

**MADRAS CHAMBER OF COMMERCE
AND
INDUSTRY**

**COMPANY LAW
AND
CORPORATE MATTERS COMMITTEE**

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INDEX

SL. NO.	PARTICULARS	PAGE NO.
1.	Flash News	3
2.	Circulars issued by SEBI in April 2026	5
3.	Reports issued by SEBI in April 2026 for Public Comments	5
4.	Press Releases by SEBI in April 2026	5
5.	Notifications Issued by Reserve Bank of India in April 2026	6
6.	Notifications Issued by Ministry of Corporate Affairs in April 2026	11
7.	Article on “Tax promises - is it absolute or conditional” by Mr. V. Babu Sankara Subramaniam, Practising Company Secretary	12

FLASH NEWS

1. Jan Vishwas (Amendment of Provisions) Bill, 2026 (April 04, 2026)

The Jan Vishwas (Amendment of Provisions) Bill, 2026 introduces several reforms that reduce compliance burdens for Micro, Small and Medium Enterprises (MSMEs). The Bill provides small businesses an opportunity to correct mistakes without facing immediate punitive action. The amendment introduces an improvement notice for the first lapse, allowing MSME importers to rectify compliance gaps before penalties are imposed. Through these measures, the Bill supports MSMEs by simplifying compliance requirements, reducing regulatory uncertainty, and encouraging voluntary compliance while ensuring that serious violations continue to attract appropriate penalties.

2. Specification of Certification Course for KMPs and other employees of Capital Market Intermediaries under the IFSCA (Capital Market Intermediaries) Regulations, 2025 (April 02, 2026)

Regulation 9 (5) of IFSCA (Capital Market Intermediaries) Regulations, 2025 empowers the Authority to specify certification courses for the employees of capital market intermediaries ('CMIs') in the IFSC. Accordingly, the Authority vide this circular specifies the certificate course on "Regulatory Framework for Capital Market Intermediaries in IFSC" offered by The Institute of Company Secretaries of India. The CMI shall ensure that its Key Managerial Personnel and all other employees discharging core business activities, successfully complete the said certification course on or before September 30, 2026. Further, employees of the CMIs involved in providing non-operational/support services are encouraged to undertake this certification to enhance professional competence, ensure regulatory preparedness, and promote higher standards of operational excellence within the IFSC.

Courtesy: ICSI Info Capsule

3. Governance and oversight of Schemes in IFSC - Segregation of the role of Fiduciaries (April 10, 2026)

The IFSCA has clarified that under the IFSC (Fund Management) Regulations, 2025, Fund Management Entities (FMEs) are required to appoint fiduciaries which includes trustees, board of directors, or designated partners depending on whether a scheme is set up as a trust, company, or LLP. It is further emphasized that such fiduciaries must comply with the Code of Conduct prescribed in the Third Schedule and maintain high standards of service, due diligence, and independent judgment. In this context, FMEs have been directed not to appoint an entity acting as fiduciary to a scheme to provide fund

administration, valuation, audit, or lending and financing services to that scheme, either directly or through its associates. FMEs managing schemes already filed with or taken on record by the Authority must ensure compliance with these norms by September 30, 2026

Courtesy: ICSI Info Capsule

4. IFSCA Issues Comprehensive Cybersecurity Guidelines for Market Infrastructure Institutions in GIFT IFSC (April 20, 2026)

The IFSCA issued the "Guidelines on Cyber Security and Cyber Resilience for Market Infrastructure Institutions (MIIs) in IFSC" establishing a prescriptive and comprehensive cybersecurity framework tailored for stock exchanges, clearing corporations, depositories, and the bullion exchange operating within GIFT IFSC. The Guidelines are structured around seven core cybersecurity functions: Govern, Identify, Protect, Detect, Respond, Recover, and Resilience, mirroring globally recognised frameworks while embedding the operational and jurisdictional realities of GIFT IFSC. Key highlights of the Guidelines include Board-Level Governance & Accountability; Future-Ready: Post Quantum Cryptography (PQC); 24x7 Cyber Security Operations Centre (C-SOC); 24x7 Cyber Security Operations Centre (C-SOC); Third-Party & Supply Chain Risk; ISO 27001 Certification; Alignment with National Standards etc. The Guidelines came into effect on April 1, 2026. MIIs are required to achieve full compliance within the timelines prescribed in the respective provisions of the Guidelines.

