SPP & Co., Chartered Accountants

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Adapt to Advance : Navigating the New Normal of Compliance & Commerce

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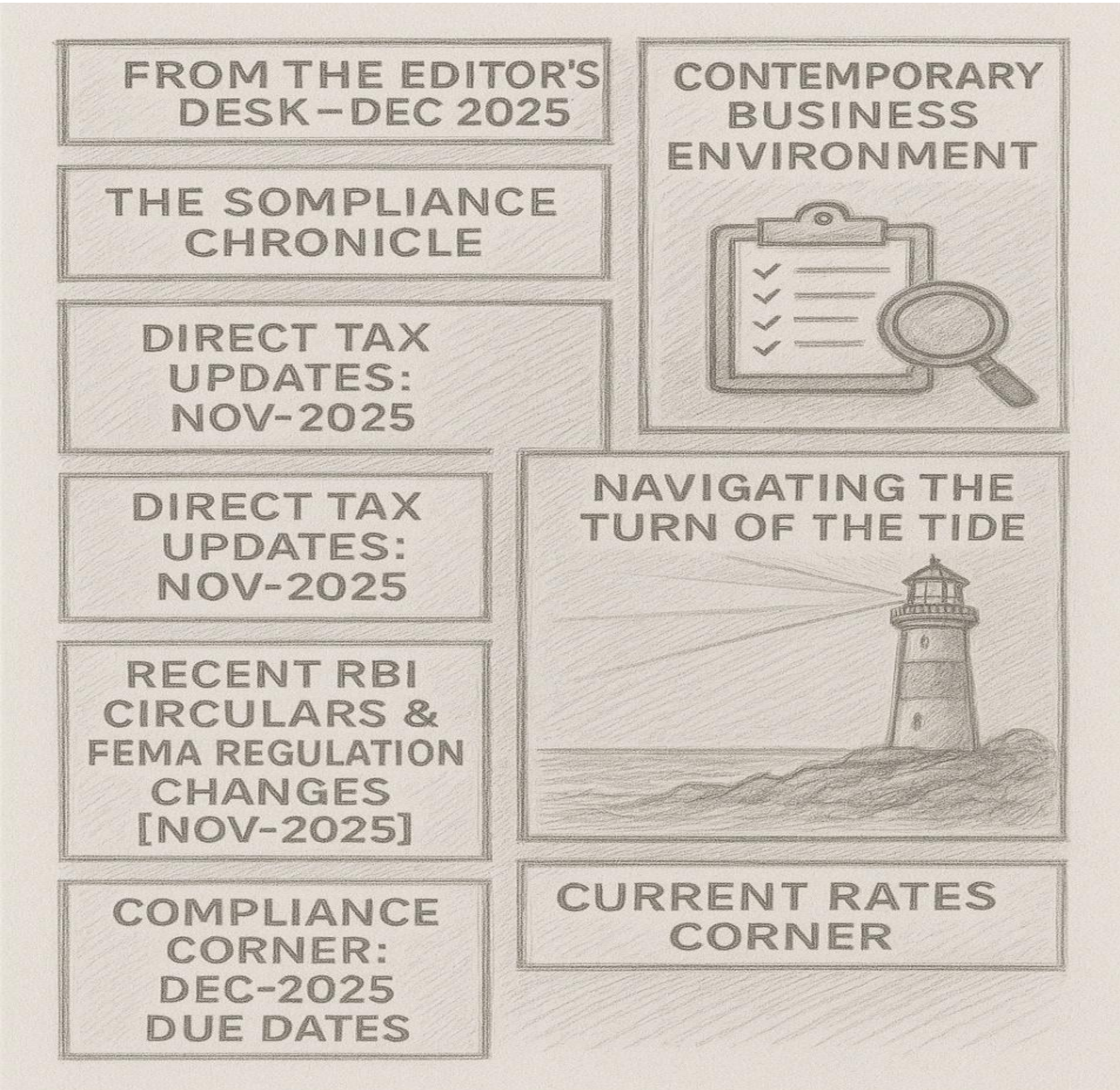

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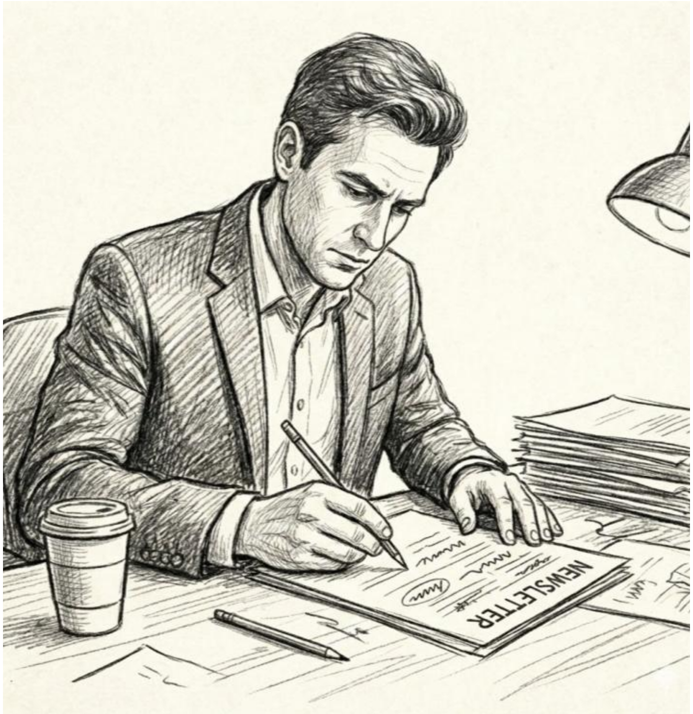
From the Editor's Desk – Dec 2025

Dear Readers,



As the curtain falls on 2025, we find ourselves at a fascinating vantage point. The year gone by was not merely a passage of time but a period of profound structural preparation. If I were to summarize the sentiment of the past twelve months in a single phrase, it would be **"The Great Calibration."**

Globally, we witnessed a calibration of expectations. The post-pandemic exuberance has settled into a "slowbalization" phase, with the WTO forecasting a modest 0.5% trade growth for 2026. High interest rates in advanced economies have tempered consumption, and geopolitical fissures continue to redraw supply chain maps. Yet, amidst this cooling global narrative, the Indian story stands out for its warmth and resilience.

The Macro Canvas: India's Decoupling Moment

India continues to defy the gravitational pull of the global slowdown. With a projected GDP growth of **6.3–6.5%** for FY 2024-25 and a robust Q1 expansion of 7.8%, our domestic consumption engine is firing on all cylinders. The record **$81 billion in FDI inflows** is not just a statistic; it is a global vote of confidence in India's manufacturing and services prowess.

Closer to home, Tamil Nadu is leading this charge, cementing its status as India's second-largest state economy with a contribution of nearly 9.5% to the national GDP. The state is no longer just a Detroit for auto-making but is evolving into a diversified powerhouse. The recent **"TN Rising Conclave"** held in Coimbatore was a defining moment, securing 158 MoUs worth over ₹43,000 crore. This influx is strategically targeting high-growth sectors—from electric vehicles (EVs) and technical textiles to aerospace components—signaling a shift from traditional manufacturing to value-added engineering.

Coimbatore, in particular, is witnessing a renaissance. Moving beyond its legacy as the "Pump City" or "Manchester of South India," it is emerging as a critical node in the global tech map. With major players like **Bosch** establishing Centers of Excellence for automotive software and new investments flowing into semiconductor equipment manufacturing, the region is rapidly integrating into the global supply chain for Industry 4.0. For our local businesses, this proximity to high-tech investment offers unprecedented opportunities for ancillary growth and modernization.

For businesses, however, the operating environment has shifted from "growth at any cost" to "growth with governance." The last quarter of 2025 unleashed a tsunami of policy reforms that will define the next decade of Indian enterprise.

The Trinity of Reform: Labour, Tax, and Technology

Three landmark shifts have converged to create a new compliance baseline for 2026:

1. **The Labour Code Era:** As of November 21, 2025, the four Labour Codes are a reality. This is perhaps the single biggest shift in industrial relations in independent India. The move from 29 fragmented laws to 4 unified codes promises "Ease of Doing Business," but it comes with a price tag: stricter adherence. The new "50% Wage Rule" for PF calculation and the mandatory gratuity insurance are immediate financial impacts that every CFO must budget for.

