KATALYST ADVISORS

Katalyst Kaleidoscope

July 2025: Tax and Regulatory Insights

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A. Income Tax Highlights

1. Bombay HC: Asset transfer not a 'Demerger' under Income Tax Act ; demerged company allowed to carry forward the loss.[1]

The Bombay High Court dismissed the appeal challenging the ITAT's decision that NOCIL Limited's (assessee's) transfer of specified assets and liabilities to two companies under a court-approved restructuring scheme did not qualify as a "demerger" under Section 2(19AA) of the Income Tax Act. Both the CIT(A) and ITAT had found that the transaction lacked the tax neutrality statutory requirements of a demerger, particularly because consideration was paid in cash, rather than by issuance of shares to the shareholders of the demerged company.

As a result, the HC held that the conditions of Section 72A(4) were not met and allowed NOCIL Limited to carry forward its business losses and unabsorbed depreciation.

2. Chennai ITAT: Unbilled Revenue till the effective date referred to separately in business transfer agreement does not violate Slump Sale.[2]

The assessee sold its windmill division to a related entity, Ashok Leyland Wind Energy Ltd ("ALWEL"), via a business transfer agreement effective date being 01 February, 2015. The transfer was structured as a sale and purchase of a 'division' of the assessee on slump sale basis along with all rights, title, interest and liabilities in the said division along with all properties, assets, resources, rights, privileges and existing contractual obligations on a going concern basis for a lump sum consideration of ₹93 crore plus a deferred component for 'unbilled revenue' which accrued up to the effective date and was to be paid by the buyer to the seller upon realization from M/s Tamil Nadu Government Electricity Generation and Distribution Company ("TANGEDCO").

The assessee explained that the reason for incorporating a deferred consideration component as the unbilled revenue up to the date of transfer legally belonged to the assessee and which were to be collected from TANGEDCO and paid to the seller (assessee) on the end of the billing cycle i.e. post-transfer; hence, such a deferred consideration component was suitably provided and agreed between the parties. The assessee, accordingly computed long-term capital gains of ~₹90 crore under Section 50B of the Income Tax Act, supported by a certificate in Form 3CEA and supported by an independent valuation report.

The Assessing Officer ("AO"), however, argued that the assignment of a separate value to unbilled revenues violated the conditions under Section 2(42C), thereby disqualifying the transaction from being considered a slump sale; consequently, the AO re-characterized the capital gains as business income.

[1] Pr. Commissioner of Income Tax-1 Vs. NOCIL Limited, High Court of Bombay, Ordinary Original Civil Jurisdiction Income Tax Appeal No. 2037 OF 2018 dated 02 July, 2025

[2] M/s. Ashok Leyland Ltd. v. ACIT [ITA Nos.2330 & 2618/Chny/2019] dated 07 July, 2025, Chennai ITAT.

Upon review, the matter went up to the Tribunal which held that the transaction indeed qualified as a slump sale. The windmill division was sold entirely and operated as a going concern, satisfying both the legal conditions of Section 2(42C) and Section 50B; the deferred payment for unbilled revenue was found to be a practical accounting solution with no impact on tax computation. The tribunal relied on precedents, notably the Bombay High Court judgement in Premier Automobiles Limited and held that the capital gains should be assessed under Section 50B and not re-characterized as business income, thereby allowing the assessee's appeal.

3. Delhi ITAT: Tax treatment on CCDs & OCDs is entitled to concessional tax rate[3]

The Delhi ITAT, in the case of Amplus Energy Solutions Pte Ltd., held that interest earned by a Foreign Portfolio Investor ("FPI") on Optionally Convertible Debentures ("OCD"s) and Compulsorily Convertible Debentures ("CCD"s) issued by Indian companies qualifies for the concessional tax rate of 5.46% (including applicable surcharge and cess) as per section 115A(1)(a)(BA)(ii) r.w.s. 194LD of the Income Tax Act ("Act"), provided all statutory conditions are met. The Tribunal reasoned that, in the absence of a specific definition of "bonds" in the Act or in Section 194 LD, OCDs and CCDs should be treated as rupee-denominated bonds for the purpose of Section 194 LD, as both instruments are fundamentally debt securities until conversion, and this interpretation aligns with the legislative intent and established judicial precedent.

