

ASSURANCE GAZETTE

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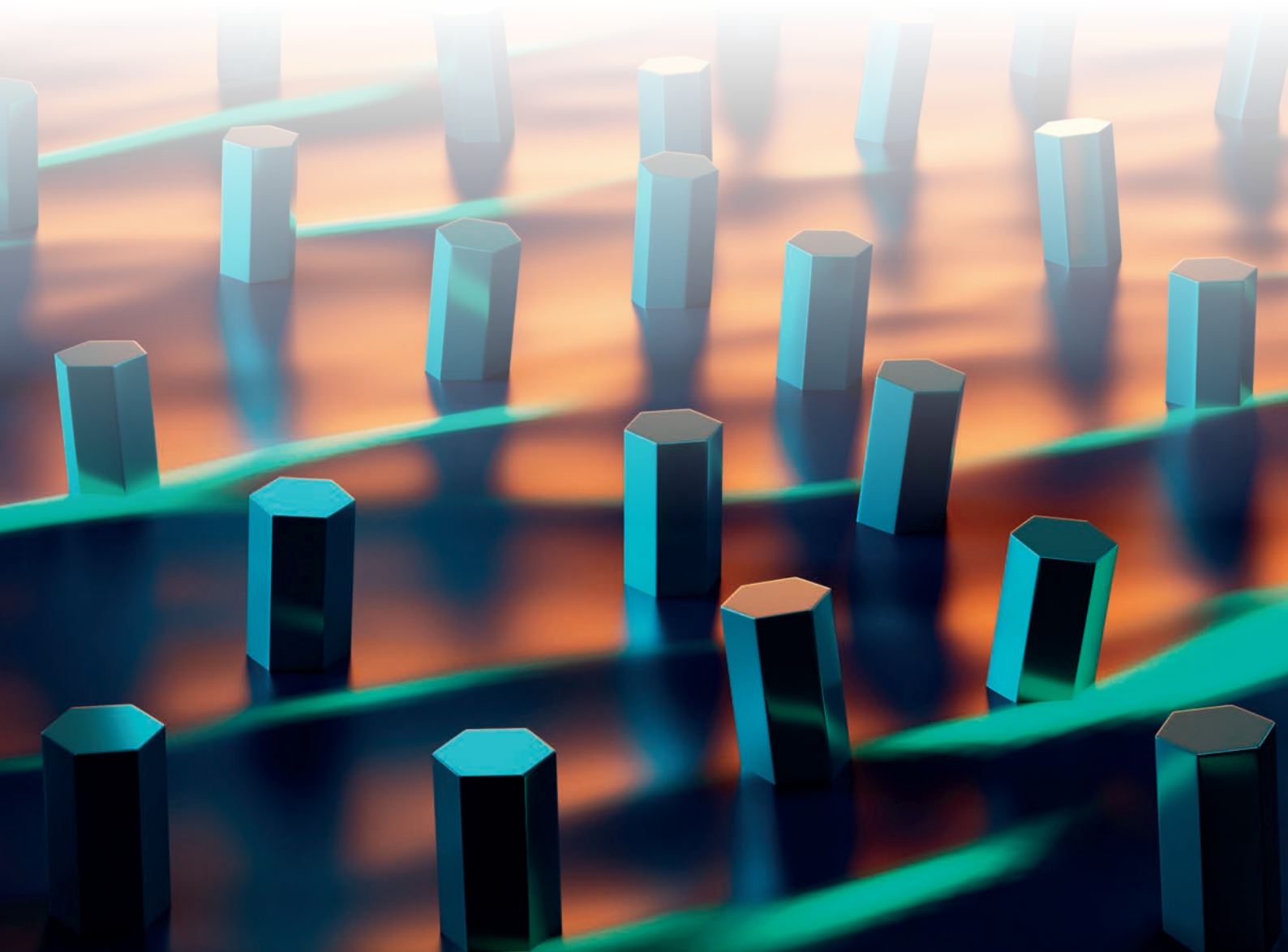
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Foreword

“Welcome to the Assurance Gazette for March 2026 Edition.