Courtesy: ICSI Info Capsule

**CIRCULARS, CONSULTATION PAPERS AND NOTIFICATION ISSUED BY SEBI
IN APRIL 2026**

Date	Title
CIRCULARS	
April 30, 2026	Fast-Track Mechanism for Processing of Placement Memorandum of AIFs filed with SEBI
April 29, 2026	Operationalisation of Past Risk and Return Verification Agency ("PaRRVA")
April 28, 2026	Extension of timeline for compliance with terms and conditions by Debenture Trustees for carrying out activities outside the purview of SEBI
April 24, 2026	Framework for net settlement of funds for transactions done by Foreign Portfolio Investors (FPIs) in cash market
April 15, 2026	Review of requirement relating to registration for a Not-for-Profit Organization on Social Stock Exchange (SSE) and minimum subscription requirement for issuance of Zero Coupon Zero Principal Instruments
April 13, 2026	'NISM Series XXIII - Social Impact Assessors Certification Examination' for Social Impact Assessors
April 8, 2026	Ease of doing business - mechanism for lock-in of pledged shares under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018
April 07, 2026	Relaxation from the applicability of SEBI Master Circular dated July 11, 2023 for compliance with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 on non-compliance with the Minimum Public Shareholding (MPS) requirements.
April 07, 2026	One-time relaxation with respect to validity of SEBI Observations letters, expiring between April 1, 2026 - September 30, 2026 till September 30, 2026.
REPORTS ISSUED BY SEBI DURING THE MONTH OF APRIL 2026 FOR PUBLIC COMMENTS	
April 2, 2026	Consultation Paper for Public Comments: Re-introduction of Open Market Buy -Back of Shares or Other Specified Securities through Stock Exchange
April 24, 2026	Consultation paper on "Review of variable net worth for stock brokers"
April 24, 2026	Draft Circular for Public Comments - Ease of Doing Investment and Ease of Doing Business- Handling of Client's Unpaid Securities by Trading Members/ Clearing Members
PRESS RELEASES BY SEBI IN APRIL 2026	
April 30, 2026	SEBI operationalises Fast-Track Mechanism for Processing of Placement Memorandum of AIFs filed with SEBI
April 29, 2026	SEBI operationalises Past Risk and Return Verification Agency ("PaRRVA")
April 25, 2026	SEBI celebrates its 38th Foundation Day

Date	Title
April 16, 2026	Securities and Exchange Board of India (SEBI) signed a Memorandum of Understanding with Financial Intelligence Unit India (FIU-India)
April 15, 2026	SEBI signed a Memorandum of Understanding with Department of Telecommunications (DOT), Government of India
April 15, 2026	Shri K.V.R. Murty takes charge as Whole Time Member, SEBI
April 10, 2026	Launch of various IT platforms by Chairman, SEBI to improve ease-of-doing business
April 8, 2026	SEBI and IEPFA Conducted the sixth “Niveshak Shivir” at Bhubaneswar - Proactive Joint Initiative to Minimize Unclaimed Assets and Facilitate Investor Claims for Unpaid Dividends and Shares

NOTIFICATIONS ISSUED BY RESERVE BANK OF INDIA IN APRIL 2026

Date	Title
April 30, 2026	Reserve Bank of India [Conduct of Government Business by Agency Banks (ABs) - Payment of Agency Commission and Oversight of ABs] Directions, 2026
	Reserve Bank of India [Disbursement of Government Pension by Agency Banks (ABs)] Directions, 2026
April 29, 2026	Reserve Bank of India (All India Financial Institutions - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (All India Financial Institutions - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (All India Financial Institutions - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Regional Rural Banks - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (All India Financial Institutions- Resolution of Stressed Assets) Amendment Directions, 2026
	Reserve Bank of India (Rural Cooperative Banks - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (Non-Banking Financial Companies - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (Regional Rural Banks - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Rural Cooperative Banks - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 - RRBs Repeal Directions, 2026

