

MONTHLY NEWSLETTER



Welcome to our monthly newsletter

We bring you a concise and noteworthy regulatory developments in Income Tax, Goods & Services Tax, Companies Act during December 2025. We had tried to cover all important updates occurred during December 2025 in this volume of newsletter. The sole purpose of this circulation is to update finance professionals and business owners on direct & indirect taxes and other compliances. Feedbacks are welcome at info@nucleusadvisors.in.

Direct Tax Updates

National Co-operative Development Corporation v. Commissioner of Income-tax

1. Facts of the Case

- The appellant, National Co-operative Development Corporation (NCDC), is a statutory corporation engaged in promoting agricultural and allied sector development through cooperative institutions.
- For multiple assessment years, NCDC claimed deduction under Section 36(1)(viii) of the Income-tax Act, 1961 in respect of:
 1. Dividend income on investments in redeemable preference shares,
 2. Interest income earned on short-term bank deposits, and
 3. Service charges received for administering Sugar Development Fund (SDF) loans.
- The Assessing Officer disallowed the deduction on these income streams, holding that they were not profits "derived from" the business of providing long-term finance.





- The disallowance was upheld by:
 - Commissioner of Income Tax (Appeals),
 - Income Tax Appellate Tribunal, and
 - Delhi High Court.
- Aggrieved, NCDC filed multiple civil appeals before the Supreme Court.

2. Issues for Consideration

Whether the following receipts qualify for deduction under Section 36(1)(viii) as profits derived from the business of providing long-term finance:

1. Dividend income from redeemable preference shares
2. Interest on short-term bank deposits
3. Service charges received as nodal agency for SDF loans

3. Arguments of the Petitioner (Assessee – NCDC)

DIRECT TAX UPDATES

(a) On Interpretation of Section 36(1)(viii)

- The phrase "derived from" should be interpreted liberally, especially where the assessee carries on an integrated and indivisible business of financing.
- Reliance placed on Meghalaya Steels Ltd., arguing that receipts directly connected with business operations should qualify.

(b) Dividend on Redeemable Preference Shares

- Redeemable preference shares are substantially in the nature of loans, given fixed returns and redemption terms.
- Dividend income should therefore be treated akin to interest from long-term finance.

(c) Interest on Short-Term Bank Deposits

- Surplus funds were temporarily parked until deployment in lending operations.
- Interest earned is business income, intrinsically linked to financing activity.
- Reliance placed on earlier NCDC judgment where such interest was treated as business income.

(d) Service Charges on SDF Loans

- Acting as nodal agency is part of statutory mandate.
- Service charges are incidental to facilitating long-term finance for agricultural development.

4. Arguments of the Respondent (Revenue)

- Section 36(1)(viii) is a special incentive provision and must be strictly construed.
- Post-1995 amendment, deduction is restricted only to profits directly derived from long-term finance, not all business income.
- Each disputed receipt has an independent and distinct source, breaking the required first-degree nexus.
- Preference shares are share capital, not loans.
- SDF loans involve government funds, with NCDC acting merely as an agent, not financier.





5. Analysis of Law and Legislative Intent

Section 36(1)(viii) – Post-1995 Framework

- The Finance Act, 1995 substituted "total income" with "profits derived from such business".
- The amendment was introduced to:
 1. Prevent financial institutions from claiming deductions on diversified or incidental income.
 2. Confine the benefit strictly to core long-term lending activity.

Definition of "Long-Term Finance"

- Must be a loan or advance:
- 1. With repayment period of not less than five years, and
- 2. Carrying interest.
- The conditions are cumulative and exhaustive.

6. Precedent Analysis

The Court relied upon and reaffirmed settled jurisprudence:

- Cambay Electric Supply Co. Ltd. – "Derived from" is narrower than "attributable to".
- Sterling Foods, Pandian Chemicals, Liberty India – Income must have a direct and immediate nexus with the specified activity.
- Bacha F. Guzdar – Dividend arises from shareholding contract, not from underlying business assets.
- Orissa State Warehousing Corporation – Rejected the theory of integrated business to expand tax exemptions.
- Meghalaya Steels Ltd. distinguished:
- That case involved reimbursement of operational costs under Section 80-IB, not a narrowly worded incentive like Section 36(1)(viii).

