

ICAI LATEST CIRCULARS & NOTIFICATIONS - SEPT 2025/JAN 2026

Non-applicability of TDS provisions in respect of certain payments made to specified units located in IFSC [Notification No. 28/2024 dated 7.3.2024]

No TDS is required in respect of the specified payments made by any 'payer' to a payee, being a Unit of IFSC, as specified in the following Table:

S.N	IFSC Unit (Payee)	Nature of Receipt
1.	Banking Unit	Interest income on External Commercial Borrowings/ Loans, Professional fees, Referral fees, Brokerage, Commission income on factoring and forfaiting services
2.	IFSC Insurance Intermediary Office	Insurance Commission
3.	Finance Company	Interest income on External Commercial Borrowings / Loans, Dividend income, Commission income on factoring and forfaiting services
4.	Finance Unit	Interest income on External Commercial Borrowings / Loans, Dividend income, Commission income on factoring and forfaiting services
5.	Fund Management entity	Professional fee
6.	Broker Dealer	Dividend income
7.	Investment advisor	Investment advisory fee
8.	Registered Distributor	Distribution fee and Commission fee
9.	Custodian	Professional fee, Commission fee
10.	Credit rating agency	Credit rating fee
11.	Investment banker	Investment banker fee
12.	Debenture trustee	Trusteeship fee
13.	International Trade Finance Service or "ITFS"	Commission income
14.	FinTech Entity	Technical fee/ Professional fee, Commission income

The payee has to furnish a statement to payer regarding the 10 years for which he is claiming deduction **u/s 80LA** and accordingly for those 10 years the payer will not deduct TDS in the above cases.

Persons notified by the Central Government, on payment to whom no tax is required to be deducted at source:

No tax is required to be deducted on the payments received by:

- **Credit Guarantee Fund Trust** for Micro and Small Enterprises as per **sec 10(46B)** or
- **National Credit Guarantee Trustee Company Ltd**, being a company established and wholly financed by CG for the purposes of operating credit guarantee funds established and wholly financed by the CG as referred to in **sec 10(46B)(i)** or
- **Credit guarantee fund** established and wholly financed by the CG and managed by the National Credit Guarantee Trustee Company Ltd as referred to in **sec 10(46B)(ii)**.

Notification No. 123/2024, dated 28.11.2024: No TDS **u/s 194N** if cash is withdrawn by:

Foreign Representations duly approved by the Ministry of External Affairs of the Government of India including Diplomatic Missions, agencies of the United Nations, International Organisations, Consulates and Offices of Honorary Consuls which are exempt from paying taxes in India as per the Diplomatic Relations (Vienna Convention) Act 1972 and the United Nations (Privileges and Immunities) Act 1947.

Notification No. 3/2025 dated 2.1.2025

Sec 194Q shall not apply to a buyer if the seller whose UNIT is in IFSC is claiming deduction **u/s 80LA**, provided the seller has furnished a statement cum declaration of the PY for which he is claiming deduction **u/s 80LA**. The relaxation is only for 10 years of deduction. After that TDS has to be deducted.

Notification No. 6/2025 dated 6.1.2025

Sec 206C(1H) shall not apply to a seller if the buyer whose UNIT is in IFSC is claiming deduction **u/s 80LA**, provided the buyer has furnished a statement cum declaration of the PY for which he is claiming deduction **u/s 80LA**. The relaxation is only for 10 years of deduction. After that TCS has to be collected.

REVISED GUIDELINES FOR COMPOUNDING OF OFFENCES:

1. Introduction and Legal Framework

- **Authority:** CBDT revised guidelines **u/s 119** and Explanation to **sec 279**, empowering the Principal Chief Commissioner/Chief Commissioner/Principal Director General/Director General to compound offences **u/s 279(2)**.
- **Compounding Definition:** A mechanism allowing defaulters to pay a sum to avoid prosecution, applicable before or after proceedings.
- **Compoundable Offences:** All offences under the Income-tax Act, 1961, are compoundable

2. Scope of Guidelines

- **Effective Date:** Apply from 17.10.2024 to new applications and pending ones filed earlier but not disposed of.
- **Pending Applications:** Revised guidelines apply to pending applications as of 17.10.2024; no fresh application or fees required.
- **Reapplication for Rejections:**
 - Applications rejected due to curable defects (e.g., non-payment, incorrect proforma, wrong year/section) can be refiled.
 - Rejections on merits cannot be reconsidered.
 - Applicants rejected solely due to prior conviction in earlier guidelines can reapply.

3. Conditions for Compounding

- **Application Process:**
 - Filed with Jurisdictional Competent Authority for a FY in case of tax payer or quarter in case of tax deductor or multiple years/quarters (Consolidated Compounding Application).
 - Multiple rejected applications in the previous guidelines can be combined into one consolidated application.
 - Applicants can withdraw and refile, treated as subsequent applications with higher rates.
 - Not mandatory to apply for all offences; applications cannot be rejected for omitting offences.
 - No limit on application frequency, but habitual offenders may be rejected.