Date	Title
	Reserve Bank of India (Non-Banking Financial Companies - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Regional Rural Banks - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Rural Cooperative Banks - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Non-Banking Financial Companies - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 - SCBs Repeal Directions, 2026
	Reserve Bank of India (Regional Rural Banks - Resolution of Stressed Assets) Amendment Directions, 2026
	Reserve Bank of India (Rural Cooperative Banks - Resolution of Stressed Assets) Amendment Directions, 2026
	Reserve Bank of India (Non-Banking Financial Companies - Resolution of Stressed Assets) Amendment Directions, 2026
	Reserve Bank of India (Urban Cooperative Banks - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (Local Area Banks - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (Urban Cooperative Banks - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Local Area Banks - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Small Finance Banks - Credit Risk Management) Second Amendment Directions, 2026
	Reserve Bank of India (Urban Cooperative Banks - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Small Finance Banks - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Urban Cooperative Banks - Resolution of Stressed Assets) Second Amendment Directions, 2026
	Reserve Bank of India (Local Area Banks - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Small Finance Banks - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Credit Risk Management) Third Amendment Directions, 2026
	Reserve Bank of India (Small Finance Banks - Resolution of Stressed Assets) Amendment Directions, 2026

Date	Title
	Reserve Bank of India (Local Area Banks - Resolution of Stressed Assets) Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Responsible Business Conduct) Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Income Recognition, Asset Classification and Provisioning) Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Resolution of Stressed Assets) Second Amendment Directions, 2026
	Reserve Bank of India (Non-Banking Financial Companies - Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026
	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1988 (2011) Taliban Sanctions List: Amendment of 17 Entries
	Reserve Bank of India (Urban Co-operative Banks - Financial Statements: Presentation and Disclosures) - Second Amendment Directions, 2026
	Reserve Bank of India (Urban Co-operative Banks - Credit Facilities) - Amendment Directions, 2026
	Reserve Bank of India (Urban Co-operative Banks - Concentration Risk Management) - Amendment Directions, 2026
April 27, 2026	Reporting instructions for Authorised Dealer Category-I Banks
	Master Direction - Reserve Bank of India (Access Criteria for NDS-OM) Directions, 2025
	Reserve Bank of India (Commercial Banks - Asset Classification, Provisioning and Income Recognition) Directions, 2026
	Reserve Bank of India (Commercial Banks - Capital Charge for Credit Risk - Standardised Approach) Directions, 2026 (Effective from April 1, 2027)
	Reserve Bank of India (Commercial Banks - Credit Risk Management) - Second Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Income Recognition, Asset Classification and Provisioning) Repeal Directions, 2026
	Reserve Bank of India (Commercial Banks - Credit Facilities) Second Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Financial Statements: Presentation and Disclosures)- Seventh Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Asset Liability Management) - Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Classification, Valuation, and Operation of Investment Portfolio)- Amendment Directions, 2026

Date	Title
	Reserve Bank of India (Commercial Banks - Transfer and Distribution of Credit Risk) Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Credit Cards and Debit Cards: Issuance and Conduct) - Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026
	Reserve Bank of India (Urban Cooperative Banks - Resolution of Stressed Assets)- Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Treatment of Wilful Defaulters and Large Defaulters) - Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Resolution of Stressed Assets) Amendment Directions, 2026
	Reserve Bank of India (Non-Operative Financial Holding Companies)-Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Concentration Risk Management) - Second Amendment Directions, 2026
	Reserve Bank of India (Commercial Banks - Undertaking of Financial Services) - Second Amendment Directions, 2026
	Reserve Bank of India (Urban Co-operative Banks - Undertaking of Financial Services) - Amendment Directions, 2026
	Reserve Bank of India (Small Finance Banks - Undertaking of Financial Services) - Amendment Directions, 2026
	Reserve Bank of India (Regional Rural Banks - Undertaking of Financial Services) - Amendment Directions, 2026
	Reserve Bank of India (Rural Co-operative Banks - Undertaking of Financial Services) - Amendment Directions, 2026
	Reserve Bank of India (Non-Banking Financial Companies- Undertaking of Financial Services) -Amendment Directions, 2026
	Reserve Bank of India (All India Financial Institutions - Undertaking of Financial Services) -Amendment Directions, 2026
	Reserve Bank of India (Local Area Banks - Miscellaneous) - Amendment Directions, 2026
April 21, 2026	Digital Payments - E-mandate Framework, 2026
April 20, 2026	Risk Management and Inter-Bank Dealings
April 17, 2026	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1988 (2011) Taliban Sanctions List: Amendment of 3 Entries
April 15, 2026	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1988 (2011) Taliban Sanctions List: Amendment of 04 Entries
	Reserve Bank of India (Non-Banking Financial Companies - Branch Authorisation) Amendment Directions, 2026

