

SPCM & ASSOCIATES

Chartered Accountants





SPCM
LEGAL





SAMĂCĂRA JANUARY 2026



SAMĀCĀRA – JANUARY 2026

EDITORIAL BOARD AND CONTRIBUTORS

			
CA. Suhas P. Bora	Adv. Sanket S. Bora	Adv. Abhay H. Bora	CA Disha M. Shah

			
CA. Rohan R. Nahar	CA. Siddhant A. Bora	CA. Prerna S. Bora	Mrs. Ruchi R. Bhandari

SAMĀCĀRA – JANUARY 2026

Team – SPCM and Associates

CA. Suhas P. Bora
CA. Pradeep M. Katariya
CA. Chetan R Parakh
CA. Manoj R. Jain
CA. Mehul Jain
CA. Tejal A. Jain
CA. Abhay P. Katariya
CA Prerna S. Bora
Ms. Deepali R. Shah
CA Rohan R. Nahar

CA. Nikita Maniyar-Bajaj
CA. Neha L. Shah
CA. Siddhant A. Bora
Mrs. Ruchi R. Bhandari
CA Prerna Surana
CA. Vidhi S. Shah
Mr. Omkar P. Katariya
Mrs. Gauri Dangi
CA Disha Gundesha
CA Dhanshree Lunkad

CA Pratik Chajjed
CA Harsha Jain
CA Sampada Ingale
CA Himali V. Jain
Mrs. Riya Bhandari
CA Purva Munot
CA Nishant Jain
CA Darshan Shah
CA Saurebh Kankariya
CA Sara Shaikh
CA Gajala Mulani

Team – SPCM Legal

Adv. Abhay H. Bora
Adv. Neetaa S. Bora
Adv. Sanket S. Bora
Adv. Vidhi K. Punmiya
Adv. Kirtika R. Jain
Adv. Ameya Das
Adv. Satvika Ramesh
Adv. Siddharam N. Sagare

SAMĀCĀRA – JANUARY 2026

INDEX

SR. NO.	PARTICULARS	PAGE NO.
1.	Editorial	05-10
2.	Income Tax due date calendar for the month of January, 2026	11-12
3.	GST due dates for the month of January, 2026	13-14
4.	Tax Audit: Chapter 17– Clauses 40 to 44 Form No. 3CD	15-23
5.	GST – Gist of GST Notifications	24-24
6.	Strategic Capital Withdrawal Beyond Dividends	25-30

SAMĀCĀRA – JANUARY 2026

EDITORIAL

Rooted in Ethics, Driven by Excellence

Dear All,

A new year always arrives quietly—but its implications are profound.

As we step into January 2026, we do so not merely with fresh calendars and renewed energy, but with clarity of vision and depth of purpose. December gave us the gift of closure—reflection, gratitude, and completion. January now invites us into intentional beginnings.

This is not just the start of another year.

It is the formal commencement of VISION 2026 for SPCM & Associates and SPCM Legal.

From Reflection to Resolve

The profession we belong to is undergoing a subtle but irreversible transformation. Compliance is no longer about form; it is about substance. Advisory is no longer transactional; it is strategic. Trust is no longer assumed; it is earned daily through consistency, documentation, and ethical conduct.

As professionals, we now operate in an environment of:

- Data-driven scrutiny
- Technology-enabled governance
- Interconnected tax, legal, and regulatory frameworks

- Clients seeking clarity, confidence, and continuity

In such a landscape, speed alone is not strength.
Integrity, preparedness, and insight are.