2. **Taxation 2.0:** The introduction of the **Income Tax Bill, 2025**, signals the end of the 64-year-old Income Tax Act of 1961. With concepts like a "Unified Tax Year" and streamlined provisions, the government is aiming for a simplified, litigation-free tax regime. Simultaneously, the **GST Rate Rationalization** (effective

Oct 1, 2025) has simplified the indirect tax structure into primary merit (5%) and standard (18%) rates, significantly reducing classification disputes.

3. **The Digital Eye:** Regulatory oversight has moved from physical inspection to digital surveillance. Whether it is the Income Tax Department's **Annual Information Statement (AIS)** tracking high-value spends or the RBI's **DAKSH** platform for supervision, the message is clear: *Transparency is the only strategy.*

In This Issue: A Guide to the New Normal

Our December newsletter is curated to help you navigate these specific shifts. We have moved beyond reporting news to providing actionable implementation guides.

- **The Compliance Chronicle:** Our cover story dives deep into the **New Labour Codes**. We break down the financial implications of the "50% CTC Rule" and explain why "Fixed Term Employment" might be your most strategic hiring tool in 2026.
- **The Silent Observer:** In an era where data is the new tax inspector, our article on **High-Value Transactions** explains how the Income Tax Department tracks your cash deposits, credit card bills, and property purchases. We debunk the myths around SFT reporting limits and offer advice on keeping your AIS clean.
- **Strategic Forecast 2026:** We analyze the specific opportunities in sectors like **Electronics Manufacturing** (driven by the China+1 strategy) and **Green Energy**, while cautioning against emerging risks like cybersecurity threats and climate-induced disruptions.
- **Regulatory Updates:** We cover the latest from the CBDT, including the new **Transfer Pricing tolerance ranges**, and significant Customs updates. On the banking front, we highlight the RBI's massive exercise of repealing over 9,000 historical circulars to issue streamlined **Master Directions**—a huge relief for compliance officers.

Looking Ahead to 2026

As we step into the new year, the theme for Indian business will be **"Adaptability."** The opportunities are immense—from the $10 billion smartphone export market to the 50 million new beneficiaries under Ayushman Bharat driving healthcare demand. However, capturing this value requires a business model that is digital-first, compliant by design, and agile in execution.

At **SPP & Co**, we remain committed to being your partners in this journey of adaptation. We wish you, your families, and your teams a prosperous, compliant, and growth-filled 2026.

Warm regards,

SPP & Co
[*Editors Desk***]**

Food for Thought: Historical Nuggets on Economy & Law

Here are a few interesting historical facts to ponder:

- ✓ **The Salt of the Earth**: The word "Salary" originates from the Latin salarium, a salt allowance paid to Roman soldiers, highlighting how essential commodities often serve as the bedrock of currency.
- ✓ **The First IPO**: The Dutch East India Company issued the world's first shares in 1602 to fund their voyages, effectively creating the modern concept of the stock market and limited liability.
- ✓ **War & Taxes**: The first modern Income Tax was introduced in Great Britain in 1799 by William Pitt the Younger, solely as a temporary measure to fund the war against Napoleon Bonaparte.
- ✓ **The Original Bubble**: During the "Tulip Mania" of 1637, a single tulip bulb in the Netherlands traded for the price of a luxury home, marking history's first recorded speculative market crash.
- ✓ **Ancient Audits**: Tax evasion is ancient history—scribes in Ancient Egypt conducted physical audits of households to ensure citizens weren't reusing cooking oil to avoid the "cooking oil tax."
- ✓ **Indian Wisdom**: Long before modern economics, Chanakya's Arthashastra (c. 300 BCE) established sophisticated principles for taxation, trade compliance, and statecraft that mirror today's fiscal policies.

Contemporary Business Environment: India Inc. 2026: Resilience, Reform, and the Road Ahead

As we bid farewell to 2025, the global and domestic business landscapes offer a study in contrasts. While the world grapples with a "slowbalization" trend—marked by a projected global trade growth of just 0.5% in 2026—India stands out as a resilient growth engine, projected to expand at 6.3–6.5% in FY 2024-25.

For Indian enterprises, the operating environment has fundamentally shifted in the last quarter of 2025. From the landmark implementation of the Labour Codes to the introduction of the Income Tax Bill 2025, the regulatory framework has been overhauled to favor formalization and ease of doing business. This article decodes these critical macro-developments and offers a strategic roadmap for 2026..

1. The Macro-Economic Canvas: India as an Outlier

Global Headwinds vs. Domestic Tailwinds

The global economy is cooling. High interest rates in advanced economies and lingering geopolitical tensions have dampened demand. The **WTO's forecast** of a mere 0.5% growth in global merchandise trade volume for 2026 serves as a caution for export-dependent sectors. However, the recent **US-China "tactical" trade truce** (Oct 2025) offers a breather, stabilizing supply chains temporarily.

In contrast, India's domestic story is robust:

- **GDP Growth:** Q1 FY25-26 saw a 7.8% expansion, driven by private consumption and government capex.
- **Inflation:** Retail inflation has cooled to ~5%, keeping the RBI repo rate steady at 6.5%, with potential rate cuts on the horizon for 2026.
- **Investment:** A record **$81 billion in FDI** inflows for FY 2024-25 signals unwavering global confidence, particularly in manufacturing and services.

Key Takeaway: While external demand may soften, the domestic consumption engine and government infrastructure spending (₹11.21 trillion capex) provide a strong buffer for Indian businesses.

2. Policy Watch: The Reform Tsunami of 2025

For Chartered Accountants and business leaders, late 2025 has been defined by three structural reforms that reshape compliance.

A. The Direct Tax Overhaul: Income Tax Bill, 2025

Introduced in Parliament in February 2025, this Bill seeks to replace the 64-year-old Income-tax Act of 1961.

- **Unified "Tax Year":** The confusing dichotomy of "Previous Year" and "Assessment Year" is set to be replaced by a single "Tax Year."
- **Simplification:** The Bill consolidates scattered provisions (e.g., all salary-related rules in one section, all TDS rules in another), utilizing formulas and tables to reduce ambiguity.
- **Status:** While rates remain largely unchanged to ensure stability, the structural cleanup will demand a re-learning of tax compliance processes ahead of its expected enactment for FY 2026-27.

B. GST 2.0: Rationalization & Relief

The **56th GST Council Meeting (Sept 2025)** ushered in a major rate rationalization effective October 1, 2025.

- **Two-Tier Structure:** The complex rate slabs have been effectively consolidated into two primary rates: **5% (merit)** and **18% (standard)**.
- **Zero-Rated Essentials:** In a massive relief for the common man and the insurance sector, **Individual Life and Health Insurance premiums** are now **GST-exempt (0%)**.
- **FMCG Relief:** Daily essentials like toilet soaps and packaged foods (e.g., Indian breads, UHT milk) have seen rates drop to 5% or 0%, aimed at spurring rural consumption.

C. Labour Codes: Implementation Reality

Effective **November 21, 2025**, all four Labour Codes are now live, replacing 29 archaic laws.

- **Universal Social Security:** Coverage (EPF/ESI) extends to gig and platform workers.
- **Wage Definition:** The new uniform definition of "wages" (capping allowances at 50%)

impacts PF liability for employers who historically structured salaries with high allowances.

- **Fixed-Term Employment:** Fixed-term workers are now eligible for **gratuity after just 1 year** of service, a critical cost factor for HR budgeting.

3. Sectoral Opportunities: Where is the Growth?

Despite the regulatory churn, specific sectors are witnessing a "Goldilocks" moment.

1. Electronics & IT Hardware Driven by the "China+1" strategy and PLI schemes, India has emerged as a smartphone export hub ($10bn+ exports). The opportunity now shifts to *components*—PCBs, camera modules, and industrial electronics. With import restrictions on laptops aiming to force localization, domestic manufacturing of IT hardware is the next big wave.

2. Electric Vehicles (EVs) October 2025 saw a historic milestone: over **1 million electric two-wheelers** sold YTD. With the EV ecosystem maturing (charging infra + battery PLI), the auto-component sector in hubs like Coimbatore is pivoting from ICE parts to EV motors and controllers.

3. Textiles: The Technical Turn While apparel exports faced tariff headwinds, the **Technical Textiles** segment is growing. The PLI scheme extension to Dec 2025 offers a window for MSMEs to upgrade machinery. Exports to non-traditional markets like Japan and the UAE have grown double-digits, offsetting Western sluggishness.

