

BUDGET 2026



Direct Tax Reforms

ABOUT THE BUDGET:

Budget 2026 retains the broad rate structure under the Income-tax Act, 2025 for tax year 2026–27, while focusing on targeted compliance simplification and base-protection measures—especially around TDS/TCS processes, reassessment procedures, and time limits/penalty administration. For individuals opting for the default tax regime under the Income-tax Act, 2025, the slab rates continue with a nil rate up to ₹4,00,000, followed by 5% (₹4–8 lakh), 10% (₹8–12 lakh), 15% (₹12–16 lakh), 20% (₹16–20 lakh), 25% (₹20–24 lakh) and 30% above ₹24 lakh; surcharge and marginal relief mechanics remain aligned to the existing framework, with Health and Education Cess at 4% on tax plus surcharge.

Alongside rates, the Finance Bill, 2026 proposes a set of direct-tax amendments across the Income-tax Act, 1961 (including clarificatory, largely procedural changes such as reassessment administration and faceless framework alignment), the Income-tax Act, 2025 (covering ease-of-living measures, cooperatives, IT sector support, NPO rationalisation, and corporate/investment-related tweaks), as well as targeted changes to securities transaction tax and Black Money Act prosecution thresholds. This note summarises the direct-tax proposals in a “current law vs proposed change” format with Section cross-reference references and effective dates.

Rates And Slab(Income-tax Act, 2025)

Relevant provisions (ITA 2025):

Section 202 (default regime slab rates); surcharge provisions; cess @ 4%.

Cross-reference (ITA 1961): ITA 1961: 115BAC

Slab rates (default regime) – tax year 2026–27:

Income Range (₹)	Tax Rate (%)
Upto 4,00,000	Nil
4,00,001 – 8,00,000	5%
8,00,001 – 12,00,000	10%
12,00,001 – 16,00,000	15%
16,00,001 – 20,00,000	20%
20,00,001 – 24,00,000	25%
Above 24,00,000	30%

Surcharge and marginal relief: as per existing provisions in the Income-tax Act, 2025 (no rate Proposed change); marginal relief continues to apply to ensure the additional tax due to surcharge does not exceed the income exceeding the threshold.

Old regime rates (Part I-A of the First Schedule – Income-tax Act, 2025)

Individuals below 60 years:

Income Range (₹)	Tax Rate (%)
Up to ₹ 2,50,000	Nil
₹ 2,50,001 – ₹ 5,00,000	5%
₹ 5,00,001 – ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Senior citizens (60 to below 80 years)

Income Range (₹)	Tax Rate (%)
Up to ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000	5%
₹ 5,00,001 – ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Super senior citizens (80 years and above)

Income Range (₹)	Tax Rate (%)
Up to ₹ 5,00,000	Nil
₹ 5,00,001 – ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Employee Contribution Due Date Aligned to Return-filing Due Date

Section cross-reference:

- **Income-tax Act 2025:** Section 29(1)(e) (employee welfare deductions)
- **Income-tax Act 1961:** Section 36(1)(va) read with s.2(24)(x); interaction with Section 43B (employee welfare contributions framework)

Current law: Under the 2025 Act, deduction for employee contributions received by an employer is linked to the amount being credited to the relevant fund by the 'due date' prescribed under the respective labour law/contractual framework.

Proposed change: The due date for this limited purpose is proposed to be shifted to the due date for filing the return of income under section 263(1) of the 2025 Act, so the deduction is not denied solely because the fund-specific due date was missed even though the deposit is made before filing the return.

Effective date: From 1 April 2026 (tax year 2026–27 onwards).

MACT Interest: Exemption in Income Computation And no TDS

Section cross-reference:

- **Income-tax Act 2025:** Schedule III read with s.11 (exempt income schedule); s.393(4) Table (interest withholding carve-outs)
- **Income-tax Act 1961:** Section 10 (exempt incomes – as applicable) and Section 194A(3)(ix) (interest on MACT compensation – TDS framework)

Current law: Interest awarded on compensation under the Motor Vehicles Act, 1988 may be taxable unless specifically exempt, and TDS may apply on such interest under the interest withholding provisions, subject to thresholds.

Proposed change: Two linked changes are proposed: (i) exempt the interest component awarded under the Motor Vehicles Act, 1988 to an individual or legal heir by updating the exemption schedule; and (ii) remove withholding (TDS) on interest awarded by the Motor Accidents Claims Tribunal to an individual, eliminating the need to manage threshold-based TDS for this category.

Effective date: From 1 April 2026 (tax year 2026–27 onwards).

Digitalise Lower / Nil TDS-TCS Certificates

Section cross-reference:

- **Income-tax Act 2025:** Section 395
- **Income-tax Act 1961:** Section 197, 203, 206C

Current law: ITA 2025: Section 395 provides for certificates for deduction/collection at nil or lower rates based on application to the Assessing Officer.