- **Time Limit :**
 - Filed suo-moto anytime after offence, regardless of departmental notice or prosecution have been launched.

- **Application Fee:**
 - ₹25,000 (single application) or ₹50,000 (consolidated application), non-refundable but adjustable against compounding charges for the same application.
 - No cross-application adjustment of compounding fee against compounding charges; non-refunded or non-adjustable if rejected.
 - Consolidated application fee applies for refiling rejected applications under previous guidelines due to curable defects only.

- **Payment of Dues:**
 - All tax, interest (including u/s 220), penalties, and other sums due must be paid before filing.
 - Additional dues identified by the department must be paid within 30 days (extendable up to 3 months).

- **Undertaking:**
 - Applicants must undertake to pay compounding charges and withdraw related appeals or withdraw grounds in case of mixed appeals.

- **Consolidation of Offences:**
 - Applications u/s 276B/276BB must cover all defaults for a TAN and period, combining defaults across statements.

4. Revival of Defective Applications

- Applications with curable defects (e.g., non-payment, incorrect proforma, wrong year/section) are not processed but can be revived without additional fees if defects are cured within 1 month of intimation. Otherwise, refiling is treated as a subsequent application.

5. Offences Requiring Higher Authority Approval

- Compounding requires Chairman, CBDT approval for:
 - Convictions with 2+ years imprisonment under the Act or related laws.
 - Involvement in anti-national/terrorist activities, after agency consultation.

- Facilitation of tax evasion **u/s 277A**.
- Offences under Black Money Act, Benami Transactions Act, or sections **275A/275B**.

6. Competent Authority to compound an Offence

- Jurisdictional Principal Chief Commissioner/Chief Commissioner/Principal Director General/Director General.
- For **u/s 276B/276BB** offences across multiple jurisdictions, the authority with the highest TDS default is competent; other applications are transferred.

7. Compounding Procedure

- **Process:**
 - Competent Authority obtains report from Assessing Officer/Assistant or Deputy Director.
 - Unacceptable applications are rejected with a speaking order within 2 months.
 - Acceptable applications receive intimation by assessee of compounding charges within 2 months from competent authority and then assessee shall pay that within 1 month.
- **Payment Timeline:**
 - Extension up to 6 months by Competent Authority; 6-12 months with Principal Chief Commissioner approval; 12-24 months with Chairman/Member, CBDT approval; no extension beyond 24 months.
 - Non-payment till time allowed including extension leads to rejection and prosecution. However the applicant can file a new application which shall be considered as a subsequent application for determination of compounding charges.
 - For pending applications as of 17.10.2024 wherein compounding charges were not fully paid within time allowed as per earlier guidelines, 24-month period starts from October 2024; extensions require approval.
 - No interest/additional charges on extensions. Further for cases pending on 17.10.2024, additional compounding charges under previous guidelines shall not be applicable and compounding charge shall be determined as the revised guidelines.
- **Order:**
 - Issued within 1 month of payment and order should state "it is not an admission of guilt".

- Pending penalty proceedings must be concluded before order issuance.
- Court notified of acceptance/rejection if prosecution is pending.
- **Prosecution Complaint:** Served to accused within 15 days of filing to enable prompt compounding.

8. Compounding Charges

- **Calculation:**
 - Based on tax (including surcharge/cess, excluding interest) per offence.
 - First application: Normal rate; subsequent applications: 1.2x, 1.4x, 1.6x, etc., for previously applied offences; normal rate for new offences
 - Applications before 17.10.2024 (pending/rejected/compounded) are treated as first applications.
 - Charges increase by 50% if filed after 12 months from prosecution complaint.
- **Pending Applications:** Recomputed as first applications under revised guidelines
- **Withdrawn Applications:** Partial payments adjustable only for same offence and year.
- **Multiple Applications Scenario:** Consolidated application for rejected (curable defects) and pending applications treated as first; new applications post-17.10.2024 are subsequent.

9. Co-accused and Abettor (Sections 278B/278C)

- Main accused (Company/HUF) and co-accused can apply separately or conjointly; payment by any compounds offences for all
- If company liability ceases under IBC **section 32A**, co-accused can apply.
- **Reapplication:**
 - Co-accused/main accused can reapply if previously rejected due to non-filing by the other, treated as subsequent applications.
- **Pending Applications:** Clubbed as first applications; no fresh filing needed.
- **Fees:** No separate fee for co-accused; only offence-related charges apply.
- **Eligibility:** Only main/co-accused can apply, disclosing status.
- **Undertaking:** Main accused must provide appeal withdrawal undertaking, not co-accused.
- **Order:** Includes names of applicants and identified co-accused/main accused.

Conditions for non-resident, engaged in the business of operation of cruise ships for sec 44BBC notified [Notification No. 9/2025 dated 21.01.2025]

Rule 6GB. 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 two hundred passengers** or **length of seventy-five 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 cargo; and
- (iv) operate such ship as per the procedure and guidelines if any, issued by the **Ministry of Tourism or Ministry of Shipping."**

Time limit for submission of statement by a non-resident having liaison office in India [Notification No. 14/2025 dated 7.02.2025]

Rule 114DA prescribes Form 49C for this purpose. CBDT has, vide this notification, amended Rule 114DA to provide that the said Form 49C has to be furnished by such non-resident to the AO within eight months from the end of such financial year.