4. Healthcare & Pharma With the GST exemption on life-saving drugs (cancer/rare diseases) and insurance premiums, the healthcare sector expects a volume surge. The expansion of **Ayushman Bharat** to 50 million more beneficiaries creates steady revenue streams for budget hospitals and diagnostic chains.

4. Risk Management for 2026

As we step into 2026, the "Contemporary Business Environment" report highlights critical risks that must be on your radar:

- **Cybersecurity:** Ranked as the #1 risk for Indian companies. With the **DPDP Act 2023** now enforced, a data breach is not just an IT issue but a massive regulatory liability.
- **Climate Risk:** Extreme weather events are disrupting supply chains (e.g., floods affecting logistics). 4.5% of GDP is estimated to be at risk by 2030 due to climate events.
- **Compliance Fatigue:** The simultaneous transition to new GST rates, Labour Codes, and potentially the new Income Tax Code requires robust "Change Management" in finance and HR departments to avoid penalties.

5. Strategic Action Plan: The Owner's Checklist

To thrive in this evolving environment, we recommend the following strategic priorities for our clients:

1. Audit Your HR Policy (Immediate) Ensure your payroll structures align with the new "Wages" definition to avoid PF shortfalls. Update employment contracts to reflect fixed-term gratuity rules and grievance redressal mechanisms.

2. Digitalize to Formalize With **e-invoicing** mandatory for turnover >₹5 Cr and the government using AI for tax scrutiny, manual accounting is a liability. Adopt cloud-based ERPs that integrate with GSTN and banking portals.

3. Leverage the "New" Finance Don't rely solely on traditional OD limits. Explore **TReDS** for invoice discounting (now faster with account aggregators) and utilize the **Credit Guarantee Scheme for Exporters** if you face working capital cycles due to global delays.

4. Sustainability is Strategy Start tracking your energy consumption and waste. With global buyers demanding ESG compliance and potential domestic carbon markets emerging, "going green" is now a prerequisite for entering high-value supply chains.

Conclusion

2025 was a year of *preparation*—laying the groundwork through legislative reforms and infrastructure build-out. 2026 will be the year of *adaptation*. The Indian enterprise that succeeds next year will be one that is compliant by design, digital by default, and agile enough to pivot between domestic opportunities and global niches.

For a detailed impact assessment of the Income Tax Bill 2025 or the new GST rates on your specific business, please reach out to our advisory team.

THE COMPLIANCE CHRONICLE: The New Labour Codes Implementation Guide [Nov-2025]

The Paradigm Shift: From "Regulation" to "Facilitation" (With Stricter Accountability)

Effective **November 21, 2025**, the Indian industrial landscape has fundamentally changed. The operationalization of the four Labour Codes is not merely a consolidation of 29 laws; it is a shift in the philosophy of compliance. The government has moved from a "Protective" regime (where laws were vague but enforcement was lax) to a "Facilitative" regime (where laws are clear, digital, and flexible, but **enforcement is data-driven and penalties are severe**).

For Business Owners & Directors:
The era of "managing" labour inspectors is over. The new "Inspector-cum-Facilitator" will rely on web-based inspections and algorithmic triggers from your digital returns. Non-compliance is no longer a negotiable low-cost risk; it is a high-stakes financial liability.

The Four Pillars of Reform:

Code	Key Statutory Shift	Strategic Impact
Code on Wages, 2019	**Universal Coverage:** "Scheduled Employment" concept removed. All employees, even C-Suite, are covered for timely payment rules.	**Payroll Redesign:** The "50% Wage Rule" forces a restructuring of CTC to ensure statutory compliance.
Code on Social Security, 2020	**Rights-Based:** Extends benefits to Gig/Platform workers and mandates Gratuity Insurance.	**Cash Flow Impact:** Gratuity moves from a "Book Provision" to a "Cash Outflow" (Insurance Premium).
Industrial Relations Code, 2020	**Flexibility:** Threshold for firing/closure raised to 300 workers; Fixed Term Employment (FTE) formalized.	**Workforce Agility:** Legal route to hire project-based staff without long-term liability (barring pro-rata gratuity).
OSHWC Code, 2020	**One Nation, One License:** Unified registration and single return for establishments.	**Ease of Ops:** Dramatic reduction in paperwork, but stricter safety norms (e.g., annual health checks).

Immediate Action for Management:
1. **Finance:** Re-budget for increased PF (due to wage redefinition) and Gratuity Insurance premiums.
2. **HR:** Rewrite Appointment Letters and Fixed Term Contracts immediately.
3. **Compliance:** Map the "Dual Compliance" period until State Rules are fully notified.

FINANCIAL DEEP DIVE – THE "50% RULE" & PAYROLL
Redefining "Cost to Company" (CTC)

The most critical change for your Accounts Department is the **Unified Definition of Wages** (Section 2(y) of the Code on Wages). This definition applies across **all four codes**, affecting PF, Gratuity, ESI, and Leave Encashment.
The "50% Proviso" – The Calculation Trap
The law lists specific exclusions (HRA, Conveyance, Special Allowance, Overtime, Commission, etc.).

- **The Rule:** If the aggregate of these exclusions exceeds **50% of the Total Remuneration**, the *excess amount* is deemed as "Wages" and added back to the Basic Pay for calculating statutory dues.

Case Study: Impact on a ₹15,00,000 Annual CTC Employee

Salary Component	Old Structure (Tax Efficient)	New Compliant Structure (50% Rule)	Impact on Employer	Impact on Employee
A. Total CTC	**₹ 15,00,000**	**₹ 15,00,000**	**No Change**	**-**
1. Basic Pay	₹ 4,50,000 (30%)	₹ 7,50,000 (50%)	-	Base Increases
2. HRA	₹ 2,25,000	₹ 3,75,000	-	Tax Exemption varies
3. Other Allowances	₹ 7,16,600	₹ 2,20,600	-	Reduced cash-in-hand
4. Employer PF (12%)	₹ 54,000	₹ 90,000	**+ ₹36,000**	Higher Retirement Corp.
5. Gratuity (4.81%)	₹ 21,645	₹ 36,075	**+ ₹14,430**	Higher Liability
B. Take Home (Pre-Tax)	**High**	**Reduced**	-	**~4-5% Drop**

Critical Audit Points for Finance Teams:

1. **"Special Allowance" Vulnerability:** If you simply label the balancing figure as "Special Allowance," it falls under exclusions. If it pushes the total exclusions above 50%, you will be non-compliant if you don't pay PF on the excess.
2. **Variable Pay/Bonuses:** "Bonuses" (statutory) are excluded. However, "Performance Incentives" might be interpreted as part of wages if not carefully structured.
3. **Gratuity Valuation:** Your actuarial valuation for "Accrued Liability" will jump significantly because the "Last Drawn Salary" for calculation is now higher (at least 50% of CTC). **This will hit your P&L immediately.**

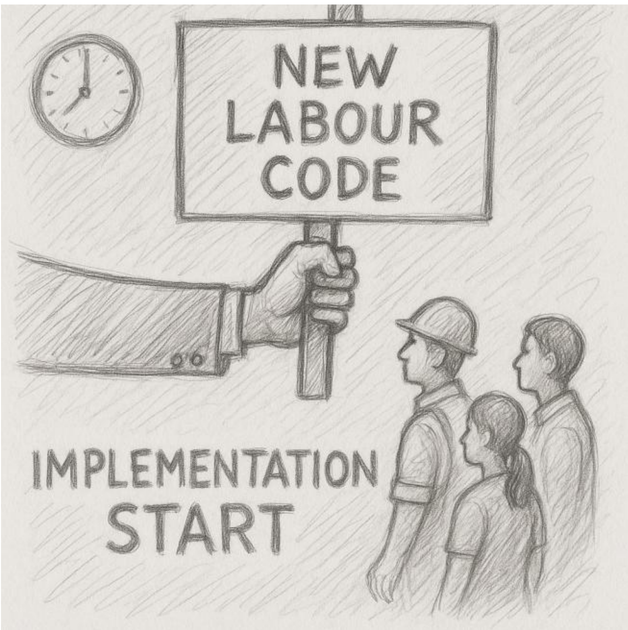
HR OPERATIONS & WORKFORCE STRATEGY
Fixed Term Employment, Leave, and Working Hours

1. Fixed Term Employment (FTE) – The New "Gold Standard" for Hiring
The Industrial Relations Code formalizes FTE. This is a game-changer for project-based industries (IT, Construction, Manufacturing).