Proposed change: Enable electronic verification/processing for applications and issuance of lower/nil TDS/TCS certificates to reduce manual touchpoints and turnaround time.

Effective date: From 1 April 2026 (tax year 2026–27 onwards).

TAN Relaxation for Resident Individual or HUF, Where The Seller of The Immovable Property is a Non -resident

Section Cross-reference:

- **Income-tax Act 2025:** Section 397(1)(c) (TAN exceptions) read with s.393(2) Table (immovable property transfer withholding)
- **Income-tax Act 1961:** Section 203A (TAN) read with s.195 (payments to non-residents) and the resident-property carve-out under s.194-IA

Current law:

- ITA 2025: Section 397(1) requires TAN for deductors/collectors, with carve-outs in specified cases.
- Section 397(1)(a) of the Act provides that every person, deducting or collecting tax shall apply to the Assessing Officer for the allotment of a "tax deduction and collection account number" (TAN). Clause (c) of the said sub-section provides for cases where a person is not required to obtain TAN.
- A person deducting/collecting tax generally must obtain TAN, but there are carve-outs for certain one-off transactions. Currently, when a resident buys immovable property from a resident seller, TAN is not required; for a non-resident seller, buyers typically need TAN even for a single transaction, creating avoidable compliance overhead.

Proposed change: Relax TAN requirement for a resident individual/HUF buying immovable property from a non-resident, to reduce one-off compliance for occasional property purchases (while keeping TDS obligation intact).

Effective date: from the 1st day of October, 2026.

Enabling Filing of Declaration for no Deduction to a Depository

Section cross-reference:

- **Income-tax Act 2025:** Section 393.
- **Income-tax Act 1961:** Section 193, 194, 194A, 194B, 194BA, 194BB, 194C, 194D, 194DA, 194E, 194EE, 194G, 194H, 194I, 194-IA, 194-IB, 194-IC, 194J, 194K, 194L, 194LA, 194LB, 194LBA, 194LBB, 194LBC, 194LC, 194M, 194N, 194-O, 194P, 194Q, 194R, 194S, 194T, 195, 195A, 196, 196A, 196B, 196C, 196D.

Current law:

- ITA 2025: Section 393(6) permits a declaration for non-deduction in specified cases, filed with the person responsible for paying.
- As per the provisions of the said section, a written declaration is to be filed by the assessee for no deduction of tax at source to the person responsible for paying any income or sum of the nature as specified in Column C of the Table in section 393(6).

Proposed change:

- Permit the investor/assessee to furnish the non-deduction declaration directly to the depository (where securities/units are held in demat form), streamlining compliance for listed holdings.
- Further, in order to ease the compliance for the person responsible for paying income or sum of the nature as specified in Column C of the Table in section 393, the time limit for furnishing the declaration received by them to the prescribed Income tax authority have been changed from monthly basis to quarterly basis

Effective date: Effective date: From 1 April 2027.

TDS Rate Clarity for Manpower Supply by Treating it as 'Work'

Section cross-reference:

- **Income-tax Act 2025:** Section 393(1) (TDS table for contractor/professional payments) read with s.402(47) (definition of 'work')
- **Income-tax Act, 1961:** Section 194C (payments to contractors – includes supply of labour) vs s.194J (fees for professional/technical services)

Current law:

- ITA 2025: Section 393(1) table provides TDS rates for contracts/work and for professional/technical services; classification drives the rate.
- Definition of 'work' is relevant for deciding whether a manpower supply contract is covered as contract work.

Proposed change:

- Clarify that supply of manpower is treated as 'work' for TDS purposes so the contractor TDS rate applies, resolving ambiguity between 'contract' and 'technical/professional' characterisation.
- Implement this by aligning the definition provisions (e.g., section 402(47)) accordingly.

Effective date: From 1 April 2026. (tax year 2026–27 onwards).

Non-life Insurance: Allow Later-year Deduction Where TDS is Deducted/paid After Disallowance

Section cross-reference:

- **Income-tax Act 2025:** Schedule XIV (para 4) read with s.35(b)(i)/(ii) (disallowance for non-deduction/non-payment of TDS)
- **Income-tax Act 1961:** Section 44 read with First Schedule (insurance computation); s.40(a)(ia) (TDS-linked disallowance concept).

Current law: For non-life insurance computation, inadmissible expenditure is added back. Where an amount is disallowed because tax was not deducted/paid within the due date, the Act separately provides 'allowance in the year of payment' mechanics for certain items, but a comparable explicit mechanism is not currently provided for the TDS-linked disallowance in this insurance schedule context.

Proposed change: A new provision is proposed within Schedule XIV to allow the previously disallowed amount as a deduction in the tax year in which the relevant TDS is subsequently deducted and paid (aligning the insurance schedule computation with the general 'year of compliance' logic).