Date	Title
April 10, 2026	Master Direction - Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025 - amendment
	Formation of new districts in the State of Andhra Pradesh - Assignment of Lead Bank Responsibility
April 09, 2026	Guidelines to facilitate faster cross-border inward payments
April 06, 2026	Limits for investment in debt and sale of Credit Default Swaps by Foreign Portfolio Investors (FPIs)
April 02, 2026	Floating Rate Savings Bonds, 2020 (Taxable) - FRSB 2020 (T) - Operational Guidelines
	Memorandum of Instructions governing money changing activities - Location of Forex Counters in International Airports in India
April 01, 2026	Risk Management and Inter-Bank Dealings (Revised)
	Master Direction - Facility for Exchange of Notes and Coins
	Master Direction on Counterfeit Notes - Detection, Reporting and Monitoring
	Master Direction on Incentives for Currency Distribution and Exchange and Penalties / Penal Provisions for Bank Branches and Currency Chests for Deficiency in Rendering Customer Service and Reporting of Transactions / Balances
	Overseas Investment - Submission of References to the Reserve Bank
	Reporting under Foreign Exchange Management Act, 1999 - Returns pertaining to Foreign Exchange Management (Guarantees) Regulations, 2026
	Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Listing of 01 Entry

MINISTRY OF CORPORATE AFFAIRS
NOTIFICATION
New Delhi, the April 21, 2026

G.S.R. 300(E) - In exercise of the powers conferred by sections 396, 398, 399, 403 and 404 read with sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Registration Offices and Fees) Rules, 2014, namely:-

1. Short title and commencement. -
 - (1) These rules may be called the Companies (Registration Offices and Fees) Amendment Rules, 2026.
 - (2) They shall come into force on the date of their publication in the Official Gazette.
2. In the Companies (Registration Offices and Fees) Rules, 2014, in the Annexure, for item VII and the entries relating thereto, the following item and entries shall be substituted, namely:- "(VII) FEE FOR FILING Form No. DIR-3 KYC Web under Rule 12A of the Companies (Appointment and Qualification of Directors) Rules, 2014:

Fee for Form No. DIR - 3 KYC Web		Amount (Rs.)
i.	The form is filed within the timeline provided in sub-rule (1) of rule 12A of the Companies (Appointment and Qualification of Directors) Rules, 2014	NIL
ii.	The form is filed after the timeline referred to in serial number (i), or filed for reactivation of DIN	5,000
iii.	Form DIR-3-KYC Web filed again at any time for any change as provided in subrule (2) of rule 12A of the Companies (Appointment and Qualification of Directors) Rules, 2014	500 (for every filing)

TAX PROMISES - IS IT ABSOLUTE OR CONDITIONAL

Small is beautiful and manageable. Government also prefers to encourage Small business set up by extending tax benefits and exemptions Private Companies and unlisted public Companies are permitted to be converted into LLP under the LLP Act vide Schedule III of the LLP Act Income tax permits exemption from levy of capital gain tax for the shareholders of the private company upon conversion of Company into LLP under Section 56 / 57 of the LLP Act subject to conditions given in Section 47 (Xiii b) of the Income tax Act 1961 The balance carried over business loss and depreciation allowance are also allowed for set off in the hands of the LLP against its income subsequent to conversion under Section 72A (6) of the Income tax Act 1961 as permitted therein that the LLP to continue to comply with Section 47 (Xiii b) of the Act.