- **The Benefit:** You can hire for a specific period (e.g., 1 year, 3 years). On expiry of the contract, termination is automatic. **No retrenchment compensation is payable.**
- **The Cost:** FTEs must receive the **same hours of work, wages, allowances, and statutory benefits** as permanent workers.
- **The Kicker:** FTEs are eligible for Gratuity if they serve for **one year** (reduced from the standard 5 years). HR *must* factor this 4.81% cost into the project budget for any contract > 1 year.

2. Leave Policy Overhaul (OSH Code)

- **Eligibility Reduced:** Workers are now entitled to Earned Leave after working **180 days** in a calendar year (reduced from 240 days).
- **Implication:** Newer employees will start accruing leave eligibility faster. Update your HR Policy Manuals immediately.



- **Leave Encashment:** This must be calculated on the new "Wages" definition (Basic + DA + Retaining Allowance + Add-backs). The liability for encashment on your books will increase.

3. "Worker" vs. "Employee" – Know the Difference

The Codes distinguish between these two. This is vital for Overtime (OT).

- **Worker:** People in manual, unskilled, skilled, technical, operational, or clerical work.
- **Employee:** Includes all "Workers" + Managerial/Administrative/Supervisory staff.
- **The Trap:** A Supervisor earning ≤ **₹18,000/month** is treated as a "Worker."
  - **OT Rule:** "Workers" are entitled to OT at **2x the wage rate**.
  - **Managers:** Managers (or Supervisors > ₹18k) are *not* entitled to statutory OT under the Code.
- **Action:** Review job descriptions. Misclassifying a "Worker" as a "Manager" to avoid OT is a major compliance risk.

RISK, LIABILITY & INSURANCE

The "Hidden" Financial Landmines

1. Mandatory Gratuity Insurance (Section 57, SS Code)

This is the single biggest cash-flow change.

- **Old Regime:** Companies created a provision in books. Cash remained in the business.
- **New Regime:** Every employer (except Govt.) **MUST** obtain valid insurance from an IRDAI-regulated insurer to cover gratuity liability.
- **Impact:** You cannot "roll" gratuity cash anymore. You must pay the premium.
- **Transition:** Companies with existing Gratuity Trusts must register them. Others must buy a Group Gratuity Policy immediately. The "Past Service Liability" (for all years served by current employees) may need to be funded into the policy in phases (subject to rules), which is a huge cash outflow.

2. International Workers (IWs) – Unlimited PF Liability

The Codes and recent court rulings (e.g., Delhi High Court) reinforce the strict treatment of International Workers.

- **Rule:** For IWs, the PF Wage Ceiling (₹15,000) does **not** apply.
- **Risk:** PF must be paid on the **full "Wages"** (essentially full CTC minus HRA/specific exclusions).
- **Audit Check:** If you have expats, check if you are capping their PF. If yes, you are likely non-compliant. The penalties for this are severe (Damages up to 100% of arrears).

3. The Gig Worker Levy (For Aggregators)

If your business operates as an "Aggregator" (digital platform for ride-sharing, food delivery, services, etc.):

- **Contribution:** You must contribute **1-2% of your Annual Turnover** to a Social Security Fund.
- **Cap:** This contribution is capped at **5% of the amount paid to gig workers**.
- **Action:** This is a direct hit to the bottom line (EBITDA). Pricing models need to be adjusted to absorb this 1-2% levy.

4. Worker Reskilling Fund (IR Code)

- **Trigger:** Retrenchment of a worker.
- **Cost:** Employer must contribute **15 days of wages** (last drawn) to the Worker Reskilling Fund.
- **Timeline:** Must be paid within **45 days** of retrenchment.
- **Tax:** Deductible under Section 37 of the IT Act (as per current interpretation of business expense).

COMPLIANCE ADMINISTRATION
Registers, Returns, and Penalties

1. The "One Return" Regime

For Tamil Nadu (and most states), the chaotic web of returns is replaced by a Unified Annual Return.

- **Form IX (TN Draft Rules):** This single form captures details of Wages, Leave, Maternity Benefit, Bonus, and OSH stats.
- **Filing Date:** Likely **31st January** or **1st February** annually (check final notification).
- **Action:** Your Payroll software must be re-configured to auto-populate Form IX. Manual compilation will be impossible due to the data granularity required.

2. Decriminalization & The New Penalty Matrix

The government has removed imprisonment for many minor procedural offences but hiked the fines significantly.

Offence	Old Penalty	New Penalty	Compounding Option
Non-Payment of Wages	₹500 - ₹1,000	Up to **₹50,000**	Yes (50% of Fine)
Non-Filing of Return	₹500	Up to **₹10,000**	Yes (50% of Fine)
Repeat Offence (5 Yrs)	Fine	**Jail (up to 3 months) + ₹1L Fine**	**NO**
Obstructing Inspector	-	Up to **₹50,000**	-

The Compounding Trap:

- You can "settle" (compound) a first offence by paying 50% of the max fine.
- **CRITICAL:** If you repeat the same offence within **5 years**, you **cannot** compound it. It goes to court, carrying a risk of imprisonment.
- **Advisory:** Do not treat the first fine as a "cost of doing business." It is a warning shot. A repeat error is criminal.

3. Digital Registers

The Codes mandate (or strongly encourage) electronic maintenance of registers (Wages, Leave, Attendance).

- **Action:** Move away from physical registers. Digital logs are timestamped and harder to manipulate, but they are what the Inspector will demand.

ACTION PLAN & TAMIL NADU SPECIFICS

The Roadmap for Execution

Tamil Nadu Specifics: The "Dual Compliance" Period

Tamil Nadu is in the final stages of notifying rules (specifically for the Social Security Code).

- **The Vacuum:** The Central Codes are law, but State machinery (Portals) might not be ready.
- **Strategy:** Continue filing old returns (e.g., under TN Shops & Establishments Act) *until* the new State Portal explicitly goes live. However, **start paying wages/OT/Gratuity according to the NEW laws immediately.**
- **Conflict:** If TN rules mandate a higher benefit than the Central Code (e.g., specific welfare fund contributions), continue paying them. The Rule of Thumb: **"Whichever is more beneficial to the worker prevails."**

Checklist for Nov 2025 - March 2026

I. Immediate (This Month):

- **Payroll Audit:** Identify employees with Basic < 50% of CTC. Restructure immediately.
- **Contractor Audit:** Send a notice to all manpower suppliers. Ask for their new License numbers. (If they are non-compliant, YOU are liable as Principal Employer).
- **Gratuity Valuation:** Request your Actuary for a revised valuation report considering the new Wage definition and FTE tenure.

II. Short Term (Before March 31, 2026):

- **Policy Update:** Update Leave Policy, OT Policy, and Gratuity Policy.
- **Appointment Letters:** Issue fresh letters/addendums to *all* employees (even old ones) referencing the new Codes.
- **Insurance:** Finalize the Group Gratuity Insurance Policy.

III. Long Term (FY 2026-27):

- **Strategic Hiring:** Evaluate moving temporary roles to "Fixed Term Employment" contracts.
- **Reskilling Fund:** Create a provision in books for the Retrenchment/Reskilling fund if layoffs are anticipated.

Final Word from Our Desk:

The cost of labour has gone up—not just in wages, but in compliance rigour. The "50% Rule" and "Mandatory Insurance" are the two pivots that will impact your Balance Sheet this year. We recommend a Compliance Audit in January 2026 to ensure your transition is legally watertight.

Disclaimer: This document is for advisory purposes based on the notified Codes and Draft Rules available as of Nov 2025. State-specific deviations may apply once final Gazettes are published.

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The Silent Observer: How the Income Tax Department Tracks Your High-Value Transactions

A Compliance Guide for Clients – December 2025 Edition

"Big Brother is Watching." It's a phrase often used in dystopias, but in the context of Indian taxation, it is a technological reality. With the advent of **Project Insight**, the Annual Information Statement (AIS), and advanced data analytics, the Income Tax Department (ITD) no longer relies solely on your filed returns to assess your income. Instead, it actively monitors your financial footprint through a network of reporting entities—banks, registrars, mutual fund houses, and credit card companies.

As we close 2025, many taxpayers are receiving notices not because they evaded tax, but because their **reported income does not match their spending patterns**. This article decodes the **10 High-Value Transactions** (Statement of Financial Transactions or SFT) that trigger immediate alerts to the taxman and offers strategic advice on how to stay compliant.

