

CORPORATE GUARANTEES

New battleground in tax disputes

GST on corporate guarantees is likely to be shaped in courtrooms rather than in policy chambers: Experts

MONIKA YADAV  
New Delhi, 17 June

In October 2024, Jindal Stainless challenged a Goods and Services Tax (GST) notice in the Delhi High Court. It was about corporate guarantees issued to related parties by its former group company, Jindal Stainless (Hisar), before their merger in March 2023.

The tax department argued that these guarantees — extended to banks and financial institutions — qualified as a “supply of services” under GST law, making them liable to 18 per cent tax.

Jindal Stainless contested the taxability of such guarantees, especially when issued without any consideration, and challenged the retrospective application of new rules and circulars. The Delhi High Court granted interim protection against coercive action, and the case has since become a reference point for the growing legal uncertainty surrounding GST on corporate guarantees. These guarantees, though traditionally used as internal financial support within corporate structures, have now come under intense scrutiny, raising alarm across industries.

The backdrop

In the business world, corporate guarantees serve as a routine internal mechanism. They allow group entities to support one another, often enabling subsidiaries to raise loans or obtain credit lines with the backing of a stronger parent company. These transactions typically happen without any monetary consideration. However, under India’s GST law, they have become a subject of legal uncertainty, leading to disputes and concerns among companies and tax experts.

Before the introduction of GST in 2017, corporate guarantees between related parties were not considered taxable under the service tax regime, unless there was a direct and significant consideration involved. Businesses could extend guarantees internally without fear of tax liability, especially in cases where the guarantee was issued.

Unlike the earlier regime, GST introduced a broader scope of taxation under its definition of “supply”, and further expanded it through Schedule I of the CGST Act, which brings within its fold transactions between related persons even when made without consideration. Still, ambiguity persisted over whether an internal corporate guarantee qualified as a “supply of service.” Tax professionals were divided on whether such transactions should be taxed at all, particularly when issued without consideration and where no actual service was delivered. This grey area led to uneven tax enforcement and mounting legal uncertainty.

To bring clarity, the government amended the CGST Rules in October 2023 by inserting sub-rule (2) to Rule 28. The new rule states that the value of a corporate guarantee provided by a company to its related party in India—without any consideration—shall be deemed to be 1 per cent of the guarantee amount per annum, or the actual consideration charged, whichever is higher.

The aim was to create a standard valuation framework and close perceived loopholes. But the amendment, far from settling the issue, has opened the floodgates of litigation. Companies across sectors, especially in capital-intensive and input tax credit (ITC)-restricted industries like real estate, power, and renewable energy, are now contesting both the taxability and the method of valuation. ITC is

Case file

- Corporate guarantees between related parties have become a contentious issue under GST, especially after a 2023 rule mandated a deemed valuation of 1% per annum
- The government clarified in 2024 that GST at 18% would apply on this deemed value, triggering significant tax liability—even if guarantees are never invoked
- While full ITC availability exempts such guarantees from this valuation rule,

interpretation issues persist, more so in ITC-restricted sectors like real estate and power

■ Several large firms have challenged the tax in court, arguing there’s no actual ‘supply of service’ involved and calling the valuation method arbitrary

■ Despite mounting litigation, the government maintains its stance, citing Schedule I of the CGST Act and denying export status to cross-border guarantees issued without forex inflow

the credit a registered taxpayer can claim for the GST paid on purchases used for business, to offset their GST liability on sales.

A 2024 clarification by the government further heightened tensions by stating that GST should be paid at 18 per cent on the 1 per cent valuation per annum. In effect, a corporate guarantee issued for 10 years could attract an upfront tax burden of 10 per cent of the guaranteed amount, regardless of whether the guarantee is ever invoked.

**Law vs business reality**  
Legal experts and companies argue that such taxation is not only burdensome but also conceptually flawed. Harpreet Singh, Partner at Deloitte, says the fundamental issue is whether such guarantees qualify as “supply” at all.

“GST on corporate guarantee is under challenge on various grounds. Few strong arguments include this being in the nature of shareholder function and not taxable services; there is no real service flowing from guarantor to borrower; the same is in the nature of ‘actionable claims’, not liable tax,” said Singh.

Adding to the legal complexity, Kumar Visalaksh, partner at Economic Laws Practice, highlights the arbitrariness of the 1 per cent per annum valuation formula.