Effective date: From 1 April 2026. (tax year 2026–27 onwards).

Exemption of Income on Compulsory Acquisition of Any Land Under The RFCTLARR Act

Section cross-reference:

- Sec. 11 of Income Tax Act 2025
- Sec. 10 of Income Tax Act 1961

Current law: ITA 2025: Section 11 read with Schedule III provides exemption categories for specified incomes/persons.

Proposed change: Clarify/extend exemption for income arising from compulsory acquisition of land under the RFCTLARR Act, subject to conditions.

Effective date: From 1 April 2026. (tax year 2026–27 onwards).

Return Filing Due Dates Rationalised for Non-audit Business Cases (and corresponding 1961 alignment)

Section cross-reference:

- Income-tax Act, 2025: s.263(1)(c) (definition of due date for return)
- Income-tax Act, 1961: s.139(1) Explanation 2 (due date definition)

Current law: The 2025 Act prescribes different due dates based on category (audit/transfer pricing/others). Non-audit business/profession taxpayers and certain partners currently follow the general 'non-audit' timeline.

Proposed change: For taxpayers with business/profession income whose accounts are not required to be audited (and for partners of non-audit firms and certain connected cases), the due date is proposed to be extended from 31 July to 31 August. A corresponding amendment is proposed in the 1961 Act (Explanation 2 to section 139(1)) to mirror the change for the legacy regime.

Effective date:

- 2025 Act: 1 April 2026 (tax year 2026-27 onwards).
- 1961 Act: 1 March 2026 (assessment year 2026-27 / previous year 2025-26).

Extending The Period of Filing Revised Return

Section cross-reference:

- **Income-tax Act 2025:** Section 263, Section 263(5), Section 263(1) (definition of due date for return)
- **Income-tax Act 1961:** Section 139(1)

Current law: Section 263 of the Income-tax Act, 2025 deals with filing of Income-tax return by taxpayers. The said section prescribes the comprehensive framework that lays down class of persons who are required to file a return, the due dates, and the different types of returns that may be furnished.

Proposed change:

- Amend section 263 of the Act so as to increase the prescribed time limit for filing the revised return from its existing time limit of nine months to twelve months from the end of the relevant tax year.
- Further, a fee is also proposed under section 428, for revised returns which are filed beyond nine months from the end of relevant tax year.

Effective date:

- 2025 Act: From 1 April 2026. (tax year 2026–27 onwards).
- 1961 Act: 1 March 2026 (assessment year 2026-27 / previous year 2025-26).

Scope of Filing of Updated Return in The Case of Reduction of Losses

Section cross-reference:

- **Income-tax Act 2025:** Section 263, Section 263(6), Section 263(6)(b), Section 263(1), Section 263(6)(c)(i)
- **Income-tax Act 1961:** Section 139(6)

Current law: Section 263 of the Income Tax Act, 2025 (“the Act”) provides for filing of Income Tax Return by taxpayers. The said section deals with the comprehensive framework that lays down class of persons who are required to file a return, the due dates, and the different types of returns that may be furnished.

Proposed change:

- amend section 263 of the Act, so as to allow filing of updated return in such cases where taxpayer reduces the amount of loss in comparison to the amount of loss claimed in the return of loss furnished within the due date specified under sub-section.
- It is further proposed that the above amendments in the Income-tax Act, 2025 shall come into force from the 1st day of April, 2026. It is further proposed that similar amendment shall be made in the Income-tax Act, 1961 to align with the proposed amendments in the Income-tax Act, 2025. It is also proposed that amendment in the Income-tax Act, 1961 shall come into force from 1st day of March, 2026.

Effective date:

- 2025 Act: From 1 April 2026. (tax year 2026–27 onwards).
- 1961 Act: 1 March 2026

Allowing The Filing of Updated Return After Issuance of Notice of Reassessment Goods

Section cross-reference:

- **Income-tax Act 2025:** Section 263, Section 263(6), Section 263(6)(c)(v), Section 267(5)
- **Income-tax Act 1961:** Section.139, Section 148, Section 140B, Section 270A

Current law: Section 263 of the Income Tax Act, 2025 (“the Act”) makes the provisions for filing of Income Tax Return by taxpayers. The said section deals with the comprehensive framework that lays down class of persons who are required to file a return, the due dates, and the different types of returns that may be furnished.

Proposed change:

- amend section 263 of the Act, so that an updated return may be furnished by a person for the relevant tax year in pursuance of a notice under section 280 within such period as specified in the said notice with an additional income-tax payable at the rate of 10 % of the aggregate of tax and interest payable on account of furnishing the updated return.
- It is further proposed that where additional income-tax is paid as per proposed additional income-tax, the income on which such additional income-tax is paid shall not form the basis of imposition of penalty under section 439.