SAFE HARBOUR IN CASE OF SEC 9(1)(i)- BUSINESS CONNECTION: Notification No. 124/2024 dated 29.11.2024

Safe Harbour Rules: Definitions (Rule 10TI)

1. **Eligible Assessee:** Foreign company in diamond mining opting for Safe Harbour Rules.
2. **Eligible Business:** Selling raw diamonds in notified special zones per as per **sec 9(1)(i)**.
3. **Gross Receipts:** Total of:
 - Amounts paid/payable to eligible assessee (or their agent) for raw diamond sales.
 - Amounts received/deemed received by eligible assessee (or their agent) for raw diamond sales.
4. **Relevant Previous Year:** PY relevant to the AY when Safe Harbour option is exercised.
5. **Raw Diamonds:** Diamonds that are:
 - Uncut, unpolished, unassorted.
 - Unworked or simply sawn, cleaved, or bruted.
 - Non-conflict as per Kimberley Process.
 - Certified by Kimberley Process authority of exporting country.
 - Classified under Tariff Heading 7102, Customs Tariff Act, 1975.

Safe Harbour Rule 10TIA:

Acceptance of Safe Harbour Option: Authorities shall accept the safe harbour option exercised by an eligible assessee under **Rule 10TIB** for income from an eligible business in a relevant PY, if it meets sub-rule (2) conditions, unless declared invalid under **Rule 10TIB(3)**.

Conditions for Eligible Business:

Eligible business	Circumstances
Selling raw diamonds (per Rule 10TI(b))	Profits and gains taxable under "Profits and gains of business or profession" \geq 4% of gross receipts.

Effects of Valid Safe Harbour Option:

- Deductions **u/s 30-38** deemed fully allowed; no further deductions permitted.
- WDV of assets calculated as if depreciation was claimed and allowed.
- No set-off of UAD (**sec 32(2)**) or carried forward loss (**sec 72(1)**)
- No set-off of losses from other businesses (**sec 70(1)**) or other heads (**sec 71(1)/(2)**) for income taxable under "PGBP" in respect of such business.

International Transactions: **Secs 92D and 92E** apply if the eligible assessee enters an international transaction (as defined in **sec 92B**) during the eligible business.

Safe Harbour Procedure (Rule 10TIB)

- 1. Exercising Safe Harbour Option:** Assessee must submit complete Form No. 3CEFC to the AO before filing return of income **u/s 139** for the relevant PY.
- 2. Non-Exercise of Option:** If safe harbour option under **Rule 10TIA(1)** is not exercised, income from eligible business is determined per the Act, ignoring **Rule 10TIA(2)**.
- 3. Invalidation of Option:** Assessing Officer may declare safe harbour option invalid via written order if assessee:
 - Furnishes incorrect facts, or
 - Conceals business-related facts.
- 4. Opportunity to be Heard:** Assessee must be given a reasonable opportunity to be heard before option is declared invalid under sub-rule (3).
- 5. Order Service:** Copy of invalidation order under sub-rule (3) must be served to assessee; other provisions of the Act apply accordingly.

Mutual Agreement Procedure not to apply - **Sec 9(1)**

If an assessee exercises the safe harbour option under **Rule 10TIB** for an eligible business and the option is not declared invalid, the assessee cannot invoke the Mutual Agreement Procedure under a DTAA (**secs 90 or 90A**) for that business.

Conditions and activities notified for Finance Companies to qualify for exclusion from the applicability of the provisions of **Sec 94B** [Notification No. 10/2025 dated 27.01.2025]

"Finance Company" as per Regulation 2(1)(e) of the IFSC Authority (Finance Company) Regulations, 2021 means a financial institution separately incorporated **to deal in one or more of the permissible activities**, provided

(i) It does not accept public deposit from resident and NR, as defined in these regulations; and

(ii) It is not registered with the Authority as a Banking Unit;

Rule 21ACA to provide that the Finance Company located in any IFSC shall only carry out one or more of the following activities-

(i) **lending** in the form of loans, commitments and guarantees, credit enhancement, securitisation, financial lease;

(ii) **factoring and forfaiting** of receivables; or

(iii) functions of Global or Regional Corporate **Treasury Centre** such as borrowings, lending, hedging of currency or commodity risk or investments, cash management, structured credit, intra group financing, financial budgeting and similar other such treasury services and activities.

The interest being paid by such Finance Company, being the borrower, in respect of any debt issued by a non-resident, shall be in foreign currency.

Note: If you are giving exams in Jan 2026, then more amendments will be added by ICAI. Whenever ICAI will bring the statutory updates for Jan 2026 exams, I will make a summary of that also and share it with you all. For September 2025 only this file is relevant as an additional amendment.

God Bless you all.