



**SUPPLEMENTARY FOR DECEMBER 2025
TERM OF EXAMINATION**

PAPER - 15

**DIRECT TAX LAWS AND
INTERNATIONAL TAXATION**

SYLLABUS 2022



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DIRECT TAX (PAPER 15)

Disallowance of Expenditure Incurred for Settling Regulatory Defaults under Specified Acts [Notification No. 38/2025 dated 23-04-2025]

The Government, under clause (iv) of *Explanation 3 to section 37(1)*, has notified that any expenditure incurred for settling proceedings related to contraventions or defaults under the following laws **will not be allowed as a business deduction**:

- Securities and Exchange Board of India Act, 1992
- Securities Contracts (Regulation) Act, 1956
- Depositories Act, 1996
- Competition Act, 2002

Conditions for non-resident, engaged in the business of operation of cruise ships for sec. 44BBC [Notification No. 09/2025 dated 21-01-2025]

A rule 6GB has been inserted for the purposes of sec. 44BBC. an assessee, being a non-resident, engaged in the business of operation of cruise ships shall, —

- (i) operate a passenger ship having a carrying capacity of more than 200 passengers or length of 75 meters or more, for leisure and recreational purposes and having appropriate dining and cabin facilities for passengers;
- (ii) operate such ship on scheduled voyage or shore excursion touching at least two sea ports of India or same sea ports of India twice;
- (iii) operate such ship primarily for carrying passengers and not for carrying cargo; and
- (iv) operate such ship as per the procedure and guidelines if any, issued by the Ministry of Tourism or Ministry of Shipping.

Amendment in compliance of certain business trust [Notification No. 17/2025 dated 24-02-2025]

The CBDT has amended the Income-tax Rules, 1962 by substituting Rule 12CA. The revised rule outlines the procedure for furnishing the statement of income distributed by business trusts (such as REITs and InvITs) under Section 115UA(4) of the Income-tax Act, 1961. The



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amendment aligns reporting timelines and digital submission processes with current compliance frameworks.

As per the revised rule, business trusts must furnish Form 64A to the jurisdictional Principal Commissioner/Commissioner by 15th June of the following financial year, digitally signed and certified by an accountant. Additionally, Form 64B must be provided to unit holders by 30th June, which is to be generated and downloaded from the portal specified by the Income-tax (Systems) Directorate and duly verified. This streamlines disclosure and ensures accuracy in pass-through income reporting.

Extension of due date for furnishing return of income for the Assessment Year 2025-26

[Circular No. 06/2025 dated 27-05-2025]

CBDT has extended the due date for furnishing the return of income for Assessment Year 2025–26 from **31st July 2025 to 15th September 2025** for assessee whose accounts are not subject to audit.

ITR 1 – Sahaj

Assessee having long-term capital gains u/s 112A upto ₹ 1,25,000 and does not have any brought forward loss or loss to be carried forward under the head, can also file return of income in ITR 1 / ITR 4, provided other conditions are satisfied.

Verification of Return of Income u/s 158BC [i.e., ITR – B] [Notification No. 30/2025 dated 07-04-2025]

The return of income u/s 158BC shall be in Form ITR – B and that should be verified by:

In case of	Manner of furnishing return of income
a. person whose accounts are required to be audited u/s 44AB; b. Company; c. Political party.	Electronically under digital signature
Other person	a. Electronically under digital signature; or b. Transmitting the data electronically in the return under electronic verification code.



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Waiver on levy of interest under section 201(IA)(ii)/ 206C(7) of the Act [Circular No. 05/2025 dated 28-03-2025]

CBDT Circular No. 05/2025 dated 28th March 2025 provides relief under Section 119 of the Income-tax Act, 1961, by allowing waiver or reduction of interest levied under Sections 201(1A)(ii) and 206C(7) in cases where TDS/TCS payments were debited from the taxpayer's bank account on time but credited to the Central Government after the due date due to technical glitches beyond the taxpayer's control. The competent authority (CCIT/DGIT/PrCCIT) may pass a speaking order after verification. Waiver applications must be filed within one year from the end of the relevant financial year and disposed of within six months from the end of the month in which such application was received.