This edition present the OECD’s Pillar Two Global Minimum Tax framework introduces a minimum effective tax rate of 15% for large multinational enterprises and represents a significant shift in the global tax landscape.

In this regard, the Ministry of Corporate Affairs (MCA), vide notification dated March 10, 2026, has amended Accounting Standard (AS) 22 – Accounting for Taxes on Income through the Companies (Accounting Standards) Amendments Rules, 2026. The amendment seeks to address the accounting implications arising from the implementation of the Pillar Two framework. This article aims to provide insights into the amendment and highlighting its impact on the financial statements.

Complementing the discussion on global tax developments, this edition also provides a structured overview of the evolving regulatory and governance framework applicable to Section 8 Companies under the Companies Act, 2013, drawing from key practical clarifications issued by ICAI. It highlights critical compliance expectations relating to utilisation of funds, audit requirements, related party transactions, insolvency exposure, and foreign contribution regulations, thereby enabling not-for-profit entities to balance their social objectives with robust corporate governance and financial discipline.”

Amendment to AS 22 (**Accounting for Taxes on Income**)

relating to OECD Pillar Two Taxes



I. Background

The Ministry of Corporate Affairs (MCA) vide notification dated March 10, 2026 has issued **Companies (Accounting Standards) Amendments Rules, 2026** thereby amending **Accounting Standard (AS) 22 – Accounting for Taxes on Income**. This amendment address the accounting implications arising from **OECD’s Pillar Two Global Minimum Tax framework**.

The Pillar Two framework aims to ensure that large multinational enterprises (MNEs) are subject to a minimum effective tax rate of 15% across jurisdictions.

II. Objective of the Amendment

The amendment primarily seeks to:-

- Provide a temporary mandatory relief from not recognizing deferred tax assets and liabilities related to **‘Pillar Two taxes’**; and
- Introduced enhanced disclosure requirements in respect of **‘Pillar Two taxes’**.

III. Key Amendment – Recognition Exception

The amendment to AS -22 introduce a temporary mandatory exception **from recognising deferred tax assets (DTA) and deferred tax liabilities (DTL)** from **Pillar Two taxes**. Accordingly, entities are not required to recognize or disclose deferred tax asset/liabilities relating to Pillar Two taxes. However, entities must explicitly disclose that they have applied this exception.

IV. Measurement and Recognition – Other Areas

The amendment does not impact existing principles of AS 22 for:

- Timing differences unrelated to Pillar Two taxes;
- Recognition of DTA/DTL under normal tax regimes;
- Existing criteria such as virtual certainty / reasonable certainty.

V. Disclosure Requirements

The amendment mandates enhanced disclosures for financial years beginning on or after April 1, 2025.



A. Disclosure of Application of Exception

Entities must disclose that they have applied the exception for deferred tax accounting relating to Pillar Two taxes.

B. Where Pillar Two legislation is enacted/ substantively enacted but not yet in effect

Entities are required to disclose information that is known or reasonably estimable to help users to understand its exposure to Pillar two taxes at the reporting date.

This information does not need to reflect all the specific requirements of the Pillar Two legislation. The entities can provide the information in the form of an indicative range. Disclosures may include qualitative and quantitative information.

- **Qualitative Information** - How an enterprise is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and
- **Quantitative information** - The proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or how an enterprise's average effective tax rate would have changed if Pillar Two legislation had been in effect.

If the information is not known or reasonably estimable, an enterprise should instead disclose a statement to that effect and disclose information about the enterprise's progress in assessing its exposure.

C. When Pillar two taxes become effective

Entities are required to separately disclose the current tax expense or income relating to Pillar Two taxes in their financial statements.

VI. Relief for Small and Medium sized entities

The disclosure requirements relating to exposure to Pillar Two (global minimum tax) are not applicable to Small and Medium-sized Companies (SMCs).



nangia's Take

The OECD Pillar Two framework introduces a global minimum tax rate of 15% on large multinational enterprises (MNEs) with consolidated annual revenue of EURO 750 million.