National Developments Shaping Our Practice

At the national level, several significant legal and fiscal developments towards the close of 2025 and transition into 2026 warrant close attention:

1. Change in Law on Probate

In a landmark reform aimed at simplifying succession and inheritance procedures, Parliament has amended the Indian Succession Act, 1925, to remove the mandatory requirement of probate for wills across India—including in Mumbai, Chennai, and Kolkata, where it was previously compulsory. This shift is expected to significantly reduce procedural delays and costs, and modernize estate administration practice nationwide. Executors and beneficiaries can now rely on a valid will without first obtaining probate, though probate remains available as an option where needed. □

2. GST Collections for December 2025

The GST revenue momentum continued through December 2025, with gross collections reaching approximately ₹1.75 lakh crore, reflecting sustained economic activity, improved compliance, and resilience in indirect tax receipts despite structural reforms and rate rationalizations. This performance underscores the strength of India's indirect tax base and broader economic recovery. □

3. Enactment of the Income Tax Act, 2025

One of the most consequential reforms in the direct tax landscape has been the enactment of the Income Tax Act, 2025, which received

Presidential assent in August 2025 and will come into effect from 1 April 2026, replacing the six-decade-old Income Tax Act, 1961. The new legislation aims to simplify language, reorganize provisions, introduce the concept of a unified “tax year,” and align the tax code with modern compliance needs—while retaining core tax rates and principles. This reform ushers in a more transparent, accessible, and compliance-friendly direct tax regime, and will shape advisory, compliance, and planning strategies in the coming years. □

Vision 2026 – More Than a Statement

Our Vision for 2026 is simple in expression, yet demanding in practice:

“Rooted in Ethics. Driven by Excellence.”

This vision reminds us that:

- Ethics is not a compliance requirement—it is our identity
- Excellence is not an event—it is a habit
- Growth without values is fragile, but values with excellence are enduring

We aspire to be a future-ready, one-stop advisory firm, not by expanding indiscriminately, but by deepening capability, strengthening systems, and investing in people.

Mission in Motion

Our Mission for 2026 calls upon us to:

- Deliver reliable and customized solutions

- Embrace technology with responsibility
- Collaborate across disciplines—tax, law, compliance, advisory
- Continuously learn, unlearn, and upgrade

Most importantly, it asks us to create long-term value—for clients, for colleagues, and for the profession itself.

Every file reviewed, every opinion issued, every representation made before authorities—these are not routine acts. They are expressions of our mission in action.

Living Our Core Values—Every Day

As we move forward, let us consciously live by our three core values:

Sincerity

Honesty in intent, transparency in communication, and respect in every interaction—internally and externally.

Professionalism

Technical excellence, discipline in processes, and unwavering adherence to ethical standards, even when shortcuts seem tempting.

Commitment

Ownership of work, accountability for outcomes, and consistency in delivering value—especially when it is challenging.

These values are not framed for display.

They are meant to be demonstrated quietly, daily, and consistently.

January: The Month of Alignment

January is not about rushing into action—it is about alignment:

- Aligning individual goals with firm vision
- Aligning systems with future requirements
- Aligning ambition with responsibility

Training initiatives, mentoring frameworks, process refinement, and strategic planning will all take shape in the coming weeks—not as checkboxes, but as building blocks for sustainable excellence.

A Thought to Carry Forward

On a personal note, I believe that true professional growth does not come from doing more—it comes from doing better, with clarity and conscience.

As we begin this new year, let us remember:

“Excellence is not an act, but a habit.” – Aristotle

And from the Bhagavad Gita, which remains deeply relevant to professional life:

“नियतं कुरु कर्म त्वं”

(Perform your duty with discipline and dedication.)



I extend my sincere appreciation to every member of the SPCM family—for your effort, patience, and professionalism. The year ahead will demand learning, adaptability, and resilience—but I am confident that together, rooted in ethics and driven by excellence, we are well prepared.

Let 2026 be a year of quiet confidence, ethical leadership, and meaningful growth.