Frequently Asked Questions (FAQs) on Guidelines for Compounding of Offences under the Income-Tax Act, 1961 dated 17.10.2024 [Circular No. 04/2025 dated 17-03-2025]

CBDT Circular No. 04/2025 dated 17 March 2025 issues a comprehensive set of FAQs to clarify the revised guidelines for compounding of offences under the Income-tax Act, 1961, which came into effect from 17 October 2024. The updated guidelines significantly liberalize the compounding framework by removing the bar on the number of applications, eliminating the 36-month limitation period, and allowing compounding of all offences, including those under sections 275A and 276B. Applications can be filed at any time post-offence, even if prosecution has begun, and compounding is not deemed as admission of guilt.

The circular explains procedures related to jurisdiction, application formats, fee structure, treatment of co-accused, and conditions applicable under insolvency scenarios. It allows revival of previously rejected applications due to curable defects and recognizes consolidated applications. Compounding charges are determined based on the sequence of applications, with increasing multipliers for repeat filings. Payment can be made through the Income Tax e-filing portal and may be extended up to 24 months without interest. The clarifications are aimed at increasing transparency, consistency, and ease of compliance for taxpayers seeking to settle offences through compounding.

TCS Applicability on Specified Luxury Goods under Section 206C(1F) [Notification No. 36/2025 dated 22-04-2025]

The Government, u/s 206C(1F)(ii), has notified a list of specified luxury or high-value goods, if the value of these goods exceeds ₹10 lakh, tax is required to be collected at source (TCS) by the seller.



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1. Wrist watches
2. Art pieces (e.g. antiques, paintings, sculptures)
3. Collectibles (e.g. coins, stamps)
4. Yachts, boats, canoes, helicopters
5. Sunglasses
6. Bags (e.g. handbags, purses)
7. Shoes
8. Sportswear and equipment (e.g. golf kits, ski-wear)
9. Home theatre systems
10. Horses used for horse racing or polo

This notification ensures TCS compliance on high-end discretionary goods to curb tax evasion and improve traceability of luxury purchases.

Safe harbour Rule for AY 2025-26 notified [Notification No. 21/2025 dated 25-03-2025]

Safe Harbour [Rule 10TD]

Where an eligible assessee has entered into an eligible international transaction and the option exercised by the said assessee is not held to be invalid under rule 10TE, the transfer price declared by the assessee in respect of such transaction shall be accepted by the income-tax authorities, if it is in accordance with the circumstances as specified here in below:

Sl.	Eligible International Transaction	Circumstances		
1.	Provision of software development services <i>Software development services</i> means: i. business application software and information system development using known methods and existing software tools;	The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is: <table border="1"><tr><td>Where the value of international transaction</td><td>Not less than</td></tr></table>	Where the value of international transaction	Not less than
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	<p>ii. support for existing systems;</p> <p>iii. converting or translating computer languages;</p> <p>iv. adding user functionality to application programmes;</p> <p>v. debugging of systems;</p> <p>vi. adaptation of existing software; or</p> <p>vii. preparation of user documentation,</p> <p>but does not include any research and development services whether or not in the nature of contract research and development services.</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"> <ul style="list-style-type: none"> • does not exceed a sum of ₹ 100 crore </td> <td style="width: 20%; text-align: center; vertical-align: top;">17%</td> </tr> <tr> <td> <ul style="list-style-type: none"> • exceeds ₹ 100 crore but does not exceed ₹ 300 crore </td> <td style="text-align: center; vertical-align: top;">18%</td> </tr> </table>	<ul style="list-style-type: none"> • does not exceed a sum of ₹ 100 crore 	17%	<ul style="list-style-type: none"> • exceeds ₹ 100 crore but does not exceed ₹ 300 crore 	18%		
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2.	<p>Provision of information technology enabled services</p> <p><i>Information technology enabled services</i> means the following business process outsourcing services provided mainly with the assistance or use of information technology,:</p> <p>i. back office operations;</p> <p>ii. call centres or contact centre services;</p> <p>iii. data processing and data mining;</p> <p>iv. insurance claim processing;</p> <p>v. legal databases;</p> <p>vi. creation and maintenance of medical transcription excluding medical advice;</p> <p>vii. translation services;</p>	<p>The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;">Where the aggregate value of such international transaction entered into during the previous year</th> <th style="width: 20%;">Not less than</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • does not exceed a sum of ₹ 100 crore </td> <td style="text-align: center; vertical-align: top;">17%</td> </tr> <tr> <td> <ul style="list-style-type: none"> • exceeds ₹ 100 crore but does not exceed ₹ 300 crore </td> <td style="text-align: center; vertical-align: top;">18%</td> </tr> </tbody> </table>	Where the aggregate value of such international transaction entered into during the previous year	Not less than	<ul style="list-style-type: none"> • does not exceed a sum of ₹ 100 crore 	17%	<ul style="list-style-type: none"> • exceeds ₹ 100 crore but does not exceed ₹ 300 crore 	18%
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	<p>viii. payroll;</p> <p>ix. remote maintenance;</p> <p>x. revenue accounting;</p> <p>xi. support centres;</p> <p>xii. website services;</p> <p>xiii. data search integration and analysis;</p> <p>xiv. remote education excluding education content development; or</p> <p>xv. clinical database management services excluding clinical trials,</p> <p>but does not include any research and development services whether or not in the nature of contract research and development services;</p>							
3.	<p>Provision of knowledge process outsourcing services</p> <p><i>Knowledge process outsourcing services</i> means the following business process outsourcing services provided mainly with the assistance or use of information technology requiring application of knowledge and advanced analytical and technical skills,:</p> <p>i. geographic information system;</p> <p>ii. human resources services;</p> <p>iii. engineering and design services;</p>	<p>The value of international transaction does not exceed ₹ 200 crore and the operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 20%;">Not less than</th> <th>Employee Cost in relation to the Operating Expense is</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">24%</td> <td>is at least 60%</td> </tr> <tr> <td style="text-align: center;">21%</td> <td>is 40% or more but less than 60%</td> </tr> </tbody> </table>	Not less than	Employee Cost in relation to the Operating Expense is	24%	is at least 60%	21%	is 40% or more but less than 60%
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	<p>iv. animation or content development and management;</p> <p>v. business analytics;</p> <p>vi. financial analytics; or</p> <p>vii. market research,</p> <p>but does not include any research and development services whether or not in the nature of contract research and development services</p>	18%	does not exceed 40%												
4.	<p>Advancing of intra-group loans where the amount of loan is denominated in Indian Rupees (INR)</p> <p><i>Intra-group loan</i> means loan advanced to an associated enterprise being a non-resident, where the loan:</p> <p>i. is not advanced by an enterprise, being a financial company including a bank or a financial institution or an enterprise engaged in lending or borrowing in the normal course of business; and</p> <p>ii. does not include credit line or any other loan facility which has no fixed term for repayment</p>	<p>The interest rate declared in relation to the eligible international transaction is not less than the 1-year marginal cost of funds lending rate of State Bank of India as on 1st April of the relevant previous year <i>plus</i>:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%; text-align: center;">Plus %</th> <th style="width: 85%; text-align: center;">Credit rating of the associated enterprise</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.75%</td> <td>between AAA to A</td> </tr> <tr> <td style="text-align: center;">3.25%</td> <td>BBB-, BBB or BBB+</td> </tr> <tr> <td style="text-align: center;">4.75%</td> <td>between BB to B</td> </tr> <tr> <td style="text-align: center;">6.25%</td> <td>between C to D</td> </tr> <tr> <td style="text-align: center;">4.25%</td> <td>Where credit rating of the associated enterprise is not available and the amount of loan advanced to all associated enterprise in</td> </tr> </tbody> </table>		Plus %	Credit rating of the associated enterprise	1.75%	between AAA to A	3.25%	BBB-, BBB or BBB+	4.75%	between BB to B	6.25%	between C to D	4.25%	Where credit rating of the associated enterprise is not available and the amount of loan advanced to all associated enterprise in
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		<p>Indian Rupees does not exceed ₹ 100 crore in the aggregate as on 31st March of the relevant previous year.</p>								
5(a).	<p>Advancing of intra-group loans referred to in item (iv) of rule 10TC where the amount of loan is denominated in foreign currency and amount of loan advanced to the associated enterprise including loans to all associated enterprises does not exceed a sum equivalent to ₹ 250 crore in the aggregate as on 31st March of the relevant previous year</p>	<p>The interest rate declared in relation to the eligible international transaction is not less than the reference rate of the relevant foreign currency as on 30th September of the relevant previous year plus,—</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 15%; text-align: center;">Plus %</th> <th style="text-align: center;">Credit rating of the associated enterprise</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.50%</td> <td style="text-align: center;">between AAA to A-</td> </tr> <tr> <td style="text-align: center;">3.00%</td> <td style="text-align: center;">BBB-, BBB or BBB+</td> </tr> <tr> <td style="text-align: center;">4.00%</td> <td style="text-align: center;">other rating or where credit rating is not available</td> </tr> </tbody> </table>	Plus %	Credit rating of the associated enterprise	1.50%	between AAA to A-	3.00%	BBB-, BBB or BBB+	4.00%	other rating or where credit rating is not available
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5(b)	<p>Advancing of intra-group loans referred to in item (iv) of rule 10TC where the amount of loan is denominated in foreign currency and amount of loan advanced to the associated enterprise including loans to all associated enterprises exceeds a sum equivalent to ₹ 250 crore in the aggregate as on 31st March of the relevant previous year</p>	<p>The interest rate declared in relation to the eligible international transaction is not less than the reference rate of the relevant foreign currency as on 30th September of the relevant previous year plus,—</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 15%; text-align: center;">Plus %</th> <th style="text-align: center;">Credit rating of the associated enterprise</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.50%</td> <td style="text-align: center;">between AAA to A-</td> </tr> </tbody> </table>	Plus %	Credit rating of the associated enterprise	1.50%	between AAA to A-				
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6.	<p>Providing corporate guarantee</p> <p><i>Corporate guarantee</i> means explicit corporate guarantee extended by a company to its wholly owned subsidiary being a non-resident in respect of any short-term or long-term borrowing.</p> <p>However, explicit corporate guarantee does not include letter of comfort, implicit corporate guarantee, performance guarantee or any other guarantee of similar nature</p>	<p>The commission or fee declared in relation to the eligible international transaction is @ not less than 1% p.a. on the amount guaranteed.</p>						
7.	<p>Provision of contract research and development services wholly or partly relating to software development</p> <p><i>Contract research and development services wholly or partly relating to software development</i> means the following:</p> <ol style="list-style-type: none"> i. research and development producing new theorems and algorithms in the field of theoretical computer science; ii. development of information technology at the level of operating systems, programming languages, data management, communications 	<p>The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is not less than 24%, where the value of the international transaction does not exceed ₹ 300 crore.</p>						



