

UNION BUDGET 2026



S.R. DINODIA & Co. LLP
CHARTERED ACCOUNTANTS



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Foreword



Foreword



Pradeep Dinodia,
Managing Partner

The stakeholders have been keenly awaiting the policy measures to be announced in Union Budget, 2026 to sustain economic growth, enhance India's global competitiveness, and advance the vision of **Viksit Bharat 2047**, amid the persistent global and trade-related uncertainties. The Budget has been presented at a pivotal juncture, coinciding with the replacement of the Income Tax Act, 1961 by the newly introduced Income-tax Act, 2025, effective from 1st April 2026.

The **global economy** has faced multiple upheavals, the most disruptive of which has been the imposition of tariffs by the United States on imports from its trade partners due to this Global growth remains fragile but stable despite recent shocks. IMF projections showed global growth at 3.3% in 2025 and 2026, broadly unchanged from earlier forecasts.

In contrast, **India** enters FY 2026–27 with strong macroeconomic fundamentals, remaining the fastest-growing major economy with GDP growth projected at 7.4% (FY26) [FAE] By NSO- Jan 2026]. Further, the Economic Survey has estimated the real GDP growth for FY26 at over 7% for full year and projects real GDP growth in FY27 in the range of 6.8 to 7.2 per cent. Growth is broad-based, led by services, supported by resilient manufacturing, steady agriculture, robust private consumption, and sustained policy reforms. Inflation has moderated sharply to 1.7% (FY26, Apr-Dec), well within the RBI's tolerance band, allowing growth-supportive monetary easing alongside fiscal consolidation.

On the **fiscal front**, credible deficit reduction continues, with the fiscal deficit budgeted at 4.4% of GDP in FY26, supported by strong direct tax buoyancy, GST formalisation, and improved compliance. India's external sector remains stable but vulnerable, with record exports (USD 825.3 billion in FY25), a moderate Current Account Deficit [CAD] (0.8% of GDP), and strong forex buffers, though volatile capital flows and rupee depreciation (6.5%) highlight dependence on global liquidity. However, despite strong fundamentals, India faces a strategic and geopolitical challenge.

Source: Economic Survey 2025-26

Foreword

Budget 2026's **direct tax proposals** continue the Government's reform-centric approach, with a clear focus on simplification, certainty and reduction of tax litigation rather than immediate rate-based relief. The most significant structural change is the proposal to introduce a new Income-tax Act, 2025 with effect from 1 April 2026 which introduced the concept of '**tax year**' which is equivalent to the fiscal year commencing from 1st April, 2026 onwards. It further provides a significant reassurance to taxpayers by **not proposing the re-introduction of wealth tax or estate duty on inheritance**, signaling government's commitment to tax certainty and capital formation.

From a taxpayer relief perspective, the **Budget does not alter income-tax slabs** or rates under either the old or the new regime, signaling that fiscal consolidation and legal reform have been prioritised over short-term populist measures. Budget instead seeks to improve effective tax experience through rationalisation of TDS and TCS provisions. In particular, the sharp reduction in **TCS on overseas remittances** for education, medical treatment and travel directly addresses liquidity stress and refund dependency, which had emerged as a significant taxpayer grievance in recent years.

Budget 2026–27 adopts a clear, facilitative framework for **foreign taxpayers and non-residents**, aimed at attracting long-term capital, technology and talent while ensuring tax certainty. A major reform is the proposal to grant a **tax holiday up to 2047** to foreign companies providing global cloud services by **using data-centre infrastructure located in India**, with Indian consumption routed through a domestic reseller. To reduce transfer-pricing friction, a **15% safe harbour** is prescribed where data-centre services are provided by a related Indian entity.

Additionally, all non-residents paying tax on a **presumptive basis are exempted from MAT**, simplifying compliance and reducing disputes. Further, extending the period of tax exemption to IFSC units from 10 years to 20 years will enhance its competitiveness in the global arena. Collectively, these measures reposition India as a predictable, competitive and investment-friendly jurisdiction for foreign taxpayers while safeguarding the domestic tax base.

A notable feature of Budget 2026 is its targeted response to long-standing administrative, interpretational and procedural **controversies** that have been the subject of extensive litigation. The issues surrounding the Document identification number (**DIN**), time limits for completion of **DRP** led assessments, time limit for deposit of **employee contribution** are sought to be addressed through stronger statutory amendments. Similarly, it also seeks to attempt to resolve the **jurisdictional uncertainty** between Jurisdictional Assessing Officers (JAO) and Faceless Assessing Officers (FAO).

Foreword

This budget also introduces a **Foreign Assets of Small Taxpayers – Disclosure Scheme (FAST-DS), 2026**, as a one-time, time-bound compliance window to address genuine and low-value non-disclosures of overseas income or asset which is a welcome move towards reducing disputes and encouraging voluntary compliance.

This budget also rationalises the taxation of **share buybacks** to while curbing tax arbitrage by promoters. The consideration received by shareholders on buyback is proposed to be taxed uniformly as capital gains, replacing the earlier dividend-based taxation model. To specifically deter misuse of buybacks as a profit-extraction mechanism, a differential tax treatment for **promoters** is introduced. The tax rate is set at **22%** for corporate promoters and **30%** for non-corporate promoters, while other shareholders will be taxed under the normal capital gains framework applicable to them. **MAT rationalisation** is another important step, with proposals in alignment to government’s push to opt for new regime with no exemption / deduction while allowing restricted set-off of accumulated MAT credit. Now MAT will be final tax @ 14% (from 15%) but with no credit under the old corporate tax regime.

In addition, **procedural reforms** such as extended timelines for revised returns, staggered filing deadlines and wider adoption of automated, rule-based approvals strengthen the compliance ecosystem. Further, the prosecution regime is substantially softened by **decriminalising minor and procedural offences**, replacing rigorous imprisonment with simple imprisonment, capping maximum imprisonment at **two years**, and allowing fine-only punishment for minor offences, with prosecution now being graded proportionate to the quantum and gravity of tax evasion. Overall, the approach marks a decisive shift towards a trust-based, proportionate and litigation-light tax administration.

The Government’s approach to **indirect taxes**, particularly Customs, focuses on simplifying the tariff structure, supporting domestic manufacturing, enhancing export competitiveness, and correcting duty inversions. To enhance ease of doing business, increasingly trust-based and technology-driven, emphasising self-declaration, electronic traceability, and automated processes. Measures such as a single digital window for cargo clearance, integrated customs systems, and AI-enabled non-intrusive scanning are expected to minimise manual intervention and improve efficiency. To enhance ease of living, key steps include reduction of customs duty on personal imports from 20% to 10%, enhancement of duty-free allowance in line with current travel realities, and exemption of Basic Customs Duty on 17 life-saving cancer drugs and medicines for seven rare diseases.

In nutshell, the Union Budget 2026’s proposals prioritise long-term structural reform over short-term tax relief. While immediate gains for individual taxpayers are limited, the focus on simplification, improved compliance, and reduced litigation and trust-based administration strengthens the foundation of India’s tax framework.

Economic Indicators



Economic Indicators

Sectoral and GDP Growth

India's Economic Performance: A Strong Growth Trajectory

India continues to lead among major economies with a projected GDP growth of **7.4% in FY26**, significantly outpacing global averages. According to the Press Information Bureau (PIB), India's real GDP is estimated to grow by **6.5% in FY 25**, reaching **Rs. 201.90 lakh crore**, while nominal GDP is projected to increase by **8.0% to Rs. 357.14 lakh crore**.

Source: First Advance Estimates (FAE) By NSO [07th January, 2026] & Economic Survey 2025-26

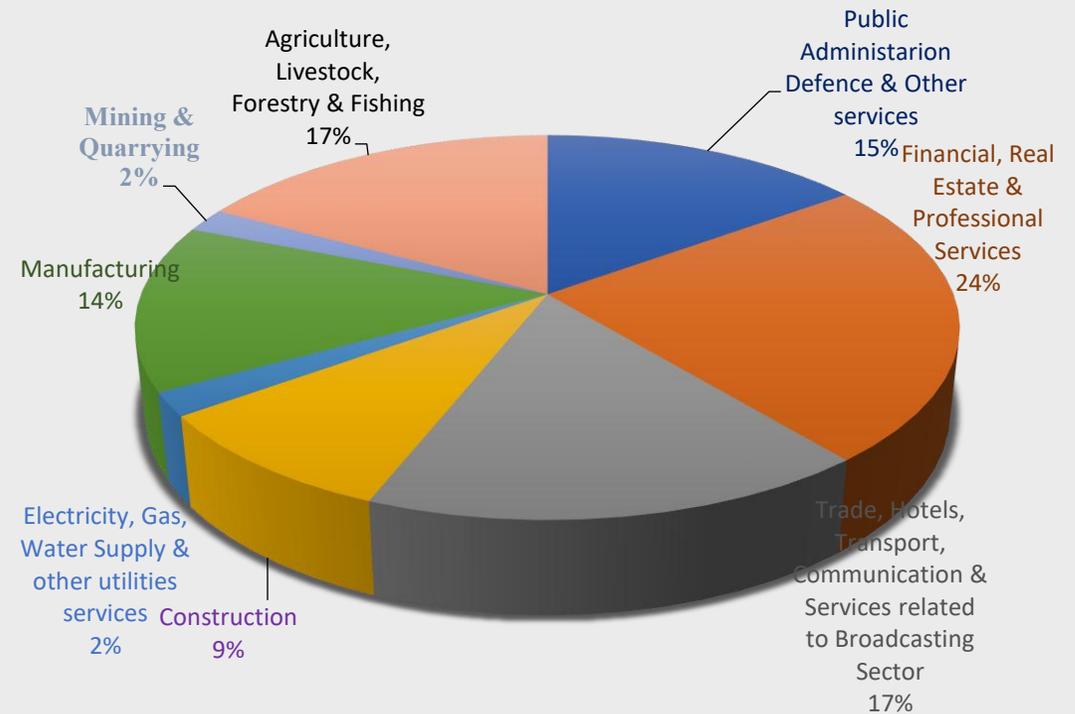
Key sectors driving this growth including the Buoyant Growth in Services Sector at **(9.1%)**, manufacturing & construction **(7.0%)**, financial and real estate services **(9.9%)**, and agriculture & allied **(3.1%)**, electricity, gas, water supply & other utility **(2.1%)**, showcase resilience across industries. Additionally, private final consumption expenditure (PFCE) at constant prices has grown by 7.0% and Trade, Hotels, Transport, Communication & Services related to Broadcasting Sector **(7.5%)**, reflecting strong consumer demand.

Source: Economic Survey 2025-26

Despite global economic uncertainties, India's stable growth, robust domestic demand, and industrial expansion continue to strengthen its position as a key driver of global economic progress. With policy reforms and continued investment, India is poised to remain a powerhouse in the global economy.

The Sectoral composition of Normal GVA in FY 2025-26 as follows:-

Sectoral Composition of Nominal GVA in FY 2025-26



Source: First Advance Estimates (FAE) By NSO [07th January, 2026]

Economic Indicators

The chart shows GDP growth hovering around **8.2% in FY 2023-24**, dipping to **6.5% in FY 2024-25**, and rising to **7.4% in FY 2025-26**. Tertiary sector leads with growth of **7.6%**, **7.2%**, and **9.1%**, while secondary sector moderates from **9.7%** to **7.4%**. Primary sector remains modest at **2.1-3.1%**.

