

Katalyst Kaleidoscope

August 2025: Tax and Regulatory Insights

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A. Income Tax Highlights

1. Income Tax Bill, 2025

The Income Tax (No. 2) Bill, 2025 ('ITB 2025') has now been passed and is awaiting presidential assent. It is firstly important to recognize that a committee had been formed in February 14, 2025 for simplifying the Income Tax Act. The mandate of the committee was more on simplification of language, deletion of redundant provisions and certain other procedural streamlining, but did not extend to substantial changes. Effectively, for all practical purposes, the new law is applicable and, in this context, the following are some key callouts:

- There are no changes in tax rates.
- The Select committee of Parliament had made several suggestions and while some have been accepted, most surprisingly, some others, even in the nature of obvious drafting lacuna in the existing Income Tax Act, have been "carried forward" to ITB 2025; two examples : (i) the definition of 'relative' should obviously imply reciprocity, and (ii) fast track demergers ("fast track" regime introduced post the demerger definition in Income tax Act) should also obviously be considered as tax neutral, subject to satisfaction of the relevant conditions. However, both these have been considered by the Ministry as 'major policy changes', which means that the needless ambiguity will continue.

Presumably, there should still be receptivity to changes that may be needed in the course of the Budget exercise, but the on ground practical approach (given that the new Act would just have come into force) needs to be seen.

All in all, while a huge amount of work has been put in by various stakeholders, the intended objective of the simplification may not be achieved, and even (very unfortunately) addressing of substantive provisions is still in limbo in a rapidly evolving landscape, which badly requires a meaningful reform push.

2. Delhi HC: Maximum Marginal Rate tax not applicable to SEBI-registered AIFs despite absence of named beneficiaries in Trust Deed.¹

The assessee, a SEBI-registered Category III AIF, launched an open-ended scheme titled "EQ India Fund." The name of the investors and the beneficial interests were obviously not recorded in the original Trust Deed at the time of setting up of the trust. Subsequently, the assessee filed an application under Section 245Q of the Income-tax Act seeking an advance ruling; the Board for Advance Rulings (BAR), relying on CBDT Circular No. 13/2014, rejected the assessee's request for withdrawal and held that the absence of named beneficiaries in the Trust Deed rendered the trust

¹ Equity Intelligence AIF Trust v. CBDT [2025] 176 taxmann.com 903 (Delhi) dated 29 July, 2025, Delhi HC

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“indeterminate” under Section 164, and accordingly, the Trust’s income would be taxable at the Maximum Marginal Rate (“MMR”).

Aggrieved by this, the assessee filed a writ petition before the Delhi High Court, challenging the legality and reasoning of the BAR’s order. The issue was whether a Category III AIF, where investor details are unavailable at the time of trust formation due to regulatory restrictions, could still be treated as a “determinable trust” for the purposes of Section 164, and thereby not be subjected to MMR taxation. The Delhi High Court placed reliance on established precedents, *India Advantage Fund VII v. CIT* (Karnataka HC) and *TVS Shriram Growth Fund v. ITO* (Madras HC), wherein it was held that a trust is determinable even if the beneficiaries are identified post-creation. The Delhi High Court quashed the BAR’s order, and held that:

- SEBI AIF Regulations explicitly prohibit acceptance of investor contributions before registration (Regulations 3(1), 4(c), and 6(5)). Therefore, requiring names and beneficial interests of investors in the original Trust Deed is legally and practically impossible.
- The Court read down CBDT Circular No. 13/2014, holding that administrative circulars cannot impose compliance conditions that are impossible to satisfy, especially when they are inconsistent with SEBI’s regulatory framework.
- It invoked the principle of “lex non cogit ad impossibilia” (the law does not compel the doing of impossibilities).
- Importantly, once the AIF is registered and investors are admitted, their identities and beneficial interests become determinable through statutory and regulatory filings such as fund documents and income-tax returns.

