

# DOING BUSINESS IN INDIA

## 2024 – 2026: Progress, Pitfalls & Ambiguities

A comprehensive CA-desk analysis covering six reform areas — Labour Codes, GST 2.0, DPDP Act, Corporate Law, Decriminalisation, and Structural Bottlenecks — with an action checklist and gratuity liability framework for CFOs and business owners.

**47,000+**

Compliances reduced since 2014

**25–50%**

Potential gratuity liability increase

**18.51 Lakh**

Active companies (Mar 2025)

**40,000+**

GST Tribunal cases backlogged

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## — Section 1 · Overview

## The Big Picture: India Mid-Transformation

India's ease-of-doing-business story is genuinely impressive in trajectory — while still being a work-in-progress in execution. India improved its World Bank Doing Business ranking from 142nd in 2014 to 63rd in 2020, one of the fastest climbs globally. As of late 2025, more than 47,000 compliances have been reduced — 16,108 simplified, 22,287 digitised, 4,458 decriminalised, and 4,270 redundant compliances removed.

The number of active companies has nearly doubled — from 9.52 lakh in March 2014 to 18.51 lakh in March 2025. The government's reform strategy rests on three pillars: **digitisation, decriminalisation, and consolidation.**

Pillar	Key Achievement	Remaining Gap
Digitisation	SPICe+, AGILE PRO-S, C-PACE for exits, CPC for centralised forms processing	State-level portals remain inconsistent
Decriminalisation	183 provisions decriminalised via Jan Vishwas Act 2023; 355 more proposed	Jan Vishwas Bill 2025 still in Select Committee
Consolidation	29 labour laws into 4 Codes; GST slab rationalised; IT Bill 2025 tabled	Transition ambiguities creating fresh compliance burden

**Remaining friction:** State-level delays in approvals and the variance between how progressive central rules look on paper versus implementation at the district level remain persistent complaints from investors.

## — Section 2 · Most Consequential Reform

## Labour Codes & The Gratuity Bomb

### EFFECTIVE DATE ALERT

On November 21, 2025, India implemented its historic labour law overhaul. The four Labour Codes replaced 29 older labour statutes. Any actuarial valuation dated on or after this date **MUST** reflect these changes.

### Two Compounding Triggers

Trigger	What Changed	Financial Impact
1. Wage Redefinition	Basic pay must be minimum 50% of total remuneration (CTC). Previously, many companies kept basic at 30–40%.	<b>Larger wage base = higher gratuity and PF base</b>
2. Fixed-Term Eligibility	Fixed-term employees eligible for gratuity after just 1 year (was 5 years under the Payment of Gratuity Act 1972)	<b>Massive liability expansion for contract-heavy employers</b>
3. Gig Workers	Gig, platform, and contract workers now under social security. Employer contribution: 1–2% of annual turnover (capped at 5% of amounts paid)	<b>New unprovisioned liability for tech, logistics platforms</b>

### ACCOUNTING TREATMENT — IND AS 19

Under Ind AS 19 / AS 15: The entire gratuity liability increase must be recognised **IMMEDIATELY** in P&L as Past Service Cost when the law becomes effective. This is not a future provision — it hits the March 2026 P&L.

### Centre vs. State — Unresolved Ambiguity (April 2026)

While the Codes are effective from November 21, 2025, final Central and State rules are yet to be fully notified. Draft Central Rules were published December 30, 2025 with a 45-day comment window. A company operating across Maharashtra, Tamil Nadu, and Telangana is effectively navigating three different compliance regimes simultaneously.

The ambiguity around calculation for multiple short-term contracts — how gratuity is computed for employees who have had multiple sequential fixed-term stints — still needs to be addressed by the rules.

## — Section 3 · Before &amp; After

## Gratuity Liability — The Comparison Table

This table shows the exact parameter-level changes that are driving balance sheet restatements across Indian companies in early 2026.