Thanking You,

With Warm Regards,



CA. Suhas P. Bora
Founder Partner,
SPCM and Associates,
Chartered Accountants

DUE DATES

Income Tax due date calendar for the month of January 2026:

DATE	DUE DATE FOR
07-01-2026	<ul style="list-style-type: none"> Due date for deposit of Tax deducted [except under section 194-IA, section 194-IB, section 194M or section 194S (by specified person)] or collected for the month of December, 2025. However, all the sum deducted/collected by an office of the government. Due date for deposit of TDS for the period October 2025 to December 2025 when Assessing Officer has permitted quarterly deposit of TDS under Sections 192, 194A, 194D or 194H.
14-01--2026	<ul style="list-style-type: none"> Due date for issue of TDS Certificate for tax deducted under section 194-IA, 194-IB, 194M, 194S in the month of November, 2025.
15-01-2026	<ul style="list-style-type: none"> Due date for furnishing of Form 24G by an office of the Government where TDS/TCS for the month of December, 2025 has been paid without the production of a challan. Quarterly statement of TCS for the quarter ending December 31, 2025 Quarterly statement in respect of foreign remittances (to be furnished by authorized dealers) in Form No. 15CC for quarter ending December, 2025 Due date for furnishing of Form 15G/15H declarations received during the quarter ending December, 2025
30-01-2026	<ul style="list-style-type: none"> Quarterly TCS certificate in respect of quarter ending December 31, 2025.

DATE	DUE DATE FOR
	<ul style="list-style-type: none">Due date for furnishing of challan-cum-statement in respect of tax deducted under section 194-IA, 194-IB, 194M, 194S in the month of December, 2025
31-01-2026	<ul style="list-style-type: none">Quarterly statement of TDS for the quarter ending December 31, 2025.Quarterly return of non-deduction of tax at source by a banking company from interest on time deposit in respect of the quarter ending December 31, 2025

***“Success is not final; failure is not fatal: It is the courage to
continue that counts.”***

— Winston Churchill's

**GST due dates for the month January 2026: -**

DUE DATE	RETURN	PERIOD	DESCRIPTION
10 th January	GSTR-7 (Monthly)	December'25	Summary of Tax Deducted at Source (TDS) and deposited under GST laws.
10 th January	GSTR-8 (Monthly)	December'25	Summary of Tax Collected at Source (TCS) and deposited by E-commerce operators under GST laws.
11 th January	GSTR-1 (Monthly)	December'25	Summary of outward supplies where turnover exceeds Rs.5 crore or have not chosen the QRMP scheme for the quarter of October-December 2025.
13 th January	GSTR 1 (Quarterly)	October- December 2025	Taxpayers who have opted for the Invoice Furnishing Facility (IFF) and choose to upload B2B outward supply invoices for first two months of the quarter. The B2B invoices relating to last month of the quarter are too uploaded while filing GSTR – 1 along with B2C invoices of entire quarter.
13 th January	GSTR-5 (Monthly)	December'25	Summary of outward taxable supplies & tax payable by a non-resident taxable person.
13 th January	GSTR-6	December'25	Details of ITC received and distributed by ISD.



DUE DATE	RETURN	PERIOD	DESCRIPTION
18 th January	CMP -08	October-December 2025	Form to declare the details or summary of self-assessed tax which is payable for a given quarter by taxpayers who are registered as composition taxable person or taxpayer who have opted for composition levy.
20 th January	GSTR-3B (Monthly)	December'25	Summary of outward supplies, ITC claimed, and net tax payable for taxpayers with turnover more than Rs.5 crore in the last FY or have not chosen the QRMP scheme for the quarter of October- December 2025.
20 th January	GSTR-5A (Monthly)	December'25	Summary of outward taxable supplies and tax payable by OIDAR.
22 th January	GSTR-3B (Quarterly)	October-December 2025	Summary of outward supplies, ITC claimed, and net tax payable for taxpayers who have chosen the QRMP scheme for the quarter of October- December 2025.

INCOME TAX

TAX AUDIT: CHAPTER 17

TAX AUDIT – CLAUSES 40 to 44 FORM NO. 3 CD

We have started with a series on Tax Audit u/s 44AB of the Act considering practical aspects to be taken care of for issue of the Tax Audit reports.

In chapter - 1 we discussed about the applicability of Tax Audit u/s 44AB of the Income Tax Act.

In chapter - 2 we discussed about the meaning of the terms "Sales", "Turnover" and "Gross Receipts".

