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AN INTRODUCTION TO Doing Business in India 2026

Special Focus

India's Policy Reset & the
New Business Landscape



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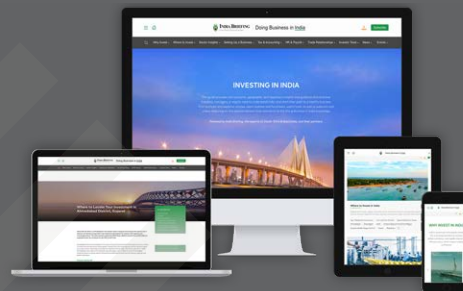
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This edition of Doing Business in India was produced by a team of professionals at Dezan Shira & Associates, with Archana Rao as Technical Editor and Melissa Cyrill as Lead Editor. Creative design of the guide was provided by Miguel Enrico Anciano.

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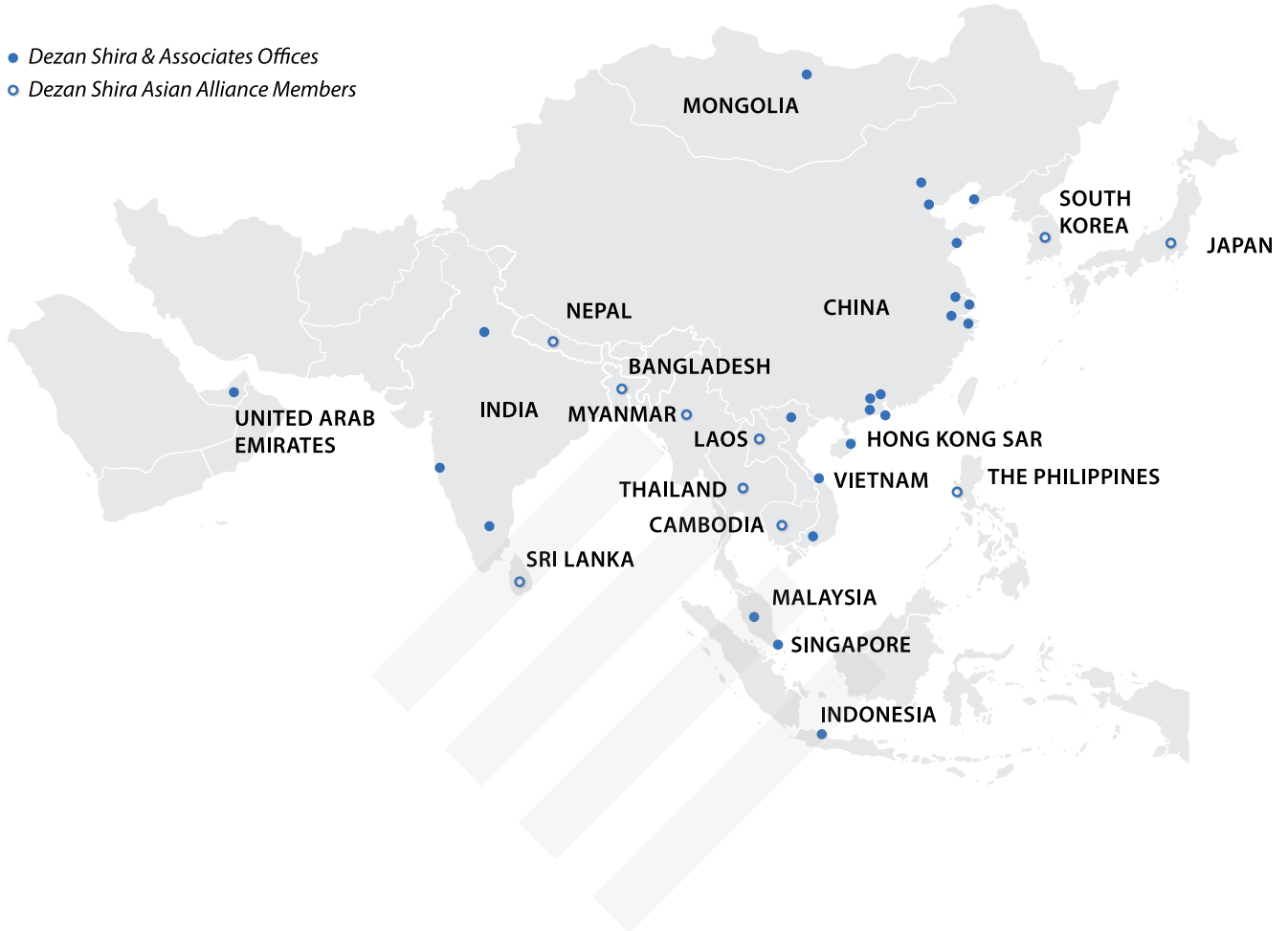
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About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore, and Vietnam as well as liaison offices in Italy, Germany and the United States, and partner firms across the ASEAN region and in Bangladesh. With over 30 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia.

Preface

An Introduction to Doing Business in India 2026 provides a comprehensive, investor-focused overview of the major regulatory, tax, labor, and digital compliance reforms reshaping India's business environment. As India enters 2026 with strong economic momentum, companies must navigate a converging wave of policy updates that directly impact market entry, corporate structuring, payroll, taxation, data protection, and cross-border trade.

This guide explains the implications of GST 2.0 reforms, including simplified rate structures, corrected inverted duties, and deeper integration between GST, customs, and e-invoicing. Together, these changes aim to reduce compliance friction and improve cash-flow planning. It also explains the implementation of India's four Labor Codes, highlighting changes to wage definitions, social security coverage, industrial relations processes, and inspection systems that require businesses to recalibrate HR, payroll, and workforce policies. Moreover, with the rollout of the Digital Personal Data Protection (DPDP) Rules 2025, companies face new obligations for consent management, breach reporting, cross-border data transfers, and security safeguards, overseen by the Data Protection Board.

For foreign investors evaluating the market, we outline the operational, tax, and compliance implications of choosing between liaison offices, LLPs, joint ventures, and wholly owned subsidiaries. The guide also covers India's fully digitalized customs ecosystem, updated HS classifications, and expanded export-control rules that align with global trade benchmarks.

Prepared by the experts at Dezan Shira & Associates, this resource offers practical, strategic insights for businesses looking to enter, expand, or optimize their operations in India. It delivers the clarity needed to adapt internal systems, strengthen governance, and make informed decisions in a regulatory landscape that is more predictable yet increasingly sophisticated.

For professional support with market entry, compliance, or restructuring in India, contact our team at india@dezshira.com

What this guide covers

Doing Business in India 2026 provides essential insights across the following areas:

- Policy overhaul of 2025
- India's investment climate
- Structuring India operations
- Audit and financial reporting
- HR and payroll
- Trade environment
- DPDP law



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What's New in This Guide

An Introduction to Doing Business in India 2026 offers a comprehensive overview of the key fundamentals of investing in India. Compiled by the professionals at Dezan Shira & Associates in November-December 2025, this guide is tailored for international firms exploring entry into the Indian market and for companies already operating in India that seek to stay informed about the latest and most relevant policy updates.

Key updates for your attention include the following:

Special Focus: India's Policy Reset & the New Business Landscape

The year 2025 marks a pivotal turning point for India's regulatory and business environment, characterized by a coordinated push to modernize key economic frameworks. The central government has introduced a series of landmark reforms spanning taxation, data governance, and labor regulation, each aimed at improving efficiency, strengthening investor confidence, and aligning India with global standards.

The 2026 edition of *An Introduction to Doing Business in India* puts the spotlight on the country's top policy reforms and their business implications, including:

1. Goods and services tax (GST) rate overhaul
2. Digital Personal Data Protection (DPDP) Rules, 2025
3. Four New Labor Codes notified

Why India: India recorded a robust 6.7 percent GDP growth in Q1 of FY 2025-26, supported by strong early-year economic momentum. Despite the global disruptions created by US tariff actions and ongoing geopolitical tensions, India is projected to maintain a steady 6.5 percent growth in FY 2026-27, reflecting its underlying economic resilience.

The country continues to accelerate its manufacturing capabilities while modernizing key regulatory frameworks governing business setup, foreign investment, workforce management, and digital data governance. These reforms are strengthening India's competitiveness and making it an increasingly attractive destination for global enterprises.

Taxation in India: In 2025, India introduced several new reforms to simplify, automate, and modernize its taxation system, making compliance more predictable, transparent, and business-friendly. This chapter provides an overview of the latest tax rates, incentives, and regulatory changes implemented during the year. Key updates include revised TDS rates, major GST system enhancements, streamlined exemptions, and a reduction in routine compliance requirements.

Transfer Pricing in India: Businesses engaged in cross-border or international transactions must ensure strict adherence to India's transfer pricing regulations. This chapter has been refreshed to include an updated Transfer Pricing compliance calendar, offering companies a clear and structured guide to annual filing obligations, documentation requirements, and assessment timelines, supporting smoother and more accurate tax compliance.



Human Resources and Payroll in India: This chapter has been comprehensively updated to reflect the latest developments under India's new Labor Codes, which reshape regulations on minimum wages, working hours, social security, and employer obligations. It also highlights recent updates in payroll processes, compliance requirements, and India's evolving visa and employment policies.

India's Trade Environment: This chapter presents the latest updates to India's export–import framework, including revised procedures, enhanced guidelines on HSN Codes, and fresh data on the country's top trading partners and trade flows. It also highlights key government initiatives designed to streamline customs processes, strengthen trade facilitation, and improve ease of cross-border operations.

India's Digital Privacy and Data Protection: This edition introduces an entirely new chapter dedicated to India's Digital Personal Data Protection (DPDP) Rules, the country's first comprehensive digital privacy law, notified on November 14, 2025. The chapter outlines the core principles of the DPDP framework, its compliance requirements, and its implications for organizations handling personal data in India.



Special Focus 2026: India's Policy Reset & the New Business Landscape

India entered 2025 with sustained economic momentum and a confident policy outlook. Unlike previous years where regulatory changes were incremental, 2025 saw a pronounced acceleration in structural economic reforms that directly impact how companies operate, invest, employ, manufacture, and manage compliance.

Collectively, the introduction of GST 2.0, full notification of the four new Labor Codes, operationalization of the Digital Personal Data Protection (DPDP) Rules 2025, and modernization of India's maritime and shipping legislation represent a decisive shift toward a more integrated, rules-based, and globally aligned regulatory environment.

Our special focus chapter provides a business practical overview of these reforms, their implications, and how companies, whether foreign or domestic, should align their India strategies in 2026.

The operating context in 2025–26

As India moves into 2026, recent macroeconomic indicators and official data point to a broadly supportive environment for business activity. However, the outlook for sustained, consumption-led growth remains less certain. While select segments – particularly manufacturing, FDI-linked industries, and electronics – continue to demonstrate strong momentum, overall consumption patterns and the breadth of sectoral growth are still uneven.

What differentiates 2025 from earlier years is the scale and convergence of reforms. Instead of sector-specific initiatives, India implemented cross-cutting structural changes—shaping tax policy, labor markets, digital regulation, logistics, and industrial procurement in one cycle.

For investors evaluating India for operational expansion, the 2025 reform year materially shifts the risk-reward calculus in 2026.

GST 2.0: Simplified rate structure and input–output alignment

The Goods and Services Tax (GST), introduced in 2017, entered its mature phase in 2025. The launch of GST 2.0 on September 22, 2025, redesigned the rate structure and removed long-standing inefficiencies.

Key changes under GST 2.0

- Introduction of a streamlined rate structure, removing the 12 percent slab and adding a 40 percent slab (for demerit goods). Compensation cess has been removed for most goods.
- Reallocation of items to reduce classification disputes.
- Correction of inverted duty structures in electronics, appliances, textiles, and selected manufacturing sectors.
- Greater alignment between GST, customs tariffs, and e-invoicing rules.

Practical implications for businesses

- Lower GST rates on consumer electronics, home appliances, processed foods, and select services reduced effective market prices, boosting consumption.
- Manufacturing units in electronics, appliances, food processing, and FMCG experienced reduced accumulation of input tax credit, improving cost efficiency.
- For B2B companies, the rate restructuring simplifies internal ERP mapping and reduces classification-related litigation risk.
- Exporters benefit from improved reconciliation between GSTN, ICEGATE, and e-invoicing datasets.

Companies entering India in 2026 should factor in GST 2.0's, latest compliance framework, lower dispute probability, and better cash-flow predictability.

Labor codes: A unified framework for workforce management

On November 21, 2025, the central government notified all four Labor Codes, completing the consolidation of 29 central labor laws into a simplified and modern framework. This is the most major labor reform in independent India.

The four labor codes

1. Code on Wages, 2019

Replaces:

- Payment of Wages Act, 1936
- Minimum Wages Act, 1948
- Equal Remuneration Act, 1976
- Payment of Bonus Act, 1965

2. Industrial Relations Code, 2020

Replaces:

- Trade Unions Act, 1926
- Industrial Employment (Standing Orders) Act, 1946
- Industrial Disputes Act, 1947

3. Code on Social Security, 2020

Replaces nine major laws, including:

- Employees' Provident Fund (EPF) Act
- Employees' State Insurance (ESI) Act
- Maternity Benefit Act
- Payment of Gratuity Act
- Unorganised Workers' Social Security Act

4. Occupational Safety, Health and Working Conditions (OSHC) Code, 2020

Replaces 13 laws, including:

- Factories Act, 1948
- Contract Labor (Regulation and Abolition) Act, 1970
- Mines Act, 1952
- Building and Other Construction Workers Act, 1996

Key compliance features

- Uniform definition of “wages” across statutes.
- National floor wage, with state-level rules to align.
- Streamlined norms on working hours, overtime, and employee records.
- Formal recognition of gig, platform, and fixed-term workers under the Social Security Code.
- Simplified industrial relations framework for retrenchment, closure, and worker reclassification (subject to thresholds).
- Technology-enabled inspection and compliance systems.

Sectoral impact

- Manufacturing – particularly auto, electric vehicle (EV) supply chains, electronics, chemicals, and textiles – benefits from improved predictability in labor cost and industrial relations.
- Logistics and warehousing – clearer working-hour norms and safety standards reduce operational disruptions.
- Global capability centers (GCCs) and services – fixed-term worker provisions provide flexibility for project staffing.
- Startups and tech companies – formal treatment of platform workers and clarity on contract roles improves HR structuring.

Compliance priorities for 2026

- Reassessment of salary structures to meet the unified wage definition.
- Alignment of provident fund (PF)/ employee's state insurance (ESI) eligibility, including cross-border employees.
- Review of contractor engagement, outsourcing arrangements, and workplace safety.
- Updating Standing Orders, HR manuals, and industrial relations policies.

The business takeaway is clear: labor compliance is now standardized, digitally monitored, and more predictable, reducing long-term regulatory risk but requiring short-term adjustment.

DPDP Rules 2025: India's new data governance framework

With the notification of the Digital Personal Data Protection Rules 2025, India operationalized a rights-based, consent-driven regime governing personal data processing.

Compliance obligations now in force

- Consent architecture and purpose-limitation controls
- Mandatory security safeguards and breach reporting
- Notice requirements for data collection
- Data retention limits and deletion protocols
- Obligations for "significant data fiduciaries" (likely large digital processors or platforms)



Business implications

- Companies in banking, financial services and insurance (BFSI), IT services, e-commerce, healthcare, automotive, manufacturing, and logistics must review data flows across systems.
- GCCs handling global data streams must ensure interoperability between DPDP and European Union's (EU) General Data Protection Regulation (GDPR) / US standards.
- Technology firms will need to invest in data-mapping, privacy engineering, and cross-border transfer policies.

As global companies increasingly base cybersecurity, analytics, and AI delivery centers in India, DPDP compliance becomes a precondition for scaling digital operations.

Trade, ports, and logistics: Modern legislation for a modern economy

In 2025, India replaced century-old laws with:

- Indian Ports Act, 2025
- The Coastal Shipping Act, 2025
- The Bills of Lading Act, 2025
- The Carriages of Goods by Sea Act, 2025

Why this matters

- These Acts modernize India's maritime and port regulatory framework, impacting all businesses involved in shipping, logistics, and international trade.
- They strengthen operational oversight of ports and coastal shipping, influencing cargo movement, turnaround times, and logistics costs.
- The Acts update rules governing Bills of Lading and carriage of goods by sea, offering clearer protection for cargo owners and carriers.
- They establish transparent liability, safety, and compliance standards, reducing legal ambiguity in import-export transactions. Furthermore, it supports private investments in terminals, logistics parks, and port-based manufacturing zones.
- Overall, businesses benefit from improved legal certainty, streamlined cargo handling processes, and reduced risks in maritime transport.

Industry impact

- Exporters in chemicals, pharmaceuticals, textiles, engineering, electronics, and agri-products gain from reduced dwell times and improved documentation flow.
- Logistics service providers and supply chain operators benefit from greater operational clarity, enabling multimodal integration.
- Foreign shipping lines and multinational corporations (MNCs) importing equipment or exporting finished goods gain improved transparency.

Industrial policy and domestic manufacturing bias

India reinforced its preference for domestic manufacturing through targeted procurement reforms, including the Domestically Manufactured Iron and Steel Products (DMISP) policy 2025.

Key provisions

- Government procurement (such as public sector undertakings) must give preference to domestically manufactured steel, with waivers permitted only when specific grades are unavailable or when domestic capacity cannot meet project requirements.
- Tendering authorities are discouraged from imposing foreign certifications or eligibility criteria that could place Indian steel producers at a disadvantage.
- The policy carries a five-year validity period, providing medium-term certainty for steel manufacturers and associated downstream industries.
- To qualify for preferential procurement, steel products must meet prescribed domestic value-addition thresholds, generally ranging from 20 to 50 percent depending on the product category.

Strategic implications

- Encourages capacity expansion in steel, capital goods, and construction materials.
- Supports the infrastructure pipeline in roads, railways, urban transit, and renewable energy.
- Signals to foreign manufacturers that India favors local value addition, improving the case for “India for India” and “India for Global” production lines.

This is directly relevant for companies in automotive, EV, machinery, renewable energy, shipbuilding, and heavy engineering.



India's expanding role in Global Capability Centers (GCCs)

As of late 2025, India hosts approximately 1,760 GCCs, with that number expected to exceed 2,400 by 2030.

As companies diversify digital and operational delivery centers away from China and Eastern Europe, India remains the top choice jurisdiction.

Why GCC momentum accelerated in 2025

- Competitive talent pool across artificial intelligence (AI), deep tech, cybersecurity, analytics, and fintech
- Affordable real estate and operational costs in Tier-2 cities
- Data protection clarity under DPDP Rules
- Unified wage definition simplifying compensation structures
- Reduced indirect tax frictions after the implementation of GST 2.0

Sectors driving GCC expansion

- Banking and financial services
- Automotive and EV R&D
- Retail and e-commerce
- Cloud computing and enterprise tech
- Semiconductor design
- Healthcare and MedTech
- Defense and aerospace (non-sensitive R&D)

Companies entering India or expanding operations here in 2026 should evaluate both metro GCC hubs (e.g., Bengaluru, Hyderabad, Pune) and emerging tier-2 hubs (Coimbatore, Vadodara, Jaipur, Chandigarh).

Regional performance and investment trends

While 2025 is still being analyzed, early indicators highlight strong performance in:

Southern India (Tamil Nadu, Karnataka, Telangana)

- Electronics manufacturing, electric mobility, automotive, semiconductors
- Strong state-level adoption readiness for labor reforms
- Mature logistics infrastructure and policy stability

Western India (Gujarat, Maharashtra)

- Port-driven manufacturing, petrochemicals, engineering goods, BFSI, and GCCs
- Best positioned to leverage maritime law reforms

Northern India (Uttar Pradesh, Haryana)

- Rapid expansion in electronics, textiles, consumer goods, warehousing

Eastern India (Odisha, West Bengal)

- Mineral-based industries, steel and downstream products, port-led logistics

Foreign investors should track state-level notifications for labor codes, as these will shape operational parameters such as working hours, industrial relations (IR) procedures, and compliance inspection models.

How companies should prepare: 2026 compliance and strategy priorities

As India enters 2026 with a substantially reconfigured regulatory landscape, businesses must proactively align their tax, workforce, digital, and operational strategies to maintain continuity and stay competitive. On the tax front, companies should ensure their product classifications reflect GST 2.0's revised rate structure, review input-output credit flows – particularly for export-oriented operations – and recalibrate pricing strategies for consumer-facing portfolios that may experience demand shifts resulting from lower GST rates and corrected duty structures.

Workforce and HR functions must equally adapt. The unified definition of wages under the Labor Codes requires fresh wage-structure audits, while PF and ESI contributions, contractor arrangements, and payroll configurations must be updated to conform to the new statutory triggers.



HR and compliance teams will also need training to manage updated IR requirements, workplace safety norms, and inspection protocols under the OSHWC Code as states begin notifying their respective rules.

In the digital domain, DPDP compliance becomes an operational priority. Companies should implement consent systems aligned with the Act's notice and purpose limitation requirements, map personal data flows across domestic and cross-border operations, and establish breach notification frameworks that can be executed at short notice. These steps are particularly relevant for GCCs, fintech, e-commerce, IT services, and any business managing sensitive consumer or employee datasets.

Manufacturing and supply-chain-intensive businesses must reassess their sourcing models in view of India's growing preference for domestically produced inputs, especially in sectors like steel, automotive, and electronics, while also evaluating the logistics efficiencies emerging from port modernization and new maritime legislation. Companies in sectors benefiting from GST rationalization or labor flexibility should begin planning capacity expansion, evaluating the feasibility of new plants, contract manufacturing arrangements, and distribution hubs.

For market entrants and firms expanding their GCC footprint, 2026 is the right time to reassess location strategy. Tier-2 cities with strong talent pools and cost advantages are increasingly viable for both operational centers and manufacturing units. Improved tax clarity, predictable labor governance, and better digital regulations support phased scaling strategies. Firms with global delivery centers should also ensure that their cybersecurity and privacy frameworks align with DPDP expectations, particularly for cross-border data processing.

Ultimately, companies that integrate these strategic and compliance requirements early in 2026 will be more resilient, cost-efficient, and better positioned to scale their India operations in a policy environment that increasingly rewards transparency, planning, and regulatory preparedness.

Dezan Shira & Associates India

Dezan Shira & Associates expanded into India in 2007, opening offices in Mumbai and later New Delhi in 2008. The launch of Dezan Shira's India offices was coupled with the launch of India Briefing, which is now a premier source of business and regulatory intelligence related to the Indian market. In 2021, a third office was opened in Bengaluru (formerly Bangalore).

Our services in India include corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence, and financial review. Dezan Shira & Associates' experienced business professionals in India are committed to improving your understanding of investing and operating in emerging Asian markets.

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Why India

- ◆ Indian economy at a glance
- ◆ Investment climate and state-wise opportunities
- ◆ Infrastructure development

The Indian economy at a glance

According to the Reserve Bank of India (RBI), India's GDP growth rate for FY 2024–25 stands at 6.5 percent at constant prices. The Asian Development Bank (ADB) on December 10, 2025, revised India's growth forecast for FY 2025-26 to 7.2 percent, up from 6.5 percent, driven primarily by robust domestic consumption supported by recent tax cuts. The sharp upgrade of 0.7 percentage points in the Indian economy will help Asia grow at a faster pace of 5.1 percent as compared to the earlier projection of 4.8 percent for 2025. India's GDP quickened to 8.2 percent in the second quarter of FY 2025-26, up from 5.6 percent in the same quarter last year.

India's real GDP is estimated to have grown at 7.8 percent in the April–June quarter of FY 2025-26 – its fastest pace in five quarters.

According to the Ministry of Corporate Affairs (MCA) Annual Report, as of January 31, 2025, a total of 2.8 million companies were registered in India, of which 1.81 million were active. In addition, India had 5,216 registered foreign companies, with 3,281 (63 percent) classified as active.

GDP growth



FY 2025-26 (P) = **7.2%**
FY 2026-27 (P) = **6.7%**

PLI scheme disbursed



FY 2024-25 = INR **101.14 billion** /
(US\$1.13 billion)

FDI equity inflow



FY 2024-25 =
US\$50 billion
FY 2025-26 (April
to Sep quarter) =
US\$35.2 billion

Renewable energy capacity

(180.45 GW as of September 30, 2025.)



Solar: **127.33 GW**
Wind: **53.12 GW**

Total merchandise exports in FY 2024-25



US\$437.70 billion

FY 2025-26 (April-Nov) US\$292.07 billion

Intellectual property (IP) filing



689,991 in FY
2024–25, of which
68,176 patents
were filed



Foreign companies in India

5,216 foreign companies registered as of January 31, 2025, of which **3,281** foreign companies are active

Performance in the manufacturing sector

India's manufacturing sector carries forward its renewed momentum into 2026, supported by rising domestic demand, targeted policy incentives, and ongoing realignments in global supply chains. As multinational companies diversify beyond China and domestic firms scale up their technological capabilities, India is steadily reinforcing its position as a competitive production hub in Asia.

Manufacturing output posted a notable rebound in FY 2024–25, expanding by 4.26 percent compared to 14 percent in FY 2023–24. This uptick reflects improved factory utilization, stronger investment inflows, and the sustained impact of flagship industrial programs – particularly the Production-Linked Incentive (PLI) schemes spanning 14 strategic sectors, including electronics, automotive, pharmaceuticals, and advanced chemistry cells.

Macroeconomic context

In FY 2024–25, the industrial sector accounted for 27.13 percent of India's GDP, with manufacturing contributing 14 percent. With real GDP projected to grow at 7.2 percent in FY 2025–26, manufacturing is expected to remain a key pillar in sustaining economic expansion and driving export competitiveness.

India's push to raise the manufacturing share of GDP continues to translate into increased capital formation, accelerated technology adoption, and deeper integration of domestic firms into global value chains. State-level industrial policies have further catalyzed new investments, particularly in semiconductors, EVs, textiles, and renewable energy components.

Industrial output

The Index of Industrial Production (IIP) reinforces the picture of steady, albeit moderate, progress. Throughout 2025, monthly IIP growth fluctuated between 1.5 percent and 5 percent, with manufacturing consistently making up the largest share of overall industrial expansion.

Key manufacturing segments demonstrating strong year-on-year performance include:

- Basic metals: up to 12–13 percent
- Electrical equipment: up to 28.7 percent
- Motor vehicles and transport equipment: up to 14.6 percent
- Machinery and equipment: double-digit growth in several months
- Non-metallic mineral products: 6–10 percent growth range

These trends highlight the continued strength of India's capital goods, automotive, and infrastructure-linked industries.

While some months recorded slower industrial activity – partly due to external factors such as the early onset of monsoon rains in June 2025, which constrained mining output and electricity generation – the manufacturing sector remained broadly resilient. Strong domestic demand and capacity additions helped maintain momentum despite these temporary disruptions.

Innovation landscape

According to the World Intellectual Property Organization (WIPO) Science & Technology Cluster Ranking 2025, four Indian cities now feature among the world's top 100 innovation hubs.

The global distribution of top clusters remains concentrated in a few major economies:

- China: 24 clusters (ranked first for the second consecutive year)
- USA: 22 clusters
- Germany: 7 clusters
- India and the United Kingdom (UK): 4 clusters each

India's leading innovation clusters and global rankings:

- Bengaluru – Rank 21
- Delhi – Rank 26
- Mumbai – Rank 46
- Chennai – Rank 84

India has also improved its position on the Global Innovation Index (GII) 2025, rising to 38th out of 139 economies. The country continues to lead among the 10 economies in Central and South Asia.

Despite this progress, India's innovation performance remains stronger on outputs than on inputs:

India on the Global Innovation Index (GII)		
Category	2024 rank	2025 rank
Innovation inputs	44	52 (decline)
Innovation outputs	33	32 (improvement)

India's investment climate

India's accelerated manufacturing activity and increasingly investor-friendly regulatory environment have strengthened its position as one of the most attractive destinations for global foreign direct investment (FDI). According to cumulative data from the Department for Promotion of Industry and Internal Trade (DPIIT), the top five investing countries in FDI equity inflows into India from January 2000 to September 2025 were:

1. **Singapore:** US\$186.826 billion
2. **Mauritius:** US\$183.847 billion
3. **USA:** US\$77.413 billion
4. **Netherlands:** US\$54.959 billion
5. **Japan:** US\$45.692 billion

For FY 2025–26 (April–Sep 2025), DPIIT data shows a more diversified pattern of inflows, with the top contributing countries being:

- **Singapore:** 34 percent
- **USA:** 19 percent
- **Mauritius:** 10 percent
- **United Arab Emirates (UAE):** 7 percent
- **Cayman Islands:** 5 percent

India's sectoral FDI distribution highlights the scale of investment in services and technology-driven industries. From January 2000 to September 2025, the top five sectors attracting FDI equity inflows were:

1. **Services sector:** US\$123.962 billion
2. **Computer software and hardware:** US\$119.769 billion
3. **Trading:** US\$50.382 billion
4. **Telecommunications:** US\$40.168 billion
5. **Automobile industry:** US\$39.58 billion

FDI inflows remain geographically concentrated in India's most industrially advanced states. The top five states for FDI in FY 2025–26 (April–Sep) were:

1. **Maharashtra:** 30 percent (US\$10.57 billion)
2. **Karnataka:** 27 percent (US\$9.4 billion)
3. **Tamil Nadu:** 10 percent (US\$3.57 billion)
4. **Haryana:** 9 percent (US\$3.22 billion)
5. **Delhi:** 7 percent (US\$2.3 billion)

Investment Opportunities in Indian States		
Indian states/union territories	Opportunities	Worth
Andaman and Nicobar	106	US\$11.65 bn
Andhra Pradesh	1025	US\$176.23 bn
Arunachal Pradesh	226	US\$57.72 bn
Assam	400	US\$49.75 bn
Bihar	586	US\$98.12 bn
Chandigarh	99	US\$94 bn
Chhattisgarh	303	US\$7148 bn
Dadra & Nagra Haveli and Daman & Diu	26	US\$23.62 bn
Delhi	1033	US\$66.02 bn
Goa	137	US\$16.01 bn
Gujarat	1053	US\$153.77 bn
Haryana	415	US\$86.84 bn
Himachal Pradesh	237	US\$32.93 bn
Jammu & Kashmir	186	US\$39.17 bn
Jharkhand	487	US\$96.55 bn
Karnataka	907	US\$102.3 bn
Kerala	339	US\$61.21 bn
Ladakh	23	US\$9.25 bn
Lakshadweep	9	US\$8.69 bn
Madhya Pradesh	1338	US\$140.86 bn
Maharashtra	2170	US\$232.79 bn
Manipur	131	US\$17.96 bn
Meghalaya	120	US\$16.75 bn

Investment Opportunities in Indian States		
Indian states/union territories	Opportunities	Worth
Mizoram	213	US\$21.7 bn
Nagaland	171	US\$17.12 bn
Odisha	587	US\$133.07 bn
Puducherry	43	US\$10.34 bn
Punjab	400	US\$73.73 bn
Rajasthan	988	US\$120.92 bn
Sikkim	179	US\$23.96 bn
Tamil Nadu	1034	US\$161.24 bn
Telangana	638	US\$83.84 bn
Tripura	122	US\$13.56 bn
Uttar Pradesh	2056	US\$269.07 bn
Uttrakhand	370	US\$39.58 bn
West Bengal	1192	US\$136.44 bn

Source: India Investment Grid portal. The figures are revised periodically.

