

FIN-O-SCOPE

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SEBI (ICDR) (Amendment) Regulations, 2025: Key Changes and Implications

Notification No.: SEBI/LAD-NRO/GN/2025/233 | Date: March 2025

Introduction

The Securities and Exchange Board of India (SEBI) has introduced amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, through the SEBI (ICDR) (Amendment) Regulations, 2025. These amendments aim to refine the regulatory framework governing capital issuance, enhancing transparency, compliance, and investor protection in the securities market.



Top Trends

- **AI Integration:** Financial institutions are increasingly adopting artificial intelligence to enhance productivity and client services.
- **Geopolitical Uncertainty:** Shifts in global politics, including potential trade tariffs, are impacting markets and investor sentiment.

Top Trends

- **Rise of Crypto Investments:**
Cryptocurrency investments are gaining momentum, attracting both institutional and retail investors.
- **Consolidation Trends:**
Various sectors are experiencing consolidation as companies seek to strengthen their market positions.
- **Interest Rate Focus:**
Interest rates, particularly in the US and Europe, remain a key focus, influencing market dynamics and investment strategies.
- **Generative AI Advancements:**
Organizations are striving to bridge the trust and skills gap in deploying generative AI technologies.
- **ESG Reevaluation:**
Environmental, social, and governance considerations are being reassessed amid evolving political and economic conditions.

Key Highlights of the Amendment

Revised Definition of "Associate"

- The term "associate" is now aligned with Section 2(6) of the Companies Act, 2013, or as per applicable accounting standards.

Introduction of "Financial Year" Definition

- "Financial Year" is now defined as per Section 2(41) of the Companies Act, 2013, ensuring consistency in financial reporting.

Changes in Rights Issue Regulations

- Provisions related to the rights issue of a listed issuer will come into force 31 days from the date of publication in the Official Gazette.
- Rights issues approved before the amendment will continue to follow the previous regulatory framework.

Applicability to Draft Offer Documents

- Amendments under various regulations (LX, LXI, LXII, etc.) will apply to draft offer documents filed after the regulations come into force.

Conclusion

The SEBI (ICDR) (Amendment) Regulations, 2025, reflect SEBI's continuous efforts to strengthen regulatory provisions for capital issuance and disclosure. These amendments aim to create a more transparent and investor-friendly environment in the securities market.

Official Document Link

For detailed information, access the official SEBI notification [here](#):

[SEBI Official Website](#) (Check the "Legal > Regulations" section for the latest update)

High Court Denies

Unconditional Stay on Tax Demand, Upholds 20% Deposit Requirement for Reputed Builder

Case Law: Nisarg Developers v. Assistant Commissioner of Income-tax | Court: High Court of Bombay | Appeal no.: Writ Petition (L) No. 905 of 2025 | Date: February 11, 2025

In a significant ruling, the Bombay High Court dismissed a writ petition filed by Nisarg Developers, a prominent builder, challenging the condition to deposit 20% of the demanded tax amount to secure a stay on the recovery of the remaining 80%. The court upheld the orders of the Assessing Officer (AO) and the Principal Commissioner of Income Tax (PCIT), emphasizing that the assessee failed to provide genuine proof of financial hardship despite multiple opportunities. The court also noted that the assessee, being a reputed builder with ongoing projects, could not convincingly demonstrate an inability to pay the 20% deposit. This case reinforces the principle that taxpayers must comply with reasonable deposit requirements and provide credible evidence to seek unconditional stays on tax recovery.

Key Points of the Case:

Background of the Case:

- The Assessing Officer (AO) raised a high-pitched tax demand against Nisarg Developers, a reputed builder with multiple ongoing projects.
- The assessee filed a stay application, seeking an unconditional stay on the recovery of the tax demand.
- The AO and PCIT granted interim relief, staying 80% of the demand, conditional upon the deposit of 20% of the demanded amount (approximately Rs. 3.22 crores).

Assessee's Arguments:

- The assessee argued that the assessment was high-pitched and sought an unconditional stay.
- Financial hardship was cited as one of the grounds for seeking an unconditional stay.
- The assessee contended that the CBDT Circulars recommending a 20% deposit do not create a statutory obligation and cannot be enforced as a mandatory requirement.

Top Trends

- **Blockchain Adoption:** Blockchain technology is reshaping traditional financial processes, offering more transparent and secure transactions.
- **Digital Banking Growth:** Neo-banks and digital-first banks are gaining popularity, providing seamless online services without physical branches.
- **Personalized Financial Services:** AI and data analytics are enabling personalized investment advice and tailored financial products.
- **Digital Currencies** Exploration: Central banks, including the Reserve Bank of India, are exploring the launch of digital currencies to enhance transaction efficiency.
- **Green Finance Focus:** There is a growing emphasis on sustainable finance, with investments supporting renewable energy and eco-friendly infrastructure.

Top Trends

- **Strengthened Cybersecurity:** Financial institutions are enhancing security measures to protect against increasing cyber threats.
- **Financial Inclusion Efforts:** Technology is bridging gaps in access to financial services, empowering rural populations and small businesses.
- **RBI's Gold Accumulation:** The Reserve Bank of India is increasing gold purchases to diversify reserves and mitigate currency volatility risks.
- **Fiscal Consolidation:** The Union Budget emphasizes fiscal consolidation and economic growth, maintaining the deficit-to-GDP ratio at 4.4%.
- **Liquidity Management:** The Reserve Bank of India remains attentive to the liquidity needs of the banking system, ensuring adequate liquid assets.