The 10 Red Flags: Limits You Must Know

The Income Tax Department has mandated specific "reporting entities" (like banks and post offices) to report transactions that cross certain thresholds under **Section 285BA** of the Income Tax Act. These are reflected in your **Form 26AS** and **AIS**.

1. Cash Deposits in Savings Accounts

- **The Limit:** ₹10 Lakh or more in a financial year.
- **The Trigger:** Aggregated cash deposits in one or more savings accounts of a person (other than a current account and time deposit) maintained with a bank or post office.
- **The Risk:** If you deposit large cash sums (e.g., from savings at home or gifts) that exceed your declared income, you may receive a notice under **Section 68** (unexplained cash credits), which attracts a flat tax of **60% + 25% surcharge**.

2. Cash Deposits/Withdrawals in Current Accounts

- **The Limit:** ₹50 Lakh or more in a financial year.
- **The Trigger:** Aggregate cash deposits or cash withdrawals from one or more current accounts.
- **The Risk:** While current accounts are meant for business, withdrawals or deposits disproportionate to your reported turnover (e.g., high cash deposits but low sales turnover in GST returns) will invite scrutiny for **sales suppression** or **bogus expenses**.

3. Fixed Deposits (Cash)

- **The Limit:** ₹10 Lakh or more in a financial year.
- **The Trigger:** Cash deposits aggregating to ₹10 lakh or more for acquiring Term Deposits (FDs) (excluding renewals).
- **The Risk:** Splitting FDs across different bank branches won't help. The ITD aggregates data at a PAN level. If the source of cash for these FDs is not explained in your books or ITR, it is treated as concealed income.

4. Credit Card Bill Payments

- **Cash Payment Limit:** ₹1 Lakh or more in a financial year.
- **Total Payment Limit (Any Mode):** ₹10 Lakh or more in a financial year.
- **The Trigger:** Banks must report if you pay credit card bills in cash exceeding ₹1 lakh, OR if your total bill payments (via cheque/NEFT/UPI) exceed ₹10 lakh annually.

- **The Risk:** This is a classic "lifestyle check." If you file an ITR showing an income of ₹5 Lakh but pay credit card bills worth ₹12 Lakh, the ITD will demand an explanation for the source of funds for this expenditure.

5. Property Transactions (Buy/Sell)

- **The Limit:** ₹30 Lakh or more.
- **The Trigger:** Registrars must report purchase or sale of immovable property valued at ₹30 lakh or more (or valued by stamp valuation authority at this rate).
- **The Risk:** The ITD cross-verifies the buyer's investment vs. declared income and the seller's capital gains vs. sale deed value. Any **cash component** paid over and above the registry value is a major target for search and seizure operations.

6. Investments in Shares, Bonds, and Debentures

- **The Limit:** ₹10 Lakh or more in a financial year.
- **The Trigger:** Receipt of ₹10 lakh or more by a company/institution for acquiring bonds, debentures, or shares (including share application money).
- **The Risk:** High investments without corresponding income sources are flagged. Also, frequent trading with high turnover might lead to your income being classified as "Business Income" rather than "Capital Gains," changing your tax liability.

7. Mutual Fund Investments

- **The Limit:** ₹10 Lakh or more in a financial year.
- **The Trigger:** Asset Management Companies (AMCs) must report receipts of ₹10 lakh or more for acquiring units of one or more schemes (excluding switching).
- **The Risk:** Similar to shares, this checks your investment capacity. SIPs aggregating to over ₹10L are also counted.

8. Foreign Currency & Travel

- **The Limit:** ₹10 Lakh or more in a financial year.
- **The Trigger:** Sale of foreign currency, or expenses in foreign currency via debit/credit cards, or issue of traveler's cheques/drafts aggregating to ₹10 lakh+.
- **The Risk:** With TCS (Tax Collected at Source) on foreign remittances (LRS), the government tracks every dollar spent. High foreign spend vs. low reported income is an immediate red flag.

9. Cash Gifts (Without Proof)

- **The Limit:** ₹50,000+.
- **The Rule:** Under **Section 56(2)(x)**, any sum of money received without consideration (i.e., a gift) exceeding ₹50,000 is fully taxable in the hands of the recipient, unless received from a **relative** or on the occasion of **marriage**.
- **The Risk:** "Friends" or non-relatives gifting cash is taxable. Receiving multiple small cash gifts that aggregate to a large sum deposited in a bank can also trigger the SFT reporting (see point 1).

10. Cash Receipts from Single Person (Section 269ST)

- **The Limit:** ₹2 Lakh or more in a day.
- **The Rule:** No person shall receive an amount of ₹2 lakh or more:
    - In aggregate from a person in a day; or
    - In respect of a single transaction; or
    - In respect of transactions relating to one event/occasion.

- **The Penalty:** A penalty equal to the amount of such receipt (i.e., **100% penalty**) is levied under Section 271DA.

The " AIS" Factor: Why Hiding is Impossible

In the past, the ITD relied on random scrutiny. Today, they rely on the **Annual Information Statement (AIS)**.

- **What is it?** A comprehensive statement visible on your income tax portal that lists *everything*: salary, interest, dividends, SFT transactions (the 10 points above), GST turnover, and even foreign remittances.
- **The Feedback Loop:** Before issuing a notice, the ITD often asks for "Feedback" on AIS information. If you deny a transaction that the bank has reported, you invite deeper scrutiny.

Case Study: The "Mismatch" Trap *Client A*, a freelancer, filed an ITR showing ₹8 Lakh income. *AIS Data*:

- Credit Card Payments: ₹12 Lakh
- Purchase of Mutual Funds: ₹5 Lakh
- **Total Outflow:** ₹17 Lakh.
- **Result:** The system automatically flagged the case for "High-Value Transaction" verification. The client had to explain that the funds came from past savings and a loan from a parent—documentation that was tedious to compile retrospectively.

Strategic Advice for Clients: How to Stay Safe

As your Chartered Accountants, we recommend the following hygiene checks for your financial life in 2026:

1. Know Your Limits, But Don't "Structure" to Avoid Them Do not deposit ₹9.9 Lakh to avoid the ₹10 Lakh limit. The ITD's algorithms are programmed to flag "just below threshold" transactions as suspicious. Be transparent. If you have the income source, the limit does not matter.

2. Reconcile AIS Quarterly Don't wait for July to check your Form 26AS/AIS. Check it quarterly. If a bank has wrongly reported a deposit (e.g., a reversed transaction counted twice), file feedback immediately to correct the record.

3. Digital is Durable Avoid cash for high-value transactions (property, luxury goods). Section 269ST penalties (100% of amount) are draconian and difficult to appeal against if the breach is proven.

4. Document "Source of Funds" For every major investment (property, shares, FDs), maintain a simple one-page note: *Where did the money come from?*

- Was it savings? (Keep bank statements)
- Was it a gift? (Keep a gift deed)
- Was it a loan? (Keep a loan agreement)
- Was it sale of jewelry? (Keep the invoice)

5. Match GST and Income Tax For business owners, your GST turnover is now cross-seeded with Income Tax data. If your current account deposits (Point 2) are ₹2 Crore but your GST return shows turnover of ₹50 Lakh, you will face notices from both departments.

Conclusion

The Income Tax Department is not stopping you from spending or investing. They are merely asking: **"Did you earn the money you are burning?"** If your answer is yes, and you have paid tax on it, you have nothing to fear. If there is a gap, now is the time to consult us for a review of your books and past filings.

Stay Compliant, Stay Peaceful.