In chapter – 3 we discussed about "Clauses 1 to 8A of Form No. 3 CD."

In chapter – 4 we discussed about "Clauses 9 to 12 of Form No. 3 CD"

In chapter – 5 we discussed about "Clauses 13 of Form No. 3 CD"

In chapter – 6 we discussed about "Clause 14 and 15 of Form No. 3 CD"

In chapter – 7 we discussed about "Clause 16 and 17 of Form No. 3 CD"

In chapter – 8 we discussed about "Clause 18 to 20 of Form No. 3 CD"

In chapter – 9 we discussed about "Clause 21 of Form No. 3 CD"

In chapter – 10 we discussed about "Clause 22 of Form No. 3 CD"

In chapter – 11 we discussed about " Clause 24 to 26 of Form No. 3 CD"

In chapter – 12 we discussed about " Clause 27 to 29 of Form No. 3 CD"

In chapter – 13 we discussed about " Clause 30 of Form No. 3 CD"

In chapter – 14 we discussed about " Clauses 31(a) to 31(e) of Form No. 3 CD"

In chapter – 15 we discussed about " Clauses 32 and 33 of Form No. 3 CD"

In chapter – 16 we discussed about " Clauses 37 and 39 of Form No. 3 CD"

In the series of Article on Tax Audit provisions, we will discuss about "Clauses 40 to 44 Form No. 3 CD"

Clause 40 - Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

Following details are to be disclosed under this clause:

S No.	Particulars	Previous year	Preceding Previous year
1	Total Turnover of the assessee		



S No.	Particulars	Previous year	Preceding Previous year
2	Gross Profit/turnover		
3	Net Profit/turnover		
4	Stock-in-trade/turnover		
5	Material consumed / Finished goods produced		

Following points should be noted by the auditor:

- These ratios have to be calculated for assessee's who are engaged in manufacturing or trading activities.
- The ratio mentioned in 5 need not be given for trading concern or service provider.
- For service provider, only information at S. No. 1 and 3 need to be furnished.
- The details required to be furnished is for principal items of goods traded or manufactured or services rendered.
- The ratios have to be given for the business as a whole and not product wise
- All the ratios mentioned in this clause are to be calculated and disclosed in terms of value only.
- Net profit to be shown here in this clause is net profit before tax.
- The term "stock-in-trade" would include only finished goods and would not include the raw material and work-in-progress since the objective here is to compute the stock turnover ratio. It would also not include stores and spare parts or loose tools.
- Material consumed would, apart from raw material consumed, include stores, spare parts and loose tools
 - The value of finished goods produced may be arrived at by using the following formula:

Raw material consumption	xxx
Stores and spare parts consumption	xxx
Wages	xxx
Other manufacturing expenses excluding depreciation	xxx
SUB TOTAL	xxx
Add: Opening stock in process – xx	
Deduct: Closing stocks in process – xx	
Value of Finished goods produced	xxx

- Calculations of the ratios are also to be stated. If any of the above components is stated in the financial statements themselves, a reference to the same may be made, to the extent possible.
- Previous year figures should be taken from last year's tax audit report, and in case there is no tax audit in previous year, then nothing should be mentioned in that column.

Clause 41 - Details of demand raised or refund issued during the previous year under any tax laws other than Income Tax Act, 1961 and Wealth Tax Act, 1957 along with details of relevant proceedings.

- The auditor should obtain a copy of all the demand / refund orders issued by the governmental authorities during the previous year under any tax laws other than Income Tax Act and Wealth Tax Act
- The cess or duty like Marketing Cess, Cess on Royalty, Octroi Duty, Entry Tax etc. would not be covered as other tax laws. However, the auditor should exercise his professional judgment in

determining the applicability to relevant tax laws for reporting under this clause.