Court's Observations:

- The court noted that the assessee was given more than adequate opportunities to provide genuine proof of financial hardship but failed to do so.
- The assessee, being a reputed builder with multiple ongoing projects, could not convincingly demonstrate an inability to pay 20% of the tax demand.
- The court found no perversity in the reasoning of the AO and PCIT, which insisted on the 20% deposit as a condition for staying the recovery of the balance amount.

Failure to Disclose Financial Details:

- Despite repeated opportunities, the assessee did not disclose full details of its financial health.
- The court observed that the assessee was not candid with the authorities, which weakened its case for an unconditional stay.

No Cast Iron Case for Unconditional Stay:

- The court held that the assessee did not have a "cast iron case" entitling it to an unconditional stay.
- The decisions relied upon by the assessee were found to be distinguishable and did not support its plea for an unconditional stay.

CBDT Circulars and Deposit Requirements:

- The court clarified that while CBDT Circulars recommending a 20% deposit are not statutory, they provide a reasonable basis for such a requirement.
- The court upheld the 20% deposit as a fair and reasonable condition for granting a stay on tax recovery.

Dismissal of the Petition:

- The court dismissed the writ petition, finding no merit in the assessee's arguments.
- The court emphasized that taxpayers must comply with reasonable deposit requirements and provide credible evidence to seek unconditional stays.

Conclusion:

This ruling by the Bombay High Court underscores the importance of transparency and cooperation with tax authorities. It reinforces the principle that taxpayers seeking a stay on tax recovery must provide credible evidence of financial hardship and comply with reasonable deposit requirements, particularly in cases involving high-pitched assessments. The decision serves as a reminder that courts are unlikely to grant unconditional stays in the absence of a strong prima facie case or credible evidence of financial difficulties.

Key Takeaways for Taxpayers:

- Provide genuine proof of financial hardship when seeking unconditional stays.
- Comply with reasonable deposit requirements, such as the 20% deposit recommended by CBDT Circulars.
- Ensure full disclosure of financial details to strengthen your case before tax authorities and courts.

Jurisdictional Assessing Officer (JAO) Lacks Authority to Issue Notice Under Section 143(2) Without Prior Notice Under Section 148 for the Same Assessment Year

Case Law: Pradeep Kumar Garg v. Income-tax Officer| Court: High Court of Punjab & Haryana | Appeal no.: CM 20488-CWP-2024 | CWP-24807 OF 2024 (O & M) | Date: December 19, 2024

In a significant ruling, the Punjab & Haryana High Court quashed a notice issued under Section 143(2) of the Income-tax Act, 1961, by the Jurisdictional Assessing Officer (JAO) for the assessment year (AY) 2023-24. The court held that the JAO lacked jurisdiction to issue the notice since no notice under Section 148 had been issued for the same assessment year. The court emphasized that under the faceless assessment scheme introduced by Section 144B, only the National Faceless Assessment Centre (NFAC) has the authority to issue such notices unless a notice under Section 148 has already been issued for the relevant assessment year. This decision reinforces the importance of adhering to statutory procedures and jurisdictional limits in tax assessments.

Key Points of the Case:

Background of the Case:

- The petitioner, Pradeep Kumar Garg, filed his return for AY 2023-24, which was to be assessed by the NFAC under Section 144B of the Income-tax Act, 1961.
- The JAO issued a notice under Section 143(2) for AY 2023-24, which the petitioner challenged as being without jurisdiction.
- The petitioner argued that the notice should have been issued by the NFAC, as no notice under Section 148 had been issued for AY 2023-24.

Top Trends

- **Securitization Growth:** Securitization volumes are expected to reach ₹60,000 crore in Q4FY25, driven by banks acquiring priority sector lending assets.
- **Housing Finance Expansion:** The individual housing finance market is projected to grow to ₹77-81 trillion by FY30, reflecting a buoyant residential property market.
- **RBI's Bond Purchases:** The RBI announced open market operations to purchase government securities worth ₹1 trillion to infuse liquidity.
- **Rupee Fluctuations:** The Indian rupee has experienced fluctuations against the US dollar amid global trade uncertainties.
- **Fintech Compliance:** The RBI emphasizes the need for fintech firms to ensure compliance with regulatory standards.
- **Public Finance Consultations:** The Comptroller and Auditor General of India is holding consultations on public finance and revenue with experts.

Top Trends

- **NBFC Credit Lines:** The RBI advises non-banking financial companies to curb perpetual credit lines over risk concerns.
- **Foreign Asset Declarations:** Over 30,000 taxpayers have declared foreign assets worth ₹29,000 crore in a recent CBDT campaign.
- **GST Policy Revamp:** The GST Council is revamping its approach for sector-specific tax policy suggestions.
- **Gold Loan Monitoring:** The RBI is set to ask lenders to tighten gold loan processes and monitor fund usage.
- **Health Insurance Trends:** Health insurance premium growth is slowing due to tapering demand.
- **Insurance Sector Consolidation:** The rise of the ETF market in Europe has caught the attention of asset managers, leading to the launch of active ETFs.