Parameter	Pre-Nov 2025 (Old Law)	Post-Nov 2025 (Labour Codes)
Gratuity eligibility (regular employees)	<b>5 years of continuous service</b>	<b>5 years (unchanged)</b>
Gratuity eligibility (fixed-term employees)	<b>5 years (same as permanent)</b>	<b>1 year — dramatic change</b>
Wage base for gratuity calculation	<b>Typically 30–40% of CTC (basic)</b>	<b>Minimum 50% of total remuneration</b>
Gig / platform worker coverage	Not covered under gratuity law	<b>Social security fund contribution required</b>
Accounting standard treatment	<b>Gradual actuarial provision</b>	<b>Immediate P&amp;L;: Past Service Cost</b>
EPF Act status	Single framework	<b>EPF 1952 Act still in force — dual compliance</b>
State-specific implementation	Central law applied uniformly	<b>State rules awaited; interim ambiguity</b>
Multi-stint calculation method	Not a common issue (5yr threshold)	<b>Unclear — draft rules silent on this</b>

### Estimated Impact on Liability

Company Profile	Likely Liability Change	Action Required
Basic pay 30–35% of CTC, permanent staff only	<b>+20–35% increase in gratuity DBO</b>	Revise actuarial assumptions; book Past Service Cost
Basic pay 40–45% of CTC, significant fixed-term workforce	<b>+35–50% or more increase in gratuity DBO</b>	Urgent re-valuation; disclose in March 2026 financials

Basic pay already 50%+ of CTC, no fixed-term staff	<b>Minimal or nil impact</b>	Confirm with auditors; may still need disclosure note
Tech / logistics with large gig workforce	<b>New liability category — 1–2% of annual turnover</b>	Determine applicable contribution rate; provision required

## — Section 4 · Taxation

## GST 2.0 and the Income Tax Bill 2025

**GST 2.0 — EFFECTIVE DATE**

GST 2.0 effective September 22, 2025: two-slab model of 5% and 18%. The 12% slab has been eliminated. Demerit goods: 40%.

### What GST 2.0 Means in Practice

The elimination of the 12% tax slab addresses one of the most enduring areas of interpretive ambiguity in the GST regime. Historically, fine distinctions in tariff classification created persistent challenges for businesses in determining whether goods fell under the 12% or 18% rate — a prolific source of demand notices and litigation.

Area	Before GST 2.0	After GST 2.0
Tax slabs	5%, 12%, 18%, 28%	<b>5%, 18%, 40% (demerit)</b>
Classification disputes	<b>High — 12% vs 18% grey area prolific</b>	<b>Reduced — binary choice in most cases</b>
ITC complexity	<b>Very high; courts repeatedly intervening</b>	<b>Still high — not addressed by slab reform</b>
GST Appellate Tribunal	<b>Delayed — 40,000+ case backlog</b>	Now being operationalised (backlog remains)

### Income Tax Bill 2025

Tabled in Parliament in February 2025. Three guiding principles: textual and structural simplification, improved clarity and coherence, and no major policy changes — ensuring continuity without changing tax rates. This is primarily a housekeeping reform. The drafting clarity it brings should reduce litigation substantially over the next 3–5 years.

## — Section 5 · Data Protection

## DPDP Act — India's Data Protection Framework

The Digital Personal Data Protection Act received presidential assent in August 2023 but remained inactive for over two years. Final rules were notified on November 13, 2025.

When	Milestone	Who is Affected
Nov 2025 (Immediate)	Data Protection Board established. Penalties up to INR 500 crore.	<b>All data fiduciaries — immediate exposure</b>
By Nov 2026	Consent Manager rules apply. Document and audit consent mechanisms.	Any business with digital customer touchpoints
By May 2027	Full compliance: DPIAs, resident DPOs, algorithmic transparency.	<b>Significant Data Fiduciaries (finance, health, ed-tech)</b>

**CROSS-BORDER DATA — AMBIGUITY FLAG**

Cross-border data transfers: The Act empowers the Central Government to restrict transfers to specific countries. For IT/BPO companies, this is a board-level uncertainty. Sector-specific mandates are likely to follow.