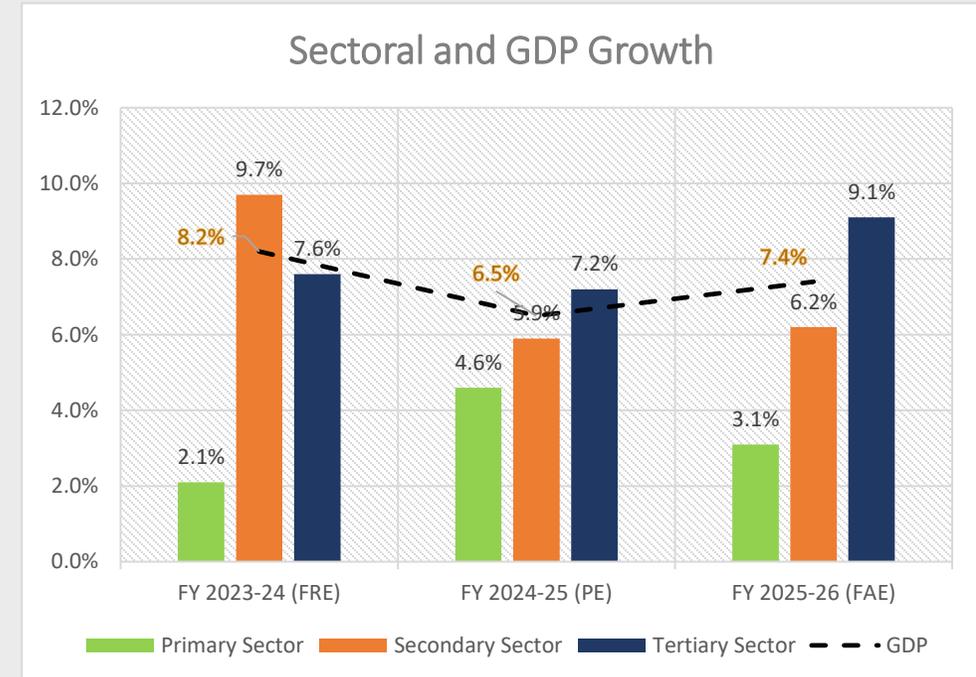
Source: *First Advance Estimates (FAE) By NSO [07th January, 2026] & Economic Survey 2025-26*

*FRE-First Revised Estimate; **PE-Provisional Estimate.

[Primary Sector: Agriculture, Livestock, Forestry & Fishing

Secondary Sector: Mining & Quarrying Manufacturing, Electricity, Gas, Water supply & Other Utility Services and Construction

Tertiary Sector: Trade, Hotels, Transport, Communication and Services related to Broadcasting, Financial, Real Estate & Professional Services and Public Administration, Defence & Other Services]



Economic Indicators

Inflation and Monetary Conditions

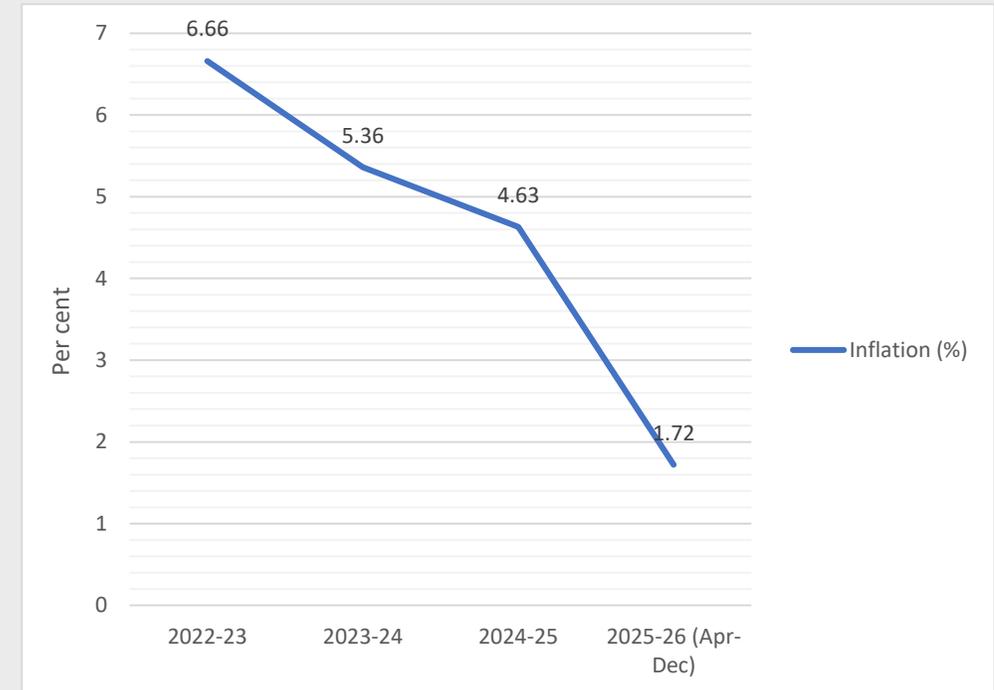
Indian Market Inflation against the Global Economy

Inflationary conditions across the global economy have shown a marked moderation after the post-pandemic surge, and India's performance stands out favourably in this context. According to the Economic Survey 2025-26, global headline inflation declined from a peak of **8.7 per cent in 2022** to **4.2 per cent in 2025**. Advanced economies stabilised inflation within the **2-3 per cent range**, while emerging market and developing economies (EMDEs) recorded moderation to **5.3 per cent**. According to IMF records, India's inflation during the comparable period stood at **2.8 per cent**, lower than the EMDE average and well within the Reserve Bank of India's (RBI) tolerance band.

Domestic Inflation Moderation and Supportive Monetary Policy in India

Domestically, India witnessed a sharp and sustained decline in retail inflation. Consumer Price Index (CPI) inflation fell from **6.7 per cent in FY23** to **1.7 per cent in FY26 (April-December)**. The pace of disinflation was particularly pronounced in the current year, given that inflation was at **4.6 per cent in 2024-25**. In fact, April-December 2025 marked the lower average inflation rate in the current CPI series, however, the lowest level in the current CPI series for FY26. This disinflation was largely driven by food prices, with food inflation entering deflationary territory at **-2.7 per cent** by late 2025.

On the monetary front, easing inflation created space for accommodative policies globally. Central banks in advanced economies cut policy rates by **75-100 basis points**, while the RBI reduced the policy rate by **125 basis points**, balancing growth support with price stability. Importantly, India achieved this disinflation alongside robust economic performance, reflecting strong macroeconomic fundamentals.



The chart above shows a clear decline in **headline CPI inflation** over the period. CPI remains high at **6.66% in 2022-23**, reflecting strong consumer price pressures. It moderates to **5.36% in 2023-24** and further to **4.63% in 2024-25**, indicating easing inflation. **By 2025-26 (April-December), CPI falls sharply to 1.72%**, suggesting significant improvement in price stability and reduced cost-of-living pressures for consumers.

Source: Economic Survey 2025-26 & CPI from MoSPI.

Direct Tax Proposals



Direct Tax Proposals

Individuals

1. Income Tax Rates for Individuals, HUF, AOP/BOI or artificial juridical person :-

- There is **no change in old tax rates (known as old tax regime) and new tax rates (known as new tax regime) in both the Acts i.e. Income Tax Act, 1961 & Income Tax Act, 2025** including surcharge and education cess for Individual, HUF, AOP/BOI or artificial juridical person, Firms, Companies.
- **Exemption on Interest income received under Motor Vehicles Act, 1988:** A new provision has been inserted to exempt any income in the nature of interest awarded on compensation under Motor Vehicle Act, 1988 **in the hands of Individual or his legal heir only and not to non-individual**. The said amendment will take effect from 1st April, 2026 i.e. applicable for Tax Year 2026-27.
- Corresponding TDS section is also proposed to amend to provide that no TDS is required to be deducted on the above Interest on compensation amount awarded received **by Individual or Legal Hier**.
- **Exemption for Disability Pension to Armed force Personnel:** A new exemption is inserted under Schedule III in relation to Disability Pension to armed force and paramilitary personnel for the pension received due to bodily disability attributable to or aggravated by such services.

Such exemption is not allowed to such individuals who has retired on superannuation or otherwise. This amendment shall take effect from 1st April, 2026 i.e. Tax Year 2026-27.

2. Amendment in any income received on compulsory acquisition of any land under schedule III of the Income tax act, 2025 (Corresponding CBDT Circular No. 36/2016 dated 25.10.2016) [effect from 1st Day of April 2026 i.e. Tax year 2026-27]:

The Finance Bill, 2026 proposes to insert a new serial no. **38C** in the Table mentioned in **Schedule III read with section 11** to the Income Tax Act, 2025 as to provide that any income arising in respect of any award or agreement made on account of compulsory acquisition of any land shall not be included in total income. This exemption shall apply where such award or agreement is made under the provisions of the RFCTLARR, 2013 (30 of 2013), other than those made under section 46 of the said Act and shall be available only to **an individual** or a **Hindu undivided family**. The acquisition of land before 1st April, 2026 (upto financial year 2025-26) shall continue to be exempted as per the clarification given vide **CBDT Circular No. 36/2016 dated 25 October, 2016**.

Direct Tax Proposals

Corporate Tax

1. There is no change in the tax rate for corporate taxpayers under normal provision of the Act.
2. Rationalization of MAT Provisions (Section 206~MAT Provisions)

From 1 April 2026, MAT under the old regime will be a final tax at 14% with no MAT credit. Under the new regime, domestic companies opting from tax year 2026-27 may set off MAT credit accumulated up to 31 March 2026, to the extent of 25% of tax liability for that year, while foreign companies may continue to utilize such accumulated MAT credit.

This amendment is proposed to take effect from 1st April, 2026 and will, accordingly, apply in relation to the tax year 2026-27 and subsequent tax years.



Direct Tax Proposals

Corporate Tax

3. Taxation of buyback of shares as per section 69(2) and 69(3) of Income tax Act, 2025 (Section 46(A) of Income Tax Act, 1961) [Effect from 1st day of April 2026 i.e. Tax year 2026-27]

Existing Provision	Proposed Provision
the shareholder receives any consideration is treated as dividend income under section 2(40)(f) of the Act, from any company in respect of buy-back of shares, then for the purpose of this section, the value of such consideration shall be deemed to be nil.	Now it has been proposed to substitute that capital gains mentioned in section 69(1) arise to a promoter who is a shareholder or holder of other specified securities, then the total tax payable on such capital gains will consist of two parts: 1. Normal income tax on the capital gains, calculated as per the Income-tax Act; and 2. Additional income tax on the capital gains mentioned in table below in case promoter shareholders.

S. No.	Particulars	Effective Tax Rate (Comprising applicable rates together with an additional tax)
1	In the case of non-corporate Promoters	30%
2	In the case of Promoter companies	22%

Direct Tax Proposals

Transfer Pricing

Computation of timeline for passing of Transfer Pricing (TP) Order

- a) A new sub-section 3AA is inserted in Section 92CA of the Income-tax Act, 1961 and Section 166 of the Income-tax Act, 2025 is amended, clarifying the manner of computation of timeline for passing of TP orders by the Transfer Pricing Officer (TPO):

Due Date for issuance of Assessment Order	Due Date for issuance of TP Order	
	Under Section 92CA(3AA) of the Income Tax Act, 1961 (based on days)	Under Section 166 of the Income-tax Act, 2025 (based on month)
31 March (non-leap year)	30 January	31 January
31 March (leap year)	31 January	
31 December	01 November	31 October

- b) The above clarification in Income-tax Act, 1961 shall come into force with retrospective effect from **1st June, 2007**. The amendment in the Income-tax Act, 2025 shall come into force with effect from 1st April, 2026.
- c) This amendment addresses ambiguity raised by **Madras High Court Ruling** in the case of **Pfizer Healthcare India Pvt Ltd**, clarifying that TP orders passed by 30 January in non leap years and 31 January in leap years are valid.

Validity of Assessments with regard to Computer Generated DIN [1/2]

- a) Section 292BA is inserted in the Income-tax Act, 1961 to clarify that an order, not quoting the computer-generated Document Identification Number (DIN), but referencing a valid DIN elsewhere in any manner, shall not be treated as invalid

Direct Tax Proposals

Transfer Pricing

Validity of Assessments with regard to Computer Generated DIN [2/2]

- b) The proposed amendment provides procedural certainty with regard to litigation on validity of assessments on DIN-related defects based on the **CBDT Circular No. 19 of 2019 dated 14.8.2019**. It seeks to eliminate unnecessary litigation and reinforce uniform statutory interpretation.
- c) This overrules **Brandix Mauritius Delhi High Court Ruling** (currently pending before the Supreme Court).
- d) The amendment shall be deemed to have come into force **retrospectively from 1st October, 2019**.
- e) Suitable amendments are also proposed to be carried out in the Income-tax Act, 2025.