Direct Tax updates: *Nov-2025*

Key Direct Tax Circulars

Notification No. & Date	Brief Note & Direct Link
No. 156/2025 (Dated: 04-11-2025)	Notifies 'Karnataka Housing Board' (PAN: AAAJK0398K) under Section 10(46A) of the Income-tax Act, effective from Assessment Year 2025-2026 *https://incometaxindia.gov.in/communications/notification/notification-156-2025.pdf*
No. 157/2025 (Dated: 06-11-2025)	Notifies the tolerance range for transfer pricing: up to 1% variation for wholesale trading and up to 3% for all other cases, for determining arm's length price for AY 2025–26 *https://incometaxindia.gov.in/communications/notification/notification-157-2025.pdf*
No. 158/2025 (Dated: 07-11-2025)	Grants income-tax exemption under section 10(46) to the Haryana Building and Other Construction Workers Welfare Board, Panchkula (PAN: AAATH6995H) on specified incomes, namely registration fees, cess proceeds, and interest on bank deposits, for assessment years 2026–27 to 2030-31. *https://incometaxindia.gov.in/communications/notification/notification-158-2025.pdf*
No. 159/2025 (Dated: 07-11-2025)	Notifies Ayodhya Vikas Pradhikaran (Ayodhya Development Authority) [PAN: AAALA0206C] as an eligible authority under section 10(46A) of the Income-tax Act, thereby granting it specified income-tax exemption with effect from Assessment Year 2024–25 *https://incometaxindia.gov.in/communications/notification/notification-159-2025.pdf*
No. 160/2025 (Dated: 10-11-2025)	Notifies the Agreement and Protocol between **India and the Belgium for the Avoidance of Double Taxation (DTAA)**. The provisions will be effective in India for income arising on or after 26th June, 2025 *https://incometaxindia.gov.in/communications/notification/notification-160-2025.pdf*
No. 04/2025 (Dated: 12-11-2025)	Approves M/s Hari Shankar Singhania Elastomer & Tyre Research Institute, Mysuru (PAN: AAACH8878G) as an approved scientific research institution under section 35(1)(iia) for weighted deduction on donations, for AY 2022–23 to AY 2026–27. *https://incometaxindia.gov.in/communications/notification/notification-no-04-2025.pdf*
No. 161/2025 (Dated: 19-11-2025)	Amends the Capital Gains Accounts Scheme, 1988 to extend its scope to section 54GA, update the definition of "**Deposit Office**," and enable electronic modes of deposit and operation. *https://incometaxindia.gov.in/communications/notification/notification-161-2025.pdf*
No. 162/2025 (Dated: 19-11-2025)	Authorises all non-rural branches of **19 specified private sector banks (e.g. HDFC, ICICI, Axis, Kotak, etc.) to receive deposits and maintain Capital Gains Accounts** under the Capital Gains Account Scheme,1988 *https://incometaxindia.gov.in/communications/notification/notification-162-2025.pdf*

Indirect Tax Updates: *Nov*-2025

Key Extracts of GST, Customs & Central Excise Circulars

Notif./ Circular No. & Date	Brief Note & Link
No. 48/2025-Customs (Dated: 14-11-2025)	Changes proposed in customs duty structure for specific tariff items under earlier exemption/rate notifications. In essence, it grants nil duty to cane molasses (1703 10 00) and prescribes a separate 15% duty rate for goods under 1510 10 00 by carving them out from an existing group. *https://taxinformation.cbic.gov.in/view-pdf/1010511/ENG/Notifications*
No. 49/2025-Customs (Dated: 28-11-2025)	The notification No. 49/2025-Customs amends the Project Imports Regulations, 1986 to insert a new entry for Jaipur Metro Projects at Sr. No. 3FF in the Table, designating the Managing Director or Director (Project), Rajasthan Metro Rail Corporation Limited (RMRCL) as the specified authority for such projects. It is titled the Project Imports (Amendment) Regulations, 2025 and comes into force on 29 November 2025. *https://taxinformation.cbic.gov.in/view-pdf/1010515/ENG/Notifications*
No. 73/2025-Customs (N.T) (Dated: 04-11-2025)	This notification amends the Transhipment of Cargo to Nepal under Electronic Cargo Tracking System Regulations, 2019 to revise regulation 3 (Application). It now clearly specifies that the ECTS-based transhipment procedure will apply to cargo moving from Kolkata, Haldia and Visakhapatnam ports in India to designated points in Nepal (Birgunj, Biratnagar) via specified rail and road routes, including movements via Batnaha and Indian Customs Yard, Jogbani. *https://taxinformation.cbic.gov.in/view-pdf/1010508/ENG/Notifications*
No. 74/2025-Customs (N.T) (Dated: 14-11-2025)	This notification amends Notification No. 36/2001-Customs (N.T.), dated 03.08.2001 by substituting Table-1, Table-2 and Table-3 with revised tariff values under section 14(2) for key commodities such as crude and refined palm oil/palmolein, crude soybean oil, brass scrap, gold, silver and areca nuts. The new tariff values (in US dollars per metric tonne / per 10 grams / per kg, as applicable) will apply with effect from 15 November 2025, including specific entries linked to Notification No. 45/2025-Customs, dated 24.10.2025 for certain gold and silver imports. *https://taxinformation.cbic.gov.in/view-pdf/1010512/ENG/Notifications*
No. 75/2025-Customs (N.T) (Dated: 28-11-2025)	This notification revises the tariff values under section 14(2) of the Customs Act by substituting Table-1, Table-2 and Table-3 in Notification No. 36/2001-Customs (N.T.), dated 03.08.2001. It updates the US dollar tariff values for crude and refined palm oil/palmolein, crude soybean oil, brass scrap, and various categories of gold and silver, while keeping the value for areca nuts (80280) unchanged, and makes these revised values applicable with effect from 29 November 2025. *https://taxinformation.cbic.gov.in/view-pdf/1010514/ENG/Notifications*
No. 31/2025-Customs (ADD) (Dated: 07-11-2025)	This notification imposes anti-dumping duty on imports of Flax/Woven Fabric (more than 50% flax content) falling under heading 5309, originating in or exported from China PR and Hong Kong, replacing the earlier Notification No. 35/2020-Customs (ADD). Based on DGTR's final findings of continued dumping and material injury, it prescribes specific ADD rates of US$ 2.36 per meter for fabric linked to China PR and US$ 1.14 per meter for fabric linked to Hong Kong, applicable for five years from publication, payable in Indian currency at the customs exchange rate on the date of filing the bill of entry. *https://taxinformation.cbic.gov.in/view-pdf/1010509/ENG/Notifications*
No. 32/2025-Customs (ADD)- 12.11.2025	This notification imposes anti-dumping duty on hot rolled flat steel products (non-stainless, up to 25 mm thickness and 2100 mm width) linked to Vietnam, at USD 121.55/MT for most exporters, while granting NIL duty to one producer (Hoa Phat Dung Quat Steel JSC). The duty will apply for five years from publication and is payable in INR at the applicable customs exchange rate. *https://taxinformation.cbic.gov.in/view-pdf/1010510/ENG/Notifications*
No. 33/2025-Customs (ADD)- 17.11.2025	This levies producer-specific anti-dumping duties on Liquid Epoxy Resins (LER) under tariff items 3907 30 10 and 3907 30 90 from China PR, Korea RP, Saudi Arabia, Taiwan and Thailand, with rates up to about USD 483/MT. The duty applies to a narrowly defined grade of LER, is valid for five years, and is payable in INR at the applicable customs exchange rate. *https://taxinformation.cbic.gov.in/view-pdf/1010513/ENG/Notifications*
Circular No. 28/2025 - 15.11.2025	CBIC has operationalised an online module on ICEGATE 2.0 for submission and processing of applications for permissions under section 65 of the Customs Act, 1962, covering both MOOWR and MOOSWR units. Detailed user manuals are available on the ICEGATE portal, and CCC have been directed to notify relevant port codes and facilitate smooth onboarding of trade. *https://taxinformation.cbic.gov.in/view-pdf/1003298/ENG/Circulars*
Circular No. 29/2025 - 21.11.2025	The circular announces the launch of SWIFT 2.0, an upgraded, fully digital Single Window platform providing a single touch point for trade and Partner Government Agencies (PGAs) for EXIM processes and NOC issuance. In Phase I, AQCS, PQMS and FSSAI are being onboarded with standardized data elements and document codes, with mandatory use from 01.12.2025 and directions to field formations to issue Public Notices and ensure smooth implementation. https://taxinformation.cbic.gov.in/view-pdf/1003299/ENG/Circulars

Recent RBI Circulars & FEMA Regulation changes [Nov-2025]

