financial reporting by an entity when it undertakes a share-based payment transaction and require it to reflect in its profit or loss and financial position the effects of such transactions, including expenses associated with share options granted to employees.*
ii. *Incidentally a quote by the legendary investor Mr. Warren Buffett in the context of ESOP maybe focused interestingly "If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?"*

5. ITAT Delhi[8]: Capital reduction not akin to share buy-back, entire arrangement not colorable device; Deletes addition u/s 115QA & 115P

The assessee, Seaview Developers Pvt. Ltd, engaged in the development and leasing of commercial real estate, undertook a court approved scheme of capital reduction under the Companies Act, 1956, pursuant to which it cancelled a portion of the shares held by its Singapore-based shareholder, BREP India Office Holdings IV Pte. Ltd ("BREP") and paid consideration funded through reserves and borrowed funds. The assessee paid Dividend Distribution Tax (DDT) under section 115O of The Income-tax Act, 1961 on the portion representing accumulated profits, while the shareholder offered the balance consideration to tax as short-term capital gains in India. During assessment, the AO treated the capital reduction as a buy-back of shares under section 115QA, holding that the transaction was, in substance, a buy-back and a colourable device adopted to avoid tax. Accordingly, the AO levied buy-back tax and the CIT(A) upheld the order of the AO.

The ITAT held that a court-approved (now, NCLT) capital reduction is legally distinct from buyback of shares and therefore cannot be brought within the ambit of the buyback tax provisions. It observed that, unlike a buyback where the company first acquires and then extinguishes its own shares, a capital reduction involves direct cancellation of shares pursuant to a court-approved scheme. Accordingly, the Tribunal deleted the levy of buyback tax. The ITAT further held that it would result in unintended double taxation since the accumulated profits portion had already

[8] Seaview Developers Private Limited [TS-1036-ITAT-2026(DEL)] dated 13th July 2026

been subjected to DDT under section 115-O as deemed dividend under section 2(22)(d), while the balance consideration had been offered to tax as capital gains by the shareholder. Accordingly, the assessee's appeal was allowed.

B. Corporate Law highlights

1. NCLT Mumbai[9]: Dispenses with stakeholder meetings where creditors rights are not adversely impacted

News18 Marathi Private Limited, a wholly owned subsidiary of Network18 Media & Investments Limited, proposed a Scheme of Amalgamation under Sections 230–232 of the Companies Act, 2013. The objective of the merger was to streamline the corporate structure by consolidating the Marathi news business into Network18, resulting in operational synergies, cost optimisation, enhanced revenue generation, and reduced administrative and regulatory compliance. Since the transferor company was a wholly owned subsidiary, no consideration or fresh shares were proposed to be issued under the Scheme.

The applicants sought dispensation of meetings of shareholders and creditors. They submitted that all equity and preference shareholders of the transferor company had provided consent affidavits, 93.77% in value of its unsecured creditors had consented, and there were no secured creditors.

The NCLT dispensed the meeting of unsecured creditors while directing issuance of notice to remaining unsecured creditors to submit representations. Further, the NCLT dispensed with the meeting of the transferee company's equity shareholders, observing that the Scheme involved an amalgamation between a wholly owned subsidiary and its holding company, the post-merger net worth of the transferee company would remain positive, and no reorganisation of its share capital was contemplated. However, noting that the transferor company's liabilities exceeded its assets as per its audited financial statements, the NCLT directed the transferee company to issue notices to its shareholders, allowing them an opportunity to submit objections, if any.

The NCLT also dispensed with the meeting of the transferee company's unsecured creditors, holding that their rights would not be adversely affected by the Scheme, however directed them to issue notice to the unsecured creditors to submit representations.