“The 2024 amendment escalated the burden, requiring companies to pay 18 per cent GST on 1 per cent of the guaranteed amount per annum — translating to a staggering 10 per cent upfront tax for a 10-year guarantee, even if the guarantee is never invoked,” said Visalaksh. The clarification and amendments have sparked a wave of litigation, with corporations across sectors like power, renewable energy, oil and gas, and real estate challenging the rule’s validity, he added.

By the 2024 amendment, the government excluded the mandatory application of the 1 per cent per annum valuation for cases where recipients can claim full input tax credit. However, other sectors, like power, petroleum, liquor, and real estate — ineligible for ITC — remain disproportionately impacted.

Indeed, a spate of writ petitions has been filed in several high courts. Big names such as Sterlite Power, Vedanta, JSW Energy, Azure Power, SAEL, and Acme Cleantech are among the petitioners, challenging both the constitutionality of the levy and the fairness of the valuation method.

According to Vivek Jalan, partner with Tax Connect Advisory Services, the phrase “full ITC” in Rule 28(2) is the root cause of the confusion post the clarification in October 2024. “For example, consider a case of a real estate company which sells property post completion without GST (as in such cases GST is not applicable) and reverses proportionate ITC (as the supply is exempt). Can it be assumed that “full ITC” is not available and hence the benefit of relief u/r 28(2) is not

available? The issue is the same in almost all sectors,” explains Jalan.

“Even where the recipient takes full ITC by raising invoices post facto now, interest and penalty is being litigated even when the transaction is revenue neutral,” Jalan stated.

**Government stand**  
Despite the litigation, the government stands firm on its position. According to a senior official from the ministry of finance, the tax department has legal grounds to levy GST on corporate guarantees under Schedule I of the CGST Act.



“Services between related persons are liable to GST, even if made without consideration,” the official said. A corporate guarantee extended by a parent company to its wholly owned subsidiary qualifies as a service and is, therefore, taxable, he explained. The law treats the parent and subsidiary as separate legal entities, making the transaction subject to GST, he said.

The official added that while the burden may be neutralised where ITC is available, it becomes a cost where ITC is restricted, such as in the case of real estate or

petroleum companies. “At present, there is no proposal to relax GST on corporate guarantees or to revisit their valuation, as the provision was only recently introduced.”

The situation becomes even more complex in cross-border related party transactions, according to experts. Indian companies often extend guarantees to overseas subsidiaries or group entities. Since these are typically issued without any incoming foreign exchange, the tax authorities argue that such transactions do not qualify as ‘export of services’ under GST law.

This has led to another area of litigation. The authorities are demanding tax on these transactions using the same 1 per cent valuation mechanism, while companies claim that the guarantees are not “supplies” in the first place, and even if they were, they should qualify as exports. The absence of consideration and foreign exchange inflow, however, is being cited by tax officials to deny export status.

Sectoral unevenness

Although the government clarified in 2024 that the 1 per cent valuation rule under Rule 28(2) does not apply

where the recipient entity is eligible to avail full ITC, this hasn’t entirely resolved the matter. Tax authorities are still issuing notices and raising demands even in cases where ITC is fully available, ignoring the exception written into the rule itself.

This creates a peculiar situation where sectors eligible for full ITC, such as manufacturing or IT, may technically escape the tax burden, but still face compliance headaches. On the other hand, ITC-blocked sectors end up absorbing the full tax cost, raising concerns of sectoral discrimination.

“Despite the explicit exclusion, the authorities are demanding tax at 1 per cent per annum even where the recipients are eligible to avail full ITC. As a result, determining the value and the frequency at which the tax is to be paid remains a contentious issue, leading to ongoing disputes from authorities,” said Shivam Mehta, Executive Partner with Lakshmikumaran & Sridharan.

With no clear consensus, the fate of GST on corporate guarantees is likely to be shaped in courtrooms rather than in policy chambers, say experts.

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PUBLIC ANNOUNCEMENT



META INFOTECH LIMITED

Corporate Identification Number: U72100MH1998PLC117495

Our Company was originally incorporated as a private limited Company under the name of “Meta Infotech Private Limited” on December 17, 1998 bearing registration number as 117495. Subsequently, our Company was converted into a public limited company vide special resolution passed by the shareholders at the Extra Ordinary General Meeting held on July 24, 2024 and consequently the name of our Company was changed from “Meta Infotech Private Limited” to “Meta Infotech Limited” vide First Certificate of Incorporation granted to our Company consequent upon conversion into public limited company dated September 02, 2024 by the Registrar of Companies, Central Processing Centre bearing Corporate Identification Number U72100MH1998PLC117495.