7. Court's Reasoning (Issue-wise)

(a) Dividend on Redeemable Preference Shares

- Preference shares remain share capital, not loans.
- A shareholder is not a creditor and cannot sue for repayment as debt.
- Dividend income is derived from investment in shares, not lending.
- Hence, fails the "derived from long-term finance" test.

(b) Interest on Short-Term Bank Deposits

- Though taxable as business income, that alone is insufficient.
- Immediate source is the bank deposit, not a long-term loan.
- Being "business income" ≠ eligible for Section 36(1)(viii) deduction.
- Earlier NCDC decision dealt with expense deduction, not incentive deduction.





(c) Service Charges on SDF Loans

- Funds belong to Government of India, not NCDC.
- NCDC bears no lending risk and deploys no own capital.
- Income is agency commission, not interest from financing.
- Therefore, not profits derived from providing long-term finance.

8. Conclusion / Final Decision

- Section 36(1)(viii) is a source-specific, activity-linked incentive, not a blanket deduction.
- The expression "derived from" mandates a strict first-degree nexus.
- None of the three disputed income streams satisfy the statutory requirement.
- The theory of integrated or indivisible business cannot override clear legislative intent.
- Accordingly, all civil appeals were dismissed, and the judgment of the High Court was affirmed.



GST UPDATES



Notification – 1 Seeks to notify Central Goods and Services Tax (Fifth Amendment) Rules, 2025 Fifth Amendment Rules, 2025

The Government has introduced a special valuation mechanism under GST for specified pan masala, tobacco and nicotine products by inserting Rule 31D in the CGST Rules, 2017, in exercise of powers conferred under Section 15(5) of the CGST Act, 2017.

Earlier, Pan masala and tobacco products are high-tax, high-risk commodities where valuation based on transaction value often resulted in under-reporting of taxable value due to layered trade discounts and margins. Despite high MRPs, GST was being discharged on significantly lower values, leading to revenue leakage.

Rule 31D, introduced with a non-obstante clause, overrides Section 15(1) to 15(4) relating to transaction value.

- Applicable to specified pan masala, tobacco and nicotine products (HSN 2106, 2401 to 2404).
- Value of supply deemed to be the declared Retail Sale Price (RSP) printed on the package.
- RSP is inclusive of all taxes, duties, cess and charges.

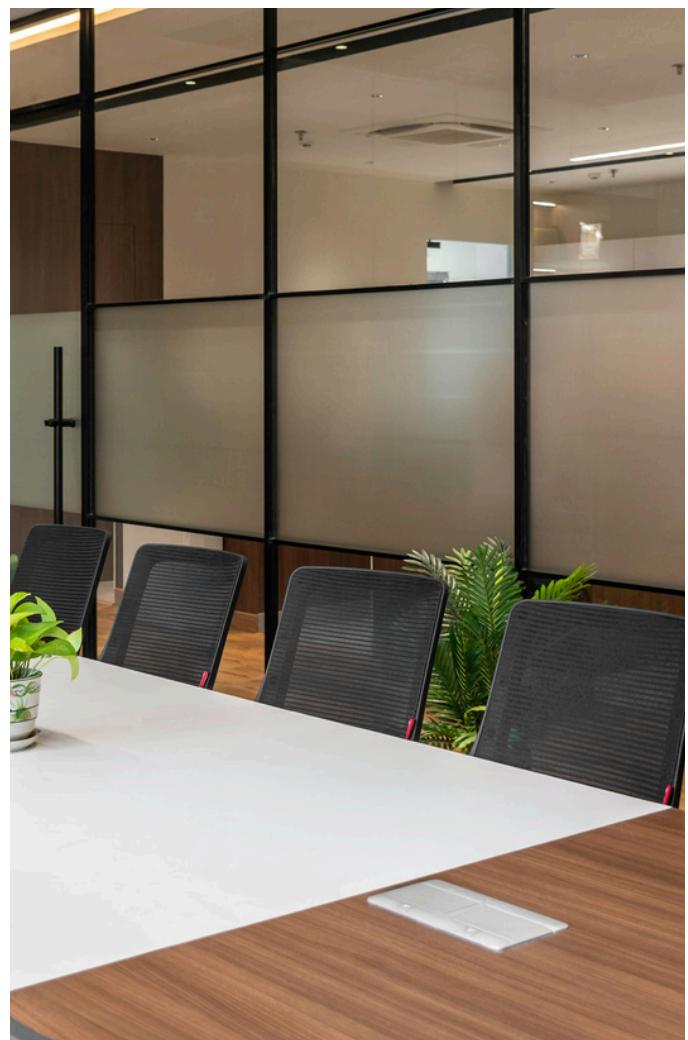
- Revised or increased RSP at any stage shall be considered for valuation.
- Where different MRPs are declared for different areas, area-specific RSP shall apply.
- Actual selling price, discounts or trade margins are irrelevant for GST purposes.