The ITAT rejected the interpretation of the Assistant Commissioner of Income Tax, that only Non-Convertible Debentures ("NCD"s) qualified for the lower rate, noting that the Companies Act and SEBI regulations treat 'debentures' and 'bonds' interchangeably as debt instruments. Consequently, the appeals were allowed, directing the Assessing Officer to apply the correct tax rate to interest on all qualifying debentures and to recalculate the tax liability accordingly.

4. Delhi HC: Income from Jointly owned property taxable only in hands of actual beneficiary[4]

The Assessing Officer treated the assessee and her husband as equal co-owners, taxing 50% of the property's annual letting value in the hands of the assessee as per section 23(1)(a); both the Commissioner (Appeals) and the Income Tax Appellate Tribunal affirmed this approach, relying on the absence of specified shares in the sale deed to presume equal ownership and taxability.

The High Court referred to the relevant provisions which provide section 26 for apportionment of income among co-owners only when their shares are definite and ascertainable, section 27 which defines "owner". Drawing reference to the SC Decision in CIT v. Podar Cement Pvt. Ltd., the Court emphasized that the focus should be on identifying the individual who actually derives the benefit from the property; the mere fact of being a co-signatory or co-owner, without evidence of actual benefit or entitlement to income, is insufficient for tax assessment

[3]Amplus Energy Solutions Pte Ltd. vs. ACIT, Circle International Tax 1(1)(1), New Delhi ITAT -175 taxmann.com 1070 (Delhi - Trib.)[25 June, 2025]
[4] Smt. Shivani Madan *v.* PCIT 171 taxmann.com 347/303 Taxman 571 dated 08 January, 2025

Accordingly, the High Court set aside the orders of the Tribunal and the lower authorities, holding that the question of taxability must be answered by determining who actually received or was entitled to receive the property income. This judgment clarifies that, in cases of joint ownership without defined shares, tax authorities must look beyond mere formal ownership and establish the real recipient of the property income before making assessments.

Katalyst comment:
Very often, properties are bought joint names; it may be worth considering putting a clause in the sale deed that the name is only for convenience, unless the joint holder has a specified share in which case, that share could be specified in the sale deed.

5. Mumbai ITAT: Gifts received on occasion of marriage exempt from deemed income taxation, even if credited later[5]

The assessee received Rs. 2 crore from a cousin and Rs. 11.35 lakh from a family friend abroad as marriage gifts, with cheques issued before the wedding but funds credited 10–15 days later. The Assessing Officer denied exemption under Section 56(2)(vii) of the Income Tax Act, arguing the gifts weren't received "on the occasion of marriage" due to the delayed credit and questioned their genuineness. The Mumbai ITAT ruled in favor of the assessee, holding that gifts received on the occasion of marriage, even if credited to the bank account at a later date, are exempt under the proviso to Section 56(2)(vii); it emphasized that the law requires a genuine connection between the gift and the marriage occasion, not a rigid adherence to timing, and noted that the AO's denial of exemption was based on conjecture rather than any substantive evidence.

The ITAT further observed that the assessee had provided sufficient documentation to establish the identity and creditworthiness of the donors, as well as the genuineness of the transactions, including bank statements and a FIRC. The Tribunal found no cogent material on record to disprove the assessee's explanations or the authenticity of the gifts. As the marriage date was undisputed and the gifts were clearly linked to the occasion, the ITAT concluded that such gifts, even if credited later, qualify for exemption under Section 56(2)(vii) and accordingly allowed the appeal.

6. Madras HC: FMV on Liquidation Date constitutes Cost of Acquisition if the gain is offered for tax in the same year.[6]

The appellant shareholder had acquired shares in the company, which subsequently went into voluntary liquidation; upon liquidation, the appellant received a proportionate share in immovable property distributed by the company and sold this property within the same financial year. Their tax returns recognized capital gains based on the fair market value of the property as on the date of distribution as per section 55(2)(b)(iii) of the Income-tax Act. The Assessing Officer took a

[5] Dhruv Sanjay Gupta [TS-820-ITAT-2025(Mum)]
[6] T.R. Balasubramanium v. Asst. Commissioner of Income Tax., [2025] 305 TAXMAN 119/174 taxmann.com 328 (Madras) dated 30 April 2025.

different view by applying section 49(1)(iii)(c), thereby determining the cost of acquisition as that of the company (previous owner).