Accordingly, the trust was held to be determinable, and taxation at MMR under Section 164(1) was held to be inapplicable.

Katalyst comment:

This landmark judgement could assuage concerns regarding taxability of SEBI regulated AIF III from MMR taxation solely due to regulatory constraints at the formation stage. Majority of AIF III adopt trust level taxation, but the uncertainty has not been helpful; the CBDT should clarify this aspect and set the uncertainty at rest, since endless ambiguity is the converse of ease of doing business.

3. Mumbai ITAT: Conversion of Company into LLP is a ‘Transfer’ if Section 47(xiiib) conditions are not met.²

The assessee, ISC Specialty Chemicals LLP, was formed upon the conversion of a private limited company under the LLP Act, 2008. All assets and liabilities of the predecessor company were transferred to the LLP at book value, and shareholders were allotted capital account interests in lieu of shares; the assessee did not claim exemption under Section 47(xiiib) of the Income-tax Act, 1961 (“the Act”). The Revenue invoked Section 2(47) read with Section 45 of the Act, alleging that

²ISC Specialty Chemicals LLP v. ITO (ITA No. 457/MUM/2025) dated 28 May, 2025.

the conversion amounted to a taxable transfer, since the book value of assets exceeded INR.5 crore, thereby breaching one of the conditions for tax neutral conversion and alleged that section 47A(4) applies even if no exemption was claimed. The assessee argued that the conversion was not a "transfer" under the Act and section 47A(4) could not apply as no exemption was claimed, and since assets were transferred at book value without consideration, the capital gains computation mechanism failed, resulting in no taxable gains.

On appeal, the Tribunal upheld that Conversion of a company into LLP constitutes a 'transfer' under the Act, unless all conditions under section 47(xiii b) are satisfied and made it clear that legislative intent has always been to treat such conversion as taxable transfer. Further, it held that where no exemption is claimed, section 47A(4) cannot be invoked. Since the difference between transfer value and cost of acquisition was nil, the capital gains computation mechanism failed, resulting in no taxable gains.

4. Chennai ITAT: Partnership reconstitution via Family Arrangement-not taxable³

The assessee HUF held 50% in Texmo Industries (TI) and 30% in Texmo Precision Castings (TPC). Pursuant to a Memorandum of Family Arrangement in May 2013, its stake was reduced to 0.01% in both firms, with control of TI and TPC vested with different family members. Both firms were revalued, with TI recording goodwill of INR. 712 crore; the assessee's share of INR. 237 crore from TI and INR. 37 crore from TPC was credited to its current account. The AO taxed withdrawals/credits of INR. 29 crore (AY 2015-16) and INR. 238 crore (AY 2016-17) u/s 28(iv), terming the arrangement as a commercial transaction for relinquishing its profit share. The CIT(A) deleted the additions, holding that the reconstitution arose from a genuine family arrangement, not a business arrangement; no benefit/perquisite arose in the course of business, and section 28(iv) covers only non-monetary benefits for the relevant assessment year. The ITAT upheld this view, relying on Manish M. Chheda (ITAT Mumbai) and Chetanaben B. Sheth (Gujarat HC) to hold that revaluation credits to partners' accounts lack business nexus and that monetary receipts fall outside scope of section 28(iv).

Katalyst comment:

In the context of genuine family arrangement, the core issue is that it is an adjustment of pre-existing rights, and, as such, no "transfer" is involved. In this context, there have been several judicial precedents, and this latest one adds to the strength of the argument in relation to the non-taxability of a family arrangement, based on facts.