[9] News18 Marathi Pvt. Ltd. with Network18 Media & Investments Ltd. [LSI-922-NCLT-2026-(MUM) dated 26th June 2026

2. NCLT Kolkata[10]: Sanctions merger of 'revived' wholly-owned subsidiary with parent

Impex Metal & Ferro Alloys Ltd, a wholly owned subsidiary of Maithan Alloys Ltd., proposed a Scheme of Merger by Absorption under Sections 230–232 of the Companies Act, 2013. Both companies were engaged in the manufacture of ferrous metals, and the merger was proposed to simplify the group structure, eliminate duplication of administrative and regulatory compliances, achieve operational and financial synergies, and strengthen the merged entity. Since the transferor company was a wholly owned subsidiary of the transferee company, no consideration or fresh shares were proposed to be issued pursuant to the Scheme. The transferor company had previously undergone liquidation under the Insolvency and Bankruptcy Code, 2016 and was subsequently revived as a going concern upon its acquisition by the transferee company.

The petitioners submitted that all statutory requirements had been complied with and that the meetings of the equity shareholders and unsecured creditors of the transferor company had already been dispensed with at the first motion stage. The Regional Director and the Official Liquidator filed their reports, observing that no complaints or objections had been received against the Scheme. Although the Regional Director raised certain observations, including the pending inquiry under Section 206 of the Companies Act, 2013, the appointed date, and other procedural compliances, the petitioners furnished the requisite undertakings and clarifications, including that the transferee company would continue to cooperate in any pending proceedings against the transferor company.

The NCLT Kolkata sanctioned the Scheme of Merger by Absorption, holding that the Scheme was fair, reasonable, not contrary to public policy, and not in violation of any provision of law. The Tribunal observed that the merger of the wholly owned subsidiary with its holding company would simplify the group structure, improve operational efficiencies, and result in better utilisation of resources without adversely affecting the interests of shareholders, creditors, or employees. It further directed that all assets, liabilities, employees, and pending proceedings of the transferor company would vest in or continue against the transferee company, ordered the dissolution of the transferor company without winding up, and clarified that no shares were required to be issued by the transferee company under the Scheme.

[10] Impex Metal & Ferro Alloys Ltd. & Anr. [LSI-846-NCLT-2026-(KOL)] dated 15th June 2026

C. SEBI and other highlights

1. SEBI[11]: Setting up of Settlement Helpdesk Facility

Under the SEBI (Settlement Proceedings) Regulations, 2018 a person against whom SEBI proceedings have been initiated or may be initiated may file a settlement application for settlement of all the proceedings that have been initiated or may be initiated in respect of the same cause of action.

The applicants are required to furnish a written waiver or prefer an appeal before the SAT. The settlement mechanism provides an opportunity to any person against whom proceedings have been initiated and are pending or may be initiated by SEBI to settle the same.

In this context, the SEBI has introduced a Settlement Helpdesk Facility to assist applicants and prospective applicants in understanding and complying with the procedural requirements for filing settlement applications and aspects related thereto.

The Helpdesk will provide guidance on filing settlement applications, computation of the indicative settlement amount as per the SEBI (Settlement Proceedings) Regulations, 2018 and tracking the status of pending applications. Applicants may submit their request in the prescribed format to the dedicated email ID and SEBI has indicated that responses will generally be provided within five working days.

SEBI has also issued a User Manual detailing the scope, process, and limitations of the facility. The assistance provided through the Helpdesk is purely facilitative and non-binding in nature and does not constitute legal or regulatory advice. This initiative forms part of SEBI's ongoing efforts to simplify compliance and enhance ease of availing the settlement mechanism.