India's FDI Regulatory Landscape

Step 1: Identify the applicable route

Automatic route: No prior government approval required. Investor may proceed directly but must comply with post-investment reporting to RBI.

Government approval route: Mandatory approval needed for sectors placed under the approval route. Applications are filed online on the National Single Window System (NSWS)/Foreign Investment Facilitation Portal (FIFP).



Step 2: Prepare for the approval process (if applicable)

Register on NSWS: Sign up using an email ID and mobile number to access the FIFP forms.

Compile required documents: Typically includes incorporation documents, MoA/AoA, financials, board resolution, shareholding pattern diagram, and any sector-specific documents.

Security clearance form: Must be submitted wherever security vetting is required (e.g., investments from neighbouring countries under the Press Note 3 framework).



Step 3: File the online application

Access the approval form: Log in to NSWS/FIFP and select the appropriate application form for the investment proposal.

Complete and upload: Fill the form, digitally sign it, and upload all supporting documents/annexures.

Submit application: After online submission, the system may require a physical copy within 10 days, depending on ministry-specific requirements



Step 4: Processing and decision

Assignment to concerned ministry/department: DPIIT forwards the application to the relevant administrative ministry/department.

Scrutiny: The union ministry reviews the proposal and may ask for additional information or clarifications.

Decision: The competent authority issues the approval or rejection letter through the portal.



Step 5: Post-approval compliance

Capital remittance: Investor may remit funds into India following approval.

Regulatory reporting: Mandatory filings with RBI (e.g., FC-GPR, FC-TRS, or SMF forms) and SEBI (if applicable), covering remittances, share issuance, and subsequent changes in shareholding.



Key Sectors: FDI Route			
Sector	Sub-segment	FDI cap/limit	Entry route
Agriculture & plantations	Floriculture, horticulture, animal husbandry, seeds, etc.	100%	Automatic
Mining	Metal/non-metal ores	100%	Automatic
Coal & lignite mining	Mining for captive consumption	100%	Automatic
Oil & gas exploration	Exploration of oil/gas fields	100%	Automatic
Petroleum refining (by PSUs)	Refining operations	49%	Automatic
Manufacturing	All manufacturing (broad)	100%	Automatic
Broadcasting – carriage services	Teleports, DTH, Cable, Mobile TV, HITS	100%	Automatic
Broadcasting – content	Up-linking/non-news TV	100%	Automatic
Civil aviation	Airports (Greenfield)	100%	Automatic
Defense	Defense manufacturing	Up to 74%	Automatic (FDI > 74% → government approval)
Telecom/telecom services	Telecom services broadly	100%	Automatic (for many telecom services)
Banking (private)	Private sector banks	Up to 49% (auto) → beyond 49% (government)	Mixed route
Insurance	Insurance companies	100%	Automatic
Space/satellite	Satellite manufacturing & operations	Up to 74% (auto) → above 74% (govt)	Mixed route

Restricted FDI sectors

While India permits 100 percent FDI in most sectors under the automatic route, several strategic or sensitive segments remain subject to caps or government approval. Key restrictions include:

- **Petroleum refining (by Public Sector Undertakings):** Up to 49 percent, automatic route
- **Broadcasting content services (terrestrial broadcasting, FM radio):** 49 percent, government route
- **Digital media:** 26 percent, government route
- **Multi-brand retail trading:** 51 percent, government route
- **Print media (publishing of newspapers, periodicals, and Indian editions of foreign magazines dealing with news and current affairs):** 26 percent, government route
- **Duty-free shops:** 100 percent, automatic route (applicable to shops located and operated within customs-bonded areas)

Important note:

FDI rules are often sub-segment specific and subject to periodic policy updates. Additionally, under Press Note 3 (2020), investments from entities or beneficial owners based in countries sharing a land border with India require mandatory government approval, irrespective of the sectoral cap or route.

FDI prohibited sectors

- *Lottery business including Government/ Private lottery, online lotteries etc.
- Chit funds
- Trading in Transferable Development Rights (TDR)
- Manufacturing cigars, cheroots, cigarillos, and cigarettes (tobacco or tobacco substitutes)
- *Gambling and betting, including casinos
- Nidhi company
- **Real estate business or construction of farmhouses
- Sectors that are not open to private sector investments – atomic energy, railway operations (other than permitted activities mentioned under the Consolidated FDI Policy)

** Foreign technology collaboration in any form, including licensing for franchise, trademark, brand name, management contract is also prohibited for lottery business and gambling and betting activities.*

*** Real estate business shall not include the development of town shops, construction of residential/ commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations, 2014.*

Infrastructural development

India launched the National Infrastructure Pipeline (NIP) for the period FY 2019 to FY 2025, identifying a comprehensive portfolio of projects aimed at constructing, upgrading, and expanding critical infrastructure. The NIP spans sectors such as roads, housing, urban development, railways, conventional and renewable power, and irrigation. Within this framework, highways and railways remain key priority areas, reflecting the government's push to strengthen national logistics efficiency and support industrial growth.

The Industrial Corridor Projects, developed under the National Industrial Corridor Program, exemplify this approach. These projects focus on building next-generation industrial cities and enhancing inter-city connectivity, enabling domestic manufacturing clusters to integrate more effectively into global value chains and compete with leading investment destinations worldwide.

Logistics Infrastructure in India: Industrial and Freight Corridors and Port Connectivity

Industrial corridors

Amritsar-Kolkata Industrial Corridor (AKIC)
Chennai-Bengaluru Industrial Corridor (CBIC)
Vizag-Chennai Industrial Corridor (VCIC)
Delhi- Mumbai Industrial Corridor (DMIC)
Odisha Economic Corridor (OEC)
Hyderabad-Nagpur Industrial Corridor (HNIC)
Hyderabad-Warangal Industrial Corridor (HWIC)
Hyderabad-Bengaluru Industrial Corridor (HBIC)
Bengaluru-Mumbai Industrial Corridor (BMIC)
Extension of CBIC to Kochi via Coimbatore
Delhi-Nagpur Industrial Corridor (DNIC)

Freight corridors

North South DFC - Vijayawada to Itarsi
WDFC - Dadri - JNPT
EDFC - Sahnewal - Sonnagar - Dankuni
East Coast DFC - Vijayawada to Kharagpur
East West DFC
• Bhusawal - Nagpur
• Rajkharswan - Dankuni
• Rajkharswan - Andal

Major ports

Kandla, Gujarat
Mumbai, Maharashtra
JNPT, Navi Mumbai, Maharashtra
Mormugao, Goa
New Mangalore, Karnataka
Cochin, Kerala
Vizhinjam, Kerala
Tuticorin, Tamil Nadu
Chennai, Tamil Nadu
Ennore, Tamil Nadu
Visakhapatnam, Andhra Pradesh
Paradip, Odisha
Kolkata-Haldiya, Kolkata, West Bengal

Spotlight: Vizhinjam International Seaport Limited (VISL)

VISL is the special purpose entity established by the Government of Kerala to develop and oversee India's first deep-water, all-weather container transshipment port at Vizhinjam, Thiruvananthapuram. The port operates under a public-private partnership (PPP) framework, with day-to-day operations managed by the private concessionaire, Adani Vizhinjam Port Pvt. Ltd.

Strategically located just 10 nautical miles from the major east-west international shipping corridor, VISL is positioned to attract significant transshipment traffic with minimal deviation for global carriers. Phase 1 offers an initial capacity of approximately 1 million TEUs, with subsequent phases projected to scale throughput to over 6.2 million TEUs – strengthening India's competitiveness in the global transshipment market.

Between July 11, 2024, and July 11, 2025, Vizhinjam handled 393 vessels and processed around 830,000 containers, including 23 ultra-large container vessels such as MSC Irina – one of the world's largest container ships. The port is preparing to commence EXIM cargo operations once road connectivity is fully in place, while rail connectivity is expected to be completed within three years.

For importers and exporters – particularly those operating in southern and western India – Vizhinjam offers the potential for reduced transit times, lower logistics costs, and improved schedule reliability, supported by advanced automation and deep-draft capabilities. Beyond maritime operations, the port is expected to catalyze port-led development, including warehousing clusters, logistics parks, value-addition services, and enhanced hinterland connectivity. VISL's mandate extends to facilitating these complementary infrastructure initiatives, including proposed logistics centers, FTZs, and warehousing zones.

Completion of future phases – including berth expansion, full quay development, and multimodal connectivity – will be critical to unlocking the port's full commercial potential. Expanded capacity and seamless hinterland linkages will be essential to sustaining volume growth and positioning Vizhinjam as a leading transshipment hub in the region.

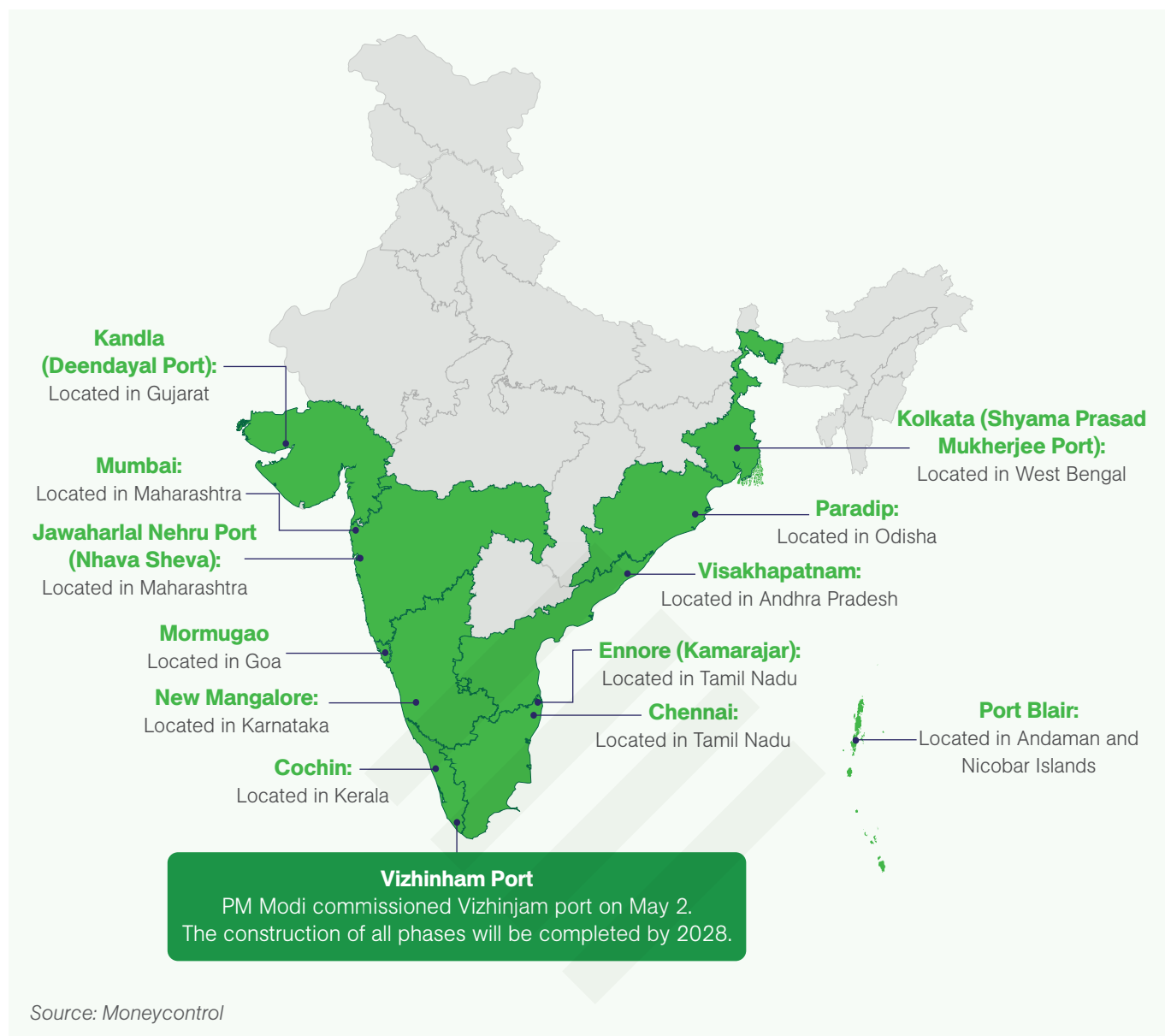


KOUSHAN DAS

Manager
Business Intelligence (BI)
Delhi Office

“India’s infrastructure landscape is undergoing a decisive transformation—from expanded national corridors and dedicated freight routes to advanced deep-water ports like Vizhinjam. Strategic investments in multimodal logistics, port-led development, and digital integration are not only cutting transit costs and easing congestion but also positioning India as a more competitive, efficient, and globally connected trade hub.”

Major Ports of India



India's semiconductor sector outlook

India has positioned itself as a dependable player in global semiconductor supply chains. The domestic chip market, valued at US\$38 billion in 2023, is projected to grow to US\$109 billion by 2030, driven by expanding demand in electronics, automotive technologies, industrial systems, and data centers.

To reduce import dependence and attract major fabrication and advanced packaging investments, the central government launched the Programme for Development of Semiconductors and Display Manufacturing Ecosystem in 2021, supported by an INR 760 billion (US\$8.52 billion) incentive package under the India Semiconductor Mission (ISM).

As of October 2025, ISM has approved 10 semiconductor projects across six states, mobilizing over INR 1.6 trillion (US\$18–19 billion) in committed investments.

India Semiconductor Mission (ISM): Approved Projects						
Project name	Location	Investment	Capacity	Key products/technologies	Partnerships/technology partners	Timeline
Micron Technology	Sanand, Gujarat	US\$2.75 billion	Assembly, testing, marking & packaging (ATMP) unit	Memory and storage products (export-focused)	Micron (Based out of Idaho, US)	Approved June 2023 under modified ATMP/OSAT scheme; Phase-1 cleanroom validation underway in 2025; first phase expected to become operational by late 2025/early 2026.
Tata Electronics (TEPL) & PSMC	Dholera, Gujarat	INR 910 billion	50,000 wafers/month	High-performance computer chips (28 nm); power management chips for EVs, telecom, defense, etc.	Powerchip Semiconductor Manufacturing Corp (PSMC), Taiwan	Approved Feb 2024 under semiconductor fab scheme; construction has started, with production targeted by 2026.
Tata Semiconductor Assembly & Test (TSAT)	Jagiroad, Morigaon, Assam	INR 270 billion	48 million units/day	Advanced packaging technologies (flip chip, integrated system); automotive, EV, telecom, consumer electronics chips	-	Approved Feb 2024 under ATMP/OSAT scheme; land leased for 60 years; first chips targeted around 2025–26 along with co-located skill development center.
CG Power with Renesas & Stars Microelectronics	Sanand, Gujarat	INR 76 billion	15 million chips/day; first OSAT pilot line (G1) can handle ~0.5m units/day, with G2 lifting capacity to ~14.5m units/day.	Specialized chips for consumer, industrial, automotive, & power applications	Renesas Electronics, Japan; Stars Microelectronics, Thailand	Approved Feb 2024; first OSAT pilot line at Sanand inaugurated August 2025 and expected to go into commercial production in 2026
Kaynes Semicon	Sanand, Gujarat	INR 33.07 billion	6.3 million chips/day (initial target: 1 billion/year)	Power electronics, industrial applications; OSAT facility	AOI Electronics (Japan), Aptos Technology (Taiwan), Globetronics (Malaysia), Mitsui (raw materials)	Chips roll out by March 2025; full target in 5 years

India Semiconductor Mission (ISM): Approved Projects

Project name	Location	Investment	Capacity	Key products/technologies	Partnerships/technology partners	Timeline
HCL-Foxconn (Joint Venture)	Noida Sector 28, Uttar Pradesh	INR 37 billion	20,000 wafers/month (design output capacity 36 million units/month)	manufacturing display driver chips for mobile phones, laptops, automobiles, PCs	-	Production to begin by 2027
SiCSem Pvt Ltd	Bhubaneswar, Odisha	~INR 20.66 billion	About 60,000 SiC wafers/year plus ATMP capacity of ~96 million units/year for high voltage applications in EV, renewable energy, smart grid systems, data centers, and other industries.	Silicon Carbide (SiC) fab + ATMP	-	Approved Aug 2025 as one of four new projects; strengthens India's advanced materials semiconductor base. Expected to be operational by 2027-28.
3D Glass Solutions Inc. (3DGS)	Info Valley, Bhubaneswar, Odisha	INR 1943 billion	Expected output: approximately 69,600 glass panel substrates, 50 million assembled units, and 13,200 3DHI modules per year.	Glass substrate & ATMP	-	Approved Aug 2025 under compound semiconductors/ ATMP scheme.
Continental Device India Ltd (CDIL)	Mohali, Punjab	INR 1.17 billion	Additional capacity of about 158.38 million units/year, largely for discrete semiconductors and legacy devices (MOSFETs, IGBTs, Schottky Bypass Diodes, and transistors, both in Silicon & Silicon Carbide).	Discrete/ legacy chips & packaging	-	Expansion of existing facility under ISM; leverages long-standing local ecosystem in Mohali.

India Semiconductor Mission (ISM): Approved Projects						
Project name	Location	Investment	Capacity	Key products/ technologies	Partnerships/ technology partners	Timeline

Advanced System in Package (ASIP) Technologies	Andhra Pradesh	INR 4.68 billion	Planned capacity of around 96 million units/ year, focusing on advanced SiP modules for communications and high-density electronics.	Advanced SiP & system-in-package	-	Approved Aug 2025; strengthens India's high-end packaging and system-integration capabilities.
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India Semiconductor Mission (ISM): Pipeline Projects						
Project name	Location	Investment	Capacity	Key products/ technologies	Partnerships/ technology partners	Timeline

Tower with Adani	Taloja MIDC, Panvel, Maharashtra	INR 83947 billion (US\$10 billion)	40,000 wafers/ month (phase 1); 80,000 wafers/ month (phase 2)	Analog/mixed signals semiconductor manufacturing	Tower Semiconductor (Israel)	Central government waiting formal proposal; Maharashtra government has approved JV
Suchi Semicon	Surat, Gujarat	Undisclosed	Advanced assembly/ testing capacity	OSAT facility; focus on Class 10k/100k cleanrooms	Collaboration with Gujarat Technological University and SVNIT	Production starts November 2024; cleanroom area: 30,000 sq. ft
Tarq Semiconductors (Hiranandani Group)	TBD	Undisclosed	TBD	ATMP facility and compound semiconductors	-	Approval pending



Setting Up a Business in India

- ◆ **Setting up a business in India**
- ◆ **Incorporation procedure of different entities**
- ◆ **Permanent establishment (PE) in India**
- ◆ **Mergers and acquisitions in India**

Setting up a business in India

Types of entity structures in India

Selecting the right entity structure is a foundational decision for foreign companies entering India.

India offers both unincorporated and incorporated entity options, each suited to different stages of market entry. While unincorporated entities enable a low-commitment presence, incorporated entities provide full operational capability and are generally preferred by long-term investors.

Unincorporated entity options

Unincorporated entities allow foreign companies to establish a presence without creating an Indian legal entity. Regulated primarily by the Reserve Bank of India (RBI), these structures are often used during the initial phase, either to understand the market, coordinate projects, or support the parent company's India-linked activities.

Unincorporated Entity Options in India		
Type of entity	Description	Suitability
Liaison Office (LO)	- An LO acts purely as a representative arm of the parent company. - It facilitates communication, market intelligence, and brand promotion but cannot generate revenue or engage in commercial activities.	LOs are suitable for companies exploring India before committing to a full-scale operation.
Branch Office (BO)	- A BO permits a broader scope of activities than an LO, allowing operations such as consultancy, import/export of goods, and research. - However, retail trading and manufacturing directly in India are prohibited.	BOs are chosen by companies that wish to conduct business without establishing a subsidiary.
Project Office (PO)	A PO is set up to execute a specific, time-bound project awarded to a foreign company.	Common among engineering, construction, and EPC businesses, POs offer a straightforward route for project-specific execution without a long-term legal presence.

Incorporated entity options

Incorporated entities are registered under Indian legislation and operate as separate legal persons. These structures are preferred by companies establishing a long-term presence, hiring local employees, raising capital, or conducting unrestricted business activities.

Forms of Incorporated Entities in India	
Type of entity	Description
Limited Liability Partnership (LLP)	• An LLP blends operational flexibility with limited liability protection. • With no minimum capital and moderate compliance requirements, LLPs appeal to professional services firms and small to mid-sized ventures. • However, foreign investments in LLPs are subject to sectoral conditions, and fundraising options remain limited.
Wholly Owned Subsidiary (WOS)/ Private Limited Company	• A wholly owned subsidiary, formed as a private limited company, is the most preferred structure for foreign investors. • It offers wide operational freedom, strong legal standing, full control, and better access to financing. • Governed by the Companies Act, 2013, this entity type supports scalable, growth-driven operations despite higher compliance obligations.
Joint Venture (JV)	• A joint venture involves strategic collaboration between foreign and Indian partners. It can take the form of a private company, LLP, or partnership. • JVs provide local market expertise, distribution networks, and shared investment but require carefully structured agreements for governance and exit protocols.
One Person Company (OPC)	• An OPC enables a single promoter to operate a corporate entity with limited liability. • While useful for small-scale operations or individual founders, OPCs have turnover and capital restrictions and are not a typical choice for foreign corporations.
Public Limited Company	• Designed for large enterprises aiming for public fundraising or eventual listing, a public limited company has no shareholder cap but must follow rigorous governance and disclosure norms. It is suitable for substantial, India-focused expansions rather than initial market entry.
Section 8 Company	• A Section 8 company is a non-profit entity established for charitable, educational, or social objectives. • It cannot distribute profits and must reinvest surpluses in its mission. • These entities offer credibility and tax incentives and are chosen by corporates undertaking social or philanthropic initiatives in India.

Comparative Snapshot of Entity Structures in India				
Entity type	Separate legal identity	Liability	Compliance level	Best suited for
Sole proprietorship	No	Unlimited	Low	Individuals, small traders
Partnership firm	No	Unlimited	Low	Small businesses with multiple owners
LLP	Yes	Limited	Moderate	Professional firms, flexible start-ups
Private Limited Company (incl. WOS)	Yes	Limited	High	Start-ups, foreign subsidiaries, scalable business
OPC	Yes	Limited	Moderate	Solo entrepreneurs
Public Limited Company	Yes	Limited	Very high	Large enterprises, public fundraising
Section 8 Company	Yes	Limited	Moderate	NGOs, CSR initiatives
JV	Varies	Varies	Varies	Strategic partnerships
Liaison/branch/project office	No	Parent company liable	Low–moderate	Early-stage presence, project execution

Recommended entity structures for foreign firms and investors in India

Foreign companies generally prefer entity structures that provide full operational freedom, limited liability, tax clarity, and the ability to scale. While unincorporated entities serve well for early-stage or limited-scope activities, they are not suited for sustained business operations or revenue generation in India. Therefore, foreign investors typically choose incorporated entities for long-term growth.

1. Wholly Owned Subsidiary (WOS) – Highly preferred

A WOS, registered as a Private Limited Company, is the top choice for foreign investors due to the following advantages:

- Broad operational freedom in most sectors
- Eligibility to undertake commercial activities without restrictions

- Better access to financing, banking facilities, and local hiring
- Strong investor protection under the Companies Act, 2013

This structure is ideal for companies planning long-term operations, manufacturing, service delivery, R&D, or India-focused market expansion.

2. Joint Venture (JV) – Preferred for market access or partner-driven models

A JV is suitable when foreign firms need:

- Local expertise or distribution networks
- Technology partnerships
- Shared ownership and risk distribution
- Faster integration into Indian supply chains

JVs are strategic for sectors requiring local collaboration or where sectoral FDI caps necessitate Indian participation.

3. Limited Liability Partnership (LLP) – Preferred for professional services and low-compliance operations

LLPs are chosen by foreign entities when:

- Sector permits FDI under the automatic route
- Operational needs are modest
- Flexibility and lower compliance burden are priorities

LLPs offer limited liability and operational ease but are less suited for businesses seeking external investment or large-scale operations.

4. Unincorporated entities – Suitable only for early-stage or limited activities

- Liaison Office (LO) – best for market research, promotion, or initial groundwork
- Branch Office (BO) – suitable for consultancy, import/export, or back-end operations
- Project Office (PO) – ideal for engineering or construction firms executing a specific contract

These structures cannot raise capital, employ wide operational scope, or conduct unrestricted commercial activities, making them unsuitable for long-term or high-growth plans.



KRISHAN AGGARWAL

Operations Director
India

Dezan Shira & Associates

“Selecting the right entity structure will help the company establish itself as a strong player in the Indian market, and also help them reap financial gains.”

Incorporation procedure of different entities

Setting up a business in India involves a structured regulatory process governed primarily by the Ministry of Corporate Affairs (MCA), RBI, and relevant tax and labor authorities. While timelines vary based on the chosen entity, Private Limited Company, LLP, or OPC, the incorporation workflow follows a predictable sequence.

The steps below outline the standard procedure for foreign and domestic investors establishing operations in India.

1. Decide the entity structure and assess FDI eligibility

The first step is selecting the type of entity (Private Limited Company, LLP, or OPC) based on ownership structure, funding needs, and long-term business plans. Foreign investors must also determine whether their sector falls under the automatic route of FDI or requires prior government approval.

2. Obtain digital signatures and director identification numbers

All company filings with the MCA are electronic. Digital Signature Certificates (DSCs) must be obtained for proposed directors/partners. Following this, applications are filed for the Director Identification Number (DIN) (for companies) or Designated Partner Identification Number (DPIN) (for LLPs).

3. Apply for name reservation

Applicants must propose a unique business name through the MCA's RUN (Reserve Unique Name) or SPICe+ service. Names must comply with the Companies Act, 2013, naming guidelines and cannot conflict with existing trademarks or registered entities.

4. Prepare charter documents

Depending on the type of entity, the following constitutional documents must be drafted:

- **Private Limited Company/OPC:**
 - » Memorandum of Association (MoA)
 - » Articles of Association (AoA)
- **LLP:**
 - » LLP Agreement outlining partner roles, capital contributions, and governance mechanisms.

These documents set out the entity's objectives, ownership, internal rules, and decision-making processes.



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5. File incorporation application through SPICe+

India's SPICe+ integrated web form merges multiple approvals, making incorporation faster and more efficient. Through SPICe+, applicants can secure:

- Certificate of Incorporation
- PAN and TAN
- GST registration (optional)
- ESIC and EPFO registration
- Professional Tax registration (where applicable)
- Opening of bank account via partner banks

For LLPs, a parallel online form—FiLLiP—is used.

6. Capital contribution and share allotment

After incorporation:

- A Private Limited Company must issue share certificates to shareholders and deposit subscribed capital in its bank account.
- LLP partners must record capital contributions in the LLP Agreement.

7. Register for statutory tax accounts

All entities must comply with Indian tax regulations, which typically include:

- PAN (Permanent Account Number)
- TAN (Tax Deduction Account Number)
- GST registration, where applicable

Foreign-owned entities must also report foreign investments to the RBI through the FIRMS portal within strict timelines.

8. Comply with post-incorporation labor and business registrations

Depending on size and nature of business, companies must fulfil:

- Shops and Establishments Act registration
- Mandatory SHE-Box reporting compliance for prevention of workplace harassment
- Professional tax (in applicable states)
- Local registrations (trade license, fire NOC, pollution NOC, where required)

9. Set up statutory registers and corporate governance framework

Companies must maintain:

- Register of members, directors, and shares
- Minutes of board and shareholder meetings
- Financial books of accounts

LLPs must maintain statement of accounts and solvency records.

10. File initial statutory returns

Within prescribed timelines, entities must file:

- INC-20A (declaration of commencement of business) for companies
- LLP Agreement filing within 30 days of incorporation

Late filings may attract monetary penalties.

Incorporation in India demands accuracy, compliance, and timely reporting. For foreign investors, additional layers such as FDI validation, RBI reporting, and resident director requirements mean that careful planning is essential.

Incorporation of WOS-Pvt. Ltd. Company (Step-by-step process)

A. Pre-formation planning

1. Decide on business scope, capital structure, authorized/paid-up capital and shareholding (100% foreign where sectoral rules permit).
2. Confirm FDI route (automatic vs government approval) for your sector.
3. Appoint at least two directors (one resident director required) and identify company secretary / compliance lead.

B. Pre-filing formalities

4. Obtain DSC for proposed directors.

C. Name reservation & incorporation filing

5. Reserve company name via the MCA name reservation service (or integrated form).
6. Prepare incorporation documents: Memorandum of Association (MoA), Articles of Association (AoA), consent forms of directors, proof of registered office, identity/address proofs.



CORPORATE ESTABLISHMENT

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7. File the integrated incorporation form (SPICe+ or equivalent) to ROC—this can bundle PAN/TAN application, and certain registrations.

D. Post-incorporation formalities

8. Receive Certificate of Incorporation and Corporate Identification Number (CIN).
9. Apply for PAN and TAN (if not auto issued via SPICe+). Open a bank account in the company's name and deposit subscribed capital.
10. If sector/FDI requires, file foreign investment reporting to RBI (e.g., automatic route notifications / FCGPR or online FIRMS reporting) within statutory timelines.
11. Register for GST, EPFO, ESIC, professional tax, Shops & Establishment etc., as applicable.
12. Appoint statutory auditors, prepare first board meeting minutes, and file commencement of business declaration where required.

E. Ongoing compliance

13. Maintain statutory registers, hold board/AGM as mandated, file annual returns and financial statements, comply with tax reporting (TDS, GST), and meet audit obligations.

Pro Tip: Ensure sectoral FDI caps and conditionalities are checked before incorporation. Structured shareholder agreements can help protect minority interests and define exit triggers even in a WOS setting (useful if future JV/secondary investments planned).