RSP is tax-inclusive, GST is extracted using the prescribed formula:

$$\text{GST Amount} = (\text{RSP} \times \text{Applicable GST Rate}) \div (100 + \text{GST Rate})$$

A consequential amendment has been made in Rule 86B by inserting clause (f):

- Traders (non-manufacturers) dealing in goods covered under Rule 31D
- Where GST has been paid by the supplier on RSP basis
- Shall be exempt from the 1% mandatory cash payment requirement



GST UPDATES



Notification -2 Seeks to notify supplies under section 15(5) of CGST Act for valuation based on Retail sale price (RSP)

As per Section 15(5) of the CGST Act, 2017, valuation of notified goods is based on Retail Sale Price (RSP/MRP) instead of transaction value.

- GST is payable on the declared MRP inclusive of all taxes, irrespective of the actual selling price.
- Higher GST liability is expected due to inclusion of trade margins in the MRP.
- Discounts or price reductions will not impact GST payable.
- Where multiple MRPs are declared, the highest MRP shall be adopted for valuation.
- Any increase in MRP before or after supply will result in higher GST.
- Area-wise MRPs must be applied strictly for valuation.
- The amendment introduces stricter valuation control for pan masala, cigarettes, other manufactured tobacco and nicotine/tobacco inhalation products, effective 1 February 2026.
- Example: If cigarettes are supplied at ₹80 per pack but the declared RSP is ₹120, GST will be payable on ₹120.

1. Advisory on reporting values in Table 3.2 of GSTR-3B

- Table 3.2 of Form GSTR-3B reflects inter-State outward supplies made to unregistered persons, composition taxpayers and UIN holders, out of the total supplies reported in Tables 3.1 and 3.1.1 of GSTR-3B. These details are auto-populated from the corresponding disclosures made in GSTR-1, GSTR-1A and IFF.
- It is hereby informed that from the tax period of November 2025 onwards, the values auto-populated in Table 3.2 of GSTR-3B shall be non-editable. Taxpayers will be required to file GSTR-3B strictly with the system-generated values in this table.
- If any correction or modification is required in the auto-populated figures of Table 3.2 for the same tax period, such changes can be made only through Form GSTR-1A. Upon filing GSTR-1A, the revised values will immediately update Table 3.2 of GSTR-3B, enabling the taxpayer to file GSTR-3B with the corrected figures.
- Further, amendments to such supplies can also be reported through GSTR-1 or IFF of subsequent tax periods, wherever applicable.