Fast tracking of Unilateral APA for IT Services

- a) For IT services companies who want to conclude Advance Pricing Agreement (APA), the fast tracking of **Unilateral APA** process is proposed for IT services targeting to conclude it within **2 years** (vis-à-vis earlier 4–5 years). The period of 2 years can be extended by a **further period of 6 months** on taxpayer's request.
- b) This amendment is a welcome amendment, directly targeting **disposal of long pending APA applications and TP disputes**.



Direct Tax Proposals

Transfer Pricing

Extension of Post APA Compliance Relief for Associated Enterprises

- a) The facility of **modified income tax returns** available to the Indian entity entering into APA is proposed to be extended to its Associated Enterprise (AE) also (who is not the person entering into an APA).
- b) The existing provisions of **section 168(1)** of the Income-tax Act, 2025 **do not allow for modifying the return or filing of return by the associated enterprise** whose income and tax liability is correspondingly modified consequent to the APA.
- c) The amendment of **section 169** of the Income-tax Act, 2025 simplifies post-APA compliance and reduces cascading litigation.
- d) These amendments will take effect from the **1st April, 2026** and shall accordingly, apply in relation to the Tax Year 2026-27 and subsequent tax years.

Rationalization of the definition of “Accountant” under Safe Harbour Rules

- a) Budget speech indicates an intent to rationalise the definition of “Accountant” for the purposes of the Safe Harbour Rules, in line with the broader vision of promoting home-grown accounting and advisory firms.



Direct Tax Proposals

Transfer Pricing

Major Revamp of Information Technology ('IT') Services under Safe Harbour Regime - Supporting IT / GCC sector as India's growth engine

- a) **All IT and IT-enabled services** in the nature of software development services, IT enabled services, knowledge process outsourcing ('KPO') services and contract R&D services relating to software development are now proposed to be **clubbed under a single category of "Information Technology Services"**.
- b) A **common safe harbour margin of 15.5%** is being prescribed, replacing multiple service-wise margins [viz. **17%-18%** for software development services and IT enabled services and **18%-24% for KPO services**].
- c) The maximum threshold of value of international transaction for availing safe harbour for IT services is being enhanced substantially from **INR 300 crore to INR 2,000 crore rupees**, significantly expanding the safe harbour eligibility and covering a greater set of small, medium and large scale captive IT service providers / Global Capability Centres ('GCCs').
- d) The safe harbour option can be **continued for five years at the taxpayer's choice**, providing long-term certainty at an affordable cost, at par with APA regime.
- e) Approval of safe harbour applications for IT services will now happen through an **automated, rule-driven process**, without any need for tax officer to examine and accept the application, reducing discretion and litigation.

Safe Harbour for Data Centre and Cloud related Services [1/2]

- a) **Foreign company providing cloud services** globally through India-based data centres is granted **tax holidays until 2047**. It will, however, need to provide services to Indian customers through an Indian reseller entity.
- b) Indian related entities providing data centre services to such foreign company are eligible for a **safe harbour margin of 15%** on cost.

Direct Tax Proposals

Transfer Pricing

Safe Harbour for Data Centre and Cloud related Services [2/2]

- c) The measure supports India's ambition to become a **global data and cloud services hub by reducing TP disputes** in high capex, low-margin infrastructure segments.
- d) These amendments will take effect from the **1st April, 2026** and shall accordingly, apply in relation to the Tax Year 2026-27 and subsequent tax years.

Safe Harbour to non-residents for component warehousing in a bonded warehouse

- a) To harness the efficiency of just-in-time logistics for electronic manufacturing, the safe harbour is proposed for non-residents engaged in component warehousing in a bonded warehouse at a profit margin of 2 percent of the invoice value.
- b) These amendments will take effect from the 1st April, 2026 and shall accordingly, apply in relation to the Tax Year 2026-27 and subsequent tax years.

Summary of Amendments in Safe Harbour Rules

S. No.	Nature of eligible international transaction	Proposed Operating Margin (%)
1	Software development services, IT enabled Services, KPO and Contract R&D services – Collectively known as “Information Technology Services”	15.5% on cost (from existing 17% to 24%)
2	Data Centre and Cloud related services rendered by Indian related entities to foreign company	15% on cost
3	Non-residents undertaking component warehousing in bonded warehouses	2% of invoice value

Direct Tax Proposals

International Tax & IFSC

1. Section 397 of the Income Tax Act, 2025 (Corresponding to Section 203A of the Income Tax Act, 1961) – Applying for TAN

Section 397 of the Income Tax Act, 2025 mandates obtaining TAN for TDS/TCS, with limited exemptions. Finance Bill 2026 proposes substituting subsection (c) to expand exemptions to purchases of immovable property by resident individuals and HUFs from non-resident sellers, easing compliance, effective 1 October 2026 under the new Act.

2. Schedule IV of the Income Tax Act, 2025 – Providing for Exemption of Income Earned by Non-Residents

The Finance Bill 2026 propose to insert new entries i.e. 13A and 13B under the Schedule IV to the Income Tax Act, 2025 to provide for exemption of income not to be included in total income of Non-Residents and Foreign companies, where –

13A – Any income arising out of providing capital goods, equipment or tooling to a **contract manufacturer** being a company resident in India who is engaged in electronic manufacturing in India located in a custom bonded area and produces electronic goods on behalf of such foreign company provided that ownership of the such goods remains with the Foreign Company. Such exemption shall be valid till tax year 2030-2031.

13B – Any income which accrues or arises outside India and is not deemed to accrue or arise in India to an **individual being a non-resident** for a period of 5 consecutive years, who visits India for the first time to render his services in India in connection with any scheme notified by the Central Government. Such exemption shall be valid for five consecutive tax years starting the first tax year during which he visits India in connection with the notified scheme.

13C – Any income which accrues or arises in India or is deemed to accrue or arise in India to a **Foreign Company by way of procuring data center services** provided that all sales by such foreign company to users located in India are made through a reseller Indian entity. Such exemption shall available up to the tax year ending 31st March, 2047.

The amendment is proposed only in the New Income Tax Act with effect from 1st April, 2026.

Direct Tax Proposals

International Tax & IFSC

3. Section 206 of the Income Tax Act, 2025 (Corresponding to Section 115JB of the Income Tax Act, 1961) – Exemption from the MAT provisions in case of Non-Residents

Section 206 of the Income Tax Act, 2025 applies MAT where normal tax is lower and exempts non-residents under presumptive taxation. Finance Bill 2026 proposes extending this exemption to all presumptive schemes, covering cruise ship operations and electronic manufacturing facility services by foreign companies, excluding MAT, effective 1 April 2026 under the new Act.

4. Section 147 and 218 of the Income Tax Act, 2025 (Corresponding to Section 80LA of the Income Tax Act, 1961) – Exemption to unit and OBUs located in IFSC [1/2] [continued....]

Provisions of Section 147 of the Income Tax Act, 2025 provides for deduction of 100% from the business income of a unit located in IFSC for ten consecutive tax years out of fifteen years beginning from the relevant tax year at the option of the assessee and to the offshore banking units for ten consecutive tax years beginning from the relevant tax year.



Direct Tax Proposals

International Tax & IFSC

4. Section 147 and 218 of the Income Tax Act, 2025 (Corresponding to Section 80LA of the Income Tax Act, 1961) – Exemption to unit and OBUs located in IFSC [2/2]

The Finance Bill 2026 propose to substitute subsection (2) to Section 147 to provide for claiming deduction of 100% from the business income of a unit located in IFSC for twenty consecutive tax years out of twenty-five years beginning from the relevant tax year at the option of the assessee and to the offshore banking units for twenty consecutive tax years beginning from the relevant tax year. Further, Section 218 is proposed to be amended to tax the business income of IFSC units and OBUs at a concessional rate of 15% after the expiry of the deduction period. Additionally, subsection (5) of Section 147 is proposed to be substituted to deny the deduction in cases where OBUs are formed through splitting, reconstruction, or reorganisation of an existing business in India.

These amendments are intended to strengthen the attractiveness and global competitiveness of IFSCs and are proposed to take effect from 1 April 2026 under the New Income Tax Act.

5. Section 2(40) of the Income Tax Act, 2025 (Corresponding to Section 2(22) of the Income Tax Act, 1961) – Dividend Income Exception to IFSC finance unit

Provisions of Section 2(40) of the Income Tax Act, 2025 defines dividend. The existing provisions provides that dividend does not include any advance or loan between two group entities.

The Finance Bill 2026 propose to clarify that the other group entity shall also be located outside India, effective 1 April 2026 under the new Act.

Direct Tax Proposals

Charitable Organisation

Clarification on Tax Treatment of Mergers of Registered Non-Profit Organizations (Charitable Trust)

Under the current provisions of section 352(4) of Income Tax Act, 2025, a registered non-profit organization (NPO) is liable to pay tax on accreted income if it merges with an entity other than a registered NPO. However, the current Income Tax Act, 2025 does not clearly deal with cases where one registered NPO merges with another registered NPO having the same or similar objects.

To remove this gap and to align the provisions with the Income Tax Act, 1961, it is proposed to insert a new **section 354A of Income Tax Act, 2025**. This section provides that **tax on accreted income under section 352 shall not apply** where a registered NPO merges with another registered NPO, provided both NPO's have the same or similar objects and the merger complies with the prescribed conditions.

Further, it is proposed to amend **Serial No. 8 of the Table under section 352(4)** to clearly provide that **tax on accreted income shall be payable where a registered NPO merges with:**

- an entity other than a registered NPO;
- a registered NPO having the same or similar objects, but the merger does not fulfil the prescribed conditions; or
- a registered NPO having different objects.

Overall, the proposed amendments ensure that genuine mergers between registered NPOs with similar objectives are not taxed, while other mergers continue to attract tax on accreted income.

This amendment will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years.

Direct Tax Proposals

Charitable Organisation

Rationalisation of Specified Violations for Registered Non-Profit Organizations

Under the existing provisions, section 351 of Income Tax Act, 2025 lists certain actions as “**specified violations**” by a registered non-profit organization (NPO). This includes cases where an NPO engaged in the advancement of an object of general public utility carries out commercial activities. Such violation is also covered separately as an “**other violation**” under section 353 of the Income Tax Act, 2025.

Treating this type of commercial activity as a **specified violation** under section 351 may result in **cancellation of registration**, which was not the intent of Income Tax Act, 1961.

To align the provisions with the Income Tax Act, 1961, it is proposed to **remove this violation from section 351**. As a result, such cases will no longer be treated as specified violations leading to cancellation of registration, but will continue to be dealt with under section 353 as **other violations**.

This amendment will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years.

Clarification on Registration Requirement for Certain Exempt Persons

Section 332 of the Income Tax Act, 2025 currently allows certain persons listed in Schedule VII (viz. Prime Minister National Relief Funds, any university/educational institution, any hospital, state or central bodies) to apply for registration as a registered non-profit organization, even though they were **not required to obtain registration** under the Income Tax Act, 1961 to claim exemption under section 10.

To align the provisions with the Income Tax Act, 1961 and to provide clarity, it is proposed to **remove the reference to such persons from section 332(1)(f) of the Income Tax Act, 2025**. As a result, **these persons will not be required to obtain registration under section 332 of the Income Tax Act, 2025**.

This amendment will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years.

Direct Tax Proposals

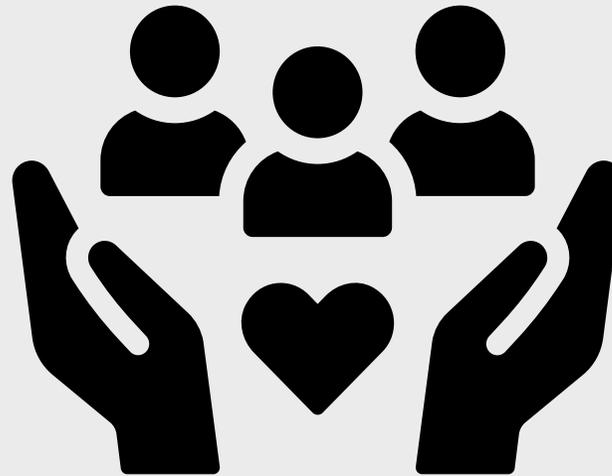
Charitable Organisation

Allowing Belated Return Filing for Registered Non-Profit Organizations

Section 349 of Income Tax Act, 2025 currently requires a registered non-profit organization to file its return within the time under section 263(1)(c) and does not allow belated filing of ITR.