The dispute centered on the method to compute the cost of acquisition in the hands of the shareholder when an asset is received on liquidation and sold in the same year; whether section 55(2)(b)(iii) fair market value on distribution should apply (as urged by the assessee), or the original acquisition cost to the company under section 49(1)(iii)(c) (as contended by the Revenue).

The matter went up to the High Court which held that both transfers; extinguishment of right and the consideration at which the appellant received the asset (transaction 1) and the subsequent sale of the distributed asset (transaction 2) occurred in the same year and the manner of computation of the capital gain as adumbrated by the assessee, aligns with section 55(2)(b)(iii). It was held that, the assessee had not postponed the taxability of capital gains but offered them for tax in the same year in which they accrued, and hence, it constituted a proper methodology for computation of cost of acquisition. The substantial questions of law were answered in favour of the assessee.

7. Select Committee of Lok Sabha recommendations on Income Tax Bill, 2025 [7]

The Income Tax Bill 2025 that aims to simplify the tax law, has been unanimously adopted by the Lok Sabha's Select Committee on 16 July 2025 and has recommended 285 changes to the Bill.

The Parliament Select Committee, inter alia, made the following key recommendations of on the new Income Tax Bill, 2025:

1. Key changes in ‘capital asset’ definition recommended
2. Definition of 'Relative' recommended to include maternal as also paternal / descendant; however, reciprocal relative aspect not expressly clarified.
3. Section 80M Intercorporate dividend deduction recommended to be allowed in new Bill (Adverse amendment sought to be undone)
4. Significant changes to undisclosed income and block assessment
5. 'Beneficial Owner' expression defined by Select Committee
6. Significant changes made to definition of Associated Enterprise
7. Changes recommended to definition of investment fund
8. Amendment suggested to clean up the wordings in charging Section 4 and Section 6 - Residence
9. Section 9 (income deemed to accrue or arise in India) left almost untouched except a couple of changes suggested by the Select Committee.

[7] Source based information

Katalyst comment:

i. While there have been changes; (536 sections instead of 819) and word count have gone down, there are several dimensions which have not been addressed, as such, the new bill is a form over substance exercise.

ii. Some obvious ambiguities which could have been cleaned up but have not been:

a) Reciprocal relation of relatives

b) Definition of demerger does not include Fast Track merger.

iii. The extension of delegated legislation on a larger scale is worrying.

B. Corporate Law Highlights

1. NSDL: Transfer of shares in a Demat for a Private Limited Company[8]

Dematerialization of shares, is now applicable to all private companies (except for small companies) and all public companies, including those not listed on stock exchanges. This means both private and public companies are required to hold and issue their shares in demat form. In order to execute the transfer of dematerialised shares of a Private Limited company, the holder must submit (before the transfer) a consent/ confirmation letter from the company to their Depositories ("DP") in the format of the circular. DPs will no longer be permitted to process transfers of shares in a private company unless the company has issued the prescribed consent letter; the consent letter must also include: (i) details of the demat accounts of both the transferor and the transferee; (ii) their respective PAN details; (iii) the number of shares proposed to be transferred; and (iv) the reason for the transfer.

Katalyst comment:

The transferability of shares in a Private Company is restricted and that seems to be the context of the circular.

2. Chennai NCLT: Sanctions Co.'s share-capital reduction due to huge business losses, allows using Securities Premium Account[9]

Medident India Private Limited filed a petition under Section 66 read with section 52 of the Companies Act, 2013 seeking approval for reduction and restructuring of its issued, subscribed, and paid-up share capital; this action was necessitated by substantial accumulated losses resulting from persistent business decline. The company proposed to write off these losses by canceling equity shares and utilizing the balance from the Securities Premium Account amounting to Rs.10 crore approximately. Legal precedents, including the decisions of the Hon'ble NCLAT in Brillio Technologies Private Limited and the Rajasthan High Court in Vaibhav Global Limited, affirmed that

[8] National Securities Depository Limited (NSDL), through its circular no. NSDL/POLICY/2025/0071 dated 03 June, 2025.