2. SEBI[12]: Loan Agreement and Call Option does not trigger open offer

SEBI passed an order initiating proceedings against New Delhi Television Limited ("NDTV") for allegedly failing to disclose a change in control under the LODR Regulations. The proceedings stemmed from the SEBI Order dated 26th June 2018, wherein SEBI concluded that Vishvapradhan Commercial Pvt. Ltd. ("VCPL") had indirectly acquired control in NDTV by entering into a loan agreement and the call option agreement on 21st July, 2009, with the promoters of NDTV and therefore, directed VCPL to make public announcement to acquire shares of NDTV in accordance with the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

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[11] SEBI Press Release PR No. 38/2026 dated 1st July, 2026

[12] SEBI- New Delhi Television Limited (NDTV) [LSI-769-SEBI-2026-(MUM)] dated 1st June 2026

NDTV, however, informed the stock exchanges that its promoters continued to hold 61.45% of the shareholding and that there was no change in control. Following a complaint by Quantum Securities Pvt. Ltd., SEBI investigated possible violations of the LODR Regulations and the SEBI Circular dated 9th September 2015.

NDTV contended that the disclosure requirements under Regulation 30 of the LODR Regulations and the SEBI Circular were inapplicable since the SEBI Order of 2018 was passed against VCPL which was neither the listed entity, its promoters, its key managerial personnel, nor the ultimate person in control. NDTV also submitted that it acted with abundant caution by issuing prompt clarifications to the stock exchanges within 24 hours of media reports in June 2018, confirming that the original promoters still held a 61.45% stake and maintained full control of the NDTV.

NDTV also relied upon the SAT Order, which had set aside the SEBI Order of 2018 and held that the rights granted to VCPL did not confer control over NDTV's management or policy decisions. The SAT Order continued to operate in the absence of any stay by the Supreme Court.

The Adjudicating Officer accepted NDTV's submissions and held that, in light of the SAT Order, VCPL could not be regarded as the ultimate person in control of NDTV. The Adjudicating Officer further observed that VCPL's subsequent exercise of warrants in August 2022 and the open offer made in November 2022 on a prospective basis reaffirmed the conclusion in the SAT Order that no change in control had occurred pursuant to the 2009 Loan Agreement and thus concluded that the very foundation of the present proceedings has been undermined.

3. RBI[13]:Rationalisation of Regulations following the withdrawal of 732 FEMA Circulars

The Reserve Bank of India has undertaken a comprehensive rationalisation of the regulatory framework. The circular withdraws 732 FEMA circulars, that have become redundant, overlapped with subsequent instructions or have been superseded by later regulatory changes. The withdrawn circulars cover various areas, including Exchange Earners' Foreign Currency (EEFC) accounts, External Commercial Borrowings (ECBs), GDR/ADR issuances, Exim Bank credit lines e.t.c.

The withdrawal has been issued under Sections 10(4) and 11(1) of FEMA, 1999, without prejudice to any approvals or permissions required under other applicable laws. This rationalisation is intended to simplify FEMA compliance, eliminate regulatory duplication, and ensure that the FEMA framework remains streamlined, current, and easier to navigate for authorised dealers, corporates, and other stakeholders.

[13] RBI Notification No. RBI/2026-27/175, A.P. (DIR Series) Circular No. 18, Review of Circulars issued under Foreign Exchange Management Act, 1999 (FEMA), dated 24th June, 2026

D. Goods and Service Tax Highlights

1. SC[14]: No GST on assignment of leasehold rights by original-lessee to third party-assignee

The assessee had a 95-year lease on a plot from MIDC and sold off its remaining lease rights to another company for Rs. 1.5 crore. The GST department was of the view that this was a "service" and demanded Rs. 27 lakhs in tax on it. The assessee challenged this in the Bombay High Court and the Bombay High Court held that (i) the transfer of leasehold rights by the original lessee to someone else/third party is the sale of property, not a service and it is not related to the assessee's cushion-making business; (ii) the tax department wrongly tried to tax it under a category meant for things like laundry and beauty services, which made no sense. Further, the HC followed an earlier, similar ruling from the **Gujarat High Court**[15] that had said the same thing.

The tax department agitated the case to the Supreme Court; the Supreme Court refused to interfere and dismissed the department's appeal in one line, effectively agreeing with the Bombay High Court.