- Demands / Refunds of GST, VAT, Service Tax, etc. should be disclosed in this clause.
- It may be noted that even though the demand / refund order is issued during the previous year, it may pertain to a period other than the relevant previous year. In such cases also, reporting has to be done under this clause.
- The auditor should verify the books of account and the orders passed by the respective department for ascertaining whether any such demand has been raised or refund order has been issued under any other tax law and accordingly report the same.
- The auditor should verify the details from online portals of the departments too, if the details are available thereon.
- If there is any adjustment of refund against any demand, the auditor should also report the same under this clause.
- Auditor may check the said details with the disclosure of contingent liabilities in audited financials, and disclosure in statutory auditors report pursuant to CARO, if applicable in case of companies.

Clause 42 - Whether the assessee is required to furnish statement in Form No.61 or Form No. 61A or Form No. 61B? If yes, furnish details.

- This clause requires reporting of details of submission and due date of the Form No.61 or Form No. 61A or Form No. 61B with the income-tax portal, where it is required to furnish the same.
- It also requires the auditor to ensure if all the required details have been submitted and if not, then the unreported details/ transactions are required to be reported in in this clause.
- **Form 61** – This Form requires details of all Form 60 obtained to be submitted.



- Where transactions specified under Rule 114B of the Income-tax Rules, 1962 have been undertaken by the assessee without obtaining PAN of the person giving the document, then the assessee is required to collect declaration in Form 60 from that person.
 - When Form 60 is obtained then Form 61 is to be filed half yearly.
- Auditor should be aware that Rule 114 B is not applicable to:
 - Central Government
 - State Government
 - Consular Offices
 - Non-Residents for:
 - Application for Debit and Credit Card
 - Payment to a hotel or restaurant against a bill
 - Payment for foreign travel or foreign currency
 - Payment to RBI for acquiring bonds
 - Purchase of DD / PO / Bankers cheque
 - Payment for prepaid instruments
 - Sale/purchase of goods/services exceeding Rs. 2L
- **Form 61A** – Statement of specified financial transactions (SFT) as given in Rule 114E of the Rules mandates reporting of certain financial transactions undertaken during a particular financial year, annually before 31st May.
- **Form 61B** –Statement of reportable accounts in accordance with FATCA and CRS for a calendar year in Form 61B. The auditor should be aware of provisions of Rule 114F to 114H for the same.

Clause 43 - Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in section 286(2)? If yes, then details to be given.

In reference to above section 286 (2) states:

Every parent entity or the alternate reporting entity, resident in India, shall, for every reporting accounting year, in respect of the international group of which it is a constituent, furnish a report, to the prescribed authority within a period of twelve months from the end of the said reporting accounting year, in the form and manner as may be prescribed. Following details is to be given under this clause:

- Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity
- Name of parent entity
- Name of alternate reporting entity (if applicable)
- Date of furnishing of report

The auditor should be aware of section 286 read with Rule 10DB and related notifications and circulars. Reports are to be furnished in Forms 3CEAC to Form 3CEAE.

In the following cases the obligation to furnish the report would arise:

- If the assessee itself is the parent entity of the international group and is resident in India
- If the assessee is resident in India and has been designated as the alternate reporting entity of the international group
- If the assessee is a constituent of the international group with its parent entity resident in India and the group has not designated any other resident constituent entity as the alternate reporting



entity, the parent entity will have the obligation to file the report u/s 286(2)

- If the assessee is neither the parent entity nor has it been designated as the alternate reporting entity, but other constituent entity resident in India of the international group has been designated as the alternate reporting entity by the group, such other constituent entity resident in India will have obligation to file the report u/s 286(2).

Clause 44: Break-up of total expenditure of entities registered or not registered under the GST

Reporting for this clause is required by all entities irrespective of whether they are registered under GST or not. The following information needs to be given:

1. Total amount of Expenditure incurred during the year (2).
2. Expenditure in respect of entities registered under GST:
 - a) Relating to goods or services exempt from GST (3).
 - b) Relating to entities falling under composition scheme (4).
 - c) Relating to other registered entities (5).
 - d) Total payment to registered entities (6).
3. Expenditure relating to entities not registered under GST (7).
 - Total expenditure including purchases is to be given. Head-wise / nature- wise expenditure details are not to be given in this clause. Only the gross total should be given.
 - Capital expenditure should also be reported in the format. Reporting of capital expenditure as separate line item is advised.