Effective date:

- 2025 Act: From 1 April 2026 (tax year 2026–27 onwards).
- 1961 Act: 1 March 2026.

Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 (FAST-DS 2026)

Current law: Black Money Act, 2015 provides for tax/penalty on undisclosed foreign income/assets; a one-time 2015 compliance window existed.

Proposed change:

- introduce a time-bound scheme for declaration of foreign assets and foreign-sourced income, with payment of tax or fee based on the nature and source of acquisition and grant of limited immunity from penalty and prosecution under the Black Money Act in respect of matters covered by the declaration.
- Introduce FAST-DS 2026 as a limited-purpose disclosure route for 'small taxpayers' to voluntarily declare legacy/inadvertent foreign asset non-disclosures with a defined tax/penalty outcome and clean-up mechanism.

Effective date: As specified in the scheme (Finance Bill/Black Money Act amendments) – operational from the notified date(s).

Relaxation of Conditions for Prosecution Under The Black Money Act

Current law: The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 [the Black Money Act] provides for penal and prosecution measures in cases of wilful non-disclosure of foreign income and assets by resident wilfully fails to furnish a return of income or wilfully omits to disclose foreign assets or income in the return of income.

Proposed change: Amend sections 49 and 50 to provide that these provisions shall not apply in respect of foreign assets, other than immovable property, where the aggregate value does not exceed twenty lakh rupees.

Effective date: retrospectively from the 1st day of October, 2024.

Rationalization of Prosecution Proceedings

Section cross-reference:

- **Income-tax Act 2025:** Section 473, Section 247, Section 474, Section 475, Section 476, Section 477
- **Income-tax Act 1961:** Section 275A, 276B, 276BB, 276C, 276CC, 276CCC, 276D, 277, 278

Current law: Income-tax Act, 2025 has various provisions in chapter XXII which imposes criminal liability on assessee and prescribes imprisonment including rigorous imprisonment which span from three months to seven years for various offences including falsification of books of accounts, failure to credit TDS/TCS deducted, tendering false statement, wilful attempt to evade tax, failure to furnish return within due time, abatement of false return, removal/concealment/transfer of property to evade recovery of tax, failure to follow certain directions of AO, etc.

Proposed change:

- amend Section 473 to 485 & 494 of the Act in light of continued exercise of decriminalisation and to make the punishment for the offences mentioned in these sections proportionate to the crimes. The principles that are followed in the proposed decriminalization exercise are as follows:
- The nature of punishment is changed from rigorous imprisonment to simple imprisonment wherever prescribed in the sections mentioned above.
- Maximum punishment is proposed to be limited to 2 years from its current 7 year and for the subsequent offences, it is reduced to 3 years from its current 7 years.
- Wherever punishment of offences is prescribed based on certain grading of amount of tax evaded, new grading of offences and its corresponding punishment is prescribed.
- For amount of tax evaded does not exceeds ten lakh rupees, punishment of only fine is prescribed.
- Imposition of fine is introduced in lieu of or in addition of imprisonment.

Effective date:

- 2025 Act: From 1 April 2026 (tax year 2026–27 onwards).
- 1961 Act: 1 March 2026

Block Assessment: Limit Block Period for 'Other Person' to Relevant Years

Section cross-reference:

- **Income-tax Act 2025:** Section 295(2) (other person in search/requisition) within block assessment framework (ss.294-296)
- **Income-tax Act 1961:** Section 153C (assessment of income of any other person) and related search assessment provisions

Current law: Where seized material during a search relates to another person, the law provides for a block assessment process for that other person. The block period currently aligns to the broader block used for the searched/specified person, which can be disproportionate where the other person's undisclosed income pertains

only to a limited period.

Proposed change: Section 295(2) is proposed to be amended to limit the block period in case of a third/other person, reducing the compliance load where the linkage is confined to fewer years.

Effective Dates : 1 April 2026, for searches/requisitions initiated or made on or after 1 April 2026.

Referencing The Time Limit to Complete Block Assessment to The Initiation of Search or Requisition

Section cross-reference:

- **Income-tax Act 2025:** Section 296, Section 294
- **Income-tax Act 1961:** Section 158BE, Section 158BC

Current law: Section 296 of the Act, provides for time limit for completing a block assessment. An assessment or reassessment order under Section 294 (procedure for block assessment) must be completed within 12 months from the end of the quarter in which the last search authorization was executed or requisition was made.

Proposed change: amend the section 296 of the Act so as to take the date of initiation of search as the reference point to decide the date of limitation for block assessment where any search has been initiated or requisition is made in the case of any person and consequently, the period of twelve months is proposed to be to eighteen months to complete such assessment in case of such person.