Assessee's Arguments:

- The petitioner contended that the JAO had no jurisdiction to issue the notice under Section 143(2) since no notice under Section 148 had been issued for AY 2023-24.
- He relied on the CBDT's Guidelines for Compulsory Selection of Returns for Complete Scrutiny (dated May 3, 2024), which state that notices under Section 143(2) can only be issued by the JAO if a notice under Section 148 has been issued for the same assessment year.
- The petitioner also cited the judgment in *Jasjit Singh v. Union of India* [2024] 165 taxmann.com 114 (Punjab & Haryana), which held that JAOs cannot override statutory provisions.

Revenue's Arguments:

- The Revenue argued that the JAO had jurisdiction to issue the notice under Section 143(2) based on the CBDT Guidelines and administrative approval from the Principal Commissioner of Income Tax.
- They contended that notices under Section 148 had been issued for AYs 2020-21, 2021-22, and 2022-23, and the same logic should apply to AY 2023-24.

Court's Observations:

- The court noted that under Section 144B(1)(iii), notices under Section 143(2) must be issued by the NFAC, not the JAO.
- The court emphasized that the JAO's jurisdiction to issue notices under Section 143(2) is limited to cases where a notice under Section 148 has already been issued for the same assessment year.
- Since no notice under Section 148 had been issued for AY 2023-24, the JAO lacked jurisdiction to issue the notice under Section 143(2).

CBDT Guidelines and Jurisdiction:

- The court referred to the CBDT Guidelines (dated May 3, 2024), which state that notices under Section 143(2) can only be issued by the JAO if a notice under Section 148 has been issued for the same assessment year.
- The court held that the JAO's reliance on the CBDT Guidelines was misplaced, as no notice under Section 148 had been issued for AY 2023-24.

Quashing of the Notice:

- The court quashed the notice dated June 18, 2024, issued under Section 143(2) by the JAO, holding it to be without jurisdiction.
- The court also set aside the proceedings initiated by the JAO, stating that they were unsustainable in law.

Reliance on Precedent:

- The court relied on its earlier judgment in *Jasjit Singh v. Union of India*, which held that JAOs cannot override statutory provisions and must adhere to the faceless assessment scheme under Section 144B.

Conclusion:

The Punjab & Haryana High Court's ruling underscores the importance of adhering to statutory procedures and jurisdictional limits in tax assessments. The court clarified that the JAO cannot issue notices under Section 143(2) unless a notice under Section 148 has been issued for the same assessment year. In all other cases, the NFAC has exclusive jurisdiction to issue such notices under the faceless assessment scheme. This decision reinforces the principle that administrative convenience or CBDT Guidelines cannot override statutory provisions.

Key Takeaways for Taxpayers and Practitioners:

Jurisdictional Limits:

- The JAO can only issue notices under Section 143(2) if a notice under Section 148 has been issued for the same assessment year.
- In all other cases, the NFAC has exclusive jurisdiction to issue notices under Section 143(2).

Faceless Assessment Scheme:

- The introduction of Section 144B has centralized the issuance of notices under Section 143(2) with the NFAC, limiting the JAO's role.

CBDT Guidelines:

- CBDT Guidelines cannot override statutory provisions and must be read in harmony with the Income-tax Act, 1961.

Legal Recourse:

- Taxpayers can challenge notices issued without proper jurisdiction, as demonstrated in this case.

Final Order:

The writ petition was allowed, and the notice dated June 18, 2024, issued under Section 143(2) by the JAO, along with the proceedings initiated, were quashed and set aside. The court emphasized that the Revenue is free to follow the proper statutory procedure if they wish to proceed with the assessment. This case serves as a reminder to both taxpayers and tax authorities to strictly adhere to statutory provisions and jurisdictional limits in tax assessments.

Top Trends

- **Rise of Digital Payments:**
Digital payment platforms are experiencing significant growth, reducing reliance on cash transactions.
- **Open Banking Initiatives:**
Open banking is promoting competition and innovation by allowing third-party developers to build applications around financial institutions.
- **Decentralized Finance (DeFi) Expansion:** DeFi platforms are providing decentralized financial services, challenging traditional banking models.
- **Embedded Finance Growth:** Non-financial companies are integrating financial services into their offerings, enhancing customer experiences.
- **RegTech Adoption:**
Regulatory technology is being utilized to streamline compliance processes and reduce regulatory risks.
- **Sustainable Investing Surge:** Investments in sustainable and socially responsible assets are on the rise, reflecting changing investor preferences.

Top Trends

- **Digital Identity**
Verification: Financial institutions are implementing digital identity solutions to enhance security and streamline onboarding.
- **API Economy in Finance:**
Application Programming Interfaces (APIs) are enabling seamless integration between financial services and third-party applications.
- **Contactless Payment**
Adoption: The use of contactless payments has surged, driven by convenience and health considerations.
- **Robo-Advisors**
Popularity: Automated investment platforms, or robo-advisors, are gaining traction for providing low-cost, personalized investment advice.
- **Cross-Border Payment**
Innovations: New technologies are making cross-border payments faster and more affordable.