Incorporation of LLP (Step-by-step process)

A. Preliminary decisions

1. Determine partners and their contributions, designate at least two designated partners (one must be resident in India). For foreign partners, ensure sectoral FDI permissibility.
2. Draft the LLP Agreement covering profit share, decision rights, capital calls, admission/exit, and dispute resolution.

B. Registration & filing

3. Obtain DSCs and DPIN/DIN for designated partners.
4. Reserve name and file incorporation documents with ROC using the prescribed LLP incorporation form. Attach subscriber details and proof of registered office.
5. Execute and file the LLP Agreement within the required timeline post-incorporation.

C. Tax & statutory registrations

6. Apply for PAN/TAN and GST where applicable. Open bank account in LLP's name and account for partners' contributions.
7. If foreign investment exists or foreign LLP establishes place of business in India, follow RBI/FEMA reporting requirements.

D. Compliance & record-keeping

8. Maintain statutory books, file annual Statement of Accounts and Solvency, and perform audits if thresholds met (turnover or contribution thresholds).
9. Comply with labor registrations (EPFO/ESIC) when workforce thresholds trigger applicability.

Pro Tip: LLPs are not typically VC-fundable. If equity fundraising is anticipated, prefer a private limited company. Ensure the LLP Agreement is comprehensive, governance depends heavily on contract terms.

Practical checklist (All market entry routes)

1. Regulatory readiness

- FDI & sectoral compliance: Verify sector-wise FDI caps, licensing needs, and state-specific regulations.
- RBI/FEMA reporting: Adhere to foreign investment reporting timelines to avoid penalties.

2. Entity setup essentials

- Resident director/partner: Appoint early to prevent incorporation delays.
- Governance foundation: Maintain statutory registers, board minutes, audited accounts, and timely filings.

3. Tax & banking setup

- Mandatory IDs: Obtain PAN, TAN, and GST registration (where required).
- Banking: Open operational bank accounts.
- Tax structuring: Consult advisors for transfer pricing, GST/VAT, and treaty optimization.

4. Labor & statutory compliance

- Employee-related registrations: EPFO, ESIC, professional tax, shops & establishment.

- Local operating permits: secure all required municipal and state-level approvals before operations.

5. Legal & advisory support

- Legal counsel: Engage for contract drafting, entity structuring, and regulatory documentation.
- Tax & financial advisors: Ensure compliance with ongoing financial reporting and statutory obligations.

Permanent establishment (PE) in India

A PE represents a taxable presence of a foreign enterprise in India. When a PE is created, either through a physical location or a dependent agent, India gains the right to tax the profits attributable to that presence under domestic law and applicable tax treaties.

India's Double Taxation Avoidance Agreements (DTAAs) outline various forms of PE. The most notable categories include Fixed Place PE, Dependent Agent PE, and in many treaties, Service PE.

1. Fixed Place PE

A Fixed Place PE arises when a foreign company operates through a physical, identifiable location in India where business activities are wholly or partly carried out.

Key conditions

1. Existence of a fixed place of business: The enterprise must have a specific location available to it in India, such as an office, branch, factory, workshop, warehouse (used for commercial activities), sales outlet, farm, plantation, or even facilities used for natural resource exploration. Many treaties include time thresholds (for example, 120 days for certain resource-based activities).
2. Place must be at the disposal of the enterprise: The foreign entity must have control over the premises. Mere use of a third-party facility, such as a contract manufacturer's factory where the foreign company has no authority over operations, typically does not constitute a PE.
3. Core Business activities must be conducted from the fixed place: Activities carried out at the location should have commercial or revenue-generating significance. Auxiliary or preparatory functions alone generally do not create a PE.
4. Construction PE: Under most Indian tax treaties, a construction, installation, or project site constitutes a PE only if the project continues for more than 12 months.

2. Dependent Agent PE

A Dependent Agent PE (DAPE) arises when a person in India habitually acts on behalf of a foreign company and creates a meaningful economic presence.

Conditions for DAPE

1. An agent is considered dependent if they work exclusively or almost exclusively for the foreign enterprise and do not operate in the ordinary course of an independent business.
2. A PE may be triggered if the agent:
 - » Habitually concludes contracts or plays the principal role in finalizing contracts binding the foreign enterprise, or
 - » Maintains stock belonging to the foreign entity and regularly fulfils orders from that stock.

These activities typically occur under the direction and control of the foreign enterprise, with the agent not assuming entrepreneurial risks.

3. Service PE

Many of India's treaties contain provisions for Service PE, which is triggered when a foreign company provides services in India.

Service PE applies when:

- Services are rendered in India through employees or other personnel, exceeding a specified duration (usually 90 days in a 12-month period).
- A lower threshold (often 30 days) may apply when services are provided to a related enterprise, such as a subsidiary or affiliate.

Subsidiary vs. PE: Clarifying the distinction

A subsidiary in India does not automatically create a PE for its foreign parent company. The determination of PE is always based on treaty tests – Fixed Place PE, DAPE, or Service PE – which must be evaluated independently in each case.

Activities that do not create a PE

Tax treaties generally carve out specific situations that do not amount to a PE, even when a physical presence exists. These exclusions apply when the activities are limited, preparatory, or auxiliary in nature. Common non-PE scenarios include:

- 
1. Using premises solely to store, display, or deliver goods owned by the foreign enterprise.
 2. Maintaining inventory only for storage, display, delivery, or processing by another enterprise, without conducting core business operations from that location.
 3. Operating a fixed place exclusively for purchasing goods, collecting information, or performing other preparatory or auxiliary functions, which do not contribute directly to core revenue-generating activities.
 4. Running a fixed place solely for a combination of the above limited activities, as long as their overall nature remains preparatory or auxiliary.

Supreme Court clarifies PE threshold: Substantive control can create taxable presence in India

On July 24, 2025, the Supreme Court of India delivered a critical ruling on what constitutes a PE for foreign enterprises under the India–UAE tax treaty. The Court held that a UAE-based company created a fixed place PE in India, not because it owned or leased premises, but because it exercised substantive and continuous control over hotel operations in India.

How to read the ruling

The judgment reinforces the principle that substance takes precedence over form in international tax and confirms that profits may be attributed to an Indian PE even when the enterprise reports global losses.

The ruling provides important guidance at a time when PE determination has become increasingly complex for multinational businesses using centralized management models, shared resources, and standardized global operating procedures. The Court clarifies that ongoing operational involvement in India, even with limited physical footprint – may be enough to trigger PE status.

Supreme Court's key findings

1. Fixed Place PE established through “disposal” and operational control

The Court applied the “disposal test” under Article 5(1) of DTAA and held that:

- A foreign enterprise does not need to own or rent premises to have a PE.
- What matters is whether it has real and practical control over premises where core business activities are carried out.
- The UAE entity exercised such control over hotel operations, personnel, decisions, and management systems.

The Court emphasized:

- Exclusive possession is not required.
- Even temporary or shared access to premises may amount to a fixed place PE if business is conducted there.
- The 20-year agreements indicated continuity, stability, and dependence – hallmarks of a PE.

2. Degree of control was substantive, not auxiliary

The Security of Supply Agreements (SOSAs) empowered the foreign enterprise to:

- Influence staffing and management appointments
- Shape HR, procurement, pricing, and marketing policies
- Oversee day-to-day operating standards
- Supervise financial reporting and bank controls
- Deploy personnel without approval from the Indian owner

This level of involvement went beyond advisory support and constituted core income-generating activity.

3. Employee presence test under Article 5(2)(i) of DTAA

Although no single employee stayed in India for nine months or more:

- The aggregate pattern of employee visits and oversight activity met the treaty threshold for a Service PE.
- The Court clarified that continuity of presence – not individual duration – is the relevant test.

4. Profits attributable even if global entity shows losses

Relying on Article 7 and prior rulings, the Court held:

- Taxability is linked to the existence of a PE, not the profitability of the global group.
- Even in a loss situation, attributable profits must be computed and taxed.

Key notes

The Supreme Court's decision expands the practical understanding of PE risk:

1. Operational involvement in India, even without a physical office, can create a taxable presence.
2. Shared or intermittent use of premises may still amount to a fixed place PE if substantive business functions occur there.

3. Employee visits, even for short periods, can create a Service PE when viewed in aggregate.
4. Contractual arrangements, including management, technical, or strategic oversight agreements, should be evaluated for PE exposure.
5. MNEs must reassess SOP-driven control structures, onsite monitoring, and instances where foreign employees work from affiliate premises.

Mergers & acquisitions landscape

India's mergers and acquisition (M&A) landscape has expanded rapidly in recent years, supported by strong economic fundamentals, sectoral consolidation, and a proactive reform agenda. However, India continues to remain a compliance-intensive jurisdiction, making regulatory due diligence and risk assessment essential for both domestic and foreign investors.

M&A activity in India

India's M&A activity rebounded sharply in 2024, rising 18.2 percent to reach US\$96.9 billion in pending, completed, and announced deals. The momentum continued in 2025 as well.

Consumer Sector M&A Activity in India (Jan–Sep 2025)

Category	Details
Total deals	115 deals; highest in four years (previous high: 100 in 2022)
Leading segments	Food & beverage (41%), apparel & accessories (24%)
Fundraising value	INR 212 billion, with ~75% from F&B transactions
Major September 2025 deals	Trident Group deal (~INR 2,486 million); Marico acquired 46% of HW Wellness for INR 1,385 million
PE/VC activity	PE accounted for 99% of deal value; 15 PE and 7 VC deals closed in September
Avg deal size (Sep 2025)	INR 1,070 million
Notable PE highlight	KPN Fresh Farm accounted for nearly one-third of PE deal value
Outbound M&A trend	2024: 120 deals worth US\$17 billion; Jan-Aug 2025: ~100 deals worth US\$11 billion, driven by strategic expansion

Financial Sector M&A Activity in India (Jan–Sep 2025)

Category	Details
Total M&A value	US\$8 billion, up 127% year-on-year
Key insight	Rare foreign bank acquisitions of major stakes in Indian lenders

Major Financial Sector Deals in India in 2025

Deal	Value	Key details
Emirates NBD – RBL Bank	US\$3 billion	Largest overseas acquisition in Indian banking; will merge operations with local subsidiary
SMBC – Yes Bank	US\$1.6 billion	Purchased from banks that rescued Yes Bank in 2020; increased stake in Sep 2025
Blackstone – Federal Bank	INR 61.97 billion (~US\$705M)	Preference share investment; Blackstone affiliate gets right to appoint a board director
IHC – Sammaan Capital	~US\$1 billion	Among largest investments in India's NBFC sector; housing-focused lender
Warburg Pincus & ADIA – IDFC First Bank	US\$877 million	Investment via convertible preference shares
Bain Capital – Manappuram Finance	US\$508 million	Significant investment in top gold-loan NBFC
Bajaj Group – Allianz Exit	US\$2.8 billion	Bajaj bought out Allianz from two JV insurance companies; Allianz later partnered with Jio Financial

As deal volumes rise, regulatory oversight has become more sophisticated, particularly in competition law, foreign exchange regulations, corporate governance, and sector-specific compliance.

Key regulatory authorities

M&A transactions may require filings or approvals from the following authorities depending on transaction structure, industry, and deal size

Regulation of M&A Activity: Key Authorities		
Legislation	Regulatory authority	Jurisdiction
Competition law	Competition Commission of India (CCI)	Merger control approval for combinations breaching thresholds.
Company law	Ministry of Corporate Affairs (MCA)	Oversight of corporate restructuring, fast-track mergers, and NCLT processes.
	National Company Law Tribunal (NCLT)	Approval of schemes of arrangement (unless under fast-track)
Foreign investment regulations	RBI	FEMA-related compliance, reporting, and pricing guidelines
	DPIIT	FDI policy rules and sectoral caps.
Securities law (for listed entities)	Securities and Exchange Board of India (SEBI)	Regulations for listed company mergers, takeovers, insider trading, and disclosure requirements.
	Stock Exchanges (for example: BSE, NSE)	Review of scheme documents and comments
Sector-wise legislation	RBI	Banking
	Insurance Regulatory and Development Authority of India (IRDAI)	Insurance
	Pension Fund Regulatory and Development Authority (PFRDA)	Pension
	Telecom Regulatory Authority of India (TRAI)	Telecom

Reform of India's merger control regime

India has overhauled its competition law framework through the introduction of the Deal Value Threshold (DVT) and redefined notification criteria.

Deal Value Threshold (DVT)

A transaction must be notified to the CCI when the global deal value exceeds INR 20 billion (approx. US\$238 million); and the target has Substantial Business Operations (SBO) in India.

DVT Indicators for Digital and Other Sectors			
Sector	Threshold type	India-based condition	Additional global condition
Digital sector	User threshold	India has $\geq 10\%$ of the enterprise's total global business or end users.	Not applicable
	GMV threshold	India's GMV for the preceding 12 months is $\geq 10\%$ of global GMV.	Not applicable
	Turnover threshold	India's turnover in the preceding financial year is $\geq 10\%$ of global turnover from all products/services.	Not applicable
Other sectors	GMV threshold	India's GMV for the preceding 12 months is $\geq 10\%$ of global GMV.	India GMV must also be > INR 5 billion (~US\$55 million).
	Turnover threshold	India's turnover in the preceding financial year is $\geq 10\%$ of global turnover.	India turnover must also be > INR 5 billion (~US\$55 million).

Key Additional Changes Under the New Merger Control Regime

1. Open offer & convertible securities exemptions

The Competition Amendment Act allows certain steps in an open offer or acquisition of convertible securities on a regulated stock exchange to proceed before CCI approval.

- This is permitted only if the acquirer has filed the combination notice with the CCI, and does not exercise ownership, voting rights, or receive distributions until approval.

Under the CCI (Combinations) Regulations, 2024, acquirers may receive passive economic benefits such as dividends, bonus shares, stock splits, and rights issues. Acquirers can exercise voting rights only on liquidation or insolvency matters.

Acquirers and their group entities must not influence the target in any form before CCI approval.

2. Increased filing fees

Filing fees have been revised upward under the draft regulations:

- Form I: Increase from INR 2 million to approximately US\$36,000.
- Form II: Increase from INR 6.5 million to approximately US\$108,000.

3. Timelines for prima facie opinion

The CCI must now issue its prima facie opinion within 30 calendar days. Failure to issue this opinion within the prescribed period results in deemed approval of the combination.

4. Inclusion of “material influence” in definition of control

The legal definition of “control” now explicitly includes material influence, consistent with CCI case practice. Material influence may arise from:

- Shareholding levels
- Special rights or veto rights
- Board representation
- Financial, structural, or contractual arrangements
- Status, expertise, or strategic involvement of the investor

These updates collectively imply tighter scrutiny of digital-sector transactions and a likely increase in the number of deals that must be notified to the CCI. As a result, businesses will need to conduct antitrust risk assessments much earlier in the deal cycle to prevent delays, avoid penalties, and ensure smoother regulatory clearance.

Fast-track merger reforms

The MCA's Companies (Compromises, Arrangements, and Amalgamations) Amendment Rules, 2025, expands eligibility for fast-track mergers, allowing certain mergers to bypass NCLT approval. Fast-track mergers now include:

- Holding-subsidary mergers, even if the subsidiary is not wholly owned
- Mergers between subsidiaries of the same holding company (if the transferor is unlisted)
- Mergers of unlisted companies with outstanding debt up to INR 2 billion and no loan-deposit defaults
- Mergers of foreign holding companies with Indian wholly owned subsidiaries
- Schemes involving division or transfer of undertakings

To balance this broader eligibility, the amendments introduce additional compliance safeguards. Companies must now obtain auditor certification confirming the absence of defaults, submit independent valuation reports, notify relevant sectoral regulators, and, in the case of listed entities, undergo a review of the scheme by the stock exchanges.

For investors, these reforms significantly ease post-acquisition integration by reducing dependency on the NCLT and shortening approval timelines. They offer particular advantages to private equity firms and multinational groups managing complex structures with multiple unlisted subsidiaries, enabling faster consolidation and more efficient restructuring.

Due diligence in India: Common non-compliance issues

Due diligence in India frequently reveals varying levels of non-compliance within target companies, and these gaps can significantly influence valuation, transaction timelines, and post-acquisition risk management. One category of concern involves non-compliances that attract monetary penalties. These typically arise from lapses such as the absence of a resident director, failure to submit statutory filings on time, or delays in responding to registrar notices, many of which accrue daily penalties until rectified.

A more serious category includes offences that expose a company's management to potential imprisonment under corporate, labor, or environmental statutes. These situations, while relatively uncommon, may involve non-payment of statutory dues such as gratuity or material breaches of safety and welfare regulations. Foreign investors must carefully assess any potential liability that could extend to key managerial personnel following the acquisition.



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Certain compliance gaps can also impede transaction timelines. Issues like non-dematerialized shareholdings, pending FEMA-related filings, incomplete shareholder records, or outdated statutory registers often need to be resolved before closing, thereby prolonging the deal process. Finally, unresolved non-compliance can affect the future strategic flexibility of the acquired business. This includes limitations on cross-border restructuring, complications in meeting indirect transfer tax requirements, constraints on capital structure modifications, and potential barriers to future investments or divestitures. Addressing these risks early in the due diligence phase is therefore essential for ensuring smoother integration and long-term value realization.

Managing Non-Compliance During Dealmaking





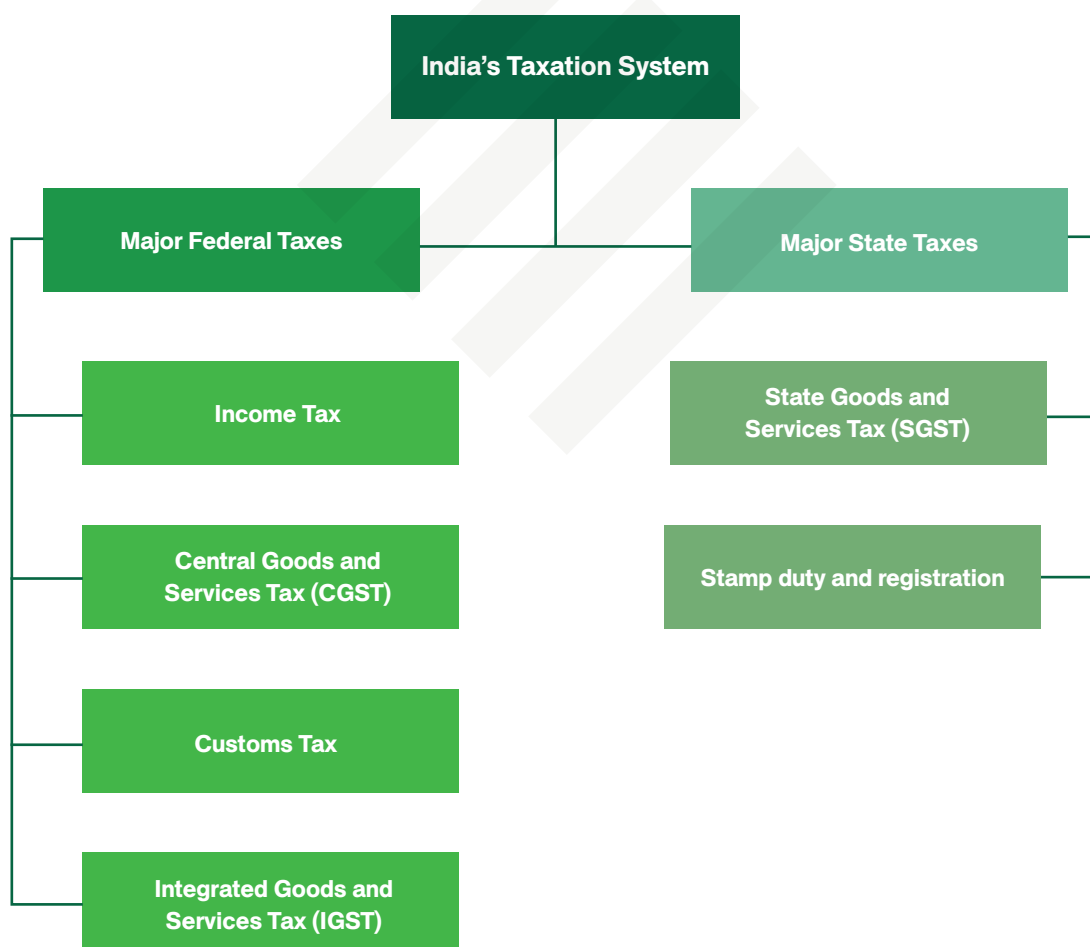
Taxation

- ◆ Key features of India's taxation system
- ◆ Individual income tax
- ◆ Income Tax Act 2025
- ◆ Capital gains tax
- ◆ Corporate tax
- ◆ Withholding tax
- ◆ Goods & services tax
- ◆ Customs Duty

Key features of India's taxation system

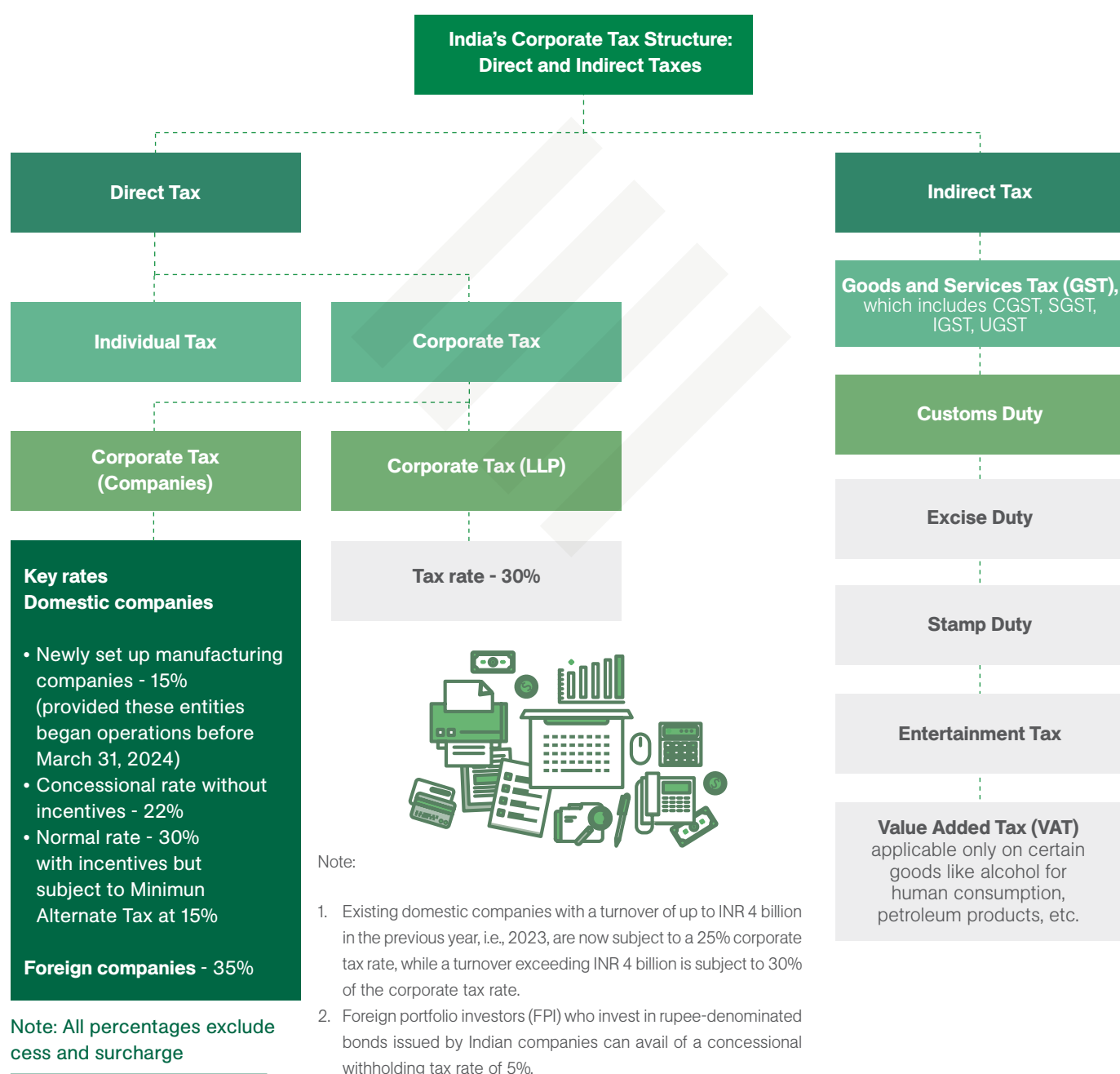
India has taken concerted efforts to streamline, simplify, and automate its taxation regime to increase predictability and fairness. Taxes in India are levied by both the central government and state governments. Some minor taxes are also levied by local authorities such as the municipality and local government.

Direct taxes are imposed on the taxable income earned by individuals and corporate entities, with the responsibility for tax payment lying directly on the assessee. In contrast, indirect taxes are applied to the sale and provision of goods and services, placing the obligation to collect and remit taxes on the sellers rather than the assessee themselves.



A resident company is taxed on its worldwide income. A non-resident company is taxed only on income that is received in India, or that accrues or arises, or is deemed to accrue or arise, in India. All companies, whether Indian or foreign, are liable to taxation under the Income Tax Act, 1961.

Important note: India's Income Tax Act, 2025, will come into force on April 1, 2026, replacing the previous tax law i.e., Income Tax Act, 1961 and Income Tax Rules, 1962.



Tax Incentives Applicable for FY 2025-26

A. Incentives for export-oriented businesses

Export-oriented enterprises are eligible for profit-based tax deductions. They can claim a 100 percent deduction on profits for the first five years of operation, followed by a 50 percent deduction for the next five years. Additionally, a further 50 percent deduction is available on profits that are reinvested back into the business for another five years.

C. Benefits for eligible start-ups

Under Section 80-IAC of the Income Tax Act, 1961, eligible start-ups can access substantial tax benefits, including a 100 percent tax exemption on profits for any three consecutive years within the first ten years of incorporation. They also receive expedited processing of patent applications, accompanied by an 80 percent reduction in patent fees.

D. Additional tax concessions

A range of supplementary tax concessions is available to qualifying taxpayers.

These include various capital gains concessions*, relief under the Minimum Alternate Tax (MAT) framework**, and, historically, benefits related to the Dividend Distribution Tax (DDT)***, which was abolished beginning FY 2020-21.

B. Duty drawback scheme

The duty drawback mechanism continues to be a vital cost-offset tool for Indian exporters, enabling refunds of customs and excise duties paid on imported inputs used in export production. In 2025, the Central Board of Indirect Taxes and Customs (CBIC) introduced several rate and procedural updates aimed at improving efficiency and aligning refund values with market conditions.

Procedural clarifications: A January 2025 public notice clarified that the fee for extending the time to file brand-rate drawback claims is levied per application, not per shipping bill – reducing administrative costs for exporters with multiple consignments. Under the CBIC Action Plan 2025-26, customs zones have been instructed to clear all pending drawback claims over 6–12 months by the end of 2025, and all remaining cases by March 2026, a move directed at faster liquidity release for exporters.

E. Incentives for priority sectors

To encourage targeted investments, the central government provides immediate deductions for capital expenditure incurred in designated priority sectors, under Section 35AD of the Income Tax Act, 1961. These incentives are designed to stimulate growth in areas such as biotechnology, cold-chain logistics, and affordable housing, among others.

F. Sector-specific incentives: Infrastructure & renewable energy

The central government offers extensive tax incentives to strengthen infrastructure and promote renewable energy adoption. Infrastructure projects in sectors such as road construction, ports, and railways are eligible for tax holidays, investment-linked deductions, and reduced tax rates. Renewable energy assets, including solar, wind, and hydropower systems, qualify for accelerated depreciation of 40 percent in the first year under Section 32 of Income Tax Act, 1961.

This rate can be further supplemented by an “additional depreciation” of 20 percent, making the total potential first-year depreciation up to 60 percent.

Additional credits and rebates are available for investments in electric vehicles and energy-efficient equipment. Furthermore, REITs and InvITs enjoy tax exemptions on dividend income, making them efficient structures for financing large-scale infrastructure and energy projects.

G. Special Economic Zones (SEZs)

India's Special Economic Zones (SEZ) continue to offer significant tax relief to both operating businesses and developers. Under Section 10AA of Income Tax Act, units located within SEZs receive a 100 percent tax holiday on export income for the initial five years, followed by a 50 percent deduction for the next five years. An additional 50 percent deduction is available for businesses that reinvest export profits over the subsequent five-year period. SEZ developers also benefit from a 100 percent tax exemption on profits arising from the development, operation, or maintenance of SEZ infrastructure under Section 80-IAB.

Notes:

*Capital gains concessions refer to tax benefits or relief provided to taxpayers under specific conditions. Key concessions include:

a) Indexation benefits: Indexation allows taxpayers to adjust the cost of acquiring a long-term capital asset for inflation, which in turn reduces the taxable capital gain. The government publishes a Cost Inflation Index (CII) annually for this purpose.

- For sales after July 23, 2024: The indexation benefit has been largely discontinued for most assets, including property, debt funds, and gold. A flat tax rate of 12.5 percent is now generally applicable to long-term capital gains (LTCG) for these assets without indexation.
- For land or buildings acquired before July 23, 2024: Taxpayers (individuals and HUFs) have a one-time option to choose between the new 12.5 percent tax rate without indexation or the old 20% rate with the indexation benefit, whichever is more beneficial.

b) Exemption under specific sections:

Section 54: Allows exemption if the capital gain is reinvested in purchasing another residential property.

Section 54EC: Provides exemption for investing in specified bonds, such as NHAI or REC bonds.

c) Threshold exemptions: Small or low-income taxpayers may qualify for exemptions based on taxable income limits.

**Concessions on MAT aim to reduce tax burdens in certain scenarios, particularly for startups and priority sectors. These may include:

- a) Reduced MAT rates: Applicable during specific years or for designated sectors such as new businesses in special economic zones (SEZs).
- b) Exclusions from MAT calculation: Certain forms of income, such as foreign portfolio investor (FPI) income or capital gains on securities, may be excluded.
- c) MAT credit carry forward: MAT paid in a financial year can often be carried forward and used as a credit to offset tax liability in subsequent profitable years.

***The Finance Act 2020 abolished the DDT for Indian corporations, shifting the tax liability to shareholders. Under the new system, shareholders are taxed on dividends based on their respective income tax brackets. This reform reduces the tax burden on businesses, enhances ease of doing business, and eliminates double taxation of profits, making India more attractive to international investors. For instance, a shareholder in the 30 percent tax bracket will now pay 30 percent tax on dividends received.