Effective date: from the 1st day of April, 2026, for search or requisition is initiated or made as the case maybe, on or after 1st day of April, 2026

Rationalisation of Penalties into Fee

Section cross-reference:

- **Income-tax Act 2025:** Section 446, Section 447, Section 172, Section 454, Section 508(7)
- **Income-tax Act 1961:** Section 271B, 92E, 271FA

Current law: Section 446 of the Act, provides penalty for failure to get accounts audited. Section 447 provides penalty for failure to furnish report under section 172 of the Act, section 454 provides for penalty for failure to furnish SFT.

Proposed change:

Convert following penalties into fee:

1. Penalty under section 446 for failure to get accounts audited is converted to a fee under proposed section of 428. Accordingly, Graded fee of Rs. 75,000 and 1,50,000 is proposed depending upon the period of delay. It is pertinent to mention that this penalty under section 446 has been omitted but the same section has been replaced by the penalty for failure to furnish information or for furnishing inaccurate information on transactions of crypto asset.
2. Penalty under section 447 for failure to furnish report under section 172 is converted to a fee under section 428. Graded fee of Rs. 50,000 and 1,00,000 is provided depending upon the period of delay.
3. Penalty under section 454 for failure to furnish statement of financial transaction or reportable account is converted to a fee under section 427 . Further, an upper limit of Rs. 1,00,000/- is also proposed to be made in existing penalty under section 454 of the Act.

Effective date: From 1 April 2026. (tax year 2026–27 onwards).

Penalty for Under-Reporting/Misreporting To be Imposed Within Assessment Order

Section cross-reference:

- **Income-tax Act 2025:** (as proposed) alignment of assessment and penalty workflow; consequential changes referenced in Memorandum
- **Income-tax Act, 1961:** Section 274 (penalty procedure) read with s.270A (under-reporting/misreporting) and related interest/appeal mechanics (s.220 etc.)

Current law: Penalty proceedings are currently initiated in the assessment order but culminate through a separate show-cause and a separate penalty order, often following or overlapping with appellate timelines. This can lead to duplicate proceedings and uncertainty until appeals conclude.

Proposed change: The proposal shifts to a single, integrated approach in which penalty for under-reporting (including cases linked to misreporting, where specified) is imposed within the assessment order itself, with consequential changes to when interest becomes payable where the assessment is under appeal.

Effective date: Income-tax Act, 2025 changes come into force from 1 April 2026 and are stated to be effective from 1 April 2027 for assessments/reassessments made on or after 1 April 2027 (as described in the Memorandum).

Increase in Maximum Amount of Penalty in Section 466 of The Act

Section cross-reference:

- **Income-tax Act 2025:** Section 466, Section 254
- **Income-tax Act 1961:** Section 133B

Current law:

- Section 254 of the Income-tax Act, 2025 (hereinafter referred as 'the Act') provides the power to the income-tax authorities to collect information from the premises where business or profession is carried out, by directing the proprietor or employee or any other person, who may at that time and place, be attending in any manner to, or helping in, or carrying on of such business or profession, to furnish certain information as authorized.
- Section 466 provides for a penalty if any person fails to comply with provision of section 254. This section further empowers Income tax officers to impose maximum penalty of Rs. 1000/-

Proposed change: Amend the section 466 of the Act so as to enhance the maximum amount of penalty to Rs. 25,000 from existing Rs. 1,000.

Effective date: From 1 April 2026. (tax year 2026–27 onwards).

Rationalisation of Tax Rate Under Section 195 And Penalty Under Section 443 in Respect of Certain Income

Section cross-reference:

- Income-tax Act, 2025: Section 195, Section 443, Section 102, Section 195(1), Section 195(1)(i), Section 439
- Income-tax Act, 1961: Section 102 to Section 106

Current law: Section 195 of the Income-tax Act, 2025 provides for tax on income referred to in section 102 to 106 at the rate of 60%. Section 102 to 106 provides for

income on account of, unexplained credits, unexplained investment, unexplained asset, unexplained expenditure and amount borrowed or repaid through negotiable instrument, hundi, etc.

Proposed change: Amend section 195 to reduce the tax rate from 60% to 30%. Further, it is also proposed to omit penalty under section 443 and subsume this penalty under section 439 of the Act.

Effective date: From 1 April 2026. (tax year 2026–27 onwards).

Immunity From Penalty/Prosecution Expanded to Include Specified Misreporting-linked Cases

Section cross-reference:

- **Income-tax Act 2025:** Section 440 (immunity from penalty/prosecution) and related penalty/prosecution provisions
- **Income-tax Act 1961:** Section 270AA (immunity from penalty/prosecution) linked to Section 270A and Section 276C/276CC

Current law: Immunity mechanisms exist where a taxpayer pays tax and interest and does not appeal, but they are currently limited and typically exclude cases where the penalty trigger is categorised as misreporting.