³ Damayanti Ramachandran (HUF) v. ITO [TS-1053-ITAT-2025(CHNY)] dated 07 August, 2025

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5. Mumbai ITAT: ESOP/ISOP reimbursements to foreign holding company held allowable as deduction under section 37(1)⁴

The assessee, Procter & Gamble Hygiene and Health Care Ltd., reimbursed its US holding company for benefits under global the Employee Stock Option Plan (ESOP) and the International Stock Ownership Plan (ISOP) schemes for Indian employees. In AY 2015-16, it claimed INR.11.17 crore as employee benefit expenses, supported by payments, TDS, and documentation. The AO disallowed the claim as contingent and capital in nature. The CIT(A) upheld the disallowance, noting similar treatment in earlier years and rejecting reliance on the Karnataka HC ruling in *CIT v. Biocon Ltd.* on the ground that it was under challenge before the Supreme Court via a pending SLP, and thus not final.

The ITAT held that the ESOP/ISOP schemes were initiated by the foreign parent, with no share issuance or premium by the assessee, which only reimbursed actual costs for Indian employees. The liability had crystallized in the year, evidenced by cross-charge invoices, remittance proofs, and perquisite reporting. The ITAT relied on the Karnataka HC ruling in *Biocon Ltd* (Karnataka HC) and allowed the deduction of INR.11.17 crore claim u/s 37(1) and noted that a pending SLP does not reduce its binding force in absence of a stay. Applying the principle of commercial expediency, the ITAT concluded the expenses were incurred wholly for business purposes.

⁴Procter & Gamble Hygiene and Health Care Limited v. DCIT, NFAC (ITA No. 3518/MUM/2025) dated 15 July, 2025.

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B. Corporate Law Highlights

1. Chennai NCLT: Bonus issue of Preference Shares via the NCLT route⁵

The NCLT, has sanctioned the Scheme of Arrangement proposed by TVS Motor Company Limited under Sections 230 to 232 of the Companies Act, 2013. Under this Scheme, the company shall utilise its substantial surplus reserves which exceed its current and future business needs, allowing it to issue four fully paid Preference Shares of Rs.10 each fully paid up to every equity shareholder holding one equity share of Re.1 each fully paid up, as a bonus; this offers both liquidity to shareholders and financial flexibility to the company in managing the liquidity until redemption.

The scheme has received “no objection” from both the stock exchanges (NSE and BSE), income tax department and all the relevant statutory authorities were notified. Responses from the Regional Director, Registrar of Companies confirmed there were no observations and required declaration to be given on observations made by the Regional Director.

In approving the scheme, the Tribunal has directed the company to complete all the statutory formalities such as updating the Memorandum and Articles of Association, paying applicable stamp duties and fees, and ensuring adherence to all provisions under the Companies Act.

Katalyst comment:

Several prominent listed companies, such as Britannia and HUL, have successfully implemented schemes of arrangement to issue bonus debentures or preference shares to equity shareholders. This approach has become a well-established practice among listed companies to efficiently deploy surplus reserves to reward its equity shareholders. The issue of bonus debentures has an upfront deemed dividend dimension u/s 2(22), whereas, in case of issue of bonus preference shares, the taxation aspect is not expressly provided in the law.

2. Chandigarh NCLT: validates Demerger Structure with share Issuance by Foreign Holding Company⁶

The NCLT Chandigarh approved a Scheme of Arrangement involving the demerger of the CRM business of Convergys India Services Pvt. Ltd. (Demerged Company) into Concentrix Technologies (India) Pvt. Ltd. (Resulting Company 1), wherein the consideration for the demerger was issued not by the transferee company but by its foreign parent, Concentrix Services (Netherlands) B.V. (Resulting Company 2), to the foreign shareholder of the demerged company.

One of the key issue raised was whether this structure complied with Section 232 of the Companies Act, 2013, given that Resulting Company 2, a foreign entity, issued the consideration. The Regional Director and Registrar of Companies had expressed concerns over the validity of this arrangement.