It is proposed to amend section 349 to refer to section 263(4) of the Income Tax Act, 2025, enabling registered NPOs to file belated returns within the prescribed time.

This amendment will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years.



Direct Tax Proposals

Applicable to All Taxpayers

1. **Amendment in TDS related to expenditure for non-life Insurance Business under Schedule XIV of the Income Tax Act, 2025 (Corresponding Schedule I of Income Tax Act, 1961) [effect from 1st Day of April 2026 i.e. Tax year 2026-27]:**

The Finance Bill, 2026 proposes to insert a new **sub-paragraph (3)** in paragraph 4 of **Schedule XIV**. Under the proposed amendment, non-life insurance companies (i.e. insurance companies other than life insurance companies) shall not be allowed any deduction in the tax year in which the expenditure is incurred for any sum, interest, or other expenditure on which TDS has not been deducted or has been deducted but not paid, upto the due date for filing the return of income prescribed under section 263(1) of the Income Tax Act, 2025. However, **such expenditure shall be allowed as a deduction in the tax year in which the corresponding tax is actually deducted and paid.**

2. **Amendment in the due date of filing of return u/s 263 of the Income Tax Act, 2025 (Corresponding Section 139 of the income tax Act, 1961) [effect from 1st Day of April 2026 i.e. Tax year 2026-27]:**

Currently, the due date for filing income tax return for the non-audit assessee is **31st July**. The proposed amendment extends the due date to **31st August for non-audit business cases and trust requiring no audits**. This extension is proposed to provide additional time to taxpayers whose accounts are not required to be audited, considering the overall procedural efficiency and the transition to a more faceless and automated tax filing system. This amendment is also applicable to the previous year 2025-26 relevant to the assessment year 2026-27.



Direct Tax Proposals

Applicable to All Taxpayers

3. Time Period for filing Revised return is extended [1/2]

For Income Tax Act, 2025	
Existing Law	Budget Proposal (effective from 1 st April 2026 i.e. for tax year 2026-27 and onwards)
<p>Section 263 specifies the persons required to file a Return of Income and the time limit within which it must be filed.</p> <p>Section 263(5) allows an assessee to revise an original or belated return, to rectify any omission or incorrect statement, provided the revision is made within 9 months from the end of the relevant tax year.</p>	<p>As per the Finance Bill, 2026, it is proposed to amend Section 263(5) to extend the time limit for filing a revised return from the existing 9 months from the end of the tax year to 12 months from the end of the tax year.</p> <p>Further, a fee is also introduced under substituted section 428(b), for revised return filed beyond 9 months from the end of relevant tax year. The prescribed fee is as under:</p> <ul style="list-style-type: none">Rs. 1,000 where total income < Rs. 5 lakhs;Rs. 5,000 in all other cases

Direct Tax Proposals

Applicable to All Taxpayers

3. Time Period for filing Revised return is extended [2/2]

For Income Tax Act, 1961	
Existing Law	Budget Proposal (effective from 1 st March 2026)
<p>Section 139 specifies the persons required to file a Return of Income and the time limit within which it must be filed.</p> <p>Section 139(5) allows an assessee to revise an original or belated return, to rectify any omission or incorrect statement, provided the revision is filed at least 3 months before the end of the relevant assessment year or before completion of assessment, whichever is earlier.</p>	<p>As per the Finance Bill, 2026, it is proposed to amend Section 139(5) to extend the time limit for filing a revised return from the existing requirement of '3 months prior to the end of the relevant assessment year' to the 'end of the relevant AY'.</p> <p>Further, a new Section 234-I is introduced to levy a late fee for revised return filed after 9 months but before 12 months from the end of the relevant AY. The prescribed fee is as under:</p> <ul style="list-style-type: none">Rs. 1,000 where total income < Rs. 5 lakhs;Rs. 5,000 in all other cases <p>(*this amendment is applicable for AY 2026-27)</p>

Direct Tax Proposals

Applicable to All Taxpayers

4. Now Updated Return can be filed for reducing the loss shown in ITR

For Income Tax Act, 2025	
Existing Law	Budget Proposal (effective from 1 st April 2026 i.e. for tax year 2026-27 and onwards)
<p>A person can file updated return of income u/s 263(6)(a), whether or not a return was furnished earlier, within 48 months from the end of the FY succeeding the relevant tax year.</p> <p>Section 263(6)(b) allows a taxpayer to file an updated return if their original return was showing a loss and then updated return shows income.</p> <p>However, Section 263(6)(c)(i) says that a taxpayer cannot file an updated return if the updated return still shows a loss for that tax year.</p>	<p>As per the Finance Bill, 2026, it is proposed to amend Section 263(6) to allow taxpayers to file an updated return of loss only if it reduces the loss claimed in the original return filed within the due date.</p> <p>Earlier, taxpayers could only file an updated return if the original loss return was converted into income i.e. simply reducing the loss was not allowed</p>
For Income Tax Act, 1961	
Existing Law	Budget Proposal (effective from 1 st March 2026)
<p>A person can file updated return of income u/s 139(8A), whether or not a return was furnished earlier, within 48 months from the end of the relevant AY.</p> <p>There was a proviso which specified that assessee cannot file an updated return of loss.</p>	<p>As per the Finance Bill, 2026, it is proposed to amend Section 139(8A) to allow taxpayers to file an updated return of loss only if it reduces the loss claimed in the original return filed within the due date.</p> <p>Earlier, taxpayers were not allowed to file an updated return of loss irrespective of the income or loss shown in the original return.</p>

Direct Tax Proposals

Applicable to All Taxpayers

5. Now assessee can file updated return after issuance of notice of reassessment

For Income Tax Act, 2025	
Existing Law	Budget Proposals (effective from 1 st April 2026 i.e. for tax year 2026-27 and onwards)
<p>A person can file updated return of income u/s 263(6)(a), whether or not a return was furnished earlier, within 48 months from the end of the financial year succeeding the year, along with the specified additional taxes.</p> <p>As per Section 263(6)(c) a taxpayer cannot file an updated return for a tax year if any assessment or reassessment proceedings for that year are pending or already completed.</p>	<p>As per the Finance Bill, 2026, it is proposed that a taxpayer can file an updated return for the relevant tax year in response to a notice u/s 280, within the period specified in the notice. In such a case, assessee is not allowed to file return in any other manner.</p> <p>It is also proposed that specified additional tax payable shall be increased by further 10% of the total tax and interest payable on the updated return.</p>
For Income Tax Act, 1961	
Existing Law	Budget Proposals (effective from 1 st March 2026, with retrospective effect)
<p>A person can file updated return of income u/s 139(8A), whether or not a return was furnished earlier, within 48 months from the end of the relevant AY, along with the specified additional taxes.</p> <p>As per section 139(8A) assessee was not allowed to file an updated return of income where any proceedings for assessment or reassessment are pending or completed for the relevant AY.</p>	<p>As per the Finance Bill, 2026, it is proposed to amend the section to allow the assessee to file an updated return in response to a notice u/s 148, within the period specified in the notice.</p> <p>It is also proposed that specified additional tax payable shall be increased by further 10% of the total tax and interest payable on the updated return.</p>

Direct Tax Proposals

Applicable to All Taxpayers

6. No deduction of interest is allowed against Dividend income *(effective from 1st April 2026)*

In existing Income tax Act, 2025, interest expense can be claimed as a deduction against dividend income, except for dividend income specified in section 2(40)(f), with the deduction limited to 20% of such income.

The Finance Bill, 2026 proposes an amendment to section 93 to disallow any deduction for interest expenditure incurred in earning dividend income or income from units of mutual funds.

7. Exemption for Sovereign Gold Bond as per section 70(1)(X) of Income Tax Act, 2025 (Section 47(viic) of Income Tax Act, 1961) *[Effect from 1st day of April 2026 i.e. Tax year 2026-27]*

Existing Provision	Proposed Provision
Provision of section 70(1)(x) provide exemption on Sovereign Gold Bond issued by Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015, by way redemption, by an individual.	Now it has been proposed to amend to provide that the exemption shall be available only where the Sovereign Gold Bond is subscribed to by a subscriber at the time of original issue and is held continuously until redemption on maturity, for all Sovereign Gold Bonds issued by the Reserve Bank of India from time to time.

Direct Tax Proposals

Applicable to All Taxpayers

8. **Increase in tax rates of Securities Transaction Tax (STT) as per section 98 of the Finance (No. 2) Act, 2004 [Effect from 1st day of April 2026 i.e. Tax year 2026-27]**

In view of the substantial growth in derivatives trading, a calibrated revision in the STT rates applicable to futures and options transactions has been proposed.

STT rate increased as under:

S. No.	Particulars	Existing Rate	Proposed Threshold
1	Sale of an option in securities	0.1%	0.15%
2	sale of an option in securities, where option is exercised	0.125%	0.15%
3	Sale of a Future in securities	0.02%	0.05%

9. **Rationalisation of Regime for Provident Funds of Schedule XI of the Income-tax Act, 2025 (Schedule IV of the Income-tax Act, 1961) [Effect from 1st day of April 2026 i.e. Tax year 2026-27]**

- Seeks to rationalise Schedule XI provisions on recognised provident funds to align with the EPF Act, 1952 and EPF Scheme, considering the unified ₹7.5 lakh cap on employer contributions under section 17(1)(h).
- Proposes omission of Paragraph 1(d) of Part C, which prescribed separate limits for shareholder-employees, as it is inconsistent with the EPF framework.
- Proposes amendment to Paragraph 1(e) of Part C to remove the rigid 50% cap on Government securities, aligning investment norms with current EPFO guidelines, while retaining regulatory oversight

Direct Tax Proposals

Applicable to All Taxpayers

10. Rationalizing the due date to credit employee contribution by Employer for claiming deduction under Business.

Earlier Provision of Income Tax Act, 2025	Amended Provision of Income Tax Act, 2025
<u>Section 29(1)(e)(i)</u> The due date for claiming deduction in relation to employees contribution of PF/ESI/LWF/Superannuation will be the due date specified under respective Act.	<u>Section 29(1)(e)(i)</u> The meaning of due date is now amended as due date for filing of ITR for claiming such deduction The amendment will take effect from 1 st April, 2026 i.e. Applicable for Tax Year 2026-27.
<u>No Corresponding Amendment has been proposed in Section 36(1)(va) of the Income Tax Act, 1961.</u>	

Direct Tax Proposals

Assessment Procedure

Rationalizing the period of block in case of other persons (Section 295~Undisclosed Income of Other Person)

It is proposed to limit the block period for a non-searched person based on the tax year(s) to which the undisclosed income relates. Where it pertains to the year of search or the immediately preceding year, the block period shall cover the immediately preceding tax year and the period from 1 April of the search year to the date of search or requisition.

Where it pertains to any other single tax year, the block period shall be restricted to that year alone. Where it pertains to multiple tax years, the block period shall comprise six tax years preceding the year of search and the period from 1 April of the search year up to the date of execution of the last authorization.

This amendment will take effect from 01st April, 2026 for search or requisition is initiated or made as the case may be on or after 01st April, 2026.

Referencing the Time-Limit to complete block assessment to the initiation of search or requisition (Section 296~Time-limit for completion of block assessment)

The Time-Limit for completing the block assessment has been extended to eighteen months (from twelve months earlier) from the end of the quarter in which the search was initiated, or requisition was made.

This amendment will take effect from 01st April, 2026 for search or requisition is initiated or made as the case may be on or after 01st April, 2026

Direct Tax Proposals

Assessment Procedure

Clarifying time-limit for completion of assessment under section 144C

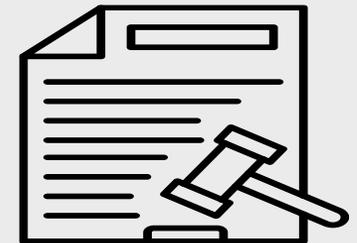
[Section 144C r.w.s. 153 or 153B \(corresponding Section 275 r.w.s. 286 of the Income-tax Act, 2025\)](#)

The amendment clarifies that in DRP cases, including those involving TPO references, the general time limits under sections 153/153B apply only up to the issuance of the draft assessment order. Once the draft order is issued within time, the finalisation of assessment is governed solely by section 144C (or section 275 of the 2025 Act), including the mandatory one-month period for passing the final order, overriding general limitation provisions.