Katalyst comment:

The SC decision has provided a big relief for real estate, infrastructure, and manufacturing companies. The taxpayers facing similar SCNs on assignment of leasehold rights by MIDC, GIDC, CIDCO, and similar State Industrial Development Corporations now have a clean, on-point HC ruling upheld by the SC to get such notices quashed at the writ stage itself, without going through adjudication.

2. Madras HC[16]: ITC of invoices not appearing in GSTR-2A constitutes "wrongful availment and utilisation of ITC" and attracts higher interest

The assessee had challenged an order demanding interest due to discrepancy between the ITC claimed in GSTR-3B compared to the ITC reflected in auto populated GSTR-2A return. The assessee argued that the mere mis-match of ITC between the two returns shouldn't be labelled "wrongful availment and utilisation of ITC" as this a term which should be reserved for fraud, fake invoices, or credit blocked ITC under Section 17(5). Further, it argued that interest under Section 50 of the

[14] Assistant Commissioner (Anti Evasion) & Anr Vs Aerocom Cushions Private Limited [TS-380-SC-2026-GST] dated 26th May, 2026
[15] Gujarat Chamber of Commerce and Industry & Ors. Vs UOI & ors [TS-03-HC(GUJ)-2025-GST] dated 7th January, 2025
[16] Jayashree Enterprises vs Assistant Commissioner (ST) [TS-457-HC(MAD)-2026-GST] dated 24th June, 2026

CGST Act ("Act") should only apply to tax paid via cash ledger and not the credit ledger by relying on an earlier Madras HC ruling in case of **Maansarovar Motors**[17] and a 2020 **CBEC**[18] circular.

The Madras HC dismissed the writ petition and upheld the levy of higher interest and provided that:

(i) **Wrongful availment**: since "wrongful availment and utilisation" isn't defined in the GST law, any ITC claimed and used without actual entitlement qualifies as wrongful.

(ii) **No intent required to levy higher interest**: the fraudulent or bad faith cases are handled separately and more harshly dealt with under section 74 of the Act and therefore, intent or fraud isn't required to levy higher interest.

(iii) **Interest applicability via electronic credit ledger:** the wrongful ITC utilisation necessarily happens through the electronic credit ledger (not the cash ledger), so interest at up to 24% under Section 50(3) of the Act was correctly applied.

3. Madras HC[19] : Genuine ITC claims cannot be rejected merely on supplier's subsequent registration cancellation

The assessee had claimed the ITC on purchases from a supplier who was later found to have a cancelled GST registration. The tax department denied the ITC purely because the supplier turned out to be "non-existent," without actually looking at the proof the company had submitted e.g., payment records, invoices, e-way bills, ledgers, and GSTR-2A/2B data etc., to show the purchases were real. In this regard, the Madras HC set aside the order of the Revenue and held the following:

(i) **Examination of evidence by the Revenue**: It is the job of assessee to prove its purchases are genuine, but once it hands over solid supporting documents, the tax officer must actually review them and if something's still missing, the Assessee should be given a chance to fill the gap, instead of rejecting the claim just because the supplier later vanished from the GST system.

(ii) **Procedural mismatch between Section 73 and Section 74 of the Act:** The initial notice was issued under the milder Section 73 of the Act, but the final order was passed under the stricter Section 74 of the Act, which didn't match up.

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[17] M/s. Maansarovar Motors Private Limited v. the Assistant Commissioner, Poonamallee Division and two others, order dated 29th September, 2020 in W.P.No.28437 of 2020

[18] CBEC-20/01/08/2019-GST, dated 18 September 2020

[19] Clear Secured Service Private Limited Vs The Assistant Commissioner (ST) [TS-491-HC(MAD)-2026-GST] dated 14th July, 2026

(iii) **Outcome:** Because of these issues, the Court cancelled the order and sent the case back for a fresh decision, with instructions to give the assessee a proper hearing and finish the process within three months.

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