KIRTANE & PANDIT

UNION BUDGET 2026

KEY DIRECT TAX HIGHLIGHTS

CONTENTS

KEY HIGHLIGHTS OF UNION BUDGET 2026-27

- Fiscal Prudence with Growth Focus: Research suggests the Budget maintains a fiscal deficit at 4.3% of GDP, down from 4.4%, emphasizing stability amid global uncertainties, with nominal GDP growth projected at 10%.

- Record Infrastructure Push: Evidence points to a Rs. 12.2 lakh crore capital expenditure allocation (3.1% of GDP), including 7 high-speed rail corridors and 20 new national waterways, aimed at boosting connectivity and economic multipliers.

- Sectoral Incentives for Manufacturing: It seems likely that targeted schemes like Biopharma SHAKTI (Rs. 10,000 crore) and India Semiconductor Mission 2.0 will enhance self-reliance in strategic areas, potentially reducing import dependencies.

- MSME and Employment Support: The evidence leans toward measures like a Rs. 10,000 crore SME Growth Fund and professional compliance support, which could foster job creation in labor-intensive sectors amid debates on unemployment.

- Tax and Regulatory Continuity: Reports indicate no major tax slab changes, but rationalizations in TDS/TCS and a Foreign Assets Disclosure Scheme suggest efforts to ease compliance without disrupting revenue streams.

- Big Bang Elements: While no single explosive reform, the FTA with EU and Income-tax Act 2025 implementation appear as pivotal, unlocking trade opportunities and simplifying tax laws, though their full impact remains debated.

A. Economic Context and Stability

The Budget arrives amid a resilient Indian economy, with real GDP growth estimated at 7.4% for FY26 and projected at 6.8-7.2% onward. It balances fiscal discipline — debt-to-GDP targeted at 50% ±1% by FY31 — with sustained public investment, reflecting a cautious yet optimistic stance on global turmoil.

B. Major Announcements and Reforms

Key moves include cluster-based manufacturing incentives across biopharma, semiconductors, and rare earths, potentially creating jobs while addressing supply chain vulnerabilities. Infrastructure gets a massive lift, but without populist giveaways, signaling long-term priorities over short-term gains.

C. Implications for Stakeholders

For businesses and investors, the capex surge and MSME fund could spur private participation, though higher STT on forwards might dampen market activity. Taxpayers benefit from extended return filings and disclosure schemes, promoting compliance without major burdens.

Outlook

Overall, the Budget leans toward continuity and efficiency, fostering inclusive growth. While lacking flashy reforms, it empathetically addresses sectoral needs, acknowledging challenges like import dependencies and unemployment from all perspectives.

FOREWORD FOR DIRECT TAX PROPOSAL: NAVIGATING INDIA'S FISCAL HORIZON – UNION BUDGET 2026-27

Dear Readers,

As we delve into the Union Budget 2026-27, presented by Finance Minister Nirmala Sitharaman on February 1, 2026, we at Kirtane & Pandit LLP are delighted to offer this comprehensive preface to our detailed analysis. This marks her ninth consecutive Budget, a testament to sustained fiscal stewardship amid unprecedented global challenges, including geopolitical tensions and economic slowdowns in key markets. Our publication aims to serve as a practical guide for businesses, investors, and policymakers, drawing on institutional insights to unpack the Budget's implications across tax, regulatory, and sectoral landscapes.

This year's Budget stands out for its emphasis on continuity over disruption, prudence over populism, and multipronged reforms over singular big-bang announcements. Against a backdrop of resilient domestic growth real **GDP** estimated at **7.4%** for FY26 and projected at **6.8-7.2%** thereafter it reinforces India's trajectory toward Viksit Bharat by 2047. The Economic Survey 2025-26 underscores this optimism, highlighting strong private consumption, public capex momentum, and a reviving investment cycle, even as external pressures like U.S. tariffs and global supply chain shifts loom large.

A key anchor is fiscal discipline:
the deficit is pegged at **4.3%** of GDP for **FY27**, down from **4.4% in FY26** revised estimates, with central government debt targeted at 50% ±1% by FY31. This is commendable, especially considering headwinds from prior measures increased income-tax slabs in 2025, GST rationalization in September 2025, and the landmark Free Trade Agreement (FTA) with the European Union, which, while opening export avenues, may reduce customs duties from a major partner. Nominal GDP growth is budgeted at 10%, with gross tax revenue up 8%, though indirect taxes grow modestly at 3% due to GST moderation.

A. Macroeconomic Framework and Growth Enablers

The Budget's core philosophy action over ambivalence, reform over rhetoric, and people over populism—manifests in a Rs. 12.2 lakh crore capital expenditure allocation (3.1% of GDP), the highest ever, up 11.5% from FY26. This sustains the infrastructure-led growth narrative, operationalizing seven high-speed rail corridors as "growth connectors," 20 new national waterways, and dedicated freight corridors. Such investments, amounting to over 3x the FY14-15 levels, are designed to crowd in private capital, enhance logistics efficiency, and unlock regional potential, particularly in Tier II/III cities through economic regions.

On the external front, the EU FTA emerges as a pivotal "big bang" element, facilitating market access, technology transfers, and labour-intensive exports. Complementing this, the Non-Debt Instruments Policy revamp and enhanced portfolio investment limits for Persons Resident Outside India (from 10% to 24% overall, 5% to 10% individual) signal a calibrated opening to foreign inflows, crucial amid drying capital streams flagged by the Survey.

B. Sectoral Thrusts: Scaling Manufacturing and Self-Reliance

A standout feature is the cluster-based push for seven strategic sectors, aligning with global shifts toward efficiency and resilience:

• **Biopharma:** Rs. 10,000 crore under Biopharma SHAKTI over five years, recognizing India's rising burden of non-communicable diseases and positioning it as a global hub.

• **Semiconductors:** India Semiconductor Mission 2.0 expands capabilities in equipment, chemicals, and gases, tapping a $400 billion market by 2030, amid AI-driven demand surges.

• **Electronics:** Rs. 40,000 crore for the Components Manufacturing Scheme, building on PLI successes to reduce import dependencies.

• **Rare Earths:** Dedicated corridors for mining, processing, and R&D, mitigating reliance on China.

• **Chemicals:** Three parks to boost domestic production.

• **Capital Goods:** Schemes for construction equipment and containers.

• **Textiles:** Integrated program for self-reliance in natural fibers, alongside the Expansion and Employment Scheme and National Handloom/Handicraft Programme.

These initiatives, coupled with Rs. 20,000 crore for Carbon Capture Utilization and Storage (CCUS) in power and heavy industries, underscore a green transition while retaining coal-based generation with mitigation frameworks.

MSMEs, vital for 48.6% of exports, receive targeted support: a Rs. 10,000 crore SME Growth Fund, professional compliance institutions, and equity/liquidity measures to foster "Champion MSMEs." This addresses pain points from U.S. tariffs, with SEZ liberalization allowing easier domestic tariff area sales.

Labor and employment gain expanded focus, with a high-powered "education to employment and enterprise" committee, upskilling programs, and incentives for labor-intensive sectors like footwear, leather, and seafood (via duty thresholds/deductions). The Budget also pushes health care and medical tourism, building on India's strengths.

C. Tax and Regulatory Reforms: Simplification and Certainty

Direct taxes see continuity, with no slab changes for TY 2026-27, but the landmark Income-tax Act, 2025, effective April 1, 2026, replaces the 1961 Act, re-engineering provisions in plain language for transparency and compliance. Measures ease friction: revised return due date extended to March 31 (from December 31) with nominal fees; updated returns against reassessment notices to reduce litigation; rationalized TDS/TCS (e.g., 2% on LRS remittances for education/medical); and decriminalization of major offenses, shifting penalties to graded fees.

A one-time **Foreign Assets of Small Taxpayers Disclosure Scheme, 2026,** offers immunity for eligible groups like students and returning NRIs, regularizing undisclosed assets within thresholds. Buyback taxation reverts to capital gains, with promoter-specific levies (22-30% effective), aligning with global norms but potentially deterring founder-led repurchases.

Retrospective amendments resolve litigation hotspots: validating DIN defects from October 2019; clarifying JAO authority in reassessments from April 2021; excluding DRP time from assessment limits from 2009; standardizing TP order timelines from 2007; and prospective relief for welfare fund deposits till ITR due dates.

On the downside, increased Securities Transaction Tax (STT) on forwards may weigh on equity trading, reflected in post-Budget market dips. No major personal tax relief disappoints, but overall, the agenda promotes trust through reduced administrative burdens.

D. Broader Policy Expansions: Climate, Labor, and Financial Sector

Climate policy advances with CCUS funding, signaling industrial decarbonization. Labor reforms emphasize New Labour Codes' implementation for formalization and mobility. Financially, a High-Level Committee on Banking for Viksit Bharat will review and align the sector with growth needs.

The Budget's diffused approach catering to election-bound states via targeted schemes like rare earth corridors (Odisha, Kerala, TN, AP), Coconut Promotion (Kerala), and East Coast Industrial Corridor (West Bengal) avoids consolidated packages, promoting balanced regional development.

E. Outlook and Our Perspective

Union Budget 2026-27 strikes a credible balance between ambition and realism, fostering investment-led growth while addressing core constraints like unemployment, import reliance, and compliance costs. ASSOCHAM views it as reform-oriented, with capex and MSME thrusts unlocking multipliers. KPMG highlights its culmination of fiscal continuity, with the EU FTA as a milestone for trade.

Yet, challenges persist: private investment lags, rupee depreciation needs containment, and global uncertainties demand agility. The absence of populist measures is laudable, but sustained execution e.g., timely rollout of the National Export Promotion Mission and integrated textiles program will be key.

As a firm committed to guiding clients through evolving landscapes. we trust this preface and our full document will aid your strategic assessments. We welcome your feedback and look forward to continued engagement.

Team Kirtane & Pandit LLP

Disclaimer:
This document has been prepared as a service to the clients. We recommend you to seek professional advice before taking any action on the specific issues.

1. RATES OF INCOME TAX

Applicable Tax Slabs for Individual / HUF / AOP / BOI:

Rates of income tax in respect of income liable to tax for the Tax Year 2027-28:

New Regime:

No changes have been proposed in the new regime, as such following tax slab rates shall continue

Rate of tax	Income Slab *ITA,1961 - 115BAC & ITA,2025 – Section 202)*
Nil	Up to 4,00,000
5%	From 4,00,001 to 8,00,000
10%	From 8,00,001 to 12,00,000
15%	From 12,00,001 to 16,00,000
20%	From 16,00,001 to 20,00,000
25%	From 20,00,001 to 24,00,000
30%	Above 24,00,000

Old Regime:

No changes have been proposed in the old regime, following tax slab rates shall continue:

Rate of tax	Income Slabs for HUFs and Individuals		
	Below 60 years of Age	Above 60 and below 80 years of Age	Above 80 years of Age
Nil	Upto 2,50,000	Upto 3,00,000	Upto 5,00,000
5%	From 2,50,001 to 5,00,000	From 3,00,001 to 5,00,000	NA
20%	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000
30%	Above 10,00,000	Above 10,00,000	Above 10,00,000

Other Assessee

Assessee Type	Proposed Tax Rate	Surcharge	Remarks
Co-operative Societies	Existing slabs continue.	7 % if total income 1 Cr to 10 Cr 12 % if total income exceeds 10 Cr.	Optional 22% tax under section 203, ITA,2025.
Firms & Local Authorities	Existing rate of 30% continues.	2 % if income > Rs. 1 Cr	-
Domestic Companies	General Rate: 25% *(if turnover ≤ Rs. 400 Cr in FY 2024-25)* Others - 30%.	7 % if total income 1 Cr to 10 Cr. 12 % if total income exceeds 10 Cr.	Optional 22% under section 200, ITA,2025.
Foreign Companies	General Rate: 35% (on income not taxed at special rates)	2 % if total income 1 Cr to 10 Cr. 5 % if total income exceeds 10 Cr.	-

2. COMPLIANCES

2.1. Rationalising due dates for filing the return of Income

Section 263(1)(c) of the Income-tax Act, 2025 has been amended to extend the due date for certain non-audit business/profession cases and trusts, providing additional time for book finalisation and compliance.

A corresponding amendment is also proposed in Explanation 2 to Section 139 (1) of the Income-tax Act, 1961 to maintain parity for TY 2026–27.

Applicability
- ITA,2025: Applicable from 1 April 2026→Tax Year 2026–27 onwards
- ITA,1961: Applicable from 1 March 2026→Assessment Year 2026–27 (PY 2025–26)

Category of Assessee	Audit Requirement	Existing Due Date	Proposed Due Date
Individual (ITR-1 / ITR-2)	Not applicable	31st July	No change
Non-audit business/profession	Not required	31st July	**31st August**
Partner of non-audit firm/spouse (Sec 10 applicable)	Not required	31st July	**31st August**
Audit cases (Company / Audit firm / Audit partner)	Required	31st October / 30th November (where applicable)	No change
Any other assessee	-	31st July	No change

Our Comment:
This amendment provides additional compliance time to non-audit business taxpayers and trusts by extending the ITR due date to 31st August.

2.2. Scope of filing of updated return in the case of reduction of losses & allowing the filing of updated return after issuance of notice of reassessment

Under the existing provisions of Section 263(6) of the Income-tax Act, 2025 (corresponding to Section 139(8A) of the Income-tax Act, 1961), an updated return cannot be furnished where it results in a loss, or where assessment/reassessment proceedings are pending or completed for the relevant tax year. Updated returns are also not permitted if they reduce tax liability or increase refund.