Clarification regarding jurisdiction for Issuance of Notice under Income Escape Assessment (JAO/ FAO)

A new section 147A in Income Tax Act, 1961 has been inserted *retrospectively from 1 April 2021* to clarify that, for the purposes of issuing notices where income has escaped assessment under sections 148 and 148A, the “Assessing Officer” means an officer other than the National Faceless Assessment Centre or any assessment unit under section 144B.

A corresponding amendment has also been made for clarifying the jurisdiction of Assessing Officer on similar lines for carrying out income escaping assessment in Income Tax Act, 2025 *with effect from 01st April, 2026*.



Direct Tax Proposals

Penalties and Prosecution

Rationalization of Penalties into Fee [1/2]

Under the existing provisions of the Income Tax Act, 2025, section 446, section 447 and section 454 provides the penalties in the case of technical delay under the Income Tax Act. In order to reduce litigation and simplify compliance, it is proposed to convert such penalties into mandatory fees with a graded structure and upper limits. Under the amended provisions, the fee is levied automatically and becomes payable immediately upon the occurrence of a default, whereas earlier, the levy of penalty was discretionary and depended upon the satisfaction of the Assessing Officer.

The existing and the proposed amendment under the penalty is explained in the tabulated format below

Particulars	Earlier Penalty	Proposed Fee
Section 446 – Failure to get accounts audited	Lesser of 0.5% of turnover or Rs. 1,50,000	<ul style="list-style-type: none">Replaced by mandatory graded fee under proposed section 428(c)Fee is Rs.75,000 where delay upto one month and Rs.1,50,000 for delay exceeding one month.
Section 447 – Failure to furnish accountant report under section 172 (TP Certificate)	Rs.1,00,000	<ul style="list-style-type: none">Replaced by mandatory graded fee under proposed section 428(c)Fee is Rs. 50,000 where delay upto one month and Rs. 1,00,000 where delay exceeding one month.
Section 454(1) – Failure to furnish Statement of Financial Transactions (SFT) / reportable account	Rs. 500 per day	Converted to mandatory fee under section 427(3) of the Act

Direct Tax Proposals

Penalties and Prosecution

Rationalization of Penalties into Fee [2/2]

Particulars	Earlier Penalty	Proposed Fee
Section 454(2) – Penalty for accepting payment other than prescribed electronic modes	Rs 1,000 per day with no Upper Limit	Proposed an Upper limit of Rs. 1,00,000.
Section 446 - Penalty to furnish information or for furnishing inaccurate information on transaction of crypto assets.	No penalty	<ul style="list-style-type: none">• Section 446 now repurposed for crypto-asset reporting penalties.• For Non-furnishing of crypto-asset statements: Rs. 200 per day; and• For furnishing inaccurate information: Fixed penalty of Rs. 50,000

The above amendments will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years

Rationalisation of Penalty and Assessment Proceedings [1/2]

Currently, under the Income Tax Act, 1961 penalties are imposed separately after the assessment order, leading to multiple proceedings and uncertainty for taxpayers. In order to reduce such complexity and multicity of proceeding, it is proposed to provide consistency in levying the penalty and proposed as below.

Amendment in Section 274 of Income Tax Act, 1961: Penalty for under-reporting and misreporting of income under section 270A of the Act will now be imposed directly within the assessment order, avoiding separate penalty proceedings.

Direct Tax Proposals

Penalties and Prosecution

Rationalisation of Penalty and Assessment Proceedings [2/2]

Amendment in Section 220 of Income Tax Act, 1961: Interest under section 220(2) shall now be charged only after the appellate order is passed by the CIT(A) or ITAT/DRP, as applicable. Earlier, such interest was charged immediately after expiry of the time specified in the notice of demand.

Amendment in Section 245MA of Income Tax Act, 1961: Consequential amendments to align dispute resolution procedures with the new penalty framework.

Consequential amendments are also proposed in sections 270, 275, and 279 of the Income-tax Act, 2025.

The above amendment will be applicable where assessment order or reassessment order or any draft of the proposed order of assessment is made on or after 1st of April, 2027

Increase in Penalty for Non-Compliance with Information Requests

Section 254 of the Income-tax Act, 2025 empowers income-tax authorities to collect information from business or professional premises by directing the proprietor, employee, or any other person to furnish required information. Currently, section 466 of the Income Tax Act, 2025 imposes a penalty of up to Rs. 1,000 for non-compliance of section 254 of the Income Tax Act, 2025.

In order to encourage voluntary compliance under section 254 of the Income Tax Act, 2025, it is proposed to increase the maximum penalty up to Rs. 25,000 u/s 466 of the Income Tax Act, 2025.

This amendment will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years

Direct Tax Proposals

Penalties and Prosecution

Rationalisation of tax rate and penalty provision in respect of unexplained credits, unexplained investment, unexplained assets, unexplained expenditure etc.

Section 195 and Section 443 of the Income Tax Act, 2025 currently provide taxes and penalty respectively on certain unexplained incomes covered under Sections 102–106 of the Act, including unexplained credits, unexplained investments, unexplained assets, unexplained expenditure etc.

In order to rationalize the tax burden and bring parity with the general penalty framework for misreporting of income, it is proposed to reduce the tax rate under Section 195 and subsume the separate penalty provision u/s 443 into the broader misreporting penalty regime. The amendments are as follows:

Particulars	Existing Provisions	Proposed Amendment
Section 195- Tax on income under sections 102 to 106	Income included under sections 102–106 taxed at 60%	Tax rate reduced to 30%
Section 443 – Penalty on income under sections 102 to 106	Penalty of 10% of tax payable	<ul style="list-style-type: none">• Penalty u/s 443 omitted.• However, Penalty for such income to be subsumed under section 439(11) of Act i.e. misreporting of income (upto 200% of penalty)

This amendment will take effect from 1st April 2026 and shall apply to tax year 2026-27 and subsequent tax years

Direct Tax Proposals

Penalties and Prosecution

Extending the scope of penalty or prosecution Under Section 440 of the Income Tax Act, 2025 (Corresponding 270AA of Income Tax Act, 1961)

Section 440 of the Income Tax Act, 2025 (Corresponding section 270AA of Income Tax Act, 1961) currently allows an Assessee to seek immunity from penalty and prosecution if the tax and interest are paid on time and no appeal is filed. However, this immunity is available **only in cases of under-reporting of income and not where under-reporting in consequence of misreporting.**

In order to encourages early settlement and reduces litigation, it is proposed to **extend the scope of immunity** to cases of under-reporting arising from misreporting, subject to payment of **additional tax instead of penalty**. The existing and the proposed amendment is explained in the tabulated format below

Particulars	Existing Provisions	Proposed Amendment
Eligibility for immunity	Available only for under-reporting of income (not misreporting)	Extended to cases of under-reporting in consequence of misreporting
Conditions for immunity	(a) Tax and interest paid; (b) no appeal filed; and (c) application within prescribed time (one month from end of month of assessment order)	No change, same conditions to continue
Immunity in misreporting cases	Not available	Available on payment of additional tax equal to 100% of tax payable.
Immunity for cases covered u/s 102-106 of the Income Tax Act, 2025 (i.e. unexplained credits, unexplained investments, unexplained assets etc.)	Not available	Available on payment of additional tax equal to 120% of tax payable.

Direct Tax Proposals

Penalties and Prosecution

Amendment in provisions of Section 473 to 485 and Section 494 of the Act (w.e.f 01st April, 2026) have been proposed to decriminalize the offences by changing the imprisonment terms. Similar amendment have also been proposed in section 275A to 278A and section 280 of Income Tax Act, 1961 w.e.f. 01.03.2026 i.e. AY 2026-27.

Section	Heading	Punishment as per Income Tax Act, 2025	Punishment as per proposed Amendment
473	Contravention of order made u/s 247	Rigorous imprisonment upto two years with fine.	Simple imprisonment upto two years and with fine.”
474	Failure to comply with section 247(1)(ii)	Rigorous imprisonment upto two years with fine.	Simple imprisonment upto two years and with fine.”
475	Removal, concealment, transfer or delivery of property to prevent tax recovery	Rigorous imprisonment for a term upto two years with fine.	Simple imprisonment for a term upto two years and with fine.

Direct Tax Proposals

Penalties and Prosecution

Section	Heading	Punishment as per Income Tax Act, 2025	Punishment as per proposed Amendment								
476	Failure to pay tax to credit of Central Government under Chapter XIX-B (TDS)	Rigorous imprisonment for a term of 3 months to 7 years with fine.	The scope has been reduced to the following cases: - a) winning from online games excluding winnings wholly in kind, b) sum for transfer of a virtual digital asset excluding consideration wholly in kind. Further, Punishment has reduced as follows: -								
			<table border="1"> <thead> <tr> <th>Tax Amount</th> <th>Punishment</th> </tr> </thead> <tbody> <tr> <td>Exceeds 50 lacs</td> <td>Simple imprisonment for a term upto two years with fine</td> </tr> <tr> <td>10 lacs-50 lacs</td> <td>Simple imprisonment for a term upto 6 months or with fine</td> </tr> <tr> <td>Other case</td> <td>Only fine</td> </tr> </tbody> </table>	Tax Amount	Punishment	Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine	10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine	Other case	Only fine
			Tax Amount	Punishment							
			Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine							
			10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine							
Other case	Only fine										

Direct Tax Proposals

Penalties and Prosecution

Section	Heading	Punishment as per Income Tax Act, 2025	Punishment as per proposed Amendment	
477	Failure to pay tax collected at source	Rigorous imprisonment for a term 3 months to 7 years with fine.	Punishment has reduced as follows: -	
			Tax Amount	Punishment
			Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine
			10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine
		Other case	Only fine	

Direct Tax Proposals

Penalties and Prosecution

Section	Heading	Punishment as per Income Tax Act, 2025		Punishment as per proposed Amendment	
478	Wilful attempt to evade tax etc.	Tax Amount	Punishment	Punishment in both cases has reduced to:-	
		Exceeds 25 lacs	Rigorous imprisonment for term of 6 months to 7 years , with fine	Tax Amount	Punishment
		Other case along with evading of payment to tax	Rigorous imprisonment for a term of 3 months to 2 years with fine	Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine
				10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine
				Other case	Only fine

Direct Tax Proposals

Penalties and Prosecution

Section	Heading	Punishment as per Income Tax Act, 2025		Punishment as per proposed Amendment	
479	Failure to furnish returns of income	Tax Amount	Punishment	Punishment has reduced as follows: -	
		Exceeds 25 lacs	Rigorous imprisonment for term of 6 months to 7 years , with fine	Tax Amount	Punishment
		Other case along with evading of payment to tax	Rigorous imprisonment for a term of 3 months to 2 years with fine	Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine
				10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine
Other case	Only fine				
481	Failure to produce accounts and documents	Imprisonment for a term of one year with fine.		Simple imprisonment for a term upto 6 months with fine only in case of failure to comply with directions issued u/s 268(5).	

Direct Tax Proposals

Penalties and Prosecution

Section	Heading	Punishment as per Income Tax Act, 2025		Punishment as per proposed Amendment	
480	Failure to furnish returns of income in search cases	Imprisonment for a term of 3 months to 3 years with fine.		Tax Amount	Punishment
				Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine
				10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine
				Other case	Only fine
482	False statement in verification etc.	Tax Amount	Punishment	Tax Amount	Punishment
		Exceeds 25 lacs	Rigorous imprisonment for term of 6 months to 7 years , with fine	Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine
		Other case along with evading of payment to tax	Rigorous imprisonment for a term of 3 months to 2 years with fine	10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine
				Other case	Only fine

Direct Tax Proposals

Penalties and Prosecution

Section	Heading	Punishment as per Income Tax Act, 2025		Punishment as per proposed Amendment	
483	Falsification of books of account or document etc.	Rigorous imprisonment for a term of 3 months to 2 years and with a fine.		Simple imprisonment for a term upto two years and also liable with fine.	
484	Abetment of false return etc.	Tax Amount	Punishment	Tax Amount	Punishment
		Exceeds 25 lacs	Rigorous imprisonment for term of 6 months to 7 years , with fine	Exceeds 50 lacs	Simple imprisonment for a term upto two years with fine
		Other case along with evading of payment to tax	Rigorous imprisonment for a term of 3 months to 2 years with fine	10 lacs-50 lacs	Simple imprisonment for a term upto 6 months or with fine
				Other case	Only fine
485	Punishment for second and subsequent offences	Rigorous imprisonment for a term of 6 months to 7 years with fine		Simple imprisonment for a term 6 months to 3 years and with fine.	
494	Disclosure of particulars by public servants	Imprisonment upto six months with fine.		Simple imprisonment upto 1 month with fine.	