- Only expenditures should be reported and not allowances. Depreciation u/s 32, deduction for bad debts u/s 36(1)(vii) etc. which are accounting expenses in the nature of non-cash charges should not be reported under this clause.
- Services by an employee to the employer in the course of or in relation to his employment” and thus, remuneration to employees need not be reported in any column.
- Import of goods, Payments to advocates, other payments made to entities not registered under GST, but GST paid on reverse charge would be reported in last Column i.e. (7).
- In case of interest and remuneration paid to partners, the same being not paid to entities, need not be furnished in any column.
- Total of column No. 3+4+5 should be equal to 6.
- Total of column No. 2 may not reconcile with expenditure side of statement of profit and loss.
- There could be variance with GST statements filed, due to various reasons including prepaid / advance payments / unbilled dues / provisions etc.
- The assessee may provide the required detail but may have not maintained its books and details in the manner in which the details of this clause could be verified. In such a case the auditor should make necessary disclosure in Para 3 of Form 3CA / Para 5 of Form 3CB, which may be as under:

The assessee has provided the details in clause 44. We have verified the same on test basis. However, the assessee has not maintained the books and records in a way wherein the details provided in Clause 44 can be verified accurately. Hence, we cannot provide an opinion that detail provided by the assessee is true and correct.

**GST****GIST OF GST NOTIFICATIONS**

Notification No	Date	Subject / Highlights
19/2025-Central Tax (Rate)	31-12-2025	<p>The Government has issued Notification No. 19/2025–Central Tax (Rate), which seeks to amend Notification No. 09/2025–Central Tax (Rate) to prescribe GST rates on tobacco and tobacco-related products. Introduces higher effective tax (around 40%) on these products under the revised rate structure.</p> <p>Effective From: 1 Feb 2026.</p>
20/2025-Central Tax	31-12-2025	<p>The notification notifies the Central Goods and Services Tax (Fifth Amendment) Rules, 2025, which insert a new Rule 31D in the CGST Rules, 2017. The newly inserted rule provides that, notwithstanding any other provisions, the value of supply of notified goods shall be deemed to be the retail sale price declared on such goods, reduced by the amount of applicable tax.</p>
19/2025-Central Tax	31-12-2025	<p>CBIC notified specific goods, including pan masala, gutkha, and cigarettes, for valuation based on their Retail Sale Price (RSP) under section 15(5) of the CGST Act. This came into effect on February 1st, 2026.</p>

FINANCE AND VALUATIONS

STRATEGIC CAPITAL WITHDRAWAL BEYOND DIVIDENDS

Across Indian business structures — private companies, LLPs and listed entities — one issue dominates boardroom conversations:

“We are profitable, but taking money out is painfully inefficient.”

Historically, dividends filled that gap. In today’s tax and regulatory environment, dividends are no longer a solution — they are a **costly habit**.

1. Understanding the Default

What is Dividend?

A dividend is a **distribution of post-tax profits** to shareholders in proportion to shareholding.

How It Works in Practice?

1. Company earns profits
2. Company pays corporate tax
3. Dividend declared from retained earnings
4. Shareholder pays tax again at slab rates

Result

- Effective tax leakage of **~42–43%** for promoters in the highest bracket
- No balance sheet optimisation
- No strategic upside
- No flexibility

Dividend distribution today is **economically inefficient and strategically sterile**.

2. Smarter Capital Withdrawal Alternatives

The objective is not “less tax at any cost”. The objective is efficient extraction with commercial logic and legal defensibility.

A. Share Buy-back

What It Is

A transaction where the company repurchases its own shares from shareholders at a specified price.