**Registered Office:** 118/119, first floor, Akkruti Star, Opposite Akkruti Centre Point, MIDC, Andheri (E), Mumbai City, Maharashtra, India, 400093  
**Tel No:** +91-22-69372500; **E-mail:** info@metainfotech.com; **Website:** www.metainfotech.com/;  
**CIN:** U72100MH1998PLC117495; **Contact Person:** Komal Toshniwal, Company Secretary and Compliance Officer

NOTICE TO INVESTORS

In reference to the Draft red Herring Prospectus dated December 12, 2024 (“DRHP”) filed with SME Platform of BSE (“BSE SME”), investor should note the following:

- Our Promoter Venu Gopal Peruri transferred 7,21,600 Equity Shares of face value Rs. 10/- each to certain individuals/entities on June 16, 2025 and June 17, 2025 as detailed below (together the “**Secondary Transfers**”). The details of the transfer/sale are as follows:

| S.No. | Date of Transfer | Name of Transferor | Nature of relationship with company | Name of Transferee   | Nature of Relationship with Company | Nature of Transaction | Number of Equity Shares | Percentage of pre-issue share capital of the company | Transfer Price per Equity Share (in Rs.) | Total Consideration (in Rs.) |
|-------|------------------|--------------------|-------------------------------------|--|-------------------------------------|-----------------------|-------------------------|--|--|------------------------------|
| 1     | 16-Jun-25        | Venu Gopal Peruri  | Promoter                            | Parshva Kumar Daga   | -                                   | Secondary Sale        | 2,04,000                | 1.16%  | 147                                      | 2,99,88,000                  |
| 2     | 16-Jun-25        |                    |                                     | Anjuli Kothari   | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 3     | 16-Jun-25        |                    |                                     | Arun Kumar Kothari   | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 4     | 16-Jun-25        |                    |                                     | Naresh kumar bhargava  | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 5     | 16-Jun-25        |                    |                                     | Rahul Sablawat   | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 6     | 16-Jun-25        |                    |                                     | Sanjay Phophaliya  | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 7     | 16-Jun-25        |                    |                                     | SYL Investments through its partners Saroj Gangwal, Mansi Jain, Rita Gangwal | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 8     | 16-Jun-25        |                    |                                     | Uma Khandelwal   | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 9     | 16-Jun-25        |                    |                                     | Abhay Kumar Chordia  | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 10    | 16-Jun-25        |                    |                                     | Khushee Chatar   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 11    | 16-Jun-25        |                    |                                     | Ritu Dak   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 12    | 16-Jun-25        |                    |                                     | Pravah Ranka   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 13    | 16-Jun-25        |                    |                                     | Ram Swaroop Bansal HUF   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 14    | 16-Jun-25        |                    |                                     | R.S. Metals Pvt Ltd  | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 15    | 16-Jun-25        |                    |                                     | Sameer Kumar   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 16    | 16-Jun-25        |                    |                                     | Santosh Bhansali HUF   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 17    | 16-Jun-25        |                    |                                     | Saurav Raidhani  | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 18    | 16-Jun-25        |                    |                                     | Shobhit Bhansali   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 19    | 16-Jun-25        |                    |                                     | Tarika Rahul Sanghavi  | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 20    | 16-Jun-25        |                    |                                     | Rajesh Kumar Bardiya   | -                                   |                       | 16,800                  | 0.10%  | 147                                      | 24,69,600                    |
| 21    | 17-Jun-25        |                    |                                     | Ananya Financial Solutions India Private Limited                             | -                                   |                       | 6,400                   | 0.04%  | 147                                      | 9,40,800                     |
| 22    | 17-Jun-25        |                    |                                     | Himanshu Jain  | -                                   |                       | 34,400                  | 0.20%  | 147                                      | 50,56,800                    |
| 23    | 17-Jun-25        |                    |                                     | Hemal Prakash Kothari  | -                                   |                       | 12,800                  | 0.07%  | 147                                      | 18,81,600                    |
| 24    | 17-Jun-25        |                    |                                     | Kevin Rajendra Shah  | -                                   |                       | 6,400                   | 0.04%  | 147                                      | 9,40,800                     |
| 25    | 17-Jun-25        |                    |                                     | Ashish Mahesh Shah   | -                                   |                       | 12,800                  | 0.07%  | 147                                      | 18,81,600                    |
| 26    | 17-Jun-25        |                    |                                     | Srinivas Pachigolla  | -                                   |                       | 2,400                   | 0.01%  | 147                                      | 3,52,800                     |
|       |                  |                    |                                     |  |                                     |                       | <b>Total</b>            |  |  | <b>7,21,600</b>              |