Budget 2026 proposes to rationalise these provisions by allowing filing of an updated return In cases

1. Where the taxpayer reduces the amount of loss originally claimed, and
2. Where the updated return is filed in response to a reassessment notice.

However, in cases where an updated return is furnished pursuant to a reassessment notice, an additional tax of 10% shall be payable over and above the existing additional tax on the aggregate of tax and interest. The amendment is applicable from TY 2026–27 onwards.

Our Comment:

1. Loss to loss situation coverage in UROI is logical and welcome step.

2. Permission to file UROI even after getting reassessment notice is a good provision. IT permits the Assessee to overcome mistakes albeit with a cost. But incurring such cost is much better than suffering the penalty / Prosecution.

2.3. Extending the period of filing the revised return

Particulars	Existing Provision	Proposed Amendment
Time limit for filing Revised Return	9 months from end of relevant tax year	12 months from end of relevant tax year
Time Limit for belated return	9 months from end of relevant tax year	No change, However belated return filed on 31-Dec could be revised now.
Fee for late revised return	Not applicable	Fee applicable for revised returns filed after 9 months
Relevant fee section	Not applicable	Section 428(b) – ITA,2025 Section 234I – ITA,1961
Applicability	Up to AY 2025–26	AY 2026–27 onwards i.e. tax year 2025-26

Our Comment:

1. Budget 2026 extends the time limit for filing revised returns to 12 months from the end of the relevant assessment year; revised returns filed after 9 months will now attract a prescribed late fee. Which is a welcome measure.

2. Section 428 provides that failure to file the return of income within the prescribed due date under section 263(1) attracts a late filing fee of up to Rs. 1,000 where total income does not exceed Rs.5 lakh and Rs. 5,000 in other cases.

3. AMENDMENTS APPLICABLE TO INDIVIDUALS

3.1. Exemption of Interest Income under the Motor Vehicles Act, 1988

(earlier no specific section was there in ITA, 1961)

Existing Provision:
Section 11 of the Income-tax Act, 2025 provides for exemption of income of specified persons listed in Schedule III, subject to fulfilment of prescribed conditions. However, under the existing provisions, interest awarded on compensation under the Motor Vehicles Act, 1988 is not specifically exempt, and therefore, such interest income may be liable to tax in the hands of the recipient.

Under the Motor Vehicles Act, 1988, compensation along with interest may be awarded by the Motor Accident Claims Tribunal to an individual or his legal heir on account of death, permanent disability or bodily injury arising from a motor accident.

Proposed Amendment:
It is proposed to amend Schedule III to the Income-tax Act, 2025 by inserting a new entry at Serial No. 38B, to provide that:

- Any interest on compensation amount awarded by the Motor Accident Claims Tribunal
- Received by an individual or his legal heir,
- Under the Motor Vehicles Act, 1988,

shall be **exempt from tax**.

Accordingly, interest awarded by the Motor Accident Claims Tribunal on compensation granted for death, permanent disability or bodily injury shall not form part of total income of the recipient.

This amendment shall take effect from **1st April 2026** and shall apply from Tax Year 2026–27 onwards.

Our Comments
The proposed amendment brings statutory clarity and relief by expressly exempting interest awarded on motor accident compensation, which is in the nature of compensatory relief rather than income. This measure ensures that accident victims and their families are not burdened with tax on amounts awarded to mitigate personal loss and hardship and aligns the tax treatment with the humanitarian intent of the Motor Vehicles Act, 1988.

Many more situations exist where compensations are rewarded and which interest gets awarded due to delay. It will be interesting to see how many other situations will get equal treatment in future.

3.2. No TDS on Interest on Compensation Awarded by Motor Accident Claims Tribunal:

(earlier Section 194A(3)(ix) of the ITA, 1961)

Existing Provision:
Section 393(4) of the Income-tax Act, 2025 presently provides that tax is not required to be deducted at source on interest received on compensation awarded by the Motor Accident Claims Tribunal (MACT) only where the aggregate amount of such interest does not exceed Rs.50,000 during the tax year. Accordingly, where the interest exceeds the prescribed threshold, tax is required to be deducted at source.

Proposed Amendment:
Since interest income on compensation awarded by the Motor Accident Claims Tribunal is proposed to be exempt under Section 11 read with Schedule III, the Finance Bill proposes to amend Section 393(4) to provide that no tax shall be deducted at source on such interest when the compensation is awarded to an individual, without any monetary limit.

The amendment seeks to provide relief to accident victims and to alleviate the hardship caused due to such accidents.

This amendment will be effective from **1 April 2026.**

Our Comment:
The proposed amendment ensures consistency between the exemption of such interest income and the TDS provisions by removing the threshold-based deduction requirement. By dispensing with TDS on interest awarded to individuals, the amendment reduces cash-flow strain, avoids unnecessary refund claims, and provides meaningful relief to accident victims and their families.

4. HOUSE PROPERTY / CAPITAL GAINS

4.1. Exemption for Sovereign Gold Bond

The exemption under Section 70(1)(x) of ITA,2025 will now be available only if the bond was subscribed to at the original issue and is held continuously until maturity or redemption.

This change aligns the provision with its intended scope and applies uniformly to all SGB series issued by the RBI.

The amendment is effective from April 1, 2026 (AY 2027-28)

4.2. Exemption of income on compulsory acquisition of any land under the RFCTLARR Act

Existing Provision **(Section 10(37) and Schedule III of the Income-tax Act, 1961)**	**New Provision** **(Section 11 read with Schedule III of the Income-tax Act, 2025)**
Exemption available under Section 10(37) (for individuals/HUFs) and Schedule III only for capital gains arising from the transfer of agricultural land, subject to the fulfilment of specified conditions. Exemption for compensation under the RFCTLARR Act was clarified through CBDT Circular No. 36/2016, not expressly covered in the Act.	Schedule III read with Section 11 is proposed to be amended to expressly exempt any income arising from an award or agreement under the RFCTLARR Act, 2013, for compulsory acquisitions carried out on or after 1 April 2026.

Our Comment:

1. The proposed amendment under the Income-tax Act, 2025 provides clear statutory exemption for compensation received on compulsory acquisition of land under the RFCTLARR Act, eliminating earlier ambiguities and reliance on CBDT circulars. Explicit situations have been made more explicit.

2. But, uncalled for since, RFCTLARR provides for this anyway and the RFCTLARR overrides other acts.

4.3. Key Changes in Taxation of Share Buybacks

•**Shift to Capital Gains Taxation:** Effective April 1, 2026 (Tax Year 2026-27), buyback proceeds will be taxed as capital gains in shareholders' hands, moving away from the current dividend treatment. This applies the net gain (buyback consideration minus cost of acquisition) at standard rates: 12.5% for long-term capital gains (LTCG) and 20% for short-term capital gains (STCG), plus applicable surcharge and cess.

•**Higher Burden on Promoters:** For promoters, an additional tax is proposed over standard capital gains rates, resulting in effective rates of 22% for domestic corporate promoters and 30% for other promoters (individuals, firms, etc.). This acknowledges promoters' influence in buyback decisions and aims to curb potential misuse.

•**Promoter Definition:** Clearly defined for listed companies, as per SEBI regulations; for unlisted, as per Companies Act, 2013, or holders with >10% direct/indirect shareholding.

•**Potential Benefits and Concerns:** Research suggests this rationalizes taxation by taxing net gains rather than gross receipts, benefiting retail shareholders with lower effective tax. However, it may increase costs for promoters and foreign investors, depending on treaty benefits. Evidence leans toward improved equity, but frequent changes could introduce planning uncertainties.

4.4. Comprehensive Analysis of Share Buyback Taxation Amendments

Share buybacks represent a corporate mechanism for repurchasing outstanding shares from shareholders, often to optimize capital structure, enhance earnings per share, or return surplus cash. Under Indian tax law, the treatment has undergone multiple shifts, reflecting policy efforts to balance revenue collection, anti-avoidance measures, and economic incentives. This analysis draws from the Finance Bill, 2026 proposals, prior amendments, and expert insights, focusing on existing provisions, issues, proposed changes, effects, and commentary. It covers implications for domestic and foreign assessee, emphasising factual, legal, and commercial aspects.

4.5. Historical Evolution (Quick Timeline)

Period	Tax Regime	Who Pays	Effective Rate (approx.)	Shareholder Treatment
Pre-2013	Capital gains in shareholders' hands	Shareholder	0 / 10 / 20%	Normal CG computation
2013–30 Sep 2024	Buy-back tax u/s 115QA on company	Domestic company	23.296% on distributed income	Exempt u/s 10(34A)
1 Oct 2024–31 Mar 2026	Deemed dividend u/s 2(22)(f) + capital loss	Shareholder (entire proceeds)	Slab rate (up to 42.744%)	Gross taxed as IFOS; cost = long-term capital loss
From 1 Apr 2026	Capital gains u/s 69 (as amended)	Shareholder (net gain)	Normal CG + additional tax only for promoters	Net gain taxed; cost allowed as deduction

4.6. Existing Provisions (Pre-April 1, 2026) and Issues Faced by Assessees

The current regime, effective from October 1, 2024 (via Finance Act, 2024), treats buyback proceeds as deemed dividends under Section 2(22)(f) of the Income-tax Act, 1961 (ITA, 1961) or corresponding Section 2(40)(f) of the Income-tax Act, 2025 (ITA, 2025). Key elements include:

•**Taxation as Dividend:** The entire consideration received by shareholders is taxed as "Income from Other Sources" at applicable slab rates (up to 30% for individuals, plus surcharge/cess). No deductions are allowed under Section 57, meaning gross receipts are fully taxable without offsetting the cost of acquisition.

•**Capital Loss Recognition:** Under Section 46A (ITA, 1961) or Section 69 (ITA, 2025), the buyback is deemed a "transfer," but the consideration for capital gains computation is nil. This generates a capital loss equal to the cost of acquisition, which can be short-term or long-term based on holding period. The loss can be carried forward and set off against future capital gains only.

•**Company Obligations:** No additional tax on the company under Section 115QA (abolished for buybacks post-Oct 1, 2024). However, companies must withhold tax at source (TDS): 10% for residents (Section 194) and at treaty/DTAA rates for non-residents (Section 195).

•**Exemptions and Prior Context:** Pre-2024, companies paid ~23.3% tax on "distributed income" (buyback price minus issue price) under Section 115QA, with shareholders exempt under Section 10(34A). This shifted in 2024 to align with post-2020 dividend taxation (after DDT abolition).

4.7. Issues Faced by Domestic Assessees:

•**Tax Mismatch and Deferral:** Gross dividend taxation ignores the cost base, leading to immediate high tax on receipts (e.g., 30-42% effective for high-income individuals), while the capital loss is deferred. This disadvantages lower-bracket assessees (e.g., retail investors below 30% slab) who pay more upfront than under net gains taxation. Promoters, often in higher slabs, face amplified burdens without expense deductions.

•**Inequity for Small & Retail Shareholders:** Individuals in lower tax slabs were taxed on the entire receipt at their slab rate, without the benefit of offsetting their cost basis immediately, leading to a potentially higher tax outgo compared to a capital gains structure.

•**Cash Flow Strain:** Immediate taxation on gross amounts strains liquidity, especially for small shareholders or those with high acquisition costs (e.g., from recent IPOs). Capital losses may remain unutilized if no future gains arise.

•**Anti-Avoidance Gaps:** The regime aimed to prevent buybacks as dividend substitutes but created imbalances, as buybacks extinguish shares (unlike dividends), yet are taxed similarly without accounting for rights loss.

•**Compliance Burden:** Companies handle TDS, but shareholders must track losses for set-off, increasing administrative complexity.

4.8. Issues Faced by Foreign Assessees:

•**Higher Effective Tax:** Non-residents face TDS at 20% (or treaty rates), often without full credit in home countries if treated as dividends. Treaties (e.g., India-US) may tax dividends at 15-25%, but capital losses are not immediately offsettable, leading to double taxation risks.

•**Treaty Eligibility:** Foreign portfolio investors (FPIs) or multinational promoters struggle with classification — dividends may not qualify for preferential treaty rates if buybacks are seen as capital events. High withholding (up to 20%) without refunds for losses exacerbates issues.

•**Commercial Deterrence:** Volatile regimes discourage foreign investment; e.g., post-2024 shifts increased repatriation costs via buybacks compared to open-market sales, affecting M&A and PE exits.

These issues stem from the 2024 amendments' focus on widening the tax base, but they overlook the economic substance of buybacks as share extinguishments, leading to inequities. Effective from 1 April 2026, the Finance Bill 2026 proposes to overhaul the regime by amending **Section 69** of the Income-tax Act, 2025 (corresponding to Section 46A of the 1961 Act).

Proposed Amendments.

4.9. Core Change: Shift to Capital Gains Taxation

•The consideration received on buyback will be chargeable to tax under the head "Capital Gains" and will no longer be treated as a dividend.

•The capital gain will be computed as the difference between the buyback consideration and the actual cost of acquisition of the shares, applying the normal holding period test (Short-Term or Long-Term).

