FAST / FACTS

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The COMMUNIQUE

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Our Leadership Speaks

Elections of Change

The recent elections in Tamil Nadu and West Bengal have once again demonstrated the vibrancy of Indian democracy. In Tamil Nadu, voters delivered a mandate that reshaped the state's political landscape, signaling a willingness to explore new leadership while continuing to prioritize development, welfare, and governance. In West Bengal, voters opted for a significant political transition after years of intense electoral competition, reflecting aspirations for economic growth, employment opportunities, and administrative efficiency.

While political parties may interpret these outcomes differently, a broader and more balanced reading suggests that voters in both states were focused on performance, credibility, and future prospects rather than ideology alone. Issues such as job creation, infrastructure development, welfare delivery, and governance effectiveness played a central role in shaping public sentiment.

For business leaders and policymakers, these results offer an important insight: citizens are increasingly outcome-oriented. Electoral victories today are being determined not just by promises but by the ability to demonstrate tangible results and inspire confidence about the future. As India continues its growth journey, understanding these evolving voter expectations will be critical for both political and economic decision-makers.

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Never miss a date

July 7th
Due date for deposit of TDS/TCS for the month of June 2026.

July 15th
Due date for issue of TDS Certificate for tax deducted under sections 194-IA, 194-IB, 194M, and 194S in the month of May 2026.

July 15th
Due date for furnishing of Form 24G by an office of the Government where TDS/TCS for the month of June 2026 has been paid without the production of a challan.

July 15th
Quarterly statement in Form 27EQ of TCS deposited for the quarter ending June 30, 2026.

July 15th
Due date for uploading declarations received from recipients in Form 15G/15H during the quarter ending June 30, 2026.

July 30th
Due date for furnishing of challan-cum-statement in Form 26QB, 26QC, 26QD, and 26QE in respect of tax deducted under sections 194-IA, 194-IB, 194M, and 194S in June 2026.

July 30th
Issue of quarterly TCS certificate in Form 27D for the quarter ending June 30, 2026.

July 31st
Quarterly statement in Form 24Q, 26Q, and 27Q of TDS deposited for the quarter ending June 30, 2026.

July 31st
Due date for filing the Annual Income Tax Return for the A.Y. 2026-27 for individuals, HUFs, and other non-corporate taxpayers whose accounts are not required to be audited.

July 31st
Intimation in Form 10DB by a designated depository participant in respect of eligible foreign investors for the quarter ending June 30, 2026.

July 31st
Statement by a scientific research association, university, college, or other association or Indian company in Form 3CE for the financial year 2025-26.

Happy to enhance our footprint

Trust at the core of every relationship

PRASAD & COMPANY (PROJECT WORKS) LIMITED
Rheal Software
KKCL KEWAL KIRAN CLOTHING LIMITED
Indchemie
ACCORD FINTECH
Asit C. Mehta FINANCIAL SERVICES LTD.
MapmyIndia
KNAG
SNEHA SYNERGY
Dishman Carbogen Amcis
nexdigm
DURGAPUR INSTITUTE OF ADVANCED TECHNOLOGY & MANAGEMENT
FICCI
ADVANTA
SUPERFORM
UPL
environ Project & Consultancy Pvt. Ltd.
DIAGNOSTICS BE SURE BE WELL
Stanvac
solifi
anantara the power of the continuum

ALL YOU NEED TO KNOW ABOUT INTEREST DEDUCTIONS BEYOND DIRECT BUSINESS USE

The Supreme Court's recent ruling in the L.K. Trust case marks one of the most significant developments in corporate taxation in recent years. At its core, the judgment addresses a question that has long concerned CFOs, tax leaders, and corporate groups: Can interest on borrowed funds remain tax deductible when those funds are deployed through a sister concern for a strategic business objective?