Penalty Under Section 271AAB(1A) Valid When Assessee Aware of Undisclosed Income and Penalty Proceedings Initiated in Assessment Order

Case Law: Deputy Commissioner of Income-tax v. Tapadiya Construction Ltd. | Court: Income Tax Appellate Tribunal (ITAT), Pune Bench 'B' | IT Appeal No.: 976 (PUN) of 2024 | Date: January 9, 2025

In a significant ruling, the Pune Bench of the Income Tax Appellate Tribunal (ITAT) overturned the decision of the Commissioner of Income Tax (Appeals) [CIT(A)] and upheld the penalty imposed under Section 271AAB(1A) of the Income-tax Act, 1961, on Tapadiya Construction Ltd. The CIT(A) had deleted the penalty, citing that the show-cause notice issued by the Assessing Officer (AO) was vague and did not specify the default. However, the ITAT held that the AO had clearly initiated penalty proceedings in the assessment order, specifying the charge and the amount of undisclosed income, making the assessee fully aware of the penalty proceedings. The ITAT emphasized that the penalty under Section 271AAB(1A) was valid and that the CIT(A) erred in deleting it on technical grounds.

Key Points of the Case:

Background of the Case:

- A search under Section 132 was conducted on Tapadiya Construction Ltd. on August 21, 2018.
- During the search, loose papers and documents were seized, revealing undisclosed income in the form of cash received as "on-money" from customers and 30% profit on the sale consideration of row houses.
- The director of the company admitted to the undisclosed income in a statement recorded under Section 132(4) and offered Rs. 2.45 crores as additional income for AY 2019-20.
- The AO passed an assessment order under Section 143(3) read with Section 153A, initiating penalty proceedings under Section 271AAB(1A) for the undisclosed income.

Assessee's Arguments:

- The assessee challenged the penalty, arguing that the show-cause notice issued by the AO was vague and did not specify the default or the amount of undisclosed income.
- The assessee relied on case laws related to Section 271(1)(c), which require specific charges to be mentioned in the notice.

Revenue's Arguments:

- The Revenue contended that the AO had clearly initiated penalty proceedings under Section 271AAB(1A) in the assessment order, specifying the charge and the amount of undisclosed income.
- The Revenue argued that the assessee was fully aware of the penalty proceedings and the basis for the penalty.
- The Revenue relied on the decision of the Allahabad High Court in *PCIT v. Sandeep Chandak* [2018] 405 ITR 648, which was upheld by the Supreme Court.

CIT(A)'s Decision:

- The CIT(A) deleted the penalty, holding that the show-cause notice was vague and did not specify the default or the amount of undisclosed income.
- The CIT(A) concluded that the penalty proceedings were not correctly initiated, rendering the penalty invalid.

ITAT's Observations and Ruling:

- The ITAT noted that the AO had specifically initiated penalty proceedings under Section 271AAB(1A) in the assessment order, clearly mentioning the charge and the amount of undisclosed income (Rs. 2.45 crores).
- The ITAT held that the assessee was fully aware of the penalty proceedings and the basis for the penalty at the time of assessment.
- The ITAT emphasized that Section 271AAB(1A) is a self-contained provision and does not require the same level of specificity as Section 271(1)(c).
- The ITAT relied on the decision of the Allahabad High Court in *PCIT v. Sandeep Chandak*, which upheld the validity of penalty notices under Section 271AAB even if they were issued under Section 274 read with Section 271.
- The ITAT set aside the CIT(A)'s order and restored the penalty, holding that the penalty was validly imposed.

Key Legal Principles Established:

- **Awareness of Penalty Proceedings:** If the AO specifically initiates penalty proceedings under Section 271AAB(1A) in the assessment order and mentions the charge and the amount of undisclosed income, the assessee is deemed to be aware of the penalty proceedings, even if the show-cause notice is computer-generated and lacks specific details.

Top Trends

- **Fintech-Bank Collaborations:** Traditional banks are partnering with fintech firms to enhance service offerings and stay competitive.
- **Rise of Super Apps:** Applications offering a suite of financial services within a single platform are becoming increasingly popular.
- **Digital Lending Platforms:** Online lending platforms are simplifying the borrowing process for consumers and businesses.
- **Financial Literacy Programs:** There is a growing emphasis on financial education to empower consumers in managing their finances.
- **Quantum Computing Prospects:** Financial institutions are exploring quantum computing for complex problem-solving and risk analysis.
- **InsurTech Innovations:** Technology-driven insurance solutions are transforming the insurance industry.

Top Trends

- **Alternative Credit**
Scoring: New credit scoring models using alternative data are expanding access to credit.
- **Peer-to-Peer Lending**
Growth: P2P lending platforms are providing alternative financing options for borrowers and investors.
- **Mobile Banking**
Dominance: Mobile banking usage continues to rise, offering convenience and accessibility to users.
- **Fintech Regulations**
Evolution: Regulatory frameworks are adapting to address the unique challenges posed by fintech innovations.
- **AI-Powered Customer Service**: Chatbots and virtual assistants are enhancing customer service in the financial sector.
- **Digital Asset Management**: Platforms managing digital assets like cryptocurrencies are gaining prominence.