Individual income tax

India taxes individuals based on their residency status and source of income, using a slab-based system where different income portions attract different tax rates. Taxpayers can choose between two tax regimes, each offering distinct benefits.

A) Old tax regime

- Allows a wide range of exemptions and deductions (PPF, ELSS, EPF, life insurance premiums, home-loan interest, health insurance, etc.).
- For FY 2025–26, the basic exemption limit is INR 250,000, with higher thresholds for senior citizens.
- Suitable for taxpayers who maximize deductions and have significant savings/insurance investments.
- Under the old tax regime, the slab rates and the rebate limit of INR 12,500 remain unchanged for FY 2025–26.

B) New tax regime

- Provides lower tax rates but removes most common deductions and exemptions.
- Budget 2025–26 proposals offer additional relief for incomes up to INR 1.275 million, targeting middle-income taxpayers.
- Best for those with fewer deductions or simpler financial structures.

Choosing the optimal regime: The right option depends on a taxpayer's income composition, eligible deductions, and overall financial profile. Businesses and individual clients should evaluate whether the lower rates under the new regime outweigh the benefits lost from exemptions available in the old regime.

Old tax regime

India's old tax regime follows a three-slab system i.e., 5 percent, 20 percent and 30 percent deduction on annual income.

India's Old Tax Regime	
Income tax slabs	Income tax rate
INR 0 – 250,000	Nil
INR 250,000 – 500,000	5 percent
INR 500,000 – 1 million	20 percent
INR 1 million and above	30 percent

Tax deductions and exemptions under the old tax regime

In terms of deductions and exemptions, the old regime allows tax benefits under Section 80C, Section 80D (medical insurance), HRA, home loan interest deductions under Section 80EEA, LTA, and a standard deduction of INR 50,000.

- **Section 24(b) deduction:** For self-occupied property, individuals can claim a deduction of up to INR 200,000 on interest paid towards a housing loan.
- **Section 80C deduction:** A combined deduction of up to INR 150,000 can be claimed for various payments such as life insurance premium, provident fund, ELSS, PPF, SCSS, National Savings Certificate, housing loan principal, tuition fees, etc.
- **Section 80CCC deduction:** Individuals can claim a deduction for contributions made towards an annuity plan of LIC or other insurance under the NPS.
- **Section 80CCD(1) deduction:** Deduction can be claimed for contributions made towards the pension scheme of the central government.
- **Section 80CCD(1B) deduction:** Individuals can claim a deduction of up to INR 50,000 for payments made to the NPS, excluding any deduction claimed under section 80CCD (1).
- **Section 80CCD(2) deduction:** Employers can claim a deduction for their contribution to the Pension Scheme of the central government.
- **Section 80CCH deduction:** Contributions made to the Agnipath scheme are eligible for deduction under this section.
- **Section 80D deduction:** Individuals can claim a deduction for health insurance premium payments and preventive health check-ups.
- **Section 80DD:** Allows for a deduction for the maintenance or medical treatment of a disabled dependent.

- **Section 80DDB:** Provides a deduction for the medical treatment of specified diseases.
- **Section 80E:** Offers a deduction for interest payments on a loan for higher education for self or a relative, allowing for the full amount paid towards interest to be claimed.
- **Section 80EE:** Grants an INR 50,000 deduction for interest payments on a loan for a residential house property, if the loan was sanctioned between April 1, 2016, to March 31, 2017.
- **Section 80EEA:** Provides a deduction of up to INR 150,000 for interest payments on a loan for the first-time acquisition of residential house property, granted between April 1, 2019, to March 31, 2022.
- **Section 80EEB:** Allows for a deduction of up to INR 150,000 for interest payments on a loan for the purchase of an electric vehicle, sanctioned between April 1, 2019 to March 31, 2023.
- **Section 80G:** Allows for deductions on donations made to prescribed funds and charitable institutions.
- **Section 80GG:** Provides deductions for rent paid by individuals who are self-employed or do not receive HRA as part of their salary.
- **Section 80GGA:** Enables deductions for donations made towards scientific research or rural development.
- **Section 80GGC:** Offers deductions for donations made to political parties or electoral trusts.
- **Section 80TTA:** Allows for a deduction of up to INR 10,000 on interest received on savings bank accounts by Non-Senior Citizens.
- **Section 80TTB:** Provides a deduction of up to INR 50,000 on interest received on deposits by resident senior citizens.
- **Section 80U:** Allows for deductions for resident individual taxpayers with disabilities.

New tax regime

The new income tax regime, introduced in 2021, is the default system of individual income tax. Under the Finance Act, 2025, the tax slabs under the new regime have been restructured as shown in the following table.

India's New Tax Regime	
Income tax slab	Tax rate
INR 400,000	No tax
INR 400,001 to INR 800,000	5%
INR 800,001 to INR 1.2 million	10%
INR 1,200,001 to INR 1.6 million	15%
INR 1,600,001 to INR 2 million	20%
INR 2,000,001 to INR 24 million	25%
Above INR 24 million	30%

Key changes effective April 1, 2025 (FY 2025-26)

Significant changes to India's direct tax framework took effect from April 1, 2025 (FY 2025-26), including revised income tax slabs under the new regime, a higher rebate, enhanced tax deducted at source (TDS) / tax collected at source (TCS) thresholds, and relaxation of the 'deemed let-out' property rule. In addition, a new, simplified Income Tax Act, 2025 has been enacted and will come into force from April 1, 2026.

Enhanced rebate under Section 87A

The maximum rebate under the new income tax regime has been increased from INR 25,000 to INR 60,000. As a result, individuals with a total income up to INR 1.2 million (or INR 1.27 million for salaried taxpayers after the INR 75,000 standard deduction) incur zero tax liability.

Relaxation of Deemed Let-Out provision

Taxpayers can now claim a "Nil" annual value for up to two self-occupied properties, regardless of the reason for non-occupation – offering relief to homeowners who maintain multiple residences.

For businesses and compliance

Several changes introduced for FY 2025-26 aim to ease compliance, rationalize withholding requirements, and support business operations.



DIVYANSH SHRIVASTAVA

Assistant Manager
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“India's TDS framework has become more streamlined and business friendly. For companies, staying ahead of these revised thresholds and compliance rules is essential to strengthen cash-flow planning, enhance accuracy in withholding, and maintain a compliant operating environment.”

1. Enhanced TDS thresholds:

To reduce the compliance burden, thresholds for TDS have been increased across multiple categories, including:

- **Section 194A – Interest on securities/deposits:**

- » Senior citizens: raised from INR 50,000 to INR 100,000
- » Others: raised from INR 40,000 to INR 50,000 (for banks and similar institutions)

- **Section 194I(b) – Rent payments:**

Threshold increased from INR 240,000 annually to INR 600,000 annually, or INR 50,000 per month

- **Section 194J(a) – Technical services:**

Threshold raised from INR 30,000 to INR 50,000

- **Section 194J(b) – Professional services:**

Threshold raised from INR 30,000 to INR 50,000

- **Commission or brokerage:**

Threshold increased from INR 15,000 to INR 20,000

2. Rationalized TCS provisions:

- Removal of TCS on the purchase of goods exceeding INR 5 million where TDS is already applicable.
- Increase in the threshold for TCS on foreign remittances under the Liberalized Remittance Scheme (LRS) from INR 700,000 to INR 1 million.

3. Extended ITR-U filing window:

The time limit for filing an updated income tax return (ITR-U) has been extended from 24 months to 48 months (four years) from the end of the relevant assessment year.

4. Omission of Sections 206AB and 206CCA:

These provisions – which mandated higher TDS/TCS rates for non-filers – have been removed to simplify compliance and reduce administrative complexity.

5. Tax benefits for start-ups and IFSC units:

- The deadline for eligible start-ups to claim 100 percent profit deductions has been extended to April 1, 2030.
- Additional tax incentives have been introduced for units operating within International Financial Services Centers (IFSCs).



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India Briefing Article
April 23, 2025

For the Financial Year 2025-26 (Assessment Year 2026-27), the applicable TDS rates have been revised according to recent changes introduced through the Finance Act 2025 and remain applicable across a wide range of payment categories.

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The Income Tax Act, 2025

India has enacted a new, simplified Income Tax Act, 2025, passed on August 22, 2025, to replace the long-standing Income Tax Act, 1961. The new legislation seeks to modernize the tax framework, simplify legal language, reduce litigation, and align India's tax administration with global digital practices. Notably, it introduces a unified "Tax Year" concept to replace the existing system of "Previous Year" and "Assessment Year," and consolidates dispersed provisions such as those governing TDS.

The Act is scheduled to come into force on April 1, 2026, unless a later date is notified.

Legislative journey and key provisions

The revised Income Tax Bill was approved by Parliament on August 11, 2025, after incorporating a substantial portion of the 285 recommendations submitted by a parliamentary select committee and various stakeholders. The drafting has been refined to enhance precision, remove ambiguity, and ensure greater consistency in interpretation.

Key objectives:

- Modernizing India's direct tax system
- Reducing compliance burdens and administrative complexity
- Improving legal clarity and minimizing litigation
- Aligning tax rules with global economic trends and digital advancements

Major provisions under the Income Tax Act, 2025:

- 1. Introduction of the New Tax Regime – Clause 202(1):** The Act introduces a simplified tax structure under Clause 202(1), applicable to individuals, Hindu Undivided Families (HUFs), and other taxpayers. This regime becomes the default method of income-tax computation, reflecting the slab rates announced in the Union Budget 2025.
- 2. Updated Section 87A rebate provisions:** The rebate framework from the earlier legislation has been retained under Chapter IX, with enhanced limits under the new regime to provide greater relief for lower- and middle-income taxpayers.

Rebate Structure Comparison		
Criteria	Existing provision	New income tax regime (Clause 202(1))
Maximum rebate	Up to INR 12,500	Up to INR 60,000
Income eligibility	Up to INR 500,000	Based on new slab limits; full rebate available within eligible range

Notes:

- The rebate is available only to resident individuals.
- It is calculated before claiming other deductions.
- For incomes above INR 1.2 million, the rebate equals the excess amount by which income exceeds INR 1.2 million but cannot exceed total tax liability.
- The rebate cannot be applied to long-term capital gains taxed under Section 112A.

3. Income exclusions from rebate: Certain income types remain outside the scope of Section 87A and continue to attract separate tax treatment.

The exclusions include the following:

- Long-term capital gains from sale of listed equity shares
- LTCG from equity-oriented mutual funds taxed under Section 112A
- These remain subject to a flat 12.5 percent tax rate

Comparison: Income Tax Act, 1961 vs. Income Tax Act, 2025		
Category	Income Tax Act, 1961 (Existing legislation)	Income Tax Act, 2025 (New law)
Year enacted	1961	2025
Effective from	April 1, 1962	April 1, 2026
Legislative structure	Over 700 sections; numerous amendments over decades	536 sections + 16 schedules; consolidated and simplified
Terminology	Used "Previous Year" and "Assessment Year"	Introduces a unified term: "Tax Year"
Tax regime	Old regime (multiple deductions/exemptions) + optional new regime	New regime under Clause 202(1) becomes primary structure
Tax slabs approach	Complex slab system with exemptions and deductions	Simplified slab system with fewer exemptions, clearer rate structure
Rebate under Section 87A	Rebate up to INR 12,500 for income $\leq$ INR 500,000	Rebate up to INR 60,000 as per new slab applicability
Capital gains treatment	Various rates with multiple exemptions based on asset class and holding period	Streamlined but clearer exclusions for rebate on certain LTCG
Commuted pension	Earlier drafts lacked clarity on exemptions	Explicit exemption added for commuted pensions from approved funds

Comparison: Income Tax Act, 1961 vs. Income Tax Act, 2025

Category	Income Tax Act, 1961 (Existing legislation)	Income Tax Act, 2025 (New law)
AMT	Applicable to LLPs	AMT removed for LLPs
Charitable trusts	Stricter restrictions and compliance	Relaxed provisions; clearer operational rules
Transfer pricing rules	Broader definition of "Associated Enterprise"	Streamlined definition; compliance eased
Refund flexibility	Limited flexibility for late return filers	Committee recommends greater flexibility even for delayed returns
Deductions (Section 80M)	Removed earlier, affecting corporate dividend taxation	Recommendation for reinstatement included in updated draft
property income rules	Notional rent applied on vacant property	Proposal to remove notional rent on unoccupied properties
home loan interest	Limited clarity for rented properties	Standard deduction and interest relief extended more clearly
procedural complexity	Heavy reliance on amendments; frequent disputes	Reduces contradictions, improves clarity, strengthens CBDT rule-making powers
Alignment with MSME Act	MSME definitions inconsistent	Adopts MSME Act definitions for uniformity
Taxpayer compliance	More burdensome, document-heavy	Digital-friendly, streamlined, simplified filing expectations

Taxation of capital gains

In 2024, India brought major reforms to its capital gains tax framework with the objective of simplifying holding periods, rationalizing tax rates, and enhancing compliance for both resident and non-resident taxpayers. Most provisions came into effect on July 23, 2024, while changes relating to long-term classifications for gold and international funds have been deferred to April 1, 2025.

Capital gains in India continue to be taxed based on the holding period of the underlying asset, categorized as short-term capital gains (STCG) or long-term capital gains (LTCG). Under the revised rules, holding period classifications have been streamlined as follows:

- Listed financial assets – including stocks, ETFs, bonds, and similar instruments – are treated as long-term if held for more than 12 months.
 - » STCG: Taxed at 20 percent
 - » LTCG: Taxed at 12.5 percent
 - » For long-term capital gains (LTCG) in India, the current standard tax rate is 12.5 percent without indexation for most assets. However, for the sale of land or buildings acquired before July 23, 2024, taxpayers have an option to pay 20 percent with indexation instead.
- Unlisted assets – such as real estate, gold, and foreign shares – require a minimum holding period of 24 months for long-term classification.
 - » LTCG: Taxed at 12.5 percent without indexation
 - » STCG: Taxed at the taxpayer's applicable income tax slab rate

These revised rules apply across a broad range of listed assets, including:

- Listed equity shares
- Listed bonds
- Equity Exchange-Traded Funds (ETFs)
- Gold ETFs
- Bond ETFs
- Real Estate Investment Trusts (REITs)
- Infrastructure Investment Trusts (InvITs)

Updated Tax Treatment for Capital Market Instruments				
Particulars	Section 111A (STCG)	Section 112A (LTCG)	Section 115A (Royalty and Fee for Technical Services)	Section 115AC (Bonds and GDRs in foreign currency)
Eligible taxpayer	All taxpayers	All taxpayers	NRIs and foreign companies	NRIs
Assets covered	Equity shares, equity mutual funds, business trusts	Same as STCG	FCCBs, FCEBs, GDRs	GDRs, bonds purchased in foreign currency
Tax on STCG	15% (before July 23, 2024); 20% (on or after July 23, 2024)	-	-	-
Tax on LTCG	-	10% (before July 23, 2024); 12.5% (on or after July 23, 2024) applicable on gains above INR 125,000	10%–20% (dividends); 4%–20% (interest); 20% (royalty/FTS)	10% (interest/dividends)
Basic exemption limit	Available to resident individuals and HUFs	Available to resident individuals and HUFs	Not available	Not available
Chapter VI-A deductions under Income Tax Act	Not allowed	Not allowed	Not allowed (except Sec. 80LA for IFSC units and FTS/royalty)	Not allowed

India's corporate income tax framework

India's corporate tax regime offers a combination of standard rates, profit-linked surcharges, and optional concessional regimes to cater to diverse business structures. The Finance Act, 2025, retains the dual-rate system while refining applicability based on turnover thresholds and special taxation options.

Standard Corporate Tax Rates for Domestic Companies			
Category of domestic company	AY 2026–27 tax rate	AY 2025–26 tax rate	Applicable turnover threshold

Companies with turnover ≤ INR 4 billion in the specified previous year	25% (based on FY 2023–24 turnover)	25% (based on FY 2022–23 turnover)	Turnover ≤ INR 4 billion
Any other domestic company	30%	30%	Not applicable

Surcharge Rates (with Marginal Relief)		
Taxable income range	Surcharge rate	Notes on marginal relief

> INR 10 million and ≤ INR 100 million	7%	The total tax (including surcharge) shall not exceed the tax payable on income of INR 10 million by more than the amount by which taxable income exceeds INR 10 million.
> INR 100 million	12%	The total tax (including surcharge) shall not exceed the tax payable on income of INR 100 million by more than the amount by which taxable income exceeds INR 100 million.

Health & Education Cess	
Component	Rate

Cess on income tax + surcharge	4%
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Minimum Alternate Tax (MAT)		
Category	MAT rate	Applicability
Standard domestic companies	15% of book profit	If normal tax < 15% of book profit
IFSC units (earning solely in convertible foreign exchange)	9% of book profit	Concessional MAT rate for IFSC

Special Concessional Tax Regimes for Domestic Companies					
Section	Tax rate	MAT applicability	Surcharge	Cess	Key notes
115BA	25%	MAT applies	As per normal rates (7% / 12%)	4%	Limited to certain manufacturing companies
115BAA	22%	MAT not applicable	Flat 10%	4%	Requires foregoing certain incentives/deductions
115BAB	15%	MAT not applicable	Flat 10%	4%	For new eligible manufacturing companies within notified timelines

Withholding tax (WHT) framework

In India, the withholding tax rate is applicable to businesses when they make payments to other business entities or individuals, for example, in the form of dividends, interest, and royalties.

WHT Tax on Payments to Resident Companies (Updated for FY 2025–26)

Type of payment	Threshold for tax deduction (INR)	WHT rate (%)
Purchase of goods	5,000,000	0.1
Interest – specified categories	10,000 (revised from April 1, 2025)	10
Interest – other categories	10,000 (general threshold); 50,000/100,000 for bank/post office deposits for senior citizens	10
Professional services	50,000 (from April 1, 2025)	10
Technical services	50,000 (from April 1, 2025)	2
Royalty payments	50,000 (from April 1, 2025)	10
Royalty on cinematographic film rights	50,000	2
Business or professional perquisites	20,000	10
Transfer of Virtual Digital Assets (VDA)	50,000 (specified cases) / 20,000 (others)	1
Commission or brokerage	20,000 (revised from April 1, 2025)	2
Rent – plant, machinery, or equipment	50,000 per month or part thereof (revised from FY 2025–26)	2
Rent – land, building, or furniture	50,000 per month or part thereof (revised from FY 2025–26)	10
Contract payments (non-individual/HUF)	30,000 (single payment) or 100,000 (annual total)	2
Contract payments to individual/HUF	30,000 (single payment) or 100,000 (annual total)	1

WHT Tax on Payments to Resident Companies (Updated for FY 2025–26)

Type of payment	Threshold for tax deduction (INR)	WHT rate (%)
Payments by individual/HUF not covered under contractor / commission / professional fee rules	5,000,000	5
Dividends on shares	10,000 (revised from April 1, 2025)	10
Dividends from mutual fund units	10,000 (revised from April 1, 2025)	10
Purchase of immovable property	5,000,000	1
Cash withdrawals from banks	10,000,000 (2,000,000 if no tax returns filed for past 3 years)	2 / 5 (higher slab)
Payments to e-commerce sellers via platforms	No threshold	0.1
Winnings from online gaming	No threshold	30

Notes:

- Tax must be deducted only when the total payment to a single payee during a financial year crosses the prescribed threshold, unless otherwise specified.
- The Finance Act, 2025 revised several thresholds effective April 1, 2025, including:
 1. Interest (specified and non-specified) – raised to INR 10,000.
 2. Professional, technical, and royalty payments – standardized at INR 50,000.
 3. Commission/brokerage – raised to INR 20,000.
 4. Rent-related thresholds – increased to INR 50,000 per month.
 5. Dividend income – threshold increased to INR 10,000.
- Royalty also includes consideration paid for the use or right to use computer software, regardless of the medium or location of the underlying rights.
- For cash withdrawals:
 - » If the individual/company has not filed tax returns for the previous three years, the lower threshold of INR 2 million applies, and the rate increases progressively.
- Companies operating call centers are subject to a reduced WHT rate of 2 percent on contract payments.

Tax deducted at source

The Finance Act 2025 introduced a wide range of revisions aimed at simplifying compliance, reducing administrative burden, and aligning tax processes with current economic realities. These updates apply across income categories, from salaries and rent to digital assets and professional services, affecting individuals, domestic companies, and non-residents alike.

TDS continues to function as a key mechanism for collecting taxes upfront by requiring the payer to deduct tax at the time of making certain payments. The deducted amount is then deposited with the central government, helping ensure timely tax collection and reducing tax leakages.

The tax slabs, categories of payees (such as resident individuals, non-residents, domestic companies, and foreign entities), and the nature of income determine the applicable TDS rate.

Key TDS changes effective April 1, 2025

The Union Budget 2025 introduced several structural reforms to streamline tax deduction and collection. Two notable themes define the new regime: higher threshold limits for various categories and the elimination of overlapping compliance provisions.

1. Higher threshold limits for interest and dividend income

The central government has increased threshold limits for TDS applicability on several income types, providing relief particularly to small taxpayers and senior citizens.

Interest & Dividend TDS Thresholds (From April 1, 2025)				
Section	Nature of payment	New threshold (FY 2025–26)	Previous threshold	TDS rate
193	Interest on securities	INR 10,000	Nil	10%
194	Dividend income	INR 10,000	INR 5,000	10%
194A	Bank interest	INR 50,000 (general); INR 100,000 (senior citizens)	INR 40,000/INR 50,000	10%

2. Elimination of overlapping compliance

The Union Budget 2025 simplifies tax administration by removing overlapping TDS and TCS provisions that previously applied to the same income streams. By rationalizing threshold limits and eliminating duplicate compliance requirements, the new regime reduces the burden on taxpayers and deductors, ensuring cleaner rules, fewer filings, and easier verification for both individuals and institutions.

3. TDS on mutual funds, digital assets, and e-commerce

The fast-growing spheres of online trading, digital assets, and platform-based commerce now follow clearer tax rules.

Revised TDS Framework for Emerging Sectors				
Section	Category	Threshold	TDS rate	Notes
194K	Mutual fund units	INR 10,000	10%	Threshold doubled
194S	Crypto/NFT transfers	INR 10,000–INR 20,000	1%	Applies to all VDA transfers
194O	E-commerce seller income	INR 500,000	1%	Applicable to individual/HUF sellers

4. Winnings, games, and lotteries

The digital gaming sector has moved to a no-threshold model, ensuring consistent tax treatment across winnings.

TDS on Games and Winnings			
Section	Payment Type	Threshold	TDS rate
194B	Lotteries, puzzles	INR 10,000	30%
194BA	Online gaming winnings	No threshold	30%
194BB	Horse race winnings	INR 10,000	30%

5. Contractors, professionals, and insurance services

Updated TDS thresholds reflect market-aligned payment volumes.

Professional & Contractor Payments (W.e.f. 2025)			
Section	Payment type	Threshold	TDS rate
194C	Contractor payments	INR 30,000 (single) / INR 100,000 (annual)	1%–2%
194D	Insurance commission	INR 20,000	2%–10%
194J	Technical/professional services	INR 50,000	2% 10%

6. Property-related TDS rules

Real estate continues to remain a major TDS category, with no major rate changes but clearer administrative provisions.

TDS on Property Transactions			
Section	Category	Threshold	TDS rate
194IA	Sale of immovable property	INR 5 million or more	1%
194IC	Joint development agreements	No threshold	10%
194LA	Compensation for property acquisition	INR 500,000	10%

7. Rent-related TDS

Whether paid by businesses or individuals, rent continues to attract TDS once the threshold is crossed.

Rent TDS Structure (FY 2025–26)			
Section	Category	Threshold	TDS rate
194I(a)	Plant & machinery rent	INR 50,000/month	2%
194I(b)	Land/building/furniture rent	INR 50,000/month	10%
194IB	Individual/HUF paying rent	INR 50,000/month	2%

8. Salary-based TDS under the revised tax regime

With the revised tax slabs introduced in Budget 2025, salary TDS computations will follow the updated progressive rates.

New Income Tax Slabs (for AY 2025-26)	
Annual Income	Tax rate
Up to INR 400,000	Nil
INR 400,000–INR 800,000	5%
INR 800,000–INR 1.2 million	10%
INR 1.2 million–INR 1.6 million	15%
INR 1.6 million–INR 2 million	20%
INR 2 million–INR 24 million	25%
Above INR 24 million	30%

EPF withdrawals continue to attract 10 percent TDS under Section 192A if the amount exceeds INR 50,000 and certain conditions are unmet.

9. TDS on payments to non-residents

Foreign entities and individuals remain subject to higher or fixed TDS rates.

TDS Rates for Non-Resident Payments		
Section	Category	TDS rate
194E	Non-resident sportspersons	20%
194LB	Interest from infrastructure debt funds	5%
194LD	Interest to FIIs/QFIs	5%
194LBA/B/C	Income via trusts/funds	10%

10. Miscellaneous updates and removed provisions

A major compliance relief comes from the removal of overlapping provisions that complicated tax deduction procedures.

Eliminated/Inactive Provisions		
Section	Description	Status
206C(1H)	TCS on sale of goods	Removed from April 2025
206AB / 206CCA	Higher TDS/TCS for non-filers	Removed from FY 2024–25

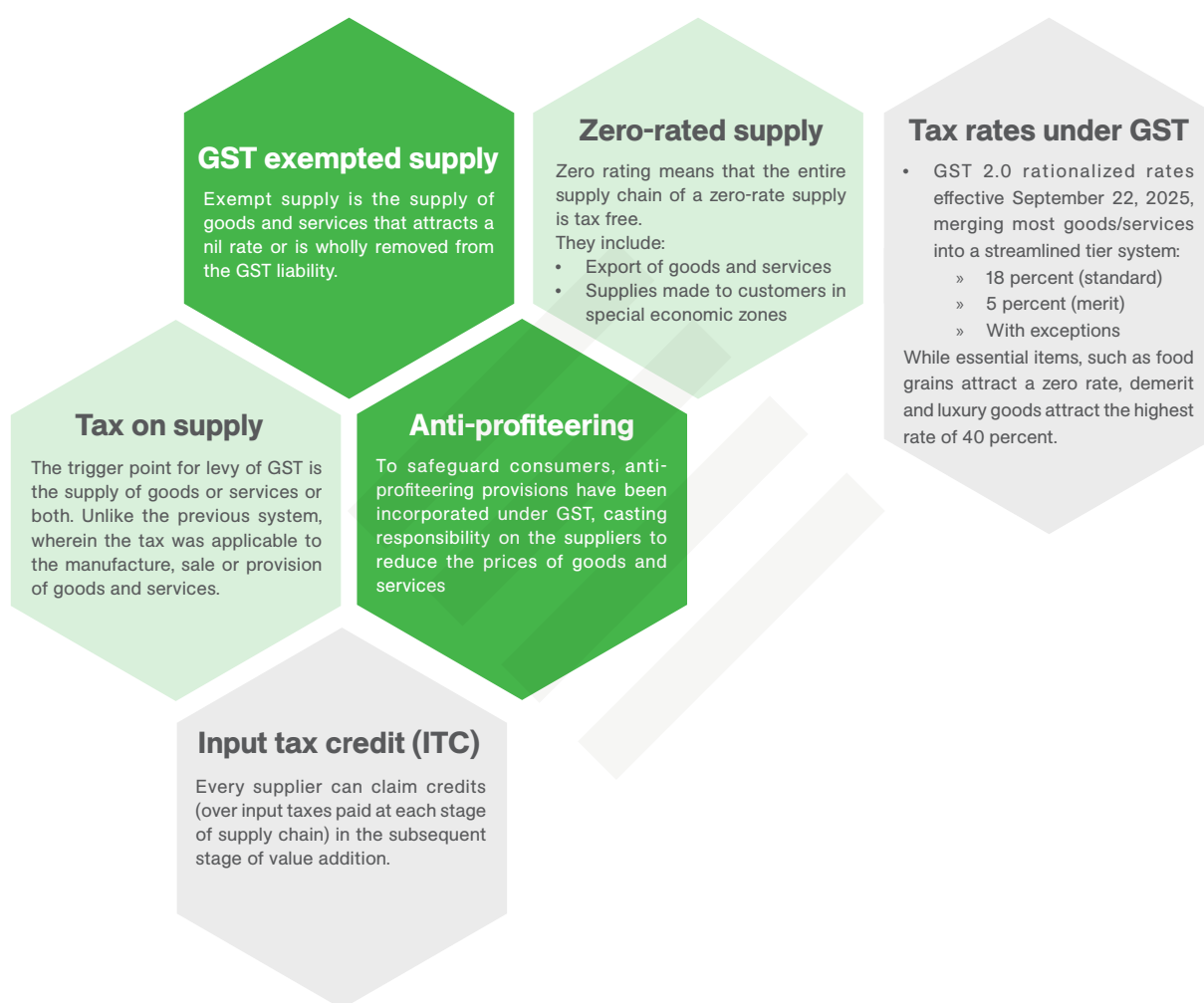
This helps businesses avoid double checks on tax return filings and eliminates duplicate obligations.

Goods and services tax

India's goods and services tax (GST) was implemented starting July 1, 2017, replacing a fragmented web of central and state indirect taxes with a unified destination-based tax regime. The dual GST model involves simultaneous taxation by the Centre and States. For foreign companies supplying goods/services into India, IGST is the primary levy, especially for imports and cross-border service transactions. Businesses can claim input tax credit (ITC) for taxes paid on inputs used in the production or supply process, which eliminates the cascading effect of "tax on tax" and ensures the final consumer bears the tax burden only on the value addition at each stage. The entire process, from registration to return filing and tax payment, is managed online through the GST Network (GSTN) portal.

GST Dual Structure		
Tax type	Applies to	Levied by
CGST (Central GST)	Intra-state supplies	Central Government
SGST (State GST)	Intra-state supplies	State Governments
IGST (Integrated GST)	Inter-state supplies, imports, exports	Central Government
UTGST (Union Territory GST)	Supplies in Union Territories	Union Territory Administrations

Key Features of GST in India



GST registration for businesses - Who should register for GST?

The following are required to register:

- Individuals registered under the pre-GST law
- Individuals who supply via e-commerce aggregators as well as all e-commerce aggregators

- Individuals who supply online information, database access, or retrieval sources from a place outside India to a person in India other than registered taxable persons
- Casual taxable person/non-resident taxable person
- Agents of a supplier and input service distributor

GST changes in 2025

In 2025, India ushered into a new phase of digital enforcement and compliance modernization under the GST regime. Several key updates, took effect between January and April 2025, shaping how companies manage tax and internal controls.