The answer from the Supreme Court is a resounding yes, provided the transaction is backed by genuine commercial expediency. In doing so, the Court has reinforced a practical principle that aligns tax law with modern business realities. For companies operating through subsidiaries, holding structures, and group entities, the ruling delivers greater certainty in an area that has historically been prone to litigation and differing interpretations by tax authorities.

Revisiting Section 36(1)(iii)

Section 36(1)(iii) of the Income Tax Act permits deduction of interest paid on capital borrowed for the purposes of business. While the provision itself appears straightforward, disputes frequently arise when borrowed funds are routed through related entities rather than being utilized directly by the borrowing company.

Tax authorities have often adopted a restrictive interpretation, arguing that deductions should only be available when a direct and immediate connection exists between the borrowing and the taxpayer's own operations. Such an approach, however, does not adequately reflect how large corporate groups allocate capital in practice.

Modern enterprises routinely centralize borrowing, deploy funds across group entities, support strategic acquisitions, and finance expansion initiatives through subsidiaries. These are not exceptions to business practice; they are integral components of corporate strategy.

The Supreme Court's Commercial Reality Test

The L.K. Trust ruling arose from a situation where borrowed funds were advanced to a sister concern to facilitate the acquisition of shares in another company. Although the intended acquisition did not ultimately materialize, the taxpayer claimed a deduction of the interest incurred on the borrowed funds.

The Revenue challenged the deduction on two grounds. First, the funds were not directly used by the taxpayer. Second, the proposed acquisition failed to achieve its intended outcome.

The Supreme Court rejected both arguments and reaffirmed the doctrine of commercial expediency. The Court recognized that tax authorities cannot second-guess legitimate business decisions merely because they are executed through another entity within a corporate group. What matters is whether the transaction was undertaken with a genuine business purpose and whether a reasonable commercial nexus exists between the expenditure and the broader business objectives of the enterprise.

This distinction is critical because it shifts the focus from form to substance. The Court effectively acknowledged that corporate groups operate as interconnected ecosystems where strategic decisions frequently transcend individual legal entities.

Why the Ruling Matters for Corporate Tax Functions

For tax professionals, the judgment provides valuable clarity on the deductibility of interest expenditure in group financing arrangements. Corporate structures often rely on centralized treasury functions, where one entity raises capital and subsequently allocates funds across the group based on strategic requirements.

Without clarity on interest deductibility, such arrangements create uncertainty, increase compliance costs, and expose businesses to prolonged litigation. The Supreme Court's decision reduces this uncertainty by confirming that genuine commercial purpose should remain the primary test.

The ruling also provides protection against retrospective assessments based on business outcomes. Strategic initiatives do not always succeed. Acquisitions may fail, investments may not generate expected returns, and expansion plans may be abandoned due to market conditions. The court has now made it clear that the tax treatment of interest expenditure should be determined by the commercial intent at the time of borrowing rather than by the eventual success or failure of the project.

Strategic Implications for Corporate India

From a corporate taxation perspective, the ruling strengthens three important pillars of financial management.

First, it enhances tax certainty. Businesses can structure funding arrangements with greater confidence when commercial rationale is properly documented.

Second, it supports efficient capital allocation. Holding companies and treasury centers can continue deploying capital across group entities without the constant risk that interest deductions will be challenged solely because the funds were routed through a subsidiary or sister concern.

Third, it reinforces the importance of documentation. While the ruling is favorable to taxpayers, companies must still demonstrate a clear business nexus and commercial rationale behind the deployment of borrowed funds. Robust board approvals, investment memoranda, strategic assessments, and treasury documentation will remain critical in defending such positions during assessments.

Conclusion

The L.K. Trust judgment is more than a taxpayer victory. It is a significant step toward aligning corporate taxation with commercial reality. By reaffirming the principles of commercial expediency and rejecting outcome-based assessments, the Supreme Court has provided much-needed clarity on the treatment of interest expenditure within corporate groups. Genuine business decisions deserve tax recognition, even when the path to value creation is not linear. In an environment where capital allocation and strategic flexibility are critical to growth, the ruling offers both certainty and confidence for the future.

