



MACRO ECONOMICS

GAAR in brief

The General Anti-Avoidance Rules: what they target, how they work, and that they are now law

Rules as in force on 16 October 2026

For training and education only. Not investment advice.

GAAR lets tax authorities set aside an arrangement made mainly to save tax and having a listed feature.

They can then work out the tax as if the arrangement were not there. GAAR is aimed at artificial avoidance, not at ordinary, lawful tax planning.

Planning, avoidance, evasion

Three different things. GAAR is aimed at only the middle one, and only its artificial form.

Type	What it is	Where it stands
Tax planning	Using deductions and exemptions the way the law intends them to be used.	Legal and fine.
Tax avoidance	Arranging affairs mainly to get a tax benefit the law did not intend.	GAAR can set aside the impermissible kind.
Tax evasion	Hiding income or facts, or misreporting them, to pay less tax.	Illegal; a separate offence, not GAAR.

Source: concept per the Income-tax Act and CBDT Circular No. 7 of 2017 (27 Jan 2017).

The three-crore threshold, with arithmetic

ASSUMED FIGURES

A group routes a deal through an extra entity that does nothing commercially. Assume its only effect is to cut the tax bill.

Without the step: tax of Rs 10 crore.

With it: Rs 6 crore.

- 1 The tax benefit from the step is Rs 10 crore minus Rs 6 crore = Rs 4 crore.
- 2 GAAR is examined only where the tax benefit in the year is above Rs 3 crore. Here Rs 4 crore clears that bar.
- 3 If the step's main purpose is the tax benefit and it has no commercial substance, it can be an impermissible avoidance arrangement.
- 4 The authorities may then ignore the step and tax the deal as if done directly: Rs 10 crore.

GAAR looks at substance over form: a step that exists only to save tax can be set aside.

Illustration with assumed round figures in rupees. Not tax advice.

When GAAR bites: two gates

Both must be crossed before an arrangement can be called 'impermissible'.



Gate 1: main purpose

The main purpose of the arrangement must be to obtain a tax benefit. If the main purpose is a genuine business one, GAAR does not apply.



Gate 2: a listed feature

It also needs at least one of four: non-arm's-length terms; misuse or abuse of the Act; no commercial substance; or a manner not ordinarily used for genuine purposes.

Cross both and it is an 'impermissible avoidance arrangement', which can be set aside.

Source: Income-tax Act, 2025, Chapter XI (General Anti-Avoidance Rule); CBDT Circular No. 7 of 2017.

The limits that keep GAAR in check

GAAR is hedged with safeguards so it does not catch ordinary arrangements.

1

A money threshold

GAAR is examined only where the tax benefit in the year is more than Rs 3 crore.

2

Older investments protected

Income from selling investments made before 1 April 2017 is generally outside GAAR (2026 rules), though courts have tested this.

3

A panel must approve

A tax officer cannot apply GAAR alone. An Approving Panel, headed by a current or former High Court judge, must clear it.

4

Choice alone is not enough

GAAR is not invoked merely because a structure is tax-efficient or sits in a particular location.

Sources: CBDT Circular 7 of 2017; Income-tax Act 2025 and Rules 2026; Supreme Court, 15 Jan 2026.

If you learnt this from older material

What older decks say

- GAAR is a proposal that is not yet law.
- It may be deferred again before it starts.
- A tax-residency certificate alone puts an arrangement beyond GAAR.

What holds now

- GAAR has been in force since 1 April 2017 (Chapter X-A of the 1961 Act).
- It is carried into the Income-tax Act, 2025, which applies from 1 April 2026.
- A tax-residency certificate alone does not place an arrangement beyond GAAR.

What was a debated proposal in 2012-13 is law in force today.

Sources: Income-tax Acts 1961 (Ch. X-A) and 2025; CBDT Circular 7 of 2017; Supreme Court, 15 Jan 2026.

The dates and the number

Settled facts, not market figures. They anchor every conversation about GAAR.

IN FORCE FROM

1 Apr 2017

GAAR took effect under Chapter X-A of the Income-tax Act, 1961.

MONEY THRESHOLD

Rs 3 crore

GAAR is examined only above this tax benefit in a year (Rules).

UNDER THE NEW ACT

1 Apr 2026

GAAR continues in the Income-tax Act, 2025, from this date.

Sources: Income-tax Act 1961 (Chapter X-A, in force 1 Apr 2017); Income-tax Rules (Rs 3 crore threshold); Income-tax Act 2025 (in force 1 Apr 2026).

Four things people get wrong



'GAAR is still just a proposal.'

It has been in force since 1 April 2017 and continues under the Income-tax Act, 2025.



'Any tax saving can be struck down.'

Genuine planning within the law stands. GAAR targets arrangements whose main purpose is an unintended tax benefit.



'A tax-efficient setup is always caught.'

GAAR is not invoked merely because a structure saves tax or sits in a particular place.



'GAAR and evasion are the same.'

Evasion is hiding income or facts, an offence. GAAR deals with arrangements that may be fully visible yet lack real substance.

How we talk about GAAR

1

Separate the three

Planning is legal, evasion is illegal, and impermissible avoidance is what GAAR targets.

2

It is law in force

GAAR has applied since 1 April 2017 and continues under the Income-tax Act, 2025.

3

Substance matters

A genuine arrangement has a real business purpose, not only a tax saving.

4

We do not advise on tax

Trustner explains the idea for general understanding. For a specific case, consult a qualified tax professional.

This is general education, not tax advice.

Source: Income-tax Act 1961 (Chapter X-A) and Income-tax Act 2025.

Check yourself

Q1 Is GAAR a proposal or law, and since when?

Q2 A step in a deal saves Rs 4 crore of tax, has no business purpose and exists only to cut tax. Can GAAR apply, and why?

Q3 Does GAAR mean any tax saving can be struck down?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- GAAR in Chapter X-A (sections 95 to 102) of the Income-tax Act, 1961, in force from 1 April 2017 (financial year 2017-18): Income Tax Department, incometaxindia.gov.in.
- Definition of 'impermissible avoidance arrangement' (main-purpose test plus one tainted feature): Chapter X-A of the 1961 Act and Chapter XI of the 2025 Act; CBDT Circular No. 7 of 2017.
- Tax benefit over Rs 3 crore in a year; income from investments made before 1 April 2017 excluded: Income-tax Rules, 2026, as amended 31 Mar 2026 after Supreme Court ruling of 15 Jan 2026.
- CBDT clarifications: GAAR not invoked merely for a tax-efficient entity or location; GAAR and specific anti-avoidance rules coexist: CBDT Circular No. 7 of 2017, dated 27 January 2017.
- GAAR carried into the Income-tax Act, 2025 (Chapter XI, from section 178), which replaces the 1961 Act from 1 April 2026: Income Tax Department.
- All rupee amounts in the worked example are assumed round figures for illustration.

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