- **Section 271AAB(1A) vs. Section 271(1)(c)**: Section 271AAB(1A) is a self-contained provision and does not require the same level of specificity in the notice as Section 271(1)(c).
- **Binding Precedents**: The ITAT followed the binding precedent set by the Allahabad High Court in *PCIT v. Sandeep Chandak*, which was upheld by the Supreme Court.

Conclusion:

The ITAT's ruling reinforces the principle that penalty proceedings under Section 271AAB(1A) are valid if the AO clearly initiates them in the assessment order and specifies the charge and the amount of undisclosed income. The decision highlights that technical defects in the show-cause notice, such as vagueness, do not invalidate the penalty if the assessee was aware of the proceedings and the basis for the penalty. This ruling provides clarity on the procedural requirements for imposing penalties under Section 271AAB(1A) and underscores the importance of adhering to statutory provisions.

Key Takeaways for Taxpayers and Practitioners:

Specificity in Assessment Orders:

- The AO must clearly initiate penalty proceedings under Section 271AAB(1A) in the assessment order and specify the charge and the amount of undisclosed income.

Awareness of Penalty Proceedings:

- If the assessee is made aware of the penalty proceedings and the basis for the penalty in the assessment order, technical defects in the show-cause notice may not invalidate the penalty.

Section 271AAB(1A) vs. Section 271(1)(c):

- Section 271AAB(1A) is a self-contained provision and does not require the same level of specificity in the notice as Section 271(1)(c).

Binding Precedents:

- The decision in *PCIT v. Sandeep Chandak* is a binding precedent for penalty proceedings under Section 271AAB(1A).

Final Order:

The ITAT allowed the Revenue's appeal, set aside the CIT(A)'s order, and restored the penalty imposed under Section 271AAB(1A). The ITAT emphasized that the penalty was validly imposed and that the assessee was fully aware of the proceedings and the basis for the penalty. This case serves as a reminder to taxpayers and tax authorities to ensure that penalty proceedings are initiated and communicated clearly in the assessment order, even if the show-cause notice lacks specific details.

ITAT: Section 263 Revision Invalid When Based on Flawed Section 153D Approval

Case Law: Ambika Alloys v. PCIT-Central Gurgaon | Court: ITAT DELHI BENCH 'A' | IT Appeal No.: 1918, 1921, 1919 and 1922 (Del) of 2024 | Date: JANUARY 9, 2025

The case of Ambika Alloys v. PCIT-Central Gurgaon before the Income Tax Appellate Tribunal (ITAT) Delhi Bench 'A' revolves around the validity of an assessment order passed under Section 153C of the Income Tax Act, 1961, and its subsequent revision under Section 263. The key issue was whether the approval granted under Section 153D for the assessment was valid, and whether the revision under Section 263 could be sustained in light of the alleged mechanical and non-application of mind in granting the approval.

Key Points from the Case:

Mandatory Nature of Approval under Section 153D:

- The Tribunal emphasized that Section 153D mandates prior approval from a higher authority (Joint Commissioner or above) for assessments or reassessments under Section 153C. This approval is a condition precedent for initiating proceedings, and without it, the assessment order is invalid.
- The approval must reflect due application of mind by the approving authority. A mechanical or rubber-stamp approval without proper consideration renders the assessment order null and void.

Mechanical Approval under Section 153D:

- The Tribunal found that the approval granted in this case was mechanical and lacked thoughtful process. There was no indication that the approving authority had perused the draft assessment order or applied its mind before granting approval.
- The approval letter did not specify when the draft order was received, who issued the approval, or whether the draft order was reviewed. This lack of detail demonstrated a failure to comply with the statutory requirements of Section 153D.

Revision under Section 263:

- The Tribunal held that a revision under Section 263 cannot be framed for an assessment order that is non-existent (non-existent) or null and void due to the absence of a valid approval under Section 153D.

Top Trends

- **Crowdfunding Platforms**
Expansion: Crowdfunding is providing alternative fundraising avenues for startups and projects.
- **Financial Data**
Aggregation: Aggregating financial data is enabling consumers to have a holistic view of their finances.
- **Neobank Emergence:**
Digital-only banks, or neobanks, are challenging traditional banking models with innovative services.
- **Growth of Fractional Investing:** More investors are opting for fractional ownership of stocks and real estate.
- **Rise of Tokenization:** Assets like real estate and art are being tokenized using blockchain for easier ownership transfer.
- **Expansion of BNPL (Buy Now, Pay Later):** BNPL services continue to disrupt traditional credit models.
- **Stronger Regulations on Crypto:** Governments are tightening regulations on cryptocurrency exchanges and transactions.

Top Trends

- **Surge in Passive Investing:** More investors are preferring passive index funds over active management.
- **Pension Fund Investments Increasing:** Pension funds are diversifying into equities and alternative assets.
- **Hedge Funds Exploring AI-Driven Strategies:** AI and machine learning are increasingly used for predictive market analysis.
- **De-Dollarization Efforts by Countries:** Some nations are reducing reliance on the US dollar in global trade.
- **Expanding Role of Sovereign Wealth Funds:** These funds are increasing investments in tech and infrastructure globally.
- **Regulations on High-Frequency Trading Tighten:** Authorities are imposing stricter rules to curb market manipulation.