Proposed change: The scope of immunity is proposed to be expanded so that, subject to meeting the standard conditions (payment within demand time and no appeal, with application within the prescribed period), immunity can also be available in cases where the penalty was initiated due to misreporting, as specifically provided in the amended immunity provisions.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Amendment of Section 169 of the Income-tax Act, 2025 Relating to Providing Effect to Advance Pricing Agreements

Section cross-reference:

- **Income-tax Act 2025:** Section 169, Section 168(1)
- **Income-tax Act 1961.**

Current law: The existing provisions of section 168(1) allow filing of a modified return of income only by the person who has entered into advance pricing agreement (APA) with the Board. The provisions do not allow for modifying the return of income or filing of return of income by the associated enterprise whose income and tax liability is correspondingly modified consequent to the APA. Hence, there is no provision in the existing law to enable such Associated Enterprise (who is not the person entering into an APA) for filing of return of income and claiming refund of any additional taxes paid by it or withheld from its income.

Proposed change: Where an income is modified as a result of advance pricing agreement entered into with any person then, such person shall, or any other person being an associated enterprise, may, furnish a return or a modified return, as the case may be, in accordance with and limited to the agreement within a period of three months from the end of the month in which the said agreement was entered into, in respect of tax years covered by such agreement, where such agreement is entered on or after 1st April, 2026, in respect of tax year beginning from 1st April, 2026 and subsequent tax years

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Exemption to A Foreign Company on Any Income Arising in India by Way of Procuring Data Centre Services From a Specified Data Centre

Section cross-reference:

- **Income-tax Act 2025:** Section 11

Current law: The existing provisions of section 11 read with Schedule IV of the Act specifies the eligible income, which shall not be included in the total income of the eligible non-residents, foreign companies and other such persons.

Proposed change:

- amend the Schedule IV to provide exemption to a foreign company, on any income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre, for a period upto tax year ending on 31st March, 2047. One of the conditions for exemption is that where services are provided to India users by the foreign company, it shall be routed through an Indian reseller entity. For the purposes of above provisions, it is also proposed to define the following terms, namely: __
- “data centre” means a dedicated secure space within a building or centralised location where computing and networking equipment is concentrated for the purpose of collecting, storing, processing, distributing or allowing access to large amounts of data
- “data centre services” means services provided by a data centre through the use of physical infrastructure including land, buildings, mechanical electrical power equipment’s, cooling system, security and information technology infrastructure including servers, computers, storage systems, operating systems, security solutions, network and associated software platforms, networking and other equipment, human resource in India
- “specified data centre” means a data centre which
 1. is set up under an approved scheme and is notified in this behalf by the Central

Government in the Ministry of Electronics and Information Technology and
2. is owned and operated by an Indian company.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Exemption to A Foreign Company on Income Arising on Account of Providing Capital Equipment etc. to an Electronic Goods Manufacturer located in a Custom Bonded Area

Section cross-reference:

- **Income-tax Act 2025:** Section 11, Section 65

Current law: The existing provisions of section 11 read with Schedule IV of the Income-tax Act specifies the eligible income, which shall not be included in the total income of the eligible non-residents, foreign companies and other such persons.

Proposed change: Amend the Schedule IV to provide exemption to a foreign company for a period upto the tax year 2030-2031, on any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India, who is located in a custom bonded area (warehouse referred to in section 65 of the Customs Act, 1962) and produces electronic goods on behalf of such foreign company for a consideration. These amendments will take effect from the 1st day of April, 2026 and shall accordingly, apply in relation to the tax year 2026-27 and subsequent tax years.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Exclusion of Specified Business of Non-residents Which are Under Presumptive Taxation From The Applicability of Minimum Alternate Tax

Section cross-reference:

- **Income-tax Act 2025:** Section 11, Section 61

Current law: Certain foreign companies are excluded from the application of Minimum Alternate Tax (MAT) under the present provisions. The income of non-residents derived from certain business who opt for presumptive rate of taxation under section 61 of the Act are also excluded. However, certain other businesses who have opted for presumptive taxation under section 61 have not been so excluded.