• **Mandatory Multi-Factor Authentication (MFA)**

Beginning January 1, 2025, taxpayers with an Annual Aggregate Turnover (AATO) exceeding INR 200 million must implement MFA. From February 1, 2025, this requirement will extend to taxpayers with an AATO exceeding INR 50 million. Finally, from April 1, 2025, MFA will be mandatory for all taxpayers, irrespective of their turnover.

• **Compulsory Input Service Distributor (ISD) registration**

Till March 31, 2025, businesses in India with multiple GST registrations under a single PAN had the option to either use ISD or adopt a cross-charge method to allocate shared service costs such as rent, consulting fees, or software licenses. The latter was often chosen for operational ease, despite challenges in credit allocation and reconciliation. From April 1 onward, such businesses must register as an ISD, issue appropriate ISD invoices, and file GSTR-6 returns to distribute ITC systematically across their various locations.

• **Amendments to GSTR-7 and GSTR-8 formats**

As per Notification No. 09/2025 – Central Tax, dated February 11, 2025, GSTR-7 – used for TDS – now requires document-level details, including the deductee's GSTIN, invoice information, payment amount, and tax deducted. Similarly, GSTR-8, which is filed by e-commerce operators collecting TCS, has been revised to provide greater transparency in reporting supplies made through digital platforms.

• **e-Way Bill generation and extension restrictions**

Starting January 1, 2025, taxpayers will only be able to generate e-way bills for documents issued within the past 180 days. For example, any document dated before October 3, 2024, will become ineligible for e-way bill generation after April 1, 2025.



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*India Briefing Article
March 5, 2025*

As of March 3, 2025, select promoters and directors of certain businesses have the flexibility to complete the required biometric verification at any GST Suvidha Kendra (GSK) within their home state, rather than being restricted to their assigned jurisdictional GSK.

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Additionally, the validity period for extending an e-way bill will now be limited to 360 days from the date of original generation. This measure is expected to tighten controls around the movement of goods and prevent misuse of outdated documentation.

- **30-day time limit for e-invoice reporting extended to more taxpayers**

The government has steadily tightened e-invoicing timelines to improve reporting discipline and plug tax evasion gaps. As part of this initiative, the 30-day time limit for reporting e-invoices on the Invoice Registration Portal (IRP) has now been extended to those with AATO above INR 100 million, effective April 1, 2025. This was previously applied to businesses with AATO above INR 1 billion. This means that taxpayers in this bracket must ensure that all B2B invoices are reported to the IRP within 30 days of the invoice date. Failure to do so will result in the invoice being rejected for IRN generation, which can impact input credit claims and delay downstream compliance.

These reforms collectively prepare businesses for a more predictable GST environment. The compliance updates introduced through early 2025, such as mandatory MFA, compulsory ISD registration, stricter e-invoice timelines, and revised return formats, support the transition to the GST 2.0 regime introduced in September 2025, where rationalized tax slabs and clearer time-of-supply rules reshape how businesses plan pricing, manage contracts, and align tax strategy.

Note: The GST compliance changes, which came into effect in April 2025, are based on amendments to existing law (the Central Goods and Services Tax Act, 2017 / CGST Act and related rules).

GST 2.0 reforms

India's GST was originally introduced to unify the country into a single national market, replacing a fragmented system of central and state taxes. While the regime enabled seamless interstate trade and improved credit flow through the ITC mechanism, businesses continued to face issues such as multiple rate slabs, classification disputes, and inverted duty structures that locked up working capital. GST 2.0, effective from September 22, 2025, directly addresses these long-standing structural challenges. The government has rationalized rates into a simpler framework, reducing ambiguity, easing compliance, and offering businesses – especially foreign investors – greater clarity in pricing, demand planning, and contract structuring.

Beyond rate changes, the reforms require companies to realign their operational systems – contracts, distributor agreements, ERP tax codes, invoicing workflows, and price files – to avoid compliance lapses.

Regulatory oversight is also being strengthened. Firms must demonstrate commensurate price reductions where applicable, supported by detailed audit trails. The GST Appellate Tribunal (GSTAT) will streamline dispute resolution, improving predictability and reducing litigation risk.

Overall, GST 2.0 marks the beginning of a simpler, more transparent, and more stable indirect tax environment – an important factor for global companies evaluating India's ease of doing business.

Please note that GST 2.0 is a package of reforms, rate rationalization, simplified slabs, service-rate restructuring, compliance improvements, approved by the GST Council and implemented through:

- Notifications issued under the CGST Act and Rules, 2017
- Notifications under the IGST Act, 2017, and respective SGST Acts
- Amendments to Rules (e.g., time-of-supply, ITC rules, invoice rules)
- Circulars and clarifications by CBIC
- State government notifications adopting GST Council decisions

It is important to note that GST 2.0 does not replace GST law. Businesses must continue to comply with the existing legal framework even as they transition to the updated rates and procedural structure.

Revised GST rates for goods

GST rates are set by the GST Council and are structured across multiple slabs to balance revenue and consumer impact. These are updated periodically. As of 2025, the GST Council has established a streamlined slab structure – 5 percent (merit rate), 18 percent (standard rate), and a new 40 percent de-merit rate. Eliminating the 12 percent slab removes the overlap that long complicated classification and compliance. Special rates also exist for items like gold (3 percent) and rough, precious / semi-precious stones (0.25 percent). Alcohol for human consumption, petroleum products, and electricity are outside the scope of GST and are taxed by state governments.

Under GST 2.0, essentials that shape daily consumption, from packaged food to educational materials and healthcare goods, move into lower or nil tax categories. At the same time, high-end vehicles, aerated beverages, tobacco products, and premium lifestyle goods are brought under the 40 percent bracket.

GST 2.0: Revised Rates		
Schedule	GST rate	Nature / category
I	5%	516 entries (essentials, medicines, basic food items)
II	18%	640 entries (industrial goods, processed goods)
III	40%	13 entries (luxury vehicles, beverages, actionable claims)
IV	3%	15 entries (precious metals, jewelry)
V	0.25%	3 entries (rough diamonds, precious stones)
VI	1.5%	2 entries (cut diamonds)
VII	28%	6 entries (tobacco products)

The abolition of the 12 percent slab resolves one of the most persistent sources of ambiguity in the GST regime. Historically, businesses often struggled to differentiate between 12 percent and 18 percent classifications due to narrow tariff distinctions.

Policy benefits:

- Removes overlapping slab boundaries that caused disputes
- Simplifies product categorization and HSN mapping
- Reduces compliance burden for MSMEs and multinational suppliers
- Facilitates smoother ITC reconciliation and fewer rate-related audit flags
- Stabilizes supply-chain costing models

For sectors like manufacturing, FMCG, electronics, pharmaceuticals, and textiles, this change offers much-needed operational clarity.

Revised GST rates for services

India's GST Council has introduced a major restructuring of the services tax framework for 2025, shifting to a streamlined two-rate system: 5 percent without (or with restricted) ITC and 18 percent with full ITC. This represents the most significant recalibration of service taxation since the GST regime was launched in 2017, targeting simpler compliance for consumer-facing segments while safeguarding uninterrupted credit flows for B2B industries.

Under the revised structure, GST on essential and household-oriented services has been reduced, whereas rates on petroleum-linked services, outsourcing, and transport-related activities have been increased. Overall, the GST 2.0 adjustments aim to strike a balance between consumer affordability, revenue predictability, and clearer administrative rules for taxpayers.

Service-Wise GST Impact Under GST 2.0			
Service category	Earlier GST rate	Revised GST rate (GST 2.0)	Sectoral impact
Life insurance	18%	0% (exempt)	Major reduction in long-term financial protection costs; improves affordability and penetration.
Health insurance	18%	0% (exempt)	Significant relief for households and corporates; boosts demand for medical coverage.
Education services (select learning materials & supplies)	5% / 12%	0% (exempt)	Reduced cost of educational operations; benefits students and institutions.
Healthcare diagnostics (e.g., kits, thermometers)	12% / 18%	5% (merit rate)	Lowers cost of essential healthcare services; supports hospitals and diagnostic centers.
Hospitality & restaurants	12% / 18%	5% (merit rate)	Cheaper dining and travel-related services stimulates consumption in hospitality.
Wellness & personal care services	18%	5% (merit rate)	Lower costs for grooming, wellness therapies, and related services.
Agricultural support services	12% / 18%	5% (merit rate)	Reduces operational expenditure for farmers; improves rural productivity.
Transport of goods & passengers (select services)	12% / 18%	5% (merit rate)	Lower operating costs across logistics and mobility sectors.
Construction-related service inputs	18%	18% (revised standard rate)	Slight cost reduction due to recalibrated standard slab; supports housing and infra demand.
Premium lifestyle & luxury services	28% + cess	40% (de-merit rate)	High-end hospitality, luxury club memberships, and premium service bundles get costlier.

Service-Wise GST Impact Under GST 2.0

Service category	Earlier GST rate	Revised GST rate (GST 2.0)	Sectoral impact
Services linked to premium automobiles/yachts	28% + cess	40% (de-merit rate)	Luxury mobility services have become more expensive despite cess removal.
Aerated/cafeinated beverage services	28% + cess	40% (de-merit rate)	Higher cost for beverage services; aligns with health-based taxation.

Key shifts for global companies under GST 2.0

While GST registration thresholds remain unchanged, time-of-supply rules now take center stage under the revised 2025 rate structure. The applicable GST rate – old or new – is determined strictly by the timing of the invoice and the receipt of payment, rather than the date on which goods or services were actually supplied. For instance, if both the invoice and payment occur after September 22, 2025, the revised rate must be applied, even if the underlying supply took place earlier. Conversely, if payment is received before the rate change, the old rate applies, irrespective of when the invoice is issued.

Where advances straddle both periods, businesses must apportion taxes across the old and new rates. This more stringent, timeline-driven approach is designed to reduce revenue leakage and enforce stronger compliance discipline across cross-border and domestic operations. Foreign companies must also closely audit their ITC positions. Credits remain valid at the rate originally charged on the invoice. However, ITC must be reversed when supplies become exempt under the new rate structure. Refunds linked purely to rate changes are not permitted, and accumulated ITC under the inverted duty structure (IDS) can be claimed only when the input-output tax differential is structural, not the result of a temporary rate adjustment.

Institutional upgrade: GST appellate tribunal begins operations

The long-awaited GST Appellate Tribunal (GSTAT) went live in late September 2025. With hearings scheduled to begin in December and a deadline of June 30, 2026, to clear pending appeals, GSTAT brings long-needed certainty to India's tax dispute ecosystem. Its Principal Bench will also serve as the National Appellate Authority for Advance Ruling, offering foreign investors a stronger mechanism for binding clarity on complex transactions.

Trade facilitation: Faster refunds and simplified registration

India is moving towards a more digital, risk-based refund ecosystem:

- Provisional refunds for zero-rated supplies (exports, SEZs): Eligible exporters will receive 90 percent provisional refunds, driven by automated risk engines, effective November 1, 2025.
- Provisional refunds for inverted duty structure: The same 90 percent rule will extend to IDS refunds, pending amendments.
- Refunds for low-value export consignments: Threshold limits will be removed, benefiting small exporters.
- Simplified registration for low-risk businesses: Automated registration approval within three working days will roll out for applicants with monthly GST liability below INR 250,000, expected to cover 96 percent of new registrations.

Sector-Wise Impact Matrix for Foreign Investors (GST Reforms, Effective Sept 22, 2025)

Sector	GST change	Direct impact on foreign investors	Compliance / strategic implications
Manufacturing (electronics, machinery, industrial goods)	Revised GST rate applicability from Sept 22; ITC reversal for newly exempt goods	Margins impacted if inputs taxed at higher rates; import IGST to rise on selected components	Update ERP systems to reflect new IGST rates; renegotiate supplier contracts; manage ITC tied to exempt supplies
Automotive & mobility	Standard rate reduction for small vehicles; 40% de-merit rate for premium automobiles	High-end vehicle taxes recalibrated—no compensation cess lowers net burden	Adjust pricing strategies for luxury vehicles; revisit import valuation and classification
Consumer goods (FMCG, personal care, packaged foods)	Essential items moved to nil/5% slab	Improved competitiveness; lower pricing boosts demand	Rework MRPs, reprint packaging, adjust distributor contracts; manage mixed-rate inventory
Healthcare & medical devices	Diagnostics, medical oxygen, spectacles moved to 5%	Cost efficiencies in healthcare supply chain; increased sector attractiveness	Ensure correct rate mapping during imports and inter-state supplies
Agriculture & Agri-machinery	Reduced GST on tractors, irrigation equipment, fertilizers	Lower input cost for agri-equipment manufacturers and foreign JVs	Alignment required on time-of-supply for seasonal procurement cycles
Insurance & financial services	Life and health insurance fully exempt	Makes India's insurance market more accessible to global players	ITC reversal required for exempt lines of business; needs system adjustments
Real estate & construction	Reduced GST on cement and materials (18%)	Lower project cost improves viability of FDI-backed construction projects	Update vendor contracts; tax credit planning for long-duration projects
Logistics, warehousing & e-commerce	No change to threshold; revised rates affect fulfilment pricing	Stock already in supply chain will be taxed at new rates	No need to regenerate e-way bills; reconfigure marketplace tax engines

Sector-Wise Impact Matrix for Foreign Investors (GST Reforms, Effective Sept 22, 2025)

Sector	GST change	Direct impact on foreign investors	Compliance / strategic implications
Retail & hospitality	Everyday items and wellness products move to 5%	Better consumer sentiment; cost corrections boost footfall	New MRPs required; IT systems need slab-by-slab updates
IT/SaaS/MSME service providers	No major rate change; refund reforms benefit exporters	Faster refund cycles improve cash flow for export-oriented tech firms	Align invoices with time-of-supply rules for global clients
Exporters (all sectors)	Risk-based provisional (RSP) refunds for zero-rated supplies and IDS (90% within timelines)	Significant cash-flow improvement; reduced refund delays	Ensure low-risk status via compliance hygiene; update documentation workflows
Tobacco & sin goods	Shift to RSP-based valuation; high de-merit rate	Higher retail-level tax outgo; greater compliance scrutiny	Reconfigure valuation models; adjust MRP-based tax filings
Small foreign enterprises / new entrants	Optional simplified GST registration scheme from Nov 1	Faster market entry; reduced compliance burden	Ensure estimated liability < INR 250,000/month to remain eligible

Customs duty

India imposes import duties on goods entering the country and export taxes on select items to regulate trade and protect the economy. The duty amount depends on factors like product value, weight, and origin. Further, as a general principle, exports of goods and services are free from duties. Duties paid on exported goods/inputs are refunded in some or the other manner. Customs duties are governed by the Customs Act, 1962, and the Customs Tariff Act, 1975. These laws regulate imports, exports, duty collection, smuggling prevention, and tariff classifications. India follows the HSN classification rules, and the goods are classified under different chapter/ tariff headings, primarily according to their description, components and use. The Central Board of Indirect Taxes and Customs (CBIC) oversees customs duties, smuggling prevention, and duty evasion. It operates through various departments like Custom Houses and CGST Commissionerates.

Customs Laws in India		
	Customs Act, 1962	Customs Tariff Act, 1975
Purpose	The Customs Act, 1962, provides the legal framework for the administration and enforcement of customs law in India. It lays down the procedures and regulations for the import and export of goods, collection of customs duties, and the prevention of smuggling and other illegal activities.	The Customs Tariff Act, 1975, primarily deals with the rates of customs duties applicable to the import and export of goods. It sets out the tariff rates and classifications for various goods under the Harmonized System of Nomenclature (HSN)
Scope	The Act deals with aspects such as: • Levy and collection of customs duties. • Prohibition and restriction of imports and exports. • Powers of customs officers for search, seizure, confiscation, and arrest. • Procedures for assessment and adjudication. • Appeals and penalties for violations of customs laws.	The Act has provisions for: • Levy of Basic Customs Duty (BCD) on imported goods. • Levy of Additional Customs Duty (countervailing duty) and Special Additional Duty (SAD). • Anti-dumping duties, safeguard duties, and other specific duties to protect domestic industries.
Application	Administration: The Customs Act, 1962 focuses on the procedural and regulatory aspects related to customs duties and control over imports and exports.	Tariff classification: The Act provides the classification of goods under different tariff headings and sub-headings, determining the applicable duty rate for each class of goods.

Application of Custom Duties and Taxes on Import-Export Trade in India		
Category	Components	Details
Customs duties	Basic Customs Duty (BCD)	Imposed on all imports; rates vary by product type.
	IGST	Levied on imports to ensure consistent tax treatment for domestic and imported goods.
	Social welfare surcharge	Charged as a percentage of BCD, typically around 10%.
	Anti-dumping and Safeguard duties	Imposed to protect domestic industries from unfair pricing and import surges.
Tariff and trade treaty application	Tariff rates	Vary by product type.
	Trade agreements	Agreements like the India-ASEAN FTA, India-South Korea CEPA, and India-UAE CEPA reduce or eliminate tariffs for competitive advantages.
GST	IGST on imports	Levied at the applicable rate with input tax credits available.
	Zero-rated exports	No GST is charged on exports, and input tax credits can be claimed.
	Compensation Cess	Applies to luxury and demerit goods.
Additional duties	Countervailing Duty (CVD)	Imposed to counter foreign subsidies.
	Special Additional Duty (SAD)	Previously levied to offset VAT, now largely replaced by IGST.
Special Economic Zones (SEZs) and Export-Oriented Units (EOUs)	Duty exemptions	Traders in SEZs and EOUs enjoy duty exemptions on imports to promote exports.
Compliance and documentation	Required documents to support duty benefits access and avoid penalties	Essential documents include Bill of Entry, Shipping Bill, IGM (Import General Manifest), and EGM (Export General Manifest) for compliance and avoiding delays or penalties.



Transfer Pricing

- ◆ Overview of transfer pricing in India
- ◆ ALP and the Income Tax Act, 2025
- ◆ Safe harbor Rules
- ◆ Advance pricing agreements
- ◆ TP compliance in 2026

Overview of transfer pricing in India

Businesses operating in India and engaging in cross-border or specified domestic transactions must comply with India's comprehensive transfer pricing (TP) regulations. These rules ensure that transactions between associated enterprises (AEs) are conducted at arm's length, preventing the artificial shifting of profits and safeguarding the Indian tax base.

India's TP regime applies to international transactions and to domestic related-party transactions that exceed prescribed monetary thresholds. The objective is to ensure fair pricing, transparency, and consistent tax treatment across group entities.

Transfer pricing provisions are currently governed by Sections 92A to 92F of the Income-tax Act, 1961, read with Rules 10A to 10E of the Income-tax Rules, 1962. With the introduction of the Income Tax Act, 2025 – effective April 1, 2025 – the TP framework will be reorganized under Chapter 10: "Special Provisions Relating to Avoidance of Tax."

Notably, both the 1961 and 2025 laws define "associated enterprises" in largely similar terms. Entities are treated as associated if one enterprise participates – directly or indirectly – in the management, control, or capital of another, or if both entities are under common control.

The Income Tax Act 2025 enhances India's alignment with OECD transfer pricing principles, while expanding the regulatory scope to better address the realities of modern business models, including digital assets, data-driven enterprises, platform economies, and new financing arrangements.

TP Framework Comparison: Income Tax Act, 1961 v.s. Income Tax Act, 2025			
Area	Income Tax Act, 1961 (Section 92A)	Income Tax Act, 2025 (Chapter X, Section 162)	Key changes/purpose
Structure and language	The 1961 Act used dense and overlapping clauses with references like "in the following manner" and multiple explanations.	The 2025 Act reorganizes the same rules with clearer clause structure (a–l), making it easier to interpret.	Simplification and codification for clarity and enforcement.
Shareholding threshold	Defines association if one enterprise holds 26% or more of voting power in another.	Retains the 26% threshold exactly.	No change – aligns with earlier law and OECD practice.
Financial control via loans or guarantees	Loan $\geq$ 51% of total assets or guarantee $\geq$ 10% of total borrowings.	Same thresholds maintained.	Consistency preserved.
Management control	Based on appointments of >50% of directors or executive members.	Retains this but clarifies that appointment may be direct or indirect and includes "members of the governing board."	Modernization to include new business structures (trusts, LLPs, boards).

Comparing the 1961 Income Tax Act and the 2025 Income Tax Act: Transfer Pricing Provisions

Area	Income Tax Act, 1961 (Section 92A)	Income Tax Act, 2025 (Chapter X, Section 162)	Key changes/purpose
Dependence on IP or know-how	Covered as “wholly dependent” on IP, trademarks, etc.	Retains concept but expands it to cover digital assets, data, and documentation.	Updated to address digital economy and IP-heavy models.
Raw material /sales dependence	90% or more dependence threshold.	Same 90% threshold retained.	No change.
Family/individual control	Covered control by same individual or relatives, including HUFs.	Retains it but adds joint control scenarios (individual + relative).	More precise definition for practical cases.
Mutual interest clause	Ended with a broad “such other relationship as may be prescribed.”	Same clause retained as sub-clause (I).	Retains flexibility for future rules.
Terminology updates	Referred to “assessee” and “previous year.”	Uses modern terms like “tax year,” “enterprise,” and aligns definitions with OECD BEPS and global MNE standards.	Harmonization with international tax language.

Understanding international transactions and arm’s length pricing under India’s Income Tax Act, 2025

Refining cross-border dealings

The Income Tax Act, 2025 (Chapter X: Special Provisions Relating to Avoidance of Tax) upgrades India’s TP framework, ensuring that cross-border transactions between AEs reflect fair market value and prevent profit shifting.

An international transaction is defined as any deal between two or more associated enterprises, where at least one entity is a non-resident. Such transactions span goods, services, finance, and intellectual property, and must comply with arm’s length pricing norms.

Scope of international transactions

The revised law covers a wide range of business arrangements, including:

- Tangible property: Purchase, sale, lease, or use of assets such as machinery, vehicles, or equipment.
- Intangible property: Transfer or licensing of IP assets including patents, brands, software, know-how, and customer data.
- Financial dealings: Loans, guarantees, deferred payments, securities transactions, and capital financing.
- Service transactions: Technical, management, consultancy, R&D, or administrative services.
- Business restructuring: Mergers, acquisitions, or reorganizations, regardless of immediate financial impact.
- Cost-sharing arrangements: Agreements for sharing or apportioning costs of common facilities or services.

Additionally, a transaction with an unrelated third party may be deemed “international” if an associated enterprise determines its terms or is party to a prior agreement.

Determining the arm’s length price (ALP)

All income earned by a company or AE through any international transaction is calculated based on the price of the arm’s length. The term “arm’s length price” itself refers to the price applied to transactions between unrelated entities operating under uncontrolled conditions.

Under Income Tax Act, 1961, the determination of the ALP is governed by section 92C(1).

With the enactment of the Income Tax Act, 2025, the determination of the arm’s length price comes under section 165(1). To ensure pricing reflects independent market conditions, the Act prescribes six methods for computing the ALP.



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“India’s evolving transfer pricing framework is moving toward a more precise, data-driven determination of arm’s length value. As the shift away from arithmetic-mean benchmarking takes shape, businesses must strengthen their documentation and readiness to adapt—ensuring fair value attribution, reduced litigation risk, and greater certainty in cross-border operations.”

Methods for Determining Arm’s Length Price

Comparable Uncontrolled Price (CUP) Method	The price charged or paid for property transferred or services provided in a comparable uncontrolled transaction + adjustments
Resale Price Method (RPM)	Resale price charged by the tested party for the goods or services obtained from the AE to the unrelated party minus the normal uncontrolled gross profit and the expenses incurred by the assessee + adjustments
Cost Plus Method (CPM)	A sum of direct and indirect costs incurred and [normal uncontrolled gross profit + adjustments]

Methods for Determining Arm's Length Price

Profit Split Method (PSM)	Employed in transactions involving transfer of unique intangibles. The combined net profit of the AEs in a transaction is compared to their relative contribution to arrive at the apportioned transfer price profit.
Transactional Net Margin Method (TNMM)	The net profit of the tested party is determined against costs incurred, sales affected, or assets employed, or any other relevant base and the same is compared against the net profit of comparable determined against the same base + adjustment
Other method	The price at which the international transaction or specified domestic transaction has actually been undertaken, if the variation between the arm's length price so determined and price at which the international transaction or specified domestic transaction has actually been undertaken does not exceed such percentage not exceeding 3% of the latter.

India's TP Regime: Key Definitions

- ALP: Price applied between independent parties under uncontrolled conditions.
- Enterprise: Any entity engaged in production, trade, services, R&D, or investments, including subsidiaries and permanent establishments.
- PE: A fixed place of business — such as an office or branch — through which activities are partly or wholly carried out.
- Transaction: Includes any arrangement, understanding, or action in concert, formal or informal, whether legally enforceable or not.

Safe harbor rules in India: Simplifying tax compliance

Safe harbor rules (SHRs) are an integral part of India's TP regulations, designed to streamline compliance and reduce the administrative burden for taxpayers engaged in transactions between AEs. These rules establish predefined profit margins or pricing benchmarks for specific categories of transactions. These rules minimize scrutiny by tax authorities.

It is worth noting that the Income-tax Rules, 1962 (including procedural provisions like TDS, safe harbor, and documentation norms) will continue to operate in line with the New Income Tax Act 2025. It will continue till the Central Board of Direct Taxes (CBDT) issue new Income-tax Rules.

The CBDT issued Notification No. 21/2025 on March 25, 2025, introducing key changes to India's SHR under the Income Tax Act, 1961. These changes aim to expand the scope of applicability, promote ease of doing business, and encourage investment. The amendments are in effect.

SHR apply to various categories, including:

- IT/ITES services: Minimum margin of 18 percent for IT-enabled or software development services.
- R&D services: Margin of 24 percent for R&D in software or pharmaceuticals.
- Intra-group loans: Interest within prescribed rates, like LIBOR plus a fixed margin.
- Corporate guarantees: Minimum commission rate of 1 percent.
- Contract manufacturing: Defined profit margins for manufacturing exports.
- Low-risk distribution: Industry-specific margins for resellers.
- Financial services: Predefined terms for low-risk activities.
- Raw diamond trading: 4 percent margin on gross receipts for foreign miners in Special Notified Zones (SNZ)s.

Threshold for international transactions increased

The value limit for specified international transactions (like service provisions) has been raised from INR 2 billion to INR 3 billion. This change enables more taxpayers to benefit from the safe harbor provisions.

Value Limit Raised for Specified International Transactions		
Transaction type	Up to INR 1 billion	INR 1 billion – INR 3 billion
Software development services	17%	18%
IT-enabled services (ITeS)	17%	18%
Knowledge process outsourcing (KPO)	—	18% to 24%
Contract R&D – Software development	—	24%
Contract R&D – Pharma (Generic drugs)	—	24%

Note: Income tax rates remain unchanged; only the transaction limit is revised.

Lithium-ion batteries now covered under ‘core auto components’

The definition of core auto components now includes lithium-ion batteries used in electric and hybrid vehicles. This allows auto component manufacturers to claim the 12 percent SHR (on operating expenses), previously limited to traditional components like engines, steering, and suspension parts.

Previously, lithium-ion batteries were treated as non-core components (eligible for only 8.5 percent). While this promotes e-mobility and local battery manufacturing, some capital-intensive businesses may find the 12 percent rate relatively high and less competitive.

Applicability of SHR extended to AY 2025–26 and AY 2026–27

The applicability of SHR, which was earlier extended one year at a time, is now confirmed for two consecutive assessment years, AY 2025-26 and AY 2026-27 (i.e., FY 2024-25 and FY 2025-26). This two-year extension restores the earlier practice and offers greater certainty and planning stability for taxpayers using the safe harbor route.

While Rule 10TE(2), under Income Tax Rules, 1962, allows the safe harbor option to remain valid for up to three years (as per Form 3CEFA), the new rules clarify that this is not applicable when the option is exercised under Rule 10TD(3B).

Taxpayers will now need to file Form 3CEFA every year to opt for safe harbor treatment under the new conditions.

Advance Pricing Agreements (APAs)

APAs are formal, binding agreements between a taxpayer and the tax authority that predetermine the arm's-length pricing method for cross-border related-party transactions. They provide long-term certainty by preventing future transfer pricing disputes. APAs can be unilateral (between the taxpayer and Indian tax authority) or bilateral/multilateral (involving treaty partners), ensuring consistency of tax outcomes across jurisdictions.

In FY 2024-25, India's Central Board of Direct Taxes (CBDT) signed a record 174 APAs, including Unilateral APAs (UAPAs) and 64 Bilateral APAs (BAPAs). The Board has said this was the “highest number” of APAs signed in a single financial year since the program's launch.



RELATED READING



INDIA BRIEFING

India's Transfer Pricing Landscape in 2025: Strategic Implications for Multinationals in 2026

*India Briefing Article
December 24, 2025*

Explore India's latest transfer pricing reforms, including the new multi-year arm's length pricing (ALP) option, expanded safe harbors, advance pricing agreement (APA) developments, and what they mean for AY 2026-27 planning.

[AVAILABLE HERE](#)

Of the 174 APAs, 65 were BAPAs, which is again the “highest” number of such agreements finalized in any year so far. These APAs are a result of mutual agreements with India’s treaty partners, including Australia, Japan, South Korea, The Netherlands, New Zealand, Singapore, the UK, and the US. The total number of APAs, across all the years, now stands at 815, comprising 615 UAPAs, 199 BAPAs and 1 MAPA.

TP compliance chart for 2026

To comply with the transfer pricing regulations outlined in the Income Tax Act for FY 2024-25 (Assessment Year 2025-26), entities must meet specific obligations within the prescribed timelines. The table below highlights key activities, applicable sections, required forms, and compliance deadlines. Adhering to these requirements is crucial for businesses to avoid penalties and ensure smooth financial operations.

Transfer Pricing Compliance Calendar				
Activity	Section of Income Tax Act 1961	Section of Income Tax Act 2025	Form no.	Due date
Transfer Pricing audit	92E	172	Form 3CEB	October 31, 2026
Transfer Pricing documentation	92D	171	-	October 2026
Return of income (in case where transfer pricing audit is applicable)	139	263	ITR form	November 30, 2026
Tax Audit Report (in case where transfer pricing audit is applicable)	44AB	63	Form 3CD	October 31, 2026
Master file	92D (4)	171	Form 3CEAA	November 30, 2026
Intimation by Designated Constituent Entity (DCE)	92D (4) (Rule 10DA)	171	Form 3CEAB	October 31, 2026
Intimation by DCE	286 (1) (Rule 10DB)	511	Form 3CEAC	2 months prior to the due date for furnishing of report. The due date to furnish report is a period of 12 months from the end of the accounting year, i.e., January 31 of the Assessment Year.