4.10. Differential Tax Rates for Promoters

Recognising the influential role of promoters in initiating buybacks, a differential tax structure is proposed:

Category of Shareholder	Nature of Gain	Standard CG Rate	Additional Tax	Effective Tax Rate
Promoter - Domestic Company	STCG or LTCG	20% or 12.5%	2% or 9.5%	22%
Promoter - Other (Individuals, HUFs, Foreign Companies)	STCG or LTCG	20% or 12.5%	10% or 17.5%	30%
Non-Promoter Shareholders	STCG or LTCG	As per normal slab rates (e.g., 15% for listed STCG, 10% for listed LTCG > Rs. 1 lakh, slab for unlisted)	Not Applicable	Applicable Capital Gains Rate

Definition of Promoter: Aligns with SEBI definitions for listed companies. For unlisted companies, a person holding >10% shareholding (directly/indirectly) or meeting the definition under the Companies Act, 2013.

Abolition of Company-Level Tax

- The company is **not liable** to pay any buyback tax under Section 115QA.
- The requirement to withhold tax (TDS) on the buyback consideration paid to shareholders will continue to apply.

4.11. Effect of the Amendment

a. Removal of Structural Mismatch:
The primary distortion is corrected. Tax is now levied on the net economic gain (consideration minus cost) in a single computation, simplifying compliance and reporting.

b. Impact on Different Shareholder Classes:

•**Retail/Non-Promoter Shareholders:** Likely to benefit significantly. Instead of paying tax on the gross amount at their income slab rate (up to 30%+), they will pay tax only on the gain at lower capital gains rates (e.g., 10% for long-term holdings in listed shares).

•**Domestic Corporate Promoters:** Face a definitive 22% tax on the gain, aligning it with the base corporate tax rate, removing any arbitrage between dividend and buyback.

•**Non-Corporate & Foreign Promoters:** Bear the highest burden at 30%, a policy measure to discourage the use of buybacks primarily as a tax-advantaged exit route for controlling shareholders.

c. Implications for Foreign Shareholders:

•**Treaty Benefits Reinstated:** Characterisation as "capital gains" may allow foreign shareholders to claim benefits under Double Taxation Avoidance Agreements (DTAAs), which often grant exclusive taxation rights for such gains to the country of residence (subject to conditions like limited ownership).

•**Withholding Tax (TDS):** The applicable TDS rate would shift from the "dividend" rate to the "capital gains" rate under the Act or DTAA, which could be lower or nil.

•**Cost Base Deduction:** Foreign investors with a high cost base (e.g., invested at a premium during early funding rounds) will benefit as tax is levied only on the actual gain, unlike the previous regime which taxed the full receipt.

Our Comment:
Budget 2026's proposal to tax buybacks as capital gains is a conceptually sound and welcome rationalisation. It corrects a flawed structure and aligns India's practice with global norms, where buybacks are treated as a repurchase of equity.

Positive Aspects:

- **Substance Over Form:** It correctly identifies the buyback as a sale transaction, taxing the real income (the gain).

- **Equity & Simplification:** Benefits small shareholders by reducing their tax burden and simplifies the tax filing process by eliminating the dual reporting of dividend income and capital loss.

- **Treaty Compatibility:** Restores the ability for foreign investors to avail treaty benefits, enhancing India's position as a treaty-compliant jurisdiction.

Key Considerations:

- **Significant Cost for Promoters:** The effective 30% rate for non-corporate promoters (including foreign corporate promoters) is a steep cost. This may influence corporate decision-making, making dividends (subject to DDT in the hands of the company and tax in the hands of shareholders) relatively more attractive in some scenarios.

- **Complexity in Promoter Identification:** Determining "promoter" status for complex holding structures, family arrangements, or in unlisted companies may lead to disputes.

- **Transitional Clarity:** Clear guidance is needed on the applicability of the new regime to buyback announcements made before 1 April 2026 but executed thereafter.

- **Withholding Challenges:** Companies will need to determine the correct TDS rate, which may vary based on each shareholder's status (promoter/non-promoter, resident/non-resident, DTAA applicability).

The proposed amendment is a thoughtful and progressive step that prioritises logical taxation and equity. While it increases the tax cost for promoters—a deliberate policy choice—it generally reduces the burden for the wider shareholder base and simplifies the system. Companies contemplating buybacks must now model the after-tax outcomes for different shareholder groups under this new regime and may need to reconsider their capital distribution strategies.

5. CORPORATES

5.1. Rationalising the due date to credit employee's contribution by the employer to claim such contribution as a deduction.

Existing Provision (ITA,1961 – Section 36(1)(va))	New Provision (ITA,2025 – Section 29(1)(e))
Employees' contribution to PF/ESI is allowed as deduction only if deposited within the statutory due date prescribed under the respective welfare laws; payment after such date is not deductible, even if paid before the return filing due date.	Employees' contribution to specified funds shall be allowed as deduction if deposited on or before the due date of filing the return of income under Section 263(1) of ITA, 2025, even if paid after the statutory due date, applicable from **Tax Year 2026–27 onwards**

Our Comment:

1. The proposed amendment under the Income-tax Act, 2025 allows deduction of employees' PF/ESI contributions if paid on or before the return filing due date, providing significant relief from earlier disallowances.

2. There is a possibility that, existing provisions under the ITA,1961 i.e. Section 36(1)(va) may be construed in light of above amendment; since; object of this change is stated as "Ease of Living". If this phrase is understood same as 'removal of hardship', etc, then floodgates will open, seeking for rightful deductions of delayed payments.

5.2. Minimum Alternate Taxation- Indian Corporations

Section 115JB of ITA,1961 corresponding to Section 206/Section 2 (ITA,2025)

The Finance Bill, 2026 introduces a significant structural reform to the Minimum Alternate Tax (MAT) framework under Section 206 of the Income Tax Act, 2025. The amendments are strategically designed to incentivise corporate taxpayers to transition to the new tax regime, which features a corporate tax rate of 22%.

The key modifications are as follows:

- Introduction of a Final Tax Mechanism: Effective April 2026, the MAT levied under the old tax regime is proposed to be treated as **a final tax**. This means that the tax paid as MAT will not be available as a credit to be carried forward and set off against future tax liabilities under that same regime.

- Reduction in MAT Rate: Concurrently, the applicable MAT rate under Section 206 is proposed to be reduced from the existing 15% to **14%.**

- Transitional Provision for MAT Credit: For domestic companies that choose to opt for the new tax regime for the Tax Year 2026-27, the utilization of any accumulated MAT credit from previous years will be permitted. However, such utilization will be **restricted to a maximum of 25% of the total tax liability computed under the new regime** for that year.

Our Comment:
The Finance Bill, 2026 does not propose any change to the Alternate Minimum Tax (AMT) framework; hence, AMT provisions applicable to LLPs and other non-corporate taxpayers remain unaffected.

The withdrawal of MAT credit entitlement from Tax Year 2026–27 onwards is likely to impact domestic companies currently availing tax holidays under the old regime. Such taxpayers will need to carefully evaluate the financial implications of this change, as continued adherence to the old regime could lead to the permanent lapse of unutilized MAT credit.

While the measure is well-intentioned in driving a smoother transition to the concessional regime, it inadvertently creates an asymmetry between early and late adopters. Companies that had already migrated to the new regime in earlier years were required, under the prevailing framework, to forfeit their entire accumulated MAT credit upon transition. These taxpayers now find themselves at a relative disadvantage vis-à-vis those deferring their switch, since the latter group is permitted to carry forward and utilize a portion of their MAT credit under the newly introduced transition benefit.

From a policy equity standpoint, this inconsistency merits reconsideration. A more balanced approach would be to provide a one-time enabling window, allowing such early adopters to claim and utilize their accumulated MAT credit, subject to similar caps and conditions as applicable to late switchers. This would ensure fairness in treatment and uphold the integrity of the transition framework by ensuring that timely compliance is not retrospectively penalized.

5.3. Minimum Alternate tax- Foreign Entities

Exclusion of Specified Business of Non-residents from MAT
Certain foreign companies are excluded from the application of Minimum Alternate Tax(MAT) under the present provisions. The Finance Bill, 2026, proposes that two other specified businesses (the business of operation of cruise ships and the business of providing services or technology for the setting up of an electronics manufacturing facility in India to a resident company) shall also be excluded from the applicability of MAT.

6. FOREIGN INVESTMENT

6.1. Allowing expenditure on prospecting of critical minerals as deduction

Budget 2026 proposes to extend a significant tax incentive to companies investing in the exploration of critical and strategic minerals. This is achieved by expanding the list of minerals eligible for a deferred tax deduction under the Income Tax Act.

Key Change:
The Finance Bill seeks to amend **Schedule XII** of the Income Tax Act. Expenditure incurred on the prospecting and exploration of several newly specified critical minerals will now qualify for a tax deduction under **Section 51.**

How the Incentive Works (Section 51):
Eligible capital expenditure can be claimed as a deferred deduction. This deduction is spread equally over ten years, starting from the tax year in which commercial production of the mineral begins.

Newly Included Critical Minerals:
The benefit has been extended to several minerals essential for various high-tech and green technologies.

Effective Date:
This amendment will apply from the **Tax Year 2026-27** onwards.

Our Comment:
This amendment is a targeted fiscal measure that aligns with the broader strategic imperative of enhancing India's self-sufficiency in critical resources. By expanding the scope of eligible minerals, the government aims to de-risk supply chains for strategic sectors like clean energy and advanced manufacturing, reducing import dependence and encouraging domestic investment in exploration.

While the ten-year deferral mechanism remains linked to commercial production, the expanded list significantly improves the **investment viability** of exploration projects for these newly included minerals. Taxpayers and investors in this sector should proactively evaluate the implications for project feasibility, expenditure timing, and overall financial modelling to fully leverage this benefit.

6.2. Other Business -Data Centres capital equipment etc

a) Procuring data centre services from a specified data centre,
b) income arising on account of providing capital equipment etc to an electronic goods manufacturer located in a custom bonded area
c) Exemption to non-residents for rendering services under a notified Scheme in India

The Finance Bill, 2026 proposes to expand the scope of income tax exemptions available to eligible non-residents and foreign companies under Schedule IV of the Income Tax Act. The amendments introduce three new categories of exempt income, effective from the Tax Year 2026-27 (Assessment Year 2027-28).

The following new clauses are proposed for insertion:

6.2.1. Clause 13A:Exemption for Foreign Companies Providing Capital Goods for Electronics Manufacturing

Income earned by a foreign company from providing capital goods, equipment, or tooling to a resident corporate contract manufacturer (located in a custom bonded warehouse) for use in electronic manufacturing in India shall be exempt from tax. This exemption is subject to specific conditions outlined in the clause and aims to facilitate advanced manufacturing infrastructure in India.

6.2.2. Clause 13B: Time-bound Exemption for Specified Non-Resident Individuals

Income that accrues or arises outside India (and is not deemed to accrue in India) earned by a non-resident individual from services provided in India under a central government-notified scheme shall be exempt. This benefit is contingent on the individual being a non-resident for the five years immediately preceding their first visit to India for the scheme. The exemption is available for a maximum of five consecutive Tax Years, starting from the year of their first visit.

6.2.3. Clause 13C: Exemption for Foreign Companies Procuring Data Centre Services

Income accruing or arising in India to a foreign company from procuring services from a specified data centre shall be exempt from tax. This incentive is available until the Tax Year ending March 31, 2047, and is subject to certain exceptions and conditions as detailed in the clause.

Effective Date:
These amendments are proposed to take effect from April 1, 2026, and will accordingly apply to the Tax Year 2026–27 and subsequent years

Our Comment:
1. These new exemptions represent targeted fiscal measures designed to advance specific national priorities by removing key tax barriers for foreign participants.

- **Clause 13A (Electronics Manufacturing):** This directly supports the PLI scheme by making it more cost-effective for global firms to deploy advanced capital goods in India, thereby strengthening the domestic electronics manufacturing ecosystem.

- **Clause 13B (Non-Resident Individuals):** This creates a limited tax window to attract

specialized global expertise for critical government projects, facilitating knowledge transfer without creating a complex tax liability for eligible individuals.

- **Clause 13C (Data Centre Services):** This is a strategic incentive aligning with India's data governance framework. It expressly removes the tax exposure related to a potential permanent establishment for foreign companies using specified data centres, thereby encouraging investment in this critical digital infrastructure without ceding regulatory control.

2. Collectively, these clauses require careful review of their conditions and timelines to ensure optimal benefit. They require careful navigation of the attached conditions and timelines. Taxpayers and businesses in these sectors should review their operational and contractual models to align with the new provisions and optimise the intended benefits.

3. The period of exemption of (say) 21 years is too large & unheard off in old/present tax laws

6.3. IFSC Related Amendments

- **Profit based deduction:** Deduction under section 147 [Sec. 80LA of ITA,1961] is extended to 20 consecutive years out of 25 years for IFSC units and 20 consecutive years for Offshore Banking Units, with post-deduction business income taxed at 15%.

- **Dividend Income:**The Finance Bill introduces key amendments affecting the taxation of dividend income and the operational framework for treasury centers in International Financial Services Centres (IFSCs).

- **Deductions Disallowed Against Passive Income:** A significant change disallows any deductions including interest expenditure, against income from dividends and mutual fund units. This measure simplifies tax computation and aligns with the objective of preventing the use of leveraged investments to create unintended tax benefits from such passive income streams.

- **Refined Conditions for IFSC Treasury Centre Exemption:** The Bill rationalizes the exemption from deemed dividend provisions for loans or advances received by a foreign-listed parent entity from its finance company located in an IFSC. The relaxation is now expressly linked to the jurisdiction of the parent entity's listing.

- **New Condition:** The exemption will only be available if the foreign country in which the parent entity is listed is notified by the Central Government.