GST UPDATES



2. Auto Suspension of GST Registration due to Non-Furnishing of Bank Account Details as per Rule 10A

- As per Rule 10A, taxpayers (except TCS, TDS, or Suo-moto registrants) must furnish bank account details within 30 days of registration or before filing GSTR-1/IFF, whichever is earlier.
- Failure to do so will trigger automatic suspension of GST registration. Suspension orders can be viewed at Services User Services View Notices and Orders.
- Bank account details can be added via non-core amendment at Services >Registration > Amendment of Registration (Non-Core Fields).Once furnished, cancellation proceedings are automatically dropped by the system.
- If not dropped immediately, taxpayers can manually initiate the drop using the "Initiate Drop Proceedings" button.
- OIDAR and NRTP taxpayers are generally exempt, except OIDAR taxpayers appointing a representative in India.
- Timely furnishing of bank details ensures smooth GST compliance and avoids registration issues.

3. Advisory & FAQ on Electronic Credit Reversal and Re-claimed Statement & RCM Liability/ITC Statement

- Electronic Credit Reversal & Reclaimed ITC Ledger (Reclaim Ledger) was introduced from Aug 2023 for monthly filers and July-Sep 2023 for quarterly filers. It tracks ITC temporarily reversed in Table 4(B)(2) and subsequently reclaimed in Tables 4(A)(5) & 4(D)(1).
- Currently, taxpayers get a warning if they attempt to reclaim ITC exceeding the available reversal balance, but GSTR-3B filing is still allowed.
- Taxpayers were allowed to report opening balances (earlier reversed but unreclaimed ITC) to the newly introduced Reclaim Ledger.
- The ledger can be accessed via: Dashboard > Services > Ledger > Electronic Credit Reversal and Reclaimed Statement.
- The RCM Liability/ITC Statement (RCM Ledger) was introduced from Aug 2024 for monthly filers and Jul-Sep 2024 for quarterly filers. It tracks RCM liability in Table 3.1(d) and corresponding ITC claimed in Tables 4A(2) / 4A(3).
- Warning messages appear if ITC claimed exceeds the closing balance of the respective ledger plus current period liabilities/reversals.
- For Reclaim Ledger: Excess ITC is reversed in Table 4(B)(2).
- For RCM Ledger: Either pay additional RCM liability in Table 3.1(d) or reduce ITC claimed in Tables 4A(2)/4A(3).

Validation mechanism ensures:

- Reclaimed ITC \leq Closing balance of Reclaim Ledger + Current period reversal
- RCM ITC claimed \leq Closing balance of RCM Ledger + Current period RCM liability

COMPLIANCE CALENDAR



Direct Taxes

January 07, 2026

- Due date for deposit of Tax deducted [except under section 194-IA, section 194-IB, section 194M or section 194S (by specified person)] or collected for the month of December, 2025. However, all the sum deducted/collected by an office of the government.
- Due date for deposit of TDS for the period October 2025 to December 2025 when Assessing Officer has permitted quarterly deposit of TDS under Sections 192, 194A, 194D or 194H.

January 14, 2026

- Due date for issue of TDS Certificate for tax deducted under section 194-IA, section 194-IB, section 194M, section 194S (by specified person) in the month of November, 2025.

January 15, 2026

- Quarterly statement of TCS for the quarter ending December 31, 2025.
- Due date for furnishing of Form 24G by an office of the Government where TDS/TCS for the month of December, 2025 has been paid without the production of a challan.
- Quarterly statement in respect of foreign remittances (to be furnished by authorized dealers) in Form No. 15CC for quarter ending December, 2025.
- Due date for furnishing of Form 15G/15H declarations received during the quarter ending December, 2025.
- Furnishing of statement in Form No. 49BA under Rule 114AAB (by specified fund) for the quarter ending December 31, 2025.

January 30, 2026

- Due date for furnishing of challan-cum-statement in respect of tax deducted under section 194-IA, 194-IB, 194M and 194S (by specified person) in the month of December, 2025.
- Quarterly TCS certificate in respect of quarter ending December 31, 2025.

January 31, 2026

- Quarterly statement of TDS for the quarter ending December 31, 2025
- Quarterly return of non-deduction of tax at source by a banking company from interest on time deposit in respect of the quarter ending December 31, 2025
- Intimation by Sovereign Wealth Fund in respect of investment made in India for quarter ending December, 2025.
- Intimation by a pension fund in respect of investment made in India for quarter ending December 31, 2025

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