Although India has not yet enacted Pillar Two legislation, Indian MNCs with overseas operations may still be affected in jurisdictions where such rules are implemented.

The amendment to AS 22 provides a practical and timely relief by temporarily exempting entities from recognising deferred taxes related to Pillar Two. This allows companies sufficient time to assess their global tax positions and prepare for enhanced transparency and reporting requirements.

A corresponding amendment has been notified in Ind AS 12 – 'Income Taxes' by the MCA vide notification dated August 13, 2025. Consequently, the requirements under both Accounting Standards and Ind AS are aligned on this aspect.

Frequently Asked Questions on **Section 8** Companies under the Companies Act, 2013



Introduction

The rules and regulations that companies registered under Section 8 of the Companies Act, 2013 must follow have changed over time in response to changes in the law, exemption notifications, and larger policy changes. Because of these changes, it is now even more important to clearly understand the legal responsibilities, governance expectations, and reporting requirements that apply to these kinds of organizations.

Section 8 companies are different from other businesses because they have structured corporate governance and a goal of not making money. The goal of this framework is to get organizations that work in areas like education, healthcare, social development, research, environmental sustainability, and other public benefit activities to operate in a corporate structure that is open and regulated. This method helps make people more responsible, better at managing their money, and more confident in the people who have a stake in the business.

The Institute of Chartered Accountants of India has put out FAQs to help people understand the rules that apply to Section 8 companies in this situation. The goal of the guidance is to help with real-world implementation problems, reduce compliance uncertainties, and encourage people to follow the law on time. This article talks about some important questions that we think are very important for understanding how the rules and regulations for Section 8 companies are changing and how they are being enforced.



FAQs:

	Question	Answer
Ques.1	What is meant by a “Section 8 Company” under the Companies Act, 2013?	A Section 8 Company is a company incorporated under Section 8 of the Companies Act, 2013 with the primary objective of promoting charitable or not-for-profit purposes, such as commerce, art, science, education, research, social welfare, religion, charity, environmental protection or any other object of general public utility. Such a company applies its profits or income solely towards the promotion of its objects and prohibits payment of any dividend to its members.
Ques.5	What are the permissible objects of a Section 8 Company?	As per Section 8(1)(a) of the Companies Act, 2013, a Section 8 Company may be formed for promoting: <ul style="list-style-type: none"> • Commerce, art, science, sports, education or research • Social welfare • Religion or charity • Protection of environment • Any other object of general public utility. The objects must be clearly stated in the Memorandum of Association, and the company must apply its income solely towards promotion of such objects.
Ques.9	Whether a licence is mandatory for incorporation of a Section 8 Company?	Yes. Grant of a licence by the Central Government is mandatory for incorporation of a company under Section 8 of the Companies Act, 2013. In accordance with Section 8(1) of the Act read with Rule 19 of the Companies (Incorporation) Rules, 2014, an application for grant of licence is required to be made in the prescribed manner by an existing company willing to be formed as a Section 8 Company. The powers of the Central Government for grant of such licence have been delegated to the Central Registration Centre (CRC), Manesar in accordance with the provisions of the Act and the rules made thereunder.
Ques.13	What are the key conditions attached to a Section 8 licence?	The principal conditions attached to a Section 8 licence are as follows: <ul style="list-style-type: none"> • Application of profits or income solely towards charitable objects • Prohibition on payment of dividend to members • Compliance with the Memorandum and Articles of Association • Compliance with all applicable laws and regulatory requirements • Any addition or alteration of the objects requires prior approval of the Central Government under Section 8(4) read with Sections 13 and 14 of the Companies Act, 2013.