- **Policy Intent:** This allows the government to ring-fence the relief, extending it only to entities listed in jurisdictions that meet specified regulatory, transparency, and tax policy standards. It refines the scope of the IFSC treasury center framework to ensure it aligns with broader economic and regulatory objectives.

Together, these changes aim to streamline tax calculations and ensure that targeted incentives for IFSCs are accessed in a controlled and policy-compliant manner.

- **Alignment of certain definitions:** Section 10(4D) of the ITA,1961 grants exemption in respect of certain capital gains and income from securities to specified funds operating from an International Financial Services Centre (IFSC). Corresponding provisions under the ITA,2025 are contained in Serial Nos. 1 to 4 of Schedule VI, which apply to any "specified fund" as defined in Note 1(g) to the said Schedule. The Finance Bill, 2026 proposes to amend Note 1(g) of Schedule VI to align the definition of "specified fund" under the ITA,2025 with the definition provided in section 10(4D) of the ITA,1961, along with consequential amendments. This alignment ensures consistency between the two Acts and removes potential interpretational issues for IFSC-based investment funds claiming exemption under the new law.

Our Comments

The extension of the tax holiday for units in GIFT City IFSC from 10 to 20 years, followed by a concessional tax rate of 15%, is a transformative and strategic policy signal. This long-horizon incentive is designed to decisively position GIFT City as a premier global financial hub.

Strategic Rationale & Impact:

This enhanced regime 0% tax for two decades, then 15% creates an unparalleled value proposition compared to the standard 35% rate for foreign companies operating elsewhere in India. It serves a dual purpose: it offers a compelling incentive for new global reinsurers, banks, and fund managers to establish operations, while also providing crucial additional runway for existing investors to achieve scale. The move squarely aims to attract "India-related" offshore financial activity back onshore and directly compete with established hubs like Singapore and Dubai.

Key Consideration - Global Minimum Tax:

For large multinational groups, the interaction with the OECD Pillar Two global minimum tax rules will require careful analysis. While the 0% or 15% rate is highly attractive locally, groups must assess whether it will be fully effective or partially neutralised by potential top-up taxes in other jurisdictions.

Conclusion:

This represents a significant revenue trade-off for the government, underscoring a clear priority to secure long-term gains in financial ecosystem development, employment, and India's integration into global capital flows over immediate tax collection.

7. BLACK MONEY ACT & NR TAXATION

Budget 2026: The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026
(i.e. FAST-DS 2026)

Introduction
The Finance Bill, 2026 introduces the Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 (FAST-DS 2026), a targeted, one-time compliance window. Recognizing that a significant portion of non-reporting of foreign assets and income stems from inadvertent lapses or legacy issues rather than wilful evasion, this scheme aims to provide a structured path for eligible resident individuals to regularise their past omissions. It offers limited immunity from the stringent penalties and prosecution under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (Black Money Act / BMA, 2015).

7.1 The Problem: Legacy Non-Compliance Under the Black Money Act

- **Existing Provisions & Issues:**
  The Black Money Act, enacted in 2015, imposes a heavy compliance burden and severe con sequences for failure to disclose foreign income and assets.

  - **Stringent Regime:**
    It levies tax at 30% on undisclosed foreign income/assets, with a penalty of 90% (totalling 120%), and carries the risk of rigorous imprisonment.

  - **Harsh double taxation in many cases:**
    Many situations exist, where, income of some nature (e.g. say ESOP perquisite) gets taxed in a foreign country on a SOURCE basis, but remains to be offered to tax in India on RESIDENCE basis. In normal course, had such income been actually offered to tax under ITA, 1961; same would have been eligible for credit of taxes paid in foreign country. But, moment, jurisdiction is assumed under BMA, 2015; principle of non-double taxation receives an illogical ignorance / burial.

- **Inadvertent Non-Compliance:**
  In practice, a large volume of non-disclosure arises from complex, non-malignant scenarios that were not the primary target of the law. Common issues faced by "small taxpayers" include:

  - **Foreign Employment Benefits:** ESOPs, RSUs, or bonuses from past overseas employment.

  - **Dormant Assets:** Bank accounts, insurance policies, or small investments held during periods of non-residency (e.g., for education or short-term assignments) that were forgotten or not understood to be reportable upon returning to India.

  - **Reporting Gaps:** Assets acquired from income already taxed in India but inadvertently omitted from the Foreign Asset schedules (FA/FS) in the Indian tax return (ITR).

- **Severe Consequences for Minor Lapses:**
  Barring small threshold limits of Rs. 5 lacs / Rs. 20 lacs and in niche situations, the BMA, 2015 makes no distinction between deliberate concealment / genuine oversight.

The fear of disproportionate penalties and prosecution has left many taxpayers in a state of perpetual non-compliance, exacerbated by data received under international Automatic Exchange of Information (AEOI) frameworks.

7.2 The Solution: FAST-DS 2026 Scheme Framework

Proposed Amendments:
FAST-DS 2026 is a time-bound scheme (expected to be open for 6 months from a notified date) that provides a voluntary disclosure mechanism with concessional settlement terms.

7.3 Eligibility :

• **Eligible assesses :**
Resident individuals as of date can apply. Non-Residents (NR) or Not Ordinarily Residents (RNOR) can also apply, if they were resident in the year in which, undisclosed foreign income accrued or the undisclosed / unreported foreign asset was acquired.

• **Eligible situations :**
The DS is to offer two-fold disclosure facilities. First is such situations where, income in foreign countries (whether resulting into foreign asset or not) has remained undisclosed. Second is such situation where, foreign asset remains unreported in returns of income.

• **Monetary Thresholds:**
- For the first situation above, aggregate value of undisclosed foreign income or unexplained foreign assets must not exceed Rs. 1 crore as of March 31, 2026.
- For the second situation above, aggregate value of explained but unreported foreign assets must not exceed Rs. 5 crores as of March 31, 2026.

• **Key Exclusions:**
- Assets / income representing proceeds of crime.
- Cases already under the Prevention of Money Laundering Act, 2002.
- Cases where assessment proceedings have already been completed under the Black Money Act.

7.4 Declaration Categories & Payment:

The scheme categorises disclosures and applies different costs:

Situation	Type of Asset/Income	Amount Payable	Condition
1	Undisclosed foreign asset (source unexplained); or Undisclosed foreign income (not offered to tax)	Aggregate of: Tax @ ***30***% of the asset value/income + 100% of the tax computed as above i.e. ***30%*** as above Hence, Total = ***60%***	Aggregate value ≤ Rs. 1 Crore
2	Foreign asset not disclosed in ITR.	A flat fee of Rs. 1,00,000 (per declarant, not per asset/year)	Aggregate value ≤ Rs. 5 Crores

7.5 Process & Immunity:

- **Electronic Declaration:** To be filed within the scheme period.
- **Authority Determination:** The tax authority will compute the payable amount and issue an electronic communication within 1 month.
- **Payment Timeline:** The declarant must pay within 2 months of the communication, the determined amount. Time limit is extendable by a further 2 months with interest @ 1% per month.
- **Conclusive Order:** Upon full payment, a final order is issued.
- **Limited Immunity:** Grants immunity from further tax, penalty, and prosecution under the Black Money Act and the Income-tax Act, but only for the specific assets/income disclosed. It does not grant immunity under other laws like PMLA.

7.6 Effect of the Amendment

- **Regularisation Pathway:** Provides a clear, one-time exit route for taxpayers burdened by legacy non-compliance, allowing them to start with a clean slate.
- **Cost Certainty:** Replaces the potentially catastrophic 120% levy (30% tax + 90% penalty) under the Black Money Act with a defined, albeit significant, cost of 60% for unexplained assets, and a nominal fee for explained ones.
- **Closure & Finality:** The order issued is final and conclusive, preventing reopening of these specific issues in future assessments.
- **Reduced Litigation:** Aims to settle a large pool of cases arising from technical/innocent lapses administratively, freeing up judicial and administrative resources.
- **Promotes Voluntary Compliance:** By differentiating between wilful evasion and inadvertent lapses, it may improve overall trust in the compliance system.

7.7 Our Comments

The FAST-DS 2026 is a pragmatic and welcome intervention that addresses a real and growing problem faced by a globalised Indian workforce and diaspora. It acknowledges the complexity of cross-border financial lives and the ease with which technical non-compliance can occur.

Positive Aspects:

- **Targeted Design:**
  The bifurcation between "unexplained" (60% cost) and "explained but unreported" (Rs. 1 lakh fee) assets is a rational and fair approach, rewarding taxpayers who maintained clean money trails.

- **Practical Relief:**
  The nominal fee for Situation-2 disclosures is a masterstroke, likely to encourage a high volume of disclosures for common issues like unreported foreign bank accounts from student days.

- **Procedural Efficiency:**
  Prescribed timelines for authority response and a conclusive order mechanism are essential for the scheme's credibility and success.

Key Considerations & Limitations:

- **Asymmetrical Application, A Major Concern:**
  The exclusion of cases where assessment proceedings under the Black Money Act have already been completed creates an inequitable situation. Two taxpayers with identical factual backgrounds will be treated entirely differently based purely on the accident of whether the tax department had initiated or concluded action against them. This denies relief to those who may be in prolonged litigation or facing demands, arguably the group most in need of resolution. Extending the scheme to cover cases pending in appeal would have been more just.

- **Valuation Challenges:**
  The scheme's efficacy will heavily depend on the yet-to-be-notified rules for asset valuation as of March 31, 2026. Clarity and practicality in these rules are crucial.

- **Not a Broad Amnesty:**
  The scheme is correctly narrow, excluding proceeds of crime and PMLA cases. It is not a get-out-of-jail-free card for serious offences but a compliance facilitator for the genuine small taxpayer.

- **Strategic Decision:**
  Eligible taxpayers must carefully evaluate if disclosure under FAST-DS is their best option. Those with ongoing scrutiny or notices must assess if they can successfully contest the case on merits versus the certainty offered by the scheme.

- **Problem of denial of FTC continues**
  Even under this FAFT-DS, tax paid in foreign country is not considered as any off-set / set-off against plausible amount to be paid in India.

- **Inter-play of the Situations**
  In the table given in Para 2.2 above, two situations have been envisaged, first, where foreign income / asset has not been offered to tax; and second; where, foreign asset has remained to be reported in the “FA Schedule” of the ITR. Interesting situations arise, and one has to wait and watch for further guidance. Can one say that, when 50% tax is paid as per Situation-1, such asset stands fully discloses now and hence, one need not pay any further amount under the FAST-DS. Can there be a case where, situation 2 is opted for some foreign bank a/c existing for last 25 years

- **Limited Immunity:**
  Taxpayers must note that immunity is confined to the Black Money Act and the Income-tax Act. It offers no protection under PMLA, FEMA, or other laws.

Discrimination
Though we are told that, considering policy matters, GOVT actions cant be challenged on discrimination perspective. Yet, a piquant situation arises where, two assesses facing BMA, 2015 procedure for identical foreign undisclosed assets are put on different platters, first being a case where, BMA assessment is complete, and second, where, BMA assessment is incomplete.

Penalty order u/s 43 of BMA 2015 not same as assessment order
As per the FAST-DS scheme, bar is provided for such cases where, assessment order is passed under the BMA, 2015. Now, order levying penalty u/s 43 is not the same as any assessment order. Hence, all cases where, primary enquiry is undertaken, or where, penalty notices are issued, or where, penalty orders are framed, etc. are eligible to FAFT-DS benefit.

7.8 Conclusion:

FAST-DS 2026 is a well-conceived, limited-scope scheme that fills a critical gap in India's tax compliance architecture. It offers a dignified way out for the large cohort of well-intentioned but non-compliant taxpayers. While its exclusion of already-completed cases is a significant flaw that creates unfairness, for those who are eligible, it represents a valuable opportunity to regularise past oversights, mitigate severe risks, and achieve financial peace of mind. Eligible individuals should proactively review their foreign asset history and prepare for the scheme's opening.

8. CAPITAL MARKETS

8.1. Increase in tax rates of Securities Transaction Tax

Under the existing framework of the ITA,2025, read with the Securities Transaction Tax regime introduced by the Finance (No. 2) Act, 2004, STT is levied on transactions in specified securities carried out through recognised stock exchanges. The Finance Bill, 2026, proposes to revise the STT rates applicable to certain derivatives transactions, namely options and futures in securities.

Instrument	Transaction Type	Transaction Basis	Existing STT Rate	Revised STT Rate	Change
Options in Securities	Sale of Option	Option Premium	0.100%	0.150%	50.000%
Options in Securities	Sale of Option Where Option is Exercised	Intrinsic Price	0.125%	0.150%	20.000%
Futures in Securities	Sale of Futures	Traded Price	0.020%	0.050%	150.000%

The revised rates shall apply to transactions entered on or after 1 April 2026.

Our Comments

The rise in Securities Transaction Tax (STT) on derivative transactions forms part of a comprehensive fiscal strategy, complementing SEBI's regulatory initiatives to address excessive retail speculation within the F&O market. By increasing transaction costs alongside SEBI's measures, including larger contract sizes, stricter position limits, higher margin requirements, and weekly expiry constraints, this combined approach is designed to reduce the rapid growth of speculative activity. It seeks to make high-frequency trading less viable for retail investors, who have significantly contributed to the surge in Indian index options turnover to record global levels.