Direct Tax Proposals

TDS, TCS etc.

Proposed Amendments relating to Tax Deducted at Source and Tax Collected At Source (TDS/TCS), Budget 2026. [1/6]

1. TDS on Supply of manpower

TDS on supply of manpower was earlier not specified in the Income Tax Act, 1961. Now, it is proposed to apply TDS on “supply of manpower” by including the term “supply of manpower” under the ambit of “work” as defined in section 402(47) of the Income Tax Act, 2025. This amendment will take effect from 01st April 2026.

This will remove the ambiguity with regard to applicability of TDS for supply of manpower as the same shall be included under section 393(1) of the Income Tax Act, 2025.

Rate of TDS shall be as per Table: Sl. No. 6(i) or Table: Sl. No. 6(ii)], as the case may be, as under:

Sl. No.	Nature of Income or sum	Payer	Rate
A	B	C	Threshold Limit
6. Payments to contractors, fees for professional and technical services, etc.			
	(i) Any sum for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a designated person.	Any designated person*.	Rate: (a) 1%, if contractor is individual or Hindu undivided family; (b) 2%, if contractor is a person other than the person mentioned in (a). Threshold limit: [for (a) and (b)] (a) ₹ 30,000; for any such sum; and (b) ₹ 1,00,000 in case of aggregate of such sums.

Direct Tax Proposals

TDS, TCS etc.

Proposed Amendments relating to Tax Deducted at Source and Tax Collected At Source (TDS/TCS), Budget 2026. [2/6]

TABLE FOR PAYMENTS TO RESIDENT

Sl. No.	Nature of Income or sum	Payer	Rate
A	B	C	D
6. Payments to contractors, fees for professional and technical services, etc.			
	(i) Any Sum – (a) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or (b) by way of fees for professional services; or (c) by way of commission [not being insurance commission referred to in serial number 1(i)] or brokerage.		Rate: 2% Threshold limit: Fifty lakh rupees.

*“designated person”, for the purposes of section 393(1) [Table: Sl. No. 6 (i)], means—

- a) the Central Government or any State Government; or
- b) any local authority; or,
- c) any corporation established by or under a Central Act or State Act or Provincial Act; or
- d) any company; or

Direct Tax Proposals

TDS, TCS etc.

Proposed Amendments relating to Tax Deducted at Source and Tax Collected At Source (TDS/TCS), Budget 2026. [3/6]

- e) any co-operative society; or
- f) any authority, constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both; or
- g) any society registered under the Societies Registration Act, 1860 (21 of 1860) or under any law corresponding to that Act in force in any part of India; or
- h) any trust; or
- i) any University established or incorporated by or under a Central Act or State Act or Provincial Act and an institution declared to be a university under section 3 of the University Grants Commission Act, 1956 (3 of 1956); or
- j) any Government of a foreign State or a foreign enterprise or any association or body established outside India; or
- k) any firm; or
- l) any person, being an individual or a Hindu undivided family or an association of persons or a body of individuals, if such person, -
 - i. does not fall under any of the preceding sub-clauses; and
 - ii. has total sales, gross receipts or turnover from business or profession carried on by him exceeding one crore rupees in case of business or fifty lakh rupees in case of profession during the tax year immediately preceding the tax year in which such sum is credited or paid to the account of the contractor;

Direct Tax Proposals

TDS, TCS etc.

Proposed Amendments relating to Tax Deducted at Source and Tax Collected At Source (TDS/TCS), Budget 2026. [4/6]

2. Rationalization of TCS rates for Tax Year 2026-27

The existing TCS rates prescribed u/s 394(1) of the Income Tax Act, 2025 have been proposed to rationalize, w.e.f. 01st April, 2026. The proposed changes are explained as below:

S.No.	Particulars	Existing Rate	Proposed Rate
1	TCS on sale on Alcoholic liquor for human consumption	1%	2%
2	TCS on sale on Tendu Leaves	5%	2%
3	TCS on sale on scrap	1%	2%
4	TCS on Remittance under the Liberalised Remittance Scheme (LRS) of an amount or aggregate of the amounts exceeding ten lakh rupees	a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.	a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
5	TCS on Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	(a) 5% of amount or aggregate of amounts up to ten lakh rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakh rupees.	2%

Direct Tax Proposals

TDS, TCS etc.

Proposed Amendments relating to Tax Deducted at Source and Tax Collected At Source (TDS/TCS), Budget 2026. [5/6]

3. Guidelines to be binding on income-tax authorities and person liable to deduct or collect income-tax

Section 400(2) of the Income Tax Act, 2025 empowers the Board for issuing guidelines to remove any difficulties arising in giving effect to provisions of TDS/TCS, with the previous approval of Central Government, and such guidelines shall be laid before each House of Parliament.

Similar provisions were under Section 206C (1-I) and 206C (1J) of the Income Tax Act, 1961 which also stated that such guidelines shall be binding on the income-tax authorities and on the person liable to collect TCS.

However, section 400(2) of the Act does not stipulate the binding of guidelines. In order to align with the intent of the provisions of the Income-tax Act, 1961, it is proposed to amend section 400(2) so that the guidelines so issued in connection with TDS/TCS chapter shall be binding on income-tax authorities and on the person liable to deduct or collect income-tax, with effect from 01st April 2026.

4. Section 395 of the Income Tax Act, 2025 (Corresponding to Section 197 of the Income Tax Act, 1961) – Lower Deduction or No Deduction of TDS Certificates

Section 395 of the Income Tax Act, 2025 provides that a payee may apply to the Assessing Officer for a certificate authorising nil or lower deduction of tax at source, and upon issuance, the payer is required to deduct tax in accordance with such certificate. The Finance Bill 2026 proposes to insert a new subsection (6) to Section 395 to introduce an electronic mechanism for small taxpayer payees to apply for nil or lower TDS certificates before a prescribed income-tax authority, subject to specified conditions. The prescribed authority may issue the certificate or reject the application in cases of non-fulfilment of conditions or incomplete applications. This measure is intended to simplify procedures and significantly reduce the compliance burden for small taxpayers. The amendment will apply only under the New Income Tax Act with effect from 1 April 2026.

Direct Tax Proposals

TDS, TCS etc.

Proposed Amendments relating to Tax Deducted at Source and Tax Collected At Source (TDS/TCS), Budget 2026. [6/6]

5. Section 393(6) of the Income Tax Act, 2025 (Corresponding to Section 197A of the Income Tax Act, 1961) – No deduction of tax at source in certain cases

Section 393(6) of the Income Tax Act, 2025 currently allows a specified payee to avoid TDS deduction by submitting a written declaration to the person responsible for paying specified income, stating that the tax on the payee's estimated total income for the year shall be nil. The Finance Bill 2026 proposes to insert a new clause (b) under this subsection to streamline the process. Under the proposed clause, the payee can file the declaration with the depository, which will then communicate it to all relevant payers of income such as dividends, interest from securities, and income from mutual fund units. This facility is available only to investors holding listed securities or units through the depository. Additionally, the time limit for furnishing such declarations to the payer is proposed to shift from a monthly to a quarterly basis. This amendment is expected to significantly ease compliance for investors, eliminating the need to submit separate forms to multiple entities and reducing administrative burden. The change is proposed to take effect from 1 April 2027 under the New Income Tax Act.

Direct Tax Proposals

Cooperative Society

1. No tax to be deducted at source in respect of interest income credited or paid to **any cooperative society engaged in carrying on the business of banking it also includes cooperative land mortgage bank** (refer section 393(4) of the Income Tax Act, 2025)
Amendment effect from 1st April, 2026.
2. It is proposed that two other specified businesses **under section 61(2)** which includes business of operation of cruise ships and the business of providing services or technology for the setting up an electronics manufacturing facility in India to a resident company **shall also be excluded from the applicability of MAT.**
Amendment effect from 1st April, 2026.
3. It is proposed to allow deduction **under section 149(2)(d)** on dividends received by cooperative societies from other cooperative societies, **to the extent such dividends are distributed to its members, in the new tax regime.**
Amendment effect from 1st April, 2026.
4. It is **proposed** to include the **deduction** on profit and gain earned from the business on supplying **cattle feed and cotton seeds**. Therefore, it shall be allowed as a deduction under section 149(2)(d) of Income Tax Act, 2025.
Amendment effect from 1st April, 2026.
5. It is **proposed** to include the Co-operative societies which are registered under the “Multi-State Cooperative Societies Act, 2002,” within the definition of **co-operative society under Section 2(32) of the Income Tax Act, 2025.**
Amendment effect from 1st April, 2026.

Direct Tax Proposals

Cooperative Society

6. The subsection (6) has been inserted in section 149 which defines
 - the “**Consumer Cooperative Society**” which has been established for benefit of consumers.
 - “**Primary Agricultural Credit Society**” has same meaning assigned in part V of the Banking Regulation Act, 1949.
 - “**Primary Cooperative Agricultural and Rural Development Bank**” means a society having area of operation confined to a taluk, the principal object of which is to provide long-term credit for agricultural and rural development activities.
7. As per section 150(1) gross total income of an assessee being a **federal co-operative defined under section 3(k) of the Multi-State Co-operative Societies Act, 2002, in any tax year, includes any income by way of dividends received from any company**, a deduction shall be allowed from such income subject to fulfilment of condition regarding investment and distribution to its members.
 - Deduction to the extent of the amount which has arisen from investment already recorded till **31st January, 2026**.
 - It has been distributed to its members at least one month before the due date for filing return as per the Income tax act, 2025.
 - The deduction is available upto tax year 2025-29 and it will not apply to any tax year beginning on or after the 1st April, 2029 under both Old & new regime.
8. Under section 203(1)(a)(i) word shall be inserted i.e. “or Section 150” and Sub-section (7), shall be inserted, namely:

Cooperative society claiming deduction on inter-cooperative dividend under new tax regime and the deduction shall be available to such amount of dividend distributed by it to its members at least one month before the due date for filling the return of income.
9. Under section **204(1)(a)(i)** word shall be **inserted** i.e. “or Section 150” and Sub-section (5), shall be inserted, namely:

Cooperative society claiming deduction on inter-cooperative dividend under new tax regime and the deduction shall be available to such amount of dividend distributed by it to its members at least one month before the due date for filling the return of income.

Direct Tax Proposals

Tonnage Taxation

Amendments in Chapter XIII-G for giving effect to extension of Tonnage tax scheme to Inland Vessel

Computation of tonnage income. (Section 227)

For claiming benefit of tonnage tax, a certificate is required from Inland Waterways Authority of India. As a clarification it is proposed to replace the term “**certificate**” with “**valid certificate**” in Section 227(4)(a) of the Act.

Relevant shipping income and exclusion from book profit. (Section 228)

“**Inland vessels**” are also proposed to be included under sub-section (3)(b)(ii)(A) that provides on-board or on-shore activities of passenger ships would be included in the core activities of a tonnage company.

Certain conditions for applicability of tonnage tax scheme. (Section 232)

Under sub-section (17) it is amended to specify that the average of net tonnage shall be computed in the manner prescribed, in consultation with reference to Inland Waterways Authority of India, in case of inland vessels.

This amendment will take effect from 1st April, 2026 and will, accordingly, apply in relation to the tax year 2026-27 and subsequent tax years.



Direct Tax Proposals

Miscellaneous

1. As per the Finance Bill, 2026 the definition of Commodity Derivative is proposed to included u/s 66(4) of the Income Tax Act, 2025, which provides as under:

“Commodities transaction tax and commodity derivative shall have the same meanings as respectively assigned to them in Chapter VII of the Finance Act, 2013”

2. As per the Finance Bill, 2026 the definition of authorized person is proposed to included under section 402(27) of Income Tax Act, 2025 in case of Non-Resident which provides as under:

“Authorised person shall mean the authorised person as defined in section 2(c) of FEMA, 1999.”