	Question	Answer
Ques.16	Whether profits earned incidentally by a Section 8 company violate Section 8 conditions?	No. Earning profits per se does not violate Section 8, provided: <ul style="list-style-type: none"> • Profits are incidental to the attainment of charitable objects • Entire surplus is reinvested in furtherance of objects • No portion is distributed to members, directors, or promoters Judicial view supports that profit motive is prohibited, not profit generation.
Ques.28	Can a Section 8 company limited by shares/guarantee be insolvent?	Yes. A Section 8 company, whether limited by shares or limited by guarantee, can become insolvent. Although such companies operate on a not-for-profit basis, they may still incur debts and face financial distress. Section 8 companies fall within the definition of a “corporate person” under Section 3(7) of the Insolvency and Bankruptcy Code, 2016 (IBC). Accordingly, if they default on their financial or operational debts, insolvency proceedings may be initiated against them under the IBC, including the Corporate Insolvency Resolution Process (CIRP). Judicial authorities, including the NCLAT, have also recognized that Section 8 companies can be subjected to CIRP and, where applicable, liquidation. Additionally, such companies may also be wound up under the Companies Act, 2013, if the circumstances so require.
Ques.35	Whether a Section 8 company can have both individual and body corporate members simultaneously?	Yes, Section 8(1) of Companies Act 2013, allows a person or an association of persons to form a company for charitable or other specified purposes. Further, Section 8(3) of Companies Act 2013, allows a firm to be a member of the company registered under this section.
Ques.63	Whether related party transactions are permitted?	Yes, but they must: <ul style="list-style-type: none"> • Be in furtherance of the company’s objects • Be disclosed to the Board • Comply with Section 188 (as applicable) • Not result in private benefit to members or directors
Ques.64	Are directors personally liable for non-compliance?	Yes. Directors and KMPs may be treated as officers in default and can be personally liable for: <ul style="list-style-type: none"> • Non-filing of returns • Misuse of funds • Breach of licence conditions • False statements or suppression of material facts
Ques.78	Is statutory audit mandatory for Section 8 companies irrespective of size or turnover?	Yes. Statutory audit is mandatory for all Section 8 companies under Section 139, of the Companies Act, 2013, irrespective of turnover, income, or applicability of exemptions available to small companies or OPCs.
Ques.88	Is a Section 8 company automatically exempt from CSR obligations under Section 135 of the Companies Act, 2013?	No. A Section 8 company is not automatically exempt from CSR. If it meets any of the financial thresholds prescribed under Section 135(1) of the Companies Act, 2013, net worth, turnover, or net profit, it becomes fully subject to CSR provisions irrespective of its non-profit character.



	Question	Answer
Ques.118	What constitutes a “contravention” specific to a Section 8 company under the Companies Act, 2013?	<p>A contravention for a Section 8 company includes not only violations of general provisions of the Companies Act, 2013, but also breach of the special conditions of licence granted under Section 8(1), such as:</p> <ul style="list-style-type: none"> • Application of profits for non-charitable purposes • Distribution of dividend or indirect benefit to members • Deviation from stated charitable objects • Non-compliance with licence conditions prescribed by the Central Government
Ques.135	Whether a Section 8 company requires FCRA Registration or prior permission to receive any foreign contributions or donations?	<p>Yes. A Section 8 company must obtain FCRA registration or prior permission before receiving any foreign contribution, because the Foreign Contribution (Regulation) Act, 2010 (FCRA) applies to all non-profit entities including Section 8 companies, charitable trusts, and societies; the Ministry of Home Affairs confirms that Section 8 companies are eligible applicants for FCRA registration, and newly formed entities may receive foreign funds only through the Prior Permission (PP) route for a specific donor, purpose, and amount.</p>

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nangia’s Take

Section 8 companies represent a unique blend of social purpose and corporate regulation, requiring disciplined governance, transparent financial management, and strict adherence to statutory provisions. While their not-for-profit nature distinguishes them from commercial entities, increasing regulatory expectations around audit, utilisation of funds, related party transactions, insolvency exposure, CSR applicability, and foreign contribution compliance highlight the importance of structured compliance frameworks and proactive oversight.

From our viewpoint, strengthening internal controls, ensuring clarity of objects and fund deployment, and conducting periodic compliance reviews are essential to mitigate legal and reputational risks. A balanced approach that aligns mission-driven objectives with sound corporate governance will enable Section 8 companies to build stakeholder confidence, sustain long-term impact, and operate effectively within an evolving regulatory ecosystem.

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