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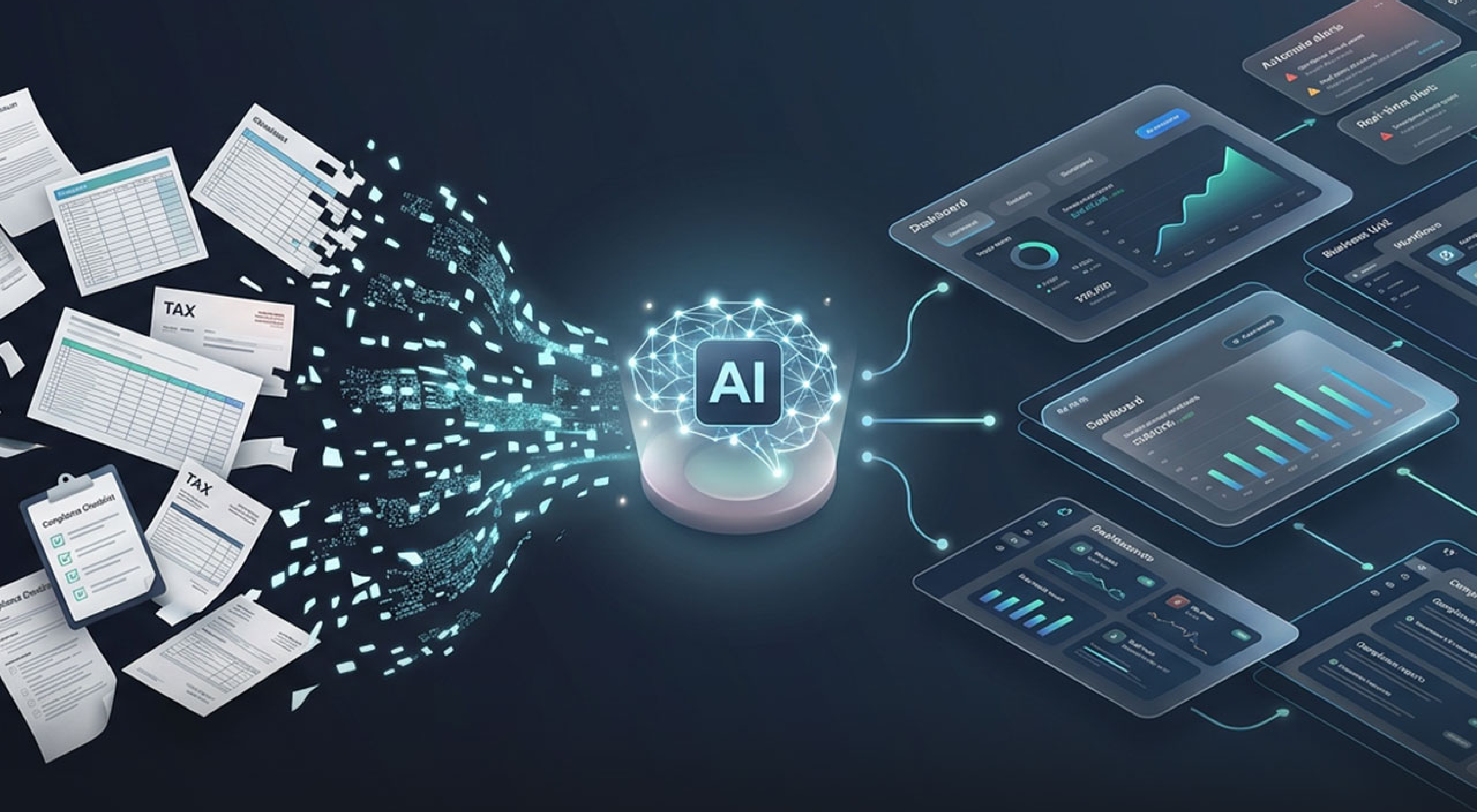

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