[9] LSI-1003-NCLT-2025-(CHE)

the Securities Premium Account may be used for such reduction under section 52 of the Companies Act, 2013, subject to the proper procedures and necessary approvals.

Upon review, the Tribunal held that it just and proper to confirm the capital reduction as resolved by the company's members through a special resolution and affidavits of consent. The petition for capital reduction thus stood allowed with associated legal and regulatory obligations remaining enforceable.

C. SEBI Highlights

1. Bombay HC: Kirloskar firms enter into litigation with SEBI over disclosure issues

Five listed Kirloskar Group companies have taken the Securities and Exchange Board of India ("SEBI") to the Bombay High Court by individually filing a writ petition challenging the recent amendments to SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. As per Regulation 30A and Clause 5A of Para A of Part A of Schedule III of SEBI LODR, 2015 that require listed companies to disclose agreements entered into by the shareholders, promoters, promoter group entities, related parties, directors, key managerial personnel, employees which, "either directly or indirectly or potentially impact the management or control of the listed entity or impose any restriction or create any liability upon the listed entity, whether or not the listed entity is a party to such agreements."

The dispute was triggered when SEBI in a communication on December 2024, had advised the companies to disclose a 2009 'Deed of Family Settlement' among Kirloskar family members, arguing that such agreements could impact company control, management and ownership across various Kirloskar companies among family branches.

The Kirloskar companies are contending that these regulations are unlawful, arbitrary, and violate basic principles of contract law by forcing disclosure of private agreements without the company's consent, undermining corporate autonomy and board discretion. They also argued that SEBI was encroaching on the domain of civil courts by interpreting disputed agreements which are in fact subjudice.

The HC has sought SEBI's reply and scheduled the matter on 20 August, 2025. The outcome of this case could set an important precedent for the extent of regulatory intervention in private commercial arrangements and shape future corporate disclosure norms in India.

2. SEBI: Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions."[10]

The Industry Standards Forum ("ISF"), comprising representatives from ASSOCHAM, CII and FICCI under the aegis of the Stock Exchanges and in consultation with SEBI, developed Industry Standards to specify the minimum information required for Audit Committee and Shareholder review of Related Party Transactions ("RPT"s). Pursuant to the feedback and requests received from various stakeholders this circular was revised on 26 June, 2025 and supersedes earlier SEBI circulars[11] .
The aforesaid circular ensures compliance with Part A and Part B of Section III-B of the Master Circular dated 11 November, 2024 read with Regulation 23(2), (3) and (4) of LODR Regulations.

The finalised revised Industry Standards are structured as:

- **Part A:** Captures the minimum information of the proposed RPT and is applicable to all RPTs.
- **Part B:** Applicable only if a specific type of RPT is proposed to be undertaken and is in addition to Part A. Seven types of RPTs have been specified.
- **Part C:** Applicable only if a specific type of RPT proposed to be undertaken is a Material RPT; and is in addition to Part A and Part B (with respect to such RPT).

Treatment of transactions undertaken prior to effective date:

1. The RPT Industry Standards shall be applicable from 01 September, 2025 ("effective date"). The following RPTs will not require fresh approval in accordance with RPT Industry Standard, unless there is any material modification to the terms of such RPT:

   ii. where approval is granted by the Audit Committee and/or shareholders before the effective date; and

   iii. omnibus approval has been granted before Effective Date for RPTs for the financial year 2025- 2026.

2. If a material RPT is approved by the Audit Committee before the effective date, the new RPT Industry Standards do not apply, irrespective of whether the notice to shareholders is sent either before, on or after the Effective Date.

3. The RPT Industry Standards shall not be applicable inter alia to:

[10] SEBI Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/93 dated 26 June, 2025
[11] Circular no. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18 dated 14 February, 2025 and Circular no. SEBI/HO/CFD/CFDPoD-2/P/CIR/2025/37 dated 21 March, 2025.

- Regulation 23(5) of SEBI LODR which deals with specific exemptions from certain prior approval requirements for RPTs under specific circumstances ; and

- Regulation 23(3)(d) of SEBI LODR which deals with omnibus approval provided by the Audit Committee once it has reviewed at least on quarterly basis the details of RPTs entered into by the listed entity.