⁵National Company Law Tribunal, Chennai, CP(CAA)/29(CHE)2025 In CA(CAA)/3(CHE)/2025 order dated 31st July, 2025

⁶ National Company Law Tribunal, Chandigarh Bench, CP (CAA) 13/Chd/Hry of 2024 dated 11th July, 2025

The Petitioner Companies clarified that Section 232 does not mandate that the transferee company itself must issue shares as consideration. Relying on judicial precedents of Thomas Cook Insurance Services (India) Ltd., GlobeOp Financial Services (India) Pvt. Ltd., and Reckitt Benckiser (India) Pvt. Ltd., the Tribunal upheld that a parent company of the transferee may legally discharge the consideration, if it aligns with the commercial wisdom of shareholders.

Further, an important aspect was the interpretation of the term “Resulting Company” under Section 2(41A) of the Income-tax Act, 1961, which was essential to assess whether the demerger was tax neutral under Section 2(19AA). The Tribunal observed that the Income-tax Act recognizes more than one resulting company, including a wholly owned subsidiary of a foreign parent. It was noted that Resulting Company No. 1 and Resulting Company No. 2 share a parent-subsidiary relationship, and the scheme’s structure, where Resulting Company No. 1 received the assets and Resulting Company No. 2 issued shares to the shareholder of the Demerged Company, satisfies the definition of a “resulting company.” There is no restriction in the IT Act that both asset receipt and share issuance must occur within the same company; therefore, the scheme met the requirements for a tax-neutral demerger under the Act

Further, as the issuance of shares took place outside India between two foreign entities, the Tribunal held that FEMA/RBI compliance was not triggered, and hence Section 234 of the Companies Act, 2013 and Rule 25A of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, which deal with cross-border mergers and valuations, were not applicable.

3. Kolkata NCLT: NCLT Kolkata sanctions amalgamation of 11 LLPs for operational efficiency⁷

The NCLT, Kolkata Bench, has sanctioned a Scheme of Amalgamation under Sections 60 to 62 of the LLP Act, 2008, whereby 11 Transferor LLPs will merge into a Transferee LLP with effect from 1 April 2024. The scheme aims to simplify the group structure, achieve economies of scale, reduce compliance burden, eliminate duplication in administrative costs, and enable senior management to focus on business growth.

The scheme received unanimous approval from the partners and NCLT dispensed with partners and creditor meetings. Statutory auditors confirmed compliance with accounting standards, and a registered valuer determined the profit/loss allocation ratio. No objections were raised by Registrar of Companies, Official Liquidator, and Income Tax Department raised, subject to conditions such as payment of applicable stamp duty, compliance with LLP Act provisions, and continuation of statutory authority rights post the merger.

In approving the scheme, the Tribunal directed that all assets, liabilities, rights, obligations, employees, and pending proceedings of the Transferor LLPs shall vest in the Transferee LLP; the partners will receive profit/loss shares in accordance with the scheme; and the Transferor LLPs will be dissolved upon filing the certified order with the ROC.

⁷ National Company Law Tribunal, Kolkata Bench, CP (CAA) 7/KB of 2025 dated 06th August, 2025

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Katalyst comment:

- a) While procedurally similar to company mergers, LLP amalgamations carry distinct nuances; as one major dimension, LLP mergers are not tax neutral under current income tax law, with potential capital gains exposure at the partner level.*
- b) Stamp duty concessions available for company mergers may not be extended to LLPs. Also, FEMA provisions, though silent on LLP mergers, should apply in substance.*
- c) Procedurally, only ROC confirmation is mandated under section 62, though some NCLT benches may seek RD reports. Incidentally, current law does not permit direct merger of LLP into a company as affirmed in case of Qube Cinema Technologies.*

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C. SEBI and Other Highlights