— Section 6 · Company Formation & M&A;

## Corporate Law: What's Improved for 2026

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Registration has been dramatically streamlined. SPICe+, AGILE PRO-S, C-PACE (for company exits), and the Central Processing Centre (2024) have significantly reduced formation timelines.

Reform	Detail	Date
Equity swaps permitted	Cross-border equity swaps between Indian and foreign companies now allowed	Aug 2024
Fast-track inbound mergers	Foreign holding companies can merge with wholly-owned Indian subsidiaries via fast-track route	Sep 2024
C-PACE for exits	Time-bound striking off of companies; faster than previous NCLT route for solvent companies	2023
MCA amendments proposed	Further amendments to expand fast-track merger eligibility and streamline restructuring process	Apr 2025

— Section 7 · Structural Challenges

## Persistent Bottlenecks

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### Land Acquisition

The Land Acquisition Act 2013 remains complex. Social impact assessments, consent requirements, and compensation frameworks vary significantly by state. Substantive changes are still awaited despite being identified as a priority.

### State-Level Variance

A company's compliance burden can differ enormously across Maharashtra, Tamil Nadu, and West Bengal — even when central laws appear harmonised. Labour enforcement, land approvals, and utility connections all vary in practice.

### Judicial Delays

India ranks poorly on contract enforcement through courts. Average commercial dispute resolution timelines run into years. NCLT under IBC has improved but still faces capacity constraints.

### EPF Outlier

The Employees' Provident Funds Act 1952 has NOT been repealed and continues in force alongside the new Labour Codes — creating a dual compliance obligation in a reform exercise meant to eliminate exactly that overlap.

## — Section 8 · Immediate Action

## Compliance Action Checklist — 2026

### Labour Codes & Gratuity

- Commission a revised actuarial valuation with measurement date on or after Nov 21, 2025
- Analyse current basic-to-CTC ratio; restructure if below 50%
- Audit all fixed-term employment contracts for new 1-year gratuity eligibility
- Calculate gig/platform worker headcount and estimate social security contribution
- Disclose Past Service Cost and assumption changes in March 2026 financials
- Engage CA/actuary to clarify multi-stint gratuity calculation once State rules notified

### GST 2.0

- Review all product/service classifications under the new 5%/18% two-slab regime
- Update ERP tax codes; eliminate references to 12% slab
- Clear pending ITC reconciliation disputes before Tribunal operationalisation
- File representation for any long-pending demand notices now actionable at Tribunal
- Review GSTR-3B filing accuracy for FY 2025–26 given new slab structure

### DPDP Act

- Map all personal data processed by your organisation (data inventory audit)
- Review and upgrade consent mechanisms on websites, apps, and forms
- Assess whether your organisation qualifies as a Significant Data Fiduciary
- Appoint a Data Protection Officer if required (or identify the function internally)
- Set calendar reminders: Nov 2026 (consent rules) and May 2027 (full compliance)

### Corporate & General

- Review corporate structure for cross-border entities — consider fast-track merger options

- Check company registration data accuracy on MCA portal (C-PACE exit flag risk)

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- Audit environmental compliance obligations under rationalised provisions

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- Review contracts for decriminalised provisions (late fees, compounding options)

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## — Section 9 · Professional Guidance

## When to Engage a Chartered Accountant

Situation	Why CA Involvement is Essential
Gratuity liability restatement for March 2026	Actuarial assumptions, accounting treatment under Ind AS 19/AS 15, and disclosure notes require professional sign-off
Salary restructuring for Labour Code compliance	Changes to CTC structure affect TDS, PF, ESIC, and employee offer letters — a multi-function exercise requiring careful planning
GST classification review post-2.0	Incorrect slab mapping under the new regime = demand notices. Proactive review prevents retrospective exposure
DPDP readiness assessment	Cross-functional review involving legal, IT, and finance; CA oversight ensures financial penalty exposure is quantified
Cross-border M&A; or merger planning	New equity swap and fast-track merger rules have specific procedural requirements and FEMA implications that require expert guidance

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Book a free 30-minute consultation to assess your Labour Code exposure, GST reclassification risk, or DPDP readiness.

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