- Since the underlying assessment order was invalid, the revision order passed under Section 263 was also unsustainable in law.

Judicial Precedents:

- The Tribunal relied on several judicial precedents, including:
- **PCIT v. Shiv Kumar Nayyar:** Where the Delhi High Court held that mechanical approvals without application of mind are invalid.
- **Veena Singh v. ACIT:** Where the ITAT emphasized that approvals under Section 153D must reflect due application of mind.
- **ACIT v. M/s Serjuddin & Co.:** Where the Orissa High Court quashed assessment orders due to inadequate approval procedures under Section 153D.

Outcome:

- The Tribunal quashed the assessment orders for the assessment years 2013-14 and 2014-15, holding them null and void due to the invalid approval under Section 153D.
- Consequently, the revision order under Section 263 was also set aside as it was based on an invalid assessment order.

Key Takeaways:

- **Section 153D Approval:** The approval process under Section 153D is not a mere formality. It requires the approving authority to apply its mind independently and ensure that the assessment order complies with the law.
- **Mechanical Approvals:** Approvals granted without proper scrutiny or application of mind are invalid and render the assessment order non-est.
- **Revision under Section 263:** A revision order under Section 263 cannot be sustained if the underlying assessment order is invalid due to the absence of a valid approval under Section 153D.

This case reinforces the importance of adhering to procedural requirements in tax assessments and highlights the judiciary's role in ensuring that statutory safeguards are not reduced to mere formalities.

Income Tax: Commissioner (Exemptions) Erred in Rejecting Trust's Application for Approval Under Section 10(23C) Without Proper Material

Case Law: Aanya Learning Foundation v. Commissioner of Income-tax (Exemptions) | Court INCOME TAX APPELLATE TRIBUNAL (ITAT) LUCKNOW BENCH 'A'| IT Appeal No.: 590 (LKW) of 2018 | Date: February 6, 2025

Introduction

The assessee-trust, Aanya Learning Foundation, established with the object of imparting education, filed an application for approval under Section 10(23C) of the Income-tax Act, 1961. The Commissioner (Exemptions) rejected the application on the grounds that the assessee failed to furnish sufficient material to demonstrate that its activities were for educational purposes. The assessee appealed to the Tribunal, arguing that it was not given a reasonable opportunity to present its case, especially since it was the first year of its incorporation.

Facts of the Case

- Establishment of the Trust: The assessee-trust was incorporated on April 6, 2018, with the primary objective of imparting education.
- Application for Approval: The trust filed an application for approval under Section 10(23C) on April 16, 2018.
- Rejection by Commissioner (Exemptions): The Commissioner rejected the application, stating that the assessee failed to provide sufficient evidence to prove that its activities were for educational purposes.

Arguments by the Assessee

- The assessee contended that it was the first year of its incorporation and was not given a reasonable opportunity to present its case.
- The Commissioner did not provide any material to suggest that the proposed activities were not genuine or not for educational purposes.
- The assessee relied on the judgments of the Supreme Court in Ananda Social and Educational Trust v. CIT and the Delhi High Court in Director of Income-tax v. Foundation of Ophthalmic & Optometry Research Educational Centre to argue that the Commissioner should have considered the proposed activities rather than requiring evidence of actual activities.

Top Trends

- Social Investing on the Rise: Investors are making decisions based on company ethics and social impact.
- Stronger Data Privacy Laws in Finance: Regulators are enforcing stricter data protection policies for financial institutions.
- Revival of Gold as a Safe Haven: With market uncertainties, gold investments are increasing.
- Corporate Debt Levels Rising: Many companies are leveraging more debt amid low interest rate expectations.
- Micro-Investing Gains Popularity: Small, frequent investments through apps are becoming common.
- CBDCs Being Piloted Globally: Central Bank Digital Currencies are being tested in multiple countries.
- Wealth Management Services for Millennials: Firms are tailoring investment advice to younger investors.

Top Trends

- **Decentralized Insurance Growth: Blockchain-based insurance models are emerging.**
- **India's FDI Inflows Surge:** Foreign direct investment in India is increasing in multiple sectors.
- **Private Equity Firms Raising Bigger Funds:** More capital is being deployed in private equity investments.
- **Corporate Sustainability Bonds Issued More:** Companies are raising funds via green and social bonds.
- **Increased Focus on Tax Efficiency in Investments:** Investors are optimizing portfolios for lower tax liabilities.
- **Cyberattacks on Financial Institutions Rising:** More banks and fintech firms are being targeted by cybercriminals.
- **Increased Retail Participation in IPOs:** Retail investors are taking a more active role in stock market listings.

High Court's Observations:

Tribunal's Observations

- **First Year of Operation:** The Tribunal noted that the assessee was incorporated in April 2018 and had applied for approval shortly thereafter. It was unreasonable to expect the assessee to provide extensive evidence of activities in such a short period.
- **No Material to Suggest Non-Genuine Activities:** The Tribunal observed that the Commissioner did not provide any material to suggest that the proposed activities were not genuine or not for educational purposes.
- **Judicial Precedents:** The Tribunal relied on the Supreme Court's judgment in *Ananda Social and Educational Trust v. CIT*, which held that the Commissioner must consider the proposed activities of the trust when granting registration. The Delhi High Court's judgment in *Foundation of Ophthalmic & Optometry Research Educational Centre* also supported the view that the Commissioner should not reject an application without proper material.