9. INTERNATIONAL TAXATION/ TRANSFER PRICING

Union Budget 2026 introduces significant and targeted reforms to India's transfer pricing (TP) regime, transitioning from an adversarial, litigation-prone system to one prioritising certainty, efficiency, and dispute prevention. These amendments, spanning procedural timelines, safe harbour mechanisms, and dispute resolution, directly address longstanding industry pain points. This note provides a consolidated summary of the key TP amendments, analysing the existing issues, proposed changes, and their commercial implications.

9.1. Dispute Resolution Timelines: Providing Procedural Certainty

Existing Provisions & Issues:
A significant volume of litigation stemmed from ambiguous statutory timelines for completing TP assessments, particularly in cases involving the Dispute Resolution Panel (DRP).

- **TPO Order Deadline:** Courts (e.g., Madras HC in Pfizer Healthcare) interpreted Section 92CA(3A) of the IT Act, 1961, to require the Transfer Pricing Officer (TPO) to pass an order 61 days (not 60) before the assessment deadline, leading to many orders being quashed as time-barred on a technicality.

- **DRP Timeline Conundrum:** A major controversy arose on whether the 9-month DRP process (plus 1 month for the final order) under Section 144C was in addition to or within the overall assessment timeline under Section 153. Conflicting High Court rulings (e.g., Roca Bathroom, Shelf Drilling) and a split Supreme Court verdict created widespread uncertainty, resulting in numerous final assessment orders being invalidated.

Proposed Amendments:
The Finance Bill 2026 retrospectively amends the law to overrule these judicial interpretations and provide clarity:

- **Fixed TPO Order Date:** Replaces the "60 days prior" calculation with a fixed statutory date. The TPO must now pass the order by January 31st (or January 30th in a non-leap year) for assessments whose limitation expires on March 31st.

- **Clarified DRP Timeline:** Amends Sections 153 and 144C to explicitly state that the timeline for issuing a draft assessment order is governed by Section 153. Once a valid draft order is issued, the subsequent DRP proceedings and issuance of the final order are solely governed by the extended timelines under Section 144C, independent of the Section 153 deadline.

Effect:
- Eliminates procedural litigation on technical grounds of limitation.
- Validates past revenue department actions taken in line with their interpretation.
- Provides a clear and predictable timeline for taxpayers undergoing DRP proceedings.

Our Comment:
While providing much-needed procedural certainty and reducing litigation on technical grounds, these retrospective amendments effectively overturn favourable judicial precedents for taxpayers. The focus for ongoing cases will now irrevocably shift to the substantive merits of the TP adjustments. Taxpayers must note that while future timelines are clearer, the amendments strengthen the revenue's position in past disputes where draft orders were issued on time.

9.2. Safe Harbour Regime: A Structural Reset for IT/ITES

Aspect	Existing Provisions & Issues	Proposed Amendments (Budget 2026)
Objective of Regime	Intended to provide certainty for low-risk transactions; however, adoption remained limited due to structural and procedural impediments.	Comprehensive overhaul to enhance certainty, simplicity, and adoption, particularly for IT/ITES transactions.
Classification of Services	Multiple categories, namely Software Development, ITeS, and KPO, each with differing margins, resulting in classification disputes and rejection of applications.	Consolidation of Software Development, ITeS, KPO, and software-related Contract R&D into a single category titled "Information Technology Services."
Prescribed Margin	Margins ranging from 17% to 24%, which were frequently higher than prevailing market rates, rendering the regime commercially unattractive.	Introduction of a uniform safe harbour margin of 15.5% on operating cost.
Eligibility Threshold	Threshold fixed at Rs. 300 crore, limiting coverage and contributing to low participation.	Threshold enhanced to Rs. 2,000 crore, thereby extending coverage to large IT enterprises and Global Capability Centres (GCCs).
Approval Mechanism	Subject to manual scrutiny by tax officers, leading to increased friction and uncertainty.	Implementation of a rule-based, automated approval process without intervention by tax officers.
Tenure of Certainty	No provision for long-term certainty across multiple years.	Permits taxpayers to elect the safe harbour option for five consecutive years, providing multi-year certainty.

Effect:

- Drastically reduces classification disputes and administrative friction.
- Makes safe harbour a commercially viable and attractive alternative for a vast segment of the IT sector.
- Significantly lowers compliance costs and litigation risk for routine IT services.

Our Comment:

1. This is a transformative, business-friendly reform that aligns policy with commercial reality. The 15.5% margin, aligned with typical arm's length ranges, and the automated process will likely see a surge in safe harbour adoption. It serves as a potent tool for dispute prevention. Taxpayers should model their positions to evaluate if this margin offers a net benefit compared to a detailed TP study, considering the value of certainty.

2. It is bound to make echo on present TP litigation on “Margins”

9.3. Advance Pricing Agreements (APAs): Enhancing Efficacy

Aspect	Existing Provisions & Issues	Proposed Amendments
Timelines for Unilateral APA (UAPA)	The average time for conclusion of a Unilateral APA was approximately 45 months, thereby eroding its effectiveness as a mechanism for timely certainty.	Introduction of a fast-track mechanism for the IT services sector, with a commitment to conclude UAPAs within 24 months, extendable by a further period of 6 months at the request of the taxpayer.
Facility for Filing Modified Returns	The statutory framework permitted only the APA applicant to file a modified return. Associated Enterprises (AEs), whose incomes were correspondingly adjusted, had no statutory mechanism to amend their returns or claim refunds, resulting in implementation difficulties and potential double taxation.	Amendment to Section 168 to permit Associated Enterprises, whether foreign or domestic, to file a modified return or a return for prior years, strictly limited to the APA adjustments, within a period of 3 months from the date of signing of the APA.

Effect:

- "Fast-tracking" addresses a critical barrier for IT companies seeking certainty.
- The AE modification right enables holistic implementation of APA outcomes across the group, preventing economic double taxation and facilitating cash flow alignment (e.g., refunds of excess withholding taxes).

Our Comment:
These are pragmatic amendments that enhance the APA program's usability. The fast-track mechanism for IT, coupled with the safe harbour reforms, provides a clear dual-pathway to certainty for this sector. The AE modification right is a crucial fix that transforms APAs from a taxpayer-specific agreement to a more effective group-level resolution tool, though it necessitates coordinated cross-border planning from the outset.

9.4. Removal of SEZ Transactions from Specified Domestic Transactions

Existing Provisions & Issues:
Transactions between a unit in a Special Economic Zone (SEZ) claiming tax holiday under Section 10AA and a domestic entity in the Domestic Tariff Area (DTA) were classified as "Specified Domestic Transactions" (SDTs). This subjected such transactions to full TP compliance and documentation, despite the SEZ unit's income being exempt, creating a compliance burden without a corresponding tax impact.

Proposed Amendment:
Amends the definition of SDTs under Sections 162, 164, and 165 to exclude transactions entered into by an SEZ unit eligible for deduction under Section 10AA.

Effect:
- Substantial compliance relief for SEZ units.

- They will now only need to comply with TP regulations for international transactions with foreign AEs.

Our Comment:
This is a logical and welcome rationalisation that removes an anomalous and onerous compliance requirement. It reduces the cost of doing business for SEZ units and aligns the TP law with the underlying policy of the SEZ tax incentive.

9.5. Other Key Amendments

Existing Provisions and Issues
- Late Filing of Form 3CEB: Penalty of Rs. 1,00,000 under separate proceedings, seldom imposed due to procedural hassles.

- Accountant Definition in SH: Limited to CAs, excluding cost accountants for certain reports.

Proposed Amendments
- Replace penalty with late fee: Rs. 50,000 (up to one month delay), Rs. 1,00,000 thereafter.

- Rationalize "accountant" definition in SH rules to include cost accountants.

Effects of Amendments
Late fee ensures easier enforcement, promoting timely compliance without separate proceedings. Broader accountant definition eases SH reporting for manufacturing/auto sectors.

Our Comments

These are welcome procedural tweaks fostering discipline (late fee), with minimal commercial impact. The fee structure incentivizes prompt filings, potentially reducing administrative burdens. For SH users, inclusive definitions enhance flexibility; clients should update compliance calendars accordingly.

Overall Conclusion

Budget 2026 marks a paradigm shift in India's transfer pricing landscape. The reforms are strategically designed to foster a climate of trust, reduce friction for compliant taxpayers, and enhance India's appeal as a stable jurisdiction for global investment. The emphasis is squarely on preventing disputes (via safe harbour), expediting resolution (via fast-track APA and clear timelines), and removing irrational compliance (for SEZs). While the retrospective validation of timelines may be contested, the overall package demonstrates a mature and responsive policy approach aimed at aligning tax administration with the nation's broader economic ambitions.

10. RETROSPECTIVE AMENDMENTS - RESOLVING ROCEDURAL UNCERTAINTIES

10.1 Introduction

A defining feature of Budget 2026 is the strategic use of retrospective clarifications to resolve long-standing procedural disputes that have clogged the Indian tax litigation system. Faced with conflicting High Court rulings and pending Supreme Court appeals on several interpretational issues, the government has chosen legislative intervention over a prolonged judicial wait. These amendments, aimed at providing "finality" and administrative certainty, retrospectively validate the tax department's position on key procedural grounds, fundamentally altering the landscape for thousands of pending cases.

The overarching theme is a shift toward legislative supremacy over judicial interpretations, using "notwithstanding" clauses to override court rulings and validate past actions.

10.2 Document Identification Number (DIN) on Tax Orders

Existing Provisions and Issues Faced by Assessees:
Under CBDT Circular No. 19/2019, all income-tax communications from October 1, 2019, must quote a computer-generated DIN to ensure authenticity and traceability. Non-compliance or defects (e.g., typographical errors, improper quoting) rendered orders invalid, as held by courts like the Delhi High Court in CIT v. Brandix Mauritius Holdings Ltd. ([2023] 149 taxmann.com 238), which viewed DIN as mandatory and irremediable under Section 292B.

This led to widespread litigation, with assessees challenging assessments on technical grounds, resulting in quashed orders and revenue demands of thousands of crores at stake. Domestic assessees faced prolonged appeals (e.g., at ITAT), while foreign assessees, often in high-value cross-border cases, encountered jurisdictional uncertainties, increased compliance burdens, and delays in dispute resolution, exacerbating cash flow issues amid 5.4 lakh pending appeals involving Rs. 18.16 lakh crore as of April 1, 2025.

Proposed Amendments:
Section 292BA (ITA, 1961) and Section 522 (ITA, 2025) clarify that assessments remain valid despite mistakes, defects, or omissions in quoting DIN, provided the order references a computer-generated DIN in any manner. Retrospective from October 1, 2019 (ITA, 1961) and prospective from April 1, 2026 (ITA, 2025), overriding any contrary judicial pronouncements.

Effects of Amendments:
- Validates thousands of past orders, nullifying technical challenges and reducing litigation backlog.
- Shifts focus to substantive merits, benefiting revenue by protecting demands; assessees lose procedural defenses but gain certainty.
- For foreign assessees, eases cross-border compliance but may revive quashed assessments, impacting treaty claims.
- Commercially, lowers legal costs and accelerates resolutions, though retrospective application could lead to fresh challenges on constitutional grounds.

Our Comment:
This pragmatic move prioritises substance over form, aligning with global trends toward efficient tax administration. However, retrospective overrides of judicial rulings (e.g., the Supreme Court's interim stay in Brandix) raise concerns about separation of powers and taxpayer rights. Assessee should review pending cases for revival risks; while welcome for certainty, it underscores the need for robust DIN systems to prevent future disputes.

10.3 Authority to Conduct Reassessment Enquiry (JAO vs. FAO) Hexaware issues

Existing Provisions and Issues Faced by Assessees:
Post-April 1, 2021, Section 151A and the e-Assessment Scheme mandated faceless reassessment via National Faceless Assessment Centre (NaFAC). However, Jurisdictional Assessing Officers (JAOs) continued issuing notices under Sections 148/148A, leading to conflicts. High Courts like Bombay (Hexaware Technologies Ltd. [2024] 162 taxmann.com 225) and Punjab & Haryana ruled JAO notices invalid, favoring Faceless Assessing Officers (FAOs), while Delhi HC upheld JAO authority.

This ambiguity caused procedural impasses, with assessees filing writs to quash notices, delaying high-value reassessments. Domestic firms faced inconsistent enforcement, while foreign entities (e.g., MNEs) dealt with jurisdictional disputes, risking double taxation and treaty mismatches, amid Supreme Court pendency (PCIT v. Hexaware).

Proposed Amendments:
New Section 147A (ITA, 1961) clarifies "Assessing Officer" for Sections 148/148A means JAO (excluding NaFAC/FAOs), notwithstanding court rulings or Section 151A. Retrospective from April 1, 2021 (ITA, 1961); corresponding provisions in Section 279 (ITA, 2025) from April 1, 2026.

Effects of Amendments:
- Validates JAO-issued notices, resolving disputes and allowing proceedings to continue via FAOs.
- Reduces litigation volume, providing certainty; assessees must argue on merits, potentially increasing tax outflows.
- Foreign assessees benefit from streamlined processes but may face revived proceedings, affecting FDI planning.
- Commercially, eases administrative burdens but could deter investments if seen as revenue-biased.

Our Comment:
The amendment restores legislative intent but overrides favorable rulings (e.g., Bombay HC), potentially inviting constitutional scrutiny on retrospectivity. It promotes efficiency in a faceless era, but assessees should monitor Supreme Court outcomes for connected matters. Overall, a step toward reducing friction, though it highlights the need for clearer initial schemes to avoid such litigation.