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	<p>software and software development tools;</p> <p>iii. development of Internet technology;</p> <p>iv. research into methods of designing, developing, deploying or maintaining software;</p> <p>v. software development that produces advances in generic approaches for capturing, transmitting, storing, retrieving, manipulating or displaying information;</p> <p>vi. experimental development aimed at filling technology knowledge gaps as necessary to develop a software programme or system;</p> <p>vii. research and development on software tools or technologies in specialised areas of computing (image processing, geographic data presentation, character recognition, artificial intelligence and such other areas);or</p> <p>viii. upgradation of existing products where source code has been made available by the principal, except where the source code has been made available to carry out routine functions like debugging of the software</p>	
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8.	<p>Provision of contract research and development services wholly or partly relating to generic pharmaceutical drugs</p> <p><i>Generic pharmaceutical drug</i> means a drug that is comparable to a drug already approved by the regulatory authority in dosage form, strength, route of administration, quality and performance characteristics, and intended use</p>	<p>The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense incurred is not less than 24%, where the value of the international transaction does not exceed ₹ 300 crore.</p>
9.	<p>Manufacture and export of core auto components</p> <p><i>Core auto components</i> means:</p> <ul style="list-style-type: none">i. engine and engine parts, including piston and piston rings, engine valves and parts cooling systems and parts and power train components;ii. transmission and steering parts, including gears, wheels, steering systems, axles and clutches;iii. suspension and braking parts, including brake and brake assemblies, brake linings, shock absorbers and leaf springsiv. lithium-ion batteries for use in electric or hybrid electric vehicles	<p>The operating profit margin declared by the eligible assessee from the eligible international transaction in relation to operating expense is not less than 12%.</p>
10.	<p>Manufacture and export of non-core auto components</p>	<p>The operating profit margin declared by the eligible assessee from the eligible</p>



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	<p><i>Non-core auto components</i> mean auto components other than core auto components</p>	international transaction in relation to operating expense is not less than 8.5%
11.	<p>Receipt of low value-adding intra-group services</p> <p><i>Low value-adding intra-group services</i> means services that are performed by one or more members of a multinational enterprise group on behalf of one or more other members of the same multinational enterprise group and which:</p> <ol style="list-style-type: none">are in the nature of support services;are not part of the core business of the multinational enterprise group, i.e., such services neither constitute the profit-earning activities nor contribute to the economically significant activities of the multinational enterprise group;are not in the nature of shareholder services or duplicate services;neither require the use of unique and valuable intangibles nor lead to the creation of unique and valuable intangibles;neither involve the assumption or control of significant risk by the service provider nor give rise to the creation of	<p>The entire value of the international transaction, including a mark-up not exceeding 5%, does not exceed ₹ 10 crore.</p> <p>The method of cost pooling, the exclusion of shareholder costs and duplicate costs from the cost pool and the reasonableness of the allocation keys used for allocation of costs to the assessee by the overseas associated enterprise, is certified by an accountant.</p>