Proposed change: It is proposed that two other specified businesses (business of operation of cruise ships and the business of providing services or technology for the setting up an electronics manufacturing facility in India to a resident company) shall also be excluded from the applicability of MAT.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Rationalization of Minimum Alternate Tax Provisions

Section cross-reference:

- **Income-tax Act 2025:** Section 206
- **Income-tax Act 1961:** Section 115JAA, 115JB, 115JC, 115JD, 115JE, 115JF

Current law:

The existing provisions under section 206 of the Income-tax Act, 2025 (the Act) provide for Minimum Alternate Tax (MAT) which is applicable for companies. This tax is charged on the Book profit of the assessee at the rate of 15% for corporates (other than units located in an International Financial Services Centre). In case the MAT is higher than **the income-tax payable on the company's total income computed under normal tax provisions, the assessee pays MAT.**

Proposed change:

- It is proposed that the tax paid under provisions of MAT be made as final tax in the old regime and no new MAT credit may be allowed. However, the tax rate of MAT has been reduced to 14% of book profit from the existing 15%. Further, set-off of MAT credit may be allowed only in the new tax regime for domestic companies to the extent of 25% of the tax liability. In the case of foreign companies, set off is proposed to be allowed to the extent of the difference between the tax on the total income and the minimum alternate tax, for the tax year in which normal tax is more than MAT.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

TCS Rates Rationalised And Reduced (selected items)

Section cross-reference:

- **Income-tax Act 2025:** Section. 394(1) (TCS table)
- **Income-tax Act 1961:** Section. 206C (TCS framework)

Current law: Section 394(1) prescribes multiple TCS rates across different receipts, with higher rates in certain LRS/overseas tour cases.

Proposed change: Rates are proposed to be made more uniform and reduced for specified categories, while increasing rates for select items (alcoholic liquor, scrap, coal/lignite/iron ore). The table below reproduces the rate changes as set out in the Memorandum.

Table 2: Rationalisation of TCS rates (Memorandum table)

Sl. No.	Nature of Receipt	Current Rate	Proposed 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, being coal or lignite or iron ore	1%	2%
5	Remittance under LRS exceeding ₹10 lakh: (a) education/medical; (b) other purposes	(a) 5%; (b) 20%	(a) 2%; (b) 20%
6	Sale of overseas tour programme package (including related travel/hotel/boarding/lodging expenses)	(a) 5% up to ₹10 lakh; (b) 20% above ₹10 lakh	2% (no threshold)

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Clarification Regarding Jurisdiction to Issue Notice u/s 148 Where Income Has Escaped Assessment And for Carrying Out Pre-assessment Procedure u/s 148A

Section cross-reference:

- **Income-tax Act 1961:** Section 147, Section 148, Section 148A, Section 148A(d), Section 144B, Section 144B(3)

Current law: As per section 148A, the assessing officer carries out pre-assessment enquiry and therefore reaches a conclusion if it is a fit case of reassessment. This satisfaction is reflected in intimation to the assessee by way of notice u/s 148. Thereafter, the proceedings are carried out in a faceless manner by NaFAC.

Proposed change: The Assessing Officer for the purposes of section 148 and section 148A shall mean and shall always be deemed to have meant Assessing Officer other than the National Faceless Assessment Centre or any of its assessment units. Suitable amendment is also carried out in the Income-tax Act, 2025 so that correct interpretation is taken and litigation is minimized and certainty is achieved.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Assessments Not To Be Invalid on Gound of Any Mistake, Defect or Omission on Account of Computer-generated DIN, If Such Assessment is Referenced by Computer Generated DIN in Any Manner

Section cross-reference:

- **Income-tax Act 1961:** Section 292B

Current law: Section 292B of the Income-tax Act, 1961 states that no return of income, assessment, notice, summons or other proceeding in pursuance of any of the provisions of this Act shall be invalid or shall be deemed to be invalid merely by reason of any mistake, defect or omission in such return of income, assessment, notice, summons or other proceeding if such return of income, assessment, notice, summons or other proceeding is in substance and effect in conformity with or according to the intent and purpose of this Act.

Proposed change:

- Clarify in section 292B that notwithstanding anything contained in any judgment, order or decree of court, no assessment in pursuance of any of the provisions of Income-tax Act, 1961 shall be invalid or shall be deemed to have been invalid on the ground of any mistake, defect or omission in respect of quoting of a computer generated Document Identification Number, if such assessment order are referenced by such number in any manner.
- Further, this amendment seeks to clarify as long as there is a reference of DIN in the assessment order, the same would be sufficient compliance even if there may be some minor mistakes, defects or omissions in notices or summons in relation to such assessment.

Effective date:

- 1 April 2026 (tax year 2026-27 onwards).
- IT Act 1961: 1st day of October, 2019

Clarifying The Manner of Computation of Sixty Days For Passing The Order By The Transfer Pricing Officer

Section cross-reference:

- **Income-tax Act 1961:** Section 92C, Section 153, Section 153B

Current law:

- Section 92CA of the Income-tax Act, 1961 deals with the case where assessee, has entered into an international transaction or specified domestic transaction in any previous year, and the Assessing Officer (AO) may refer the computation of the arm's length price in relation to the said international transaction or specified domestic transaction under section 92C to the Transfer Pricing Officer (TPO).
- TPO is required to pass an order before 60 days prior to the date on which period of limitation under section 153 or as the case may be in section 153B for making the order of assessment or reassessment or recomputation or fresh assessment, as the case may be, expires.