All listed entities must present RPT proposals using the standardized format that covers essential details such as the nature and value of transactions, relationship and ownership structures, historical dealings and justifications for the transaction. The standards also require additional disclosures for specific transaction types (e.g., loans, guarantees, investments, royalties) and for material RPTs, with clear guidelines on the information to be shared at both the Audit Committee and Shareholder approval stages.

Katalyst comment:

With the issuance of the RPT Industry Standards, the ISF along with SEBI aimed to bring ease of doing business, while also maintaining the adequacy of minimum information required for the audit committee and/or the shareholders to make an informed decision. However, adequate justification that the said Material RPT is in the interest of the listed entity shall be provided by the company and in this context, the need for review by the Audit Committee casts an onerous obligation of the Audit Committee/ Independent Director. Additionally, the notice to the shareholders for general meeting shall also contain all the information placed before the Audit Committee, any report of external party, adequate disclosures and any other relevant information as a part of the explanatory statements.

3. FEMA: Adjudicating Authority has adopted considerate approach towards FEMA non-compliance.[12]

In *Union of India v. Peritus Corporation Pvt. Ltd.*, the Enforcement Directorate appealed to the Appellate Tribunal under SAFEMA, New Delhi against a minimal penalty imposed on the company and its director for a technical contravention of FEMA, 1999; the case arose in the context of the company receiving foreign inward remittances and although it filed the mandatory FC-GPR form within 30 days of allotment of shares to RBI though SBI (the AD bank), the form was not taken on record by RBI owning to minor errors and missing clarifications (such as a submission of a revised FC-GPR and submission of CA,CS certificates with correction in name of the investor). The Learned Adjudicating Authority("Ld. AA") found that, while there was a contravention of Section 6(3)(b) of FEMA and related regulations, it was technical in nature, with no evidence of malafide intent or economic harm and imposed a penalty of ₹1 lakh each on the company and its director.

[12] Union of India vs. M/s. Peritus Corporation Pvt. Ltd., & Anr., Appellate Tribunal under SAFEMA, New Delhi (FPA-FE-133/HYD/2020) dated 19 June, 2025

On appeal, the Appellate Tribunal under SAFEMA upheld the Ld. AA's order and noted that the company had acted in good faith, made timely filings and any errors were minor and unintentional as the said breach was only communicated to the AD Bank. Citing established legal principles, the Appellate Tribunal held that discretion in imposing penalties should consider the nature and intent of the breach and found no grounds to enhance the penalty; subsequently the appeal was dismissed and the original penalty was maintained.

Katalyst comment:
There is limited direct recourse for Indian companies to escalate unresolved FC-GPR cases within the FIRMS portal if the AD bank is unresponsive; maintaining records of follow-ups, emails and if needed, escalating the issue to the RBI regional office are advisable steps. However, this process badly needs streamlining, since in practice, it is an extremely painful and arduous compliance

D. Other Highlights

1. SC: Stays police summons to lawyer representing accused, protecting legal profession. [13]

The petitioner Mr. Ashwinkumar Prajapati, a senior practicing advocate in Gujarat, challenged a notice issued under Section 179 of the Bharatiya Nagrik Suraksha Sanhita (BNSS), 2023, by the Assistant Commissioner of Police, Ahmedabad. The notice summons him for questioning in connection with an FIR registered under multiple statutes. Being aggrieved, Mr. Prajapati approached the Supreme Court by filing a Special Leave Petition that the FIR was against his client and not himself, and the petitioner claims his only role was that of the legal counsel for the accused.

The Gujarat High Court dismissed the petitioner's plea to quash the summons; however, the SC raised a significant constitutional and professional question whether and under what circumstances investigating agencies can summon a practicing lawyer solely for representing a client. The Court took cognizance of the arguments that such summoning may breach legal professional privilege which is protected under Section 132 of the Bhartiya Sakshya Adhiniyam, 2023 and pose a threat to the independence and integrity of the legal profession.

Recognising the wider implications for the administration of justice and the autonomy of legal counsel, the Supreme Court ordered notices to be issued to the Attorney General, Solicitor General, Bar Council of India, and bar associations for their input. The Court also stayed the operation of the impugned notice and barred the State from summoning the petitioner until further orders. The matter is to be placed before the Chief Justice of India for further directions.