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<p>significant risk for the service provider; and</p> <p>vi. do not have reliable external comparable services that can be used for determining their arm's length price, but does not include the following services:</p> <p>i. research and development services;</p> <p>ii. manufacturing and production services;</p> <p>iii. information technology (software development) services;</p> <p>iv. knowledge process outsourcing services;</p> <p>v. business process outsourcing services;</p> <p>vi. purchasing activities of raw materials or other materials that are used in the manufacturing or production process;</p> <p>vii. sales, marketing and distribution activities;</p> <p>viii. financial transactions;</p> <p>ix. extraction, exploration, or processing of natural resources; and</p> <p>x. insurance and reinsurance</p>	
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Taxpoint

⊛ *Operating expense* means the costs incurred in the previous year by the assessee in relation to the international transaction during the course of its normal operations including **costs** relating to Employee Stock Option Plan or similar stock-based compensation provided for by the associated enterprises of the assessee to the employees of the assessee,



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reimbursement to associated enterprises of expenses incurred by the associated enterprises on behalf of the assessee, **amounts** recovered from associated enterprises on account of expenses incurred by the assessee on behalf of those associated enterprises and which relate to normal operations of the assessee and depreciation and amortisation expenses relating to the assets used by the assessee, but not including the following:

- i. interest expense;
- ii. provision for unascertained liabilities;
- iii. pre-operating expenses;
- iv. loss arising on account of foreign currency fluctuations;
- v. extraordinary expenses;
- vi. loss on transfer of assets or investments other than assets, on which depreciation is included in the operating expenses;
- vii. expense on account of income-tax; and
- viii. other expenses not relating to normal operations of the assessee:
 - Reimbursement to associated enterprises of expenses incurred by the associated enterprises on behalf of the assessee shall be at cost.
 - Amounts recovered from associated enterprises on account of expenses incurred by the assessee on behalf of the associated enterprises and which relate to normal operations of the assessee shall be at cost

❖ *Operating revenue* means the revenue earned by the assessee in the previous year in relation to the international transaction during the course of its normal operations including **costs** relating to Employee Stock Option Plan or similar stock-based compensation provided for by the associated enterprises of the assessee to the employees of the assessee but not including the following:

- i. interest income;
- ii. income arising on account of foreign currency fluctuations;
- iii. income on transfer of assets or investments other than assets, on which depreciation is included in the operating expense



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- iv. refunds relating to income-tax;
 - v. provisions written back;
 - vi. extraordinary incomes; and
 - vii. other incomes not relating to normal operations of the assessee.
- ❖ *Operating profit margin* in relation to operating expense means the ratio of operating profit, being the operating revenue in excess of operating expense, to the operating expense expressed in terms of percentage.
- ❖ *Relevant previous year* means the previous year relevant to the assessment year in which the option for safe harbour is validly exercised
- ❖ *Reference Rate* means,—
- a. for US dollar, 6-month Term Secured Overnight Financing Rate (SOFR), currently administered by Chicago Mercantile Exchange (CME), as increased by 45 basis points;
 - b. for Euro, 6-month Euro Inter Bank Offered Rate (EURIBOR), currently administered by European Money Markets Institute;
 - c. for UK Pound Sterling, 6-month Term Sterling Overnight Index Average (SONIA), currently administered by ICE Benchmark Administration/Refinitiv, as increased by 30 basis points;
 - d. for Japanese Yen, 6-month Tokyo Term Risk Free Rate (TORF), currently benchmarked by QUICK Benchmarks Inc, as increased by 10 basis points;
 - e. for Australian dollar, 6-month Bank Bill Swap Rates (BBSW) currently administered by Australian Securities Exchange; and
 - f. for Singapore dollar, 6-month Compounded Singapore Overnight Rate Average (SORA), currently administered by Monetary Authority of Singapore, as increased by 45 basis points;
- ❖ *Credit Rating* means the credit rating assigned to the associated enterprise by a Securities and Exchange Board of India registered and Reserve Bank of India accredited credit rating agency which is applicable for the relevant previous year, so however that—
- a. where the associated enterprise has only one credit rating, then such rating shall be taken as its credit rating; and