Its important to visit the relevant provisions of the Income Tax Act 2025 in respect of the above two benefits in the hands of such converted successor LLP in this discussion paper.

When a private limited company /unlisted public company is converted into LLP, the transfer of capital asset or any transfer of shares held in the company by the shareholder as a result of conversion of the company into LLP in accordance with Section 56 and 57 of the LLP Act shall not be treated as a transfer under sec 47 (xiii b) of the IT Act 1961 corresponding to sec 70 (1) (ze) of the IT Act 2025 subject to the following conditions:

1. All the assets and liabilities of the company, immediately before the conversion, become the assets and liabilities of the limited liability partnership;
2. All the shareholders of the company, immediately before the conversion, become the partners of the limited liability partnership and their capital contribution and profit sharing ratio in the limited liability partnership are in the same proportion as their shareholding in the company on the date of conversion;
3. The shareholders of the company do not receive any consideration or benefit, directly or indirectly, other than by way of share in profit and capital contribution in the limited liability partnership;
4. The aggregate of the profit sharing ratio of the shareholders of the company in the limited liability partnership shall not be less than 50% at any time during five years from the date of conversion;
5. The total sales, turnover or gross receipts in the business of the company in any of the three tax years preceding the tax year in which the conversion takes place does not exceed sixty lakh rupees;
6. The total value of the assets, as appearing in the books of account of the company in any of the three tax years preceding the tax year in which the conversion takes place does not exceed five crore rupees; and
7. No amount is paid, either directly or indirectly, to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for three years from the date of conversion

Conversion of private company / unlisted public company into LLP [Sec. 116 (10) / (11), corresponding to sec. 72A(6A) of the 1961 Act]

The Company prior to conversion would have balance accumulated business loss and or depreciation allowance available for set off against its future profits subject to conditions laid down in Sec 72 of the Act Upon conversion into LLP such losses were allowed to be set off in the hands of the successor LLP as given in Sec 72 A (6) of the Income tax Act 1961 The corresponding changes in the Income Act 2025 are extracted for appreciation.

In the case of succession of business, whereby a company (ie., a private limited company or unlisted public limited company) is succeeded by a limited liability partnership fulfilling the conditions laid down in section 70(1)(ze) [corresponding to sec. 47(xiiiib) of the 1961 Act], the accumulated business loss and the unabsorbed depreciation (including unadjusted capital expenditure on scientific research) of the predecessor company, shall be deemed to be the business loss or as the case may be, allowance for depreciation of the successor limited liability partnership for the year in which business reorganization was effected and the other provisions of the Act relating to set off and carry forward of business loss and allowance for depreciation shall apply accordingly.

If, however, the conversion takes place on or after April 1, 2025, business loss cannot be carried forward beyond 8 years immediately following the tax year in which the loss was first computed for the original predecessor entity.

Consequences of non-compliance with section 70(1)(ze) If the conditions prescribed under section 70(1)(ze) are not satisfied after the set-off has been claimed, the amount of business loss or unabsorbed depreciation of the predecessor entity-previously allowed as a deduction to the *successor LLP under section 116(10)*-shall be deemed to be *the income of the successor LLP* and will be chargeable to tax in the year in which such non-compliance occurs.

Meaning of "unabsorbed depreciation" and "accumulated loss" "Accumulated loss" and "unabsorbed depreciation" mean so much of the loss/depreciation of the predecessor company under the head "Profits and gains of business or profession" (not being speculative business loss) which such company would have been entitled to carry forward and set off if the business re-organization had not taken place.