1. SEBI: Exemption granted for indirect inter-se transfer of promoter group holding in Patel Engineering Limited⁸

SEBI has granted Ms. Janky Rupen Patel an exemption from making an open offer under Regulations 3(1) and 5(1) of the SEBI (SAST) Regulations, 2011, in connection with an indirect transfer of promoter group holding in Patel Engineering Limited (“the Company”). The company, incorporated in 1949 and listed on BSE and NSE, has a shareholding pattern comprising 36.11% held by the promoter group, 59.50% by the public, and 4.39% by a non-promoter non-public employee trust. Following the demise of promoter Mr. Rupen Pravin Patel in July 2024, his interests in Praham India LLP (“PI LLP”) and Raahitya Constructions Pvt. Ltd. (“RCPL”); (both being the promoter entities of the Company) were transmitted to his children, Ms. Alina Rupen Patel and Mr. Ryan Rupen Patel, and to his spouse, Ms. Janky Rupen Patel respectively. Both the children, Ms. Alina and Mr. Ryan, intended to gift 99.98% of their rights in PI LLP to their mother. Post this transfer, Ms. Janky would hold 99.98% of PI LLP, which in turn holds 67.30% in RCPL; RCPL holds 27.52% of the Company, resulting in Ms. Janky indirectly controlling 32.28% of its share capital. There would be no direct change in the Company’s shareholding, public holding, or control.

The exemption was sought on the grounds that the transfer was between immediate relatives within the promoter group. While direct inter-se transfers enjoy an automatic exemption under Regulation 10(1)(a)(i), SEBI’s informal guidance in Vidli Restaurants Ltd. confirmed that indirect acquisitions require specific SEBI approval. The applicants provided that no prejudice would be caused to public shareholders and that an open offer requirement would cause undue hardship. The Takeover Panel recommended granting the exemption on the grounds that there was no change in control, and no adverse impact on public shareholders. SEBI granted the exemption subject to compliance with the Companies Act and other applicable laws, filing a report with SEBI within 21 days of completion, and adherence to all statements, disclosures, undertakings, and relevant SEBI circulars.

2. SEBI: Imposes INR.120 crore penalty on DHFL promoters/KMPs for fund diversion & financial misstatement⁹

SEBI penalized six former promoters and key managerial persons of Dewan Housing Finance Corporation Ltd. (DHFL) for allegedly orchestrating a large scale fund diversion and misrepresentation of financial statements over a period of more than a decade. The investigation revealed that between FY 2006-07 and 2018-19, DHFL disbursed INR. 11,548 crore to 87 related

⁸ SEBI Order No. WTM/KV/CFD/01/2025-26, Exemption Order in the matter of Patel Engineering Limited dated 25 July, 2025

⁹ SEBI Order in the matter of Dewan Housing Finance Corporation Ltd. (DHFL), WTM/AN/CFID/CFID/31591/2025 26 dated 12 August, 2025

“Bandra Book Entities” (BBEs) linked to its promoters, but recorded them in its books as INR. 21,995 crore of small retail housing loans to fictitious borrowers. These BBEs, with negligible financial strength and close connections to the promoters, received funds without adequate due diligence, security, or recovery efforts, and a significant portion was routed to other promoter controlled entities. The falsified housing loan classification inflated DHFL’s profits and concealed losses in multiple years.

SEBI found that promoters Kapil and Dheeraj Wadhawan designed and controlled the scheme, aided by other promoters and senior executives. SEBI held that the scheme violated Section 12A(c) of the SEBI Act, 1992, and Regulations 3(b)-(d) and 4(1) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (“PFUTP Regulations”), which prohibit fraudulent and deceptive practices in the securities market. The falsification of loan portfolios and diversion of related party funds further breached Regulations 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations, while DHFL’s failure to maintain true and fair accounts contravened Regulation 4(1) of the SEBI (LODR) Regulations, 2015.

For these violations, SEBI imposed a cumulative monetary penalty of INR.120 crore, restrained the individuals from the securities market for 3-5 years, prohibited them from holding key managerial positions in listed entities, and directed disgorgement of unlawful gains. The order underscores SEBI’s stance on holding promoters and KMPs accountable for fraudulent practices that undermine market integrity.