Notification/ Circular & Date	Description and Link
Notification No. FMRD.DIRD.05/14.03.038/2025-26 dated Nov 11, 2025	RBI has updated its repo market framework to include Municipal Debt Securities as eligible collateral for repo and reverse repo transactions, following a Central Government notification. The Master Direction consolidates and supersedes earlier repo-related guidelines, standardizes trading, settlement, haircut norms, and reporting protocols across participants. It aims to deepen financial markets, broaden collateral options, and enhance liquidity by extending repo eligibility to a wider class of securities and participants. Link: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12920&Mode=0
Not.No. RBI/2025-26/96 DOR.STR.REC.60/21.04.048/2025-26 Dt: 14th Nov 2025	RBI has introduced trade relief measures for export-oriented borrowers in specified sectors facing disruption due to global headwinds, offering moratorium on term loan instalments and interest deferment on working capital facilities from Sept 1 to Dec 31, 2025. Export credit tenor has been extended up to 450 days, and flexibility is allowed for liquidation of packing credit from alternate sources. These reliefs will not trigger asset classification downgrade, but regulated entities must provision 5% and maintain transparent reporting and disclosure under RBI's DAKSH platform. Link: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12921&Mode=0
Notification No. FEMA 23(R)/(7)/2025-RB Dt: 13th Nov 2025	The Reserve Bank of India, has extended the realisation and repatriation period for export proceeds from 9 months to 15 months. It also amends Regulation 15 by increasing the permissible time limits for write-off of unrealised exports by exporters and AD banks from 1 year to 3 years. These amendments are effective from 13.11.2025 and aim to offer greater operational flexibility for exporters in managing cross-border transactions. Link: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12923&Mode=0
A.P. (DIR Series) Circular. No 15/2025-26 Dt: 24th Nov 2025	The RBI has amended the Master Directions on Compounding of Contraventions under FEMA, 1999, by updating the account details for receiving compounding application fees and compounding amounts via NEFT/RTGS. These changes are reflected in the revised Annexure I of the Directions, and Authorised Persons are instructed to inform their clients accordingly. Link: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12924&Mode=0

RBI Major overhaul of Historical Circulars [Nov-2025]

The Reserve Bank of India (RBI) has executed a major regulatory overhaul, repealing approximately 9,446 historical circulars and consolidating the relevant instructions into 244 function-wise Master Directions. This initiative, announced on November 28, 2025, aims to simplify compliance and enhance the ease of doing business for regulated entities.

Outcome:

- 3,809 circulars were subsumed or incorporated into the new Master Directions.
- 5,673 circulars were entirely repealed for being obsolete.
- The result is a streamlined set of 244 Master Directions specific to each category of regulated entity, designed to eliminate redundancy and ambiguity.

This move is intended to bring a fundamental shift in how regulations are communicated, interpreted, and implemented, ensuring that regulated entities no longer have to navigate through thousands of fragmented, legacy instructions to understand their obligations. The official press release and the full list of Master Directions are available on the RBI website.

Navigating the Turn of the Tide: Industry Outlook & Strategic Forecast for 2026 (Dec 2025 edition)

As we close the books on 2025, the Indian industrial landscape presents a complex yet promising picture. November 2025 has been a pivotal month, marked by significant regulatory shifts—from the operationalization of new Labour Codes to the enforcement of the Digital Personal Data Protection (DPDP) Act. While domestic consumption remains robust, particularly in the automobile and real estate sectors, global headwinds continue to challenge export-oriented industries like textiles and engineering.

For our clients and partners, the upcoming quarter (Q1 2026) will be defined by adaptation. With the Reserve Bank of India (RBI) anticipated to cut repo rates to 5.25% this December, a softer interest rate regime is on the horizon. This outlook analyzes key developments from November and provides a strategic forecast to help businesses navigate the transition into 2026.

1. Regulatory & Compliance Landscape: The New Normal

November 2025 was a watershed month for compliance, introducing structural changes that will require immediate attention from CFOs and compliance officers.

Labour Law Reforms

On **November 21, 2025**, India implemented four new labour codes, consolidating 29 archaic laws.

- **Impact:** This streamlines compliance by offering single registrations and national licenses, significantly improving the Ease of Doing Business.
- **Client Action:** Businesses must review their HR and payroll systems immediately. While the codes simplify national-level compliance, they introduce stricter norms regarding wage protection and social security. MSMEs, in particular, need to ensure their cost structures account for these mandatory benefits to avoid penalties.

Data Privacy (DPDP Act)

The **Digital Personal Data Protection Act 2023** operationalized strict rules effective **November 14, 2025**.

- **Impact:** Tech companies, BPOs, and any firm processing personal data must now minimize data collection and obtain explicit, verifiable consent.
- **Client Action:** Companies must conduct immediate data audits. Privacy policies need revision to align with the "necessity" principle—collecting only what is strictly needed. Non-compliance risks severe penalties and reputational damage, especially for IT/ITES clients serving global markets.

2. Sectoral Spotlights: Divergent Paths

Textiles & Apparel: Navigating Global Headwinds

The textile sector is currently facing the brunt of global trade shifts. Exports plunged **12.9%** in October 2025, primarily due to punitive U.S. tariffs (effective duties >60% on apparel).

- **The Relief:** To counter this, the government has launched the **₹25,060 crore Export Promotion Mission (EPM)** and a **₹20,000 crore Credit Guarantee Scheme** for exporters. Additionally, the deferment of BIS quality standards for handlooms to May 2026 offers temporary relief to smaller manufacturers.
- **Outlook:** Q1 2026 will remain challenging. Exporters are advised to pivot towards non-US markets like the UK (leveraging the new FTA effective 2026) and Australia. Financial planning should focus on liquidity management using the new credit guarantee schemes.

Automobiles: A Resurgence in Demand

Contrastingly, the auto sector is booming. November sales are projected to show **double-digit growth** across all segments.

- **Drivers:** GST rate cuts on entry-level two-wheelers and compact cars have spurred demand. EV adoption has hit a milestone, crossing **2 million units** in annual sales for the first time.
- **Investment Alert:** Tamil Nadu and Maharashtra remain hotbeds for investment, with significant capex committed to EV manufacturing. Clients in the auto-ancillary space should prepare for increased orders and potential capex requirements to meet localization norms under the PLI schemes.

IT & ITES: Steady Growth Amidst Innovation

The sector is projected to grow at **5.1%** in FY2025, reaching nearly $283 billion.

- **Trends:** Global Capability Centers (GCCs) are expanding rapidly, particularly in Tier-2 hubs like Coimbatore. The focus has shifted decisively to AI and data services.
- **Risk:** While growth is steady, global discretionary spending remains cautious. The new DPDP norms also add a layer of compliance cost.
- **Advisory:** IT firms should focus on maintaining margins through automation and "AI-as-a-Service" offerings. Compliance with data norms is now a competitive differentiator in winning global contracts.

Real Estate: Awaiting the Rate Cut Pivot

The sector has shown remarkable resilience with steady sales in Q3 2025.

- **Market Shift:** The "premiumization" trend is undeniable—for the first time, sales of homes priced above ₹1 crore surpassed those below ₹1 crore.
- **Financial Forecast:** The anticipated **25 bps rate cut** in December is expected to further boost homebuyer sentiment in Q1 2026.
- **Client Action:** Developers should focus on execution and delivery to maintain cash flows. For investors, the commercial segment (office leasing) and Tier-2 retail expansions offer stable yields.

3. The MSME Imperative: Credit & Formalization

For our MSME clients, the environment is shifting from survival to strategic stabilization.

- **Credit Flow:** The new **Credit Guarantee Scheme for Exporters (CGSE)** provides 100% collateral-free loan guarantees. This is a critical tool for MSMEs facing working capital crunches due to delayed global payments.
- **Tech & Innovation:** The **₹305 crore Tex-RAMPS** scheme and enhanced subsidies for technology upgradation (e.g., 25% capital subsidy in TN) are ripe for utilization.
- **Advisory:** We strongly recommend that MSME clients move towards formalization. Registering on the **Udyam** portal and utilizing the **TReDS** platform for receivables discounting can significantly alleviate liquidity pressures. The "wait and watch" approach on digitalization is no longer viable; integration with ONDC and digital payments is essential for market access.

4. Strategic Forecast: Q1 2026 (Jan - Mar)

As we look towards the first quarter of 2026, three themes should dominate boardroom discussions and financial planning:

1. Financial Strategy: Rate Cut Readiness With the cost of borrowing set to decrease, companies should review their debt portfolios. Q1 2026 will be an opportune time to refinance high-cost debt and plan for capital expansion, especially in sectors like manufacturing and auto-ancillaries.

2. Export Diversification Reliance on single markets (especially the U.S.) is a confirmed risk. Businesses must leverage the India-UK FTA and explore emerging markets in Latin America and the Middle East. Utilizing the Export Promotion Mission funds for market discovery is a prudent step.

3. Cost Optimization & Compliance Input costs are stabilizing, but regulatory costs (labour, data privacy, ESG) are rising. A proactive audit of compliance frameworks will prevent costly penalties later. For manufacturers, investing in energy efficiency now will pay dividends as green norms tighten.