Decision of the Tribunal

- The Tribunal set aside the order of the Commissioner (Exemptions) and restored the application for fresh consideration. The Commissioner was directed to verify the correctness of the claim that the assessee was granted registration under Section 10(23C) in subsequent years.

Conclusion

The appeal was allowed for statistical purposes, and the matter was remanded to the Commissioner (Exemptions) for fresh consideration.

Key Takeaways

- **Proposed Activities Must Be Considered:** The Commissioner must consider the proposed activities of a trust when granting approval under Section 10(23C), especially in the initial years of operation.
- **Reasonable Opportunity Must Be Given:** The assessee must be given a reasonable opportunity to present its case, particularly when it is the first year of incorporation.
- **Material Evidence Required for Rejection:** The Commissioner cannot reject an application without providing material evidence to suggest that the activities are not genuine or not in line with the trust's objectives.

Income Tax: Amendment to Definition of 'Sikkimese' Under Section 10(26AAA) Does Not Affect Rights Protected Under Article 371F(k) of the Constitution

Case Law: Dr. Doma T. Bhutia v. Union of India | Court: HIGH COURT OF SIKKIM | IT Appeal No.: WP (PIL) No. 1 of 2025 | Date: March 4, 2025

Introduction

The petitioner, Dr. Doma T. Bhutia, filed a Public Interest Litigation (PIL) challenging the constitutional validity of Explanation (v) to Section 10(26AAA) of the Income-tax Act, 1961, introduced by the Finance Act, 2023. The petitioner contended that the amendment undermined the rights and privileges of indigenous Sikkimese protected under Article 371F(k) of the Constitution of India.

Background of the Case

- **Amendment to Section 10(26AAA):** The Finance Act, 2023, amended Section 10(26AAA) to redefine the term "Sikkimese" for income tax purposes.
- **Petitioner's Challenge:** The petitioner argued that the inclusion of Explanation (v) violated Article 371F(k), which safeguards the rights of indigenous Sikkimese.
- **Supreme Court's Judgment:** The amendment was based on the Supreme Court's judgment in *Association of Old Settlers of Sikkim v. Union of India* (2023) 5 SCC 717, which directed the Union of India to amend the definition of "Sikkimese" to include Indian citizens domiciled in Sikkim before April 26, 1975.

Key Arguments

- **Petitioner's Contentions:**
- The amendment diluted the rights of indigenous Sikkimese.
- The clarification in the Press Release dated April 4, 2023, was insufficient and lacked legal basis.
- The amendment violated Article 371F(k) of the Constitution.

Respondent's Defense:

- The amendment was enacted to comply with the Supreme Court's judgment.
- The Press Release clarified that the definition of "Sikkimese" under Section 10(26AAA) was solely for income tax purposes and did not affect other rights.

Top Trends

- **Growth in Secondary Market for Startups:** Investors are buying shares of startups before they go public.
- **Increased Outsourcing in Financial Services:** More financial firms are outsourcing operations to cut costs.
- **Evolution of Smart Contracts in Finance:** Blockchain-powered smart contracts are streamlining transactions.
- **Crypto ETFs Gaining Approval:** More countries are approving cryptocurrency-based exchange-traded funds.
- **Revival of Banking Mergers and Acquisitions:** Banks are consolidating to improve efficiency and market reach.
- **Alternative Lending Platforms Expanding:** Non-traditional lenders are offering credit outside banks.
- **Rising Demand for Islamic Finance:** Interest-free financial services are gaining traction globally.

Top Trends

- **Agricultural Finance**
Innovations Growing: More funding options are being created for farmers.
- **Stablecoins Adoption**
Increasing: These crypto assets are becoming mainstream for digital payments.
- **Companies Increasing Stock Buybacks:** Firms are repurchasing shares to improve shareholder value.
- **Big Tech Entering Finance:** Companies like Google, Apple, and Amazon are expanding financial services.
- **Family Offices Gaining Popularity:** Ultra-high-net-worth families are managing wealth through private firms.
- **Peer-to-Peer Foreign Exchange Growing:** Direct forex transactions without banks are increasing.
- **Stock Market Algorithm Trading Increasing:** More institutions are using AI-driven trading algorithms.

Court's Observations

- **Purpose of the Amendment:** The Court noted that the amendment was introduced to address the Supreme Court's directive to eliminate discrimination against certain categories of Sikkimese.
- **Press Release Clarification:** The Press Release dated April 4, 2023, explicitly stated that the definition of "Sikkimese" under Section 10(26AAA) was limited to the Income-tax Act and did not impact other rights or privileges.
- **Article 371F(k):** The Court held that the amendment did not affect the sanctity of rights and privileges reserved for indigenous Sikkimese under Article 371F(k).

Decision of the Court

- The Court dismissed the writ petition, holding that there was no justifiable reason to entertain the challenge. The amendment was limited to income tax purposes and did not infringe upon the constitutional rights of indigenous Sikkimese.