3. Finance Bill, 2026 proposed to insert binding effect on the Income tax Authorities in relation to TDS Deduction/TCS Collection under section 400(2) of the Income Tax Act, 2025 which provide as follows:

“Section 400(2) The board may, with the previous approval of the Central Government, issued guidelines to remove any difficulty arising in giving effect to the provision of this Chapter (TDS Chapter) and such guidelines shall be-

- a) Binding on the income tax authorities and on the person liable to deduct or, as the case may be, collect income tax and*
- b) laid before each House of Parliament”*

4. The provision of Section 536(2)(h) of Income Tax Act, 2025 is proposed to amend for taxing the allowed deduction & income not offered to tax in earlier Income Tax Act, 1961 for including in total income under Income Tax Act, 2025 either on account of fulfillment of certain condition **or for any other reason.**
5. Finance Bill, 2026 proposed to amend the definition of Specified Fund given in Note 1(g) to Schedule VI for items mentioned in Sl. No. 1 to 4 of Schedule VI (Income not to be included in total income in IFSC) of the Income Tax Act, 2025 by inserting a new clause (C) to align with the definition of Specified Fund given u/s 10(4D) of the Income Tax Act, 1961.

Direct Tax Proposals

Miscellaneous

Amendments Proposed in Budget 2026 – Corrections in the New Act –

1. Section 21, 22 and 262 of the Income Tax Act, 2025 (Corresponding to Section 23, 24 and 139A (5) of the Income Tax Act, 1961) – Correction in provisions relating to House Property and PAN

The Finance Bill 2026 proposes certain corrective amendments to Sections 21, 22, and 262 of the Income Tax Act, 2025 to align them with the corresponding provisions of the Income Tax Act, 1961. Section 21 is proposed to be amended to clarify that the annual value of property held as stock-in-trade shall be taken as nil for a period of “up to two years” from the end of the financial year in which the completion certificate is obtained. Section 22 is proposed to clarify that the aggregate deduction for interest on borrowed capital shall include prior period interest, subject to an overall limit of ₹2 lakh. Further, Section 262 is proposed to empower the CBDT to prescribe rules for mandatory quoting of PAN for all transactions, including those not related to business or profession. These amendments are proposed to take effect from 1 April 2026 under the New Income Tax Act.

2. Section 99 of the Income Tax Act, 2025 (Corresponding to Section 64 of the Income Tax Act, 1961) – Correction of Referencing error

Section 99(1)(a)(ii) of the Income Tax Act, 2025 provides for clubbing of income arising to a spouse from transfer of assets, while Section 99(2) governs the proportion of such income where assets are transferred for business or capital contribution in a firm. The Finance Bill 2026 proposes to correct a referencing error in Section 99(2) by replacing the incorrect reference to Section 99(1)(a)(i) with Section 99(1)(a)(ii), effective 1 April 2026 under the New Income Tax Act.

3. Section 393(1) of the Income Tax Act, 2025 (Corresponding to Section 194-IA of the Income Tax Act, 1961) – Correction of Referencing error

Section 393 of the Income Tax Act, 2025 deals with deduction of tax at source. Table S. No. 3(i) under Section 393(1) prescribes TDS on sale of immovable property by a resident seller where consideration or SDV is ₹50 lakh or more. Finance Bill 2026 proposes correcting a referencing error in Note 3 by replacing the incorrect reference to S. No. 3(iii) with S. No. 3(i), effective 1 April 2026 under the New Income Tax Act.

Direct Tax Proposals

Miscellaneous

Allowing expenditure on prospecting of critical minerals as deduction

Amortization of Expenditure for prospecting certain minerals. – Related to Critical Minerals. (Section 51)

In order to incentivise the prospecting and exploration of the critical minerals, it is proposed to expand the list of minerals in Schedule XII of the Act, thereby making expenditure on prospecting and exploring of such **critical minerals** also eligible for deduction as per the provision of section 51 of the Act.

This amendment will take effect from 1st April, 2026 and will, accordingly, apply in relation to the tax year 2026-27 and subsequent tax years.



Black Money and Imposition of Tax Act, 2015

Amendment to sections 49 and 50 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

Date / Event	Change / Effect
Pre-1 Oct 2024	Sections 42 & 43: Exemption for foreign bank accounts ≤ Rs. 5 lakh only. Sections 49 & 50: Prosecution possible for wilful non-disclosure of foreign assets/income.
1 Oct 2024 – Finance (No. 2) Act, 2024	Sections 42 & 43 exemption broadened: All foreign assets except immovable property ≤ Rs. 20 lakh exempt from penalty.
18 Aug 2025 – CBDT Instruction	Clarified: No prosecution under Sections 49 & 50 if penalty under Sections 42 & 43 is not imposed or not imposable, for assets ≤ Rs. 20 lakh.
Proposed Amendment	Sections 49 & 50 amended to insert proviso: Prosecution shall not apply to foreign assets (excluding immovable property) ≤ Rs. 20 lakh, harmonizing with Sections 42 & 43.
Retrospective Effect	All threshold and prosecution amendments effective from 1 Oct 2024, ensuring consistency with penalty framework and CBDT instructions.

Key Takeaway:

- Minor foreign asset holdings (≤ Rs. 20 lakh, excluding immovable property) are **fully protected from penalties and prosecution** under the BMA.

^[1] Penalty for failure to furnish return in relation to foreign income and asset

^[2] Penalty for failure to furnish in return of income, an information or furnish inaccurate particulars about an asset (including financial interest in any entity) located outside India.

^[3] Punishment for failure to furnish return in relation to foreign income and asset.

^[4] Punishment for failure to furnish in return of income, any information about an asset (including financial interest in any entity) located outside India.

Black Money and Imposition of Tax Act, 2015

THE FOREIGN ASSETS OF SMALL TAXPAYERS DISCLOSURE SCHEME, 2026 [1/2]

Objective

One-time 6-month disclosure window for small taxpayers with foreign assets/income below a prescribed threshold
Encourages voluntary compliance and resolution of legacy cases
Cases involving prosecution or proceeds of crime are excluded

Who Can Apply (Assessee)

Residents in India
Non-residents / not ordinarily residents who were residents: • In the year foreign income arose, or
• In the year the undisclosed foreign asset was acquired

THE FOREIGN ASSETS OF SMALL TAXPAYERS DISCLOSURE SCHEME, 2026

What Can Be Declared

Undisclosed foreign assets (including financial interests) with unexplained or unsatisfactory source
Undisclosed foreign income taxable in India but not offered to tax
Asset value determined on prescribed fair market value
It is defined as the total amount of income of an assessee from a source located outside India which should have been taxed in India but has not been offered to tax

Eligibility for Declaration

Failure to file return under section 139
Failure to disclose foreign asset/income in earlier return
Income or asset escaped assessment under section 147

Black Money and Imposition of Tax Act, 2015

THE FOREIGN ASSETS OF SMALL TAXPAYERS DISCLOSURE SCHEME, 2026 [2/2]

Amount payable by declarant:

S. No.	Type of Asset / Income	Amount Payable	Conditions
1	(a) Undisclosed asset located outside India; or (b) Undisclosed foreign income	30% Tax + 30% additional Tax = 60% of the asset value or foreign income	Aggregate value of undisclosed foreign asset and undisclosed foreign income does not exceed Rs. 1 crore
2	foreign assets acquired during non-resident period; or acquired from income already taxed in India But not disclosed in return schedules	Fee of ₹1 lakh	Value of the foreign asset does not exceed Rs. 5 crore

Other Proposals

Foreign Exchange Management Act, 1999

1. PIS scheme under Foreign Exchange Management Act, 1999 – Expanding the scope of PIS scheme

The Annual Budget 2026 proposes to expand the Portfolio Investment Scheme by permitting persons resident outside India (PROI) to invest in listed Indian companies through recognized stock exchanges, instead of limiting it to NRIs. It also proposes increasing the individual investment limit from 5% to 10% and the aggregate cap from 10% to 24% of paid-up capital.



Indirect Tax Proposals



Indirect Tax Proposals

The Key Highlights of the Budget 2026 related to Goods and Services Tax

Section	Existing Provision	Proposed Amendment / Change
Section 15(3)-Post supply Discounts	Post-supply discounts allowed only if established in terms of an agreement entered into before or at the time of supply, linked to invoices, and ITC reversed by recipient	Pre-existing agreement condition removed. Post-supply discounts allowed if credit note issued and ITC reversed
Section 34-Credit Notes	General provision for credit/debit notes	Explicitly covers post-supply discounts, enabling credit notes for such discounts
Section 54(6)-Provisional Refund	90% provisional refund available only for zero-rated supplies	90% provisional refund extended to case where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies
Section 54(14)- Minimum Refund Limit	No refund if amount is below ₹1,000	₹1,000 limit removed for export of goods with payment of tax
Sections 101A & 101B-Advance Ruling Appeals	No alternate mechanism until National Appellate Authority is constituted	Government may empower an existing authority (including Tribunal) to hear appeals Effective from 01.04.2026
Section 13(8)(b)- Intermediary Services – Place of Supply	Place of supply = location of supplier	Special rule removed; place of supply to follow general rule (location of recipient)

Indirect Tax Proposals

The Key Highlights of the Budget 2026 related to Customs

Section	Existing Provision	Proposed Amendment
Section 1(2)-Extent of Act	Applicable to whole of India; limited extra-territorial application	Scope extended beyond territorial waters for fishing and fishing-related activities
Section 2-Definitions	No definition	New definition inserted for “Indian-flagged fishing vessel”
Section 28(6)-Voluntary Payment	Custom Proceedings conclude on payment of duty, interest & penalty	Penalty clarified as charge for non-payment of duty once determined
Section 28J (2)-Advance Ruling Validity	Binding for 3 years	Validity extended to 5 years; existing rulings may be extended on request
Section 56A- (New Section)	Not applicable	Special provisions for fishing beyond territorial waters; duty-free import of catch, foreign landing treated as export
Section 670-Warehouse Transfer	Prior permission of officer required	Prior permission removed; transfer subject to prescribed conditions
Section 84- Regulation	Regulations for examination, assessment & clearance	“Custody” added to regulatory powers

Indirect Tax Proposals

BASIC CUSTOMS DUTY (BCD) RATE CHANGES [Effective* from 01-04-2026]

Tariff Heading	Goods	Old Rate	New Rate
9804	Personal imports	20%	10%*
2841 90 00	Sodium antimonate (solar glass)	7.5%	Nil
8401 30 00	Nuclear power generation goods	7.5%	Nil
8401 40 00	Absorber rods (nuclear)	7.5%	Nil
8516	Microwave oven manufacturing inputs	As applicable	Nil

NEW BCD EXEMPTIONS

Category	Exemption Granted
Renewable Energy	Capital goods for Li-ion battery & BESS
Aviation	Aircraft parts/components incl. engines
Pharma	17 new cancer drugs
Personal Imports	Drugs/food for 7 additional rare diseases