Conclusion

The transition into 2026 is not just a calendar change but a shift in the industrial rhythm. While external trade pressures persist, the domestic core—powered by policy reforms, infrastructure spending, and a rebounding consumption cycle—remains strong. For our clients, the key to success lies in **agility**: the agility to adopt new compliance norms, the agility to pivot export markets, and the agility to leverage new financial incentives.

As your partners in growth, our firm is ready to assist you in navigating these changes, from impact assessment of the new Labour Codes to optimizing your benefits under the new Credit Guarantee Schemes.

[Disclaimer: This article is based on the "December 2025 Industry Outlook" published in various print media and public domains and is intended for general information purposes only. Please consult with our team for specific advice tailored to your business needs.]

Compliance Corner: Dec-2025 Due Dates

Event Date	As per Act	Applicable Form	Obligation
07-12-2025	Income Tax	Challan No. ITNS-281	Payment of TDS/TCS of November. In case of government offices where TDS/TCS is paid by book entry, same shall be paid on the same day on which tax is deducted or collected.
		Form 27C	Seller to upload declarations received in November, from buyers for non-deduction of TCS.
	FEMA	ECB-2	Return of External Commercial Borrowings for November.
10-12-2025	Income Tax	10-IC	Online Application by Domestic Co. (other than to whom transfer pricing provisions are applicable) for exercise of option u/s 115BAA (22% tax)
		10-ID	Online Application by new Manufacturing Domestic Co. (other than to whom transfer pricing provisions are applicable) filing ITR for first time, for exercise of option u/s 115BAB (15% tax).
		10-IE	Online Application by Individual/HUF carrying business / profession, for exercise of option u/s 115BAC(1), where due date of ITR is 31 Oct.
		10-IF	Online Application by resident co-operative society, for exercise of option u/s 115BAD(1) where due date of ITR is 31 Oct.
		ITR 1 to 7	Filing of Income Tax returns by Cos, Partnership firms etc. (Audit applicable)
	GST	GSTR-7	Monthly Return by Tax Deductors for November.
		GSTR-8	Monthly Return by e-commerce operators for November.
11-12-2025	GST	GSTR-1	Monthly Return of Outward Supplies for November.
13-12-2025	GST	IFF	Optional Upload of B2B invoices, Dr/Cr notes for November under QRMP scheme.
		GSTR-5	Monthly Return by Non-resident taxable person for November.
		GSTR-6	Monthly Return of Input Service Distributor for November.
15-12-2025	Income Tax	Form 16B	Issue of TDS Certificate u/s 194-IA for TDS deducted on Purchase of Property in October.
		Form 16C	Issue of TDS Certificate for tax deducted on rent above 50,000 pm by certain individuals/HUF under Section 194-IB where lease has terminated in October.
		Form 16D	Issue of TDS Certificate for tax deducted u/s 194M on certain payments by individual/HUF in October.
		Form 16E	Issue of TDS Certificate for tax deducted u/s 194S on Virtual Digital Assets in October.
		Challan No.280	Deposit of Third Instalment of Advance Tax (75%) by all assessees (other than 44AD & 44ADA cases).
		Form 24G	Details of Deposit of TDS/TCS of November by book entry by an office of the Government.
		10-IC, 10-ID, 10-IE, 10-IF - Online Application for alternative tax regime in transfer pricing cases.	
		ITR 3, 5, 6	Filing of Income Tax Return where Transfer Pricing applicable.
	PF	ECR	E-Payment of PF for November.
	ESI	ESI Challan	Payment of ESI for November
20-12-2025	GST	GSTR-5A	Monthly Return by persons outside India providing online information and data base access or retrieval services, for November. Also to be filed by every registered person providing online money gaming from a place outside India to a person in India.
		GSTR-1A	Add/amend particulars (other than GSTIN) in GSTR-1 of November. It can be filed after filing of GSTR-1 but before filing corresponding GSTR-3B.

Event Date	As per Act	Applicable Form	Obligation
		GSTR-3B	Summary Return cum Payment of Tax for November by Monthly filers. (other than QRMP).
25-12-2025	GST	PMT-06	Deposit of GST under QRMP scheme for November .
28-12-2025	GST	GSTR-11	Return for November by persons with Unique Identification Number (UIN) like embassies etc to get refund under GST for goods and services purchased by them.
30-12-2025	Income Tax	Form 26QB	Deposit of TDS u/s 194-IA on payment made for purchase of property in November.
		Form 26QC	Deposit of TDS u/s 194-IB @ 5% on total payment of Rent more than 50,000 pm by individual or HUF (not liable to tax audit) during FY 24-25, where lease has terminated in November (Else TDS is to be deposited on annual basis by 30 April of next year.)
		Form 26QD	Deposit of TDS on certain payments made by individual/HUF u/s 194M for November.
		Form 26QE	Deposit of TDS on Virtual Digital Assets u/s 194S for November.
31-12-2025	GST	GSTR-9	GST Annual Return for 24-25. Mandatory if Turnover > 2 cr.
		GSTR-9 C	GST Reconciliation statement for 24-25. Mandatory if Turnover > 5 cr.
	FEMA	ODI Part II [APR]	RBI Annual Performance Report by All entities having investment outside India.
	ESI		Special Registration Drive for Promotion of Registration of Employers and Employees (SPREE 2025). Employers who have not registered till now or have not enrolled all eleigible employers can register. No penalties of Demand of past.
	Income Tax		ITR 1 to 7 - Filing of Belated/ Revised Income Tax returns for AY 25-26 for all assessees if assessment not completed.
	Companies Act		Quarter 3 – Board Meeting of All Companies.
			CSR – 2 - Filing a report on Corporate Social Responsibility by every company covered u/s 135 of the Companies Act, 2013.
			XBRL DNBS-10 - Furnishing of Statutory Auditor Certificate in case of NBFCs with assets of value more than Rs. 100 Crore
			Form MGT 7A - Annual Return by OPCs and Small Companies.
			Form MGT 7 along with MGT- 8 (if applicable) - Annual Return by companies other than OPCs and small companies.
			Form CRA-4 - Filing of Cost Audit Report for 2024-25 by Company to whom cost audit is applicable. (within 30 days of submission by Cost Auditor report)
			Form AOC-4/AOC-4 XBRL - Filing of financial statements by Cos (Other than OPCs) for FY 2024-25 with the ROC. (30 days from AGM.)

Current Rates Corner

Policy Rates	
Policy Repo Rate	5.50%
Standing Deposit Facility Rate	5.25%
Marginal Standing Facility Rate	5.75%
Bank Rate	5.75%
Fixed Reverse Repo Rate	3.35%

Reserve Ratios	
CRR	3.00%
SLR	18.00%
Exchange Rates (28th Nov -1 PM)	
INR / 1 USD	89.4557
INR / 1 GBP	118.2694
INR / 1 EUR	103.6309
INR / 100 JPY	57.2000

Lending / Deposit Rates	
Base Rate	8.35% - 10.00%
MCLR (Overnight)	7.80% - 7.95%
Savings Deposit Rate	2.50%
Term Deposit Rate > 1 Year	5.85% - 6.60%

Capital Market [28-Nov-2025]	
S&P BSE Sensex	85,706.67
Nifty 50	26,202.95

Money Market	
Call Rates[**27-Nov**]	4.75% - 5.45%
Government Securities Market	
7.06% GS 2028	5.7803%
6.01% GS 2030	6.2209%
6.33% GS 2035	6.5449%
6.68% GS 2040	6.9311%
7.24% GS 2055	7.3111%
91 day T-bills	5.3633%
182 day T-bills	5.5244%
364 day T-bills	5.5347%

Source: www.rbi.org.in

RBI: Banknotes in Circulation
(week ended November 21, 2025)

Denomination (₹)	Volume (pieces in lakh)	Value (₹ crore)
2 and 5	1,10,257	4,234
10	2,64,008	26,401
20	1,36,319	27,264
50	1,05,955	52,977
100	2,40,299	2,40,299
200	94,610	1,89,220
500	6,55,141	32,75,706
2000	288	5,760
Total	**16,06,876**	**38,21,860**

RBI: Coins in Circulation
(week ended November 21, 2025)

Denomination (₹)	Volume (pieces in lakh)	Value (₹ crore)
Small Coins	1,47,880	700
1	5,46,468	5,465
2	3,71,805	7,436
5	2,26,168	11,308
10	95,463	9,546
20	24,858	4,972
Total	**14,12,642**	**39,427**

Note: Figures may not add up due to rounding-off of the numbers.

Source: RBI

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