How It Works

- Company uses surplus cash or free reserves
- Promoter sells part of shareholding to the company
- Shares are extinguished, reducing capital

Why It Works

- Converts profit exit into a capital transaction
- Improves EPS, ROE and capital efficiency
- Liquidity without recurring payouts

Tax Reality

- For unlisted companies, buy-back tax is largely borne by the company
- Promoter typically receives cash without slab-rate taxation

Best Suited For

- Cash-rich private companies
- Promoters seeking clean exits
- Situations where valuation can be robustly defended

B. Capital Reduction

What It Is

A formal return of excess capital (share capital and/or premium) to shareholders.

How It Works

- Balance sheet is resized to operational reality
- Capital not required for business is returned
- Requires shareholder approval and NCLT sanction

Why It Works

- Not dependent on annual profits
- One-time, large-ticket exit
- Corrects historical overcapitalisation

Tax Reality

- Typically, more efficient than dividends
- Requires valuation and careful structuring

Best Suited For

- Mature companies
- Legacy balance sheets
- Promoters seeking non-recurring liquidity

C. Promoter Loan Repayment**What It Is**

Repayment of funds earlier infused by promoters as **loans**, not equity.

How It Works

- Company repays loan principal from surplus cash
- Ownership remains untouched

Why It Works

- Commercially logical reversal of funding
- No profit linkage



- No dilution

Tax Reality

- Principal repayment is generally tax-neutral
- Interest, if any, is taxable but deductible

Best Suited For

- Companies with promoter loans on books
- Cash-stable businesses
- Promoters wanting liquidity without complexity

D. Management Fees / Brand Royalty

What It Is

Payments made to promoters for:

- Strategic management
- Technical services
- Brand / IP usage

How It Works

- Service or license agreement executed
- Periodic fees paid
- Expense booked in P&L

Why It Works

- Predictable cash flow
- Deductible for company
- Aligns reward with contribution

Tax Reality

- Taxed as business income in promoter's hands
- Subject to reasonableness and substance tests

Best Suited For

- Active promoters



- IP-driven or brand-centric businesses
- Ongoing income needs (not one-time exits)

E. Demerger / Group Reorganisation

What It Is

Structural separation of businesses into distinct entities.

How It Works

- Cash-rich or mature businesses are carved out
- Shareholding mirrors existing ownership
- Allows selective monetisation later

Why It Works

- Unlocks trapped value
- Improves valuation clarity
- Separates wealth creation from wealth extraction

Tax Reality

- Can be tax neutral if statutory conditions are met
- High planning intensity, high strategic payoff

Best Suited For

- Multi-business groups
- Listed entities
- Long-term promoters

3. Illustration

Company has **₹10 Crore surplus cash**. Promoter wants liquidity **without losing control**.

Assumptions

- Highest tax slab
- Indian resident promoter
- Conservative tax rates

- No aggressive positions

Exit Outcomes Compared

Route	Net Cash in Promoter's Hands
Dividend	~₹5.8 Cr
Buy-back (Unlisted)	~₹10.0 Cr
Capital Reduction	~₹8.0 Cr
Loan Repayment	~₹10.0 Cr
Management Fees	~₹6.5 Cr
Demerger	~₹9–10 Cr

Accordingly with same ₹10 Crore surplus. Different route. Cash outcome swings by over ₹4 Crore.

4. Conclusion

Promoters often assume that high taxes are the primary reason for inefficient cash extraction. In reality, outcomes vary significantly based on *how* value is withdrawn. While dividends remain the most familiar route, they are not always the most efficient. Thoughtful capital withdrawal requires early planning, careful structuring, and clear documentation. Ultimately, capital withdrawal is not merely an accounting exercise — it is a strategic decision that plays a meaningful role in preserving wealth, maintaining control, and strengthening long-term financial outcomes.

THANK YOU!

DISCLAIMER

While every care has been taken in the preparation of this “Samācāra” to ensure its accuracy at the time of publication, SPCM & Associates and/or SPCM Legal assumes no responsibility for any errors which despite all precautions, may be found therein. Neither this alert nor the information contained herein constitutes a contract or will form the basis of a contract. The material contained in this document does not constitute/ substitute professional advice that may be required before acting on any matter. All images, pictures, logos and trademarks appearing in the “Samācāra” are property of their respective owners.