Indirect Tax Proposals

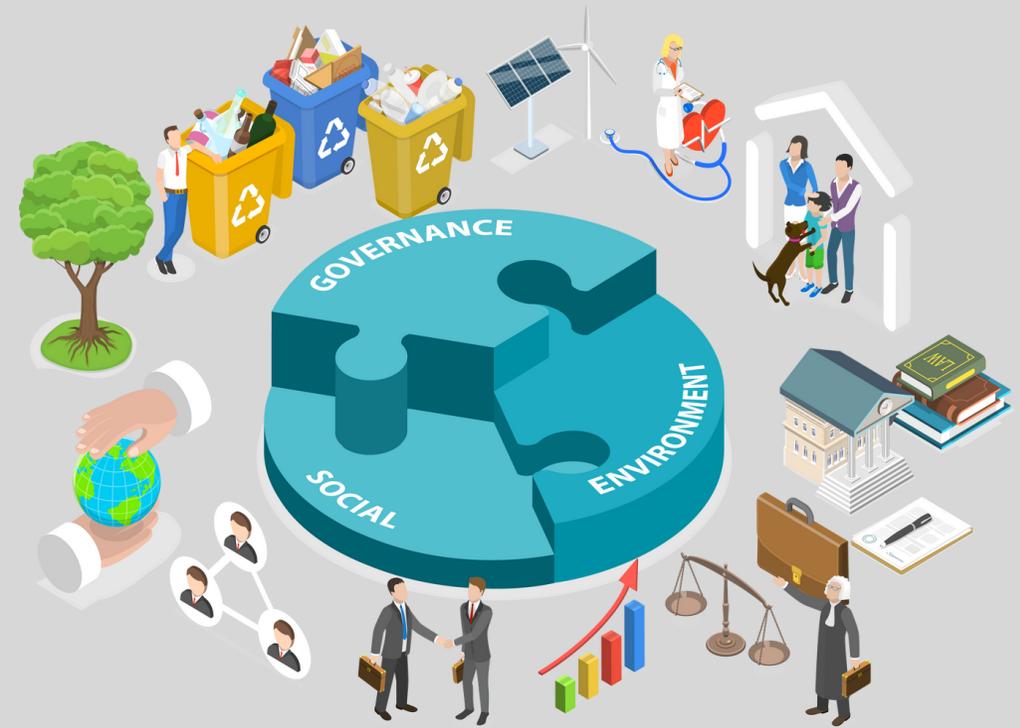
BCD EXEMPTIONS CONTINUED (UP TO 31-03-2028)

Sector	Goods
Jewellery	Gold ores & concentrates
Footwear	Inputs for leather/synthetic footwear
Electronics	Moulds, tools, dies
Lighting	LED lights & fixtures parts
Surveillance	CCTV camera parts
EV	Lithium-ion cells

BCD EXEMPTIONS WITHDRAWN (FROM 31-03-2026)

Goods	End-Use
Naphtha	Fertiliser manufacture
Non-woven fabrics	Adult diapers
Metal parts	Electrical insulators
Pipes & tubes	Boilers

Sector Announcements



Sector Announcements

Manufacturing & Industrial Sector [1/2]

The Government aims to strengthen India's manufacturing base, reduce import dependence, enhance global competitiveness, and create high-quality jobs by focusing on seven strategic and frontier sectors.

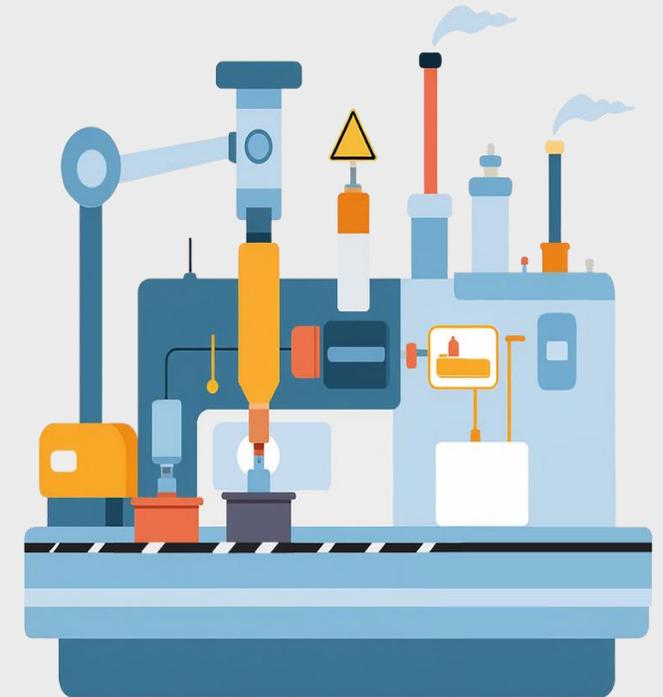
➤ Biopharma Sector:

- Biopharma SHAKTI (Strategy for Healthcare Advancement through Knowledge, Technology and Innovation) Scheme launched with an outlay **Rs.10,000 crores over the 5 next Years**.
- Focus on biologics & biosimilars for non-communicable diseases like like diabetes, cancer and autoimmune disorders
- 3 new National Institutes of Pharmaceutical Education and Research NIPERs + upgrade of 7 existing NIPERs
- **Network of 1000+** accredited clinical trial sites
- Strengthening CDSCO for faster global approvals

➤ Semiconductor & Electronics:

The India Semiconductor Mission (ISM) 1.0 has expended India's capabilities in Semiconductor industry and play a vital role in growth thus now has launched the India Semiconductor Mission (ISM) 2.0 with:

- ✓ Focus on equipment, materials & full-stack Indian IP
- ✓ Industry-led R&D and skill centres
- Electronics Components Manufacturing Scheme outlay increased to **Rs.40,000 crore**



Sector Announcements

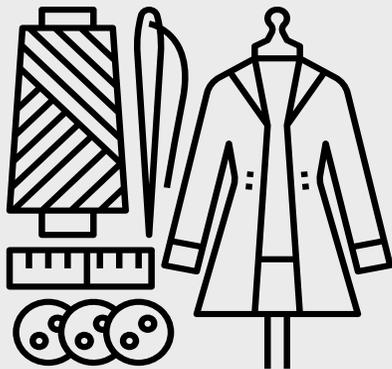
Manufacturing & Industrial Sector [2/2]

➤ Chemicals & Rare Earths

- 3 dedicated Chemical Parks on cluster-based plug-and-play model
- Rare Earth Corridors in Odisha, Kerala, Andhra Pradesh & Tamil Nadu
- Support for mining, processing, R&D and manufacturing

➤ Capital Goods & Heavy Industry

- Hi-Tech Tool Rooms by CPSEs (2 locations)
- Scheme for Construction & Infrastructure Equipment (CIE): strengthening the domestic manufacturing.
- Container Manufacturing Scheme with **Rs.10,000 crore allocation over the 5 years.**



➤ Textile Sector:

The textile sector is a labour-intensive industry with significant potential for employment generation, export growth, and sustainable manufacturing. To fully harness this potential, the Government has proposed an Integrated Programme for the Textile Sector with 5 sub parts:

- National Fibre Scheme
- Textile Expansion & Employment Scheme
- National Handloom & Handicraft Programme
- Tex-Eco Initiative for sustainable textiles
- Samarth 2.0 for skilling

Further, propose to set up 2 sub parts:

- Mega Textile Parks in challenge mode; focus on bringing value addition to technical textiles
- Mahatma Gandhi Gram Swaraj initiative for khadi & handicrafts: initiative to strengthen khadi, handloom and handicrafts.

Sector Announcements

Support to MSME:

- Focus on Creating the “Champion MSMEs”
- Equity Support **Rs.10,000 crore** SME Growth Fund
- **Rs.2,000 crore** top-up to Self-Reliant India Fund
- With (Trade Receivables Discounting System) TReDS , **Rs. 7 Lakh crores** made available to MSMEs,
- Mandatory (Trade Receivables Discounting System) TReDS platform for settlement for all the purchases from the MSME by CPSE.
- Credit guarantee support mechanism through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) for invoice discounting.
- Introduction of Corporate Mitras such as ICAI, ICMI for compliance support especially in Tire-II & Tier-III

Infrastructure Sector

- Public Capex increased to **Rs.12.2 lakh crore**
- Infrastructure Risk Guarantee Fund for private developers
- accelerate recycling of significant real estate assets CPSE assets via REITs
- Dedicated Freight Corridor: Dankuni–Surat
- 20 new National Waterways over the next 5 Years.
- Coastal Cargo Promotion Scheme, to increase the inland waterways and coastal shipping from **6% to 12% by the 2047.**
- Seaplane VGF Scheme for remote connectivity.

Energy & Environment

- Carbon Capture Utilisation & Storage (CCUS) with **Rs.20,000 crore** outlay over the next 5 years.
- Focus on power, steel, cement, refineries & chemicals
- Customs duty exemptions for lithium-ion battery manufacturing
- Support for solar glass, biogas blended CNG
- Basic customs duty (BCD) exemption on imports of goods required for Nuclear Power Projects till the year 2035.



Sector Announcements

Urban Development & Transport

- City Economic Regions (CERs) for Tier II & III cities and even temples-towns
- An allocation of **Rs.5,000 crore per CER over 5 years** for implementing its plans.
- 7 High-Speed Rail Corridors announced such as namely i) Mumbai-Pune, ii) Pune-Hyderabad, iii) Hyderabad-Bengaluru, iv) Hyderabad-Chennai, v) Chennai-Bengaluru, vi) Delhi-Varanasi, vii) Varanasi-Siliguri
- Focus on sustainable urban passenger systems

Financial Sector

- High-Level Committee on Banking for Viksit Bharat
- Restructuring of PFC and REC (NBFC reforms)
- Review of FEMA Non-Debt Rules
- Market-making framework for corporate bonds
- For large municipal bond issuances; Incentives of Rs. 100 crores for single bond issuance of more than **Rs. 1000 crores.**

Services Sector & Employment

- High-Powered Education to Employment Committee; recommend measures that focus on the Services Sector as a core driver of Viksit Bharat. This will make us a global leader in services, with a **10% global share by 2047.**
- Focus on AI impact on jobs and skills.

Health Sector

- Expansion of Allied Health Professional institutions
- Addition of 1 lakh AHPs in 5 years
- Strong geriatric & caregiver ecosystem
- **1.5 lakh caregivers** to be trained
- Five Regional Medical Value Tourism Hubs
- 3 new All India Institutes of Ayurveda
- Upgradation of AYUSH pharmacies & labs
- Strengthening WHO Global Traditional Medicine Centre, Jamnagar

Education & Skill Development

- Setting up of India's Animation, Visual Effects, Gaming and Comics (AVGC) Content Creator Labs in **15,000 secondary schools and 500 colleges** to support the Indian Institute of Creative Technologies
- Five University Townships near industrial & logistics corridors
- One Girls' hostels in every district (STEM focus)
- Four Telescope infrastructure for astronomy & astrophysics
- Design education boost via new National Institute of Design

Sector Announcements

Tourism & Culture

- Setting up of National Institute of Hospitality
- Setting up of Pilot Scheme Upskilling of **10,000 tourist guides**
- Setting up of national Destination Digital Knowledge Grid for establishing the documentation in digital form at one place that will create the Job for local researcher, historian, content creators and technology partner.
- Eco-tourism: trekking, turtle trails, bird watching.
- Development of 15 archaeological sites
- Buddhist Circuit development in North-East

Sports Sector

- Khelo India Mission to transform the sports sectors.
- Talent pipeline from grassroots to elite level
- Sports science, coaching & infrastructure development



Social Inclusion

➤ Women

- SHE-Marts for women-led rural enterprises; from the success of the Lakhpati Didi Programme now we go one step move ahead to empowering the women to be entrepreneur.

➤ Divyangjan

- Divyangjan Kaushal Yojana; for ensuring the dignified livelihood opportunities
- Divyang Sahara Yojana for assistive devices
- Expansion of ALIMCO & Assistive Technology Marts

➤ Mental Health

- National Institute of Mental Health and Neurosciences (NIMHANS-2) in North India
- Upgrade of mental health institutes
- Emergency & Trauma Care Centres in districts

Sector Announcements

Agriculture & Allied Sectors

Comes under the third kartavya viz. Sabka Sath, Sabka Vikas, in this sector the focused has been shift to increasing the income for the farmers through productivity enhancement and entrepreneurship.

➤ Fisheries

- Development of 500 reservoirs & Amrit Sarovars
- Strengthening coastal fisheries value chain

➤ Animal Husbandry

- Credit-linked subsidy for vet colleges & hospitals
- Livestock entrepreneurship & FPOs

➤ High-Value Agriculture

- Support for coconut, cashew, cocoa, sandalwood; India is the world largest producer of the Coconuts that About 30 million people, including nearly 10 million farmers, depend on coconuts for their livelihood, to support the coconut Gov't will set up the Coconut Promotion Scheme.
- Nut crops in hilly regions
- Coconut Promotion Scheme
- Cashew & Cocoa self-reliance programme

➤ Technology & Digital Agriculture

- Bharat-VISTAAR a Multilingual AI Platform
- Integration of AgriStack & ICAR advisory systems
- customised farm advisories



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