Loss or depreciation allowance in the hands of successors [Sec. 536 (2) (0)]

Any set-off of losses or allowance for depreciation up to the assessment year 2026-27, carried forward under the repealed 1961 Act, in the hands of the amalgamated company, successor company, or successor LLP, in accordance with the provisions of section 72A of the repealed Act, shall be deemed to be the income of such amalgamated company,

successor company, or successor LLP, chargeable to tax in any tax year in which the conditions specified in the erstwhile section are not complied with.

Exempted capital gain on conversion [Sec. 536 (2) (g)]

On conversion in terms of Section 58 (4) of the LLP Act all the assets and liabilities Contracts obligations are transferred and vested with the LLP Whereas the conversion is not treated as transfer for the purpose of levy of Capital gain tax provided that the conditions laid down in Section 47 (Xiiiib) are complied with the successor LLP / the Company.

Any amount of profits or gains arising out of transfer of capital asset not charged by virtue of the provisions of Sections 47 (iv), (v), (xiii), (xiiiib) or (xiv) of the 1961 Act for any assessment year up to and including the assessment year 2026-27 shall be deemed to be income chargeable under the head "Capital gains" for the tax year in which the transfer took place if any of the conditions laid down in Section 47A (1) (1) or (ii) of the repealed Act are not satisfied or in which any of the conditions laid down in Section 47 (xii), 47 (xiiiib) or (xiv) of the repealed Act are not complied with.

Provisions illustrated:

X Ltd., an unlisted company with two shareholders-X holding 40 per cent and Y holding 60 per cent-was converted into a limited liability partnership (LLP) on May 6, 2024. Since the conversion met the conditions prescribed under Section 47 (xiiiib) of the 1961 Act, the capital gain of Rs. 80 lakh arising from the conversion was not taxable in the hands of X Ltd.

One of the conditions for availing this capital gain exemption is that the combined shareholding of the erstwhile shareholders, A and B, in the LLP must not fall below 50 per cent at any time during the 5 years following conversion (ie, up to May 6, 2029). If, however, the constitution of the LLP changes for instance, on June 10, 2027, when B retires and C is admitted-the exemption will be withdrawn, and the capital gain of Rs. 80 lakh will become deemed capital gain of the LLP. Accordingly, it will be included in the income of LLP under the head "Capital gains" for the tax year 2027-28 and chargeable to tax at the rate prescribed under Section 197 (corresponding to Section 112 of the 1961 Act).

Case study

Celerity Power LLP the Honourable ITAT vide ITA 3637 / Mum/ 2015 174/ ITD 433/197/ Taxman, the Celerity Power Pvt Limited got converted into Celerity Power LLP with effect from 28.03.2010. The power generation project continued in the hands of LLP. The balance carried over from the loss at the time of conversion was Rs. ZZZ. The

Company did not comply with the condition laid down in Section 47 (Xiii B) of the Act. The AO disallowed the carry over loss in the hands of LLP and levied capital gain tax.

The ITAT held that since the conversion has been recorded in the book value and no consideration was received by the Company, there is no mechanism given in the Act to compute the CG tax the addition of CG tax was deleted. The Tribunal held that since the conditions given in the Section 47 (Xiii-b) were not complied with the benefit of carry over loss as denied by the AO was upheld.

This judgment has a silver lining since even though ITAT holds that such conversion amounts to transfer, there would not be any tax liability as long as the conversion is at book value. Thus, the impact of this judgment would be limited to the taxpayers who transfer assets at a value higher than the book value, pursuant to such conversion. Having said the same, it would be very pertinent to structure future transactions, bearing in mind the possibilities of such tax implications.

Further, the issue of taxability in the hands of the shareholder was not before the ITAT, which has left the fate of shareholders hanging. It is possible in the light of such conversion being considered a taxable transfer, the tax authorities may seek to tax capital gains arising in the hands of the shareholders upon alienation shares in return for interest in the LLP. However, if the shareholder is given the same amount of interest in the LLP as it held in the company, the same logic of no capital gains arising to the company on transfer should hold good.

It would be proper to conclude that Exemptions and tax benefits are thus not absolute and subject to conditions attached in the Income tax law to be complied with in letter and spirit.

**Article by Mr. V. Babu Sankara Subramaniam
Practising Company Secretary**