Transfer Pricing Compliance Calendar				
Activity	Section of Income Tax Act 1961	Section of Income Tax Act 2025	Form no.	Due date
Country-by-Country Reporting (CbCR)	286(2) & (4) (Rule 10DB)	511	Form 3CEAD	12 months from the end of reporting accounting year, i.e., March 31 of the Assessment Year.
Safe Harbor Application for International Transactions	92CB	167	Form 3CEFA	November 30, 2026
Safe Harbor Application for Specified Domestic Transactions	92CB	167	Form 3CEFB	November 30, 2026



Accounting, audit, and financial reporting

- ◆ Financial reporting and audit requirements for companies
- ◆ Types of audits
- ◆ Tax audits

Financial reporting and audit requirements for companies

Maintaining robust financial reporting and auditing mechanisms are essential to strengthening investor confidence, improving corporate governance, and safeguarding economic resilience for companies operating in India.

India's reporting and audit framework, anchored in the Companies Act, 2013 and overseen by key regulators, including the Ministry of Corporate Affairs (MCA) and the Securities and Exchange Board of India (SEBI), reinforces transparency, accountability, and reliability in corporate financial statements.

Regulatory framework for financial reporting

Companies Act, 2013

The Companies Act, 2013, is a foundation for financial reporting in India by mandating compliance with notified accounting standards and prescribing detailed requirements on consolidation, presentation, and disclosures.

Indian Accounting Standards (Ind AS):

Converged with International Financial Reporting Standards (IFRS), Ind AS is compulsory for listed companies, large unlisted companies, and select public interest entities.

SEBI guidelines:

SEBI mandates enhanced disclosures for listed entities to uphold investor protection and market integrity. Requirements include timely quarterly and annual reporting, detailed governance disclosures, and strict audit committee oversight.

Institute of Chartered Accountants of India (ICAI):

As the principal standard-setting body, ICAI issues Standards on Auditing (SA) and guides the implementation of accounting norms, including Ind AS. Its role is central to maintaining audit quality and supporting consistent practices across the profession.

Financial reporting and audit requirements for different business structures in India

Understanding India's financial reporting and audit landscape is essential for investors evaluating the most suitable structure for market entry. Compliance obligations vary across entity types, influencing operational flexibility, regulatory exposure, and long-term governance.

1. Foreign companies (Branch, liaison, or project offices)

Foreign companies operating through a registered presence in India face heightened disclosure requirements. They must file financial statements specific to Indian operations as well as provide consolidated global accounts. Audits must be conducted by a Chartered Accountant (CA) in India, and additional reporting applies under RBI and FEMA regulations.

2. WOS and JV companies

Subsidiaries are treated as full-fledged Indian companies and therefore must comply with comprehensive reporting norms under the Companies Act, 2013. Ind AS typically applies, especially when linked to global parent reporting requirements. Annual statutory audits, internal audits (for larger entities), and tax audits are common, alongside transfer pricing audits for cross-border transactions.

3. Domestic companies (Private and public limited)

Domestic companies follow the standard corporate reporting framework, with obligations varying by size and listing status. Larger and listed companies must adopt Ind AS, maintain detailed disclosures, and undergo mandatory statutory and tax audits. Internal and cost audits apply when turnover or sector thresholds are met.

4. LLPs

LLPs provide a more flexible compliance environment. They must file a Statement of Accounts and Solvency but are not required to follow Ind AS or prepare consolidated financials. Audits are mandatory only if contribution or turnover exceeds prescribed limits.

5. OPC

While OPCs enjoy several procedural relaxations, it follows the Companies Act framework for financial reporting. A statutory audit is mandatory regardless of turnover, though disclosure requirements are lighter than standard private limited companies.



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“ Understanding India’s financial reporting and audit requirements is essential to choosing the right entry structure. Each entity type carries a distinct compliance burden, and aligning these obligations with operational goals is key to managing risk, ensuring transparency, and building a credible long-term presence in the Indian market ”

Strategic takeaway for investors

Choosing the right entity structure is not merely a legal formality, it shapes compliance costs, transparency expectations, investor perception, and operational flexibility.

Compliance Intensity Overview (with Investor Insights)				
Entity type	Financial reporting rigor	Statutory audit	Special notes	Investor insight
Foreign company (BO/PO/LO)	High	Mandatory	Separate India-specific financials + filing of global consolidated accounts; additional compliance under RBI/FEMA	Offers presence without full incorporation but comes with the tightest regulatory scrutiny and limited permitted activities. Best for controlled, low-risk market entry.
Indian subsidiary (WOS/JV)	Very high	Mandatory	Ind AS commonly applies; transfer pricing, tax audit, and internal audit requirements; consolidation rules triggered	Provides maximum operational flexibility and full control. Requires robust governance and compliance infrastructure, ideal for long-term India strategy.
Domestic company (Private or Public Limited)	High; very high	Mandatory	Rigour depends on size and listing status; internal and cost audits may apply	A scalable and investor-friendly structure with predictable compliance; suitable for both SMEs and large enterprises planning growth.
LLP	Moderate	Conditional	Audit required only when turnover or capital contribution exceeds specified limits; Ind AS not applicable	Attractive for cost-efficient operations, professional services, or JV partnerships with limited liability and lower reporting burden.
OPC	Moderate	Mandatory	Companies Act reporting applies; audit required regardless of turnover, but disclosures are relatively lighter	A practical option for small or pilot ventures, offering simplified governance while maintaining legal credibility.

Financial statement requirements and disclosure norms

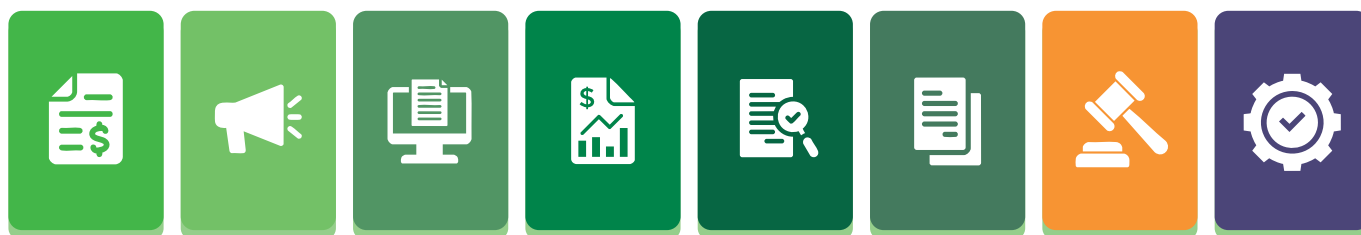
Indian companies must prepare a comprehensive set of financial statements to ensure transparency and regulatory compliance. These typically include:

- Balance sheet which presents the company's financial position at a given date, outlining assets, liabilities, and shareholders' equity.
- Profit and loss (P&L) statements, summarizing income and expenses over the financial year, offering insights into operational performance and profitability.
- Cash flow statement which tracks cash inflows and outflows, helping stakeholders evaluate liquidity and cash management.
- Statement of changes in equity which records details movements in equity during the year, including profits, losses, dividend distributions, and other adjustments.
- Notes to financial statements which provides supplemental disclosures such as accounting policies, contingent liabilities, related-party transactions, and risk-management practices.

Listed companies face additional obligations under SEBI regulations, including quarterly financial disclosures, adherence to reporting benchmarks, and prompt disclosure of material financial or operational developments. Unlisted companies generally submit only annual financial statements unless they meet specific thresholds that place them under enhanced public-interest scrutiny.

Since April 1, 2023, the Companies Act mandates that companies maintain electronic accounting records using software equipped with an audit trail (edit log) to track changes to financial entries. This requirement does not apply to LLPs, partnerships, or similar non-corporate entities.

Financial Reporting & Audit Compliance Checklist in India



1. Core financial statements

Ensure the following are prepared annually, in the prescribed format:

- ✓ Balance sheet
- ✓ Profit and loss statement
- ✓ Cash flow statement
- ✓ Statement of changes in equity
- ✓ Notes to financial statements (including accounting policies and disclosures)

2. Disclosure requirements

For all companies:

- ✓ Disclose contingent liabilities and commitments
- ✓ Report related-party transactions
- ✓ Provide details on financial risk management
- ✓ Ensure compliance with Schedule III of the Companies Act, 2013

For listed companies (SEBI-compliant):

- ✓ Submit quarterly financial results
- ✓ Provide management discussion and analysis (MD&A)
- ✓ Disclose material financial or operational events promptly
- ✓ Comply with corporate governance reporting norms

3. Electronic record-keeping (Mandatory from April 1, 2023)

- ✓ Maintain books of accounts in electronic format
- ✓ Use accounting software with an audit trail (edit log) enabled
- ✓ Ensure audit trail cannot be disabled and remains preserved
- ✗ Note: This requirement does NOT apply to LLPs and partnerships firms.

4. Consolidated financial reporting

(If the company has subsidiaries, JV, or associates)

- ✓ Prepare consolidated financial statements (CFS)
- ✓ Apply Ind AS principles for consolidation
- ✓ Include all entities based on control, joint control, or significant influence
- ✓ Ensure consistency of accounting policies across all group entities

5. Annual audit compliance

- ✓ Conduct statutory audit by a qualified CA
- ✓ Ensure compliance with applicable Standards on Auditing (SA)
- ✓ Provide auditors access to all financial records and controls
- ✓ Review auditor's report and address any qualifications or remarks

Additional audits depending on thresholds:

- ✓ Internal audit (for companies meeting size/sector criteria)
- ✓ Cost audit (for regulated industries such as pharma, chemicals, manufacturing)
- ✓ Tax audit (if turnover exceeds prescribed limits)

6. Filing and reporting obligations

- ✓ File annual financial statements with the MCA
Submit annual returns and compliance certificates
- ✓ Listed companies: file quarterly, half-yearly, and annual reports with SEBI and stock exchanges
- ✓ Foreign companies: file Form FC-3 and provide global consolidated financials

7. Governance and board-level compliance

- ✓ Ensure board approval of financial statements
- ✓ Obtain audit committee review (mandatory for listed and certain large companies)
- ✓ Maintain minutes and documentation of financial approvals
- ✓ Implement whistleblower and internal control mechanisms (as applicable)

8. General compliance controls

- ✓ Maintain proper documentation and backup of all financial records
- ✓ Establish internal controls over financial reporting (ICFR)
- ✓ Monitor compliance with Ind AS or Accounting Standards (AS)
- ✓ Conduct periodic compliance reviews and gap assessments

Types of audits

India's regulatory framework mandates multiple audit requirements depending on an entity's size, sector, and legal structure.

While the Companies Act, 2013 specifically governs statutory, internal, secretarial, and cost audits for companies, other forms of audits, such as tax audits, GST audits, IT audits, and forensic audits, may be required under separate legislation or based on business needs.

1. Internal audit: It is governed under Section 138, Companies Act, 2013 and Rule 13 of Companies (Accounts) Rules, 2014. Internal audit is mandatory for the following categories:

- All listed companies
- Unlisted public companies that meet any one of the following:
 - » Paid-up share capital $\geq$ INR 500 million
 - » Turnover $\geq$ INR 2 billion
 - » Outstanding loans/borrowings $\geq$ INR 1 billion
 - » Deposits $\geq$ INR 250 million
- Private companies that meet any one of the following:
 - » Turnover $\geq$ INR 2 billion
 - » Outstanding loans/borrowings $\geq$ INR 1 billion

Internal audits assess the effectiveness of internal controls, compliance systems, operational efficiency, and risk management processes. They may be conducted by an in-house team or external professionals.

2. Statutory audit: This is governed by Sections 139–147, Companies Act, 2013

A statutory audit is compulsory for all companies registered under the Companies Act—whether private or public, listed or unlisted. The audit must be carried out annually by a Chartered Accountant (CA) or a CA firm in accordance with the Act.

LLPs, however, fall outside the Companies Act for statutory audit requirements. Instead, Rule 24 of the LLP Rules, 2009 stipulates that an LLP must undergo an audit only if:

- Its turnover exceeds INR 4 million; or
- Its capital contribution exceeds INR 2.5 million.

3. Cost audit: These are governed under Section 148, Companies Act, 2013, & Companies (Cost Records and Audit) Rules, 2014. Companies must maintain cost records and undergo cost audits if they belong to notified industries such as manufacturing, defense, energy, infrastructure, and pharmaceuticals.

Thresholds:

- Regulated sectors:
 - » Total revenue $\geq$ INR 500 million, and
 - » Individual product/service turnover $\geq$ INR 250 million
- Unregulated sectors:
 - » Total revenue $\geq$ INR 1 billion, and
 - » Individual product/service turnover $\geq$ INR 350 million

Cost audits are conducted by a Cost Accountant (CMA).

4. Secretarial audit: This is governed under Section 204, Companies Act, 2013 & Rule 9 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014. Secretarial audit is mandatory for the following:

- Every listed company
- Every public company with either:
 - » Paid-up share capital $\geq$ INR 500 million, or
 - » Turnover $\geq$ INR 2.5 billion
- Every private company that:
 - » Is a subsidiary of a public company meeting the thresholds, or
 - » Has outstanding loans/borrowings $\geq$ INR 1 billion

The audits are conducted by a Company Secretary (CS) to ensure compliance with corporate laws, SEBI regulations, FEMA, and governance standards.

Other common audits (outside companies act): These audits are not mandated under the Companies Act but are widely required under other Indian laws:

- **Tax audit (Income Tax Act, 1961):** Mandatory for businesses with turnover exceeding prescribed limits (e.g., INR 100 million under certain conditions).
- **GST audit (as applicable under GST law):** While the mandatory GST audit by a Chartered Accountant has been withdrawn from FY 2020-21, taxpayers are still required to perform self-reconciliation of their GST data and may be subject to departmental audits or scrutiny. Entities with turnover between INR 20 million and INR 50 million must file GSTR-9, while those exceeding INR 50 million are required to file both GSTR-9 and GSTR-9C.
- **Information technology (IT) audit:** Assesses cybersecurity, IT controls, system integrity, typically required by BFSI, fintech, and regulated sectors.
- **Forensic audit:** Conducted when fraud, misconduct, or irregularities are suspected. Required during fund misappropriation cases or disputes.
- **Operational and performance audits:** Used by companies to evaluate efficiency, productivity, and program outcomes.

Tax audits in India

Tax audit is a statutory examination of a business's financial records, governed by Section 44AB of the Income Tax Act, 1961.

While companies are already subject to audits under corporate or sector-specific laws, a tax audit specifically evaluates compliance with the Income Tax Act. A CA conducts the audit and reports findings in Form 3CA/3CB along with prescribed details in Form 3CD.

This audit verifies whether the taxpayer has:

- Accurately reported turnover, income, and expenses
- Complied with tax deduction/collection (TDS/TCS) obligations
- Maintained books of account as required by law
- Correctly claimed exemptions, depreciation, and deductions

Who must undergo a tax audit?

Tax audit applicability depends on turnover, receipts, and the nature of the entity:

1. Businesses

A tax audit is compulsory if annual turnover exceeds INR 10 million.

The threshold increases to INR 100 million if 95 percent or more of business transactions are conducted through banking channels (i.e., minimal cash dealings).

Entities opting for the presumptive taxation scheme under Section 44AD are exempt up to INR 20 million, unless they declare profits lower than deemed levels, in which case audit becomes mandatory.

2. Professionals

A tax audit is required if gross receipts exceed INR 5 million in a financial year.

3. Presumptive taxation cases

Taxpayers opting into Sections 44AD, 44ADA, or 44AE must undergo a tax audit if they declare income lower than the presumptive benchmark and their total income exceeds the basic exemption limit.

4. Special cases for non-residents

Sections 44BB (oil exploration services) and 44BBB (foreign turnkey power projects) mandate a tax audit if profits declared are lower than the presumptive rate.

For entities such as companies or cooperative societies that already undergo audits under other laws, a separate audit is not required. Instead, they must obtain:

- Form 3CA (for entities already audited under another law)
- Form 3CD for tax-specific disclosures

Compliance timelines and filing

Tax audit reports must be completed and uploaded electronically by the CA by September 30th of the relevant assessment year (unless extended). The taxpayer must subsequently approve the report on the Income Tax Portal.

Penalties for non-compliance

Failure to complete or file a tax audit can trigger penalties under Section 271B, amounting to:

- 0.5 percent of turnover/gross receipts, or
- INR 150,000; whichever is lower.

Penalties may be waived if the taxpayer demonstrates a reasonable cause for delay.

How to prepare for the GST audit and annual return filing

Preparing for the GST audit and annual return filing requires advance planning, robust reconciliations, and an accurate understanding of entity-level compliance obligations. Since GST operates on a PAN-based aggregation of turnover, but with each state-level registration treated as a distinct entity, companies, especially those with multi-state operations, must follow a systematic approach.

1. Understanding applicability and thresholds

The first step in readiness is determining whether the business must file GSTR-9, the annual return, and GSTR-9C, the annual reconciliation statement. Such taxpayers are required to get their accounts audited by a CA or CMA and need to submit a copy of audited annual accounts and reconciliation statement.



GSTR-9 is compulsory for taxpayers with an aggregate turnover above INR 20 million, while GSTR-9C applies to those crossing INR 50 million. For organizations with multiple GSTINs, whether through branches, subsidiaries, or manufacturing units, each registration must be evaluated individually and filed separately, even though turnover is assessed on an all-India basis.

GST requires businesses to compute aggregate turnover on an all-India PAN basis, including exempt supplies and exports. Every GSTIN in different states or union territories is treated as a distinct entity.

2. Organize and compile all relevant documents

Before starting reconciliations, ensure that documentation is complete and accessible, including:

- GSTR-1 and GSTR-3B filings
- GSTR-2A and GSTR-2B for ITC verification
- Audited financial statements (P&L, balance sheet)
- Trial balance and complete ledger mappings
- Sales and purchase registers
- Fixed asset register and expense summaries
- RCM-related challans and ITC details
- E-way bill data, if applicable
- HSN-wise reporting summaries

A well-organized documentation set is essential for smooth reconciliation and audit readiness.

3. Conduct key reconciliations

Reconciliation is where businesses often uncover inconsistencies that need correction before filing. Company turnover figures must match across tax compliance GSTR-1, GSTR-3B, and audited financial statements, while tax liabilities must align with actual tax payments.

ITC is another focus area: reconciliation between ITC claimed, ITC reflected in GSTR-2B, and ITC recorded in purchase ledgers is essential to identify ineligible or excess credits. Likewise, companies should verify RCM liabilities, ensure that credit and debit notes are accurately reported, and confirm that HSN codes are consistently applied.

4. Prepare and review the annual return (GSTR-9)

- Use GSTR-1 and GSTR-3B as base documents.
- Report amendments, late entries, or missed transactions.
- Accurately disclose additional liabilities identified during reconciliations.

- Complete Part V of GSTR-9 for prior-year transactions reported in the current year.
- Ensure correct HSN summaries for inward and outward supplies based on turnover thresholds.

5. Prepare the reconciliation statement (GSTR-9C)

GSTR-9C comprises two key components that together validate the accuracy of the annual return and ensure alignment between GST records and audited financial statements.

Part A – Reconciliation: This section requires a detailed comparison of figures reported in GST returns with those reflected in the audited books of accounts. It covers:

- Turnover
- ITC
- Tax paid
- Adjustments, along with explanations for any variances identified

Part B – Certification: This section contains the self-certification or auditor certification of the reconciliation statement. A CA or CMA must certify the accuracy of the information, often requiring additional supporting documents, clarifications, and audit queries to validate compliance.

6. Resolve discrepancies and pay additional liabilities

When discrepancies arise, such as under-reported turnover or excess ITC claimed, businesses should voluntarily pay the differential using Form DRC-03. Addressing gaps before filing GSTR-9 or GSTR-9C can prevent penalties, interest accrual, and audit-triggering mismatches in future periods.

7. Perform a comprehensive internal review

Before submitting the annual filings, companies should perform a comprehensive internal review covering tax classifications, ITC reversals, RCM compliance, exempt and non-GST supply reporting, and amendments made during the year. For businesses with distributed finance teams across multiple states, a second-level review helps ensure consistency across all GSTINs.

8. Final filing and record retention

Once all validations are complete:

- File GSTR-9 using DSC/EVC
- File GSTR-9C along with auditor certification

- All supporting documentation, audit trail records, and working papers should be retained for future scrutiny or inspection by GST authorities.

The due date for companies filing GSTR-9 and GSTR-9C is typically due by December 31 following the end of the financial year, unless extended by the central government.

9. Special GST audit when triggered

In cases where tax officers suspect significant discrepancies, such as incorrect valuation, misreported turnover, or irregular ITC claims, they may direct a special audit.

The process includes:

- Issuance of Form GST ADT-03
- Audit by a CA/CMA appointed by the department
- Submission of findings in Form ADT-04

This audit must be completed within 90 days, extendable by another 90 on request. Companies must extend full cooperation and maintain comprehensive documentation.

GST Return Filing Calendar – Master Table (2025-2026)

GSTR-1 – Outward Supplies; Monthly Filing (Turnover > INR 50 million/non-QRMP)	
Period	Due date
January 2025	Feb 11, 2025
February 2025	Mar 11, 2025
March 2025	Apr 11, 2025
April 2025	May 11, 2025
May 2025	June 11, 2025
June 2025	July 11, 2025
July 2025	Aug. 11, 2025
August 2025	Sept. 11, 2025
September 2025	Oct. 11, 2025

GSTR-1 – Outward Supplies, Quarterly Filing (QRMP)	
Quarter	Due Date
Jan–Mar 2025	April 13, 2025
Apr–Jun 2025	July 13, 2025
Jul–Sep 2025	Oct. 13, 2025

GSTR-3B – Summary Return, Monthly Filing (Turnover > INR 50 million)	
Period	Due date
April 2025	May 20, 2025
May 2025	June 20, 2025
June 2025	July 20, 2025
July 2025	Aug 20, 2025
August 2025	Sept 20, 2025
September 2025	Oct 25, 2025 (<i>extended</i>)
October 2025	Nov 20, 2025
November 2025	Dec 20, 2025
December 2025	Jan 20, 2026
January 2026	Feb 20, 2026
February 2026	March 20, 2026
March 2026	April 20, 2026

GSTR-3B – Summary Return, Turnover ≤ INR 50 million (non-QRMP)

Period	Due date
September 2025	Oct 25, 2025
October 2025	Nov 20, 2025
November 2025	Dec 20, 2025
December 2025	Jan 20, 2026
January 2026	Feb 20, 2026
February 2026	March 20, 2026

GSTR-3B – Summary Return, Turnover ≤ INR 50 million (non-QRMP)

Quarter	Category X	Category Y
Jul-Sep 2025	Oct 25, 2025	Oct 25, 2025
Oct-Dec 2025	Jan 22, 2026	Jan 24, 2026
Jan-Mar 2026	Apr 22, 2026	Apr 24, 2026

CMP-08 – Composition Scheme

Quarter	Due date
Jul-Sep 2025	Oct 18, 2025
Oct-Dec 2025	Jan 18, 2026
Jan-Mar 2026	April 18, 2026

GSTR-4 – Annual Composition Return

FY	Due date
2024-25	June 30, 2025
2025-26	June 30, 2026

GSTR-5 – Non-Resident Taxable Persons

Period	Due date
Sep 2025	Oct 13, 2025
Oct 2025	Nov 13, 2025
Nov 2025	Dec 13, 2025
Dec 2025	Jan 13, 2026
Jan 2026	Feb 13, 2026
Feb 2026	March 13, 2026
Mar 2026	April 13, 2026

GSTR-5A – OIDAR Service Providers

Month	Due date
Apr 2025	May 20, 2025
May 2025	Jun 20, 2025
Jun 2025	Jul 20, 2025
Jul 2025	Aug 20, 2025
Aug 2025	Sep 20, 2025
Sep 2025	Oct 20, 2025
Oct 2025	Nov 20, 2025
Nov 2025	Dec 20, 2025
Dec 2025	Jan 20, 2026
Jan 2026	Feb 20, 2026
Feb 2026	March 20, 2026
Mar 2026	April 20, 2026

GSTR-6 – ISD Returns	
Period	Due date
Sep 2025 – Mar 2026	13th of next month

GSTR-7 – TDS Returns	
Period	Due date
Sep 2025	Oct 10, 2025
Oct 2025	Nov 10, 2025
Nov 2025	Dec 10, 2025
Dec 2025	Jan 10, 2026
Jan 2026	Feb 10, 2026
Feb 2026	March 10, 2026
Mar 2026	April 10, 2026

GSTR-8 – TCS Returns	
Period	Due date
Sep 2025	Oct 10, 2025
Oct 2025	Nov 10, 2025
Nov 2025	Dec 10, 2025
Dec 2025	Jan 10, 2026
Jan 2026	Feb 10, 2026
Feb 2026	March 10, 2026
Mar 2026	Apr 10, 2026

Annual Returns – GSTR-9 & 9C	
Financial year	Due date
2024–25	Dec 31, 2025
2025–26	Dec 31, 2026

ITC-04 – Job Work		
Filing type	Period	Due date
Half-yearly (> INR 50 million)	Apr–Sep 2025	Oct. 25, 2025
Half-yearly (> INR 50 million)	Oct 2025–Mar 2026	Apr. 25, 2026
Yearly (≤ INR 50 million)	FY 2025–26	Apr. 25, 2026

Other Compliance Forms		
Form	Purpose	Due date (FY 2025–26)
CMP-02	Opt into composition scheme	Mar 31, 2025
ITC-03	ITC reversal on switching to composition	May 31, 2025
RFD-11 (LUT)	Export without IGST payment	Mar 31, 2025

Comparison Table: GSTR-1 vs GSTR-2A/2B vs GSTR-3B			
Parameter	GSTR-1	GSTR-2A / 2B	GSTR-3B
Type of return	Outward supply return	Auto-drafted inward supply statements	Monthly summary return
Filed by	Supplier (taxpayer)	Auto-generated for recipient	Taxpayer (self-declared)
Nature	Mandatory filing	View-only (2A is dynamic), Auto-drafted static statement (2B)	Mandatory filing
Reports	Details of sales/ outward supplies	Details of purchases/ inward supplies as reported by suppliers	Summary of sales, ITC, and tax liability
Key purpose	Enables buyers to claim ITC based on supplier declarations	Shows invoices uploaded by suppliers to help recipients reconcile	Payment of taxes and declaration of final ITC

Comparison Table: GSTR-1 vs GSTR-2A/2B vs GSTR-3B			
Parameter	GSTR-1	GSTR-2A / 2B	GSTR-3B
Data source	Entered by taxpayer in GSTR-1	Auto-populated from suppliers' GSTR-1, IFF, GSTR-5, etc.	Entered by taxpayer
Impact on ITC	ITC for recipients depends on supplier's timely and accurate filing	ITC availability is determined based on 2B (static)	Final ITC claim must match 2B reconciliation
Filing frequency	Monthly or quarterly	Auto-generated monthly	Monthly
Due date	11th of next month (monthly) / 13th after quarter (QRMP)	Generated on 14th of next month	20th (standard), 22nd/24th for some states
Can it be amended?	Yes, in subsequent months	No (read-only)	No; revisions allowed only via subsequent adjustments
Legal standing	Mandatory statutory return	Advisory (2A) / Prescriptive for ITC (2B)	Mandatory statutory return
Used by	Suppliers reporting outward supplies	Buyers for ITC reconciliation	Taxpayers for tax payment and ITC declaration
Effect of non-filing	No 3B filing allowed; e-way bill blocked	No direct penalty	Heavy penalties; GST registration may be suspended



HR and Payroll in India

- ◆ Labor laws
- ◆ Payroll processing
- ◆ Working hours
- ◆ Minimum wage
- ◆ Visa categories

Labor laws in India

A strong grasp of India's HR and payroll-related legal framework is crucial for foreign investors setting up or operating foreign-owned businesses in the country. India's HR landscape is governed by a wide and complex set of regulations, including numerous central labor laws as well as state- and sector-specific rules.

Companies must carefully consider how these overlapping laws apply based on their location, industry, workforce size, and employee skill levels.

Private-sector applicability of key Indian labor laws (status as of 2025)

India's private sector will now be governed by four new labor codes, covering wage regulation, industrial relations, social security, safety, and employment conditions. Employers should continue to audit their compliance under these Acts, monitor state-wise developments, and prepare for eventual migration to the labor code regime once formal implementation begins. India's 29 labor laws have been consolidated under four new labor codes:

1. Code on Wages (2019): Subsumes 4 labor laws
2. Code on Social Security (2020): Subsumes 9 labor laws
3. Industrial Relations Code (2020): Subsumes 3 labor laws
4. Occupational Safety, Health & Working Conditions Code (2020): Subsumes 13 labor laws



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INDIA BRIEFING

India Notifies All Four Labor Codes, Ushering in Landmark Workforce Reforms

*India Briefing Article
November 21, 2025*

Learn how the four labor codes align India's employment ecosystem with changing global standards, expanding social security, improving working conditions, and formalizing workforce across sectors.

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A Comparative View of India's Labor Laws

Basis	Earlier labor laws	Labor codes
Number of statutes	29 laws with 1,436 rules	4 Codes with 351 rules
Registration	8 separate registrations	Single
License	4	Single
Returns	31	Single (Electronic)
Compliance filing	Monthly & state-specific	Annual consolidated returns
Inspection mode	On-site paper audits	Risk-based digital inspections
Grievance redressal	Multiple tribunals	Unified facilitation centres

Payroll processing in India

India's payroll ecosystem is set for a major shift as the four new labor codes, on Wages, Social Security, OSH, and Industrial Relations, comes into force. These reforms unify 29 legacy laws into a streamlined framework, fundamentally altering how salaries, social security, benefits, and employee classifications are handled.

For employers with local and expatriate staff, payroll processing will involve both traditional income-tax-linked requirements and new labor-code-driven obligations.

1. Payroll fundamentals: What changes under the new wage code

The Code on Wages introduces a standardized definition of “wages” that directly impacts payroll calculations:

New definition of wages (key impact areas)

- Basic wage + DA + retaining allowance must form at least 50 percent of total compensation.
- Allowances, including HRA, special allowances, overtime, LTA, conveyance, cannot exceed 50 percent of total pay.
- If allowances exceed the 50 percent cap, the excess must be added back to wages.

Impact on payroll processing

The revised wage definition under the new Wage Code has a direct and substantial impact on payroll operations. Since statutory contributions such as provident fund, gratuity, and other social security payments will now be calculated on a larger wage base, companies can expect a noticeable increase in their overall contribution burden. This change is particularly significant for senior professionals and expatriate employees, whose compensation packages tend to include a higher proportion of allowances

As these allowances are now subject to the 50 percent cap and may get added back to wages, the employer's financial outflow for this category of employees is likely to rise.