10.4 Time Limit for Final Assessment Order After Dispute Resolution Panel (DRP) Decision

Existing Provisions & Issues:
A major controversy existed regarding the interplay between the general assessment deadline (Section 153) and the specialized procedure for Transfer Pricing (TP)/non-resident cases involving the Dispute Resolution Panel (DRP) under Section 144C.

- **The Core Dispute:** Whether the 9-month period for DRP directions (plus 1 month for the final order) was **in addition to** the Section 153 timeline, or whether the entire process, including DRP, had to be completed **within** the Section 153 deadline.

- **Judicial Chaos:** High Courts (Madras in Roca Bathroom, Bombay in Shelf Drilling) largely ruled in favor of taxpayers, holding that final orders passed beyond the Section 153 limit were invalid. This led to a cascade of assessments being quashed. The Supreme Court deliv ered **a split verdict**, leaving the issue unresolved and referred to a larger bench, creating massive uncertainty.

Proposed Amendments:
The Finance Bill 2026 amends Sections 144C, 153, and 153B with retrospective effect from April 1, 2009.

- **Clear Bifurcation:** It is now clarified that the limitation under Section 153 governs only up to the issuance of the **draft assessment order.**

- **Independent DRP Timeline:** Once a valid draft order is issued on time, the subsequent DRP process and issuance of the final order are **solely governed by the extended timelines under Section 144C,** independent of the original Section 153 deadline.

- **Override Clause:** The amendment applies "notwithstanding anything contained in any judgment, decree or order of any court."

Effects of Amendments:
- Validates delayed final orders, reviving quashed assessments and clearing backlog.
- Shifts disputes to merits, increasing tax liabilities for assessee but providing procedural clarity.
- Foreign assessees in TP/non-resident cases face higher compliance risks but benefit from faster resolutions.
- Commercially, reduces uncertainty in cross-border deals, though retrospectivity may trigger revival petitions.

Our Comment:
This is the most significant retrospective intervention, aimed at protecting substantial revenue. While it delivers procedural certainty, it effectively overrides favourable judicial precedents for taxpayers. The doctrine of finality of concluded cases will now be tested. Assessments already quashed by courts that have attained finality may not be revived, but a vast number of pending appeals on this ground will be decisively settled in the Revenue's favor.

10.5 Time Limit for Passing Transfer Pricing Orders

Existing Provisions & Issues:
Section 92CA(3A) required the TPO to pass an order 60 days prior to the assessment deadline. Litigation erupted over how to compute these "60 days."

• Interpretation Conflict: Taxpayers argued (successfully in cases like Pfizer Healthcare) that the deadline date itself should be excluded, meaning the order was due 61 days prior. This subtle difference rendered many TPO orders time-barred.

Proposed Amendments:
The law is amended retrospectively from June 1, 2007.
• Fixed Dates: Specific, fixed dates are provided:
- If assessment limitation expires on March 31, TPO order must be passed by January 31 (or January 30 in a non-leap year).
- If limitation expires on December 31, the TPO order must be passed by November 1.

Effect:
• Eliminates ambiguity and computational disputes.
• Validates past TPO orders that were passed according to the department's interpretation of the timeline.

Our Comment:
This amendment replaces an ambiguous "day-based" calculation with a certain "date-based" system, which is a clear improvement for future compliance. Its retrospective application, however, closes a legitimate ground of defense that taxpayers had successfully leveraged in past disputes.

10.6 Overall Comment & Strategic Implications

Budget 2026's retrospective amendments represent a decisive policy choice: administrative finality and revenue protection over protracted litigation on procedural grounds. Prospective relief is taxpayer-friendly but leaves legacy issues unaddressed, potentially prolonging appeals. Aligns with voluntary compliance goals; employers should update payroll systems accordingly.

Area	Retrospective Date (ITA, 1961)	Key Effect on Litigation	Commercial Impact
DIN	Oct 1, 2019	Validates defective orders	Reduces procedural costs
JAO vs FAO	Apr 1, 2021	Upholds JAO notices	Streamlines reassessments
DRP Time Limit	Apr 1, 2009 / Oct 1, 2009	Revives delayed finals	Aids cross-border certainty
TP Orders	Jun 1, 2007	Standardises 60-day count	Enhances TP predictability
Welfare Funds	Prospective (Apr 1, 2026)	Future deductions eased	Improves cash flow

- **The Government's Stance:** The message is clear, the government will use its legislative authority to settle interpretational debates, especially where significant revenue and a large volume of cases are at stake. The repeated use of "notwithstanding any court order" clauses is a powerful statement of intent.

- **Impact on Taxpayers:** For the tax community, it signifies a major shift. Procedural defenses, especially on timelines and technicalities, have been severely weakened. The focus of tax litigation will now irrevocably sharpen towards the substantive merits of additions and adjustments.

- **A Double-Edged Sword:** While these changes bring welcome certainty and reduce future friction on these issues, they raise important questions about fairness, the finality of con cluded court decisions, and the balance of power between the legislature and the judiciary. Taxpayers with favorable rulings that are now overridden may perceive this as moving the goalposts retrospectively.

10.7 Conclusion:

These amendments are a watershed moment. They aim to clear the massive backlog of litigation rooted in procedural ambiguity, freeing up resources for both taxpayers and the department. However, they also underscore that in the pursuit of efficiency and certainty, the ground rules of past disputes can be legislatively altered. Taxpayers must now meticulously evaluate their ongoing cases, as many procedural shields have been legislatively removed.

11. ASSESSMENT PROCEDURE, PENALTIES PROSECUTIONS

11.1 Rationalizing the period of block in case of other persons

When a **search** is conducted on one person, the Income-tax Department can initiate proceedings against **another person ("other person")** if documents, books or assets seized during the search **belonged to or related to** that other person.

However, **the law was unclear** on **which years** could be covered in the block assessment of the other person.

As such, in practice:

- Once proceedings were initiated, the Department often **opened all block years (e.g. 5 / 6 years)** as a matter of routine.

- This was done **even where undisclosed income was found only for one or two specific years.**

The above practice led to, assessments being framed for years with **no incriminating material,** and Extensive litigation on jurisdiction and scope of assessment.

Position After the Amendment

- The law now clearly provides that, **the block period for the other person is aligned with the block period of the searched person (outer time limit).**

- **Crucially,** the amendment clarifies the **manner of application of the block period:**
  - It is **not mandatory** for the Department to assess **all block years.**

  - Assessment **can and should be restricted only to the year(s)** in which:

1. seized material relating to the other person exists, and

2. such material **reveals undisclosed income**.

- As such, post amendment the block period operates as a **maximum permissible window**, not as an automatic mandate to assess every year.

Our Comment:

1. Similar Position desired even in "search" cases

11.2 Referencing the time limit to complete block assessment to the initiation of search or requisition

- In search and requisition cases, the law prescribed a **time limit for completing block assessments** wherein the **starting point for computing this time limit** was linked to **not clearly and uniformly linked** to date when last search authorization was executed or requisition was made.

- As a result in certain cases, the Department computed limitation with reference to **later procedural events** (such as receipt of material, transfer of jurisdiction, or recording of satisfaction).

• The same led to **uncertainty** on the outer time limit, and **frequent disputes and litigation** on whether the assessment was time-barred.

Position After the Amendment

• The law now **clearly provides** that the **time limit for completion of block assessment** shall be **reckoned with reference to the date of initiation of search or requisition.**

• In simple terms:
-The clock for limitation **starts from the search or requisition date itself,** and
-**Not from any subsequent administrative or procedural step.**

• This creates a **single, objective, and verifiable reference point** for computing limitation.

Amendment in time limit for completing block assessment

Existing Time Limit	Proposed Time Limit
12 months from end of the quarter from the last authorization of search	18 months from the end of the quarter in which search was initiated

Our Comment:

1. Typically, time limits were related to end of the month in which last authorisation was issued. New era now

2. Search initiated on **01/03/2026** & concluded on **30/06/2026**, fractional period will suffer different situations.

11.3 Rationalisation of Penalties into Fee

As per the proposed amendments, the following penalties would now be charged as a fee:

Purpose of Penalty under old law	New Section No. (Income-tax Act, 2025)	Proposed Fee Amount (Post-Amendment)
Failure to furnish Tax audit report *(ITA,1961 Section – 271B)*	**446** r.w.s. **428(c)**	Rs. 75,000 – For a Delay upto 1 month Rs. 1,50,000 – For a Delay beyond 1 month
Failure to furnish Form 3CEB *(ITA,1961 Section – 271BA)*	**447** r.w.s. **428(d)**	Rs. 50,000 – For a Delay upto 1 month Rs. 1,00,000 – For a Delay beyond 1 month
Failure to furnish Statement of Financial Transactions (SFT) *(ITA,1961 Section – 271FA)*	**454** r.w.s. **427(3)**	Rs. 200 per day of delay subject to **overall cap of Rs. 1,00,000**

Our Comment:

1. Possible to argue that all fees could be deductible

11.4 Integration of Assessment and Penalty Proceedings

Following is the process of Levy of Penalty

Process under the Present Law

- Assessment proceedings and penalty proceedings are **separate.**
- Penalty proceedings are initiated **after completion of assessment.**
- In case assessee files an appeal against the Quantum Order the assessing officer may keep the penalty proceedings in abeyance till the conclusion of quantum appeal.
- In case the Quantum appeal gets decided in favour of assessee the penalty proceedings are dropped.
- However, in case the quantum addition is confirmed the assessee is given **reasonable opportunity to explain** before penalty is imposed.

New Process under the Proposed Law

- **Assessment and penalty proceedings will be integrated.**
- A **single common assessment** order will include both tax determination and penalty.
- Taxpayer will be given a **reasonable opportunity to explain** before penalty is imposed.

Key Difference

- Shift from **two-stage process** to a **single combined order**, reducing time and litigation. (above amendment would be applicable for orders passed on or after 1st April 2027)

Our Comment:

1. Major charge in philosophy that assessment and penalty are separate procedures
2. Need to check in case of TP proceedings how will this work and who will levy penalty whether the AO or TPO

Increase in penalty leviable in case of non-compliance to information called for from existing limit of Rs. 1,000/- to Rs. 25,000/-

11.5 Rationalisation of Tax Rate and Penalty on additions under Old Section 68 Family

The Old section 68 Family additions include income on account of, unexplained credits, unexplained investment, unexplained asset, unexplained expenditure and amount borrowed or repaid through negotiable instrument, hundi, etc. Further, the said additions are now covered u/s 102 to 106 of the new Income Tax Act.

Comparative summary of Tax Rates is as under:

Existing Provisions	Proposed Provisions
Under the existing provisions the tax rate on the above additions is **60%** as per provisions of Section 115BBE of the ITA, 1961	As per the proposed amendment the tax rate on the above additions is proposed to be **reduced to 30%** as per provisions of Section 195 of the ITA, 2025

Comparative summary of Penalty applicable is as under:

Existing Provisions	Proposed Provisions
Under the existing provisions the penalty on above additions was restricted to **10% of the Tax Payable** as per provisions of Section 271AAC of the ITA, 1961	As per the proposed amendment the penalty on the above additions is proposed to be **increased to 200% of the Tax Payable** as per provisions of Section 439(11) of the ITA, 2025.

Our Comment:
Post the above amendment the effective tax rate on UNEXPLAINED type additions has now stands at 91.2% (without Immunity) as against earlier effective rate of 68.4%.

11.6 No Interest on Penalty until 1st appellate Authority decides quantum appeal

As penalty proceedings are set to be integrated within assessment proceedings, the authority to impose interest on assessed penalties will only commence following the date of the decision by the 1st appellate authority.

11.7 Expansion in scope of immunity from penalty

The scope to apply for immunity from penalty has been proposed to be widened. Following is the comparative summary of the same:

Category of Addition	Existing Provisions	Proposed Provisions
Where no penalty proceedings have been initiated	Immunity available subject to payment of only Tax and complete waiver of Interest	No Change
Where penalty proceedings have been initiated on account of under-reporting of Income	Immunity available subject to payment of only Tax and complete waiver of Interest and Penalty	No Change
Where penalty proceedings have been initiated on account of under-reporting of Income as a consequence of mis-reporting	Option not available.	Immunity available subject to payment of 100% along with **additional 100% Tax** in lieu of Penalty and complete waiver of Interest and Penalty.
Additions in the nature of unexplained credits, unexplained investment, unexplained asset etc	Option not available.	Immunity available subject to payment of 100% along with **additional 120% Tax** in lieu of Penalty and complete waiver of Interest and Penalty.

11.8 Rationalization of prosecution proceedings

- Criminal prosecution is **reserved for wilful evasion and fraud.**

- Defaults only in excess of Rs. 10 lakhs would be subject to prosecution

- Maximum imprisonment capped to 2 years from 7 years (except in case of subsequent offence which has been capped to 3 years)

- Duration of Imprisonment has been linked to quantum of Tax
  - For tax between Rs. 10 lakhs and Rs. 50 lakhs - Imprisonment up to 6 months, or with fine, or with both
  - For tax exceeding Rs. 50 lakhs - Imprisonment up to 2 years, or with fine, or with both

- Nature of punishment has been changed to simple imprisonment as against rigorous imprisonment.

- Procedural and technical defaults have been decriminalized.

Our Comment:

1. Welcome change to end disputes.

2. This realignment brings Indian tax prosecution provisions closer to international best practices, improves taxpayer confidence, and reduces unnecessary criminal litigation without compromising revenue enforcement in serious cases.