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b. where the associated enterprise has a credit rating from more than one such credit rating agency, then the least of such ratings shall be taken as its credit rating

❖ *Accountant* means an accountant referred to in the Explanation to 288(2) of the Act and includes any person recognised for undertaking cost certification by the Government of the country where the associated enterprise is registered or incorporated or any of its agencies, who fulfils the following conditions:

I. if he is a member or partner in any entity engaged in rendering accountancy or valuation services then:

- i. the entity or its affiliates have presence in more than two countries; and
- ii. the annual receipt of the entity in the year preceding the year in which cost certification is undertaken exceeds ₹ 10 crore;

II. if he is pursuing the profession of accountancy individually or is a valuer then:

- i. his annual receipt in the year preceding the year in which cost certification is undertaken, from the exercise of profession, exceeds ₹ 1 crore; and
- ii. he has professional experience of not less than 10 years.

❖ *Employee cost* includes,—

- i. salaries and wages;
- ii. gratuities;
- iii. contribution to Provident Fund and other funds;
- iv. the value of perquisites as specified in sec. 17(2);
- v. employment related allowances, like medical allowance, dearness allowance, travel allowance and any other allowance;
- vi. bonus or commission by whatever name called;
- vii. lump sum payments received at the time of termination of service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments;
- viii. expenses incurred on contractual employment of persons performing tasks similar to those performed by the regular employees;



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ix. outsourcing expenses, to the extent of employee cost, wherever ascertainable, embedded in the total outsourcing expenses:

However, where the extent of employee cost embedded in the total outsourcing expenses is not ascertainable, 80% of the total outsourcing expenses shall be deemed to be the employee cost embedded in the total outsourcing expenses;

x. recruitment expenses;

xi. relocation expenses;

xii. training expenses;

xiii. staff welfare expenses; and

xiv. any other expenses related to employees or the employment

❖ Second proviso to sec. 92C(2) provides that if the variation between the arm's length price and price at which the international transaction or specified domestic transaction has actually been undertaken does not exceed such percentage not exceeding 3% of the latter, as may be notified, the price at which the international transaction or specified domestic transaction has actually been undertaken shall be deemed to be the arm's length price. However, no such comparability adjustment and allowance shall be made to the transfer price declared by the eligible assessee and accepted under this.

❖ The provisions of sec. 92D (Maintenance of documents, etc.) and 92E (Report from an Accountant) in respect of an international transaction shall apply irrespective of the fact that the assessee exercises his option for safe harbour in respect of such transaction.

❖ *Eligible assessee* means a person who has exercised a valid option for application of safe harbour rules in accordance with rule 10TE, and:

- i. is engaged in providing software development services or information technology enabled services or knowledge process outsourcing services, with insignificant risk, to a non-resident associated enterprise (hereinafter referred as foreign principal);
- ii. has made any intra-group loan;
- iii. has provided a corporate guarantee;
- iv. is engaged in providing contract research and development services wholly or partly relating to software development, with insignificant risk, to a foreign principal;



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- v. is engaged in providing contract research and development services wholly or partly relating to generic pharmaceutical drugs, with insignificant risk, to a foreign principal;
 - vi. is engaged in the manufacture and export of core or non-core auto components and where 90% or more of total turnover during the relevant previous year is in the nature of original equipment manufacturer sales; or
 - vii. is in receipt of low value-adding intra-group services from one or more members of its group.
- ❖ For exercise of the option for safe harbour, the assessee shall furnish a Form 3CEFA to the Assessing Officer on or before the due date for furnishing the return of income for
 - a) the relevant assessment year, in case the option is exercised only for that assessment year;
 - b) or the first of the assessment years, in case the option is exercised for more than one assessment year:
 - ❖ The return of income should be furnished on or before the date of submitting such Form.
 - ❖ The option for safe harbour validly exercised shall continue to remain in force for the period specified in Form 3CEFA or a period of 3 years whichever is less (in some cases applicable for only one assessment year).
 - ❖ The eligible assessee may opt out of the safe harbour, for the relevant assessment year, by furnishing a declaration to that effect, to the Assessing Officer:

Safe harbour rules not apply [Rule 10TF]

Nothing contained in rules 10TA, 10TB, 10TC, 10TD or rule 10TE shall apply in respect of eligible international transactions entered into with an associated enterprise located in any country or territory notified u/s 94A or in a no tax or low tax country or territory

- *No tax or low tax country or territory* means a country or territory in which the maximum rate of income-tax is less than 15%.