3. SEBI: Consultation Paper for Minimum Public Offer (‘MPO’) and time lines to comply with Minimum Public Shareholding (‘MPS’)¹⁰

Sebi has issued a consultation paper based on the recommendation of the Primary Market Advisory Committee with a view to facilitating IPOs by large companies, particularly those with a post market capitalization exceeding INR. 50,000 cr, to list in India. The current regulations, which require substantial equity dilution, can be a deterrent for large issuers, as the market may also find it challenging to absorb such large public issues.

In this context, the summary of the relaxations proposed in the Consultation paper are as follows:

- Companies with a post-issue market capitalisation between INR. 50,000 crore and INR. 1 lakh crore may see the minimum public offer requirement reduced from 10% to 8% of post-issue share capital.
- For companies with a market valuation above INR. 1 lakh crore and up to INR. 5 lakh crore, SEBI has proposed a revised minimum public offer of INR. 6,250 crore, and at least 2.75% of post-issue share capital, down from the current 5%.

¹⁰ Sebi Consultation paper dated 18th August 2025

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- Companies exceeding INR. 5 lakh crore in market capitalisation would be required to offer at least INR. 15,000 crore and 1% of post-issue capital, with a minimum dilution of 2.5%.

Further, Sebi has also proposed:

- Businesses valued below INR.1 lakh crore will get five years (up from three) to comply.
- Larger entities, depending on their public float at listing, may get up to ten years to reach MPS, although a quicker five-year path applies if the public holding is already above 15%.
- This phased approach ensures large issuers aren't rushed into excessive dilution.

4. SEBI: Consultation paper for smooth transmission of securities from nominee to legal heirs¹¹

Sebi has made nomination mandatory for all demat accounts, and the purpose of providing nomination by an investor to intermediaries like DPs/Registrars and Share Transfer Agents ('RTAs') have been advised to regularly update the nominations. The purpose of providing nominations is that the intermediary is relieved of its responsibility once the securities lying with it are transmitted to a nominee post demise of the original security holder.

Vide this consultation paper, Sebi has clarified the legal position that a nominee holds the position of a trustee, and securities held by nominees ultimately belong to legal heirs of original security holders. In this context, the Consultation paper elaborated that whilst transmission of securities from nominee to legal heir is not considered as "transfer" from a taxation perspective, it is important to provide a process of smooth transmission of such securities from nomination of legal heirs. Accordingly, the Consultation paper has proposed to issue a circular to specify a standard reason code, namely TLH ("Transmission to Legal heirs) to be used by reporting entities while reporting the transmission of securities from nominee to legal heir.

5. SC: Reaffirms Confidentiality and Party Autonomy in Arbitration.¹²

In the present, case the Supreme Court examined whether (i) a non-signatory could be permitted to remain present in arbitral proceedings and (ii) a Court, after appointing an arbitrator under Section 11(6) of the Arbitration and Conciliation Act, 1996 ("the Act"), could issue further ancillary directions.

The dispute arose from a family settlement (MoU/FSD) signed between members of the Gupta family. Rahul Gupta ("RG"), the son of one signatory, was not a party to the MoU. Despite his intervention being expressly rejected earlier, the Delhi High Court allowed him and his companies, even though non-signatories, to be present in arbitral proceedings.

¹¹ Sebi Consultation paper dated 12th August 2025

¹² Supreme Court in Kamal Gupta & Anr. v. L.R. Builders Pvt. Ltd. & Ors. (2025 INSC 975) dated 13 Aug 2025.

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The Supreme Court set aside these directions, holding that arbitral proceedings are strictly confined to the parties to the arbitration agreement. Referring to Sections 2(h), 35 and 42A of the Act, the Court emphasized that arbitral awards bind only the signatories and those claiming under them; confidentiality under Section 42A precludes outsiders from participation. Permitting non-signatories to attend not only violated confidentiality, but also undermined party autonomy and the statutory framework.