Key Takeaways

- **Limited Scope of Amendment:** The redefinition of "Sikkimese" under Section 10(26AAA) is restricted to income tax purposes and does not affect other constitutional rights.
- **Compliance with Supreme Court Directive:** The amendment was enacted to comply with the Supreme Court's judgment in *Association of Old Settlers of Sikkim v. Union of India*.
- **Protection of Indigenous Rights:** The Court reaffirmed that the rights and privileges of indigenous Sikkimese under Article 371F(k) remain intact and unaffected by the amendment.

Income Tax: Service Tax Shared Under Contractual Agreement Qualifies as Business Expense Under Section 37

Case Law: Axis Bank Ltd. v. Assistant Commissioner of Income-tax | Court: TRIBUNAL (ITAT) AHMEDABAD BENCH 'A' | IT Appeal No.: 827 & 828 (Ahd) of 2024 | Date: February 14, 2025

Introduction

The assessee, Axis Bank Ltd., acted as a corporate agent for Max Life Insurance Company, earning commission income by marketing insurance policies. As per the corporate agency agreement, the assessee agreed to share 50% of the service tax liability payable by Max Life under the "reverse charge" mechanism.

The Assessing Officer disallowed the service tax expenses claimed by the assessee under Section 37 of the Income-tax Act, 1961, on the grounds that the amount was not deposited with the government and was retained by Max Life. The Commissioner (Appeals) upheld the disallowance, leading to the present appeal.

Facts of the Case

- **Corporate Agency Agreement:** The assessee entered into an agreement with Max Life to market its insurance policies and earn commission income.
- **Service Tax Sharing:** As per the agreement, the assessee agreed to bear 50% of the service tax liability payable by Max Life under the "reverse charge" mechanism.
- **Disallowance by AO:** The Assessing Officer disallowed the service tax expenses, noting that Max Life retained the amount instead of depositing it with the government.
- **Appeal to CIT(A):** The Commissioner (Appeals) upheld the disallowance, stating that the service tax liability was not discharged by Max Life, and the amount retained by Max Life was an offence under Section 73A of the Finance Act, 1994.

Key Arguments

Assessee's Contentions:

- The payment was made under a contractual obligation to secure business from Max Life.
- The service tax liability was legally that of Max Life, and the assessee's payment was not a service tax liability but a business expense.
- The arrangement was not prohibited by law, and the rigour of Explanation to Section 37(1) did not apply.

Revenue's Arguments:

- The service tax amount was not deposited with the government, and Max Life retained it, which constituted an offence.
- The expenditure was not allowable under Section 37 as it was not incurred for business purposes and was prohibited by law.

Tribunal's Observations

- **Contractual Nature of Payment:** The Tribunal observed that the payment was made under a contractual agreement to secure business from Max Life and was not a service tax liability of the assessee.
- **Reverse Charge Mechanism:** The service tax liability was legally that of Max Life under the "reverse charge" mechanism, and the assessee's payment did not partake the character of service tax.

Top Trends

- **Central Banks Increasing Gold Reserves:** Many central banks are boosting gold holdings to hedge against economic uncertainty.
- **Impact of AI on Financial Jobs:** Automation is replacing some traditional financial roles while creating new AI-driven jobs.
- **Rising Focus on Finfluencers:** Financial influencers are playing a bigger role in shaping retail investment decisions.
- **Expansion of Wealth Tech:** AI-powered wealth management platforms are growing in popularity.
- **P2P Lending Regulation Tightens:** Governments are increasing oversight on peer-to-peer lending platforms.
- **Banking-as-a-Service (BaaS) Adoption Growing:** More businesses are integrating financial services into their platforms.

Top Trends

- **Stock Market**
Gamification Increasing: Trading apps are using gamified features to attract young investors.
- **Uptick in Foreign**
Currency Accounts: More investors are opening accounts in multiple currencies to hedge against forex risk.
- **Rise of ESG-linked Loans:**
Companies are securing loans with interest rates tied to their sustainability performance.
- **AI-driven Fraud Detection**
Expanding: Financial institutions are leveraging AI to combat identity theft and financial fraud.
- **Biometric Authentication**
in Banking: Fingerprint and facial recognition technology are being used to enhance security in banking.

- **No Prohibition by Law:** There was no provision in law that prohibited such contractual agreements for sharing service tax liability.
- **Business Expense:** The payment was incurred to secure business and was therefore allowable as a business expense under Section 37.

Decision of the Tribunal

- The Tribunal allowed the appeal, holding that the service tax expenses claimed by the assessee were allowable under Section 37 as they were incurred for business purposes and did not violate any law. The disallowance by the Assessing Officer and the Commissioner (Appeals) was set aside.

Key Takeaways

- **Contractual Payments for Business:** Payments made under contractual agreements to secure business qualify as allowable business expenses under Section 37.
- **Reverse Charge Mechanism:** The liability under the "reverse charge" mechanism remains with the recipient of services, and payments made by others under contractual arrangements do not partake the character of tax liability.
- **No Prohibition by Law:** Contractual agreements for sharing tax liabilities are not prohibited by law and do not attract the rigour of Explanation to Section 37(1).

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