[13] Ashwinkumar Govindbhai Prajapati vs. State of Gujarat & anr., Special Leave Petition (Cr.) No. 9334/2025 dated 25 June, 2025.

2. SC: Letter of Intent does not create a binding contact unless tender terms and parties conduct clearly demonstrate such an intent[14]

The appellant had floated a tender for excavation and allied activities, pursuant to which bids were received and a Letter of Intent ("LoI") was issued on 05 October, 2009 awarding a contract of a total work of Rs. 387.40 lakh. The respondent mobilized the work as on 28 October, 2009. However, it faced technical issues and could not continue resulting into SECL terminating the LoI and demanding the difference in new contractors' rate (Rs. 78 lakh).

The respondent aggrieved by the termination of the LoI and the recovery order, filed a writ petition with the HC, where in it was observed by the HC that no contract arose since the key terms of the LOI were not met, which was to submit the Integrity Pact, submission of 5% performance security deposit within 28 days and execution of formal agreement and issuance of work order thereafter. Therefore, the appellant was justified in termination and forfeiting the bid security; however, the additional cost of awarding the contract to another party was deemed unrecoverable and beyond its rights.

The Supreme Court reaffirmed a well settled principle of law that a LoI merely indicates party's intention to enter into a contract with the other party in future and, is not intended to bind either party ultimately to enter into a contract. In the present case, it upheld the decision of the HC and emphasized that to determine whether a contract existed, what has to be seen are the relevant clauses of the Notice Inviting Tender ("NIT") and the LoI; mere commencement of work without compliance with mandatory preconditions does not result in a formal binding contract between the parties.

3. Decoding the One Big Beautiful Bill Act

The One Big Beautiful Bill Act ("OBBBA") is a comprehensive piece of legislation signed into law on 04 July, 2025. Aimed at sweeping tax reforms, immigration enforcement, and federal spending changes. While designed with American priorities at its core, this bill carries direct and far-reaching consequences for India's broader economic and diaspora interests.
Here are a few highlights especially from an India perspective:

1. <u>Remittance Tax:</u>

   The original OBBBA proposed a 5% flat excise tax on all outbound remittances by non-U.S. citizens or nationals which was later reduced to 3.5% amid concerns for immigrant communities. In its final version, OBBBA sets a 1% federal excise tax on certain electronic transfers abroad, with new reporting requirements effective for transfers made after December 31, 2025. Importantly, the tax now excludes remittances sent via U.S. bank accounts or made using a U.S.-

[14] In the matter of South Eastern Coalfields ltd. & Ors Vs. M/s. S. Kumar's Associates AKM (JV), Civil Appeal No.4358 OF 2016 order dated 23 July, 2025.

issued debit/credit card. Individuals with Social Security Numbers can also claim a refundable credit, further reducing the potential impact; this targeted approach provides significant relief to the more than 4.5 million Indians in the US who regularly send money home.

2. Base Erosion and Anti-Abuse Tax (BEAT) :

BEAT is a tax meant to prevent foreign and domestic corporations operating in the United States from avoiding domestic tax liability by shifting profits out of the United States. It applies only to companies with at least $500 million in annual gross receipts and only if their payments to related foreign parties exceed 3% of their total deductions (2% for certain financial firms) of total deductions taken by a corporation. The tax is designed to ensure these corporations cannot overly reduce their U.S. tax liability by making deductible payments to foreign affiliates. Significantly large technology companies are likely to be impacted by this.

3. Bonus and Special Depreciation:

For assets and specified plants placed in service or planted on/after acquired on or after 19 January, 2025, the Bill restores, permanently, 100% bonus depreciation. This includes most tangible personal property with a recovery period of 20 years or less, such as land improvements, machinery, computers, and furniture and equipment. This provision allows taxpayers an additional first-year depreciation deduction equal to 100% of the adjusted basis of qualified production property in service before January 1, 2031; this measure is intended to boost capital investment by improving business cash flow and reducing the payback period, particularly benefiting capital intensive industries.