Proposed change: Be clarified in section 92CA as to how the period of sixty days is required to be computed. Suitable amendments are also proposed to be carried out in the Income-tax Act, 2025 so that correct interpretation is taken, litigation is minimized and certainty is achieved.

Effective date:

- 1 April 2026 (tax year 2026-27 onwards).
- IT Act 1961: 1st day of June, 2007

Penalty Provision for Non-Furnishing of Statement or Furnishing Inaccurate Information in a Statement on Transaction of Crypto-assets

Section cross-reference:

- **Income-tax Act 2025:** Section 509, Section 446

Current law: Section 509 of the Act provide for obligation to furnish information on transaction of crypto-asset. As per the said section, prescribed reporting entity has the obligation to furnish information in respect of transactions in a crypto asset in a statement.

Proposed change: Introduce penalty provision. Penalty of Rs. 200 per day for non-furnishing of statement and Rs. 50,000 for furnishing inaccurate particulars and failure to correct such inaccuracy is proposed to be levied. Accordingly, it is proposed to amend section 446 of the Act to provide penalty provisions for non-furnishing of statement and for furnishing inaccurate information in the statement.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Clause 110: Amendment in the provision relating to merger of non-profit organisations (NPOs)

Section cross-reference:

- **Income-tax Act 2025:** Section 352(4), Section 12A, Section 354A, Section 352
- **Income-tax Act 1961:** Section 12AC

Proposed change:

- Insert a new Section 354A in the Income-tax Act to provide that where any registered nonprofit organisation has merged with any other registered nonprofit organisation, the provisions of section 352 shall not apply if, -
 - (a) the other registered non-profit organisation has same or similar objects and
 - (b) the said merger fulfils such conditions as may be prescribed.
- Further, in order to align the existing provisions with the provisions of Income-tax Act, 1961 it is proposed to amend said serial number 8 of Table below section 352 so as to provide that the specified person shall be liable to pay the tax on accreted income where it has merged with, any other ___
 - (a) entity other than a registered non-profit organization
 - (b) registered non-profit organisation having objects same or similar to it but the said merger does not fulfil such conditions, as may be prescribed; or
 - (c) registered non-profit organisation that does not have same or similar objects

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Amendment in section 349 of the Income-tax Act, 2025 to provide for filing of belated return by NPO

Section cross-reference:

- **Income-tax Act 2025:** Section 349, Section 263(1)(c), Section 263(4)
- **Income Tax Act 1961**

Current law: Existing section 349 inter alia provides furnishing of return by a registered non-profit organisation within the time limit allowed under section 263(1)(c).

Proposed change: In order to enable furnishing of belated return by registered non-profit organisation as was there in the Income-tax Act, 1961, amend the provisions of section 349 to provide reference of section 263.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Non-allowability of Interest as a Deduction Against Dividend Income

Section cross-reference:

- **Income-tax Act 2025:** Section 93, Section 93(2)
- **Income Tax Act 1961**

Current law: Dividend income and income from units of mutual funds constitute passive investment receipts taxable under the head “Income from other sources” under the Income- tax Act, 2025

Proposed change: No deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Taxation of Buyback of Shares

Section cross-reference:

- **Income-tax Act 2025:** Section 2(40)(f), Section 69
- **Income Tax Act 1961**

Current law: Under the existing provisions of the Income-tax Act, 2025, consideration received by a shareholder on buy-back of shares by a company is treated as dividend income under section 2(40)(f) of the Act and taxed accordingly, while the cost of acquisition of the shares extinguished on buy-back is recognised separately as a capital loss under section 69.

Proposed change: Rationalise the taxation of share buy-backs by providing that consideration received on buy-back shall be chargeable to tax under the head “Capital gains” instead of being treated as dividend income.

Further, having regard to the distinct position and influence of promoters in corporate decision-making, particularly in relation to buy-back transactions, it is proposed that, in the case of promoters, the effective tax liability on gains arising from buy-back shall be thirty per cent, comprising tax payable at the applicable rates together with an additional tax. In case of promoter companies, the effective tax liability will be 22%.

Effective date: 1 April 2026 (tax year 2026-27 onwards).

Threshold Relief for Prosecution Under The Black Money Act

Section cross-reference:

- **Black Money Act 2015:** Section 49, Section 50

Current law: Sections 49 and 50 of the Black Money Act, 2015 prescribe prosecution for wilful failure to furnish return / disclose foreign income or foreign assets.

Proposed change: Amend the said sections to insert proviso in both the sections so as to provide that the provisions of the said sections shall not apply in respect of an asset or assets (other than immovable property) where the aggregate value of such asset or assets does not exceed twenty lakh rupees, to make it harmonious with the threshold specified in sections 42 and 43 of the said Act.

Effective date: These amendments retrospectively from 1st October, 2024.

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