- Please note that the Equity Share transferred pursuant to the Secondary Transfers, being the pre-offer equity share capital shall be subject to Lock-in, in accordance with terms of Regulation 238 and 239 of the SEBI (ICDR) Regulations, 2018.
- Further, except as disclosed in the table above and in the DRHP, the aforementioned transferees are not connected with the Company, Promoter, Promoter Group, Director, Key Managerial Personnel, Group Companies and the directors and Key Managerial Personnel of our Group Companies.

The above notice is to be read in conjunction with the DRHP. Further, the company will suitably update the relevant section in the Red Herring Prospectus and Prospectus to be filed with ROC and the Stock Exchange, to reflect the factual position pursuant to the Secondary Transfer as on the date of the Red Herring Prospectus and Prospectus.

| BOOK RUNNING LEAD MANAGER TO THE ISSUE |   | REGISTRAR TO THE OFFER |  |
|--|---|------------------------|--|
|  | <b>HEM SECURITIES LIMITED</b><br><b>Address:</b> 904, A Wing, Naman Midtown, Senapati Bapat Marg, Elphinstone Road, Lower Parel, Mumbai-400013, Maharashtra, India<br><b>Tel No.:</b> +91-22-49060000; <b>Email:</b> ib@hemsecurities.com; <b>Investor Grievance Email:</b> redressal@hemsecurities.com<br><b>Website:</b> www.hemsecurities.com; <b>Contact Person:</b> Roshni Lahoti; <b>SEBI Reg. No.:</b> INM000010981<br><b>CIN:</b> U67120RJ1995PLC010390 |                        | <b>KFIN TECHNOLOGIES LIMITED</b><br><b>Address:</b> Selenium Tower-B, Plot 31 & 32, Gachibowli, Financial District, Nanakramguda, Serilingampally, Hyderabad – 500 032, Telangana, India<br><b>Tel No.:</b> +91 40 6716 2222; <b>Tollfree:</b> 1800 309 4001; <b>Email:</b> udtls.ipc@kfinance.com<br><b>Investor Grievance Email:</b> einward.ris@kfinance.com; <b>Contact Person:</b> M. Murali Krishna<br><b>Website:</b> www.kfinance.com; <b>SEBI Reg. No.:</b> INR000000221; <b>CIN:</b> L72400TG2017PLC117649 |

All capitalized terms used herein and not specifically defined shall have the same meaning as ascribed to them in the Draft Red Herring Prospectus.

**Place:** Mumbai, Maharashtra  
**Date:** June 17, 2025

Disclaimer- Meta Infotech Limited is proposing, subject to applicable statutory and regulatory requirements, receipt of requisite approvals, market conditions and other considerations, to make an initial public offer of its Equity Shares and has filed Draft Red Herring Prospectus and received In-Principal approval. The DRHP is available on the website of BSE SME at www.bseindia.com and is available on the websites of the BRLM at www.hemsecurities.com and on the website of the Company at [www.metainfotech.com](http://www.metainfotech.com) respectively. Any potential investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the Draft Red Herring Prospectus including the section titled “**Risk Factors**” beginning on page 30 of the Draft Red Herring Prospectus.

The Equity Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or any state securities laws in the United States, and unless so registered, and may not be issued or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with any applicable U.S. State Securities laws. The Equity Shares are being issued and sold outside the United States in ‘offshore transactions’ in reliance on Regulation “S” under the Securities Act and the applicable laws of each jurisdiction where such issues and sales are made. There will be no public offering in the United States.

On behalf of Board of Directors  
Meta Infotech Limited  
Sd/-  
Komal Toshniwal  
Company Secretary and Compliance Officer