E. Goods and Service Tax Highlights

1. Gujarat HC : No penalty for expiry of E-way bill in case of zero-rated supply.[15]

The goods of an exporter were detained due to expiry of e-way bill before the goods commenced movement to Mundra port and penalty of 200% of tax was levied for releasing the goods. In this regard, the Gujarat HC has held that although zero-rated supply is a taxable supply, no tax is payable on the same as the assessee has been given an option either to provide undertaking (i.e., export the goods/services without payment of tax) or to pay tax by utilizing ITC or file for refund claims. Consequently, the court held that a procedural contravention of e-way bill rules, without tax evasion intent, doesn't warrant such a penalty and reduced the penalty to INR 25,000/-.

Katalyst comment:
A welcome decision by the Gujarat HC; expiry of e-way is a procedural lapse and if the same is without intent to evade the tax, no penalty should be levied.

[15] Marcowagon Retail Pvt. Ltd. & Anr Vs Union Of India & Ors [TS-584-HC(GUJ)-2025-GST] dated July 3, 2025

2. **SC : Dismissed Revenue's SLP against P&H HC's interim direction to block Input Tax Credit ledger ('ITC ledger') to the extent of 10% of demand only.**[16]

In a matter involving negative blocking of ITC ledger beyond 10% of demand, the P&H HC held in favour assessee that ITC ledger should be blocked only to the extent of 10% of demand and balance should be available for the assessee to utilise based on K.J. International v. State of Punjab case wherein the ITC blockage of only 10% of penalty amount was allowed. As the judgment was in favour of the assessee, the revenue filed the SLP before the SC. The SC in this regard, has held that although the main writ petition in K J International is still pending, but found no compelling reason to interfere with the HC's interim ruling and dismissed the SLP filed by the Revenue.

Katalyst comment:
Vide this judgment, the SC has clarified that the authorities must act within proportional limits at the time of blocking ITC ledger and reinforcement of excessive blockage i.e., beyond 10% of the assessed penalty is not legally justified during appeal or provisional stages.

3. **Bombay HC: Demand quashed due to non-application of mind by the proper officer at the time of issuance of order.**[17]

The Bombay HC has quashed the demand of INR 70.5 cr upon finding that the adjudicating authority has chosen to cut, copy and paste verbatim the SCN allegations to pass them as reasons for supporting the demand order. The HC provided that the precedents and circulars cited by the assessee are only referred by the adjudicating authority without providing the reasons for their non-applicability and it shows lack of application of mind. Further, the HC also remarked that it is a clear breach of natural justice and it is an exception to the general rule that statutory remedies should usually be exhausted before seeking HC's extraordinary intervention. In view of this, the HC remanded the matter back to the adjudicating authority.

Katalyst comment:
A welcome decision by the Bombay HC; the order issued by the adjudicating authority should be a speaking and reasoned order. Non- consideration of material facts by the adjudicating authority leads to wastage of time and money of both the Government and the assessee and it is a violation of principle of natural justice as well.

[16] Deputy Director & Anr. Etc. Vs Ramesh Kumar Yadav & Anr. Etc. [TS-626-SC-2025-GST] dated July 15, 2025
[17] GlobeOp Financial Services (India) Pvt Ltd vs Deputy Commissioner of State Tax [TS-601-HC(BOM)-2025-GST] dated July 8, 2025

4. Gujarat HC: Transfer of leasehold rights in industrial plot is akin to sale of land and no GST is payable on the same.[18]

The petitioner was allotted an industrial plot by GIDC and the leasehold rights in that plot were transferred by the petitioner to another assignee M/s Acquire Chemicals without charging GST on consideration. In this regard, the Gujarat HC has ruled that the deed of assignment has transferred full ownership interest in plot to the buyer and hence, the transaction is not classified as the 'supply of service' as defined under section 7(1) of the CGST Act, but it is classified as 'sale of land' as per schedule III of the CGST Act and excluded from the levy of GST; therefore, no GST is applicable of said transaction of transfer of leasehold rights in industrial plot.

Katalyst comment:

A favourable decision by the Gujarat HC, which has also in case of Gujarat Chamber of Commerce and Industry and others vs. UOI [19] ruled that when the lessee/assignor transfers the land having leasehold rights and building to the third-party assignee, same cannot be considered as supply of service as it would be a transfer of immovable property.

[18] Dhiraj Can Co. Pvt. Ltd. Vs. The UOI & ORS. Vide R/SLA NO. 3596 of 2025 dated July 4, 2025
[19] 2025-TIOL-48-HC-AHM-GST dated January 3, 2025