The Supreme Court further held that courts cannot use their general powers under Section 151 of the Civil Procedure Code (CPC) to interfere in arbitration. Once an arbitrator has been appointed under Section 11(6) of the Act, Court becomes functus officio. Section 5 of the Act clearly says that courts can step in only where the Act itself allows. Since the Act does not permit non-signatories to be added or allowed to attend, the High Court had no power to rely on Section 151 CPC to do so.

Katalyst Comment:

By disallowing presence of non-signatories, the Supreme Court has reaffirmed that arbitration remains a private, contractual mechanism, and Courts cannot expand its scope beyond legislative mandate.

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D. Goods and Service Tax Highlights

1. Key highlights of intended GST reforms announced on 79th Independence Day.

Prime Minister Mr. Narendra Modi, on 79th Independence Day, has announced the introduction of **Next-Generation GST reforms by this Diwali**, aimed at reducing taxes on daily-use items and to build an 'Atmanirbhar Bharat'. The GST reforms are expected to focus on 3 main pillars, namely – structural reforms, rate rationalization and ease of living.

The key intended reforms and their potential benefits are summarized below:

1) Structural reforms:

- a) **Inverted duty structure correction** –The inverted duty structure to be corrected to align input and output tax rates so that there is a reduction in accumulation of ITC and the same would support domestic valuation.
- b) **Resolving classification issues** – In order to streamline rate structures, minimize disputes, simplify compliance processes, and ensure greater equity and consistency across sectors, classification issues to be resolved.
- c) **Stability and Predictability:** In order to build industry confidence and support better business planning, long-term clarity on rates and policy direction to be provided

2) Rate Reduction/Rationalisation:

- a) **Reduction of taxes on common-man items and aspirational goods:** This would enhance affordability, boost consumption, and make essential and aspirational goods more accessible to a wider population.
- b) **Reduction in slabs:** The intent seems to move towards a simple tax structure with 2 slabs - standard and merit. The new GST rates of 18% and 5%, will have the twin objectives of making tax categories and compliance processes simpler and more rational, as they were originally intended to be. Nearly all items taxed at 12% are expected to move to 5%, and most goods in the 28% slab are likely to shift to 18%, and only a few will go to a 40% bracket, which will apply to exceptional items, termed as “sin goods” or “demerit goods”. The GST slab rates of 12% and 28% are intended to be done away with.
- c) **Compensation cess** - The end of compensation cess will create fiscal space, providing greater flexibility to rationalise and align tax rates within the GST framework for long-term sustainability.

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3) Ease of living:

Some intended initiatives:

- a) **Registration:** seamless, technology-driven, and time-bound, especially for small businesses and startups.
- b) **Returns:** Implementation of pre-filled returns, thus reducing manual intervention and eliminating mismatches.
- c) **Refunds:** faster and automated processing of refunds for exporters and those with inverted duty structure.

4) Likely benefits of the reforms:

- a) **Macro:** Strengthen key economic sectors, stimulate economic activity, and enable sectoral expansion. A reduced GST is expected to trigger multiplier effect by lowering logistics costs and easing compliances. The lower GST rates may also boost demand and generate jobs; these reforms could enhance the competitiveness of India's exports.
- b) **Affordability:** This would enhance affordability, boost consumption, and make essential and aspirational goods more accessible to a wider population including common man, small entrepreneurs and MSMEs.
- c) **Some sectoral impact:** These reforms are expected to boost consumption as the GST rates on goods such as cement, refrigerators, air conditioners and packaged and branded food items like fruit juices, butter, cheese, condensed milk, nuts and dates, and duty cuts on medical items will provide much needed relief.