12. TDS & TCS RELATED AMENDMENTS

12.1. Allowing deduction to non-life insurance business when TDS, not deducted earlier is paid later

(earlier no specific section was there in ITA, 1961)

- **Existing Provision:**
  For insurance businesses other than life insurance, taxable profits are computed in accor dance with Section 55 read with Part B of Schedule XIV of the Income-tax Act, 2025.

  As per paragraph 4(1)(a) of Schedule XIV, any expenditure debited to the profit and loss account which is not allowable under Sections 28 to 54 of the Act is required to be added back while computing taxable profits.

- **TDS-related disallowance:**
  Under Section 35(b)(i) and Section 35(b)(ii) of the Act, any expenditure on which tax is deductible at source (TDS) but:

  - TDS is not deducted, or
  - TDS is deducted but not deposited within the time prescribed under Section 263(1),

  shall not be allowed as a deduction in that tax year.

  However, the same provisions also clearly state that such expenditure shall be allowed as a deduction in the tax year in which the TDS is subsequently deducted and paid.

- **Issue under Schedule XIV (Before Amendment)**

  Paragraph 4(2) of Schedule XIV of the ITA, 2025 expressly provides that expenses disal lowed under Section 37 of the ITA, 2025 shall be allowed as a deduction in the tax year in which they are actually paid, no similar provision existed for expenses disallowed under Section 35(b)(i) and (ii).

As a result, for non-life insurance businesses, expenses disallowed due to TDS non-compliance were added back under paragraph 4(1)(a), but there was no explicit mechanism under Schedule XIV to allow such expenses in the year in which TDS was subsequently paid, leading to uncertainty.

- **Proposed Amendment:**
  To address the above inconsistency, it is proposed to amend Paragraph 4 of Part B of Schedule XIV of the Income-tax Act, 2025 by inserting a new sub-paragraph. The proposed sub-paragraph will expressly provide for the allowance of expenditure disallowed under Section 35(b)(i) and Section 35(b)(ii) as a deduction in the subsequent tax year in which the applicable tax is deducted and paid, in accordance with the provisions of the Act.

  This amendment will take effect from April 1, 2026 and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Our Comment:
Schedule XIV is intended to be a separate and complete framework for computing the taxable profits of non-life insurance businesses. However, due to the absence of an explicit provision, expenses disallowed on account of non-deduction or delayed payment of TDS were often treated as permanently disallowed, even where the TDS default was later rectified.

The proposed amendment addresses this gap by clearly providing that such expenses will be allowed as a deduction in the year in which the applicable TDS is deducted and paid. This clarification removes long-standing ambiguity, aligns the insurance-specific computation rules with the general intent of the TDS provisions, and ensures that genuine business expenses are not denied merely due to procedural delays. The change is expected to reduce disputes and provide much-needed certainty to non-life insurance companies.

12.2. Application of TDS on supply of manpower

(earlier section 194C and 194J of the ITA, 1961)

- **Existing Provision:**
  Section 393(1) of the Income-tax Act, 2025 provides for deduction of tax at source on different categories of payments:

  - **Section 393(1) [Table: Sl. No. 6(i)]** applies to payments made to contractors for carrying out any **"work"**, with TDS at:

    - **1%** where payment is made to an **individual or HUF**, and

    - **2%** in other cases.

  - **Section 393(1) [Table: Sl. No. 6(iii)] applies to fees for professional or technical services, with TDS at:**

    - **2%** for specified technical services and certain other cases, and
    - **10%** in other cases.
    - **Section 393(1) [Table: Sl. No. 6(ii)]** applies to payments by individuals or HUFs for car rying out work or for professional services not covered under Sl. Nos. 6(i) or 6(iii), attract ing TDS at 2%.

  In practice, there has been **ambiguity regarding the applicable TDS provision for supply of manpower services**, i.e., whether such payments should be treated as payments for **"work"** or as fees for professional or technical services.

- **Proposed Amendment:**
To remove the ambiguity regarding the applicable TDS provision on payments for **supply of manpower**, it is proposed to amend **Section 402(47)** after sub-clause (e) of the Income-tax Act, 2025 to **expressly include "supply of manpower" within the definition of "work"** in the sub-clause (f) of Section 402(47) the ITA, 2025.

Consequently, payments for supply of manpower shall be subject to tax deduction at source under Section 393(1) [Table: Sl. No. 6(i)] or Section 393(1) [Table: Sl. No. 6(ii)], as applicable, and shall not be treated as fees for professional or technical services under Section 393(1) [Table: Sl. No. 6(iii)].

Our Comment:
The proposed amendment provides statutory clarity by expressly treating supply of manpower as "work" for TDS purposes. This aligns with consistent judicial precedents and eliminates long-standing classification disputes between contractual payments and professional or technical services. The change is expected to significantly reduce litigation, ensure uniform TDS application, and bring certainty for both taxpayers and tax authorities.

12.3. Enabling an alternative route for the small taxpayers to obtain a lower rate or no deduction of income tax

(Certificate for Lower / Nil Deduction of Tax (TDS/TCS))
(earlier Section 197 of the ITA, 1961)

- **Existing Provision:**
  Section 395 of the Income-tax Act, 2025 provides for issuance of certificates permitting deduction or collection of tax at a nil or lower rate, based on an application made by the payee.

- **Under the existing framework:**
  - Applications are required to be made before the jurisdictional Assessing Officer.
  - Certificates are issued after verification of the income position of the applicant, based on the satisfaction of the Assessing Officer.
  - The Act did not expressly provide for electronic filing of such applications, and the process largely involved manual intervention.
  - While applications could be rejected in practice, there was no explicit statutory provision dealing with rejection of applications.

- **Proposed Amendment:**
  The Finance Bill, 2026 proposes to insert sub-section (6) in Section 395 to introduce an optional electronic mechanism for obtaining certificates for nil or lower deduction / collection of tax.

- **Under the proposed framework:**
- The payee may apply electronically in the prescribed manner.

- Applications shall be examined by a prescribed income-tax authority, instead of the jurisdictional Assessing Officer.

- The prescribed authority may issue or reject the application based on fulfilment of prescribed conditions.

- The authority is expressly empowered and required to reject incomplete applications or applications not meeting prescribed criteria.

- The rules, conditions and procedural requirements for electronic filing, verification and issuance shall be notified separately.

The amendment shall be effective from 1 April 2026.

Particulars	Existing Provisions	Amended Provisions
Statutory provision	Section 197 of ITA, 1961	Section 395 of ITA, 2025.
Mode of application	Application to be made before the jurisdictional Assessing Officer; the Act did not expressly provide for electronic filing	Application may be filed electronically in the prescribed manner.
Authority empowered to issue certificate	Jurisdictional Assessing Officer	Prescribed income-tax authority
Basis of issuance	Issuance based on satisfaction of the Assessing Officer after verification of the income position of the applicant	Issuance subject to fulfilment of prescribed conditions and verification by the prescribed authority. Relevant rules will be issued shortly.
Power to reject application	No express provision in the Act; rejection was implicit and discretionary	Express statutory power and obligation to reject the application where prescribed conditions are not fulfilled or the application is incomplete.
Effective date	Applicable up to Financial Year 2025–26.	Effective from 1 April 2026 (Financial Year 2026–27 onwards).

Our Comment:
The amendment is a compliance-simplification measure aimed at providing small taxpayers with an alternative, technology-enabled route for obtaining nil or lower TDS certificates by minimising physical interface and facilitating quicker verification and issuance, the change is expected to improve ease of compliance while retaining the existing substantive safeguards governing the grant of such certificates.

12.4. Enabling the filing of declaration for no deduction to a depository

(earlier section 197A of the ITA, 1961)

Existing Provision:
Under Section 393(6) of the Income-tax Act 2025, tax is not required to be deducted at source on certain specified incomes if the recipient furnishes a written declaration stating that the tax payable on their estimated total income for the relevant tax year is nil. [Table, Column C of the IT Act].

Key points under the existing system:
- The declaration must be submitted separately to each payer (bank, mutual fund, company, etc.).

- The facility is available only for specified types of income, such as interest, dividends, income from units, rent, insurance commission, etc.

- The payer receiving the declaration is required to forward a copy of the declaration received from the recipient to the Principal Chief Commissioner / Chief Commissioner / Principal Com missioner / Commissioner of Income-tax, on or before the seventh day of the month following the month in which such declaration is furnished.

- Investors holding multiple securities or units with different intermediaries are required to submit multiple declarations, leading to higher compliance effort.

Proposed Amendment:
Section 393(6)(b) is now proposed to be amended by inserting a new clause enabling electronic filing of a single declaration through a depository.

Under the proposed amendment:
A single nil-TDS declaration may be furnished electronically to a depository. This facility will be available where:

- The income is in the nature of interest, dividend or income from units covered under Section 393(1); and

- Such units or securities are held with the depository and

- The securities are listed on a recognised stock exchange.

The depository will transmit the declaration to the relevant payer(s).

The payer will then comply with reporting obligations by submitting the declaration to the Income-tax Department on or before the seventh day of the month immediately following the end of the quarter in which such declaration is furnished, in the prescribed manner.

This amendment shall take effect from 01st April 2027.

Particulars	Existing Provision	Proposed Amendment
Mode of furnishing declaration	Filed with the payer (written declaration)	Furnished electronically, including through a depository
Authority to whom declaration is submitted	PCIT / CCIT / Pr. CIT / CIT	Prescribed income-tax authority
Frequency of reporting by payer	Monthly	Quarterly
Due date for reporting	On or before 7th day of the following month	On or before 7th day of the month following the end of the quarter
Effective date	Until 31st March 2027.	Effective from 01st April 2027.

12.5. Guidelines to be Binding on Income-tax Authorities and Persons Liable to Deduct or Collect Tax:

(earlier section 119 of the ITA, 1961)

- **Existing Provision:**
  Section 400(2) of the Income-tax Act, 2025 empowers the Central Board of Direct Taxes (CBDT), with the prior approval of the Central Government, to issue guidelines for removing difficulties in giving effect to the provisions relating to tax deduction at source (TDS) and tax collection at source (TCS). Such guidelines are required to be laid before each House of Parliament.

However, unlike the corresponding provisions under the Income-tax Act, 1961, Section 400(2) does not expressly provide that these guidelines are binding on the income-tax authorities or on persons responsible for deduction or collection of tax.

- **Proposed Amendment:**
  To align the provisions of the Income-tax Act, 2025 with the legislative intent under the Income-tax Act, 1961, it is proposed to amend Section 400(2) to expressly provide that any guidelines issued to remove difficulties in giving effect to the TDS/TCS provisions shall be binding on:

- the income-tax authorities, and
- the persons liable to deduct or collect income-tax.

This amendment will be effective from 1 April 2026.

Our Comment:
The proposed amendment provides greater certainty and consistency in the implementation of TDS and TCS provisions by ensuring that guidelines issued by the Board are uniformly binding on both the tax authorities and taxpayers. This is expected to reduce interpretational disputes, promote uniform application of the law, and improve ease of compliance.

12.6. Rationalization of TCS provisions:

(earlier Section 206C of the ITA, 1961)

- **Existing Provision:**
  Section 394 of the Income-tax Act, 2025 provides for collection of tax at source (TCS) on specified receipts at the rates prescribed in the Table under sub-section (1). Currently, different goods and transactions are subject to different TCS rates, such as alcoholic liquor, tendu leaves, scrap, minerals, foreign remittances under the Liberalised Remittance Scheme (LRS), and overseas tour programme packages. This has resulted in multiple rates and higher cash blockage for certain categories of collectors.

- **Proposed Amendment:**
  With a view to rationalising and harmonising TCS rates, the Finance Bill, 2026 proposes to amend Section 394(1) to provide uniform rates wherever possible and to reduce certain rates. The following table indicates the key proposed changes:-

S. No.	Nature of Receipt	Current TCS Rate	Proposed TCS Rate
1	Sale of alcoholic liquor for human consumption	1%	**2%**
2	Sale of tendu leaves	5%	**2%**
3	Sale of scrap	1%	**2%**
4	Sale of minerals (coal / lignite / iron ore)	1%	**2%**
5	Remittance under Liberalised Remittance Scheme (LRS) exceeding INR 10 lakh	• 5% for education or medical treatment • 20% for other purposes	• **2%** for education or medical treatment • **20%** for other purposes
6	Sale of overseas tour programme package (including travel, stay, boarding, lodging, etc.)	• 5% up to INR 10 lakh • 20% exceeding INR 10 lakh	**2% (no threshold)**

- The rates of TCS for the following transaction shall remain unchanged: - Sale of timber, whether obtained under a forest lease or otherwise; or any other forest produce (other than timber or tendu leaves) obtained under a forest lease,

- Sale consideration exceeding 1 million for motor vehicles or any other goods as may be notified.

- Use of parking lot or toll plaza or mine or quarry for the purpose of business (excluding mining and quarrying of mineral oil).

Our Comment:
The proposed rationalisation of TCS rates under Section 394 brings greater uniformity and simplicity to the TCS framework. By reducing higher rates in select cases and aligning most transactions to a standard rate of 2%, the amendment eases cash-flow pressure on taxpayers while retaining the tracking objective of the TCS regime. The reduction in TCS on education and medical remittances and overseas tour packages is a welcome relief, and the overall changes are expected to reduce compliance complexity without compromising revenue interests.