In addition, the new structure requires firms to reassess and redesign their Cost-to-Company (CTC) templates. Employers will need to ensure that compensation packages, especially for new recruits, are aligned with the mandatory 50 percent wage-to-allowance ratio, while still balancing internal budgets and overall compensation strategy. This will necessitate a more careful approach to payroll planning and salary structuring going forward.

2. Social security code: PF & ESIC for expats

The Social Security Code (SSC) brings together multiple social welfare laws into a single framework, covering provident fund, pension, maternity benefits, ESIC, and gratuity. This consolidation not only streamlines compliance but also expands coverage across different categories of workers.

Employee Provident Fund (EPF)

Under the provident fund provisions, expatriates continue to be covered unless they qualify for an exemption through an existing Social Security Agreement (SSA) between India and their home country. With the new definition of wages, both employer and employee PF contributions, calculated at 12 percent each, are expected to rise since the statutory wage base will now be higher. Additionally, all international workers are required to obtain a Universal Account Number (UAN) to ensure proper payroll crediting and compliance tracking.

Employees' State Insurance (ESIC)

The Employees' State Insurance (ESIC) framework retains the existing wage threshold of INR 21,000 per month. However, its coverage has been widened under the SSC to include:

1. Gig workers
2. Platform workers
3. Fixed-term employees

Please note that most expatriates will continue to remain outside the scope of ESIC unless their wages fall below the prescribed threshold.

Gratuity provisions under the new Code have also been modernized. Fixed-term employees and expatriates are now entitled to receive gratuity on a pro-rated basis, without the earlier requirement of completing five years of continuous service.

3. Working hours, leave, and overtime (OSH Code)

The OSH Code requires payroll teams to track:

1. 48-hour workweek cap with flexible 4-day week options
2. Higher overtime payouts, often 2x the normal rate
3. Leave encashment adjustments based on the unified leave framework
4. Stricter attendance and shift-tracking, impacting wage calculations



NAINA BHARDWAJ

Manager

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“India’s labor codes introduce a more streamlined and predictable compliance landscape, enabling businesses to operate with greater clarity, reduced regulatory friction, and improved workforce efficiency. For employers, the simplified framework supports better planning, stronger governance, and a more competitive operating environment.”

4. Payroll for expatriates: Taxation and compliance (Updated 2025)

While expatriate taxation continues to be governed by the Income Tax Act, payroll teams must now navigate its intersection with the new labor codes, especially in areas such as social security, wage definition, and payroll structuring.

Residency-based taxation

Tax treatment depends on the individual's residential status for the financial year:

- Tax residency is triggered if an expatriate stays in India for:
 - » 182 days or more; or
 - » 120 days or more for high-income individuals (subject to Income Tax Act conditions).
- Residents are taxed on their global income.
- Non-residents are taxed only on their India-sourced income.

Short-stay exemption

A foreign employee may qualify for a short-stay exemption, meaning their salary is not taxable in India, if all the following conditions are met:

1. The individual's stay in India does not exceed 90 days in the relevant financial year.
2. The employer does not have a business connection or a permanent establishment (PE) in India.
3. The salary is not paid for or borne by any Indian entity.

Tax treaty relief (Double Taxation Avoidance Agreement)

To apply benefits under a DTAA, payroll teams must collect and maintain:

- Tax Residency Certificate (TRC) from the expatriate's home country;
- Form 10F; and
- DTAA declaration from the employee.

These documents ensure correct TDS application, prevent double taxation, and provide audit-ready compliance.



5. Split payroll, foreign remittances, and FRRO compliance

Many companies adopt split payroll arrangements for expatriate employees, where a portion of the salary is paid overseas and the remainder is paid in India. While operationally effective, this model requires careful coordination between tax, payroll, and immigration compliance.

Payroll processing and requirements:

- Form 15CA/CB requirements for foreign remittances.
- Cross-border contracts must reflect conformance with new wage structures.
- FRRO registration within 14 days of arrival (for stays >180 days) remains mandatory and impacts payroll activation for expats.

6. Documentation and monthly compliance under new codes

Payroll teams must integrate:

1. Mandatory Registers (Digital)
2. Wage Register
3. Attendance Register
4. Overtime Register

(All Registers must be maintained in central government-notified formats.)

Key returns:

- Unified social security return
- PF/ESIC e-filings
- Annual return under the Wages Code
- Expat-related filings (TRC, Form 67 for foreign credit)

Best Practices for Businesses Under the New Labor Codes

To operate smoothly under the revised labor framework, organizations should adopt the following best practices:

- Redesign salary structures to comply with the mandatory 50 percent wage-to-allowance rule, ensuring accurate statutory contributions.
- Review and update expatriate employment contracts to assess the impact of PF, gratuity, and other social security obligations.
- Use automated tools to track day count for expatriate tax residency to avoid misclassification and incorrect TDS.
- Maintain complete and accurate immigration documentation, as timely and compliant records are essential for initiating payroll for foreign employees.
- Upgrade payroll software and processes to reflect the new labor code requirements, including wage definitions, attendance rules, and social security calculations.
- Conduct periodic payroll compliance audits to identify gaps early and reduce the risk of penalties or labor inspections.

With a unified wage definition, expanded social security coverage, stricter compliance formats, and increased employer contributions, companies must adapt quickly to remain compliant and cost-efficient.

Working hours policy in India

With the implementation of India's new labor codes, the working-hours framework has shifted from fragmented central and state laws to a uniform, codified structure. The OSH Code, 2020, now governs working hours, rest periods, overtime norms, and spread-over limits across industries and establishments.

1. Standard working hours under the new labor code

The OSH Code standardizes working hours nationwide:

- 8 hours per day
- 48 hours per week
- Maximum daily spread-over: up to 12 hours, including rest breaks (subject to state rules)

Overtime is payable at twice the ordinary wage rate when daily or weekly limits are exceeded.

2. Rest breaks and weekly off requirements

The Code mandates uniform rest and off-duty standards:

- Rest break: A minimum of 30 minutes after 5 hours of continuous work
- Weekly off: At least one day off for every 7-day work cycle
- Compensatory leave: Required if an employee works on the weekly rest day

States may prescribe longer rest intervals, but not shorter than the central minimum.

3. New flexible working models introduced

Under the new Labor Code framework, India has introduced a new 4-day workweek option. This means that employers may adopt a compressed work schedule:

- Up to 12 working hours per day
- Provided the 48-hour weekly cap is not breached
- Proportionate rest intervals mandatory

Working Hours in India: Old Framework vs. New Labor Code (Implemented)		
Category	Old framework (Factories Act + State Shops & Establishment Acts)	New labor code (OSH Code 2020)
Daily working hours	Usually 8–9 hours, varied by state	8 hours (uniform nationwide)
Daily spread-over	Generally 10.5–12 hours, depending on state approvals	Up to 12 hours, uniform and codified
Rest break	30-60 mins after 5 hours (state-specific)	Minimum 30 mins after 5 hours, states may mandate longer resting period
Overtime rate	2x wages (Factories Act), varied under S&E Acts	2x standard rate, uniform across sectors
Overtime limit	Varied: 50–125 hours/quarter depending on state	Uniform cap (state rules still specify limits)
4-day work week	Not legally recognized	4 days a week (12 hours/day); total weekly working hours do not exceed the legal limit of 48 hours.
Night shift rules	Varied by state; women's night shift restricted in many states	Uniform permissions for women's night shifts with safety measures
Applicability	Dependent on establishment type: factories vs. shops / commercial	Unified applicability across establishments (with state rules)

Working Hours in India: Old Framework vs. New Labor Code (Implemented)		
Category	Old framework (Factories Act + State Shops & Establishment Acts)	New labor code (OSH Code 2020)
Multi-state compliance burden	High, due to different S&E Acts	Lower, core rules are standardized; only minor state variations remain
Record-keeping	State-specific formats for attendance and overtime	Harmonized registers + digital records encouraged

Businesses can design shifts better suited for:

- 24x7 operations
- Hybrid and digital workplaces
- IT/ITES and manufacturing units

States have issued rules aligned with the OSH Code, but minor operational differences remain across jurisdictions (e.g., specific overtime caps, shift approvals, and night-shift permissions).

Despite these variations, core working-hour principles are now uniform nationally, reducing compliance fragmentation for businesses operating in multiple states.

Business compliance checklist under the new labor codes

With the new labor codes now in force, businesses must ensure that internal processes, HR documentation, and compliance systems are fully aligned with the updated regulatory framework.

A. Key regulatory changes

- Standardized working-hour rules now apply across sectors, reducing ambiguity around daily and weekly limits.
- Greater flexibility in scheduling, allowing employers to structure shifts more efficiently within statutory thresholds.
- Uniform rules for overtime, rest intervals, and weekly days off, ensuring consistent treatment of employees across states.
- Simplified multi-state compliance, although organizations must still track state-specific rules and notifications to ensure full compliance.

B. Business actions required

1. Update HR documentation

- Revise employee handbooks, service rules, and HR policies to incorporate new working-hour, overtime, and rest-interval norms.
- Update employment contracts to clearly reflect shift structures, break periods, and compensation components aligned with the revised wage definition.

2. Upgrade attendance & payroll systems

- Reconfigure attendance-tracking systems to capture daily and weekly hour limits, overtime eligibility, and night-shift records as required under the codes.
- Align payroll software with the updated statutory wage definition to ensure accurate calculation of PF, gratuity, bonus, and other linked components.

3. Redesign shift-scheduling models

- Review and restructure shift rosters to comply with mandatory rest periods and maximum permissible working hours.
- Incorporate flexible scheduling options introduced under the new framework to optimize workforce deployment.

It is essential for employers to fully understand and implement the revised legal requirements, as non-compliance can result in financial penalties and, in some cases, prosecutable offenses.

Offences & Penalties Under India's New Labor Code			
Labor code	Type of violation	What the offence means	Penalty / consequence
Code on Wages (2019)	Minimum wage or overtime default	Paying below minimum wage, not paying overtime at 2× rate, delayed wage disbursement	INR 50,000–INR 100,000; up to 3 months' imprisonment for repeat offences
	Wage discrimination	Unequal wages for men and women performing same/similar work	INR 20,000; repeat violations may lead to prosecution
Code on Social Security (2020)	Non-deposit of PF/ESI contributions	Failure to remit statutory PF/ESI contributions; willful evasion or delay	Up to INR 100,000; up to 3 years' imprisonment
	Failure to register eligible employees	Not enrolling employees under PF/ESI or other mandated schemes	INR 50,000 + INR 30,000 per day for continuing default
	Gig/platform worker non-compliance	Non-payment of 1–2% aggregator contribution; failure to register platform workers	Financial penalties + regulatory action
OSH Code (2020)	Safety breaches	Non-provision of safety equipment, unsafe working conditions, violation of safety standards	Up to INR 200,000; up to 1 year jail in serious or fatal cases
	Overtime violations	Working beyond daily/weekly limits; not paying statutory overtime rate	Monetary penalty + prosecution
	Migrant worker non-compliance	Failure to provide annual travel allowance, health checks, registration, PDS portability	Penal action under OSH enforcement
	Women's employment restrictions	Restricting women from certain jobs or night shifts without consent and safety measures	Prosecution + fines
Industrial Relations Code (2020)	Illegal strikes/lockouts	Strikes or lockouts without required notice or legal basis	Up to INR 50,000
	Record-keeping failures	Not maintaining prescribed registers, attendance records, wage details	INR 10,000–INR 100,000 depending on severity

Minimum wage

Under the Minimum Wages Act, 1948, both the central and state governments are empowered to prescribe minimum wage rates. These wages vary widely depending on occupation, skill level, industry, and geographic region. Because of this diversity in job types and working conditions, a single uniform wage rate cannot be applied nationwide.

Businesses must regularly monitor updates to minimum wage notifications for different categories of workers, unskilled, semi-skilled, skilled, and highly skilled, applicable to their specific state, city, or zone of operation.

State governments are authorized to set minimum wages for:

- Time-based work
- Piece-rated work
- Overtime work

Minimum wage calculations take into account several factors, including:

- Type of work performed
- Industry or sector
- Location
- Age of the worker

Minimum Wages in Top Indian Cities as of 2025 (Per Month, in INR)

City	State	Unskilled	Skilled	Highly skilled	Effective date
Delhi	Delhi	18,456	20,371	24,356	Apr 1, 2025
Mumbai	Maharashtra (Zone I)	13,635	15,246	NA	Jul 1, 2025
Bengaluru	Karnataka (Zone I)	17,666.45	18,134.87	19,537	Apr 1, 2025
Hyderabad	Telangana (Zone I)	14,119.25	16,119.25	16,619.25	Oct 1, 2025
Kolkata	West Bengal (Zone A)	10,329	12,499	13,748	Jul 1, 2025
Pune	Maharashtra (Zone I)	13,635	15,246	NA	Jul 1, 2025
Ahmedabad	Gujarat (Zone I)	13,013	13,585	NA	Oct 1, 2025
Chandigarh	Chandigarh	14,394	15,069–15,469	15,469	Apr 1, 2025
Gurugram	Haryana (Class A)	11,274.6	13,051.7	14,389.5	Jul 1, 2025

Penalties for non-compliance

Failure to comply with minimum wage requirements may result in a monetary penalty for first-time offenders. In the case of repeated violations, the offence may be subject to compounding as per the provisions of the Wage Code.

Minimum wage rates may also incorporate components such as the Variable Dearness Allowance (VDA), which adjusts wages for inflation, and the House Rent Allowance (HRA), where applicable.

Key visa types applicable for foreign investors and workers in India

Foreign investors and professionals frequently travel to or relocate to the country to oversee operations, establish new ventures, and support business expansion. Understanding the visa categories that apply to international business leaders, skilled professionals, and project-based specialists is essential for ensuring smooth entry, compliance, and continued operations in India.

1. Employment Visa (E Visa)

The Employment Visa is the primary work visa for foreign nationals hired by Indian entities, including companies, NGOs, and multinational subsidiaries. It is designed for individuals with specialized skills and technical expertise that are not readily available in the domestic talent pool.

Who should apply:

- Senior executives, technical experts, managers, and skilled workers
- Foreign employees earning at least US\$25,000 per year (with exceptions for niche roles such as language specialists and certain NGO personnel)

Key features:

- Typically issued for one year, extendable up to five years
- Requires an employment contract, proof of qualifications, and a clear role description
- Mandatory for long-term placements and on-ground operational leadership

2. Business Visa (B Visa)

The Business Visa is designed for foreign investors, entrepreneurs, and business visitors exploring opportunities, conducting due diligence, negotiating contracts, or overseeing investments.

Who should apply:

- Investors evaluating market entry
- Foreign executives attending meetings or exploring partnerships
- Board members, founders, or senior leaders overseeing regional operations

Key features:

- Valid for up to five years (up to 10 years for US nationals)
- Allows multiple entries
- Suitable for short-term visits that do not involve full-time employment
- Requires proof of business activity, financial standing, and purpose of visit

India has operationalized the e-B-4 (Production Investment Business) Visa, replacing the earlier e-PLI visa and introducing a fully digital, company-driven sponsorship framework. From December 17, 2025, eligible Indian companies can generate sponsorship letters online through the National Single Window System (NSWS), enabling faster and more predictable entry of foreign professionals engaged in production, manufacturing, and investment-linked activities. The reform streamlines business visa processing, reduces procedural friction, and aligns India's immigration regime with its manufacturing-led investment strategy.

3. Project Visa

India introduced the Project Visa to facilitate the entry of foreign professionals engaged in specific, capital-intensive projects across sectors such as power, steel, infrastructure, and engineering.

Who should apply:

- Foreign technicians, engineers, and project specialists
- Professionals employed by foreign companies executing project contracts in India

Key features:

- Issued for the duration of the project
- Focused on highly skilled technical roles
- Helps project-based industries deploy global expertise efficiently

4. Entry Visa (X Visa) for dependents

Foreign investors and expatriate employees can bring family members under the Entry (X) Visa.

Who is eligible:

- Spouses, children, and dependents of foreign nationals holding valid work visas

Key features:

- Typically extendable up to five years
- Allows dependents to reside in India but does not permit employment

5. Intern Visa

Increasingly relevant for multinational companies and global graduates, the Intern Visa supports structured internship programs in Indian entities, educational institutions, or NGOs.

Who should apply:

- Foreign students or recent graduates undertaking internships in India

Key features:

- For company internships, minimum remuneration of INR 780,000 per annum
- Flexible duration depending on the internship terms
- No salary threshold for internships in NGOs and educational institutions

6. Research Visa

Issued to foreign nationals conducting academic or industrial research in India.

Who should apply:

- Researchers, doctoral candidates, professors, and scholars

Key features:

- Valid for up to five years
- Requires proof of research affiliation and project details

India's Project Visa: Key facts for foreign investors and skilled workers

India's Project Visa (P Visa) is a specialized visa category designed for skilled foreign professionals deployed on project-based assignments, primarily in power, steel, and large infrastructure sectors. It supports companies bringing in technical expertise for projects that are critical to India's industrial and infrastructure growth.

Key facts for investors and contractors

Scope of the P Visa:

- Enables foreign skilled or highly skilled workers to enter India for the execution of a specific, approved project.
- Intended for contract-based assignments, not full-time employment.
- Visa holders are restricted to one site and one project; movement or reassignment is not permitted.

Who is eligible:

- Only skilled and highly skilled professionals; unskilled or semi-skilled workers are not eligible.
- Up to two chefs and two interpreters may accompany each professional (project-specific).

Validity and extensions:

- Valid for one year or the duration of the project, whichever is shorter.
- Extensions:
 - » One-year extension: State/UT government approval.
 - » Additional extension: Ministry of Home Affairs (MHA) approval required.
- FRRO registration required if staying beyond 180 days.
- The hosting Indian company is responsible for the professional's compliance and departure.

Restrictions:

- Non-transferable visa, i.e., the holder cannot switch jobs or move to a different project under the same visa.
- Two-year cooling-off period after project completion before taking employment with the same Indian company.
- Projects in restricted/protected areas require Protected Area Permits (PAP) or Restricted Area Permits (RAP) clearances.

Sector-specific personnel limits

Power sector:

- 50–70 foreign professionals for two-unit OEM-based power projects.
- 76–125 for large EPC projects using supercritical technology.
- Additional FGD units allow 37–56 extra personnel depending on unit count.

Steel sector:

- Greenfield: up to 10 percent of skilled workforce or 300 professionals per million tons of capacity.
- Brownfield: up to 5 percent or 150 professionals per million tons.
- Higher deployments require MHA review.

Application process (Simplified)

1. Employer submission: Indian company submits project details and manpower needs.
2. Document preparation:
 - » Passport (6+ months validity)
 - » Photos, application form
 - » Letter of engagement + project contract
 - » Proof of qualifications
 - » Project ownership/transfer letter
 - » Travel insurance
3. Consulate submission: Applicant files at the Indian embassy/consulate.
4. Biometrics & interview
5. Processing & approval: Several weeks to months depending on project sensitivity and documentation accuracy.

Why the Project Visa matters

- Gives companies a clear, regulated pathway to bring in foreign technical specialists for advanced industrial projects.
- Helps global investors and EPC contractors deploy expertise efficiently while meeting compliance requirements.
- Ensures controlled, project-specific use of foreign labor, supporting India's workforce priorities while enabling knowledge transfer.



India's Trade Environment

- ◆ Trade performance
- ◆ Import-export procedures
- ◆ Digitization of trade bureaucracy
- ◆ HSN Codes
- ◆ FTA network
- ◆ Non-tariff considerations for EXIM businesses

India's trade landscape in 2025–26 reflects strong momentum across goods and services, rapid digital transformation of customs processes, and continued policy modernization under the Foreign Trade Policy (FTP). As the country accelerates efforts to integrate more deeply with global supply chains, foreign investors will find a more predictable, technology-driven, and growth-oriented trade ecosystem.

India's trade performance: A snapshot

Overall export performance

India's total exports (merchandise + services) reached US\$824.9 billion in FY 2024–25, marking 6.01 percent year-on-year growth. Services exports remained the key driver, rising 13.6 percent to US\$387.5 billion, while non-petroleum merchandise exports hit a record US\$374.1 billion, up 6 percent – the highest annual non-oil merchandise exports on record.

Merchandise export trends

Top-performing categories (FY 2024–25) included:

- Electrical machinery (HS 85): +28 percent
- Machinery & mechanical appliances (HS 84): +11.37 percent
- Pharmaceuticals (HS 30): +11.18 percent
- Vehicles (HS 87): +8.42 percent
- Cereals (HS 10): +15.99 percent

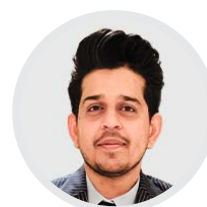
Declines were notable in mineral fuels (HS 27) and gems & jewelry (HS 71), reflecting global price movements and subdued discretionary demand.

Merchandise import trends

Import patterns showed robust demand for:

- Precious stones/metals: +13.38 percent
- Electrical machinery: +11.72 percent
- Machinery: +12.01 percent
- Fats & oils: +16.81 percent

A modest decline was recorded in fossil-energy-linked imports, plastics, organic chemicals, and iron & steel.



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“From a practical standpoint, companies entering India in 2026 need to evaluate three early decisions: the right operating structure, the correct supply chain model, and FTA eligibility at the product and service level. Manufacturing or value-addition in India, setting up regional distribution hubs, and creating an export base to FTA partner countries are increasingly viable and commercially attractive options.”

Services export momentum

The RBI Software and ITES Export Survey 2024–25 shows:

- Software exports (excluding subsidiaries): US\$204.7 billion, up 7.3 percent
- Including overseas affiliates: US\$218.6 billion, up 6.5 percent
- Off-site exports: 90.7 percent of delivery
- Top markets: US (52.9 percent share), Europe (32.8 percent share)

The shift toward Europe is noteworthy, with exports growing 14.3 percent, compared to 4.9 percent for the US.

India's top bilateral trade partners in 2025

Top export destinations (Apr–Nov 2025):

1. USA – US\$59.04 billion
2. UAE – US\$25.49 billion
3. Netherlands – US\$12.89 billion
4. China – US\$12.22 billion
5. UK – US\$8.93 billion

Top import sources (Apr–Nov 2025):

1. China – US\$84.27 billion
2. UAE – US\$44.61 billion
3. Russia – US\$40.81 billion
4. USA – US\$35.40 billion
5. Saudi Arabia – US\$20.41 billion

India's trade performance between April to November (FY 2025–26):

- India's total exports (Apr–Nov 2025): US\$562.13 billion
- Merchandise exports: US\$292.07 billion
- Services exports: US\$270.06 billion

Strongest product-level export growth between April–November 2025 was seen in gems & jewelry (US\$19.13 billion), drugs & pharmaceuticals (US\$20.47 billion), engineering goods (US\$79.74 billion), electronic goods (US\$31.09 billion), and petroleum products (US\$37.99 billion).

India's import-export procedures

India's customs and foreign trade processes have been significantly modernized under FTP 2023, supported by high levels of digitalization, transparent licensing rules, and simplified classifications.

Regulatory ecosystem

- DGFT: Trade policy, IEC issuance, export licensing
- CBIC: Customs operations, risk management, duty assessments
- Sector regulators: FSSAI, Drug Controller, Plant Quarantine, SEZ authorities
- Compliance Information Portal (CIP): HS-wise duty, documentation, port rules for >12,000 items

Trade classification reform (Effective Jan 2025)

- India has migrated to 8-digit ITC-HS codes for all export items under Schedule II.
- Reduces ambiguity and aligns classification with WCO and global nomenclature.
- Export categories continue to be regulated under:
 - » Free
 - » Restricted
 - » Prohibited
 - » Canalized
- Sensitive items remain under SCOMET (dual-use control list).

India Expands Export Controls with New SCOMET Category 7

India has expanded its export-control regime by introducing Category 7 to the SCOMET list, effective October 23, 2025. SCOMET regulates dual-use items, goods, software, and technologies with both commercial and strategic or military applications, requiring authorization from the Directorate General of Foreign Trade (DGFT) before export.

The new Category 7 covers emerging technologies such as advanced semiconductors, quantum systems, cryogenic technologies, and related software and know-how. This update aligns India with recent global controls adopted by the EU, US, UK, and Switzerland.

Exporters must now reassess product classifications, strengthen compliance systems, and update contracts to meet the expanded regulatory requirements.

Import procedures

Importer onboarding

- Importer–Exporter Code (IEC) now fully electronic; must be renewed annually (April–June).
- Import license requirements depend on ITC-HS classification.

Documentation

Key documents include:

- Commercial invoice-cum-packing list
- Bill of Lading/Airway Bill
- Certificate of Origin
- Bill of Entry (filed electronically)

Customs then assesses duties — BCD + IGST + anti-dumping/safeguard duties as applicable.

Export procedures

Export licensing

Only select items require licensing – primarily sensitive, restricted, dual-use, or canalized goods.

Core documentation

- Shipping Bill
- Invoice-cum-packing list
- Transport documents
- Certificate of Origin (issued through unified digital portal)

Duty-free schemes

- Advance Authorization
- EPCG Scheme (zero-duty capital imports for export production)

Refer to 'Chapter 3 – Taxation' for information on the application of custom duties and taxes on import-export trade in India.

India's digital trade infrastructure

India's trade environment has been reshaped by an extensive digital transformation, with almost all export–import (EXIM) documentation processed electronically by 2025. At its core is the Indian Customs EDI System (ICES) – deployed across nearly all major ports, airports, ICDs, and SEZs – and its public interface ICEGATE, which connects importers, exporters, logistics providers, banks, and regulatory agencies through a single digital window. ICES now processes around 99 percent of India's international cargo, enabling end-to-end paperless workflows for assessments, duty payments, GST refunds, and release orders.

A re-engineered documentation workflow underpins this ecosystem. Traders now prepare Bills of Entry, Shipping Bills, and manifests through the Remote EDI System (RES) and upload supporting documents via e-Sanchit, eliminating manual submissions. Regulatory permissions from DGFT, FSSAI, Drug Controller, Plant Quarantine, SEZ authorities, and others flow digitally through SWIFT, reducing approval time and coordination gaps. Customs processes have shifted from document-centric to cargo-centric operations, with digital screening running in the background to accelerate movement.

Digitization has extended across the logistics chain: e-seals provide real-time container integrity checks; electronic manifests enable advance compliance; postal imports are fully digitized; and APIS strengthens risk analysis for high-risk shipments. Traders benefit from utilities such as the ICEGATE dashboard, ICETRAK mobile app, and electronic gate passes, which offer near-real-time visibility of cargo status and documentation progress. In SEZs, ICES integration streamlines duty-free procurement and cargo movement.

India's EXIM Digital Ecosystem: Key Platforms

System / portal	Purpose	Business impact
ICES (Indian Customs EDI System)	Core processing engine for customs clearance; handles assessment, duty payment, release orders	99% cargo coverage; near-complete elimination of paper-based processing
ICEGATE	Online interface connecting traders, customs brokers, carriers, banks, and regulatory bodies	Single-point documentation entry; faster approvals
RES (Remote EDI System)	Preparation of export/import documents	Enables off-site documentation and integration with ERPs
e-Sanchit	Digital repository for supporting documents	Eliminates physical submissions; reduces handling time
SWIFT	Single Window Interface for Trade	Unified clearance from DGFT, FSSAI, Drug Controller, Plant Quarantine, SEZ authorities, etc.

What Traders Do Now vs. Earlier	
Earlier process	Current process
Physical submission of Bills of Entry, Shipping Bills, declarations	Fully electronic filing via RES or integrated software
Hard-copy approvals from multiple agencies	Digital routing through SWIFT
Port visits for document verification	Online uploads through e-Sanchit
Manual coordination across agencies	Automated clearance updates via ICEGATE dashboard & ICETRAK app

India's 2025 guide to mapping HSN Codes

India's HSN Code Guidebook 2025, released on October 6, 2025, by the Department for Promotion of Industry and Internal Trade (DPIIT), introduces a unified national framework for classifying goods under GST 2.0 and Customs. The guide maps over 12,000 HSN codes, aligning India's system with the World Customs Organization (WCO) and updated Customs Tariff schedules.

Overview of HSN Coverage	
HSN Category	Details
Total HSN codes mapped	12,174
Codes accepted by ministries/departments	11,679
Codes under residual category	495
Administrative bodies covered	31 ministries/departments

Select Ministry-Wise Mapping of HSN Codes

Ministry/Department	HSN Codes Mapped (8-digit)
DPIIT	2684
Ministry of Textiles	2,176
Department of Chemicals & Petrochemicals	1,900
Ministry of Food Processing Industries	869
Ministry of Heavy Industries	841
Department of Pharmaceuticals	618
Ministry of Steel	818
Ministry of Electronics & IT	178
Department of Agriculture & Farmers Welfare	453

Note: For a complete list, refer to the official guidebook on the GST website.

HSN Usage Rules Under GST (2025)

Annual turnover	HSN requirement
Below INR 15 million	Not mandatory
INR 15–50 million	2-digit HSN
Above INR 50 million	4-digit HSN
Imports, exports, international trade	8-digit HSN

HSN Classification Structure (Simplified)		
Level	Description	Example
Section	Broad grouping (21 sections)	Section I – Live Animals and Animal Products
Chapter (2-digit)	Category within section	01 – Live Animals
Heading (4-digit)	More specific grouping	0102 – Live Bovine Animals
Subheading (6-digit)	Detailed classification	0102.21 – Pure-bred breeding animals
Tariff Line (8-digit)	India-specific trade code	0102.21.10 – Bulls

Importance of correct HSN mapping under GST 2.0

Accurate HSN classification is critical for businesses as India transitions to GST 2.0. Correct mapping ensures error-free GST returns, smooth e-invoice validation, improved audit preparedness, faster customs clearance, and cleaner reconciliation across GSTN, Customs, and e-invoicing systems.

With GST 2.0 prioritizing automation and interoperability from September 22, 2025, consistent product classification becomes essential. The updated HSN guidebook provides a standardized reference across tax and trade platforms, helping minimize mismatches in filings, refunds, and reconciliations. It also supports the new risk-based assessment system, enabling authorities and businesses to detect anomalies early.

Companies should review and update their product masters and ERP configurations to align with the revised classification framework.

India's FTA landscape in 2025: A strategic trade reset

India's free trade negotiations advanced at an unprecedented pace in 2025 as the country sought to secure deeper market access, strengthen supply-chain resilience, and expand its global economic footprint. With 13 operational FTAs, several preferential agreements, and multiple negotiations in motion, India is reshaping its trade architecture to support long-term competitiveness.