5) **Statistical overview of slabs vis-à-vis collection:**

- i. According to sources, slab-wise GST collection share for FY24 and the number of goods in each category:

GST Rate (%)	Number of Goods	Collection Share (% in FY24)
Less than 5	199	1–2
5	291	6–8
12	270	5–6
18	648	70–75
28	37	13–15

- ii. A few years ago, the Reserve Bank of India calculated that the average GST rate in India had settled at 11.6%, which is now expected to substantially come down, according to an initial analysis. The idea is that similar items will be taxed at the same rate. This would lead to a simplified GST regime in India.
- iii. The proposed changes in the GST structure could temporarily push up India's fiscal deficit (by an estimated 0.1 or 0.2 % surge). However, the growth benefits and buoyancy in tax collection are expected to outweigh the short-term revenue setback as tax experts and research analysts believe. Further, the Centre has sufficient numbers to push through GST changes, co-operation from states remains critical to achieve the objectives of the proposed reforms. Any restructuring must be approved by GST council, where the Centre holds 33% voting rights and states and UTs share the remaining 67% equally.

2. SC: Section 6(2)(b) of CGST Act interpreted the expression "initiation of any proceedings" does not encompass the issuance of summons, or the conduct of any search, or seizure etc.¹³

The company, engaged in providing security services, had earlier received a show-cause notice from the State GST authority over alleged claims worth INR 1.24 crore along with interest and penalty for F.Y. 2020-21 due to under declaration of net tax and excess claim of ITC. Later, the Central GST department conducted a search, seized documents, and issued summons to company directors. The company in this regard argued that since the State GST authority had already initiated proceedings on the same issue, the Central GST lacked jurisdiction under Section 6(2)(b) of the CGST Act. The Delhi High Court rejected this view, holding that a summons is part of an inquiry, not "initiation of proceedings" under Section 6(2)(b), which applies to assessment, demand, and penalty actions. The Supreme Court in this regard provided the following:

- 1) **Issuance of summons:** "Issuance of summons" under Section 70 is a step to gather information and does not amount to initiation of proceedings under Section 6(2)(b).
- 2) **Separate investigation allowed:** The Court clarified that Section 6 aims to prevent parallel assessment proceedings but do not bar separate investigations.
- 3) **Test for determining "subject matter":** The twofold test for "same subject matter" involves identical liability/offence on same facts, and identical demand/relief sought.
- 4) It upheld the High Court's ruling, allowing the Central GST authority to continue its inquiry.

¹³ Armour Security (India) Ltd. vs Commissioner, CGST, Delhi East Commissionerate and ANR, [TS-711-SC-2025 GST] dated August 14, 2025

Katalyst Kaleidoscope

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Katalyst comment:

A welcome decision by the Hon'ble SC; which has put at rest the long-lasting controversy concerning 'parallel proceedings' in the context of Section 6(2)(b) of the CGST Act. The SC also reinforced the principle of preventing undue harassment to taxpayers from multiple authorities.

3. Gujarat HC: No GST is payable on assignment of leasehold rights of industrial plot to a third party.¹⁴

Gujarat HC has quashed a SCN demanding GST on assignment of leasehold rights of industrial plot to a third party. In the instant case, the petitioner was allotted an industrial plot for 99 years by GIDC ('Gujarat Industrial Development Corporation') and after using the said plot for 39 years, the petitioner transferred the same to a third party for consideration. Subsequently, more than 3 years after that an SCN was issued to him demanding GST on consideration received for transfer of leasehold rights. In this regard, the Gujarat HC followed the decision of Gujarat Chamber of Commerce and Industry¹⁵ and held that assignment of leasehold rights of industrial plot by the petitioner (original lessee) to a third party is 'sale' and covered under schedule III of the CGST Act and hence, outside the purview of GST.

Katalyst comment:

The Gujarat HC has followed its own judgement of January 2025 to the effect that assignment of leasehold rights of industrial plot for balance useful life by the original lessee to the third person for consideration, is covered under schedule III 'sale' and it is not covered under the definition of 'service' and hence, GST is not applicable on such transaction.

¹⁴ Alfa Tools Pvt. Ltd. vs. UOI & Anr. [TS-687-HC(GUJ)-2025-GST] dated August 5, 2025

¹⁵ [TS-03-HC(GUJ)-2025-GST] dated January 7, 2025