12.7. Relaxation from Requirement to Obtain TAN for Purchase of Immovable Property from a Non-Resident

(earlier Section 203A of the ITA, 1961)

• Existing Provision:
Under Section 397(1)(a) of the Income-tax Act 2025, any person responsible for deduction or collection of tax is required to obtain a Tax Deduction and Collection Account Number (TAN), subject to the exclusions specified under Section 397(1)(c) of the ITA, 2025.

Under the existing framework, in cases where tax is deducted under Section 393 on purchase of immovable property from a resident seller, the buyer is not required to obtain a TAN. However, where the immovable property is acquired from a non-resident seller, the buyer is presently required to obtain TAN for deducting tax at source, even where the transaction is one-time in nature.

• **Proposed Amendment:**

The Finance Bill proposes to amend **Section 397(1)(c)** with effect from **1 October 2026**, that;

a **resident individual or Hindu Undivided Family (HUF)** shall not be required to obtain TAN for deduction of tax at source on consideration paid for transfer of immovable property under **Section 393,** notwithstanding the fact that the seller is a non-resident. Going forward, such buyers will discharge their withholding tax obligations by **quoting their PAN** at the time of making payment to non-resident sellers.

Particulars	Existing Provisions	Proposed Amendment
General requirement	Every person deducting or collecting tax must obtain TAN	No change
Purchase from resident seller	Buyer not required to obtain TAN where TDS is deducted under Section 393	No change
Purchase from non-resident seller	Buyer required to obtain TAN, even for a one-time transaction	TAN not required for resident individual / HUF
Persons covered	All buyers	Resident Individual or HUF only
Nature of transaction	Any transfer of immovable property	Any transfer of immovable property
Effective date	Existing law - until 01st October 2026	With the effect from - 01st October 2026.

Our Comment:

The proposed amendment is a welcome compliance-relief measure for resident individuals and HUFs involved in one-time property transactions with non-resident sellers. By dispensing with the requirement to obtain TAN and allowing PAN-based compliance, the amendment reduces procedural burden while continuing to safeguard revenue through mandatory tax withholding.

13. NPO / TRUST / CO-OPERATIVE SECTOR

13.1. Deductions in respect of dividends received and distributed by certain cooperative societies

- Deduction u/s 80P(2)(d) (ITA,1961) or 149(2)(d) for dividend received from co-operative society will be allowed under the new tax regime to the extent the same is distributed to members.

- Dividend income received by a notified federal Cooperatives from investments made in companies till 31/01/2026 to be exempt from tax for a period of three years. Exemption to be allowed only for dividends distributed to its member co-operatives.

Our Comment:
This apparent plain amendment will leads lots of procedural issues of regulatory law compliances.

13.2. Widening scope of deduction under section 149 by including ancillary activities of cattle feed and cotton seeds

Extended the eligibility of deduction u/s 149 (ITA ,2025) or 80P (ITA ,1961) for primary cooperative society engaged in the supply of cattle feed and cottonseed produced by members are to be allowed.
(Applicable from TY 2026-27)

13.3. Inclusion of cooperatives registered under Multi-State Cooperative Societies Act, 2002 in the definition of 'co-operative society'.

(Applicable from TY 2026-27)

13.4. Amendment in the provision relating to merger of non-profit organisations (NPOs)

It has been proposed that the provisions of tax on accreted income won't apply if a registered Non-profit organization ("NPO") merges with another registered NPO having similar objects and meets prescribed conditions. However, it will be applicable when registered NPO merged with any other entity other than registered NPO or with registered NPO but does not fulfil the prescribed conditions or with registered NPO that does not have same or similar objects

13.5. Amendment in the provisions relating to the violations by a registered NPO

The existing list of 'specified violation' includes violation on account of commercial activities by registered non-profit organisation carrying out advancement of any other object of general public utility. The inclusion of said clause under "specified violation" may also lead to cancellation of registration, which was not there in the old Act. Accordingly, it has been proposed to remove such inclusion from 'specified violation' so as to align with the old Act.

13.6. Amendment of section 332(1)(f) of the Income-tax Act, 2025 to remove certain funds from the requirement of registration

The existing provision specifies the person who may apply for registration as registered "NPO". It also includes funds like PM Cares Fund, Clean Ganga Fund, Chief Minister's Relief fund who are not required to get themselves registered under the Act. Accordingly, it is proposed to remove persons from list of specified persons who may apply for registration as registered NPO.

13.7. Amendment in section 349 of the ITA,2025 / 139(4) (ITA,2026) to provide for filing of belated return by NPO

It is proposed to enable furnishing of belated return by registered non-profit organisation w.e.f 01/04/2026.

14. OTHER MISCELENEOUS

14.1 Definition of Specified Fund:

- The Finance Bill proposes to amend Note 1(g) to Schedule VI of the new ITA Act, 2026, to align the definition of "specified fund" in that Schedule with the definition already given in Section 10(4D) of the erstwhile IT Act, 1961.
- These amendments will take effect from the 1st day of April, 2026 and shall accordingly a pply to the tax year 2026-27 and subsequent tax years.

Our Comment:
These changes are primarily clarificatory and do not alter the existing provisions of the erstwhile IT Act, 1961.

14.2 Rationalisation of Schedule XI relating to Provident Funds:

- Multiple amendments have been made to Schedule XI of the new ITA, 2025, which is concerned with provident fund provisions:

- Under Section 17(1)(h), any amount of contribution in excess of 7.5 lacs in a tax year, made to the account of the assessee by the employer, is to be recognised as a perquisite.

- There were multiple provisions of Chapter XI of the new ITA, 2025, which are repetitive or are already subsumed within the 7.5 lacs cap, which are proposed to be omitted for the sake of simplicity and to avoid redundancy.

- Previously, in the ITA, 2025, it was proposed to keep a cap of investing provident fund's monies in government securities upto 50%. However, this ceiling is inconsistent with the current investment norms prescribed by the Ministry of Labour and Employment and the Employees' Provident Fund Organisation, which permit higher exposure. Accordingly, this paragraph 1(e) is proposed to be changed to the ceiling as provided in the relevant act.

Our Comment:
Majorly, only the redundant and overlapping provisions have been removed/omitted from the new ITA, 2025. Also, certain changes have been made to align with respective acts(such as PF)

14.3 Providing the definition of certain Terms:

Section 402 contains definitions of terms used in Chapter IX of the new Income Tax Act, 2025. In said section, the term "authorised person" was not defined. As such, the definition of "authorised person" has now been added, which coincides exactly with the definition given in the erstwhile ITA, 1961. This amendment is w.e.f. 01-04-2026.

Similarly, the definition of "commodity derivative" was not provided in the new ITA,2025. As such, this definition has also been added, which coincides exactly with the definition given in the erstwhile ITA, 1961. This amendment is w.e.f 01-04-2026.

Our Comments
No change when compared to the erstwhile ITA,1961.

14.4 Correction of Referencing Errors:

In certain sections of the new ITA, 2026 (Section 99(1)(a)(i) and Section 393), incorrect references to tables/schedules/sections have been made. This has now been amended, and proper references are provided. These amendments are w.e.f 01-04-2026.

Our Comment:
Through these changes, correct referencing is now provided in these sections, and as such, no actual change has been made, as these sections remain consistent with the erstwhile ITA,1961.

14.5 Non-Allowability of Interest as a deduction against Interest Income:

Dividend Income and income from units of mutual funds are presently taxed under the head "Income from other sources". Presently, in section 57 of the erstwhile ITA, 1961, a deduction (i.e. interest expenditure) of upto 20% against such income is allowable. Now, this deduction has been omitted, i.e. to say no deduction shall henceforth be allowed on any dividend income or income from units of mutual funds. These amendments are w.e.f. 01-04-2026.

Our Comment:
Major difference from the erstwhile ITA, 1961, Now no deduction is to be allowed for any expenditure incurred on such income, including interest. A harsh provision per se

14.6 No TDS to be deducted in respect of interest income credited or paid to any co-operative society, engaged in carrying business of banking:

In the erstwhile ITA, 1961, under section 194A3(ii), no TDS was to be deducted on the interest paid or credited to co-operatives engaged in the business of banking. The new ITA, 2025, initially did not include such a specific provision, which is now being changed. Consequently, similar to the ITA, 1961, no TDS would be deducted on interest payments to such co-operatives.

Our Comment:
No changes when compared to the ITA, 1961.

14.7 Miscellaneous Changes relating to House Property Sections:

Sections 21 and 22 of the new ITA, 2025 have been amended to be exactly in line with the provisions in the erstwhile ITA, 1961.

Our Comment:
Major change to affect a common man. Rationale of the amendment is not clear. Contrary to real income theory. Anyway, capitalisation is possible

14.8 Clarity Regarding repeal and savings clause (Section 536 of the new ITA, 2025):

- Under the new ITA, 2025, section 536(h) clarifies that where some income has not been included, or deduction has been allowed, in relation to some rule/law in erstwhile Income Tax Act 1961, then on violation of said conditions under which such deduction was given, such amount would be deemed to be income in the year of violation.

- It is now proposed to further clarify the scope of section 536(h) to provide that even in cases where there is no violation of the conditions, if an event occurs which, had it occurred under the erstwhile Income-tax Act, 1961, would have resulted in withdrawal of the deduction or exemption, then the corresponding amount shall be deemed to be income of the relevant year under the new ITA, 2025.

- Such amendment is w.e.f 1.04.2026

Our Comment:
This clarification is intended to comprehensively cover all relevant scenarios and to ensure that deductions or exemptions granted under the erstwhile Income-tax Act, 1961, are appropriately taxed under the new ITA, 2025, thereby preventing any unintended or unintended tax advantage due to interpretational gaps.

14.9 Amendments in Chapter XIII-G for giving effect to the extension of the Tonnage tax scheme to Inland Vessels:

Through the Finance Act 2025, the benefit of the tonnage tax scheme was given to In and Vessels, through amending section 115V of the erstwhile ITA,1961.Now , to facilitate such a change, certain modifications are being made to the sections of Chapter XII-G of the new ITA,2025. These amendments are w.e.f 01-04.2026.

Our Comments
As introduced in Finance Act 2025, the Inland Vessels would also now benefit from the Tonnage Tax Scheme. In the current bill, only certain necessary clarifications and modifications in this regard have been made in the new ITA, 2025.

Conclusion

In summation, the Union Budget 2026–27 reflects a calibrated and deliberate approach to fiscal policy, marked by continuity, rationalisation, and structural refinement rather than abrupt or populist interventions. The proposals, viewed holistically, seek to strike a balance between revenue considerations and the imperatives of ease of compliance, certainty, and long-term economic growth. The transition to the Income-tax Act, 2025, rationalisation of compliance timelines, targeted relief measures, and selective retrospective clarifications collectively demonstrate a clear legislative intent to reduce procedural friction, curb avoidable litigation, and foster a more predictable tax environment.

At the same time, the Budget underscores the Government's resolve to align tax policy with broader national priorities, namely infrastructure-led growth, manufacturing self-reliance, foreign investment facilitation, and enhanced voluntary compliance. While certain measures may warrant further clarity or invite interpretational debate, the overall framework evidences a conscious shift towards substance over form and administration over adversarial enforcement.

Accordingly, the Budget lays a pragmatic foundation for stability and confidence among taxpayers and investors alike. Its true impact, however, will ultimately depend on consistent implementation, timely subordinate legislation, and a balanced approach by the tax administration in giving effect to the legislative intent. If executed in the right spirit, the measures proposed have the potential to significantly advance certainty, trust, and efficiency in India's direct tax regime.

Disclaimer:

This material (including any information contained in it) is intended to provide general information on a particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. KPCA is not responsible for any loss whatsoever caused due to reliance placed on information contained in this document. We recommend you seek professional advice before taking any action on the specific issues. No entity in the Kirtane & Pandit network shall be responsible for any loss whatsoever sustained by any person or entity by use of or reliance on, this material.

KIRTANE & PANDIT

Pune

5th Floor, Wing A, Gopal House, S.No. 127/1B/ 11, Plot A1, Kothrud,
Pune – 411 038, India
Contact no : +91 20 67295100 / 25433104
E -mail : kpca@kirtanepandit.com

Mumbai

601, 6th Floor, Earth Vintage, Senapati Bap Marg, Dadar West,
Mumbai- 400 028, India
Contact no : 022 69328846 / 47
E -mail : kpcamumbai@kirtanepandit.com

New Delhi

272, Rajdhani Enclave, Pitampura,
Delhi-110034, India
Contact no : +91-96438 74488
E -mail : kpcadelhi@kirtanepandit.com

Bengaluru

No. 63/1, I Floor, Makam Plaza, III Main Roa
18th Cross, Malleshwaram, Bengaluru – 56
055, India
Contact no : 080 23443548 / 23461455
E -mail : kpcabengaluru@kirtanepandit.co

Nashik

Gajra Chambers, Second Floor,
Kamod Nagar, Indira Nagar,
Nashik – 422009, India
Contact no. : +91 253-2386644
E - mail : kpcanashik@kirtanepandit.com

Hyderabad

401 to 405, 4th Floor, Sanatana Eternal,
3-6-108/1, Liberty Road, Himayatnagar,
Hyderabad - 500 029, India
Contact no : +91 99127 41089 / 94400 55917
98480 44743 / 98480 46106
E -mail : kpcahyderabad@kirtanepandit.c

Chennai

No. 128, Old No. 34, Unit No. 1, 6th Floor,
Crown Court, Cathedral Road Gopalapuram
Chennai 600086
Contact no : 044 47990259
E -mail : kpcachennai@kirtanepandit.com

Follow Us On:

kpca@kirtanepandit.com

www.kirtanepandit.com