Mutual Agreement Procedure not to apply [Rule 10TG]

Where transfer price in relation to an eligible international transaction declared by an eligible assessee is accepted by the income-tax authorities u/s 92CB, the assessee shall not be entitled to invoke mutual agreement procedure under an agreement for avoidance of double taxation entered into with a country or specified territory outside India as referred to in sec. 90 or 90A



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Safe Harbour Rules in case of Specified Domestic Transaction [Rule 10THC]

Where an eligible assessee has entered into an eligible specified domestic transaction in any previous year relevant to an assessment year and the option exercised by the said assessee is treated to be validly exercised under rule 10THD, the transfer price declared by the assessee in respect of such transaction for that assessment year shall be accepted by the income-tax authorities, if it is in accordance with the circumstances as specified here in below:

Sl.	Eligible specified domestic transaction	Circumstances
1.	Supply of electricity, transmission of electricity, wheeling of electricity	The tariff in respect of supply of electricity, transmission of electricity, wheeling of electricity, as the case may be, is determined or the methodology for determination of the tariff is approved by the Appropriate Commission in accordance with the provisions of the Electricity Act, 2003
2.	Purchase of milk or milk products	The price of milk or milk products is determined at a rate which is fixed on the basis of the quality of milk, namely, fat content and Solid Not FAT (SNF) content of milk; and— a) the said rate is irrespective of,; i. the quantity of milk procured; ii. the percentage of shares held by the members in the co-operative society; iii. the voting power held by the members in the society; and b) such prices are routinely declared by the co-operative society in a transparent manner and are available in public domain.



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- ❖ No comparability adjustment and allowance under the second proviso to sec. 92C(2) shall be made to the transfer price declared by the eligible assessee and accepted.
- ❖ The provisions of sec. 92D and 92E in respect of a specified domestic transaction shall apply irrespective of the fact that the assessee exercises his option for safe harbour in respect of such transaction.
- ❖ As per Rule 10THA, *eligible assessee* means a person who has exercised a valid option for application of safe harbour rules in accordance with the provisions of rule 10THC, and:
 - i. is a Government company engaged in the business of generation, supply, transmission or distribution of electricity; or
 - ii. is a co-operative society engaged in the business of procuring and marketing milk and milk products.
- ❖ For opting safe harbor, the assessee shall require to furnish a Form 3CEFB to the Assessing Officer on or before the due date of furnishing the return of income for the relevant assessment year.
- ❖ The return of income should be furnished on or before the date of submitting such Form.

Guidance for application of the Principal Purpose Test (PPT) under India's Double Taxation Avoidance Agreements [Circular No. 01/2025 dated 21-01-2025]

CBDT Circular No. 01/2025 dated 21 January 2025 provides guidance on the application of the Principal Purpose Test (PPT) under India's DTAAAs, introduced via the MLI or bilateral amendments. It clarifies that PPT applies prospectively and aims to deny treaty benefits where one principal purpose of a transaction is tax avoidance, unless consistent with the treaty's object. Grandfathering clauses under India's treaties with Mauritius, Singapore, and Cyprus are excluded from PPT application. Interpretation may also consider the UN Model Convention and BEPS Action 6, subject to India's reservations.

Other

- No deduction of tax at source u/s 194EE on payment of amount referred to in sec. 80CCA(2)(a) [i.e., National Saving Scheme], which is withdrawn by an assessee being an individual. [Notification No. 27/2025 dated 07-04-2025]



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- Every person who has been allotted PAN on the basis of Enrolment ID of Aadhaar application form filed prior to 01-10-2024, shall intimate his Aadhaar number to the Principal Director General of Income-tax (Systems) or Director General of Income-tax (Systems) or the person authorised by the said authorities within 31-12-2025. [Notification No. 25/2025 read with 26/2025 dated 03-04-2025]
- A non-resident having Liaison Office in India shall furnish annual statement (as specified u/s 285) for every financial year, in Form No. 49C within eight months from the end of such financial year.
- Further, a new Income Tax Bill, 2025, is introduced.