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INDIA BRIEFING

India GST 2.0: HSN-SAC Code Updates Businesses Must Know

*India Briefing Article
October 8, 2025*

India's GST 2.0 ushers in a major tax overhaul, revising HSN and SAC codes to simplify product and service classification. Businesses must now prioritize system upgrades, precise code alignment, and strategic tax management to maintain compliance, maximize input tax credits, and enhance overall operational efficiency.

[AVAILABLE HERE](#)

India's agreements now span a wide spectrum – from full FTAs and CEPAs to PTAs, BITs, and regional pacts. This structure offers tariff concessions, smoother services trade, and improved regulatory cooperation. FTA usage is also rising steadily, with over 720,000 certificates of origin issued in FY 2024–25, up from 684,724 in the previous year, highlighting growing exporter engagement.

Major developments in 2025

India concluded three significant trade agreements in 2025, beginning with the India-UK Comprehensive Economic and Trade Agreement (CETA), followed by the India-Oman CEPA and the India-New Zealand Free Trade Agreement (FTA).

Signed in July 2025, the India-UK agreement provides near-zero tariff access for a wide range of Indian products and enhances professional mobility, including a three-year exemption from social security contributions. The India-Oman CEPA, concluded on December 18, 2025, delivers duty-free treatment on 98 percent of tariff lines, expands services and professional mobility provisions, and reinforces India's commercial presence in West Asia. Meanwhile, the India-New Zealand FTA, signed December 22, offers 100 percent duty-free market access across all tariff lines for Indian exports, while India's tariff liberalization covers approximately 95 percent of bilateral trade value.

The India-EFTA Trade and Economic Partnership Agreement, which became effective in October, secured a US\$100 billion investment commitment over 15 years—an unprecedented feature in India's trade diplomacy.

India also signed an updated Bilateral Investment Treaty (BIT) with Kyrgyzstan, reinforcing investor protection standards.

India's trade agreements span five categories:

1. Free Trade Agreements (FTAs): Tariff reduction/elimination with partners such as Japan, South Korea, ASEAN, UAE, and Australia.
2. Preferential Trade Agreements (PTAs): Limited tariff preferences (e.g., India-MERCOSUR, India-Chile).
3. Comprehensive Economic Partnerships/Cooperation Agreements (CEPAs/CECAs): Inclusive of goods, services, investment, and regulatory alignment (e.g., Singapore, South Korea).
4. Bilateral Investment Treaties (BITs): Investment protection frameworks (e.g., UAE, Uzbekistan, Kyrgyzstan).
5. Regional Trade Agreements (RTAs): Multilateral arrangements such as SAFTA and APTA.



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“As India looks to scale manufacturing and embed itself deeper into global production networks, the successful 2025 FTA push signals a decisive shift toward a more outward-looking, investment-friendly, and strategically aligned trade policy.”

India's Trade Negotiations & BIT Landscape — Consolidated Overview (2025)			
Partner / bloc / country	Engagement type	Latest status (2025)	Strategic importance / key highlights
Eurasian Economic Union (EAEU)	FTA (advanced negotiations)	Terms of Reference signed (Aug 2025); negotiations expected to begin late 2025.	Access to US\$6.5 trillion bloc; boosts MSME competitiveness; potential tariff reduction in pharma, machinery, textiles.
European Union (EU)	FTA (advanced negotiations)	11th round completed (May 2025); aiming for conclusion by late 2025/early 2026.	Market access, GIs, sustainable trade, digital economy; anchors India–EU supply chain integration.
US	Trade Agreement (early-harvest talks)	Active consultations through 2025 for a limited early-phase deal.	Tariff cuts for key exports; smoother regulatory approvals; gains for pharma, engineering goods, textiles.
Chile	CEPA expansion	ToR signed (May 2025); negotiations underway.	Cooperation in digital trade, lithium/critical minerals, services, MSME value chains.
New Zealand	FTA finalized	Talks resumed in March 2025; trade agreement finalized on December 17, 2025.	Promote trade diversification and reduce import dependency on any particular region.
Oman	CEPA (signed)	Signed on December 18, 2025	Strengthens energy security, logistics hubs, food processing and manufacturing investments.
ASEAN (AITIGA review)	Agreement review	Review completion expected by 2026.	Modernization of Rules of Origin; digital and green economy cooperation; trade facilitation.
Qatar	Potential FTA	Feasibility discussions ongoing.	Target to double bilateral trade to US\$28 billion in five years; strong LNG, petrochemicals, and fintech linkages.
Canada	CEPA negotiations	Paused since Sept 2023. Expected to resume in 2026	Resumption subject to diplomatic alignment; affects agriculture, education, and services linkages.
UAE	BIT (in force)	Effective Aug 2024.	Complements India–UAE CEPA; improved investment facilitation and dispute frameworks.

India's Trade Negotiations & BIT Landscape — Consolidated Overview (2025)			
Partner / bloc / country	Engagement type	Latest status (2025)	Strategic importance / key highlights
UK	CETA (signed)	Awaiting ratification from respective country governments'	The agreement offers massive tariff cuts for UK products and double India-UK bilateral trade by 2030.
Mexico	PTA (negotiations)	Trade agreement negotiations launched in response to Mexico's tariff measures taking effect from January 1, 2026.	Aiming to significantly reduce or eliminate import duties on the maximum number of goods traded between the two countries.
Uzbekistan	BIT (in force)	Active.	Strengthens India's strategic presence in Central Asia.
Bangladesh	BIT (in force)	Active.	Supports textile, FMCG, and manufacturing investment flows.
Belarus	BIT (in force)	Active.	Cooperation in fertilizers, machinery, pharmaceuticals.
Thailand	BIT (in force)	Active; aligned with broader Indo-Pacific engagement.	Supports supply chain, electronics, and services sector investments.
Trinidad & Tobago	BIT (in force)	Active.	Expands Indian investment footprint in the Caribbean.
Kyrgyzstan	BIT (renewed)	Renewed and effective in 2025 under updated model BIT norms.	Modern protections aligned with India's regulatory priorities.
Australia	AI-ECTA	Active.	Australia removing tariffs on most Indian goods (reaching 100 percent by Jan 2026)

The next phase of India's trade strategy will hinge on three elements: the conclusion of the India–EU and India–US agreements, the operationalization of the EFTA investment commitments, and the extension of FTAs to Latin America and Africa, particularly in areas linked to critical minerals and digital trade.

Non-tariff considerations: Four regulatory pillars reshaping EXIM operations in India

India's evolving regulatory architecture is converging around four powerful levers: Quality Control Orders (QCOs), MOOWR bonded manufacturing, GAICT export liberalization, and the AEO trusted-trader regime. Together, they are redefining market access, supply-chain behavior, R&D structuring, and customs operations for global companies.

1. Quality Control Orders (QCOs): India's most assertive non-tariff instrument

India's rapid proliferation of QCOs represents one of the most transformative – and often underestimated – shifts in its market-access strategy. Initially limited to a handful of consumer goods, QCOs now span ~790 product categories, including chemicals, steel, electronic components, textiles and industrial inputs.

What QCOs actually do

A QCO mandates that designated goods must:

- Conform to specific Indian Standards (IS) set by the BIS
- Bear the ISI mark
- Undergo mandatory certification, testing, and factory audits
- Be sourced only from BIS-registered foreign manufacturers

In practice, QCOs function as a technical barrier to trade, in line with India's industrial policy objective to encourage domestic manufacturing and ensure quality compliance.

The practical bottlenecks for global companies

1. Factory audits by Indian officials

BIS officers travel abroad to inspect production facilities—a process often delayed by scheduling constraints, diplomatic approvals, and plant readiness.

2. Certification timelines & lab capacity

Testing can take months due to limited BIS-certified labs for certain materials.

3. Supply disruption risks

Products arriving at Indian ports without BIS certification may face detention, re-export, or destruction.

4. Differentiated enforcement

Indian customs may step up checks for categories newly brought under QCO, creating unpredictable clearance times.

Affected sectors

- Textile inputs (fibers, yarns, intermediates)
- Plastics & polymers
- Steel and alloy grades
- Electronics & IT hardware
- Construction materials
- Chemicals & petrochemicals

Policy responsiveness

The government has shown willingness to recalibrate:

- 14 chemical intermediates had QCOs withdrawn to protect the textile value chain.
- Enforcement for polypropylene (PP) extended to April 2026.
- High-grade steel exemptions extended to March 31, 2026.

Still, the trend line is unmistakable: foreign suppliers must meet Indian standards or lose market access.

What global companies must do

- Engage BIS early before enforcement dates.
- Map supplier readiness and audit cycles.
- Work with industry chambers to push for phased, realistic enforcement.
- Consider local manufacturing or assembly to bypass QCO bottlenecks.

2. MOOWR: A cash-flow engine for manufacturers and exporters

The Manufacture and Other Operations in Warehouse Regulations (MOOWR) regime has quietly become one of India's most powerful tools to reduce capital lock-in and improve supply-chain agility. It allows companies to conduct manufacturing within bonded facilities – deferring customs duties until finished goods are cleared for domestic sale.

Why MOOWR matters

Under MOOWR:

- Duty on imported inputs is deferred, not paid upfront.
- No duty is payable on exports – finished goods exported directly from the bonded warehouse are duty-free.
- No export obligation (unlike SEZ or EPCG).
- Minimal compliance compared to other incentive schemes.

This dramatically improves cash flow, especially for businesses with:

- Large import dependency for components
- Long production cycles
- High inventory turnover
- Global supply-chain roles (assembly/value addition)

Illustrative example: A manufacturer importing components worth US\$10 million annually at ~15 percent duty could avoid an upfront cash payout of US\$1.5 million, paying duties only when goods enter India's domestic market.

Recent enhancements

- The MOOWR application is migrating to a dedicated CBIC digital module, reducing approval times.
- Integration with faceless customs and ICEGATE improves traceability and record-keeping.

Industries using MOOWR

- Aerospace and precision engineering
- Automotive & EV components
- Electronics and contract manufacturing
- Specialty chemicals
- Machinery and capital goods

Strategic advantage

MOOWR transforms India into a flow-based manufacturing hub, enabling foreign companies to assemble, process, or test goods in India without locking up capital.

3. GAICT: India's breakthrough in high-tech licensing

The Global Authorization for Intra-Company Transfers (GAICT) is arguably the most consequential reform in India's export control regime in over a decade. For companies operating in aerospace, defense, semiconductors, advanced materials, or dual-use R&D, GAICT changes everything.

Previously, each cross-border transfer of sensitive technology, software, prototypes, or design files required:

- A transaction-specific SCOMET license
- Separate applications for HQ, subsidiaries, and partners
- Long approval times for even minor modifications

This constrained India's ability to function as an integrated R&D base in global innovation networks.

What GAICT enables

GAICT is a one-time license allowing seamless, recurring movement of controlled technologies within an MNC's global network.

Key features:

- One authorization covers multiple destinations (HQ + subsidiaries)
- Valid for multi-year operations
- Enables regular two-way data/technology flow
- Applies to dual-use software, prototypes, designs, engineering files

This permits Indian R&D centers to collaborate continuously with French, German, US, and Japanese entities without repeated license filings.

Industries that stand to benefit

- Aerospace R&D
- Defense electronics
- Avionics & high-end manufacturing
- Semiconductor design
- Robotics & automation
- Advanced materials and composites

Why this is strategically significant

GAICT positions India as a trusted technology partner – not merely a low-cost engineering hub. It also aligns India with Western export-control frameworks, enabling deeper cooperation with allies like France, the US, and Japan.

4. AEO: The trusted-trader program that speeds up supply chains

The Authorized Economic Operator (AEO) framework is India's version of a global trusted-trader regime. It is rapidly becoming a key differentiator between compliant, supply-chain-resilient companies and those stuck in clearance bottlenecks.

What AEO certification provides

- Priority customs clearance
- Reduced document checks and examinations
- Deferred/delayed submissions for certain filings
- Direct Port Delivery (DPD) and Direct Port Entry (DPE) eligibility
- Faster refunds and adjudication
- Recognition under Mutual Recognition Agreements (MRAs)

For firms with complex import profiles, this translates into fewer delays and significant inventory-cost savings.

1. India–Singapore MRA already operational. AEO-certified firms enjoy smoother two-way cross-border movement.
2. India–EU MRA is under negotiation. When finalized, EU-bound and EU-origin goods will receive streamlined processing – critical for French, German and Italian exporters.
3. Improved risk scoring under faceless customs. AEO status reduces the probability of consignment checks and assessment interventions.

Industries where AEO provides disproportionate benefits

- Electronics & IT hardware
- Aerospace and defense imports
- Pharmaceuticals
- Automotive components
- Chemicals
- Luxury goods and wine/spirits (high-duty categories)

In sectors with tight lead times – automotive, aerospace, electronics – AEO is becoming a precondition for functioning at global competitiveness levels.



India's Evolving Digital Data Protection Framework

◆ DPDP Rules, 2025



India has formally transitioned into a modern data protection era with the notification of the Digital Personal Data Protection (DPDP) Rules, 2025, issued on 14 November 2025. These rules operationalize the Digital Personal Data Protection Act, 2023 (DPDP Act), offering much-awaited clarity on implementation standards, compliance procedures, and operational timelines. India now has its first comprehensive privacy law that aligns with global norms while addressing domestic digital priorities.

DPDP Rules, 2025

The DPDP Rules adopt a tiered rollout, allowing organizations time to align their systems and processes.

1. Phase I: Immediate Enforcement from November 14, 2025

The first set of provisions came into force on November 14, 2025, laying the foundation for regulatory oversight and continuity.

- **Establishment of the Data Protection Board (DPB):** The Board has been formally constituted with its headquarters in the National Capital Region. Rule 4 of the DPDP Rules – covering appointments, governance processes, meetings, and the digital office – also became operational. The DPB now has the authority to investigate violations, enforce compliance, and impose penalties, including conducting inquiries when Consent Managers fail to meet their statutory duties under Section 27.
- **Continuation of the Sensitive Personal Data or Information (SPDI) Rules:** Some of India's existing data protection laws such as the SPDI Rules (2011) will remain in force for an additional 18 months, preventing any regulatory vacuum during the transition.
- **Key amendment under the RTI Act:** "Personal information" has formally become a ground to deny disclosure under the Right to Information Act. The earlier carve-out permitting disclosure in the public interest has been removed – marking a significant shift in transparency norms.

2. Phase II: Activation After 12 months – effective November 14, 2026

The second phase integrates Consent Managers into the data governance framework, creating a new trust and accountability layer between individuals and organizations.

- Consent Managers must formally register with the DPB.
- They are required to comply with prescribed obligations, including conflict-free operations, maintaining data integrity, ensuring secure audit trails, and handling user grievances.
- The DPB gains powers to investigate and penalize Consent Managers for non-compliance.
- This phase operationalizes the ecosystem through which Data Principals can centrally manage consent across platforms and service providers.

3. Phase III: Full operationalization after 18 months – effective May 14, 2027

The final phase triggers the complete compliance responsibilities of the DPDP Act and markedly increases operational demands on organizations.

- **Mandatory duties for Data Fiduciaries:** Purpose limitation, notice requirements, security measures, and grievance-handling obligations become fully enforceable.
- **Data Principal rights become actionable:** Individuals can now exercise their rights to access, correct, erase, or withdraw consent, and organizations must respond in accordance with statutory timelines.
- **Additional regulatory controls take effect:** Rules on children's data, cross-border data transfers, breach notifications, and financial penalties officially come into force.
- **Operationalization of DPB enforcement functions:** The Data Protection Board's mechanisms for investigation, complaint resolution, and adjudication become fully active.

The erstwhile data protection framework under the Information Technology Act, 2000 (IT Act) i.e., Section 43-A of the IT Act and rules issued there under i.e., the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011 will be repealed 18 months from the date of publication i.e., November 14, 2025.

Phased Implementation of DPDP Rules (2025)			
Subject	Rules	Definition	Commencement date
Initial provisions, governance, and board appointments	1	Short title and commencement.	Immediately (date of publication, i.e., November 14, 2025)
	2	Definitions	
	17	Appointment of Chairperson and other Members	
	18	Salary, allowances and other terms and conditions of service of Chairperson and other Members.	
	19	Procedure for meetings of Board and authentication of its orders, directions and instruments.	
	20	Functioning of Board as digital office	
	21	Terms and conditions of appointment and service of officers and employees of Board	
Obligations relating to registration and Consent Managers	4	Registration and obligations of Consent Manager	One year from publication (i.e., November 14, 2026)
Core operations and compliance rules (Consent, security, rights)	3	Notice given by Data Fiduciary to Data Principal.	18 months from publication (i.e., May 14, 2027)
	5	Processing of personal data for provision or issue of subsidy, benefit, service, certificate, licence or permit by State and its instrumentalities	
	6	Reasonable security safeguards	
	7	Intimation of personal data breach	
	8	Time period for specified purpose to be deemed as no longer being served.	
	9	Contact information of person to answer questions about processing.	
	10	Verifiable consent for processing of personal data of child	
	11	Verifiable consent for processing of personal data of person with disability who has lawful guardian	
	12	Exemptions from certain obligations applicable to processing of personal data of child.	
	13	Additional obligations of Significant Data Fiduciary	

Phased Implementation of DPDP Rules (2025)			
Subject	Rules	Definition	Commencement date
Core operations and compliance rules (Consent, security, rights)	14	Rights of Data Principals	18 months from publication (i.e., May 14, 2027)
	15	Transfer of personal data outside the territory of India	
	16	Exemption from Act for research, archiving or statistical purposes	
	22	Appeal to Appellate Tribunal	
	23	Calling for information from Data Fiduciary or intermediary	

Applicability of the DPDP Act

The DPDP Act applies broadly to organizations that handle digital personal data linked to the provision of goods or services to individuals in India, regardless of where the organization itself is based. Its scope covers both domestic and cross-border data processing activities.

Processing within India

The Act governs the handling of digital personal data in India under the following circumstances:

- When the data is originally collected in digital form; or
- When the data is collected offline and subsequently converted into digital format.

Processing outside India (extra-territorial scope)

The Act applies to entities located outside India if they process digital personal data in relation to offering goods or services to individuals, referred to as Data Principals, within India. This ensures that protections extend to cross-border digital interactions involving Indian users.

The DPDP Act does not apply to the following:

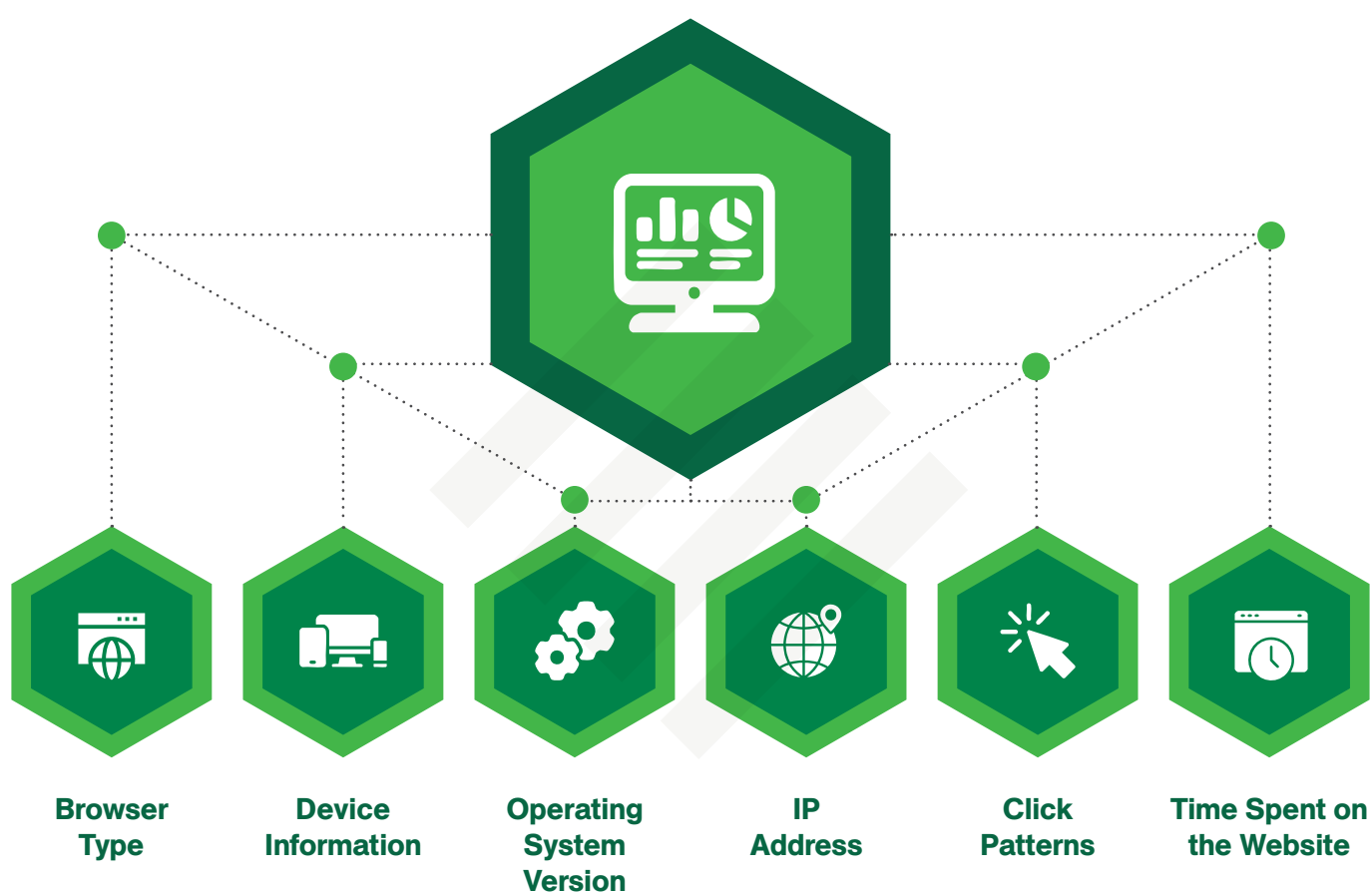
- Personal data utilized by an individual for personal or domestic purposes; or
- Personal data deliberately made publicly accessible by either the Data Principal to whom the personal data relates or any other individual or entity mandated by law to disclose personal data to the public.

Almost every entity with a web presence collects some form of personal data, some consciously provided by users and some gathered automatically.

Automatic collection captures technical and behavioral signals such as browser and device type, operating system version, IP address, click behavior, time spent on pages, and bandwidth usage.

Automatic Data Collection

Automatic data collection includes details such as



Individually these data points may seem safe but combined and analyzed they can paint a detailed profile of a person's online habits, preferences and even personality, effectively creating a "digital twin" of the user. The DPDP Act, 2023 and its associated DPDP Rules, 2025 in India regulate the processing of digital personal data but do not specifically "rule over" the technology of digital twins itself. Instead, they apply to the personal data that may be used within a digital twin system.

Key definitions under the data protection act

- 1. Personal Data:** “Personal data” includes any information relating to an identifiable individual. Identification may occur directly through the data itself or indirectly when the data is combined with other available information.
- 2. Digital Personal Data:** Personal data that exists in digital form.
- 3. Data Principal:** The individual to whom the personal data pertains.
 - » For minors, the term includes the parent or lawful guardian.
 - » For persons with disabilities, it includes their lawful guardian acting on their behalf.
- 4. Data Fiduciary (DF):** An entity or individual that determines why and how personal data is processed (independently or jointly with others).
- 5. Data Processor (DP):** Any entity or individual that processes personal data on behalf of a Data Fiduciary. Data Fiduciaries may appoint or engage Data Processors to support activities related to the delivery of goods or services to Data Principals.
- 6. Consent Manager (CM):** A person or entity registered with the Data Protection Board that serves as a unified interface allowing Data Principals to give, manage, review, or withdraw consent through a transparent, accessible, and interoperable platform.

Essential steps for businesses to comply with the DPDP Act

Achieving compliance with India's DPDP Act and its Rules requires a structured, organization-wide effort. The following steps outline the key activities businesses should undertake as they build or strengthen their data protection framework.



RELATED READING



INDIA BRIEFING

India's Digital Personal Data Protection (DPDP)

Rules 2025 Notified

*India Briefing Article
November 17, 2025*

India has officially entered a new era of digital governance with the notification of the Digital Personal Data Protection (DPDP) Rules 2025, bringing into effect India's first full-fledged digital privacy law. The Rules provide the operational backbone for the Act – introducing phased obligations over the next 12–18 months, giving businesses a transition window, while mandating immediate changes for high-impact areas such as breach notifications and the establishment of India's new Data Protection Board.

AVAILABLE HERE

Step 1	Conduct a data privacy assessment Begin by evaluating your organisation's current data privacy practices, policies, and governance structures against the requirements of the DPDP Act. This assessment helps identify compliance gaps and sets the foundation for a comprehensive action plan.
Step 2	Perform data discovery and mapping Identify all personal data touchpoints across the organisation. Map how personal data is collected, stored, used, shared, and retained across systems, applications, processes, and teams.
Step 3	Develop a record of processing activities (RoPA) and data flow diagrams Document all processing activities and create data flow diagrams to understand how personal data moves internally and externally, including transfers to vendors and partners.
Step 4	Update consent mechanisms and notices Prepare compliant consent forms, privacy notices, cookie banners, and related disclosures. Ensure they are clearly presented at every point where personal data is collected.
Step 5	Conduct privacy impact assessments (PIAs) For processing activities that may pose risks, carry out privacy impact assessments to identify vulnerabilities and define mitigation measures such as new controls or revised processes.
Step 6	Strengthen third-party risk management Evaluate third parties that process personal data on your behalf. Ensure adequate safeguards are included in vendor contracts and periodically monitor third-party compliance.
Step 7	Implement technical safeguards Deploy appropriate security and technical measures to protect personal data from unauthorized access, misuse, or breaches. This may include encryption, access controls, monitoring tools, and audit logging.
Step 8	Establish a data protection office Set up a dedicated data protection function—either a Data Protection Officer or an internal team—responsible for driving compliance, managing risks, and overseeing implementation.
Step 9	Operationalize controls and enable automation Roll out the required policies, processes, and controls across the organisation. Identify opportunities to automate repetitive compliance tasks such as tracking consents, data subject requests, and breach notifications.
Step 10	Implement ongoing monitoring and sustenance measures Establish a periodic monitoring and audit framework to ensure continued adherence to the DPDP Act. Regular reviews help sustain compliance and respond to evolving regulatory expectations.

Rethinking notice and consent architecture under India's digital data protection framework

India's Data Protection Act introduces a more structured framework around notice and consent. Businesses must provide a clear, standalone notice, available in English or any Indian language listed in the Constitution, before processing personal data. The notice must detail the data being collected, the specific purpose of processing, the rights available to users, and avenues for filing complaints with the Data Protection Board.

The DPDP Act emphasizes purpose limitation: even when consent is obtained, only data strictly necessary for the stated purpose may be processed. Legacy data collected before the law's enforcement may continue to be processed, but companies are expected to issue compliant notices "as soon as reasonably practicable." While this timeline is undefined, documenting efforts becomes essential.

The accompanying DPDP Rules add further clarity. Notices must remain simple, visually distinct, and unbundled from other documents such as terms of service. Although the Rules allow consolidated notices covering itemized data for multiple related purposes, organizations must avoid overly broad purposes that dilute meaningful consent. Users also retain the right to withdraw consent with the same ease as it was granted, and companies must stop processing within a reasonable timeframe.

1. Registration requirements (Part A)

To qualify and remain registered:

- The Consent Manager must be an Indian-incorporated entity
- Must demonstrate adequate financial and technical capacity, including:
 - » Minimum net worth INR 20 million
 - » Ability to operate an interoperable, DPB-compliant consent-management platform
- The leadership team must demonstrate integrity and ethical conduct
- The company's founding documents must contain provisions ensuring compliance; amendments require DPB approval

2. Operational obligations (Part B)

Once registered, Consent Managers must maintain high standards of transparency and accountability, including:

- Data integrity: Ensuring they cannot view or access the actual content of personal data exchanged
- Record keeping: Maintaining logs of all consent-related actions (granted, refused, withdrawn), notices issued, and data-sharing activities for at least seven years or longer if legally required

- 
- Transparency requirements: Publishing key information on promoters, directors, and entities where they hold significant (over 2%) interests
 - Prohibition on outsourcing: Core functions of Consent Managers cannot be delegated or subcontracted

3. Cross-border data transfers

The framework outlines conditions for transferring personal data outside India:

- Transfers are permitted to jurisdictions not included in a government-issued “restricted list,” subject to contractual and security safeguards.
- Significant Data Fiduciaries (SDFs), to be designated based on data volume and processing risks, may face additional restrictions, including limitations on transferring sensitive personal or traffic data.

These norms seek to balance international data flows with national security and privacy considerations.

4. Data breach notifications

Organizations must follow clearly defined reporting protocols for security incidents:

- Both the Data Protection Board of India and affected individuals must be notified when a breach crosses the prescribed severity thresholds.
- Notifications must describe the breach, its potential impact, corrective steps taken, and relevant contact information.

These obligations are in addition to mandatory reporting under CERT-In’s cybersecurity directives.

5. Rights of data subjects

The rules specify procedures and deadlines for addressing rights requests:

- Individuals may exercise rights to access, correct, delete data, raise grievances, and nominate another person to act on their behalf.
- Data Fiduciaries are required to respond within 90 days from the date of request.

This strengthens accountability and embeds due process into personal data handling.

6. Transparency and accountability measures

Data Fiduciaries must ensure:

- Easy access to contact details of responsible officers, including the Data Protection Officer where applicable.
- Availability of clear information enabling individuals to understand and question how their data is processed.

7. Processing of children's data

For children (below 18 years):

- Verifiable parental consent is mandatory prior to processing their personal data.
- This reinforces heightened protections for minors under the new regime.

8. Establishment of the Data Protection Board

The Digital Data Protection Board will function completely online:

- Individuals will be able to file, track, and manage complaints through a dedicated digital portal.
- The first online model is designed to streamline enforcement and improve accessibility.

Broader significance of the new framework

With the rules now active, India has entered a transformative phase in data governance. The DPDP framework introduces centralized oversight, stronger citizen rights, and substantial financial penalties, up to INR 2.5 billion (approximately US\$27.7 million), for serious violations.

For multinational and domestic organizations, this represents a major compliance frontier. Businesses handling personal data of individuals in India must now revisit their privacy notices, consent flows, data transfer mechanisms, governance structures, and incident response procedures to ensure alignment with the new regulatory expectations.



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